

REPORT OF THE CABINET

A: MEDIUM TERM FINANCIAL STRATEGY UPDATE

Introduction

1. The purpose of this report is to advise the Council of the worsening financial position and the approach to updating the current Medium Term Financial Strategy (MTFS).

Background

2. The current MTFS for 2015/16 to 2018/19 was approved by the County Council in February 2015. Over the autumn and winter the MTFS will be updated. All scrutiny committees and the Scrutiny Commission will have an opportunity to consider the outcome of the update in January and early February 2016. The Cabinet will consider the outcome of scrutiny and other deliberations before it makes a recommendation to the County Council in February.

Position in the Medium Term

3. Over the last four years there have been significant reductions in the Government's funding of local government. Reductions have been higher than in other parts of the public sector which in part reflects the fact that local government, unlike health, overseas development and education, has not been protected.
4. The County Council remains one of the lowest funded and lowest spending authorities in the country and it is from this low base that further savings need to be made. Settlement Funding (Revenue Support Grant and Business Rates) per head is 21% /£46 below the average for other county councils. If the Council was funded at the same rate as the average county council it would be £31m better off. If Council Tax is also included, the County Council's funding is 14% /£72 per head below the average for other county councils. If the Council was funded at the same rate as the average county council (including Council Tax) it would be £48m better off.

Summer Budget

5. The Summer budget announced by the Government on 8 July had two key implications for the County Council;
 - The introduction of a new minimum/National Living Wage
 - Confirmation that local authorities will remain an unprotected part of the public sector.

National Living Wage

6. The introduction of a new minimum wage in the summer budget will have a significant impact on the County Council over the medium term. The National

Living Wage will increase by 11% from £6.50 per hour to £7.20 from April 2016. Thereafter it will increase to 60% of the national median wage by 2020.

7. It is not straightforward to forecast the impact on the Council's budget due to a number of uncertainties and unknowns. Based on certain assumptions the overall impact on the MTFS is an increase in costs of £7m in 2016/17 rising to £23m in 2020/21. Whilst this estimate needs to be treated with caution it does indicate the scale of the challenge.
8. This increase is not yet factored into the MTFS. The Government has not stated whether under the New Burdens Agreement the impact on local government will be offset by additional resources. At this stage the assumption is that if additional resources are made available they will be limited and there will be a major impact on the MTFS.
9. The new minimum wage will affect Dedicated Schools Grant funded services (paragraphs 19 - 21 below refer).

Local Government Funding

10. The Government confirmed that Local Authorities will remain an unprotected part of the public sector, thus signalling that spending reductions will continue broadly at the same rate for the next four years as experienced over the last four. The Chancellor did take the opportunity to smooth the reduction in spending, but at the same time increased the time for the national deficit to be eliminated from three to four years. This means that spending reductions will be required for at least the next four years.

Early Intervention and Prevention

11. The Council has supported a number of early intervention initiatives which aim to reduce future demand (and costs) on local services through initiatives that seek to address the underlying causes that give rise to the need to access services. Examples include Supporting Leicestershire Families, Children's Centres, Public Health and the Adult Social Care Strategy. The Council is keen to continue this policy and is reviewing its approach to prevention and early intervention. The proposed Government cuts to the Public Health Grant along with a worsening financial position will mean that these services will come under increasing pressure.

Summary

12. The introduction of the Living Wage, continuing reductions in Government funding and the pressures within the Children and Family Services placement budget mean that the County Council faces an extremely tight financial position. A position that could be further impacted by any unfunded costs arising from the need to accommodate refugees following the recent government announcement.
13. This will mean that the saving requirement of £87m within the current MTFS will need to increase significantly. This will have profound implications for services delivered by the County Council. It raises questions around

affordability of non-statutory services, the level of funding that can realistically be spent on statutory services and future council tax increases. Given the Council's funding position it is likely that it will find itself having to make these increasingly tough choices sooner rather than later. In the short term existing savings may need to be brought forward from future years to balance the 2016/17 budget.

14. In recent years the Leader and Deputy Leader have met with Leicestershire MPs in the Autumn to inform them of the Council's financial position and low funding level. Given the acute financial pressure being experienced by the County Council it is considered that this should be repeated as soon as possible. The modelling of further reductions in spending has already been submitted by non-protected Government Departments to the Chancellor.

Planning Framework

15. The next two key Government announcements will be;
 - The Spending Review on 25th November. This will give an indication of the scale of the challenge faced by local government.
 - The Local Government Finance Settlement. Although no date for this has been given it is expected to be announced in late December.
16. The MTFS will be reviewed during the autumn and informed by these announcements.
17. The broad MTFS timetable is:
 - September to October – Refresh growth and savings including consideration by Lead Members
 - November – Spending Review analysis
 - Late December – Local Government Finance Settlement
 - January/February – Cabinet, Scrutiny and County Council.

Transformation Programme

18. In May 2014 the Cabinet agreed the County Council's Strategic Plan and Transformation Programme to support the MTFS. The latter sets out how the Council will transform services and the way in which the Authority operates and is a key element to the successful delivery of the MTFS. It has continued to develop with the (officer) Transformation Delivery Board now adopting a broader monitoring role to include other high-risk MTFS savings. This approach enables all key Departmental savings and transformation activity to be seen in one place. There is a clear focus on:
 - Delivery of existing savings.
 - Identifying and delivery of new savings including a 'Digital Council', 'Commercialise Traded Services' and joint support services.
 - Transitioning part of the programme into business as usual.

Dedicated Schools Grant

19. The County Council receives Dedicated Schools Grant (DSG) which provides for delegated school budgets and other education services that are managed within the Council such as early years and special educational needs. Financial pressure is being encountered across the area covered by the Grant, which consists of three blocks. Whilst 2015/16 saw funding increased for the Schools Block, the remaining two block settlements have remained at the level of historic spend:

- a) Schools Block – This block funds delegated school budgets and some other budget areas. This element of DSG is under pressure as a result of an increase in the number of pupils, largely as a result of new housing. It is expected that this will create a revenue shortfall in 2019/20.
- b) High Needs Block – This element of the grant has remained at the level of historic spend. Increasing numbers and cost of pupils with special educational needs together with increased responsibilities for local authorities, such as provision for post-16 students, are resulting in a projected overspend of £1.5m. This is currently being supported by the DSG earmarked fund. The Department for Education (DfE) is considering a formulaic approach to the delivery of this element of DSG and Leicestershire was one of a number of authorities participating in the research to inform the future allocation methodology for the grant. It is uncertain when any changes will be delivered.

Future models for services funded from the High Needs Block are being considered within the Transformation Programme and options to reduce the cost of placements, including development of additional local provision, are being investigated.

- c) Early Years Block – This block funds the free entitlement to early years education for disadvantaged 2 year olds and the early years offer for 3 and 4 year olds. This element of the grant is currently insufficient to meet provider and service costs and, as with High Needs, is being supported from the DSG earmarked fund (£0.7m). The MTFS also assumes a saving resulting from moving all service costs to DSG. There are expected to be significant pressures from changes likely to be introduced within the Childcare Bill currently progressing through Parliament.

The service has identified savings options which will allow savings to be delivered in 2016/17; further savings options will be considered at such point the impact of the Childcare Bill/Act is known.

20. All DSG spend will be affected by the introduction of the National Living Wage. A significant financial impact, approximately £7m, will be felt in the childcare market where there are claims nationally that local authority rates fail to meet current costs. The impact of the National Living Wage for other services funded from High Needs is estimated to be approximately £4m.

21. Whilst delegated school budgets have been increased in 2015/16 as a result of increased Government funding, many schools are reporting financial pressures especially in the secondary sector where pupil numbers are falling as a result of age range changes and a reduction in funding for post 16 is causing significant financial concerns. It is estimated that the impact of the National Living Wage is equivalent to a further average 2.2% budget pressure estimated to be approximately £8m.

(Motion to be moved:-

That the update on the MTFS as set out in the report of the Cabinet, be noted.)

**N. Rushton
Chairman**

Background Papers

Report to County Council -18 February 2015 – Medium Term Financial Strategy
2015/16 to 2018/19

<http://ow.ly/RDYfR>

Report to Cabinet – 6 May 2014 – County Council Strategic Plan and Transformation
Programme

<http://ow.ly/RDYnE>

Summer Budget 2015

<https://www.gov.uk/government/topical-events/budget-july-2015>