

**Money Matters**  
**Financial Outlook for the County**  
**Council**  
**Medium Term Financial Strategy &**  
**Reserves – Quarter 3 2022/23**



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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.

At Cabinet in September, an update was provided as at Quarter 1, with pressures increasing due to rising inflation and interest rates, growing demand and a higher than budgeted pay award. This resulted in an updated forecast financial gap of £87.054m for 2023/24 rising to c£160m by 2026/27.

To address the structural financial deficit significant work was undertaken by Directorates over the summer to identify financial savings and efficiencies. This resulted in a further report to Cabinet in November, focussed on reducing the structural deficit. The report included savings proposals, strategic targets, and additional income totalling c£118m overall which reduced the financial gap in 2023/24 to c£20m and £41m by 2026/27.

In November 2022 the Chancellor of the Exchequer delivered the Autumn Statement. This provided details of additional grants that would be distributed for social care and also indicated that councils would have the ability to increase council tax by higher levels. Whilst estimates could be made following the statement, until the Provisional Financial Settlement was received it was not possible to finalise a revised medium term financial strategy with confidence.

The Provisional Financial Settlement was announced on 19<sup>th</sup> December 2022. This contained detailed figures for additional social care funding and provided confirmation of the ability to increase council tax by 4.99% in 2023/24 and 2024/25 which includes a 2% adult social care precept that is ringfenced to adult social care. Some information was provided as to what it is expected that the additional funding would be spent on, however it is expected more information will become available in due course on any conditions and reporting requirements. The medium-term financial strategy reflects all the information provided in the Provisional Financial Settlement.

Whilst the Provisional Settlement aims to provide some certainty to councils over the next 2 years, this mainly relates to the confirmation of flexibility in the level of council tax increase rather than confirmation of grant values in 2024/25. In addition, there remains great uncertainty with regard to both the financial position and particularly funding levels from 2025/26 onwards, with some bodies referring to 2025/26 as a "cliff edge" for councils. The medium-term financial strategy at Quarter 3 makes the assumption that those grants provided in 2023/24 will continue over the lifetime of the strategy, whether that be as a specific grant or as part of a new funding formula.

This report provides an updated position covering the financial years 2023/24 – 2026/27. The forecast funding gap for 2023/24 is £7.736m, with an updated aggregated funding gap contained within the report of £15.526m by 2026/27 which is a reduction of £25.901m from the previously reported medium term financial strategy position in November. The improved position predominantly relates to the increased



levels of funding received as part of the Provisional Financial Settlement and also the ability to increase council tax in 2023/24 and 2024/25. The Quarter 3 MTFS includes updated figures reflecting increasing levels of inflation and adjustments to demand levels representing the most recent data available.

The value of the uncommitted transitional reserve is currently forecast to be sufficient to meet the forecast funding gap for the lifetime of the medium-term financial strategy. However, by identifying further savings and/or delivering savings earlier than currently planned we would seek to address the financial gap sooner and ensure reserves are maintained for further service transformation and improvement.



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

**Table 1 – Cumulative Medium Term Financial Strategy**

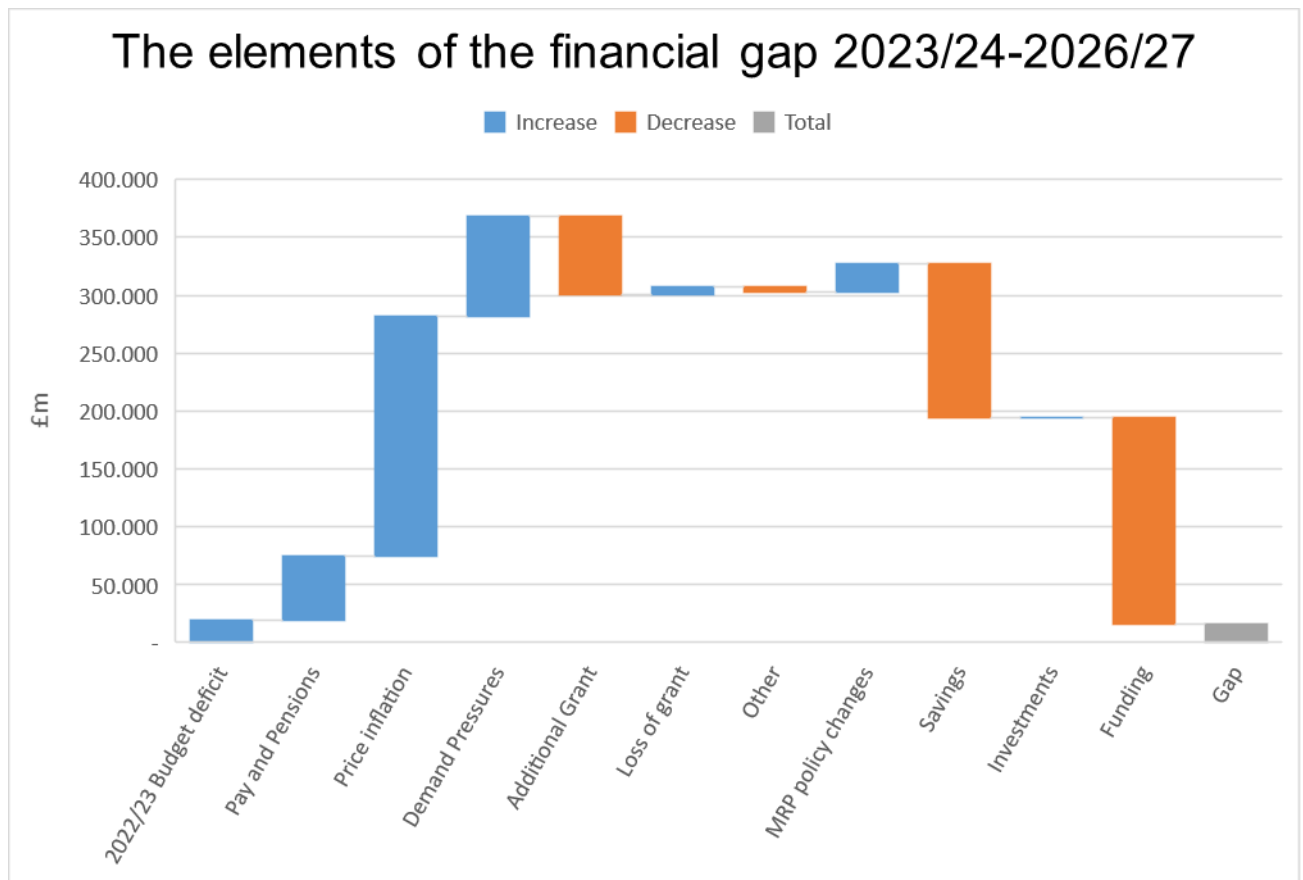
	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
<b>Baseline expenditure</b>	<b>967</b>	<b>1,016</b>	<b>1,050</b>	<b>1,089</b>
Pay	26	12	8	8
Price	83	39	49	36
Demand	42	16	14	14
Additional Grant	-20	-10	-41	0
Loss of Grant	7	0	0	0
Savings	-66	-23	-21	-10
Capital financing	-5	-2	-1	-1
Other	19	5	4	0
<b>Budget requirement</b>	<b>1,044</b>	<b>1,081</b>	<b>1,093</b>	<b>1,142</b>
Funding	1,036	1,097	1,090	1,127
<b>Budget Gap – Quarter 3</b>	<b>8</b>	<b>-15</b>	<b>4</b>	<b>16</b>

**Table 2 – Quarter 2 Adjustments to Medium Term Financial Strategy**

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
<b>Spending Gap as reported November Cabinet</b>	<b>19.951</b>	<b>22.322</b>	<b>30.300</b>	<b>41.428</b>
Pay & Pensions	1.172	4.676	4.071	3.487
Inflation and Cost Changes	38.875	48.629	64.635	66.546
Service Demand and Volume Pressures	8.675	8.479	8.165	7.696
Other	4.867	-6.247	-6.215	-6.181
Additional Grant	-20.625	-20.562	-61.895	-61.895
Loss of Grant	6.691	6.691	6.691	6.691
Funding	-51.870	-79.110	-42.225	-42.246
<b>Forecast Budget Gap – Quarter 3</b>	<b>7.736</b>	<b>-15.122</b>	<b>3.527</b>	<b>15.526</b>



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 £15.526m in the financial year 2026/27 shown in the table above:



## 2. Funding

As part of the Provisional Settlement, the government announced that details were provided for the next two years. Whilst this is the case for the additional flexibility on Council Tax increases, there was very little in terms of specific grant allocations for 2024/25, although estimates can be made of allocations using the same distribution formula being applied to funding streams in 2023/24. The key changes and assumptions are outlined below:

- Council tax increases of 4.99% have been applied to 2023/24 and 2024/25 onwards with 1.99% normal increase and 1% adult social care precept in 2025/26 and 2026/27. This is shown in the table below:

	Council tax increase (no referendum required)	Adult social care precept	Total council tax increase
2023/24	2.99%	2.00%	4.99%
2024/25	2.99%	2.00%	4.99%
2025/26	1.99%	1.00%	2.99%
2026/27	1.99%	1.00%	2.99%

- A 1.7% increase in council tax base has been assumed for each of the 4 years in the strategy.
- Council tax collection fund position is assumed to return to surplus in 2023/24, with a £5m surplus built into each year of the strategy.
- Business Rates Funding increased by CPI following Provisional Settlement with the increase shared across the top up grant and section 31 compensation grants. Assumed that this increase in funding is recurrent.
- Assumption that the new model for business rates is implemented in 2025/26, but currently assuming the impact is cost neutral, however this does include 0.5% growth in all future years.
- Revenue support grant increased at Quarter 3 due to CPI in the Provisional Settlement. It is assumed this will continue for the duration of this strategy with further inflationary increases applied in future years.
- 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.
- Additional grants received for Social Care, including repurposed Adult Social Care reforms funding and new monies to support various aspects of Adults Social Care such as discharges and working with providers. Whilst additional funding is shown in the table below, there are offsetting costs included within the expenditure side of the medium-term financial strategy. It has been assumed that these grants are recurrent.
- Services Grant – reduction of c£5m in the Provisional Settlement. It has been assumed that this grant continues over the remainder of the strategy.



Table 3 reflects the updated funding position.

**Table 3**

	<b>2023/24 £m</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>
Revenue Support Grant	38.206	40.881	41.944	42.783
Business Rates	232.789	235.476	238.953	242.498
Council Tax	609.886	651.205	682.077	714.413
New Homes Bonus	1.482	0.782	0.000	0.000
Improved Better Care Fund	47.145	47.145	47.145	47.145
Social Care Support Grant	94.579	108.656	67.323	67.323
Collection Fund	5.000	5.000	5.000	5.000
Capital Receipts	0.000	0.000	0.000	0.000
Services Grant	7.360	7.360	7.360	7.360
<b>Total</b>	<b>1036.447</b>	<b>1096.505</b>	<b>1089.802</b>	<b>1126.522</b>
<b>November Cabinet Funding Forecast</b>	<b>984.577</b>	<b>1017.395</b>	<b>1047.577</b>	<b>1084.276</b>
<b>Variance</b>	<b>51.870</b>	<b>79.110</b>	<b>42.225</b>	<b>42.246</b>

## 2.1 Additional Funding Information

### ***Council tax***

As noted above, assumptions have been made in the medium-term financial strategy that take full advantage of the additional level of council tax that the county council has the ability to raise following the Provisional Settlement. It is assumed within the core spending power calculation undertaken by the Department for Levelling Up, Housing and Communities that councils will raise council tax by the maximum percentage permissible. However, the level of increase in council tax included as part of the budget for a financial year is ultimately a decision for Full Council to make each year when setting the budget. 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 tax base position looking forward and so has assumed, based on historical average increases, that tax base will increase by 1.7% per annum.





### ***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.

The Provisional Settlement confirmed that business rates would be uplifted by CPI to reflect current inflation levels. This is applied across the top up grant and section 31 compensatory grants. This is an increase to the funding envelope of c£14m compared to the forecast in Quarter 1.

### ***New Homes Bonus***

The New Homes Bonus grant has been under review by the government for several years and consultations have taken place. The grant formally included legacy payments over 4 years, but these have previously been removed and the grant has gradually reduced. In the Provisional Settlement for 2023/24 the total national funding for this grant has reduced further, with the amount of funding provided to the county council being £1.482m (£0.147m lower than forecast previously).

As the future of this grant looks increasingly uncertain, as part of the medium-term financial strategy at Quarter 3 the grant has been further reduced in 2024/25 and an assumption made that New Homes Bonus no longer exists from 2025/26.

### ***Services Grant***

This grant was an additional grant provided in 2022/23, but it had been assumed that this would be recurrent. Included in the grant was funding to cover additional costs of employer's national insurance contributions following a change in policy. However, as this decision has been reversed the Autumn Statement indicated that the grant would be reduced to reflect that there were no longer the additional costs.

In the Provisional Settlement the Services Grant has reduced by £5.7m, which is higher than anticipated (£2m).

### ***Social Care Grant***

In 2022/23, a social care grant of £57.095m was allocated to the county council. The Provisional Settlement has confirmed that this amount will be provided again, although no inflation will be applied (as has been assumed in the Quarter 1 medium term financial strategy).

As part of the settlement, funding for the Independent Living Fund (ILF) of £5.5m has been included within the social care grant, which is the same value as the 2022/23 grant. This is a change in presentation of the grant, as previously it was accounted for as a service grant.



The final element of the Social Care Grant for 2023/24 relates to repurposed social care reforms funding. In the Autumn Statement it was announced that social care reforms were delayed for two years, but the funding would still be paid to councils. The Provisional Settlement also includes some funding that acts as an equalisation to reflect different councils' ability to generate differing levels of income through the adult social care precept. This has resulted in additional grant of c£32m, although there are offsetting costs contained within the expenditure sections of the medium-term financial strategy.

### ***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 medium-term financial strategy previously included £5m of income in 2023/24 and 2024/25. However, due to increased funding levels in 2023/24 following the Provisional Settlement, increased costs of borrowing and pressures on the capital programme, capital receipts will now be used to support capital schemes.



### 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 previously included significant changes in pay costs, as additional costs were included for the pay award, which was higher than previously budgeted.

The additional funding required in 2023/24 represents a "catch up" investment due to the higher than previously budgeted pay award and a 5% forecast increase in 2023/24. At Quarter 3, assumptions relating to pay have increased, with budget provision made for an increase of 5% in 2023/24, 3% in 2024/25 and 2% in both 2025/26 and 2026/27. This change in assumption was made based on consideration of benchmarking information provided from other county councils, although the actual pay award will be in line with the outcome of the annual National Joint Council pay negotiations.

At Quarter 3, there is a further significant adjustment, the majority of which relates to the change in policy from the Government in relation to national insurance contributions.

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

**Table 4**

	<b>2023/24 £m</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>	<b>Total £m</b>
Employee costs	31.238	14.167	10.242	10.244	<b>65.891</b>
Pay Income (Inflation)	-3.816	-1.605	-1.598	-1.608	<b>8.627</b>
Other pay related costs	-1.146	-0.224	-0.228	-0.232	<b>-1.830</b>
<b>Revised pay and pension requirements</b>	<b>26.276</b>	<b>12.337</b>	<b>8.416</b>	<b>8.404</b>	<b>55.433</b>
<b>November Cabinet MTFS</b>	<b>25.104</b>	<b>8.834</b>	<b>9.021</b>	<b>8.988</b>	<b>51.947</b>
<b>Variance</b>	<b>1.172</b>	<b>3.504</b>	<b>-0.605</b>	<b>-0.583</b>	<b>3.487</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.

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. At Quarter 3 there is an increase of £58m for Adult Services price impacted costs (over the next 4 years). This includes an additional £41m to introduce social care reforms and is offset by the same amount in additional funding. A further £8.9m is included in 23/24 to reflect the additional cost of the national living wage following the Autumn Statement where an increase rate was announced. In addition, a further £3m has been included in 2023/24 to reflect increasing inflation levels and a further £1.5m in each of the next 3 years.

Other service areas have seen increase budget requirements because of inflationary pressures such as children's social care (c£3.8m), transport services (c£1.9m), highways (£0.5m) digital services (£0.3m) and premises budgets (£0.6m). The highest inflationary pressures in percentage terms are on energy costs with forecast increases in 2023/24 of 66.3% on electricity and 224.6% on gas based on industry forecasts, which we are currently assuming return to more normal levels of inflation from 2024/25.

Waste Management inflation costs have a net increase of £0.9m over the next 4 years. There are several reasons for the changes to the waste inflation forecast:

- Confirmation of price for landfill tax received and this is lower than anticipated.
- Increased inflationary pressures.
- Increased costs included relating to waste strategy implementation post 2025/26 with ramp up costs included in 2023/24 and 2024/25 and reduced costs included from 2025/26 when the landfill contract ceases.

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	50.167	33.185	45.038	26.890	<b>155.280</b>
Children's Services	9.034	3.701	2.955	3.050	<b>18.740</b>
Waste Services	7.725	4.387	-2.353	2.775	<b>12.534</b>
Transport Services	5.342	1.801	1.712	1.781	<b>10.636</b>
Other Services	10.355	-4.454	2.095	1.979	<b>9.976</b>
<b>Revised Demand Requirements</b>	<b>82.623</b>	<b>38.620</b>	<b>49.447</b>	<b>36.475</b>	<b>207.166</b>
<b>November Cabinet MTFS</b>	<b>43.748</b>	<b>28.866</b>	<b>33.441</b>	<b>34.564</b>	<b>140.619</b>
<b>Variance</b>	<b>38.875</b>	<b>9.754</b>	<b>16.006</b>	<b>1.911</b>	<b>66.546</b>



### 3.3 Demand pressures

All services have reviewed the demand pressures they face in future years and increasing demand 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	24.452	11.320	11.320	11.850	<b>58.942</b>
Children's Services	16.494	4.210	1.507	1.558	<b>23.769</b>
Waste Services	-0.890	0.000	0.000	0.000	<b>-0.890</b>
Transport Services	1.173	0.489	0.552	0.620	<b>2.834</b>
Other Services	1.218	0.133	0.135	0.137	<b>1.623</b>
<b>Revised price inflation requirements</b>	<b>42.447</b>	<b>16.152</b>	<b>13.514</b>	<b>14.165</b>	<b>86.278</b>
<b>November Cabinet MTFS</b>	<b>33.772</b>	<b>16.348</b>	<b>13.828</b>	<b>14.634</b>	<b>78.582</b>
<b>Variance</b>	<b>8.675</b>	<b>-0.196</b>	<b>-0.314</b>	<b>-0.469</b>	<b>7.696</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 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 next four years to 2026/27 is £58.942m. At Quarter 3 an increase of £12m has been included to reflect additional costs that are being incurred relating to discharges from hospitals. As part of Provisional Settlement additional funding was provided to offset some of these costs. This will continue to be monitored and figures may be updated in future medium term financial strategy 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 and the type of service provision. In previous reports increased levels of growth have been included for the service, however at Quarter 3 a slight decrease has been included to reflect reduced numbers of children looked after in recent months. As part of the review undertaken at Quarter 3, demand forecasts have been reduced across placement costs for children with disabilities. Overall, this has resulted in a reduction in the medium-term financial strategy of £3.6m over the next 4 years. However, despite this reduction there are still significant levels of demand growth built into future year's budgets, with c£18m built in for 2023/24. Our assumptions are based on the 3-month average demand for placements in 2022/23, with the medium-term financial strategy reflecting broadly half this demand in 2023/24 and no additional demand in future financial years. This is a highly volatile area, where children looked



after numbers and their annualised costs (used to help model future year requirements) can significantly change month on month.

### 3.4 Other

The adjustment in this section of the medium-term financial strategy mainly relates to increases in the cost of borrowing for the capital programme reflecting forecast interest rate changes. We have assumed that costs will increase by a further 1% compared to those forecast in Quarter 1, resulting in an additional £5m cost pressure from 2023/24 and then holding at this level over the remainder of the strategy.

### 3.5 Additional Grant

The additional grants included in this section are as follows:

	2023/24	2024/25	2025/26	2026/27
Market Sustainability and Fair Cost of Care Fund	-12.922	-6.507	0.000	0.000
BCF Discharge Fund	-7.703	-4.605	0.000	0.000
Social Care Reforms*	0.000	0.000	-41.333	0.000
<b>Total Additional Grant</b>	<b>-20.625</b>	<b>-11.112</b>	<b>-41.333</b>	<b>0.000</b>

*\*Transfer from core funding in MTFS to become a service grant*

Additional costs associated with the additional funding outlined above are included in price and demand sections of the medium-term financial strategy.

### 3.6 Loss of Grant

This adjustment relates to the loss of the school brokering grant (£1.175m) and the transfer of the Independent Living Fund Grant from a service grant (£35.5m) to being included within the Social Care Grant (as outlined in the Provisional Settlement).



## 4. Reserves

**Table 7**

Reserve Name	Opening balance 2022/23	2022/23 Expenditure	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
County Fund	-23.437	0.000	-23.437	0.000	0.000	0.000	-23.437
<b>SUB TOTAL - COUNTY FUND</b>	<b>-23.437</b>	<b>0.000</b>	<b>-23.437</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>-23.437</b>
Strategic Investment Reserve	-4.192	0.244	-3.948	0.473	0.047	0.000	-3.428
COVID-19 Reserve	-11.048	5.145	-5.903	2.391	0.626	0.913	-1.973
Downsizing Reserve	-5.454	1.410	-4.044	2.022	2.022	0.000	0.000
Risk Management Reserve	-4.276	1.128	-3.148	-2.454	0.145	0.000	-5.457
Transitional Reserve	-215.777	27.244	-188.533	4.811	3.333	0.000	-180.389
Business Rates Volatility Reserve	-5.000	0.000	-5.000	0.000	0.000	0.000	-5.000
Service Reserves	-108.745	36.978	-71.767	25.864	16.278	8.428	-21.197
Treasury Management Valuation Reserve	-36.317	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
<b>SUB TOTAL - LCC RESERVES</b>	<b>-390.809</b>	<b>72.149</b>	<b>-318.660</b>	<b>33.107</b>	<b>22.451</b>	<b>9.341</b>	<b>-253.761</b>
Non-LCC Service Reserves	-17.065	0.314	-16.751	3.256	0.551	0.149	-12.795
<b>SUB TOTAL - NON LCC RESERVES</b>	<b>-17.065</b>	<b>0.314</b>	<b>-16.751</b>	<b>3.256</b>	<b>0.551</b>	<b>0.149</b>	<b>-12.795</b>
<b>GRAND TOTAL</b>	<b>-431.311</b>	<b>72.463</b>	<b>-358.848</b>	<b>36.363</b>	<b>23.002</b>	<b>9.490</b>	<b>-289.993</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 2.4% of net budget.

The value of the uncommitted transitional reserve is currently forecast to be £188.533m 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 value of the uncommitted transitional reserve is currently forecast to be sufficient to meet the forecast funding gap for the lifetime of the medium-term financial strategy, as shown in Table 8. However, by identifying further savings and/or delivering savings earlier than currently planned we would seek to address the financial gap sooner and ensure reserves are maintained for further service transformation and improvement.

**Table 8**

	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Opening Balance</b>	191.093	178.546	190.335	186.808
<b>Gap funding</b>	7.736	-15.122	3.527	15.526
<b>Commitments</b>	4.811	3.333	0.000	
<b>Closing balance</b>	<b>178.546</b>	<b>190.335</b>	<b>186.808</b>	<b>171.282</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**

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 have experienced additional demands following the pandemic which are continuing.

### **5.2 Savings delivery**

The medium-term financial strategy assumes that all previously agreed savings are fully delivered. The scale of savings agreed to be delivered over future financial years remains significant with c£30m budgeted to be delivered in 2022/23 and a further c£18m in later years. 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 that were reprofiled (but are still to be delivered) from the budget in 2022/23.

In addition, a further c£86m of additional savings proposals in November and strategic targets of £32m were agreed by Cabinet to form part of the budget proposals for 2023/24.

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, we have a strong track record of delivery of our saving plans and there are comprehensive arrangements in place to track delivery and take corrective actions where required.

### **5.3 Further savings identification and delivery**

Although further savings proposals were brought forward to Cabinet in November, there remains a financial gap. In order to achieve a balanced budget position various other workstreams are in progress to identify and secure further savings. We expect the gap to reduce as we secure better data to drive our ambition and confidence in the strategic targets set.

As a county council we regularly compare ourselves through benchmarking to other local authorities, particularly county councils. The data suggests that despite the savings proposals put forward in this report, in some service areas we remain high cost. Although there are always some limitations to benchmarking data, it is a good indicator of how we are performing in comparison to other county councils, therefore this data, along with other intelligence and evidence, will be used to set further targets for Directorates, with the target being to provide services at, or below, the unit cost of the median county council for each service area.

In addition, a further workstream that is looking to generate further savings/income relates to commercialisation. Work is ongoing to explore the potential of our existing companies to yield better returns or move into the private sector. All fees and charges



are being reviewed and benchmarked to ensure we remain aligned to our markets. We will also review and identify opportunities to generate more income including offering best practice services to a wider market. All traded activities need to demonstrate appropriate returns and manage risk as set out in the commercial blueprint approved by Cabinet.

#### **5.4 Funding**

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.

Changes to the funding formula for Local Government have been delayed for several years, with the earliest opportunity for implementation being 2025/26. The outcome from the review could increase or reduce funding compared to those values included in the medium-term financial strategy. At this stage we have received no intelligence from supporting professional bodies that would support different assumptions being included in the forecast.

The medium-term financial strategy includes additional funding announced in the Provisional Settlement relating to adult social care with some additional offsetting expenditure. At this stage the full detail of expectations and conditions of this funding are not known, there is therefore a risk that additional expenditure may be incurred, or some funding held back should require improvement in, for example, hospital discharge activity not be achieved, in order to meet the grant conditions.

The Provisional Settlement provides details primarily of funding for 2023/24, and a small amount of information about 2024/25 (however grant values can be estimated based on 2023/24 allocations). There is very little information available for 2025/26, therefore multiple assumptions have been made which could be correct or prove to be wrong. The most significant is that in general we have assumed all grants received are recurrent, including those that have most recently been announced.

#### **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. The assumption included in the demand calculation 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 had not previously presented itself due to the pandemic.

#### **5.6 High Needs Block**

The High Needs Block is forecast to have significant pressures over coming years, with the Education and Children's Directorate reviewing models and services covered by this funding. There are pressures nationally in this area and we are better placed than many other councils through the creation of the High Needs Block reserve which allows time for more strategic and sustainable mitigations to be put in place.



Therefore, there are no additional pressures in relation to this area included currently within the current medium-term financial strategy.

### 5.7 Adult Social Care

In Adult Social Care there are planned reforms relating to a cap on service user contributions and changes to contribution thresholds along with the fair cost of care exercise. The reforms have however been delayed until 2025/26, but the funding allocated will still be distributed to authorities as part of the Social Care Grant and is not ringfenced. From 2025/26 onwards, the core assumption within the medium-term financial strategy remains that the additional cost of these changes will be fully offset from additional government funding being provided.

In addition, the medium-term financial strategy 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%)	+/- 8.161
Demand (1%)	+/- 5.546
Interest on borrowing (1%)	+/- 5.000

