Leicestershire County Council

# CABINET – 16TH SEPTEMBER 2016

# MEDIUM TERM FINANCIAL STRATEGY UPDATE

# REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

# PART A

## Purpose of the Report

1. The purpose of this report is to explain the overall financial position faced by the County Council and the approach to updating the current Medium Term Financial Strategy (MTFS) and to seek agreement for a letter to be sent to the Secretary of State for Communities and Local Government to accept a four-year settlement.

## Recommendation

2. The Cabinet is recommended to:

   a) Note the significant financial challenge faced by the County Council;

   b) Note the approach outlined in the report to updating the MTFS;

   c) Agree the letter to be sent to the Secretary of State to accept the four year local government finance settlement.

## Reasons for Recommendation

3. To enable the County Council to continue to develop plans to address the worsening financial position.

4. Accepting a four-year settlement would provide the Council with a degree of certainty as to the minimum funding allocation from the Government which will assist in its financial planning.

**Timetable for Decision (including Scrutiny)**

5. The Cabinet will be asked to approve the draft MTFS for consultation in December 2016. All Overview and Scrutiny Committees and the Scrutiny Commission will consider the MTFS in January 2017, during the consultation period, and the Cabinet will then make a final recommendation to the County Council in February 2017.

**Policy Framework and Previous Decisions**

6. The Medium Term Financial Strategy for 2016/17 to 2019/20 was approved by the County Council in February 2016. Over the autumn and winter of 2016 it will be reviewed and updated before a revised version for 2017/18 to 2020/2021 is considered by the Cabinet, Overview and Scrutiny Committees, and County Council.

**Resource Implications**

7. The financial position faced by the County Council is both serious and extremely challenging. This is particularly so for a low-funded authority such as Leicestershire as room for further savings is limited. The updated MTFS will set out the County Council's response to the financial position.

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

**Circulation under the Local Issues Alert Procedure**

None.

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## PART B

### National Position in the Medium Term

9. There is little if any prospect of austerity budgets coming to an end within the medium term.

10. Shortly before the EU referendum the Institute for Fiscal Studies (IFS) released a report that set out the possible impacts of Brexit. Through the review of various studies that had been undertaken on the consequences of Brexit the IFS concluded that a reduction in GDP of between 2% and 3.5% by 2019 was a good estimate. After including the benefit of reduced budget contributions these GDP declines would lead to the public finances being £20 to £40 billion less healthy than currently predicted.

11. To return public finance to a surplus, by the end of the parliament, the Government would need to implement further spending cuts and/or tax rises. This was considered an unlikely scenario due to the difficulty in achieving this in the time available. For example, cuts to spending on public services and benefits would need to increase by 40% alongside a £5 billion tax increase.

12. The Chancellor has since confirmed that the deficit will be reduced over a longer period and therefore austerity will be extended into the 2020s. Alongside this, it is worth remembering that Local Government is one of the ‘unprotected’ parts of the public sector, making it highly likely that further spending cuts will be required.

### Implications for Leicestershire

13. The current MTFS includes savings of £59m and a gap of £19m over the next four years. An additional year of austerity equates to a saving requirement of circa £20m. The requirement has been as high as £30m in the past, as a consequence of the levels of growth, grant reductions and council tax restrictions.

14. Attention also needs to be given to the services funded by specific grants. These services are also exposed to grant cuts and demand increases, with shortfalls typically needing to be addressed through the County Council’s budget. Examples of areas that are presenting a financial risk include special education need placements and unaccompanied asylum-seeking children.

15. Further financial risk is expected from the significant transfer of responsibilities to local government required to allow 100% business rate retention. Previous transfers have included significant savings requirements.

16. The position is clearly extremely serious. The Leicestershire position is compounded by being the lowest funded county council in the country.

17. On the positive side the new Government could take a less aggressive approach to reducing the deficit and there is a possibility, if remote, that the Council may benefit from the fair funding review. However, it is not suggested that this more optimistic forecast should be relied upon.

**2017 MTFS**

18. The MTFS will be refreshed over the autumn. However, the expectation is that the outcome will be the need to identify new savings of between £30m to £40m to be achieved by 2020/21. Proposals for achieving this will be included in the report to the Cabinet on 13 December 2016.

19. As this will be the seventh austerity budget and savings of £135m have already been achieved the identification of new savings will be very challenging. New savings are likely to require much more radical service transformation.

**Planning Framework**

20. The next two key Government announcements will be:

- The Spending Review in November/December. 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. However, a four-year settlement was announced earlier this year and there is no suggestion this will change.

The MTFS review will be informed by these announcements.

21. The broad MTFS timetable is:

- September to November 2016 – Refresh growth and savings including consideration by Lead Members.
- December 2016 – receipt of the Local Government Finance Settlement.
- December 2016 - the Cabinet requested to approve the draft MTFS for consultation.
- January 2017 – consultation on the draft MTFS, including Overview and Scrutiny Committees and the Scrutiny Commission.
- February – the Cabinet requested to approve the final draft MTFS for submission to the County Council.
- February 2017 – County Council requested to approve the MTFS for 2017/18 to 2020/21.

## Four-year Settlement

22. In December 2015 the Secretary of State for the Department for Communities and Local Government announced the four-year settlement. Local authorities could have a degree of certainty over government funding over the next four years by formally accepting the offer. The Government has since clarified that it is a '…commitment to provide minimum allocations..' To accept the four year settlement the Council is required to submit a four year efficiency plan. The Medium Term Financial Strategy fulfils this role.

23. The County Council has long argued that it is under-funded. On the basis that the Government's commitment is to provide *minimum* allocations it is recommended that the offer is accepted. A proposed letter to the Secretary of State is appended to this report. It is noted that failure to accept the offer will leave the Council open to the vagaries of annual settlements against the backdrop of a period within which public sector finances are likely to come under further pressure.

24. It is worth noting the Government's offer is in itself caveated and could change as a result of unforeseen events.

## Equality and Human Rights Implications

25. There are no direct implications arising from this report.

## Appendix

Letter to the Secretary of State

## Background Papers

Report to County Council on 17 February 2016 – "Medium Term Financial Strategy 2015/16 to 2018/19"
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