

**CABINET – 1st APRIL 2014****REPORT OF THE DIRECTOR OF CORPORATE RESOURCES****IMPLICATIONS OF THE 2014 BUDGET ON THE MEDIUM
TERM FINANCIAL STRATEGY****PART A****Purpose of Report**

1. This report presents the potential implications of the Chancellor of the Exchequer's Budget and continuing austerity on the County Council's Medium Term Financial Strategy (MTFS) 2014/15 – 2017/18.

Recommendation

2. That Cabinet:
 - (a) notes the potential implications of the Chancellor's Budget for the MTFS and the risks arising;
 - (b) notes with concern that projected austerity beyond 2017-18 requires the County Council to find an additional estimated £40m savings than those identified in the approved MTFS for 2014/15 – 2017/18;
 - (c) regrets that the Chancellor's Budget Statement did not contain any reference to the costs of the Care Bill and the Dilnot reforms to Adult Social Care and that, if those costs are not fully funded by the Government, the £40m savings 'gap' will widen substantially; and
 - (d) draws the attention of Leicestershire MPs to these potentially serious consequences for the finances of the County Council and its services to the people of Leicestershire.

Reasons for Recommendations

3. To enable the County Council to understand the implications of the wider financial position and some of the key risks ahead.

Timetable for Decisions (including Scrutiny)

4. The progress with savings will be monitored and reported to the Scrutiny Commission regularly during 2014/15. The MTFS will be updated and considered by Scrutiny Committees and the Commission, Cabinet and County Council early in 2015.

Policy Framework and Previous Decisions

5. The County Council approved the MTFS on the 19th February 2014.

Resource Implications

6. The 2014/15- 2017/18 MTFS includes a savings requirement of £81m. This includes identified savings of £68.4m and a 'gap' in the last year of the MTFS of £12.5m. As set out in the County Council budget report there are significant internal and external risks to the delivery of these savings. In addition, there are external factors such as health and social care reforms that could have a significant financial impact on the County Council's overall financial position. These are explained in Part B of this report.

Circulation under Local Issues Alert Procedure

None

Officers to Contact

Brian Roberts, Director of Corporate Resources, Corporate Resources Department
Tel: 0116 305 7830
E-mail: brian.roberts@leics.gov.uk

Chris Tambini, Assistant Director – Strategic Finance and Property, Corporate Resources Department
Tel: 0116 305 6199
E-mail: chris.tambini@leics.gov.uk

PART B

Background

7. The Chancellor announced the Budget on the 19th March 2014. The Budget confirmed that austerity budgets would continue to at least 2018/19. This is despite the fact higher growth is predicted. The Budget also included some significant changes to pensions that could have implications for the County Council.

Potential Implications for the County Council

8. The Cabinet is already aware of the significant financial risks to the Council arising from the Dilnot funding reforms of Adult Social Care, a major part of the Care Bill reforms. These changes are due to be implemented from April 2016, and will increase the amount of capital individuals can retain and introduce a lifetime cap on care costs. Individuals with sufficient income or capital placed in care homes will, however, still be expected to contribute around £12,000 pa to “hotel costs”.
9. The changes announced to private pensions in the Budget appear to have added further uncertainty to the long term financial costs for the Council and therefore consequent risks to the delivery of the MTFS. It is proposed that from April 2015 individuals will no longer be required to purchase an annuity, but instead will be free (subject to any income tax liability) to spend their pension pot in any way they wish. This means that there is risk that some people will have used some or all of these assets by the time that they may require care and support, and are therefore more likely to require public funding. In addition, if individuals do not have a private source of income from an annuity, they are less likely to be able to contribute to their “hotel costs”.
10. It is too early at this stage to give an accurate estimate of the likely impact of these risks on the Council’s budget. It is likely however, that as a relatively affluent area (with the likelihood of a relatively high number of people with pension savings) Leicestershire will be more affected than average. The estimated cost of these reforms for the County Council is in the region of £30m and the assumption in the MTFS is that these will be fully funded. The risk that these reforms would not be fully funded was identified in the MTFS approved by the County Council in February 2014 but the Chancellor’s Budget Statement was silent on the costs of the Care Bill. The LGA has subsequently commented:

“We are disappointed that there is no mention of funding for adult social care and support, despite growing concerns around the adequacy of funding for the Care Bill reforms and the system itself. This point came up time and again from across the sector during the Care Bill’s passage through Parliament and we are concerned that inadequate funding will jeopardise the Bill’s good intentions. We broadly support the reforms to care and support but they need to be fully costed and funded as new burdens. This is particularly important given the links between social care and the future sustainability of local government funding as a whole.”
11. The Chancellor’s budget did contain some other announcements that could also impact on the Council. These include:

- Increases of 3% to the minimum wage. This could increase costs of some contractors;
 - Introduction of a welfare cap;
 - £200m to establish a pot hole challenge fund;
 - Landfill Tax will increase in line with inflation in 2015/16. This will be lower than the £8 per tonne increase assumed in the MTFs.
- 12 The Office of Budget Responsibility has predicted that the deficit will shrink a little faster than the Chancellor's Autumn Statement forecast. Even so, on current projections austerity budgets will remain until at least 2018/19. This means that when the approved MTFs for 2014/15 to 2017/18 is rolled forward early in 2015 there will be another year of savings requirements. Even without including any additional costs arising from the pension changes in the Chancellor's Budget it is likely the County Council will need to find further savings of an estimated £40m (this includes £12.5m of currently unidentified savings). This is an increase of £27.5m on the current position. Obviously further work is required to firm up the savings requirement as it depends on spending pressures as well as forecast reductions in Government funding. However, there is little doubt the figure will be significant and the £40m 'gap' could widen substantially if the Government does not fully fund the Dilnot reforms to Adult Social Care.
- 13 As part of the wider work on transformation, the Council will need to identify savings to bridge the funding 'gap'. There will be further reports to Cabinet and Scrutiny Commission in due course.

Equal Opportunities Implications

14. Many aspects of the County Council's MTFs budget are directed towards the needs of disadvantaged people. Where proposed savings are likely to have an adverse impact on service users protected under equalities legislation, assessments of the impact of the proposals must be undertaken at a formative stage of developing proposals prior to all final decisions being made.

Crime and Disorder Implications

15. Some aspects of the County Council's MTFs are directed towards providing services which will support the reduction of crime and disorder. It is too early to determine the implications of additional savings.

Environmental Implications

16. The MTFs will include schemes to support the carbon management programme and other environmental improvements. It is too early to determine the implications of additional savings.

Partnership Working and Associated Issues

17. 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 fully consulted on any proposals which affect them.

Risk Assessments

18. 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

Medium Term Financial Strategy 2014/15-17/18

<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=134&MId=3961&Ver=4>

2014 Chancellor's Budget Statement

<https://www.gov.uk/government/speeches/chancellor-george-osbornes-budget-2014-speech>

This page is intentionally left blank