



CABINET – 13TH SEPTEMBER 2019

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).

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 the Appendix to the report.

Reasons for Recommendation

3. To inform members of the intended approach to the development of plans to address the latest financial position.

Timetable for Decision (including Scrutiny)

4. The Cabinet will be asked to approve the draft MTFS for consultation in December 2019. All Overview and Scrutiny Committees and the Scrutiny Commission will consider the MTFS in late January 2020 and the Cabinet will then make a final recommendation to the County Council in February 2020.
5. The Scrutiny Commission will consider a report on the matter at its meeting on 4th September 2019 and its comments will be reported to the Cabinet.

Policy Framework and Previous Decisions

6. The Medium Term Financial Strategy for 2019/20 to 2022/23 was approved by the County Council in February 2019. Over the autumn and winter of 2019 the MTFS will be reviewed and updated.

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 (2020/21 to 2023/24) will set out the County Council's response to the financial position.
8. Based on current information, it is very unlikely that the County Council, when it rolls forward the MTFS into 2023/24, 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 Savings under Development will be reviewed further during the autumn and winter and will be incorporated into the 2020-24 MTFS as appropriate.
10. The assumptions around savings deliverability, resources available and expected future funding gaps is currently being reviewed. In light of the outcome of recent internal spending reviews alongside latest information emerging from the Government.
11. The Chancellor of the Exchequer announced on the 8th August 2019 that there will only be a one-year spending round for 2020/21 (expected in September 2019) with a multi - year spending review being delayed until 2020.
12. This will obviously lead to greater uncertainty relating to later years and further compounded by the fact that whilst The Leicester and Leicestershire Business Rates Pool was successful in bidding to be a 75% Business Rates Pilot for 2019/20, the position regarding the Business Rates system in 2020/21 is currently unclear.
13. The Director of Law and Governance has been consulted on the content of this report.

Circulation under the Local Issues Alert Procedure

None.

Officer 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

National Position in the Medium Term

14. There is very little clear evidence that austerity budgets for Local Government are coming to an end within the medium term. While the out-going and new Prime Ministers have made a series of announcements regarding increased public expenditure, there is a lack of detail as to how that money will impact on local authorities in any meaningful way.
15. The UK economy contracted by 0.2% between April and June 2019, its worst performance since 2012, raising fears of a recession. The unemployment rate in the same period increased slightly by 0.1%, against the downward trend in recent years. Great uncertainty remains over the economic impact of Brexit.
16. 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.
17. The Government has shown some indication that it will increase public spending and investment in appreciation of the sector-wide issues facing local government. The delayed green paper on Adult Social Care has now potentially been abandoned by the Prime Minister in order to encourage more urgency into the process. The Government is now 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.
18. The new Chancellor announced on 8th August 2019 that a Spending Review (SR) would be issued in September. It will cover one year only, 2020/21, and is likely to include significant one-off spending. It had been anticipated that a multi-year Local Government Finance Settlement would be issued, reflecting the outcome of the Fair Funding Review and changes to the Business Rates Retention Scheme, which would have aided medium term planning. According to HM Treasury the SR "Will support the commitments made by the Prime Minister since he came to office including the recruitment of 20,000 extra police officers and his ambition for additional funding for schools, as well as delivering the government's promises on the NHS".
19. Given the one year nature of the spending round and Brexit related political uncertainty it is entirely possible that the local government finance settlement and specific grants announcements will not take place until very late in 2019 or even early in 2020. The level of funding uncertainty has not been higher in the last 10 years.

Leicestershire Position

20. The current MTFs includes a savings requirement of £74m over the four years to 2022/23, of which £20m are still to be identified. An additional year of austerity, growth and inflation will increase the financial gap by a further circa £10-£20m.
21. At this stage there are a number of potential issues which may impact on the overall position:

Positive

- Potential removal of “negative Revenue Support Grant” (RSG). In 2019/20 the Government wrote off potential “negative RSG”, benefitting the County Council by £2.1m. The MTFs assumes that “negative RSG” will be applied in later years, with an impact of around £11m each year.
- Potential increase in “core” council tax. In 2019/20 the Government allowed an extra 1% increase (circa £3m). Currently the Government makes any such changes on a year-by-year basis. The MTFs assumes only the previous allowance of a 1.99% increase each year.
- The Adult Social Care Precept allowed for increases of a total of 8% spread over the four years 2016/17 to 2019/20. It is not known if the government might extend this mechanism to allow for further increases in 2020/21 and later years. (Each 1% would generate circa £3m.)
- Increased council tax and business rates collection rates. The Districts are working with Leicester City and Rutland Councils to identify possible ways of improving the levels of collection. A review of Single Person Discounts is also being undertaken. (Each 0.1% change in council tax collection rate equates to around £0.3m for the County Council.)

Negative

- Growth set aside for increases in Children’s Social Care and other service areas may not be sufficient.
- Inflation - there is uncertainty over future pay awards, the impact of the National Living Wage and other inflation pressures, especially around social care fees. Indications from Departments are that current assumptions on inflation rates may need to be increased.
- 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 primary and two new secondary schools are expected to be built in Leicestershire 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.
- Business Rates Baseline reset, potential loss of up to £3m.
- Capital Programme - likely increases in pressure on the capital programme to fund infrastructure costs, linked to the expected increase in housing infrastructure around the County, cost increases (such as Zouch Bridge) and the limited remaining resources available to fund future developments.

22. 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.
23. 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.

Special Education Needs (SEN)

24. The County Council, along with the majority of upper tier authorities, faces a growing funding crisis for services for children with SEN. An overspend of £6m on the schools budget is forecast in 2019/20 and this pressure will increase in later years before the High Needs Block Development Plan has an impact.
25. The latest forecast shows increasing costs from 2020/21 due to the local authority having to fund the revenue costs of commissioning new places and delays in the achievement of planned savings. Savings of circa £20m are still anticipated but as these are linked to the development of additional provision, pupil transition points and the point at which parents submit their preference for provision, it is not expected that the full savings will be delivered until 2024/25, two years later than originally estimated.
26. As a result, the cumulative funding gap is expected to grow to £27m before it starts to reduce, requiring the timescale for the recovery plan to be extended as set out in the summary below:

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	£000	£000	£000	£000	£000	£000	£000
High Needs DSG	-68.659	-68.659	-68.659	-68.659	-68.659	-68.659	-68.659
Estimated operational expenditure	72.242	78.654	82.156	84.922	84.922	84.922	84.922
Estimated project expenditure	1.440	1.092	0.299	0.000	0.000	0.000	0.000
Annual funding gap – pre Development Plan Actions	5.023	11.087	13.796	16.263	16.263	16.263	16.263
Total estimated savings	-0.275	-3.106	-8.190	-13.523	-17.283	-19.640	-19.728
Total cost of commissioning new units & special schools	1.352	3.669	1.061	0.254	0.000	0.000	0.000
Annual funding gap – funded from Reserve	6.100	11.649	6.666	2.994	-1.020	-3.377	-3.465
DSG deficit	0.079						
Cumulative funding gap – High Needs deficit	6.179	17.829	24.495	27.489	26.468	23.091	19.626

27. Predicting the number and costs of Education, Health and Care Plans (EHCP's) is complex therefore a number of assumptions have been built into the forecast. It is anticipated that expenditure will plateau after 2022/23 as the number of children and young people requiring independent provision reduces due to local provision being in place. Savings are estimated as being the difference between the average current unit cost of provision and the average cost in the new provision.

28. Given the increasing pressure on this service the High Needs Block Development Plan, previously approved by the Cabinet on the 18th December 2018 has been updated. Financially the position is dynamic with costs changing as pupils enter, exit and change provision, this aspect of the plan will be updated on a monthly basis.
29. The SEN services that can be funded through High Needs Dedicated Schools Grant (DSG) are defined by Government. Within these confines the Council is putting changes in place that aim to bring expenditure back in line with the grant. The High Needs Development Plan also emphasises the importance of lobbying Government and local MPs as the only way a long-term sustainable system can operate is if the current approach is redesigned and adequately funded.
30. Cost pressures are not isolated to expenditure areas that can be funded by the High Needs DSG. Related transport cost have been increasing by in excess of £1m each year and the assessment service is growing to meet demand. These areas must be funded from the main County Council budget.
31. The Cabinet, the Scrutiny Commission and the Schools Forum will be updated regularly on the implementation of the High Needs Block Development Plan as it is the most significant pressure being faced by the County Council.
32. In addition, there are also pressures on the funding of SEND projects within the four year Children and Families Services capital programme to deliver the approved schemes within the approved budgets and the need to consider options to expand local specialist provision which may require additional capital. These issues will be reviewed as part of the MTFS refresh for 2020-24.

Other Future Funding Issues

33. Whilst there are indications that the County Council may benefit from changes arising from the fair funding review (and initial indications are that many of the features that the County Council has proposed through its Fair Funding campaign are being reflected in the Government's latest thinking), given the delay to the issuing of a full multi-year Comprehensive Spending Review, it is also anticipated that the results of the Fair Funding Review will also be delayed until at least 2020/21. Furthermore, any changes that are made are likely to include an element of "damping" and it may take several years before the results are fully reflected.
34. Other Local Government funding reforms are also likely to be delayed - 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 relatively limited.
35. Proposals are currently being developed around dealing with the impact of climate change, a matter which is subject to a separate report on the September Cabinet agenda. There will be a need for some investment which is currently being assessed and quantified.

MTFS Refresh

36. 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. This needs to be done in the context of significant uncertainty ahead that may need to be mitigated by the use of contingencies.
37. As this will be the tenth austerity budget and savings of £206m (excluding Dedicated Schools Grant), to the end of 2019/20, have already been achieved, the identification of new savings will be very challenging. New savings are likely to require much more radical service transformation.
38. A further year of austerity combined with the current savings gap would cause the MTFS shortfall of £20m to potentially increase by a further £10m-£20m by 2023/24.
39. To reduce the shortfall the 2019-23 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 the Appendix.
40. The savings under development and the savings and growth items incorporated in the 2019-23 MTFS will be reviewed over the autumn and winter as part of the process to produce the draft 2020-24 MTFS.
41. Within the existing MTFS there is a savings target of £4m in 2020/21 rising to £8m in 2022/23 for productivity and efficiency measures. This will need to be increased and allocated as a target to each Department as part of the MTFS refresh.
42. The main objective for refreshing the MTFS will be to maintain a 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. This year the budget will reflect the outcome of the detailed public consultation conducted over the Summer.

Planning Framework

43. The next three key Government announcements will be;
 - One-year Spending Round in September.
 - Budget, anticipated in November.
 - Local Government Finance Settlement expected mid/late December. Although there are clear risks that will result in a later settlement.
44. The broad MTFS timetable is:
 - September to November 2019 – Refresh growth and savings including consideration by Lead Members.
 - November 2019 – results of public consultation exercise considered and overarching EHRIA undertaken.

- December 2019 – the Cabinet is requested to approve the draft MTFS for consultation taking into account the outcome of the public consultation.
- December 2019 – receipt of the Local Government Finance Settlement
- January 2020 – consultation on the draft MTFS, including Overview and Scrutiny Committees and the Scrutiny Commission.
- February 2020 – the Cabinet is requested to approve the final draft MTFS for submission to the County Council.
- February 2020 – County Council is requested to approve the MTFS for 2020/21 to 2023/24.

Business Rates – 75% Pilot and Pooling

45. The Leicester and Leicestershire Business Rates Pool was successful in bidding to be a 75% Business Rates Pilot for 2019/20. Forecasts show a gain of around £14m to £15m. The additional income will be used by the City Council, District Councils and the County Council to fund improved sustainability for services, including social care, and infrastructure linked to housing developments, city and town centre improvements.
46. In addition, the Pool is forecast to generate a further surplus of £9m in 2019/20, to be provided to the Leicester and Leicestershire Enterprise Partnership (LLEP) for investment in the wider sub-regional area.
47. The position regarding the Business Rates system in 2020/21 is currently unclear. It appears likely that any major changes to the system will be deferred until 2021/22. At this stage it is unclear as to whether the existing Pilots might continue into 2020/21.

Equality and Human Rights Implications

48. Departments will complete Equality and Human Rights Impact Assessments (EHRIA) on the 2020-24 four-year MTFS as detailed proposals are developed. A review of the overall impact of the proposals will also be undertaken as part of the MTFS to ensure any cumulative impacts on protected groups are identified.

Background Papers

Report to County Council -20 February 2019 – Medium Term Financial Strategy 2019/20 to 2022/23

<http://politics.leics.gov.uk/documents/s144416/Report%20of%20the%20Cabinet%20-%20MTFS.pdf>

<http://politics.leics.gov.uk/documents/s144417/MTFS%2019-23%20-%20Cab%208-2-19%20v4%20final.pdf>

Appendix

Appendix – Savings under Development.

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