

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

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**Lancashire**

County  
Council



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## 1. Executive summary

At Cabinet in June 2021 the updated medium term financial strategy (MTFS) set out a forecast aggregated funding gap of £30.47m in 2022/23 and £63.958m by the end of the 3-year period (2021/22 – 2023/24). This reflected the ongoing and unprecedented uncertainty in relation to future local government funding and the financial impact of the Covid-19 emergency.

The government had announced a spending review which was published on the 27th of October 2021. The draft settlement figures for each Local Authority were made available on the 16th December 2021 for 2022/23 only. The major movements have been an improvement in the Social Care Grant from £42m to £57m, an improvement of £15.15m. We are also due to receive a new 22/23 General Services Grant of £13.06m. In addition, we have also received some additional funding for market sustainability and the fair cost of care of £3.725m for 2022/23. We have factored in the outcome of the draft settlement, however the final settlement when announced in early February may be different.

This report provides an updated position covering the financial years 2022/23 – 2024/25. The forecast funding gap for 2022/23 is £21.690m, with an updated aggregated funding gap contained within the report of £42.830m by 2024/25 which is a decrease of £15.730m from the last reported position. The reduction is a combination of revised demand figures included in the forecast, analysis of the provisional settlement, additional grant allocations and changes to other funding assumptions.

The value of the uncommitted transitional reserve is currently forecast to be sufficient to meet the identified funding gaps for the full period of the MTFS, which provides time to address the structural deficit in a considered and sustainable way. We will look to maximise efficiencies across services and work to identify potential savings to reduce the funding gap and deliver a sustainable balanced budget in future years.

The table below provides a detailed analysis of movements between the previously reported financial gap (Q2) and the revised financial gap as at Q3:

**Table 1**

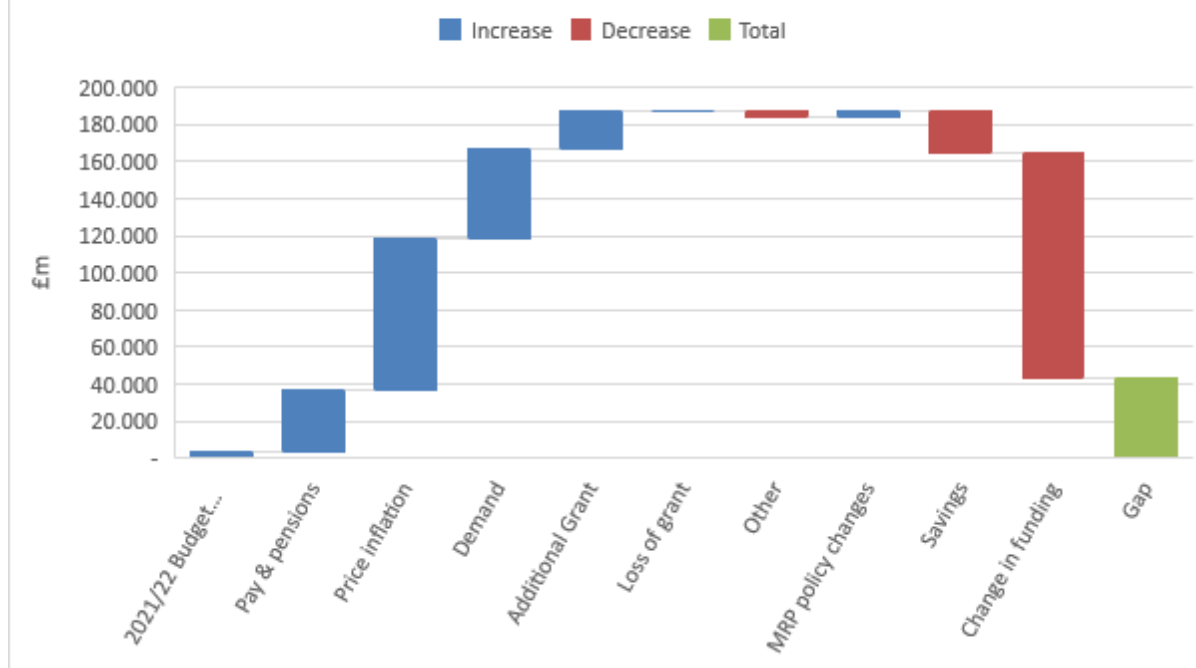
	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
<b>Spending Gap as reported at Q2</b>	<b>30.470</b>	<b>15.830</b>	<b>12.260</b>	<b>58.560</b>
Add change to forecast of spending:				
Pay & Pensions	8.090	1.040	0.210	<b>9.340</b>
Inflation and Cost Changes	10.590	3.270	0.190	<b>14.050</b>
Service Demand and Volume Pressures	13.450	6.550	-0.560	<b>19.440</b>
Other	7.730	9.760	1.530	<b>19.020</b>
Additional Grant	-3.730	-7.450	0.000	<b>-11.180</b>
Loss of Specific Grant	0.000	0.000	0.000	<b>0.000</b>
Undeliverable Savings	0.000	0.000	0.000	<b>0.000</b>

Additional Savings	-11.000	0.000	0.000	<b>-11.000</b>
Reprofiled Savings	8.500	-8.500	0.000	<b>0.000</b>
<b>Total Change to Forecast of Spending</b>	<b>33.630</b>	<b>4.670</b>	<b>1.370</b>	<b>39.670</b>
Change to forecast of resources:				
Funding	-42.410	-6.470	-6.520	<b>-55.400</b>
<b>Total Change to Forecast of Resources</b>	<b>-42.410</b>	<b>-6.470</b>	<b>-6.520</b>	<b>-55.400</b>
<b>Funding Gap</b>	<b>21.690</b>	<b>14.030</b>	<b>7.110</b>	<b>42.830</b>

<b>Aggregated Funding Gap</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
<b>2022/23 (£m)</b>	21.690	21.690	21.690
<b>2023/24 (£m)</b>		14.030	14.030
<b>2024/25 (£m)</b>			7.110
<b>Total</b>	<b>21.690</b>	<b>35.720</b>	<b>42.830</b>
<b>Previous position (£m)</b>	<b>30.470</b>	<b>46.300</b>	<b>58.560</b>
<b>Variance (£m)</b>	<b>-8.780</b>	<b>-10.580</b>	<b>-15.730</b>

The graph below demonstrates the drivers that make up the changes in the financial deficit of £3.860 carried forward from 2021/22 to the cumulative position of £42.830m in the financial year 2024/25 shown in the table above:

## The elements of the financial gap 2022/23-2024/25



## 2. Funding

Following the spending review on the 27th of October 2021, the provisional settlement information for individual local authorities was made available on the 16<sup>th</sup> December for 2022/23 only. We have factored in the draft funding and await the final settlement in early February. The settlement included additional funding for Social care and general services reflecting local government pressures. Any changes when the final settlement is available will be reported as part of the Budget report to Full Council.

The review of the business rates system has been pending for a number of years, with early development of a new system taking place with pilots and elements of the system being consulted on. This was paused due to the pandemic and the effect of COVID 19 on the economy. The current expectation is that the new funding formula and Business Rate changes will be implemented from 2023/24 with consultation to be undertaken during the year and we await further information and guidance.

Due to the financial uncertainty created by the pandemic, it has been necessary to make some assumptions around the future funding envelope, the most significant being:

- A 1.5% increase in council tax base has been assumed for 2022/23 and a return to pre-Covid levels of 1.7% per annum thereafter.
- Council tax increases of 3.99% will be applied to 2022/23 to include the remaining element of the adult social care precept from 2021/22 plus an additional 1% adult social care precept for 2022/23. An increase of 2.99% is

assumed in 2023/24 and 2024/25, 1.99% general increase plus a further 1% adult social care precept.

- Assumption that the new model for business rates will be implemented in 2023/24, we await further updates in regard to business rates reform.
- Revenue support grant has been uplifted by CPI for 2022/23 and for the duration of this strategy.
- Council tax collection fund position is assumed to reflect a deficit. In 2024/25 it has been assumed that the collection fund will return to almost pre-pandemic levels of £3.000m surplus and is built into the MTFS
- Social care grant will be rolled over for the duration of this strategy, including additional grant announced as part of SR20 and the provisional settlement.
- Capital receipts increased to £6.000m for 2022/23 and £2.000m for 2023/24 and 2024/25 as a result of the extension to the flexibility in use of capital receipts to support revenue transformation expenditure.

Table 2 reflects the updated funding position.

**Table 2**

	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
<b>Revenue Support Grant</b>	34.660	35.390	36.100
<b>Business Rates</b>	209.820	213.790	217.650
<b>Council Tax</b>	570.140	597.170	625.480
<b>New Homes Bonus</b>	2.470	1.630	1.630
<b>Improved Better Care Fund</b>	47.150	47.150	47.150
<b>Social Care Support Grant</b>	57.090	57.090	57.090
<b>Collection Fund</b>	- 0.620	- 0.620	3.000
<b>Capital receipts</b>	6.000	2.000	2.000
<b>2022/23 Services Grant</b>	13.060	13.060	13.060
<b>Total</b>	<b>939.760</b>	<b>966.660</b>	<b>1,003.160</b>

## 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)	Remaining element of the adult social care precept from 2021/22	Adult social care precept	Total council tax increase
2022/23	1.99%	1.00%	1.00%	3.99%
2023/24	1.99%	0.00%	1.00%	2.99%
2024/25	1.99%	0.00%	1.00%	2.99%

Those authorities with responsibility for adult social care had the ability to raise council tax by an additional 3% through an adult social care precept in 2021/22, with the County Council agreeing to include 2% of this available flexibility. It was confirmed that any of the 3% allowed increase not taken in 2021/22 can be carried forward and applied in 2022/23 and this is therefore included in the 2022/23 council tax projections. Any decisions not to increase council tax in line with the assumptions above would increase the financial gap; every 1% in council tax yields circa £5.5m.

The calculation of the council tax base position for 2022/23 is particularly challenging as district councils need to assess the number of properties that can be taxed, the collection rate and also the council tax support schemes that they offer. In 2021/22 the Government provided additional support to compensate a reduced tax base due to the impact of Covid-19, however this is not expected to continue into 2022/23. The County Council has limited information about the tax base position, we are expecting final information to be available at the end of January 2022 and will reflect any updated position for the Budget for Full Council. The assumptions used currently are an increase of 1.5% at this stage, and then a return to pre-pandemic levels of 1.7% from 2023/24 onwards. This has been assumed based on historical average increases.

### **Business rates**

Business rates income is a significant portion of funding to local authorities. The baseline is an assessment of the business rate income required to meet service needs. For the county council, the amount we anticipate to receive from the business rates collected in the area is less than our assessed need and therefore we receive a top up grant. Previously, we have also built in a small amount of growth into the MTFS for our local share at 0.5%.

As a result of the impact of Covid-19, the national review of business rates has been delayed and the implementation of the 75% scheme is now anticipated to be in place from 2023/24 onwards.

### **Collection Fund**

One of the measures announced by the Government to try and mitigate the budget pressures on local authorities as a result of collection fund deficits was that any deficit for 2020/21 will be repaid over the following three years.

At quarter 3 it has been assumed the deficit position remains the same as reported at quarter 2. However, this is expected to change once final figures are received from the district councils and this is due by the statutory deadline of 21 January.

### **Capital Receipts**

In April 2016, the government introduced the flexibility for capital receipts to be used to fund revenue expenditure that is designed to generate ongoing revenue savings or service improvements. This flexibility is currently available until 2024/25 following a further extension announcement.

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

<b>Service Area</b>	<b>Value (£m)</b>
Organisational Development	0.750
Social Care Adults – New ways of working	2.750
Legal and Democratic	0.250
Childrens Social Care	0.140
Highways – new developments	1.500
Adults -Supported Housing	0.110
Exchequer services	0.500
<b>TOTAL</b>	<b>6.000</b>

## **3. Net budget requirement**

The MTFs covers spending pressures including pay increases, contractual inflation, increased demand for services and the impact of previously agreed and new savings measures.

### **3.1 Pay and pensions**

The MTFs at quarter 3 shows a significant increase from the last reported position at Quarter 2. The additional budget requirement assumes a 2% increase in each future year. The main increases are £3.9m to meet the increased employer national



insurance costs of the new 1.25% national insurance levy which is being used to fund the national health and social care reforms additional costs across a number of service areas including adult social care to support increasing demands for a number of services, ensuring staffing levels within some of our registered services continue to meet statutory requirements and also some invest to save increases in workforce in support of our corporate priorities and aimed at delivering both service improvements and ultimately cost benefits through changing way of working.

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

**Table 4**

<b>Pay and Pensions</b>	2022/23 Revised (Quarter 3 - December 2021) £m	2023/24 Revised (Quarter 3 - December 2021) £m	2024/25 Revised (Quarter 3 - December 2021) £m	Total
Employee Costs	15.510	7.930	8.870	32.310
Pensions costs	0.460	0.000	0.000	0.460
Other pay related costs	0.030	0.040	0.040	0.110
	16.000	7.970	8.910	32.880
Pay and pensions -previous MTFS	7.920	6.930	8.690	23.540
Variance	8.080	1.040	0.220	9.340

### **3.2 Price inflation and cost changes**

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

The largest part of the inflationary calculations relates to Adult Social Care and reflect the impact of the national living wage increase of 6% and inflation now exceeding 5% which is significantly higher than had been anticipated, so has substantially increased. the cost of services that are commissioned from external providers The MTFS now includes a revised forecast as at Quarter 3.

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

**Table 5**

Price Inflation	2022/23 Revised (Quarter 3 - December 2021) £m	2023/24 Revised (Quarter 3 - December 2021) £m	2024/25 Revised (Quarter 3 - December 2021) £m	Total £m
Adult Services	19.760	17.210	14.710	51.680
Children's Services	5.950	2.400	2.320	10.670
Waste Services	0.870	2.350	2.500	5.720
Transport Services	1.550	1.620	1.730	4.900
Other Services	4.700	2.200	1.460	8.360
	<b>32.830</b>	<b>25.780</b>	<b>22.720</b>	<b>81.330</b>
Price inflation -previous MTFS	22.230	22.500	22.540	67.270
Variance	10.600	3.280	0.180	14.060

### 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. The majority of the increase in demand is for Childrens and Adults social services

**Table 6**

Demand Pressures	2022/23 Revised (Quarter 3 - December 2021) £m	2023/24 Revised (Quarter 3 - December 2021) £m	2024/25 Revised (Quarter 3 - December 2021) £m	Total £m
Adult Services	13.320	11.320	11.320	35.960
Children's Services	3.160	3.730	-0.770	6.120
Waste Services	1.540	0.000	0.000	1.540
Transport Services	0.140	0.550	0.610	1.300
Other Services	3.860	0.130	0.010	4.000
	<b>22.020</b>	<b>15.730</b>	<b>11.170</b>	<b>48.920</b>
Demand pressures -previous MTFS	8.560	9.170	11.730	29.460

Variance	13.460	6.560	-0.560	19.460
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Adult social care represents a substantial proportion of the demand pressures. Adult social care has long seen annual increases in the demand for services and the MTFS attempts to predict growth in future years largely based on reviewing current and past activity trends and considering future population changes, particularly with regard to the ageing population and the impact of Covid on the future demand for services. From a social care perspective demand covers both increasing numbers of people eligible for support, the increasing complexity of those cases.. The pandemic has influenced demand, there are less Nursing and residential placements with a corresponding increase in domiciliary care services. The level of demand included for this service area for the three years to 2024/25 is £35.959m, an increase of £6.63m in the reported position at Quarter 2. This will continue to be monitored and figures may be updated in future MTFS reports.

Nationally, Children's Social Care is experiencing demand pressures across services, particularly in relation to placement demand, due to the number of looked after children. However, the implementation of the Lancashire family safeguarding model is a way of keeping families together where it is safe to do so. This is achieved through a more collaborative way of working where we motivate parents to identify the changes needed within their own families. This helps achieve better outcomes for children and is already resulting in less children coming into care aged 12 or under. We are however, now seeing additional demand within Children's services for 13+ young people and is reflected in a level of increased demand to that previously reported. This will continue to be closely monitored throughout 2022/23.

### 3.5 Savings

These adjustments are in respect of the revised savings profile for the family safeguarding project and include a reprofiled amount for Adults services due to savings plans being delayed due to the pandemic.

It should be noted that £42.730m savings were planned to be delivered in 2021/22. This was a combination of savings that were due to be delivered in 2020/21 and were delayed because of the pandemic, and budgeted savings of £7.370m which were agreed to be removed from the budget in 2021/22. The current assumption is that £8.5m of previously agreed and budgeted savings will not be delivered in 2022/23 but will be achieved by 2023/24. Some of the delayed savings have been mitigated during 2021/22 by other in-year savings and in 2022/23 they will be fully offset by new savings proposals.

Within the MTFS figures presented there are £11m of new savings. £10m of this figure relates to increased income generation identified by services. The proposals are primarily related to Adult social care services and income recovery measures. £1m relates to increased charges to service users primarily relating to increasing the charge to individuals in receipt of non-residential care to reflect the updated proposed cost of domiciliary care with significant increases planned for 2022/23 and provided in recent

years but not reflected in the current charge. The increase will only affect a relatively small proportion of individuals in receipt of domiciliary care, applying to those who are financially assessed as being able to afford the increased charge following a detailed financial assessment having been undertaken to confirm their weekly net disposable income for charging purposes. A new charge is also proposed to cover the costs of administering appointeeships which will bring us into line with other authorities and an increased in the administration charge relating to deferred payments to reflect the actual cost. The £9m relates to improved debt collection levels and reduce the value of the bad debt provision and continuing the positive work in recent years to ensure Health contributions are accurately recorded and collected in respect of individuals with complex packages of care.

The remaining new saving is related to consolidating benefits from new ways of working with £1m worth of recurrent savings anticipated from reduced business mileage.

## 4. Reserves

**Table 7**

Reserve Name	Opening balance 2021/22	2021/22 Forecast Expenditure	2021/22 Forecast transfers to/from other reserves	2021/22 Forecast Closing Balance	2022-23 Forecast Exp	2023-24 Forecast Exp	2024-25 Forecast Exp	Forecast closing balance 31 March 2025
	£m	£m	£m	£m	£m	£m	£m	£m
County Fund	-23.440	0.000	0.000	-23.440	0.000	0.000	0.000	-23.440
<b>SUB TOTAL - COUNTY FUND</b>	<b>-23.440</b>	<b>0.000</b>	<b>0.000</b>	<b>-23.440</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>-23.440</b>
Strategic Investment Reserve	-4.810	-1.480	2.360	-3.930	2.810	0.100	0.000	-1.020
COVID-19 Reserve	-11.910	1.730	0.000	-10.180	8.770	1.140	0.270	0.000
Downsizing Reserve	-5.640	1.410	0.000	-4.230	1.410	1.410	1.410	0.000
Risk Management Reserve	-6.290	5.190	0.000	-1.100	1.000	0.000	0.000	-0.100
Transitional Reserve	-201.760	-2.630	-0.060	-204.450	9.700	5.520	2.650	-186.580
Business Rates Volatility Reserve	-5.000	0.000	0.000	-5.000	0.000	0.000	0.000	-5.000
Service Reserves	-72.150	36.030	0.000	-36.120	23.090	6.490	5.190	-1.350
Treasury Management Valuation Reserve	-13.780	13.780	0.000	0.000	0.000	0.000	0.000	0.000
Treasury Management Reserve	-15.400	0.000	0.000	-15.400	0.000	0.000	0.000	-15.400
<b>SUB TOTAL - LCC RESERVES</b>	<b>-336.740</b>	<b>54.030</b>	<b>2.300</b>	<b>-280.410</b>	<b>46.780</b>	<b>14.660</b>	<b>9.520</b>	<b>-209.450</b>
Non-LCC Service Reserves	-16.200	0.420	0.000	-15.780	0.420	1.690	0.100	-13.570
<b>SUB TOTAL - NON LCC RESERVES</b>	<b>-16.200</b>	<b>0.420</b>	<b>0.000</b>	<b>-15.780</b>	<b>0.420</b>	<b>1.690</b>	<b>0.100</b>	<b>-13.570</b>
<b>GRAND TOTAL</b>	<b>-376.380</b>	<b>54.450</b>	<b>2.300</b>	<b>-319.630</b>	<b>47.200</b>	<b>16.350</b>	<b>9.620</b>	<b>-246.460</b>

The County Fund shown at the top of Table 7 is the balance set aside to cover the authority against a serious emergency (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 £23.440m, equating to circa 3% of net budget.

The value of the uncommitted transitional reserve is currently forecast to be £204.450m by the end of March 2022.

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

**Table 8**

	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Opening Balance</b>	204.450	173.060	131.820
<b>Gap funding</b>	21.690	35.720	42.830
<b>Commitments</b>	9.700	5.520	2.650
<b>Closing balance</b>	<b>173.060</b>	<b>131.820</b>	<b>86.340</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**

The longer-term financial impacts of the response to, and recovery from, the pandemic remain unclear. A protracted recovery period or any subsequent spikes are likely to lead to further financial pressures to the authority.

The ongoing impacts and revision to service delivery and to service user demand for services and the ways they are delivered post pandemic could lead to volatility of pressure on the budget.

We will continue to assess the ongoing need for additional services in response to the pandemic and The financial implication of any requirements

Following a one-year spending review for 2021/22 there is continued uncertainty about the future funding envelope and significant assumptions have to be made as part of the development of the MTFS.

### **5.2 Savings delivery**

The scale of savings agreed to be delivered over future financial years remains significant with £42.730m planned to be delivered in 2021/22. This is a combination of savings that were due to be delivered in 2020/21 and were delayed because of the pandemic, and the budgeted savings agreed to be removed from the budget in 2021/22. As restrictions have largely been lifted and services return to providing services closer to the levels provided pre-pandemic there has been a renewed focus and activity in monitoring and delivering the savings that are built into the budget which will continue. We are assuming all agreed savings will be achieved by 23/24, and delayed savings will be offset in 2022/23 by new proposals.

Should the Covid emergency response continue for a protracted period, or a further strain of the virus become apparent it is likely that there could be further slippage.

Any significant under-delivery or slippage to delivery timeframes will create an additional funding pressure and impact on the ongoing and longer-term financial health of the council if those costs are not mitigated by the Government providing additional funding in future years.

There are inherent risks in the delivery of any savings programme of this scale, particularly where they are linked to reducing the future demand for services. However, there is a strong track record of delivery of the vast majority of previous savings plans and there are comprehensive arrangements in place to track delivery of financial savings and take corrective actions where required.

### **5.3 Business rates retention / changes to funding formula**

As previously explained, the future funding arrangements to be established by government pose a risk to the council. It is not expected that the new arrangements will come into place until 2023/24, a further delay to the previously extended delay, although we await final confirmation of this from the Government.

As discussed earlier within this report, the changes to the funding formula have been delayed. The outcome from the review may reduce funding below what is assumed in the MTFs. Conversely there is equally an opportunity that additional resources are made available through this process. Some supporting professional bodies have indicated that there could be additional funding for Lancashire as part of the fair funding review, but at this stage have indicated their models should be treated with caution due to the lack of information so have not been included in the MTFs at quarter 3.

The successful outcome of the Lancashire business rates pilot bid in 2019/20 has enabled the county council, districts, unitaries and fire authority to be well prepared for the implementation of the business rates retention scheme although the final details are not known at this stage.

### **5.4 Children's social care**

Children's social care demand levels are forecast to continue to increase, particularly within agency residential placements, agency fostering placements and also special guardianship orders, but at a reduced rate to those previously reported. This is partially due to the impact of the pandemic, but also the work underway in relation to the family safeguarding model which has reduced placements for 0-12, however the costs and demand around 13+ young people's placements are increasing

### **5.5 Demand Pressures**

The MTFs contains assumptions across services for funding growth, demand, inflation and pay levels. As the National Living Wage was increased by 6.6%, this is causing an increased pressure in the care market in particular which is therefore causing increased costs to the Council for both Adult and Children's social care. With that, and inflation running at in excess of 5% this is having a significant effect on costs across all services. This is the biggest risk that has been identified for some time and will continue to be closely monitored.

The table below shows the impact of an increase or decrease of 1% over these key elements of the projected budget requirement.

	Potential Full - Year Impact (£m)
Funding - Council Tax (1%)	+/- 5.456
Pay (1%)	+/- 3.290
Price Inflation (1%)	+/- 6.950
Demand (1%)	+/- 5.225

This stress testing gives confidence that the council can continue to live within its means for the next two to three years in adverse circumstances. This does not however diminish or negate the need to make further savings but does demonstrate that the council continues to have sufficient resilience to deliver them in a measured and structured way.

The County Fund shown at the top of Table 7 is the balance set aside to cover the authority against a serious emergency (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 £23.440m, equating to circa 3% of net budget.

The value of the uncommitted transitional reserve is currently forecast to be £204.450m by the end of March 2022.

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

#### **5.4 Implementation of the Social Care Charging Reforms**

The Government have announced changes to charging for Social Care, which will take effect from October 2023. The financial impacts to councils is to be funded from the National Insurance levy. Work is being undertaken to model the financial impact on the Council and there is a risk that funding provided in future may not be sufficient to meet the costs of these changes. Some funding has been made available during 2022/23 to prepare for implementation of the changes.