



CABINET – 15TH SEPTEMBER 2017

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, the approach to updating the current Medium Term Financial Strategy (MTFS), and to advise members of a recent announcement by the Government with regard to 100% business rates retention pilots for 2018/19.

Recommendations

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) Authorise the Director of Finance following consultation with the Lead Member for Corporate Resources to -
 - (i) submit an application for the County Council to participate in the 100% business rates retention pilot programme for 2018/19;
 - (ii) if the County Council's application is successful, take all action necessary to proceed with the pilot.

Reasons for Recommendation

3. To inform members of the County Council's intended approach to develop plans to address the worsening financial position.
4. To enable an application to be made to participate in the business rates retention pilot and, if successful, to ensure that arrangements are put in place at the earliest opportunity.

Timetable for Decision (including Scrutiny)

5. The Cabinet will be asked to approve the draft MTFS for consultation in December 2017. All Overview and Scrutiny Committees and the Scrutiny Commission will consider the MTFS in late January 2018 and the Cabinet will then make a final recommendation to the County Council in February 2018. DCLG have requested applications for 100% business rates retention pilots to be submitted by 27 October 2017.

Policy Framework and Previous Decisions

6. The Medium Term Financial Strategy for 2017/18 to 2020/21 was approved by the County Council in February 2017. Over the autumn and winter of 2017 it will be reviewed and updated before a revised version for 2018/19 to 2021/22 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 (2018/19 to 2021/22) will set out the County Council's response to the financial position.
8. It is very unlikely that the council, when it rolls forward the MTFS into 2021/22, 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.
9. The Director of Law and Governance has been consulted on the content of this report.

Circulation under the Local Issues Alert Procedure

A copy of this report has been sent to all Members of the Council under the Members' News in Brief service.

Officer to Contact

Chris Tambini
 Director of Finance
 Corporate Resources Department
 Telephone: 0116 305 6199
Chris.Tambini@leics.gov.uk

PART B

National Position in the Medium Term

10. There is little if any prospect of austerity budgets coming to an end within the medium term.
11. The chancellor confirmed in 2016 that the deficit would be reduced over a longer period and therefore austerity would 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. Since the budget in 2016 the forecast national budget deficit for 2017/18 is expected to be £58.3bn, £19.5bn higher than anticipated.
12. As noted below, the chancellor's budget due in November 2017 may give a clearer picture of the Government's intentions and of Local Government's share of further spending cuts.
13. An update on the Government's efficiency review, which was announced at Budget 2016, targeting £3.5 billion of savings in 2019/20 is expected in the autumn.

Leicestershire Position

14. The current MTFS includes savings of £43m and a gap of £23m over the four years to 2020/21. An additional year of austerity causes a financial gap of c£15-£20m. The requirement has been as high as £30m in the past, as a consequence of the levels of growth, grant reductions and increases in the National Living Wage.
15. Since the current MTFS was approved by the County Council in February 2017 there have been factors that will have a positive impact on the medium term position, but a more significant list of those with a negative impact. These are set out below;

Positive

- Additional Adult Social Care Funding of £19.8m over 2017/18 to 2019/20.
- Greater certainty over the improved Better Care Fund £16.9m over 2018/19 to 2019/20.
- Ongoing implications of previous years underspends especially in adult social Care.
- Progression of initiatives identified as Savings Under Development into deliverable schemes, albeit not at a sufficient level to close the financial gap.

Negative

- Children's Social Care overspend and additional investment in the Ofsted action plan. This could require growth of £5m in 2018/19 and more in later years. Reports elsewhere on the agenda explain these issues in more detail.
 - Ash dieback – costs could be in region of £5m, further work is being undertaken to develop an approach and to quantify the costs.
 - Potential pressure to breach the pay sector pay cap. Each 1% increase in pay equates to £1.5m.
 - Uncertainty on government savings intentions. There is an additional £3.5bn required from the government's efficiency review and it is unclear how some of the new spending commitments entered into by the government will be funded.
 - District council's will not review Council Tax collection. We expect some benefit from raising the issue, but not to the extent that a full review would deliver.
16. Attention will need 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 LCC budget.
17. The position is clearly extremely serious. The Leicestershire position is compounded by being the lowest funded county council in the country. The County Council continues to press for the development of a fairer system of allocation for local government funding.

2018 MTFS

18. The MTFS will be refreshed over the autumn. However, the expectation is that with a further year of austerity, additional pressures and the current savings gap the outcome will be an increased financial gap of £30m to £40m to be closed by 2021/22.
19. As this will be the eighth austerity budget and savings of £177m to the end of 2017/18 have already been achieved, the identification of new savings will be very challenging. New savings are likely to require much more radical service transformation and may have to include the reduction or deletion of services.

Planning Framework

20. The next two key Government announcements will be;
- The Budget in late November. This may 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 in 2016 for the period 2016/17 to 2019/20 and it is unlikely this will change, other than regarding funding changes for Adult Social Care incorporated in the settlement announced earlier in 2017.

The MTFS will be reviewed during the autumn and informed by these announcements.

21. The broad MTFS time table is:

- September to November 2017– Refresh growth and savings including consideration by Lead Members.
- December 2017 –receipt of the Local Government Finance Settlement
- December 2017 – the Cabinet is requested to approve the draft MTFS for consultation.
- January 2018 – consultation on the draft MTFS, including Overview and Scrutiny Committees and the Scrutiny Commission.
- February 2018 – the Cabinet is requested to approve the final draft MTFS for submission to the County Council.
- February 2018 – County Council is requested to approve the MTFS for 2018/19 to 2021/22.

Business Rates Retention Pilots 2018/19

22. On 1 September 2017 the Department for Communities and Local Government (DCLG) announced plans to extend their 100% business rates retention pilot programme to all local authorities for 2018/19. There are five current 100% pilots which have been in operation since 1 April 2017.
23. 100% pilots retain all locally-collected business rates. The creation of the pilots will be “fiscally neutral” at baseline, but authorities will gain from retaining 100% of growth in their business rates income, above baseline growth. The safety net threshold for the pilots will be set at 97% of the baseline funding (instead of 92.5% as now), however it is likely that the ‘no detriment’ clause included in the first wave of pilots will no longer be available.
24. Not all bids may be successful and there is likely to be a competitive process. Applications from two tier areas and those with a current pooling arrangement (as in Leicester and Leicestershire) are being encouraged.
25. To be accepted as a pilot for 2018/19, agreement must be secured locally from all relevant authorities to be designated as a pool for 2018/19 and set out proposals for using any additional business rates income. Applications are required to be submitted by 27 October 2017, with a decision on the successful pilots to be announced in December.
26. Modelling will be undertaken to review options and where appropriate a bid submitted to DCLG. Given the timescales it is recommended that delegation is given to the Director of Finance, following consultation with the Lead Member for Corporate Resources, to submit an application and if successful to enter a pilot for 100% business rates retention in 2018/19.

Equality and Human Rights Implications

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

Background Papers

Report to County Council -22 February 2017 – Medium Term Financial Strategy
2017/18 to 2019/20

<http://politics.leics.gov.uk/documents/s126527/MTFS%202017%20-2021.pdf>