



Money Matters
Financial Outlook for the County Council
Medium Term Financial Strategy &
Reserves – Quarter 1 2022/23

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Lancashire

County
Council



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1. Executive summary

At Full Council in February 2022 the updated medium term financial strategy (MTFS) set out a forecast aggregated funding gap of £30.548m in 2023/24 and £41.349m by the end of the 3-year period (2022/23 – 2024/25). 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 again expected, the Chancellor and the Prime Minister opted to conduct a one-year Spending Review, setting department's resource and capital budgets for 2022/23 only, in order to prioritise the response to COVID-19 and focus on supporting jobs and the economy. Our current assumption based on previous announcements is that there will be a two-year finance settlement covering 2023/24 and 2024/25 which are likely to be rollover settlements with the same principles as in the current settlement and funding reform is not anticipated before 2025/26. Funding assumptions therefore generally reflect a similar funding position as to 2022/23 in 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 2023/24 – 2026/27. The forecast funding gap for 2023/24 is £87.054m, with an updated aggregated funding gap contained within the report of £159.678m by 2026/27 which is an increase of £118.329m from the previously reported position in February for 2024/25. The movement has been caused by a number of factors including rising levels of inflation, a significantly higher than anticipated proposed national pay award and increasing demand for children's and adult services within the forecast along with the inclusion of an additional two financial years included within the medium term financial strategy.

The significant increase in the funding gap is due largely to economic factors outside the Council's control and are common to local government as a whole. It is not possible to predict with any certainty the ultimate scale and length of the inflationary impacts, but assumptions have necessarily been made in this forecast with regard to when more normal inflationary allowances could be anticipated.

The value of the uncommitted transitional reserve is currently forecast to be sufficient to meet the forecast funding gap in 2023/24 but not later years due to the significant increase, and work is progressing on identifying proposals that will reduce the forecast funding gap and the requirement for reserves to support the revenue budget in future years. Proposals to reduce the funding gap will be considered at future Cabinet meetings.

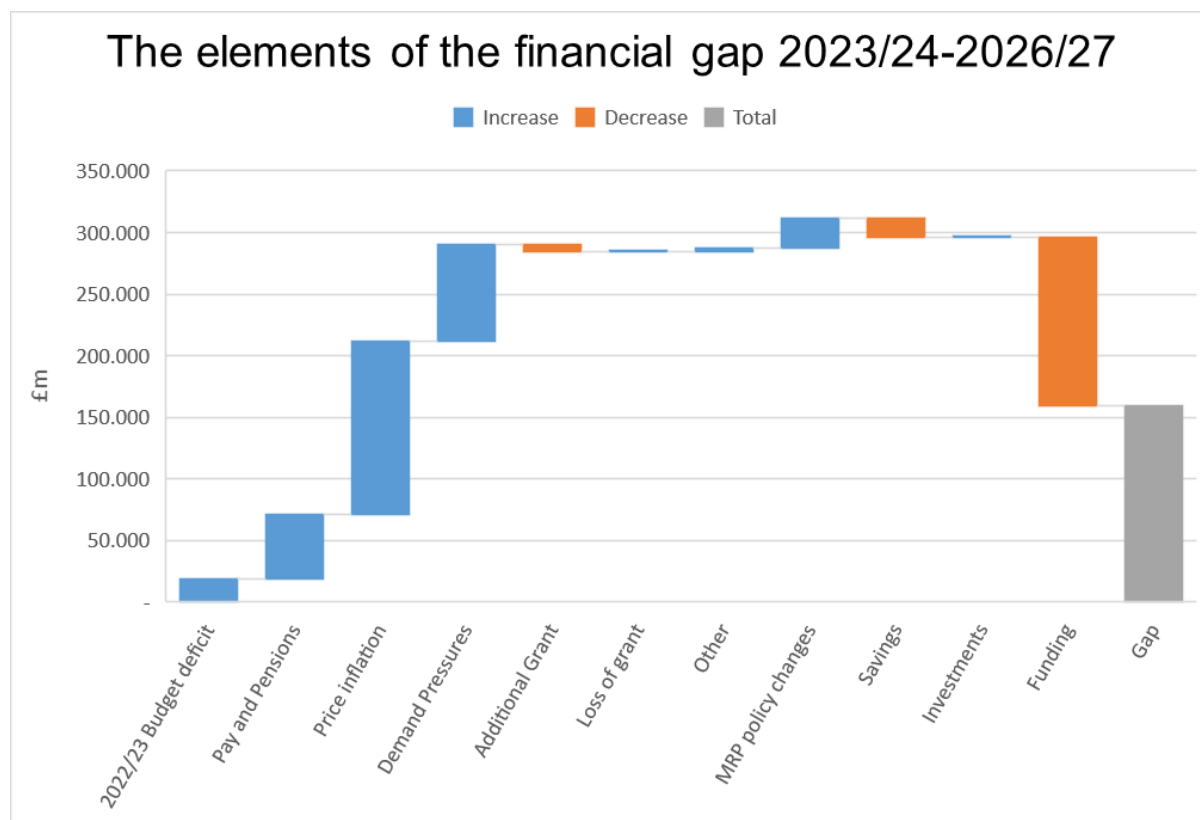
The table below provides a detailed analysis of movements between the previously reported financial gap and the revised financial gap:

Table 1

	2023/24	2024/25	2025/26	2026/27	Total
	£m	£m	£m	£m	£m
Spending Gap as reported at Full Council (Amendment)	30.548	10.801			41.349
Add change to forecast of spending:					
Pay & Pensions	17.139	-0.075	9.021	8.988	35.072
Inflation and Cost Changes	17.975	6.157	33.441	34.564	92.137
Service Demand and Volume Pressures	18.049	5.169	13.828	14.634	51.680
Other	13.095	3.668	4.180	0.463	21.406
Reprofiled Savings	0.000	0.000	-1.239	-1.084	-2.323
Total Change to Forecast of Spending	66.258	14.919	59.231	57.565	197.972
Change to forecast of resources:					
Funding	-9.752	-0.011	-33.182	-36.699	-79.644
Total Change to Forecast of Resources	-9.752	-0.011	-33.182	-36.699	-79.644
Funding Gap	87.054	25.709	26.049	20.866	159.678

Aggregated Funding Gap	2023/24	2024/25	2025/26	2026/27
2023/24 (£m)	87.054	87.054	87.054	87.054
2024/25 (£m)		25.709	25.709	25.709
2025/26 (£m)			26.049	26.049
2026/27 (£m)				20.866
Total	87.054	112.763	138.812	159.678
Previous position (£m)	30.548	41.349		
Variance (£m)	56.506	71.414	138.812	159.678

The graph below demonstrates the drivers that make up the changes in the financial deficit of £18.844m carried forward from 2022/23 to the cumulative position of £159.678m in the financial year 2026/27 shown in the table above:



2. Funding

Whilst a multi-year Spending Review was initially announced, a one-year settlement was ultimately provided for 2022/23 with an expectation now for a two-year rollover settlement for 2023/24 to 2024/25. Assumptions have therefore been made based on the 2022/23 finance settlement for funding levels from 2023/24 - 2026/27.

- A 1.7% increase in council tax base has been assumed throughout the 4-year strategy.
- Council tax increases of 2.99% have been applied to 2023/24 onwards with 1.99% normal increase and 1% adult social care precept.
- Assumption that the new model for business rates is implemented in 2025/26, but currently assuming the impact is cost neutral.
- Growth of 0.5% assumed for business rates in all future years.
- Revenue support grant will continue for the duration of this strategy.
- Council tax collection fund position is assumed to return to surplus in 2023/24, with a £5m surplus built in throughout the strategy.
- Social care grant will continue for the duration of this strategy, including additional grant announced as part of Spending Review 2021 and the 2022/23 final settlement.

Table 2 reflects the updated funding position.

Table 2

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Revenue Support Grant	36.253	37.086	37.828	38.585
Business Rates	218.727	220.981	224.497	228.081
Council Tax	598.268	626.631	656.338	687.454
New Homes Bonus	1.629	1.629	1.629	1.629
Improved Better Care Fund	47.145	47.145	47.145	47.145
Social Care Support Grant	59.493	60.861	62.078	63.320
Collection Fund	5.000	5.000	5.000	5.000
Capital Receipts	2.000	2.000	0.000	0.000
2022/23 Services Grant	13.062	13.062	13.062	13.062
Total	981.577	1014.395	1047.577	1084.276
Funding assumed - previous MTFS	971.825	1004.632	0.000	0.000
Variance	9.752	9.763		
Impact on financial gap	-9.752	-0.011	-33.182	-36.699

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
2023/24	1.99%	1.00%	2.99%
2024/25	1.99%	1.00%	2.99%
2025/26	1.99%	1.00%	2.99%
2026/27	1.99%	1.00%	2.99%

We await confirmation, in the Autumn, of the maximum increase that we will be able to apply to council tax without a referendum. However, as part of the modelling for this medium term financial strategy we have assumed this will be 1.99%. We have also assumed that the adult social care precept will continue to be offered as an option to

those authorities with social care responsibility throughout the strategy and have forecast a 1% increase in relation to this element. Any decisions not to increase council tax in line with the assumptions above would increase the financial gap; every 1% in council tax yields circa £6m.

The calculation of the council tax base position is particularly challenging as district councils need to assess the number of properties that can be taxed, the collection rate and the council tax support schemes that they offer. The County Council has very limited information about the taxbase position looking forward and so has assumed, based on historical average increases, that tax base will increase by 1.7%. It is hoped that the recovery tax base made in 2022/23 (1.69%) during the pandemic will continue.

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 receiving from the business rates collected in the area is less than our assessed need and therefore we receive a top up grant. We continue to build in a small amount of growth into the medium term financial strategy 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 2023/24 rates will effectively be a 'rollover' of 2022/23 – a continuation of the 50% scheme, with the 75% scheme unlikely to be in place before 2025/26.

Collection Fund

It is hoped that the 2022/23 surplus position on the combined collection fund will continue to improve across the strategy, with £5m forecast in 2023/24 and thereafter.

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 £2.000m income in 2023/24 and 2024/25. The regulations surrounding the flexible use of capital receipts mean that the funding will be used to 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 medium term financial strategy covers spending pressures including pay increases, contractual inflation, increased demand for services and the impact of previously agreed and new savings measures.

3.1 Pay and pensions

The medium term financial strategy at quarter 1 has changed significantly since the last report to Full Council due to updated information in relation to pay award proposals. The additional budget requirement assumes an increase in 2023/24 (£1,925 per employee catch up for 2022/23 plus 4% for 2023/24) then a 2% increase in each future year. The current pay offer for 2023/24 equates to an average pay award

of c7% based on the grade mix, which is significantly higher than the 2% originally budgeted. The vacancy factor has also been increased by the same equivalent percentages. The forecast will be impacted by the final pay award that is agreed for 2022/23, but at this stage this has not been finalised.

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

Table 4

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Employee costs	30.107	10.658	10.842	10.822	62.429
Pay Income (Inflation)	-3.809	-1.599	-1.592	-1.601	-8.602
Other pay related costs	-1.193	-0.225	-0.229	-0.233	-1.880
Revised pay and pension requirements	25.104	8.834	9.021	8.988	51.947
Pay and pensions previous MTFS	7.965	8.909	0.000	0.000	16.874
Variance	17.139	-0.075	9.021	8.988	35.072

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 forecast increases in the national living wage and the consumer price index on the cost of services that are commissioned from external providers. In 2023/24, the MTFS includes an increase of £7.3m to reflect forecast inflationary pressures, meaning total inflation for Adult Social care has increased to £24.567m. Other service areas such as children's social care (c£3.5m), highways (c£0.5m), waste services (£1.6m), transport (£1.9m) and premises budgets (£3.5m) all have an increased budget requirement in 2023/24 reflected in the MTFS at quarter 1 as a result of inflationary rises, with further increases in later years. The highest inflationary pressures in percentage terms are on energy costs with forecast increases in 2023/24 of 54.2% on electricity and 110.7% on gas based on industry forecasts.

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

Table 5

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Adults Services	24.567	23.285	24.305	25.390	97.547
Children's Services	5.509	3.207	2.896	2.984	14.596
Waste Services	3.967	2.818	2.450	2.450	11.685
Transport Services	3.557	1.774	1.653	1.718	8.702
Other Services	6.148	-2.218	2.137	2.022	8.089
Revised price inflation requirements	43.748	28.866	33.441	34.564	140.619
Price inflation – previous MTFS	25.773	22.709	0.000	0.000	48.482
Variance	17.975	6.157	33.441	34.564	92.137

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

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Adults Services	12.452	11.320	11.320	11.850	46.942
Children's Services	18.048	4.456	1.874	2.087	26.465
Waste Services	0.000	0.000	0.000	0.000	0.000
Transport Services	1.114	0.438	0.498	0.561	2.611
Other Services	2.158	0.134	0.136	0.136	2.564
Revised Demand Requirements	33.772	16.348	13.828	14.634	78.582
Demand – previous MTFS	15.723	11.179	0.000	0.000	26.902
Variance	18.049	5.169	13.828	14.634	51.680

Adult social care represents a large proportion of the demand pressures. Adult social care has long seen annual increases in the demand for services and the medium term financial strategy attempts to predict growth in future years largely based on reviewing current and past activity trends and also taking into account future population changes, particularly with regard to the ageing population. From a social care perspective demand covers both increasing numbers of people eligible for support and the increasing complexity of those cases. The level of demand included for this service area for the three years to 2026/27 is £46.942m. This will continue to be monitored and figures may be updated in future medium term financial strategy reports.

The figures in Table 6 do not take account of the Care Act Reforms and the Fair Cost of Care exercise that is currently being carried out. The submission date for this information to the national team is October 2022. The County Council has commissioned a service to gather this information from Adult Care providers of Nursing, Residential and Domiciliary Care within our geographical area. If the cost of implementing these changes is not fully offset from additional government funding there would be an additional cost pressure and increase to the forecast funding gap.

Children's social care continues to experience demand pressures across the service, particularly in relation to placement demand due to the number of looked after children in Lancashire and the type of service provision. The increase included at quarter 1 for demand across children's social care is c£16m and represents the majority of the £18m increase in demand shown in table 6 above. The increases are largely due to increases in placement costs and in particular the number of children placed in agency residential accommodation which are pressures being seen across the sector. Our assumptions are based on the 3-month average demand for placements in 2022/23, with the MTFs reflecting half this demand in 2023/24 and no additional demand in future financial years.

3.4 Other

The main adjustment within this area relates to the increased budget requirement for the minimum revenue provision due to the impact of an increasing proportion of the capital programme in recent years and going forward being funded from additional borrowing. This leads to an increase in the minimum revenue provision (MRP) annual charge to the revenue budget to repay the principal debt and we are also seeing the impact of forecast increases in interest rates on actual annual interest charges on that debt. There has also been an increase in the MRP charge as the assets for which borrowing was used have had a shorter asset life than assumed in setting the budgets. Consequently, as minimum revenue provision is related to the asset life this has resulted in higher minimum revenue provision charges going forward.

4. Reserves

Table 7

Reserve Name	Opening balance 2022/23	2022/23 Expenditure	2022/23 Forecast transfers to/from other reserves	2022/23 Closing Balance	2023/24 Forecast Exp	2024/25 Forecast Exp	2025/26 Forecast Exp	Forecast closing balance 31 March 2026
	£m	£m	£m	£m	£m	£m	£m	£m
County Fund	-23.437	0.000	0.000	-23.437	0.000	0.000	0.000	-23.437
SUB TOTAL - COUNTY FUND	-23.437	0.000	0.000	-23.437	0.000	0.000	0.000	-23.437
Strategic Investment Reserve	-4.192	0.287	0.000	-3.905	0.469	0.047	0.000	-3.389
COVID-19 Reserve	-11.048	9.108	0.000	-1.940	1.548	0.252	0.038	-0.102
Downsizing Reserve	-5.454	1.410	0.000	-4.044	2.022	2.022	0.000	0.000
Risk Management Reserve	-4.276	1.027	0.000	-3.249	0.000	0.000	0.000	-3.249
Transitional Reserve	-215.777	24.684	0.000	-191.093	4.552	2.484	0.000	-184.057
Business Rates Volatility Reserve	-5.000	0.000	0.000	-5.000	0.000	0.000	0.000	-5.000
Service Reserves	-108.745	41.119	0.000	-67.499	13.918	13.210	0.970	-39.401
Treasury Management Valuation Reserve	-36.317	0.000	0.000	-36.317	0.000	0.000	0.000	-36.317
Treasury Management Reserve	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
SUB TOTAL - LCC RESERVES	-390.809	77.635	0.000	-313.047	22.509	18.015	1.008	-271.515
Non-LCC Service Reserves	-17.065	0.377	0.000	-16.688	3.344	0.456	0.000	-12.888
SUB TOTAL - NON LCC RESERVES	-17.065	0.377	0.000	-16.688	3.344	0.456	0.000	-12.888
GRAND TOTAL	-431.311	78.012	0.000	-353.172	25.853	18.471	1.008	-307.840

The County Fund shown at the top of Table 7 is the balance set aside to cover the authority against a serious emergency situation (e.g., widespread flooding); a critical and unexpected loss of income to the authority and for general cash flow purposes. In

considering these various factors the county council is forecast to maintain its County Fund balance at £23.437m, equating to circa 2.4% of net budget.

The value of the uncommitted transitional reserve is currently forecast to be £191.093m by the end of March 2023 but this will also be impacted directly by the value of any final over or underspend for the current financial year.

The transitional reserve is forecast to be sufficient to meet the identified funding gap for 2023/24 but not later years as set out in table 8 below without additional savings being identified.

Table 8

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Opening Balance	191.093	99.487	-15.760	-154.571
Gap funding	87.054	112.763	138.812	159.678
Commitments	4.552	2.484	0.000	
Closing balance	99.487	-15.760	-154.571	-314.249

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

Many of the immediate and direct effects of the COVID-19 pandemic are now largely concluded and there is no additional funding being provided to councils currently with regard to the impact of Covid in the current financial year or going forwards. However, both Adults and Childrens are still experiencing pressures resulting from the pandemic including the impact of latent demand and any subsequent spike or new variant of the infection could lead to further financial pressures for the authority.

5.2 Savings delivery

The scale of savings agreed to be delivered over future financial years remains significant with c£20m budgeted to be delivered in 2022/23. This is a combination of savings that were planned to be delivered in earlier years and were delayed due to the pandemic, and the budgeted savings agreed to be removed from the budget in 2022/23, which were £7.364m.

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 Further savings identification and delivery

Work is progressing on identifying proposals that will reduce the forecast funding gap and the requirement for reserves to support the revenue budget over the medium term. This has involved looking in detail at budget trends over the last 5 years to identify opportunities for efficiencies, focusing activity on areas where our costs benchmark more highly compared to our comparator authorities. This will build on current work programmes and also opportunities with regard to cross-cutting workstreams across the council as whole that are aimed at improving efficiency and reducing cost including process reviews, benefits realisation from change programmes, better use of systems and review of our property portfolio.

5.4 Business rates retention / changes to funding formula

As previously explained, the future funding arrangements to be established by government pose a potential risk to the council. It is not expected that the new arrangements will come into place until 2025/26, a further delay to the previously extended delay, although 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 medium term financial strategy. 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 medium term financial strategy at quarter 1.

5.5 Children's social care

Children's social care demand levels are forecast to continue to increase and are increasing nationally, particularly within agency residential placements, agency fostering placements and also special guardianship orders. This has been reflected in the MTFs at quarter 1 with c£16m included for additional demand anticipated in 2023/24. Although this is a significant increase, this is built on the assumption that demand is half of the current 3 month average and then in future years no additional demand is currently included.

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

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%)	+/- 5.983
Pay (1%)	+/- 4.408
Price Inflation (1%)	+/- 7.213

Demand (1%)	+/- 5.518
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This stress testing gives confidence that the council can continue to live within its means for the next year in adverse circumstances. However, after this period, during the life of the medium term financial strategy significant savings will need to be achieved to ensure the Council has sufficient financial resilience going forward.