

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



Contents

	Contents	Page
1	Executive Summary	2
2	Funding	5
3	Net Budget Requirement	9
4	Reserves	10
5	Future Risks and Opportunities	12



1. Executive summary

At Full Council in February 2022 the updated medium term financial strategy 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 pandemic.

The position was updated in a report to Cabinet in September which covered the financial years 2023/24 – 2026/27. The forecast funding gap for 2023/24 had increased to £87.054m, with an updated aggregated funding gap of £159.678m by 2026/27 which was an increase of £118.329m from the previously reported position in February for 2024/25. The movement was caused by a number of factors including rising levels of inflation, a higher than anticipated proposed national pay award and increasing demand for children's and adult services. The forecast period was also extended by two financial years. The significant increase in the funding gap was due largely to economic factors outside the Council's control and common to local government as a whole.

Earlier in the financial year, to address the structural financial deficit significant work was undertaken by Directorates to identify financial savings and efficiencies. This resulted in a report to Cabinet in November, which included savings proposals, strategic targets, and additional income which reduced the financial gap in 2023/24 to c£20m and £41m by 2026/27.

The Provisional Settlement 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 ringfenced 2% adult social care precept. Some information was provided as to what it is expected that the additional funding would be spent on, with more detail in due course.

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 professional bodies referring to 2025/26 as a "cliff edge" for councils with uncertainty with regard to the levels of funding for this year onwards. 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.

Following further analysis of the Provisional Settlement and resulting forecast financial gap, and consultation with Cabinet, a further update to the medium term financial strategy has been prepared using the Quarter 3 position. The forecast funding gap for 2023/24 is £9.501m, with an updated aggregated funding gap contained within the report of £23.286m by 2026/27 which is an increase of £7.760m from the previously reported medium term financial strategy position in January. The increase to the financial gap predominantly relates to a revision to the proposed council tax level for 2023/24 and some areas of required investment, offset by funding from capital receipts being included to support the 2023/24 budget.



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 the county council 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

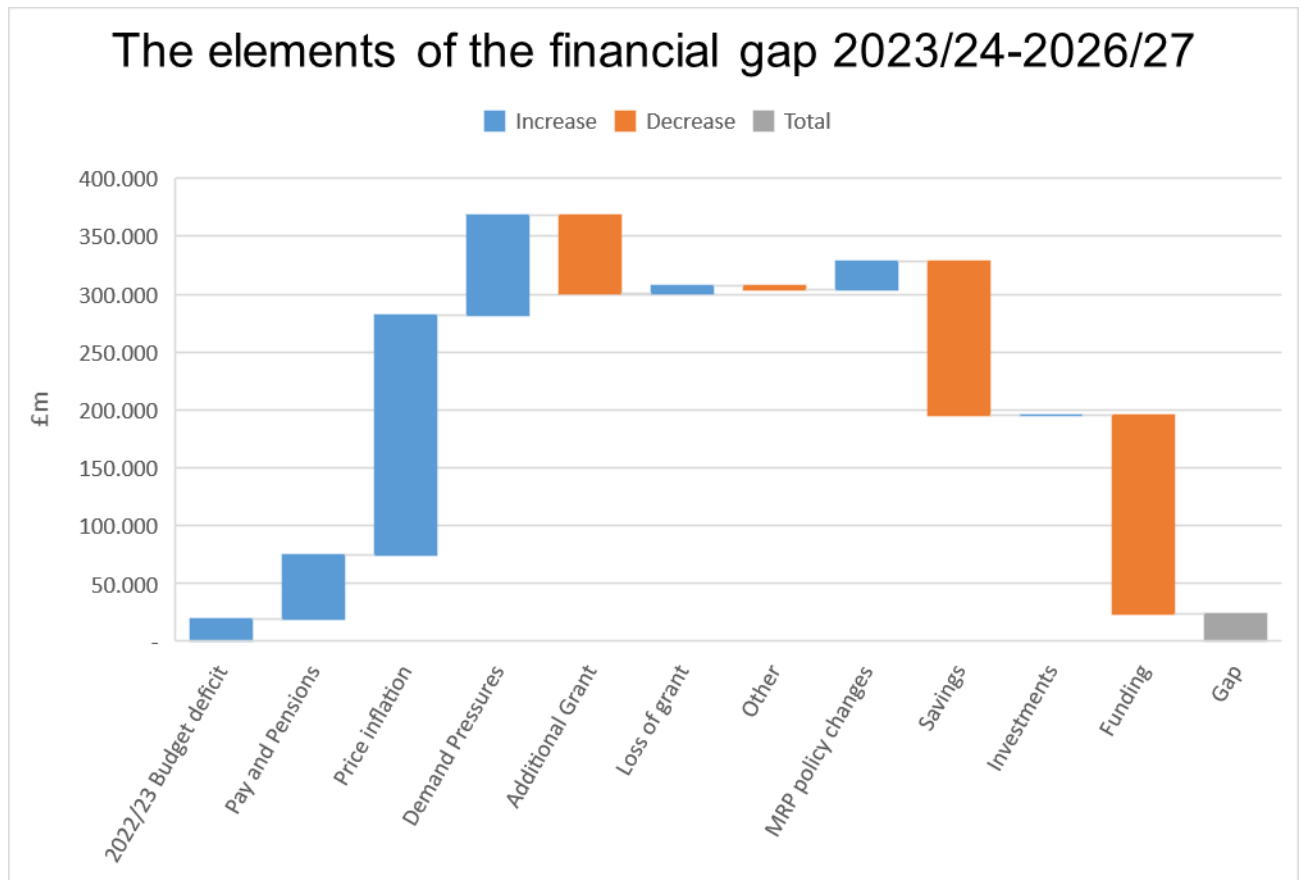
	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Baseline expenditure	967	1,045	1,082	1,094
Pay	26	12	8	8
Price	83	39	49	36
Demand	43	16	14	14
Additional Grant	-16	-10	-41	0
Loss of Grant	7	0	0	0
Savings	-75	-25	-22	-11
Capital financing	19	5	4	0
Other	-9	0	0	0
Budget requirement	1,045	1,082	1,094	1,143
Funding	1,036	1,090	1,083	1,120
Budget Gap – Quarter 3	10	-8	11	23

Table 2 – Quarter 2 Adjustments to Medium Term Financial Strategy

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Spending Gap as reported January Cabinet	7.736	-15.122	3.527	15.526
Service Demand and Volume Pressures	0.956	0.956	0.956	0.956
Funding	0.809	6.203	6.496	6.804
Forecast Budget Gap – Quarter 3 (updated)	9.501	-7.963	10.979	23.286



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 £23.286m 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 assumptions are outlined below:

- Council tax increases of 3.99% have been applied to 2023/24 and an increase of 4.99% in 2024/25. In 2025/26 onwards it has been assumed that the maximum level of council tax increase will be 2.99% with 1.99% normal increase and 1% adult social care precept. This is shown in the table below:

	Council tax increase (no referendum required)	Adult social care precept	Total council tax increase
2023/24	1.99%	2.00%	3.99%
2024/25	2.99%	2.00%	4.99%
2025/26	1.99%	1.00%	2.99%
2026/27	1.99%	1.00%	2.99%

This is an updated position for 2023/24 in comparison to the Quarter 3 medium term financial strategy presented to Cabinet in January. This change has been made in consultation with Cabinet, following a review of the improved financial position following the Provisional Settlement, and also in recognition of the general cost-of-living pressures that residents are experiencing currently.

- 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 the Consumer Price Index following Provisional Settlement with the increase shared across the top up grant and section 31 compensation grants. It is 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 Consumer Price Index 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 at the reduced level.
- Capital Receipts of £5m to be included in 2023/24 in line with the permissible flexibilities regarding their using in supporting revenue expenditure.

Table 3 reflects the updated funding position.

Table 3

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Revenue Support Grant	38.206	40.881	41.944	42.783
Business Rates	232.789	235.476	238.953	242.498
Council Tax	604.077	645.002	675.581	707.609
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	5.000	0.000	0.000	0.000
Services Grant	7.360	7.360	7.360	7.360
Total	1035.638	1090.302	1083.306	1119.718
Quarter 3 (January Cabinet) Funding Forecast	1036.447	1096.505	1089.802	1126.522
Variance	-0.809	-6.203	-6.496	-6.804

2.1 Additional Funding Information

Council tax

As noted above, assumptions have been made in the medium term financial strategy that take advantage of some 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 it is anticipated will be received from the business rates collected in the area is less than the assessed need and therefore a top up grant is received. A small amount of growth continues to be built into the medium term financial strategy for the county council's 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 the Consumer Price Index to reflect current inflation levels. This is applied across the top up grant and section 31 compensatory grants.

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 had reduced further, with the amount of funding provided to the county council being £1.482m.

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

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 part of the settlement, funding for the Independent Living Fund 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 resulted in additional grant of c£32m reflected in the medium term financial strategy at Quarter 3, 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. In this updated version of the Quarter 3 medium term financial strategy, £5m of capital receipts have been reintroduced to support the financial gap in 2023/24.



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.

This section focuses on the areas where updates have been included as part of this iteration of the medium term financial strategy.

3.1 Demand pressures

As part of the updated Quarter 3 medium term financial strategy, additional investment has been included in specific service areas.

- Digital Services – Investment in our managed security operations to ensure the appropriate protection of LCC's systems - £0.756m
- Planning and Environment – Investment to resource an expanding programme of Sustainable Travel delivery in Lancashire - £0.200m

These investments are included within the "other services" section of Table 4 below.

Table 4

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Adults Services	24.452	11.320	11.320	11.850	58.942
Children's Services	16.494	4.210	1.507	1.558	23.769
Waste Services	-0.890	0.000	0.000	0.000	-0.890
Transport Services	1.173	0.489	0.552	0.620	2.834
Other Services	2.174	0.133	0.135	0.137	2.579
Revised demand requirements	43.403	16.152	13.514	14.165	87.234
January Cabinet	42.447	16.152	13.514	14.165	86.278
Variance	0.956	0.000	0.000	0.000	0.956



4. Reserves

Table 5

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
SUB TOTAL - COUNTY FUND	-23.437	0.000	-23.437	0.000	0.000	0.000	-23.437
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	2.185	0.626	0.913	-2.179
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	7.249	3.333	0.000	-177.951
Business Rates Volatility Reserve	-5.000	0.000	-5.000	0.000	0.000	0.000	-5.000
Service Reserves	-108.745	39.078	-69.667	25.682	16.292	8.428	-19.265
Treasury Management Valuation Reserve	-36.317	0.000	-36.317	0.000	0.000	0.000	-36.317
SUB TOTAL - LCC RESERVES	-390.809	74.249	-316.560	35.157	22.465	9.341	-249.597
Non-LCC Service Reserves	-17.065	0.314	-16.751	3.256	0.551	0.149	-12.795
SUB TOTAL - NON LCC RESERVES	-17.065	0.314	-16.751	3.256	0.551	0.149	-12.795
GRAND TOTAL	-431.311	74.563	-356.748	38.413	23.016	9.490	-285.829

The County Fund shown at the top of Table 5 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 2.5% 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.

In 2023/24, an additional commitment has been included of c£2.2m to provide match funding for the UK Shared Prosperity Fund programme, which will link with businesses and the already established Boost programme.

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 6. However, by identifying further savings and/or delivering savings earlier than currently planned the county council would seek to address the financial gap sooner and ensure reserves are maintained for further service transformation and improvement.

Table 6

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Opening Balance	188.533	171.783	176.413	165.435
Gap funding	9.501	-7.963	10.979	23.286
Commitments	7.249	3.333	0.000	
Closing balance	171.783	176.413	165.435	142.149



5. Future risks and opportunities

The following are key future potential risks and opportunities, the full impact of which is not known at this stage:

5.1 The financial impacts of the 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 regarding the impact of COVID-19 in the current financial year or going forwards. However, both Adults and Childrens Services have experienced additional demands following the pandemic. Detailed work continues to be undertaken focused on a better understanding of the causes of increasing demand and when it is likely that demand will return to more usual levels as the current high levels of demand have been a key contributing factor to the funding gap reported in the medium term financial strategy.

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, the county council has a strong track record of delivery of its saving plans and in delivering balanced budgets in recent years, 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. It is expected that the gap will reduce as better data is secured to drive ambition and confidence in the strategic targets set.

As a county council, regular comparisons are made through benchmarking to other local authorities, particularly county councils. The data suggests that despite the savings proposals put forward, in some service areas the county council remains high cost. Although there are always some limitations to benchmarking data, it is a good indicator of how the county council is 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 existing county council companies to yield better returns or move into the private sector. All fees and charges are being reviewed and benchmarked to ensure the county council remains aligned to its markets. Opportunities will also be identified and reviewed 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 final confirmation is awaited 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 no intelligence has been received from supporting professional bodies that would support different assumptions to those being used 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 the improvements required 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 it has been assumed that all grants received are recurrent, including those that have most recently been announced. Consequently, the biggest risk exposure, and potential opportunity, is with regard to the uncertainty on future funding levels from 2025/26.

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 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 the county council is 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 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 any increase or decrease of 1% over these key elements of the projected budget requirement.

	Potential Full - Year Impact of 1% movement (£m)
Funding - Council Tax	+/- 5.983
Pay	+/- 4.408
Price Inflation	+/- 8.161
Demand	+/- 5.546
Interest on borrowing	+/- 5.000

