

REPORT OF THE CABINET

MEDIUM TERM FINANCIAL STRATEGY – LATEST POSITION

Introduction

1. This report provides members with an update on the 2020/21 revenue budget and capital programme monitoring and the approach to updating the Medium Term Financial Strategy (MTFS) for 2021 to 2025. A report considered by the Cabinet on 18th September is attached as Appendix 1.

Background

2. The Medium Term Financial Strategy for 2020/21 to 2023/24 was approved by the County Council on 19th February 2020.
3. 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.
4. 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).
5. 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.
6. 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.
7. 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.

8. 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.
9. The key mitigations taking place to reduce the overspend are:
 - a. Exploit Government schemes such as Furlough
 - b. Contain, where possible, the costs relating to the covid crisis
 - c. Re-prioritise discretionary spend
 - d. Implement controls to limit non-essential expenditure
 - e. Identify new savings and maximise existing.
10. 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.
11. 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.
12. 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).
13. 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, details of which are outlined in the appended Cabinet report.

14. The next three key Government announcements in relation to the Council's budget will be:-
- Comprehensive Spending Review – autumn 2020.
 - Autumn Budget Statement, anticipated in November.
 - Local Government Finance Settlement expected mid/late December.
15. The broad MTFS timetable is:
- September to November 2020 – Refresh growth, savings and capital including consideration by Lead Members.
 - December 2020 – the Cabinet 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 requested to approve the final draft MTFS for submission to the County Council.
 - February 2021 – County Council requested to approve the MTFS for 2021/22 to 2024/25.

Equality and Human Rights Implications

16. 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.
17. 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.
18. 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.

Consideration by the Scrutiny Commission

19. The Scrutiny Commission at its meeting on 14th September noted the financial position of the Council as outlined in the report and the timetable for refreshing the MTFS. The minute is attached as Appendix C.

Consideration by the Cabinet

20. The Cabinet at its meeting on 18th September:-

- a) Noted the comments of the Scrutiny Commission;
- b) Noted 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;
- c) Approved changes to the 2020-24 capital programme;
- d) Noted the approach outlined in the report to updating the Medium Term Financial Strategy.

Motion to be moved

- a) That 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 be noted;**
- b) That the approach to updating the MTFS including actions being taken to mitigate the overspend, be noted**

18th September 2020

Mr N. J. Rushton CC

Background papers

Report to the Cabinet – 23 June 2020 – Covid-19 Impact and Response of the County Council – Recovery and Financial Impact

<http://politics.leics.gov.uk/documents/s154142/COVID%2019%20report%20June%20-final.pdf>

Report to County Council -19 February 2020 – Medium Term Financial Strategy 2020/21 to 2023/24

<http://politics.leics.gov.uk/documents/s151485/MTFS%202020-24%20-%20Cab%207-2-20%20v6.pdf>

Appendices

Appendix 1 - Report to the Cabinet – 18 September 2020 – MTFS Latest Position

Appendix A of Appendix 1: Revenue Position as at Period 4, 2020/21

Appendix B of Appendix 1: Revised Capital Programme 2020-24

Appendix 2: Minute extract from the meeting of the Scrutiny Commission held on 14th September.