

**Report to the Cabinet**

Meeting to be held on Thursday, 14 November 2024

**Report of the Director of Finance and Commercialisation**

**Part I**

Electoral Division affected:  
(All Divisions);

**Corporate Priorities:**  
Delivering better services;

**Medium Term Financial Strategy 2025/26 to 2026/27**

(Appendix 'A' refers)

Contact for further information:

Noel O'Neill, Tel: 07955 321732, Director of Finance and Commercialisation,  
noel.oneill@lancashire.gov.uk

**Brief Summary**

This report seeks approval of the Medium-Term Financial Strategy for 2025/26 to 2026/27. The objective is to deliver a balanced budget over the period and the Medium-Term Financial Strategy identifies the actions required to achieve this position and the assumptions made. It has been prepared alongside the emerging Council Plan to reflect the ambitions of the Council withing the financial constraints of the sector. The detail is included in Appendix 'A'.

As part of this process underlying demand pressures and inflation assumptions have been challenged and reassessed. A rigorous review of the current 2024/25 budget has been undertaken to identify further efficiencies and opportunities to reduce expenditure. A review of savings already in the budget has also been examined to confirm the deliverability.

The report before Cabinet identifies a shortfall of £9.095m in 2025/26 but achieves a balanced position by 2026/27. It is summarised in the table below.

	<b>2025/26 (£m)</b>	<b>2026/27 (£m)</b>
<b>Budget Requirement</b>	<b>1,167.878</b>	<b>1,198.919</b>
<b>Funding</b>	<b>1,158.783</b>	<b>1,198.919</b>
<b>Updated Budget Gap</b>	<b>9.095</b>	<b>0</b>



To achieve this position based upon the demand and inflation assessments within the strategy, additional new savings of £24m in 2025/26 and £20.6m in 2026/27 are required. This is a challenge on top of the already planned service savings of £80m within the budget. Clear plans are being developed to deliver this position.

### **Recommendation**

Cabinet is asked to:

- (i) **Approve** the Medium-Term Financial Strategy as set out within this report.
- (ii) **Agree** the assumptions around council tax levels and savings.
- (iii) **Approve** this as a basis of budget consultation with key stakeholders.

### **Detail**

#### **1. Background**

At Budget Full Council in February 2024 the report set out the forecast funding gap of £10.488m in 2025/26, with this decreasing to £3.351m in 2026/27. This report presents a Medium-Term Financial Strategy (MTFS) for the next 2 years looking to deliver a balanced budget within that period. The starting point for the updated position presented is the Council approved budget for 2024/25, which includes many decisions on policy options and savings. These had an influence in future years and also set out a funding gap for 2025/26 and 2026/27.

The assumptions contained across the MTFS have been refreshed, with various scenarios tested in advance of presenting the most likely and robust position in this report. These included:

- A review of existing assumptions made on key drivers affecting the Council's budget which include pay awards, a range of inflation indices and interest rates.
- A review of the changes in demand for council services which include adult and children's social care placements, home to school transport, waste management and the delivery of SEND (Special Educational Needs and Disabilities) assessments.
- National challenges on demand, funding and inflation.
- Opportunities for further efficiencies in service delivery, use of technology and savings.

Assumptions had been made within the updated MTFS as to the funding levels that the county council would receive ahead of the Chancellor's Autumn Budget Statement on 30 October 2024. Following the announcement the funding included would appear to be in line with values included in the MTFS, although the detail of funding levels and



associated grant conditions will not be known until December 2024, when the Provisional Local Government financial settlement will be received. However, there are some potential implications that are covered in a separate section later in this report.

## 2. MTFS and Key Changes

The MTFS has lots of issues built into it. The largest items include inflation for pay (£12m), services inflation (£40m) and demand challenges (£19m) on the cost side. On the income side the major factors are council tax increase at 5% (£42m), and business rates of £5m.

The proposed MTFS is summarised in the table below identifying a budget gap of £9.095m in 2025/26 but balances in 2026/27. The table below shows the changes made as part of the updated MTFS. Appendix 'A' shows the detail and how this reflects in service budgets.

	2025/26	2026/27
	£m	£m
<b>Budget Council Funding Gap</b>	<b>10.448</b>	<b>3.351</b>
Pay Inflation	4.500	4.500
Inflation	-9.000	-9.000
Demand	19.000	19.000
Existing Savings	16.364	30.195
New Savings	-24.217	-44.264
Additional Funding	-8.000	-3.782
<b>New MTFS Gap</b>	<b>9.095</b>	<b>0.000</b>

If Cabinet agrees to this as the basis of moving forward, it is suggested that the deficit in 2025/26 will be funded from transitional reserve.

This section summarises the key changes in the MTFS (and included in the table above) from those assumptions and the implications.

### ***Inflation***

Pay award for 2024/25 has been settled and this adds an additional £4.5m to the budget over existing assumptions. Other inflation totals £40m, this is a revised total following a review of our inflation assumptions and a reduction of £9m can be taken from inflation increases that were built into the MTFS previously.

### ***Demand***

£19m was already included in the budget assumptions for increases in service demand. Further additional demand pressures of £19m have been included for 2025/26 and commitments on-going to reflect emerging issues in the current year.

- £9.1m Children's Social Care - increased placement and allowances budgets.
- £3.8m Home to School Transport - 2024/25 data shows that demand levels and costs are not reducing as quickly as previously anticipated.



- £1.6m Waste Disposal - The level of tonnages has increased from 400,000 tonnes to 417,000 tonnes. There is also an inflation pressure on price.
- £5m SEND - Service investment is required to deliver significant improvements to the current service. A business case is being finalised outlining the performance improvements to be delivered which will generate better care for this significant group. Part of the plan will strive to mitigate the rising deficit on high needs Direct Schools Grant.

### ***Existing Savings***

£121m of savings had been included in the MTFS that was agreed at Council in February 2024. A forensic review of the deliverability and timing of these savings has been undertaken as part of developing a more robust Change Programme. Some have now been removed with others reprofiled. In addition, some challenges around funding of social care between the Council and the NHS have been identified. Consequently, following a prudent course of financial planning, £30m of these previously identified savings have been removed over the next two years. However, there is a higher degree of confidence that there is a more robust plan to deliver.

### **3. New Savings**

As part of the MTFS process, existing budgets have been robustly examined to find further efficiencies and savings. This process has been supported with external challenge and comparing relative performance against similar authorities and best in class. This process has identified savings that include:

- Maximising Independence – working age adults
- Maximising Independence – adults over 65
- Children Social Care – reducing children in residential care.
- Waste disposal.
- More efficient Home to School Transport
- Service efficiencies.
- Back-office efficiencies.

The savings are summarised below with the detail in Appendix 'A'.

	<b>2025/26 (£m)</b>	<b>2026/27 (£m)</b>
Adult Services	-6.860	-21.660
Education and Children's Services	-2.979	-3.919
Growth, Environment, Transport and Health	-5.612	-10.607
Resources and Chief Executive	-8.766	-8.078
<b>Total</b>	<b>-24.217</b>	<b>-44.264</b>

Identifying additional savings has been challenging within the context of already delivering £121m over a three-year period. Directors recognise the need to find additional savings and they have been integrated into the evolving Change Programme and clear deliverables are being identified.



#### 4. Reserves

A statement on the reserves position of the Council is included as part of the MTFS. The Council has a large transitional reserve. As we are moving towards a balanced budget there is a need to review reserves. County Fund is established to act as a buffer to the everyday fluctuations in Council spending. Good practice would suggest that this figure should be around 5% of a council's net budget at £56m. To achieve this, it is proposed to switch £32.6m from Transitional Reserve to County Fund.

Deficits on High Need Direct Schools Grant has been a major issue in local government for some years with the demand exceeding funding. Many local authorities are in deficit and this has been protected by some temporary Government intervention. Lancashire is forecast to move into deficit by the end of this financial year. Whilst funds have been allocated in the Autumn Statement to start to address this position, there is still a risk of some deficit requiring local funding. It is therefore suggested that a specific reserve of £20m be set up for this from the Transitional Reserve whilst we await clarity on the position post statutory override.

The table below shows the impact of the changes on the configuration of reserves.

	2025/26	2026/27
	£m	£m
<b>Opening Balance Transitional Reserve</b>	127.6	105.1
<b>Opening Balance County Fund</b>	56.0	56.0
<b>Statutory Override Reserve Balance</b>	10.0	20.0
<b>Gap funding</b>	(9.09)	0.0
<b>Commitments</b>	(13.4)	(6.1)
<b>Reserves Position</b>	<b>171.1</b>	<b>175.0</b>

+ Commitments in 2025/26 are £3.4m previously planned use of reserves and £10m movement to the override reserve.

#### 5. Autumn Statement

The Chancellor of the Exchequer presented her Autumn Statement on 30 October 2024 which set out expenditure and taxation plans. In developing the MTFS assumptions have been made on expected grants increases/reductions and the implications of other changes to funding regimes. This section highlights key changes announced and how they are currently represented in the MTFS:

##### ***Employers National Insurance Rates***

The rate was increased by 1.2% which increases our employment cost by c£3m. The other change was to reduce the threshold from £9,100 to £5,000 at which employers need to pay national insurance. The cost implication of this change is even more significant with a potential additional cost of £8.5m. This would have a dramatic impact on the savings required within our budget. However, discussions continue with Government around how this will be met by grant allocation and protect public sector budgets.



### **Minimum Living Wage**

Another key announcement is the raising of the Minimum Living Wage by 6.7%. This has limited impact upon the council's direct wage costs. It does impact upon the cost of care provision and the potential increase in costs.

### **Social Care Grant**

£600m additional funding was announced nationally. The detailed allocation will not be known until December with the Local Government Provisional Settlement and has not been included. This additional funding is welcome and required to meet the additional demand pressures. However, it has not been included in the MTFS.

### **Local Government Grant**

£750m was announced for the rest of local government. The distribution of this is unknown until December. It may produce some additional funding that could mitigate the savings challenge of the budget shortfall identified. However, the national insurance changes will have an impact on the direct costs of our suppliers. Any benefit may be eroded by unexpected price rises.

### **Additional Highways Funding**

An additional £500m was identified for highways investment. Whatever is received will be specific grant to address the need.

### **SEND**

An additional £1bn was announced to address special education. This is a significant sum and goes some way to addressing the current large shortfall against need. This will slow down significantly the pressure on deficits if it does not mitigate the situation.

The detail of the Autumn Budget Statement will be included in the Provisional Local Government Financial Settlement which is usually announced in mid-December. This will contain specific funding allocations and also conditions for grants/additional funding that may be provided.

## **6. Conclusions**

The MTFS before Cabinet is based upon our best assumptions on pay and prices, emerging demand, delivery of efficiencies and future income from government grants, council tax and business rates. The plan over two years moves the Council to a balanced budget by adding planned savings to our Change Programme and utilising some reserves to balance in 2025/26. It sets out a basis for progressing the detailed budget for Council and sharing with our key stakeholders. None of the options are easy but they need to be taken to achieve the objective of a balanced fiscal position.

### **Appendices**

Appendix 'A' is attached to this report. For clarification it is summarised below and referenced at relevant points within this report.

<b>Appendix</b>	<b>Title</b>
Appendix 'A'	Medium-Term Financial Strategy 2025/26 to 2026/27 and Reserves



## **Implications:**

This item has the following implications, as indicated:

### **Risk management**

The report itself highlights specific risks relating to the delivery of a balanced forecast position in the current year. It is setting the strategy to develop a robust detailed budget.

### **Legal**

The Council is responsible for setting the budget each year. Once agreed Cabinet will then implement the policy framework and keep within the budget, subject to the limits set by Financial Regulations. The Council is required to deliver a balanced budget and the monitoring of the Council's financial position contributes to the effective management of this responsibility. This report is setting out a framework to deliver that responsibility.

### **List of Background Papers**

Paper	Date	Contact/Tel
-------	------	-------------

None

Reason for inclusion in Part II, if appropriate

N/A

