



## **CABINET 18 SEPTEMBER 2020**

### **MEDIUM TERM FINANCIAL STRATEGY - LATEST POSITION**

### **REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

#### **PART A**

##### **Purpose of the Report**

1. The purpose of this report is to provide members with an update on the 2020/21 revenue budget and capital programme monitoring position as at the end of period 4 (the end of July), to obtain approval to changes to the previously agreed 2020-24 capital programme and agree the approach to updating the Medium Term Financial Strategy (MTFS) for 2021 to 2025.

##### **Recommendation**

2. The Cabinet is recommended to:
  - a) Note the latest position of the 2020/21 revenue budget and capital programme as at the end of July 2020 and the effect of Covid-19;
  - b) Approve the changes to the 2020-24 capital programme as set out in the report;
  - c) Note the approach outlined in the report to updating the Medium Term Financial Strategy.

##### **Reasons for Recommendation**

3. To inform members of the intended approach to the development of plans to address the latest financial position.
4. To seek agreement to the revised capital programme for 2020-24 which has required amendment as a result of the Covid-19 pandemic.

##### **Timetable for Decision (including Scrutiny)**

5. The Scrutiny Commission will consider this report on 14<sup>th</sup> September 2020 and its comments will be reported to the Cabinet.
6. The Cabinet will be asked to approve the draft MTFS 2021 to 2025 for consultation in December 2020. All Overview and Scrutiny Committees and the Scrutiny Commission will consider the draft MTFS in late January 2021 and the Cabinet will then make a final recommendation to the County Council in February 2021.

##### **Policy Framework and Previous Decisions**

7. The Medium Term Financial Strategy for 2020/21 to 2023/24 was approved by the County Council on 19th February 2020. Over the autumn and winter of 2020 the MTFS will be reviewed and updated.
8. Regular reports have been provided to the Cabinet on the overall financial position.

### **Resource Implications**

9. The financial position faced by the County Council is extremely serious and challenging. The current MTFS anticipated a funding gap of £39m by 2023/24 but the additional pressures from Covid-19 will increase that gap significantly. This is a particularly difficult situation for a low-funded authority such as Leicestershire as room for further savings is limited.
10. Financial reporting to the Cabinet this year has focused on the large and detrimental impact of Covid-19. The latest return to Government shows an impact, before grants and interventions, approaching £90m for this financial year alone. This figure is a combination of the impact on County Council services (e.g. PPE); County Council support paid for by partner organisations (e.g. early discharge of patients by Health services); and County Council support for Government initiatives (e.g. Test and Trace).
11. The size of the financial impact, continually changing national position and dependence on the Government's support exemplifies the difficulty making a definitive estimate of the impact upon the County Council. The County Council's financial position is further complicated by the pressures that pre-dated Covid-19, the local interventions to reduce costs and the usual budget variances that are generated. This report pulls together the overall financial position for the first time. With a significant adverse variance being reported the intention is to continue to identify interventions and press the Government for further support.
12. Allowing for Government grants, the latest estimate of the effect of Covid-19 is an additional net cost of £20m in 2020/21. Mitigations of £2m have been identified reducing the County Council's forecast overspend to £18m. This is a material and welcome improvement to the £28m reported in June. If it can be sustained the use of the General Fund will be avoided. Maintaining the General Fund would be a significant milestone as the requirement to replenish in 2021/22 will not be required.
13. If a sustained return to the national lockdowns experienced early this year is required significant financial pressure would be felt. Due to the national financial position it is likely that Government support would be reduced, pushing a significant number of local authorities into financial distress. The Government's own estimate is that 5% of all councils are at high risk of financial failure, this County Council is not one of them.
14. Even if further lockdowns are not experienced it is vital that the County Council continues to reduce the financial gap in the current financial year, to avoid an impossible challenge building up in future years. The financial difficulties experienced pre-covid, relating to demand for services, have not gone away and the mitigations have been disrupted by the crisis. Additional financial pressures are expected to continue after the current financial year due to reduced council tax and business rates

income, a continuation of costs to maintain infection control and the economic impact upon suppliers who may request further support, for example bus operators. The Government is unlikely to be as sympathetic to Councils' financial plight in future years.

15. The key mitigations taking place to reduce the overspend are:

- Exploit Government schemes such as Furlough
- Contain, where possible, the costs relating to the covid crisis
- Re-prioritise discretionary spend
- Implement controls to limit non-essential expenditure
- Identify new savings and maximise existing.

16. Based on current information, it is very unlikely that the County Council, when it rolls forward the MTFs into 2024/25, 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. The financial situation also requires the Government to deal with the structural national issues such as funding for social care and the relentless growth of demand for Special Educational Needs and Disabilities (SEND) services.

17. 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**

18. Financial monitoring in the current financial year consists of three streams:
- The direct adverse implication of the Covid crisis, which is reported to Government
  - Mitigations of financial pressures
  - Budget variances that arise, which do not relate to the Covid crisis.
19. The difference between these three categories is not perfectly defined and can change, as Government 'refines' its approach to capturing information.

### **COVID-19 Financial Impact / Government Return**

20. Local authorities have been required to submit financial returns to the Government on a monthly basis detailing their assessments of the financial impact of Covid-19.
21. The latest estimate of net additional costs due to Covid-19 for the current year (2020/21) is £18m after government grant support. The position has improved since the last report to the Cabinet in June 2020 which was based on the position at the end of May and reported a net estimated cost of £28m.
22. The main changes are:
- General government grant £4m (3<sup>rd</sup> tranche to an overall total of £31m)
  - Reduction in School transport costs and notification of specific Covid-19 transport grants, total £8m – receipt in early July of government guidance significantly reducing the need for additional bus services to allow social distancing.
  - Revised estimate of Social Care income £2m – revised for latest levels of demand and NHS income for service users discharged from hospital.
  - Government's Job Retention Scheme by furloughing staff, £2m.
  - Offset by an increased estimate of Council Tax and Business Rate loss of income, £5m.

### **Government Support**

23. The Government continues its approach of preferring grants with conditions. The main one announced recently is the income compensation scheme for lost sales, fees and charges. After a deductible of 5% of budgeted sales, fees and charges the scheme will compensate Councils for 75p in every pound of relevant loss thereafter. An initial estimate has been made of £1.9m. This has not yet been included in the above estimates while further detailed work is undertaken.
24. A summary of the grants applicable to the County Council relating to Covid-19 are summarised in the table below:

Grant	County Council Allocation	National share	Conditions	Use
Covid-19 Funding (1)	£15.1m	0.9%	None	Reduce financial deficit
Covid-19 Funding (2)	£12.5m	0.8%	None	Reduce financial deficit
Covid-19 Funding (3)	£3.7m	0.8%	None	Reduce financial deficit
Infection Control	£6.7m	1.1%	Yes + clawback	Pass to providers for transmission reduction measures
Test and Trace	£2.3m	0.8%	Yes + clawback	Mitigation against and management of local outbreaks of COVID-19
COVID-19 Bus Service Support Grant	£0.3m	1.8%	Yes + clawback	Support for bus services; subject to further claims for funding
Emergency Assistance Grant	£0.5m	0.9%	Subject to monitoring & evaluation	Support those struggling to afford food and other essentials
Home to School and College Transport	£0.5m	1.2%	Subject to retrospective claim	New funding for additional dedicated school and college transport capacity (to 1 <sup>st</sup> half term)
Travel Demand Management	£0.1m			
Local lockdown	£0.2m		Yes	Mitigate costs of implementing local lockdown and reducing infection levels.

25. Grants to partner organisations can have a significant impact on the County Council. A prime example is funding to Health for hospital discharges. With common service users receiving associated support, funding shortfalls in Health can create cost pressures for the County Council. Similarly, there is a significant benefit when funding is forthcoming, even if this is just removing potential uncertainty. The Government announced £588m of hospital discharge funding in August aiming to “provide care and support for people in their own homes or in care homes for six weeks after discharge.”
26. The County Council has continued to make claims from the Government’s furlough scheme. An estimated benefit of £2m has been included in the latest monitoring. The position will not be confirmed until the scheme ends in October due to the timing of service opening and HMRC’s retrospective auditing of the scheme.

### **Uncertainties**

27. The range of uncertainties being faced is far higher than in a usual year, including:
- Time until normality returns and impact of further lockdowns
  - National Living Wage annual increases
  - DfE commitment to covering SEND costs
  - Economic influences on service demand and service contributions
  - Tax income (Referendum limits and ability to pay)
  - Commercial / Corporate Asset Investment Fund income
  - Level of pent-up demand
  - Expectations of service provision changed, such as standard of infection control
  - Potential for fundamental change in the Care Home market
28. The financial implications will be long lasting with income losses linked to the economy. The Office for Budget Responsibility has forecast that there will be two years of GDP growth lost and rising unemployment as a result of Covid-19. This will

affect the level of council tax increase and the ability of people to pay council tax. In addition, there may also be some losses on business rates income, but this will be on a much smaller scale.

### **Financial Position**

29. Based on the information available and the issues raised above the financial gap is estimated to increase over the MTFS as below:

	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
Original Gap	£0m	£0m	£19m	£39m
Revised Gap	£18m	£20m	£30m	£50m

30. Providing no significant adverse impact of the uncertainties above, the position in the current year is expected to be reduced through a combination of the following:

- Controls targeting non-essential expenditure
- Recovery planning incorporates cost control to contain the costs relating to the covid crisis
- Exploit Government schemes such as: furlough, income compensation and the potential Council Tax underwriting (expected in the CSR)
- Re-prioritise discretionary spend, primarily the capital programme, covered later in the report.

31. The approach to later years is included in the section on the approach to the new MTFS 2021-25 later in the report.

### **2020/21 REVENUE BUDGET MONITORING – PERIOD 4**

32. Overall a net overspend of £18m is forecast. This comprises £20m additional costs due to Covid-19 and mitigations of £2m.

33. There is a high level of uncertainty in the estimates when forecasting for the full year. Once cost control and other measures are introduced this position is expected to improve.

34. The position is summarised below and set out in more detail in Appendix A.

	<b>Updated Budget</b>	<b>Projected Outturn</b>	<b>Difference from Updated Budget</b>	
	£000	£000	£000	%
Schools Budget – Schools and Early Years	0	-790	-790	
Schools Budget – High Needs	0	10,710	10,710	
Net Total	0	9,920	9,920	
Children and Family Services (Other)	81,045	84,735	3,690	4.6
Adults and Communities	149,300	158,020	8,720	5.8
Public Health	-665	-665	0	0.0
Environment and Transport	80,676	83,201	2,525	3.1

*continued -*

	Updated Budget	Projected Outturn	Difference from Updated Budget	
	£000	£000	£000	%
Chief Executive's	11,805	13,565	1,760	14.9
Corporate Resources	32,869	39,569	6,700	20.4
Capital Financing	43,100	45,900	2,800	6.5
Other Areas	13,975	14,985	1,010	7.2
Central grants/other income	-33,241	-30,741	2,500	-7.5
Covid-19 grant	0	-31,330	-31,330	n/a
Contribution to General Fund	11,000	11,000	0	0.0
Central Costs of Covid-19	0	5,500	5,500	n/a
<b>Total</b>	<b>389,864</b>	<b>393,739</b>	<b>3,875</b>	<b>1.0</b>
<b>Funding</b>	<b>-389,864</b>	<b>-375,304</b>	<b>14,560</b>	<b>-3.7</b>
<b>Net Total</b>	<b>0</b>	<b>18,435</b>	<b>18,435</b>	

35. Overall the position is in line with the net additional costs of Covid-19. However, this comprises other non Covid-19 related variances. The main areas are:

- Adults and Communities, £2m net underspend - on staffing and overhead budgets due to managing level of staffing vacancies across the department. There may also be additional savings from implementation of the departmental target operating model. These are being reviewed and will be included in the refresh of the MTFs.
- Business Rates Income, £0.4m net underspend – updated estimate per formal district council estimates, due to Government support replacing a significant proportion of the payments businesses are required to make.
- Financing of Capital, £2m – demand for SEND places is not reducing.
- Contingency for Inflation, £0.8m – recent pay award above estimates.

36. A more detailed explanation on these variances will be reported in the next monitoring report to the Cabinet for period 6.

#### Children and Family Services – Schools Budget

37. High Needs Dedicated Schools Grant is forecast to be £10.7m overspent at the end of 2020/21 in line with the £10.5m estimated in year overspend on DSG included in the MTFs. This is expected to reduce by an underspend on the Schools Block from schools growth which will again be retained for meeting the costs of commissioning school places in future years. This cannot be confirmed until the autumn when confirmation of budgets for new and growing schools are confirmed by the DfE.

38. By the end of 2020/21 the estimated accumulated High Needs deficit is forecast to be £18m. The Children and Family Services Department is investigating a number of actions that could over the course of the MTFs reduce demand and therefore the overall deficit through the High Needs Development Plan.

39. With demand not reducing the County Council will potentially have to make further capital investment to avoid increasing the number of independent school places being used. Ideally this would be from the Department for Education (no funding currently available) and Section 106 agreements (only meet development-related demand).

### **Overall Revenue Summary**

40. At this early stage there is a forecast net overspend of £18m, but there are a significant number of uncertainties in trying to fully assess the ongoing impact of the pandemic. This position will be updated as more information is known during the financial year.
41. The financial impact in future years is even more uncertain. Although it is hoped that measures to contain the virus will be greatly reduced, the financial challenge will need to be met due to:
- a. Reduced growth in housing and business premises reducing new taxes raised
  - b. Greater level of tax defaults and reliefs
  - c. Delays to existing savings programmes
  - d. Higher service costs due to long lasting changes from the crisis, for example the care home market will potentially look very different.
  - e. Greater support requirements, for example social care, from higher unemployment.
42. The 2020/21 outturn position is planned to be closed by cost control and other measures with the balance being met from earmarked funds and contingencies.
43. Over the medium-term the gap is expected to be closed from new savings targets and expenditure controls.

### **CAPITAL PROGRAMME**

44. The current 4 year capital programme totals £660m. Discretionary funding is £350m, including £222m temporary use of cash balances, repayment cost £8m per annum.
45. Due to the impact of Covid-19 that level of discretionary funding is now unaffordable and has been reviewed. The programme has also been updated for the latest spend profiles and changes in grant funding.
46. The revised 4-year programme is summarised below and shown in detail in Appendix B.



<b>Capital Programme Expenditure 2020-24</b>	Original MTFs 2020-24 Programme	Outturn adjustments (from 19/20)	Updated MTFs 2020-24 Programme	Revised MTFs 2020-24 Programme	Overall Change
	£000	£000	£000	£000	£000
Children and Family Services	127,680	3,192	130,872	110,842	-20,030
Adults and Communities	30,180	6,244	36,424	30,594	-5,830
Environment and Transport	278,580	29,115	307,695	231,850	-75,845
Chief Executive's	8,760	614	9,374	9,270	-104
Corporate Resources	17,150	8,228	25,378	22,692	-2,686
Corporate Programme	144,670	4,683	149,353	138,956	-10,397
<b>Total</b>	<b>607,020</b>	<b>52,076</b>	<b>659,096</b>	<b>544,204</b>	<b>-114,892</b>

<b>Capital Programme Resources 2020-24</b>					
Grant Funding/ Specific Contributions	296,873	15,144	312,017	279,100	-32,917
Discretionary Funding (including internal cash balances)	310,147	36,932	347,079	265,104	-81,975
<b>Total</b>	<b>607,020</b>	<b>52,076</b>	<b>659,096</b>	<b>544,204</b>	<b>-114,892</b>

47. Overall, the programme has been reduced by £115m, comprising a net reduction of £33m in specific grant funding and £82m in discretionary funding provided by the County Council. Within the discretionary funding line £19m will be released to support the MTFs from reduced revenue contributions. The balance of £63m will reduce the need to use internal cash balances. This will reduce repayment costs by £2m, per annum by the end of the MTFs period.

48. The key changes are described below.

#### Children and Families Programme

49. Reduction over MTFs to existing programme of £20m, with a £12m discretionary funding reduction.

- School Accommodation, reduction £29m. Reduced estimate of developer funded schemes and forward funding. Discretionary funding benefit of £19m
- £2m increase in Basic Need grant.
- Send Programme, increase £6m. Increased SEND expenditure, subject to business case/savings)
- C&FS Social Care Investment Plan (SCIP), increase £2.5m. Funding allocated from the future developments programme.

Adults and Communities

50. Net reduction over MTFS of £6m, with a £10m reduction in discretionary funding.

- Record Office, reduced occupancy of County Hall provides an opportunity to review the Council's approach to the Record Office. The Scheme has now been transferred to the future developments programme, £10m.
- Addition of £4m for the Social Care Investment Programme, from the allocation of £10m previously approved by the Cabinet – schemes have been identified and added to the programme.

Environment and Transport

51. Net reduction over MTFS of £76m, with a £50m discretionary funding reduction.

- Lutterworth Spine Road, reduction £82m spend due to the bid for Housing Infrastructure grant funding being unsuccessful. The Scheme has been transferred to future developments pending review. Net discretionary programme reduction £43m.
- Vehicle Replacement Programme, reduction £1.5m (all discretionary funding).
- Zouch Bridge replacement, increase in estimated cost £3m – subject to full scheme review.
- Transport Asset Management (TAM) Programme, increase in programme £5m.
- TAM and Zouch bridge to be funded from new Challenge Fund grants, £9m (pot hole) and £5m (road surfacing for 3 bypasses). Balance of grant used to reduce discretionary funding.

Chief Executive's

52. Net reduction of £100,000. Removal of current year's Leicestershire Grants allocation in light of creation of the Communities Fund to support local organisations through the pandemic.

Corporate Resources

53. Net reduction of £2.7m. Reduction of £2.1m Score+ programme (all discretionary funding) due to low numbers of applications.

Corporate

54. Net reduction of £10m, all discretionary funding.

- Future Developments Programme, net reduction of £10m. Reduced to contribute to the overall County Council medium term funding position. However, this will result in there being less funding available for new projects. When the capital programme is refreshed as part of the new MTFS, future additions to the capital programme will need to be prioritised within the remaining balance of £50m.
- No overall change to CAIF, generates additional income. Allocation of £8m for Leaders Farm from CAIF Asset acquisitions/new investments balance, approved

by the Cabinet. Balance of £45m remains on the CAIF Asset acquisitions/new investments to achieve the £260m target value. It is planned to review the CAIF Strategy in the Autumn.

### Summary

55. The review of the capital programme has reduced the four-year programme of expenditure by £115m. The change includes a reduction in discretionary funding of £82m which will reduce the need to use internal cash balances by £63m and release £19m in revenue funding to support the MTFS.
56. The Government has indicated that it intends to invest in infrastructure to support economic recovery and build out of recession, for example, the public sector decarbonisation scheme. Where additional funding is based on bids there is a difficult balance between level of potentially wasted investment in advanced design and chance of success. However, there are some positive indications that the government is looking for quicker and lighter touch decision making.

### Corporate Asset Investment Fund

57. A summary of the Corporate Asset Investment Fund (CAIF) position as at quarter 1 for 2020/21 is set out below:

Asset Class	Opening Capital Value	Capital Incurred 2020/21	Net Income YTD	Forecast Net Income FY	Forecast Net Inc. Return FY
	£000	£000	£000	£000	%
Office	27,160	0	356	1,633	6.0%
Industrial	12,419	0	114	931	7.5%
Distribution	456	0	-3	20	4.5%
Rural	22,522	0	34	475	2.1%
Other	4,413	0	43	195	4.4%
Development	58,780	11,484	-8	-68	-0.1%
Pooled Property	24,849	0	125	500	2.0%
Private Debt	20,276	0	125	500	2.5%
<b>TOTAL</b>	<b>170,875</b>	<b>11,484</b>	<b>786</b>	<b>4,186</b>	<b>2.4%</b>

58. Overall the fund is forecasting to achieve a 2.4% net income return for 2020/21. If the development classification was excluded, the return would increase to 3.8%.
59. The directly managed property portfolio is so far holding up against the impact of Covid-19. In the Office class, increases in rental income, as large voids are taken up, will be partially offset as Covid-19 affects the office market, especially demand for smaller office spaces. Current projections suggest that the majority of industrial occupiers will emerge from Covid-19 in a stronger position than anticipated; arrears and defaults have been minimal in the first quarter of the year.
60. The Council's exposure to the distribution sector is low risk due to the type of assets held. As such, performance is expected to remain in line with previous years. The

rural sector is largely unaffected by Covid-19, with other economic factors taking time to impact returns. Rental growth will be slower this year due to the review cycle. The diverse range of assets held in the Other asset class offsets the potential risk from Covid-19; the Citroen Garage continues to offer solid returns.

61. Pooled property income is lower than expected due to the effects of Covid-19 on underlying businesses to make rental payments. The County Council has assumed a similar run rate for the full year forecast. Private Debt distributions have been delayed, similar issues regarding underlying businesses ability to make payments. The fund is invested in a product that is primarily composed of senior secured debt and is highly diversified. This offers considerable downside protection to the capital invested.
62. It should be noted that the above table excludes in year capital growth which is assessed annually as part of the asset revaluation exercise and reported in the annual CAIF performance report.

### **MTFS Refresh 2021-2025**

63. 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. However, this will be done in the context of significantly greater uncertainty than in previous years and is linked to the wider recovery service planning exercise being undertaken based around the four pillars of finance, ways of working, digital and carbon reduction.
64. These pillars will attempt to bring some clarity and structure to enable service and business planning to take place. However, it is recognised that this may be difficult over the coming months given the uncertainty around the continued measures the Government will put in place, and the risks around a second wave, as well as the likely longer term adverse impact on local businesses and unemployment levels (which are likely to have an upward impact on service demand at the same time as reducing the Council's core income levels).
65. In addition to the usual MTFS planning process, the difficult financial position in the current year also requires the Council to take some more immediate measures to control levels of expenditure.
66. Some of these measures have already been undertaken. This includes the capital programme reprioritisation exercise reported above and also taking advantage of the Government's Job Retention Scheme by furloughing staff where appropriate. The Council is also currently assessing the recently issued guidance for the Local government income compensation scheme for lost sales, fees and charges and will submit the first claim at the end of this month.
67. However, there is also a need to introduce a range of new temporary expenditure controls. To this end guidance is being issued to Managers very shortly. This will enable the Council to act far quicker than waiting for the MTFS refresh and associated savings programme to be developed. This speed should reduce the overall challenge and would mitigate the impact a second unforeseen event would bring if it hits before

the Council's finances are repaired. The controls will incorporate greater DMT and corporate oversight, this is to:

- Support consistent implementation
- Identify opportunities across services/departments
- Ensure shared understanding of implications.

68. However, this oversight is not to replace the financial responsibilities that people have in their roles. For the spend controls to be successful, ownership by everyone who has a part in spending or generating income is vital.
69. The controls measures being put in place cover:
- Targeted recruitment controls to restrict non-essential hiring including a focus on agency, consultants and specialist advisors
  - Procurement controls to ensure greater commissioning support unit input into contract renewal/extension, use of frameworks and exceptions
  - Greater scrutiny of external expenditure
  - Limited approval of new projects to essential schemes only
  - Controls on grants to ensure that wherever possible they are used to cover existing spend pressures rather than for new service initiatives.
70. These controls can be varied as the financial outlook improves/worsens. But essentially they will be in place until the following conditions are met:
- Any reduction to the general fund balance required to cover this year's financial pressures is repaid
  - The MTFS gap is at an acceptable level
    - First 2 years balanced
    - Final 2 years at a manageable level
  - Good certainty of savings delivery, especially for the next 2 years
  - Local government outlook becomes clearer – linked to the Autumn Comprehensive Spending Review (CSR).
71. It should be noted that the implementation of spend controls isn't service cuts, although it should influence how services are delivered. The long-lasting impact of the Covid crisis (e.g. reduced Council Tax) inevitably means that new savings will be required leading to some permanent reductions in non-essential spend. Although future savings will not be prioritised based on where spend was reduced through the controls, managers will need to consider the potential to make permanent changes to their services.
72. As the table in paragraph 29 shows, the gap in the existing MTFS is expected to have increased significantly as a result of the pandemic. As the Council rolls forward the MTFS to include 2024/25 it is very likely that there will a further significant increase in the gap in that year as well. The MTFS refresh exercise over the autumn and winter, including the outcome of the Government's CSR, will enable a better understanding on the scale of this gap.

## National Position

73. The Government had shown some indication that it would increase public spending and investment in appreciation of the sector-wide issues facing local government.
74. The delayed green paper on Adult Social Care has now potentially been abandoned by the Prime Minister in order to inject more urgency into the process. The Government is 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.
75. Furthermore, recent indications from the Government are that it is not looking to introduce significant increased tax measures to counter the huge increase in public spending that has been required to manage the impact of the pandemic.
76. But given that the UK is on track to record the largest decline in annual GDP for 300 years, with even the most optimistic forecasts suggesting output falling by more than 10% in 2020, the Government will be faced with an unprecedented peacetime rise in public sector borrowing – estimated at between 15-20% of GDP. This is likely to lead to a position where total borrowing is more than 100% of GDP.
77. As such, prospects for significant additional financial support for public services are limited. There is limited expectation that the CSR will provide much relief for local government finances to help reduce the gap.
78. Also, whilst the Government is undertaking a review of Business Rates in the autumn, it had announced at the end of April 2020 that the anticipated changes from the current 50% Business Rates Retention Scheme (BRRS) to a 75% Scheme have been postponed, for a second time, from April 2021 until April 2022. Similarly, the implementation of the Fair Funding Review has also been postponed again until April 2022.
79. These delays mean that where the Council had expected there might be some specific changes which would benefit its local financial position, this has now been pushed back further. Consequently the level of funding uncertainty around the financial position has not been higher in the last 10 years.
80. The Local Government Chronicle reported on 24<sup>th</sup> August 2020 that a leaked Cabinet Office document said that:  
*“5% of councils in England ‘are already at high risk of financial failure following Covid-19’, and that some may go bankrupt and need to be bailed out or be put under direct control of Whitehall. The Cabinet Office presentation also reportedly warned that inflation could ‘significantly impact social care providers due to increasing staff and supply costs’, and that there could be another 24 months of virus infection in care homes.”*
81. The reference to 5% of Councils implies that around 20 local authorities could be at high risk of immediate financial collapse. Fortunately, the County Council is not in that position.

82. All the indications are that this will be the eleventh austerity budget in a row. The Council has already made savings of £223m (excluding DSG), to the end of 2020/21. Therefore, the identification of new savings will be very challenging and is likely to require much more radical service transformation.

### Leicestershire Position

83. There will need to be a focus on performance and productivity across the Council's services which is not consistently measured or understood. This will require investment to ensure meaningful and reliable management information is available.
84. It is important that the savings that are already under consideration are progressed and delivered on as soon as possible.
85. Further efficiency/productivity targets for services will drive the focus for identifying where additional savings can be delivered. Inevitably, though, further service reductions will be needed to ensure the Council can operate within the increasingly tight budget envelope.
86. The Corporate Resources Department (Finance and the Transformation Unit in particular) will lead and support departments with a planned cost-reduction model approach to identifying and implementing new savings initiatives.
87. The model will focus around 4 key themes:
- Less expensive provision (commissioning/contracts/service delivery approach).
  - Management overheads (restructuring/action plans/performance metrics/process automation).
  - How funded (charging mechanisms/prices/new markets).
  - Demand (preventative, invest to save/eligibility/policy review, constrain growth).
88. The main objective for refreshing the MTFS will be to re-establish the Council's 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.

### Planning Framework

89. The next three key Government announcements will be;
- Comprehensive Spending Review – autumn 2020.
  - Autumn Budget Statement, anticipated in November.
  - Local Government Finance Settlement expected mid/late December.
90. The broad MTFS timetable is:
- September to November 2020 – Refresh growth, savings and capital including consideration by Lead Members.
  - December 2020 – the Cabinet is requested to approve the draft MTFS for consultation.
  - December 2020 – receipt of the Local Government Finance Settlement

- January 2021 – consultation on the draft MTFS, including Overview and Scrutiny Committees and the Scrutiny Commission.
- February 2021 – the Cabinet is requested to approve the final draft MTFS for submission to the County Council.
- February 2021 – County Council is requested to approve the MTFS for 2021/22 to 2024/25.

### **Equality and Human Rights Implications**

91. Public authorities are required by law to have due regard to the need to:
- Eliminate unlawful discrimination, harassment and victimisation;
  - Advance equality of opportunity between people who share protected characteristics and those who do not; and
  - Foster good relations between people who share protected characteristics and those who do not.
92. Many aspects of the County Council's MTFS may affect service users who have a protected characteristic under equalities legislation. An assessment of the impact of the proposals on the protected groups must be undertaken at a formative stage prior to any final decisions being made. Such assessments will be undertaken in light of the potential impact of proposals and the timing of any proposed changes. Those assessments will be revised as the proposals are developed to ensure that decision-makers have information to understand the effect of any service change, policy or practice on people who have a protected characteristic.
93. Proposals in relation to savings arising out of a reduction in posts will be subject to the County Council's Organisational Change policy which requires an Equality Impact Assessment to be undertaken as part of the Action Plan.

### **Crime and Disorder Implications**

94. Some aspects of the County Council's MTFS are directed towards providing services which will support the reduction of crime and disorder.

### **Environmental Implications**

95. The MTFS includes schemes to support the Council's response to climate change and to make environmental improvements.

### **Partnership Working and Associated Issues**

96. As part of the efficiency programme and improvements to services, working with partners and service users will be considered along with any impact issues, and they will be consulted on any proposals which affect them.

### **Risk Assessments**

97. As this report states, risks and uncertainties surrounding the financial outlook are significant. The risks are included in the Corporate Risk Register which is regularly updated and reported to the Corporate Governance Committee.



**Background Papers**

Report to the Cabinet – 23 June 2020 – Covid-19 Impact and Response of the County Council – Recovery and Financial Impact - <https://bit.ly/2ZgXtXE>

Report to County Council -19 February 2020 – Medium Term Financial Strategy 2020/21 to 2023/24 - <https://bit.ly/339IJfp>

**Appendices**

Appendix A: Revenue Position as at Period 4, 2020/21

Appendix B: Revised Capital Programme 2020-24

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