



CABINET – 14TH SEPTEMBER 2018

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 approach to updating the current Medium Term Financial Strategy (MTFS), to set out and seek approval of the proposed response to the Technical Consultation on the 2019/20 Local Government Finance Settlement and advise members of the recent Government announcement with regard to 75% business rates retention pilots for 2019/20.

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 Medium Term Financial Strategy;
 - c) Note the updated information regarding Savings under Development, as set out in Appendix A;
 - d) Approve the response to the Technical Consultation on the 2019/20 Local Government Finance Settlement, as set out in Appendix B;
 - e) Authorise the Director of Corporate Resources following consultation with the Lead Member for Corporate Resources for the County Council to:
 - (i) submit an application (as part of a Pool) to participate in the 75% business rates retention pilot programme for 2019/20;
 - (ii) take all action necessary to proceed with the pilot if the application is successful.

Reasons for Recommendation

3. To inform members of the County Council's intended approach to develop plans to address the latest financial position.
4. To respond to the Government consultation on proposals for the 2019/20 Local Government Finance Settlement.

5. To enable an application to be made to participate in the 2019/20 business rates retention pilot and, if successful, to ensure that arrangements are put in place at the earliest opportunity.

Timetable for Decision (including Scrutiny)

6. The Cabinet will be asked to approve the draft MTFS for consultation in December 2018. All Overview and Scrutiny Committees and the Scrutiny Commission will consider the MTFS in late January 2019 and the Cabinet will then make a final recommendation to the County Council in February 2019.
7. The deadline for responses to the technical consultation on the 2019/20 Local Government Settlement is 18th September 2018.
8. The MHCLG has requested applications for 75% business rates retention pilots to be submitted by 25th September 2018.
9. The Scrutiny Commission will consider this report on the on 12th September 2018 and its comments will be reported to the Cabinet.

Policy Framework and Previous Decisions

10. The Medium Term Financial Strategy for 2018/19 to 2021/22 was approved by the County Council in February 2018. Over the autumn and winter of 2018 it will be reviewed and updated.

Resource Implications

11. 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 (2019/20 to 2022/23) will set out the County Council's response to the financial position.
12. It is very unlikely that the council, when it rolls forward the MTFS into 2022/23, 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.
13. The technical consultation on the 2019/20 Local Government Finance Settlement seeks views on a range of issues regarding the 2019/20 Settlement. This includes a proposal to continue to implement the "four year offer", which the County Council and the vast majority of local authorities accepted in 2016, for the period 2016/17 to 2019/20.
14. The consultation outlines proposals regarding reforms to the New Homes Bonus Grant (NHB). The Government diverted funding from NHB to Adult Social Care (ASC) in the 2017/18 Settlement and the draft response urges the Government to continue to make adults and children's social care a priority.
15. The consultation also outlines the Government's proposals regarding the council tax referendum principles for 2019/20, which remain broadly the same as those

which applied in 2018/19. This will allow the County Council to increase core council tax by up to 3% and there will be a “core principle” of increases being less than 3% and a maximum of 1% for the ASC “precept”.

16. The Savings under Development will be reviewed further during the autumn and winter and will be incorporated into the 2019-23 MTFS as appropriate.
17. Modelling of a 75% Business Rates Pilot for the Leicester and Leicestershire Pool shows a gain of around £13.8m for the area, before taking account of any real terms growth. Subject to agreement between the Pool members, that additional income could be used to fund infrastructure linked to housing developments, city and town centre improvements and improved sustainability for services, including social care.
18. 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

19. There is little if any prospect of austerity budgets coming to an end within the medium term. While there has been better recent economic news, the economy remains at a low base, with growth below 2% and the fiscal deficit unlikely to be closed before the mid 2020's. There is the possibility of a recession in the medium term and great uncertainty over the impact of Brexit.
20. Financial pressure exists across the public sector. A decision to boost NHS funding has already been made and spending on services such as Welfare, Education, Defence and Police may also be increased or protected. It is unlikely that Local Government will receive additional funding.
21. There are a growing number of local authorities in financial trouble. Despite low funding, Leicestershire is in a relatively good position due to difficult decisions that have been taken over recent years. However, finding savings to balance growth and income pressures is not sustainable over the longer term.
22. The Government is still not showing a full appreciation of the sector-wide issues facing local government. The, delayed, green paper on Adult Social Care, which is the subject of a separate report on the September Cabinet agenda, is an opportunity for the Government to address one of the most serious issues, but there appears to be little recognition of pressures in children's social care or special educational needs.
23. The Chancellor's budget due in November 2018 may give a clearer picture of the Government's priorities for funding pressures, but is unlikely to be before the Comprehensive Spending Review (CSR) in 2019 that implications for local government are known. There will then be a further period after this before the implications for the County Council are known.

Leicestershire Position

24. The current MTFs includes a savings requirement of £50m over the four years to 2021/22, of which £13m are still to be identified. An additional year of austerity, growth and inflation causes a financial gap of circa £10-£15m. The option to increase Council Tax by a further 1% gives some mitigation but continued savings will be necessary.
25. Since the current MTFs was approved by the County Council in February 2018 there have been factors that will have a positive impact on the medium term position:

Positive

- Potential removal of "negative Revenue Support Grant" (2019/20 £2.1m).
- Potential increase in "core" council tax of 1% in 2019/20 only (circa £3m).
- Corporate Asset Investment Fund (circa £5m towards revenue and capital)
- Additional Business Rates income (£1.2m)

Negative

- Growth set aside for increases in Children’s Social Care may not be sufficient.
 - Uncertainty on Government savings intentions to fund new spend promises e.g. NHS.
 - No details of potential continuation of the Adult Social Care “precept” or referendum limits for 2020/21 and later years.
 - Supporting Leicestershire Families – Government grant funding is expected to cease after 2019/20 (£2.3m). No indication of a continuation has been given.
 - Funding for new school places is not fully covered by Government grant – 23 new schools are required in the medium to long term, depending on the timing of schools an annual shortfall in funding of circa £2m could occur from 2022/23
 - Dedicated Schools Grant (DSG) – increasing pressure on the High Needs block, with a £3.3m overspend forecast. The statutory duty to meet need rests with the local authority and should there be no feasible recovery options costs may fall to the local authority budget.
 - Business Rates Baseline reset, potential loss of up to £3m.
 - Demand on Future Developments contributions continues to outstrip available funding e.g. resource to take a proactive role in maximising opportunities and minimising adverse impacts from High Speed 2 across the county.
26. 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 Council’s budget. The High Needs block is a particular concern.
27. 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.

Future Funding

28. A Comprehensive Spending Review (CSR) is anticipated in 2019, which will provide details of the Government’s overall spending plans for Government Departments for a period from 2020/21 onwards.
29. The CSR will be reflected in the overall total of funding available for Local Government. The provisional Local Government Settlement in December 2019 will be framed within that total and the distribution over individual authorities will reflect the decisions of the Government regarding the Fair Funding and Business Rates reset processes. The County Council should receive a larger slice of the funding cake as a result of Fair Funding but the Settlement is likely to include an element of “damping” and it may take several years before the results are fully reflected.
30. Other Local Government funding reforms may also affect the County Council’s future funding position; the key one is the Government’s intention to change the Business Rates Retention Scheme from 50% to 75%. Details on how this will work, including the grants and services affected, are still scant.

MTFS Refresh

31. The MTFS will be refreshed over the autumn, with a similar approach to that taken in previous years; namely continued investment in organisational change, planning and robust delivery of savings and a realistic allowance for growth. This needs to be done in the context of significant uncertainty ahead that will need to be mitigated by the used of contingencies.
32. A further year of austerity combined with the current savings gap would cause the MTFS shortfall to increase to £20m to £30m by 2022/23.
33. To reduce the shortfall the 2018-22 MTFS included a set of Savings under Development. The savings proposals have been reviewed over the summer and an update on progress is provided in Appendix A.
34. As this will be the ninth austerity budget and savings of £196m, to the end of 2018/19, have already been achieved, the identification of new savings will be very challenging. New savings are likely to require much more radical service transformation.
35. The savings under development and the savings and growth items incorporated in the 2018-22 MTFS, will be reviewed over the autumn and winter as part of the process to produce the draft 2019-23 MTFS.
36. The approach for refreshing the MTFS will be to maintain a strong financial position until the position is clearer on funding reforms and funding of legislation changes.

Planning Framework

37. 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.
38. The broad MTFS timetable is:
 - September to November 2018 – Refresh growth and savings including consideration by Lead Members.
 - December 2018 – the Cabinet is requested to approve the draft MTFS for consultation.
 - December 2018 – receipt of the Local Government Finance Settlement
 - January 2019 – consultation on the draft MTFS, including Overview and Scrutiny Committees and the Scrutiny Commission.

- February 2019 – the Cabinet is requested to approve the final draft MTFs for submission to the County Council.
- February 2019 – County Council is requested to approve the MTFs for 2019/20 to 2022/23.

Technical Consultation – 2019/20 Local Government Finance Settlement

39. On 24 July 2018 the Ministry of Housing, Communities and Local Government (MHCLG) issued a Technical Consultation on the 2019/20 Local Government Finance Settlement. The deadline for responses to the technical consultation is 18th September 2018.
40. The consultation seeks views on a number of issues regarding the 2019/20 Settlement. This includes a proposal to continue to implement the “four year offer”, which the County Council and the vast majority of local authorities accepted in 2016, for the period 2016/17 to 2019/20.
41. The consultation outlines proposals regarding reforms to the New Homes Bonus Grant (NHB). The Government diverted funding from NHB to Adult Social Care (ASC) in the 2017/18 Settlement and the draft response urges the Government to continue to make adults and children’s social care a priority.
42. The consultation also outlines the Government’s proposals regarding the council tax referendum principles for 2019/20, which remain broadly the same as those which applied in 2018/19. There will be a “core principle” of increases being less than 3% (effectively capped at 2.99%) and the ASC “precept” will remain, allowing flexibility to increase the precept by between 1% and 3% in 2019/20, provided that increases do not exceed 6% between 2017/18 and 2019/20. The County Council increased its ASC precept by 2% in 2017/18 and by 3% in 2018/19 and current plans are based on further increase of 1% in 2019/20.
43. The proposed response is included in Appendix B.

Business Rates Retention Pilots 2019/20

44. On 24 July 2018 MHCLG issued an invitation to local authorities to submit proposals to pilot 75% Business rates retention in 2019/20. There are five 100% pilots which have been in operation since 1 April 2017 and a further ten 100% pilots were established from 1 April 2018.
45. The Leicester and Leicestershire Business Rates Pool submitted a bid in October 2017 to be a pilot area from 1 April 2018 but that bid was unsuccessful.
46. The 2019/20 pilots will retain 75% of locally-collected business rates, rather than 50% under the existing retention scheme. The creation of the pilots will be “fiscally neutral” at baseline, but authorities will gain from retaining 75% of growth in their business rates income, above baseline. The safety net threshold for the pilots will be set at 95% of the baseline funding (instead of 92.5% as now), however the ‘no detriment’ clause included in the first two waves of pilots will no longer be available.

47. Not all bids may be successful and there is likely to be a competitive process with existing pilots also able to apply.
48. To be accepted as a pilot for 2019/20, agreement must be secured locally from all relevant authorities to be designated as a pool for 2019/20 and set out proposals for using any additional business rates income. Applications are required to be submitted by 25 September 2018, with a decision on the successful pilots to be announced in December 2018.
49. Modelling is being undertaken to review options and preliminary discussions have been held with finance officers from the Pool member authorities regarding the submission of a pilot bid. Given the timescales the Cabinet is recommended to authorise the Director of Corporate Resources following consultation with the Lead Member for Corporate Resources, to submit an application and if successful to enter a pilot for 75% business rates retention in 2019/20.

Equality and Human Rights Implications

50. There are no equality or human rights implications arising from this report.

Background Papers

Report to County Council -21 February 2018 – Medium Term Financial Strategy 2018/19 to 2021/22

<http://politics.leics.gov.uk/documents/s135701/MTFS%20report.pdf>

MHCLG - The 2019-20 Local Government Finance Settlement – Technical Consultation

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728573/Settlement_Technical_Consultation_2019-20.pdf

MHCLG – Invitation to Local Authorities in England to Pilot 75% Business Rates Retention in 2019/20

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Appendices

Appendix A – Savings under Development

Appendix B – Response to the Technical Consultation on the 2019/20 Local Government Finance Settlement