



Meeting: **Scrutiny Commission**

Date/Time: **Monday, 14 September 2020 at 10.00 am**

Location: **Microsoft Teams**

Contact: **Mrs J Twomey (Tel: 0116 305 2583)**

Email: **joanne.twomey@leics.gov.uk**

Membership

Mr. S. J. Galton CC (Chairman)

Mr. T. Barkley CC Mrs. H. J. Fryer CC
Mr. P. Bedford CC Mr. D. Harrison CC
Mr. D. C. Bill MBE CC Mrs. R. Page CC
Mr. G. A. Boulter CC Mr. A. E. Pearson CC
Dr. T. Eynon CC Mr. T. J. Richardson CC
Dr. R. K. A. Feltham CC Mr. M. B. Wyatt CC

A G E N D A SUPPLEMENT

The following additional report has now been published, agenda item 7 of the main agenda refers.

<u>Item</u>	<u>Report by</u>	
7. Medium Term Financial Strategy Update	Director of Corporate Resources	(Pages 3 - 28)

The Lead Member for Finance and Resources, Mr J. B. Rhodes CC, has been invited to attend for this item.



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CABINET 18 SEPTEMBER 2020

MEDIUM TERM FINANCIAL STRATEGY - LATEST POSITION

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PART A

Purpose of the Report

1. The purpose of this report is to provide members with an update on the 2020/21 revenue budget and capital programme monitoring position as at the end of period 4 (the end of July), to obtain approval to changes to the previously agreed 2020-24 capital programme and agree the approach to updating the Medium Term Financial Strategy (MTFS) for 2021 to 2025.

Recommendation

2. The Cabinet is recommended to:
 - a) Note the latest position of the 2020/21 revenue budget and capital programme as at the end of July 2020 and the effect of Covid-19;
 - b) Approve the changes to the 2020-24 capital programme as set out in the report;
 - c) Note the approach outlined in the report to updating the Medium Term Financial Strategy.

Reasons for Recommendation

3. To inform members of the intended approach to the development of plans to address the latest financial position.
4. To seek agreement to the revised capital programme for 2020-24 which has required amendment as a result of the Covid-19 pandemic.

Timetable for Decision (including Scrutiny)

5. The Scrutiny Commission will consider this report on 14th September 2020 and its comments will be reported to the Cabinet.
6. The Cabinet will be asked to approve the draft MTFS 2021 to 2025 for consultation in December 2020. All Overview and Scrutiny Committees and the Scrutiny Commission will consider the draft MTFS in late January 2021 and the Cabinet will then make a final recommendation to the County Council in February 2021.

Policy Framework and Previous Decisions

7. The Medium Term Financial Strategy for 2020/21 to 2023/24 was approved by the County Council on 19th February 2020. Over the autumn and winter of 2020 the MTFS will be reviewed and updated.
8. Regular reports have been provided to the Cabinet on the overall financial position.

Resource Implications

9. The financial position faced by the County Council is extremely serious and challenging. The current MTFS anticipated a funding gap of £39m by 2023/24 but the additional pressures from Covid-19 will increase that gap significantly. This is a particularly difficult situation for a low-funded authority such as Leicestershire as room for further savings is limited.
10. Financial reporting to the Cabinet this year has focused on the large and detrimental impact of Covid-19. The latest return to Government shows an impact, before grants and interventions, approaching £90m for this financial year alone. This figure is a combination of the impact on County Council services (e.g. PPE); County Council support paid for by partner organisations (e.g. early discharge of patients by Health services); and County Council support for Government initiatives (e.g. Test and Trace).
11. The size of the financial impact, continually changing national position and dependence on the Government's support exemplifies the difficulty making a definitive estimate of the impact upon the County Council. The County Council's financial position is further complicated by the pressures that pre-dated Covid-19, the local interventions to reduce costs and the usual budget variances that are generated. This report pulls together the overall financial position for the first time. With a significant adverse variance being reported the intention is to continue to identify interventions and press the Government for further support.
12. Allowing for Government grants, the latest estimate of the effect of Covid-19 is an additional net cost of £20m in 2020/21. Mitigations of £2m have been identified reducing the County Council's forecast overspend to £18m. This is a material and welcome improvement to the £28m reported in June. If it can be sustained the use of the General Fund will be avoided. Maintaining the General Fund would be a significant milestone as the requirement to replenish in 2021/22 will not be required.
13. If a sustained return to the national lockdowns experienced early this year is required significant financial pressure would be felt. Due to the national financial position it is likely that Government support would be reduced, pushing a significant number of local authorities into financial distress. The Government's own estimate is that 5% of all councils are at high risk of financial failure, this County Council is not one of them.
14. Even if further lockdowns are not experienced it is vital that the County Council continues to reduce the financial gap in the current financial year, to avoid an impossible challenge building up in future years. The financial difficulties experienced pre-covid, relating to demand for services, have not gone away and the mitigations have been disrupted by the crisis. Additional financial pressures are expected to continue after the current financial year due to reduced council tax and business rates

income, a continuation of costs to maintain infection control and the economic impact upon suppliers who may request further support, for example bus operators. The Government is unlikely to be as sympathetic to Councils' financial plight in future years.

15. The key mitigations taking place to reduce the overspend are:

- Exploit Government schemes such as Furlough
- Contain, where possible, the costs relating to the covid crisis
- Re-prioritise discretionary spend
- Implement controls to limit non-essential expenditure
- Identify new savings and maximise existing.

16. Based on current information, it is very unlikely that the County Council, when it rolls forward the MTFs into 2024/25, will be able to identify sufficient savings to bridge the funding gap in the later years. To balance the budget without a significant impact on services will require a major efficiency initiative and a successful outcome to the fair funding campaign. The financial situation also requires the Government to deal with the structural national issues such as funding for social care and the relentless growth of demand for Special Educational Needs and Disabilities (SEND) services.

17. The Director of Law and Governance has been consulted on the content of this report.

Circulation under the Local Issues Alert Procedure

None.

Officers to Contact

Mr C Tambini, Director of Corporate Resources,
Corporate Resources Department,
☎0116 305 6199
E-mail Chris.Tambini@leics.gov.uk

Mr D Keegan, Assistant Director (Strategic Finance and Property),
Corporate Resources Department,
☎0116 305 7668
E-mail Declan.Keegan@leics.gov.uk

PART B

18. Financial monitoring in the current financial year consists of three streams:
- The direct adverse implication of the Covid crisis, which is reported to Government
 - Mitigations of financial pressures
 - Budget variances that arise, which do not relate to the Covid crisis.
19. The difference between these three categories is not perfectly defined and can change, as Government 'refines' its approach to capturing information.

COVID-19 Financial Impact / Government Return

20. Local authorities have been required to submit financial returns to the Government on a monthly basis detailing their assessments of the financial impact of Covid-19.
21. The latest estimate of net additional costs due to Covid-19 for the current year (2020/21) is £18m after government grant support. The position has improved since the last report to the Cabinet in June 2020 which was based on the position at the end of May and reported a net estimated cost of £28m.
22. The main changes are:
- General government grant £4m (3rd tranche to an overall total of £31m)
 - Reduction in School transport costs and notification of specific Covid-19 transport grants, total £8m – receipt in early July of government guidance significantly reducing the need for additional bus services to allow social distancing.
 - Revised estimate of Social Care income £2m – revised for latest levels of demand and NHS income for service users discharged from hospital.
 - Government's Job Retention Scheme by furloughing staff, £2m.
 - Offset by an increased estimate of Council Tax and Business Rate loss of income, £5m.

Government Support

23. The Government continues its approach of preferring grants with conditions. The main one announced recently is the income compensation scheme for lost sales, fees and charges. After a deductible of 5% of budgeted sales, fees and charges the scheme will compensate Councils for 75p in every pound of relevant loss thereafter. An initial estimate has been made of £1.9m. This has not yet been included in the above estimates while further detailed work is undertaken.
24. A summary of the grants applicable to the County Council relating to Covid-19 are summarised in the table below:

Grant	County Council Allocation	National share	Conditions	Use
Covid-19 Funding (1)	£15.1m	0.9%	None	Reduce financial deficit
Covid-19 Funding (2)	£12.5m	0.8%	None	Reduce financial deficit
Covid-19 Funding (3)	£3.7m	0.8%	None	Reduce financial deficit
Infection Control	£6.7m	1.1%	Yes + clawback	Pass to providers for transmission reduction measures
Test and Trace	£2.3m	0.8%	Yes + clawback	Mitigation against and management of local outbreaks of COVID-19
COVID-19 Bus Service Support Grant	£0.3m	1.8%	Yes + clawback	Support for bus services; subject to further claims for funding
Emergency Assistance Grant	£0.5m	0.9%	Subject to monitoring & evaluation	Support those struggling to afford food and other essentials
Home to School and College Transport	£0.5m	1.2%	Subject to retrospective claim	New funding for additional dedicated school and college transport capacity (to 1 st half term)
Travel Demand Management	£0.1m			
Local lockdown	£0.2m		Yes	Mitigate costs of implementing local lockdown and reducing infection levels.

25. Grants to partner organisations can have a significant impact on the County Council. A prime example is funding to Health for hospital discharges. With common service users receiving associated support, funding shortfalls in Health can create cost pressures for the County Council. Similarly, there is a significant benefit when funding is forthcoming, even if this is just removing potential uncertainty. The Government announced £588m of hospital discharge funding in August aiming to “provide care and support for people in their own homes or in care homes for six weeks after discharge.”
26. The County Council has continued to make claims from the Government’s furlough scheme. An estimated benefit of £2m has been included in the latest monitoring. The position will not be confirmed until the scheme ends in October due to the timing of service opening and HMRC’s retrospective auditing of the scheme.

Uncertainties

27. The range of uncertainties being faced is far higher than in a usual year, including:
- Time until normality returns and impact of further lockdowns
 - National Living Wage annual increases
 - DfE commitment to covering SEND costs
 - Economic influences on service demand and service contributions
 - Tax income (Referendum limits and ability to pay)
 - Commercial / Corporate Asset Investment Fund income
 - Level of pent-up demand
 - Expectations of service provision changed, such as standard of infection control
 - Potential for fundamental change in the Care Home market
28. The financial implications will be long lasting with income losses linked to the economy. The Office for Budget Responsibility has forecast that there will be two years of GDP growth lost and rising unemployment as a result of Covid-19. This will

affect the level of council tax increase and the ability of people to pay council tax. In addition, there may also be some losses on business rates income, but this will be on a much smaller scale.

Financial Position

29. Based on the information available and the issues raised above the financial gap is estimated to increase over the MTFS as below:

	2020/21	2021/22	2022/23	2023/24
Original Gap	£0m	£0m	£19m	£39m
Revised Gap	£18m	£20m	£30m	£50m

30. Providing no significant adverse impact of the uncertainties above, the position in the current year is expected to be reduced through a combination of the following:

- Controls targeting non-essential expenditure
- Recovery planning incorporates cost control to contain the costs relating to the covid crisis
- Exploit Government schemes such as: furlough, income compensation and the potential Council Tax underwriting (expected in the CSR)
- Re-prioritise discretionary spend, primarily the capital programme, covered later in the report.

31. The approach to later years is included in the section on the approach to the new MTFS 2021-25 later in the report.

2020/21 REVENUE BUDGET MONITORING – PERIOD 4

32. Overall a net overspend of £18m is forecast. This comprises £20m additional costs due to Covid-19 and mitigations of £2m.

33. There is a high level of uncertainty in the estimates when forecasting for the full year. Once cost control and other measures are introduced this position is expected to improve.

34. The position is summarised below and set out in more detail in Appendix A.

	Updated Budget	Projected Outturn	Difference from Updated Budget	
	£000	£000	£000	%
Schools Budget – Schools and Early Years	0	-790	-790	
Schools Budget – High Needs	0	10,710	10,710	
Net Total	0	9,920	9,920	
Children and Family Services (Other)	81,045	84,735	3,690	4.6
Adults and Communities	149,300	158,020	8,720	5.8
Public Health	-665	-665	0	0.0
Environment and Transport	80,676	83,201	2,525	3.1

continued -

	Updated Budget	Projected Outturn	Difference from Updated Budget	
	£000	£000	£000	%
Chief Executive's	11,805	13,565	1,760	14.9
Corporate Resources	32,869	39,569	6,700	20.4
Capital Financing	43,100	45,900	2,800	6.5
Other Areas	13,975	14,985	1,010	7.2
Central grants/other income	-33,241	-30,741	2,500	-7.5
Covid-19 grant	0	-31,330	-31,330	n/a
Contribution to General Fund	11,000	11,000	0	0.0
Central Costs of Covid-19	0	5,500	5,500	n/a
Total	389,864	393,739	3,875	1.0
Funding	-389,864	-375,304	14,560	-3.7
Net Total	0	18,435	18,435	

35. Overall the position is in line with the net additional costs of Covid-19. However, this comprises other non Covid-19 related variances. The main areas are:

- Adults and Communities, £2m net underspend - on staffing and overhead budgets due to managing level of staffing vacancies across the department. There may also be additional savings from implementation of the departmental target operating model. These are being reviewed and will be included in the refresh of the MTFs.
- Business Rates Income, £0.4m net underspend – updated estimate per formal district council estimates, due to Government support replacing a significant proportion of the payments businesses are required to make.
- Financing of Capital, £2m – demand for SEND places is not reducing.
- Contingency for Inflation, £0.8m – recent pay award above estimates.

36. A more detailed explanation on these variances will be reported in the next monitoring report to the Cabinet for period 6.

Children and Family Services – Schools Budget

37. High Needs Dedicated Schools Grant is forecast to be £10.7m overspent at the end of 2020/21 in line with the £10.5m estimated in year overspend on DSG included in the MTFs. This is expected to reduce by an underspend on the Schools Block from schools growth which will again be retained for meeting the costs of commissioning school places in future years. This cannot be confirmed until the autumn when confirmation of budgets for new and growing schools are confirmed by the DfE.

38. By the end of 2020/21 the estimated accumulated High Needs deficit is forecast to be £18m. The Children and Family Services Department is investigating a number of actions that could over the course of the MTFs reduce demand and therefore the overall deficit through the High Needs Development Plan.

39. With demand not reducing the County Council will potentially have to make further capital investment to avoid increasing the number of independent school places being used. Ideally this would be from the Department for Education (no funding currently available) and Section 106 agreements (only meet development-related demand).

Overall Revenue Summary

40. At this early stage there is a forecast net overspend of £18m, but there are a significant number of uncertainties in trying to fully assess the ongoing impact of the pandemic. This position will be updated as more information is known during the financial year.
41. The financial impact in future years is even more uncertain. Although it is hoped that measures to contain the virus will be greatly reduced, the financial challenge will need to be met due to:
- a. Reduced growth in housing and business premises reducing new taxes raised
 - b. Greater level of tax defaults and reliefs
 - c. Delays to existing savings programmes
 - d. Higher service costs due to long lasting changes from the crisis, for example the care home market will potentially look very different.
 - e. Greater support requirements, for example social care, from higher unemployment.
42. The 2020/21 outturn position is planned to be closed by cost control and other measures with the balance being met from earmarked funds and contingencies.
43. Over the medium-term the gap is expected to be closed from new savings targets and expenditure controls.

CAPITAL PROGRAMME

44. The current 4 year capital programme totals £660m. Discretionary funding is £350m, including £222m temporary use of cash balances, repayment cost £8m per annum.
45. Due to the impact of Covid-19 that level of discretionary funding is now unaffordable and has been reviewed. The programme has also been updated for the latest spend profiles and changes in grant funding.
46. The revised 4-year programme is summarised below and shown in detail in Appendix B.

Capital Programme Expenditure 2020-24	Original MTFs 2020-24 Programme	Outturn adjustments (from 19/20)	Updated MTFs 2020-24 Programme	Revised MTFs 2020-24 Programme	Overall Change
	£000	£000	£000	£000	£000
Children and Family Services	127,680	3,192	130,872	110,842	-20,030
Adults and Communities	30,180	6,244	36,424	30,594	-5,830
Environment and Transport	278,580	29,115	307,695	231,850	-75,845
Chief Executive's	8,760	614	9,374	9,270	-104
Corporate Resources	17,150	8,228	25,378	22,692	-2,686
Corporate Programme	144,670	4,683	149,353	138,956	-10,397
Total	607,020	52,076	659,096	544,204	-114,892

Capital Programme Resources 2020-24					
Grant Funding/ Specific Contributions	296,873	15,144	312,017	279,100	-32,917
Discretionary Funding (including internal cash balances)	310,147	36,932	347,079	265,104	-81,975
Total	607,020	52,076	659,096	544,204	-114,892

47. Overall, the programme has been reduced by £115m, comprising a net reduction of £33m in specific grant funding and £82m in discretionary funding provided by the County Council. Within the discretionary funding line £19m will be released to support the MTFs from reduced revenue contributions. The balance of £63m will reduce the need to use internal cash balances. This will reduce repayment costs by £2m, per annum by the end of the MTFs period.

48. The key changes are described below.

Children and Families Programme

49. Reduction over MTFs to existing programme of £20m, with a £12m discretionary funding reduction.

- School Accommodation, reduction £29m. Reduced estimate of developer funded schemes and forward funding. Discretionary funding benefit of £19m
- £2m increase in Basic Need grant.
- Send Programme, increase £6m. Increased SEND expenditure, subject to business case/savings)
- C&FS Social Care Investment Plan (SCIP), increase £2.5m. Funding allocated from the future developments programme.

Adults and Communities

50. Net reduction over MTFS of £6m, with a £10m reduction in discretionary funding.

- Record Office, reduced occupancy of County Hall provides an opportunity to review the Council's approach to the Record Office. The Scheme has now been transferred to the future developments programme, £10m.
- Addition of £4m for the Social Care Investment Programme, from the allocation of £10m previously approved by the Cabinet – schemes have been identified and added to the programme.

Environment and Transport

51. Net reduction over MTFS of £76m, with a £50m discretionary funding reduction.

- Lutterworth Spine Road, reduction £82m spend due to the bid for Housing Infrastructure grant funding being unsuccessful. The Scheme has been transferred to future developments pending review. Net discretionary programme reduction £43m.
- Vehicle Replacement Programme, reduction £1.5m (all discretionary funding).
- Zouch Bridge replacement, increase in estimated cost £3m – subject to full scheme review.
- Transport Asset Management (TAM) Programme, increase in programme £5m.
- TAM and Zouch bridge to be funded from new Challenge Fund grants, £9m (pot hole) and £5m (road surfacing for 3 bypasses). Balance of grant used to reduce discretionary funding.

Chief Executive's

52. Net reduction of £100,000. Removal of current year's Leicestershire Grants allocation in light of creation of the Communities Fund to support local organisations through the pandemic.

Corporate Resources

53. Net reduction of £2.7m. Reduction of £2.1m Score+ programme (all discretionary funding) due to low numbers of applications.

Corporate

54. Net reduction of £10m, all discretionary funding.

- Future Developments Programme, net reduction of £10m. Reduced to contribute to the overall County Council medium term funding position. However, this will result in there being less funding available for new projects. When the capital programme is refreshed as part of the new MTFS, future additions to the capital programme will need to be prioritised within the remaining balance of £50m.
- No overall change to CAIF, generates additional income. Allocation of £8m for Leaders Farm from CAIF Asset acquisitions/new investments balance, approved

by the Cabinet. Balance of £45m remains on the CAIF Asset acquisitions/new investments to achieve the £260m target value. It is planned to review the CAIF Strategy in the Autumn.

Summary

55. The review of the capital programme has reduced the four-year programme of expenditure by £115m. The change includes a reduction in discretionary funding of £82m which will reduce the need to use internal cash balances by £63m and release £19m in revenue funding to support the MTFS.
56. The Government has indicated that it intends to invest in infrastructure to support economic recovery and build out of recession, for example, the public sector decarbonisation scheme. Where additional funding is based on bids there is a difficult balance between level of potentially wasted investment in advanced design and chance of success. However, there are some positive indications that the government is looking for quicker and lighter touch decision making.

Corporate Asset Investment Fund

57. A summary of the Corporate Asset Investment Fund (CAIF) position as at quarter 1 for 2020/21 is set out below:

Asset Class	Opening Capital Value	Capital Incurred 2020/21	Net Income YTD	Forecast Net Income FY	Forecast Net Inc. Return FY
	£000	£000	£000	£000	%
Office	27,160	0	356	1,633	6.0%
Industrial	12,419	0	114	931	7.5%
Distribution	456	0	-3	20	4.5%
Rural	22,522	0	34	475	2.1%
Other	4,413	0	43	195	4.4%
Development	58,780	11,484	-8	-68	-0.1%
Pooled Property	24,849	0	125	500	2.0%
Private Debt	20,276	0	125	500	2.5%
TOTAL	170,875	11,484	786	4,186	2.4%

58. Overall the fund is forecasting to achieve a 2.4% net income return for 2020/21. If the development classification was excluded, the return would increase to 3.8%.
59. The directly managed property portfolio is so far holding up against the impact of Covid-19. In the Office class, increases in rental income, as large voids are taken up, will be partially offset as Covid-19 affects the office market, especially demand for smaller office spaces. Current projections suggest that the majority of industrial occupiers will emerge from Covid-19 in a stronger position than anticipated; arrears and defaults have been minimal in the first quarter of the year.
60. The Council's exposure to the distribution sector is low risk due to the type of assets held. As such, performance is expected to remain in line with previous years. The

rural sector is largely unaffected by Covid-19, with other economic factors taking time to impact returns. Rental growth will be slower this year due to the review cycle. The diverse range of assets held in the Other asset class offsets the potential risk from Covid-19; the Citroen Garage continues to offer solid returns.

61. Pooled property income is lower than expected due to the effects of Covid-19 on underlying businesses to make rental payments. The County Council has assumed a similar run rate for the full year forecast. Private Debt distributions have been delayed, similar issues regarding underlying businesses ability to make payments. The fund is invested in a product that is primarily composed of senior secured debt and is highly diversified. This offers considerable downside protection to the capital invested.
62. It should be noted that the above table excludes in year capital growth which is assessed annually as part of the asset revaluation exercise and reported in the annual CAIF performance report.

MTFS Refresh 2021-2025

63. The MTFS will be refreshed over the autumn, with a similar approach taken to that followed in previous years, namely continued investment in organisational change, planning and robust delivery of savings and a realistic allowance for growth. However, this will be done in the context of significantly greater uncertainty than in previous years and is linked to the wider recovery service planning exercise being undertaken based around the four pillars of finance, ways of working, digital and carbon reduction.
64. These pillars will attempt to bring some clarity and structure to enable service and business planning to take place. However, it is recognised that this may be difficult over the coming months given the uncertainty around the continued measures the Government will put in place, and the risks around a second wave, as well as the likely longer term adverse impact on local businesses and unemployment levels (which are likely to have an upward impact on service demand at the same time as reducing the Council's core income levels).
65. In addition to the usual MTFS planning process, the difficult financial position in the current year also requires the Council to take some more immediate measures to control levels of expenditure.
66. Some of these measures have already been undertaken. This includes the capital programme reprioritisation exercise reported above and also taking advantage of the Government's Job Retention Scheme by furloughing staff where appropriate. The Council is also currently assessing the recently issued guidance for the Local government income compensation scheme for lost sales, fees and charges and will submit the first claim at the end of this month.
67. However, there is also a need to introduce a range of new temporary expenditure controls. To this end guidance is being issued to Managers very shortly. This will enable the Council to act far quicker than waiting for the MTFS refresh and associated savings programme to be developed. This speed should reduce the overall challenge and would mitigate the impact a second unforeseen event would bring if it hits before

the Council's finances are repaired. The controls will incorporate greater DMT and corporate oversight, this is to:

- Support consistent implementation
- Identify opportunities across services/departments
- Ensure shared understanding of implications.

68. However, this oversight is not to replace the financial responsibilities that people have in their roles. For the spend controls to be successful, ownership by everyone who has a part in spending or generating income is vital.

69. The controls measures being put in place cover:

- Targeted recruitment controls to restrict non-essential hiring including a focus on agency, consultants and specialist advisors
- Procurement controls to ensure greater commissioning support unit input into contract renewal/extension, use of frameworks and exceptions
- Greater scrutiny of external expenditure
- Limited approval of new projects to essential schemes only
- Controls on grants to ensure that wherever possible they are used to cover existing spend pressures rather than for new service initiatives.

70. These controls can be varied as the financial outlook improves/worsens. But essentially they will be in place until the following conditions are met:

- Any reduction to the general fund balance required to cover this year's financial pressures is repaid
- The MTFS gap is at an acceptable level
 - First 2 years balanced
 - Final 2 years at a manageable level
- Good certainty of savings delivery, especially for the next 2 years
- Local government outlook becomes clearer – linked to the Autumn Comprehensive Spending Review (CSR).

71. It should be noted that the implementation of spend controls isn't service cuts, although it should influence how services are delivered. The long-lasting impact of the Covid crisis (e.g. reduced Council Tax) inevitably means that new savings will be required leading to some permanent reductions in non-essential spend. Although future savings will not be prioritised based on where spend was reduced through the controls, managers will need to consider the potential to make permanent changes to their services.

72. As the table in paragraph 29 shows, the gap in the existing MTFS is expected to have increased significantly as a result of the pandemic. As the Council rolls forward the MTFS to include 2024/25 it is very likely that there will a further significant increase in the gap in that year as well. The MTFS refresh exercise over the autumn and winter, including the outcome of the Government's CSR, will enable a better understanding on the scale of this gap.

National Position

73. The Government had shown some indication that it would increase public spending and investment in appreciation of the sector-wide issues facing local government.
74. The delayed green paper on Adult Social Care has now potentially been abandoned by the Prime Minister in order to inject more urgency into the process. The Government is expected in the autumn to publish a white paper proposing a clear course of action to address the social care crisis, which according to the LGA faces a £3.6 billion funding gap between councils' resources and demand by 2025. However, there appears to be little recognition of the urgent pressures in children's social care or special educational needs.
75. Furthermore, recent indications from the Government are that it is not looking to introduce significant increased tax measures to counter the huge increase in public spending that has been required to manage the impact of the pandemic.
76. But given that the UK is on track to record the largest decline in annual GDP for 300 years, with even the most optimistic forecasts suggesting output falling by more than 10% in 2020, the Government will be faced with an unprecedented peacetime rise in public sector borrowing – estimated at between 15-20% of GDP. This is likely to lead to a position where total borrowing is more than 100% of GDP.
77. As such, prospects for significant additional financial support for public services are limited. There is limited expectation that the CSR will provide much relief for local government finances to help reduce the gap.
78. Also, whilst the Government is undertaking a review of Business Rates in the autumn, it had announced at the end of April 2020 that the anticipated changes from the current 50% Business Rates Retention Scheme (BRRS) to a 75% Scheme have been postponed, for a second time, from April 2021 until April 2022. Similarly, the implementation of the Fair Funding Review has also been postponed again until April 2022.
79. These delays mean that where the Council had expected there might be some specific changes which would benefit its local financial position, this has now been pushed back further. Consequently the level of funding uncertainty around the financial position has not been higher in the last 10 years.
80. The Local Government Chronicle reported on 24th August 2020 that a leaked Cabinet Office document said that:
- “5% of councils in England ‘are already at high risk of financial failure following Covid-19’, and that some may go bankrupt and need to be bailed out or be put under direct control of Whitehall. The Cabinet Office presentation also reportedly warned that inflation could ‘significantly impact social care providers due to increasing staff and supply costs’, and that there could be another 24 months of virus infection in care homes.”*
81. The reference to 5% of Councils implies that around 20 local authorities could be at high risk of immediate financial collapse. Fortunately, the County Council is not in that position.

82. All the indications are that this will be the eleventh austerity budget in a row. The Council has already made savings of £223m (excluding DSG), to the end of 2020/21. Therefore, the identification of new savings will be very challenging and is likely to require much more radical service transformation.

Leicestershire Position

83. There will need to be a focus on performance and productivity across the Council's services which is not consistently measured or understood. This will require investment to ensure meaningful and reliable management information is available.
84. It is important that the savings that are already under consideration are progressed and delivered on as soon as possible.
85. Further efficiency/productivity targets for services will drive the focus for identifying where additional savings can be delivered. Inevitably, though, further service reductions will be needed to ensure the Council can operate within the increasingly tight budget envelope.
86. The Corporate Resources Department (Finance and the Transformation Unit in particular) will lead and support departments with a planned cost-reduction model approach to identifying and implementing new savings initiatives.
87. The model will focus around 4 key themes:
- Less expensive provision (commissioning/contracts/service delivery approach).
 - Management overheads (restructuring/action plans/performance metrics/process automation).
 - How funded (charging mechanisms/prices/new markets).
 - Demand (preventative, invest to save/eligibility/policy review, constrain growth).
88. The main objective for refreshing the MTFS will be to re-establish the Council's strong financial position. And until the position is clearer on funding reforms and funding of legislation, changes will need to be based on prudent financial assumptions.

Planning Framework

89. The next three key Government announcements will be;
- Comprehensive Spending Review – autumn 2020.
 - Autumn Budget Statement, anticipated in November.
 - Local Government Finance Settlement expected mid/late December.
90. The broad MTFS timetable is:
- September to November 2020 – Refresh growth, savings and capital including consideration by Lead Members.
 - December 2020 – the Cabinet is requested to approve the draft MTFS for consultation.
 - December 2020 – receipt of the Local Government Finance Settlement

- January 2021 – consultation on the draft MTFS, including Overview and Scrutiny Committees and the Scrutiny Commission.
- February 2021 – the Cabinet is requested to approve the final draft MTFS for submission to the County Council.
- February 2021 – County Council is requested to approve the MTFS for 2021/22 to 2024/25.

Equality and Human Rights Implications

91. Public authorities are required by law to have due regard to the need to:
- Eliminate unlawful discrimination, harassment and victimisation;
 - Advance equality of opportunity between people who share protected characteristics and those who do not; and
 - Foster good relations between people who share protected characteristics and those who do not.
92. Many aspects of the County Council's MTFS may affect service users who have a protected characteristic under equalities legislation. An assessment of the impact of the proposals on the protected groups must be undertaken at a formative stage prior to any final decisions being made. Such assessments will be undertaken in light of the potential impact of proposals and the timing of any proposed changes. Those assessments will be revised as the proposals are developed to ensure that decision-makers have information to understand the effect of any service change, policy or practice on people who have a protected characteristic.
93. Proposals in relation to savings arising out of a reduction in posts will be subject to the County Council's Organisational Change policy which requires an Equality Impact Assessment to be undertaken as part of the Action Plan.

Crime and Disorder Implications

94. Some aspects of the County Council's MTFS are directed towards providing services which will support the reduction of crime and disorder.

Environmental Implications

95. The MTFS includes schemes to support the Council's response to climate change and to make environmental improvements.

Partnership Working and Associated Issues

96. As part of the efficiency programme and improvements to services, working with partners and service users will be considered along with any impact issues, and they will be consulted on any proposals which affect them.

Risk Assessments

97. As this report states, risks and uncertainties surrounding the financial outlook are significant. The risks are included in the Corporate Risk Register which is regularly updated and reported to the Corporate Governance Committee.

Background Papers

Report to the Cabinet – 23 June 2020 – Covid-19 Impact and Response of the County Council – Recovery and Financial Impact - <https://bit.ly/2ZgXtXE>

Report to County Council -19 February 2020 – Medium Term Financial Strategy 2020/21 to 2023/24 - <https://bit.ly/339IJfp>

Appendices

Appendix A: Revenue Position as at Period 4, 2020/21

Appendix B: Revised Capital Programme 2020-24

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REVENUE BUDGET MONITORING STATEMENT 2020/21
(AS AT PERIOD 4)

	Updated Budget	Projected Outturn	Difference from Updated Budget		
	£000	£000	£000	%	
Schools Budget					
Schools	72,872	72,792	-80	-0.1	
Early Years	34,974	34,264	-710	-2.0	
DSG Funding	-107,846	-107,846	0	0.0	
	0	-790	-790		
<i>Earmarked fund - start of year</i>			-3,040		
<i>Earmarked fund - end of year</i>			-3,830		
High Needs	73,256	83,966	10,710	14.6	
Dedicated Schools Grant (DSG)	-73,256	-73,256	0	0.0	
	0	10,710	10,710		
<i>Earmarked fund - start of year</i>			7,090		
<i>Earmarked fund - end of year</i>			17,800		
LA Budget					
Children & Family Services (Other)	81,045	84,735	3,690	4.6	RED
Adults & Communities	149,300	158,020	8,720	5.8	RED
Public Health *	-665	-665	0	n/a	GREEN
Environment & Transport	80,676	83,201	2,525	3.1	RED
Chief Executives	11,805	13,565	1,760	14.9	RED
Corporate Resources	32,869	39,569	6,700	20.4	RED
DSG (Central Dept. recharges)	-2,285	-2,285	0	0.0	GREEN
Other corporate savings	-350	0	350	-100.0	RED
MTFS risks contingency	4,000	4,000	0	0.0	GREEN
Contingency for Inflation	9,890	10,700	810	8.2	GREEN
Total Services	366,285	390,840	24,555	6.7	
Central Items					
Financing of Capital	19,200	19,000	-200	-1.0	GREEN
Revenue funding of capital	23,900	26,900	3,000	12.6	RED
Central Expenditure	2,720	2,570	-150	-5.5	GREEN
Central Grants and Other Income	-33,241	-30,741	2,500	-7.5	RED
Total Central Items	12,579	17,729	5,150	40.9	
Contribution to General Fund	11,000	11,000	0	0.0	GREEN
Central Costs of Covid-19	0	5,500	5,500	n/a	RED
Total Spending	389,864	425,069	35,205	9.0	
Funding					
Business Rates - Top Up	-40,346	-40,346	0	0.0	GREEN
Business Rates Baseline / retained	-23,922	-24,362	-440	1.8	GREEN
S31 Grants - Business Rates	-4,156	-4,156	0	0.0	GREEN
Council Tax Collection Funds - net surplus	-2,090	-2,090	0	0.0	GREEN
Council Tax	-319,350	-304,350	15,000	-4.7	RED
Total Funding	-389,864	-375,304	14,560	-3.7	
Covid-19 Grants	0	-31,330	-31,330		GREEN
Net Total	0	18,435	18,435		

* Public Health funded by Grant (£25.2m)

Underspending / on budget GREEN
Overspending of 2% or less AMBER
Overspending of more than 2% RED

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CHILDREN & FAMILY SERVICES - CAPITAL PROGRAMME 2020/21 to 2023/24

APPENDIX B

Estimated Completion Date	Gross Cost of Project £000		2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total £000
		<u>MAIN GRANT FUNDED PROGRAMME</u>					
Mar-24	73,223	Provision of Additional School Places	21,724	27,721	13,978	9,800	73,223
		SEND Programme					
Mar-22	2,422	Social Emotional Mental Health (SEMH) Units	1,922	500			2,422
Mar-22	2,639	SEMH Special School - LA Developed	2,139	500			2,639
Mar-24	9,500	SEMH Special School - Free School	0	500	1,000	8,000	9,500
Mar-21	399	Post 16 SEND Provision	399				399
Mar-22	2,204	Communication and Interaction Difficulty Units	1,704	500			2,204
Mar-21	2,452	Communication and Interaction Difficulty School	2,452				2,452
Mar-22	3,653	Expansion of Special Schools	653	3,000			3,653
		Sub total - SEND Programme	9,269	5,000	1,000	8,000	23,269
Mar-24	8,615	Strategic Capital Maintenance	2,615	2,000	2,000	2,000	8,615
Mar-24	2,066	Schools Devolved Formula Capital	566	500	500	500	2,066
Mar-24	873	Schools Access / Security	273	200	200	200	873
Mar-21	296	Early Help	296				296
Mar-22	2,500	Assessment & Residential Multi-functional properties x 4 (SCIP)	1,000	1,500			2,500
		Other Capital	4,750	4,200	2,700	2,700	14,350
		Overall Total	35,743	36,921	17,678	20,500	110,842

ADULTS & COMMUNITIES - CAPITAL PROGRAMME 2020/21 to 2023/24

APPENDIX B

Estimated Completion Date	Gross Cost of Project £000		2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total £000
Dec-21	3,730	Hamilton Court/Smith Crescent - NWL Development - Improved Service User Accommodation	1,250	2,131			3,381
Sep-20	1,100	Hinckley, the Trees Refurbishment (commitments b/f)	839				839
Mar-24	15,680	Disabled Facilities Grant (DFG)	3,920	3,920	3,920	3,920	15,680
Mar-22	230	Changing Places/Toilets (Personal Assistance)	40	58			98
Aug-20	1,500	Brookfields SL Scheme (refurbishment)	213				213
Mar-21	50	HART Rostering System	41				41
		Sub total - A&C various schemes	6,303	6,109	3,920	3,920	20,252
		<u>Social Care Investment Plan (SCIP):</u>					
Feb-21	570	Loughborough - Ashby Court - Refurbishment	565				565
Jan-21	920	Loughborough, Forest Road	918				918
Mar-23	5,500	Specialist Dementia Facility - Coalville	100	3,050	2,350		5,500
Oct-20	242	Sileby, Heathcotes Drive	242				242
Feb-21	1,171	Anstey, Hollow Road Flats	1,171				1,171
Nov-20	327	Coalville, 286 Ashby Rd	327				327
Mar-22	1,619	SCIP - Additional Schemes to be confirmed - balance	0	1,619			1,619
		Sub total - SCIP	3,323	4,669	2,350	0	10,342
		Total A&C	9,626	10,778	6,270	3,920	30,594

ENVIRONMENT & TRANSPORT - CAPITAL PROGRAMME 2020/21 to 2023/24

APPENDIX B

Estimated Completion Date	Gross Cost of Project £000		2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total £000
		<u>Major Schemes</u>					
Mar-21	tbc	Lutterworth Development - Infrastructure (subject to grant bid)	1,000				1,000
Mar-23	63,500	Melton Mowbray Distributor Road - North and East Sections	2,754	31,802	24,780		59,336
Mar-24	27,900	Melton Distributor Road - Southern Section	500	5,000	14,200	8,200	27,900
Apr-24	12,430	Zouch Bridge Replacement - Construction and Enabling Works	866	0	3,574	6,782	11,222
Mar-22	24,780	M1 Junction 23 / A512 Improvements	16,456	368			16,824
Mar-24	7,670	County Council Vehicle Replacement Programme	1,470	2,200	2,000	2,000	7,670
Mar-24	8,058	Advance Design / Match Funding	1,710	3,128	1,620	1,600	8,058
Mar-22	5,340	A511/A50 Major Road Network - Advanced design	2,640	1,740			4,380
Aug-20	10,740	Anstey Lane A46 (subject to £4.1m Leicester City contribution)	3,436	222			3,658
Mar-23	2,000	M1 Junction 20a - Advanced design	500	1,000	413		1,913
Mar-24	5,300	Melton Depot - Replacement	60	0	0	5,000	5,060
Mar-21	325	Coalville Ashby Rd Hway works	311				311
Mar-21	77	SEP - Lubbethorp Str Emp Site	77				77
Mar-21	18	TAP - Capital Schemes and Design	18				18
		Sub total - Major Schemes	31,798	45,460	46,587	23,582	147,427
Mar-24	29,459	<u>Transport Asset Management</u>	0	11,680	9,620	8,159	29,459
Mar-21	9,652	Capital Schemes and Design	9,652				9,652
Mar-21	811	Bridges	811				811
Mar-21	771	Flood Alleviation- Environmental works	771				771
Mar-21	597	Street Lighting	597				597
Mar-21	85	Traffic Signal Renewal	85				85
Mar-21	3,302	Preventative Maintenance - (Surface Dressing)	3,302				3,302
Mar-21	9,318	Restorative (Patching)	9,318				9,318
Mar-21	711	Safety Barrier etc	711				711
Mar-24	5,010	Additional Highway incentive fund subject to meeting level 3 criteria	0	1,670	1,670	1,670	5,010
Mar-21	21	Birstall P&R Cycleways	21				21
Mar-22	5,550	Hinckley Hub (Hawley Road) - NPIF	1,516	3,800			5,316
Mar-22	2,206	Safety Schemes	1,624	582			2,206
Mar-21	300	Croft-Billesdon Depot Scheme	80				80
Mar-22	200	Highways Maintenance - IT renewals	98	102			200
Mar-21	2	Externally Funded Schemes	2				2
		Sub total - Highways & Transport Schemes	28,588	17,834	11,290	9,829	67,541
		<u>Environment & Waste</u>					
Mar-22	5,500	Kibworth Site Redevelopment (Commitments b/f)	750	4,634			5,384
Mar-22	9,000	Waste Transfer Station Development (Commitments b/f)	1,000	7,962			8,962
Mar-22	500	RHWS [Surface Dressing reallocation]	200	300			500
Mar-24	1,756	Recycling Household Waste Sites Improvements and works	150	1,056	350	200	1,756
Mar-21	280	Recycling Household Waste Sites Improvements - Drainage	280				280
		Total - Environment & Waste	2,380	13,952	350	200	16,882
		Total E&T	62,766	77,246	58,227	33,611	231,850

CHIEF EXECUTIVES - CAPITAL PROGRAMME 2020/21 to 2023/24**APPENDIX B**

Estimated Completion Date	Gross Cost of Project £000		2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total £000
Mar-24	300	Leicestershire Grants	0	100	100	100	300
Mar-22	3,340	Rural Broadband Scheme - Phase 3	890	2,450			3,340
Mar-23	5,630	Rural Broadband Scheme - Phase 3 Extension (tbc)	0	2,000	3,630		5,630
							0
		Total Chief Executives	890	4,550	3,730	100	9,270

CORPORATE RESOURCES - CAPITAL PROGRAMME 2020/21 to 2023/24

APPENDIX B

Estimated Completion Date	Gross Cost of Project £000		2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total £000
		<u>ICT</u>					
Mar-22	900	Local Area Network (LAN) Edge Refresh - County Hall & Remote sites	450	200			650
Mar-21	240	Replacement ITSM toolset and User Portal (Marval replacement project)	240				240
Mar-21	100	Wireless Controller Refresh	100				100
Mar-24	1,574	Corporate ICT Programme	274	300	500	500	1,574
Mar-24	400	Workplace Strategy - ICT Infrastructure	0	0	150	250	400
Mar-24	3,700	Workplace Strategy - End User Device (PC, laptop)	1,427	300	800	1,000	3,527
Mar-21	100	ASA Firewall replacements	100				100
Mar-21	170	CSC Telephony System Replacement	91				91
Mar-21	90	Insurance Replacement System	22				22
		Sub total - ICT	2,704	800	1,450	1,750	6,704
		<u>Property Services</u>					
Mar-22	4,420	Melton, Sysonby Farm Development - site preparation and infrastructure works	1,850	2,465			4,315
Mar-24	1,400	Workplace Strategy - property costs, dilapidations and refurbishments	200	400	400	400	1,400
Mar-21	2,690	Snibston & Country Park Future Strategy - Masterplan	2,683				2,683
Mar-21	3,200	Snibston & Country Park Future Strategy - Land remedial works and covenant	2,704				2,704
Mar-23	440	County Hall Lift Replacement Scheme	110	220	110		440
Mar-22	2,000	Watermead Park Footbridge and Cycleway	500	1,336			1,836
Mar-21	497	Workplace Strategy - Balance from 19/20	497				497
		Sub total - Strategic Property	8,544	4,421	510	400	13,875
		<u>Climate Change - Environmental Improvements</u>					
Mar-21	1,250	Score + (Schools Energy Efficiency Scheme)	403	0			403
Mar-24	1,660	Energy & Water Strategy - Invest to save	680	330	330	320	1,660
Mar-21	150	Electric Vehicle Car Charge Points	50				50
		Sub total - Energy	1,133	330	330	320	2,113
		Total Corporate Resources	12,381	5,551	2,290	2,470	22,692

CORPORATE - CAPITAL PROGRAMME 2020/21 to 2023/24

APPENDIX B

Estimated Completion Date	Gross Cost of Project £000		2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total £000
		Corporate Asset Investment Fund (CAIF)					
Nov-20	22,640	Commercial Office Development at Loughborough University Science & Enterprise Park (LUSEP)	5,351				5,351
Mar-21	6,330	Airfield Business Park - Phase 1	708				708
Oct-21	6,400	Quorn Solar Farm	0	6,393			6,393
Mar-22	7,600	Quorn Barrow Road Industrial Units (Carbon Neutral)	0	7,492			7,492
Mar-21	35,200	East of Lutterworth SDA	10,473	0			10,473
Mar-21	1,120	Lutterworth East - Planning and Pre-Highway construction Works	564				564
Mar-24	792	County Farms Estate - General Improvements	192	200	200	200	792
Mar-24	1,233	Industrial Properties Estate - General Improvements	400	333	250	250	1,233
Mar-23	2,750	M69 Junction 2 - SDA	0	2,555	195		2,750
Mar-23	8,200	Leaders Farm, Phase 2 - Ind Units and x2 Drive Thru Restaurants	200	2,000	6,000		8,200
Mar-24	45,000	Asset Acquisitions / New Investments - subject to Business Case	0	10,000	15,000	20,000	45,000
		Total CAIF	17,888	28,973	21,645	20,450	88,956
		Future Developments					
Mar-24	50,000	Future projects - subject to business cases	12,500	12,500	12,500	12,500	50,000
		Total Corporate Programme	30,388	41,473	34,145	32,950	138,956