

**CABINET – 19 SEPTEMBER 2014****MEDIUM TERM FINANCIAL STRATEGY UPDATE****REPORT OF THE DIRECTOR OF CORPORATE RESOURCES****PART A****Purpose of Report**

1. To explain the overall financial position, which is worsening in the medium term, and for Cabinet to agree an approach to updating the current MTFS.

**Recommendation**

2. The Cabinet is recommended to:
  - (i) Note the significant financial challenge faced by the County Council and the impact on services which is unfolding and becomes acute in 2016/17 and thereafter;
  - (ii) Agree the approach outlined in the report to updating the Medium Term Financial Strategy;
  - (iii) Inform local MPs of the Council's financial position and ask for their views given the impact on their constituents;
  - (iv) Approve the response to the technical consultation on the 2015/16 Local Government Finance Settlement as set out in Appendix C to this report;
  - (v) Note the position on the Business Rate Pool as set out in paragraph 28;
  - (vi) Given the seriousness of the financial challenge, to include this report on the agenda of the next County Council meeting.

**Reasons for Recommendation**

3. To enable the County Council to continue to develop plans to address the worsening financial position.

**Timetable for Decision (including Scrutiny)**

4. The MTFS will be considered by the Cabinet in January 2015. All Overview and Scrutiny Committees and the Scrutiny Commission will consider the MTFS in late January and early February 2015. The Cabinet will then make a final recommendation to the County Council in February 2015.

**Policy Framework and Previous Decisions**

5. The Medium Term Financial Strategy for 2014/15 to 2017/18 was approved by the County Council in February 2014. Over the autumn and winter it will be updated before being considered by the Cabinet, Overview and Scrutiny Committees and County Council in January and February 2015.

**Resource Implications**

6. 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 will set out the County Council's response to the financial position.
7. The County Solicitor has been consulted on the content of this report.

**Circulation under the Local Issues Alert Procedure**

None

**Officer to Contact**

Brian Roberts  
Director of Corporate Resources  
Corporate Resources Department  
Telephone: 0116 305 7830  
[Brian.Roberts@leics.gov.uk](mailto:Brian.Roberts@leics.gov.uk)

Chris Tambini  
Assistant Director  
Strategic Finance and Property  
Corporate Resources Department  
Telephone: 0116 305 6199  
[Chris.Tambini@leics.gov.uk](mailto:Chris.Tambini@leics.gov.uk)

## **PART B**

### **National Position**

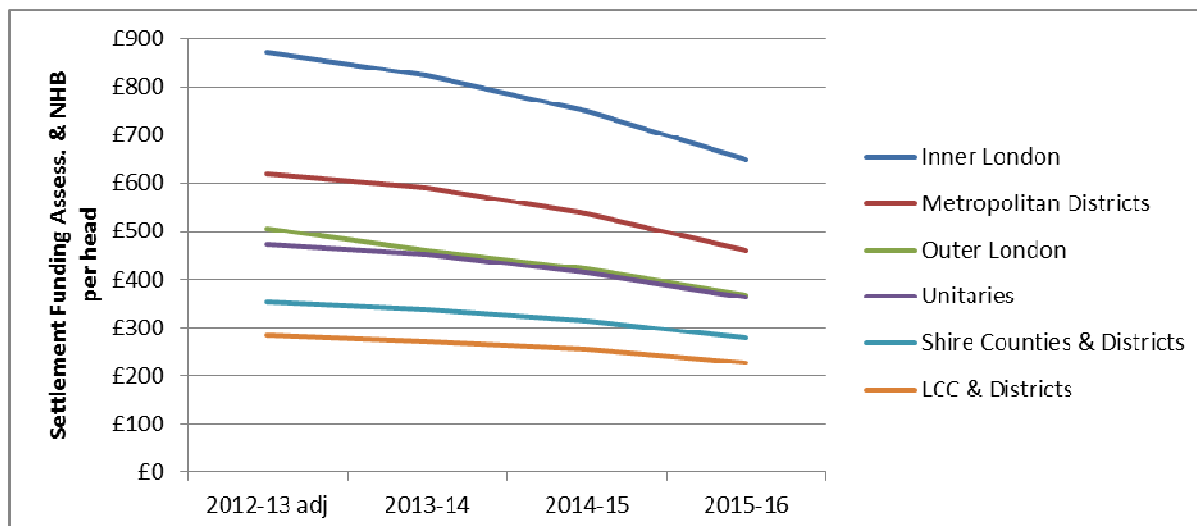
8. Over the last three years there have been significant reductions in the Government's funding of local government. Reductions have been higher than in other parts of the public sector which in part reflects the fact that local government, unlike health, overseas development and education, has not been protected.
9. The Government has provisionally announced local authority funding for 2015/16. The level of funding in subsequent years will not be known until after the General Election in May 2015. First indications will be set out in the next Comprehensive Spending Review which is likely to be published in autumn 2015.
10. The Institute of Fiscal Studies (IFS) estimates that in April 2014 the fiscal consolidation was 46% complete. However, if tax increases are taken into account, at the start of this financial year only 37% of the reduction in public sector expenditure had been achieved. A graph showing the position is at Appendix A of this report. There is therefore no doubt that there will be significant further reductions across the public sector given the need to eliminate the public sector deficit. The IFS again forecasts that austerity budgets will be required until at least 2018/19.
11. It is worth noting that all major political parties are committed to balancing the budget, although at this stage it is unclear as to the balance of spending and tax increases that they would use to achieve this.
12. There are also some significant national risks that will inevitably impact on the County Council's financial position. These principally relate to the implementation costs of the Care Act and integration of social care services with the health service. For both these initiatives indications are that there will be an early negative financial impact on the County Council. In addition, national initiatives such as the Government's troubled families programme (locally Supporting Leicestershire Families) do not have sustainable funding. The Government has not addressed the issue of the cost of the programme being borne by local government whilst the majority of savings are in other organisations such as the Department of Work and Pensions, and those in the health and criminal justice sectors.

### **Local Position**

13. The County Council is both low funded and low spending. The graph in Appendix B shows that the County Council's budget per head of population is the lowest of all counties. On average other comparable county councils spend £81 (15%) more per head of population. The table below shows the additional resources that would be available to the County Council if it spent the same amount per head of population as other authorities. East Sussex and Staffordshire have the highest and second lowest budget requirement per head respectively.

<b>Authority</b>	<b>Additional resources available to Leicestershire CC if budget requirement was at equivalent level</b>
East Sussex	£113m
Dorset	£81m
Nottinghamshire	£69m
Derbyshire	£60m
Staffordshire	£17m

14. This low spend per head reflects the County Council's low funding position, i.e. allocation from Government. Compared to other counties, Leicestershire is the third lowest funded and receives £56 (23%) per head less than the average County Council. If funded by Government at the same level as the average County Council, Leicestershire would receive £37m in additional resources.
15. Leicestershire County Council also has a low council tax base. In simple terms this means that relative to other county councils it has a higher proportion of lower value properties. This means that our receipts per head of population from council tax are lower than most other counties. This position also reflects the fact that the level of council tax is slightly lower than average for County Councils.
16. To compare central government funding of the County Council against other classes of local authority, district council expenditure needs to be included. The graph below shows funding per head compared to other classes of authority. Again the picture shown is one of low funding. It is worth noting that Inner London Authorities receive three times more funding per head than the county authorities. This is the backdrop against which significant savings have been, and will continue to be, made.



17. The County Council, excluding cuts to specific grants, has made savings of £85m since 2010. The current four year MTFs includes a savings requirement of £81m (the £110m saving requirement relates to five years including 2013/14). The savings in the MTFs reflected the views of the public that were received as part of the widespread public consultation in summer 2013.
18. The MTFs will be rolled forward over the winter and this will involve updating key assumptions such as the phasing of savings, growth and inflation requirements and income. There are some key assumptions that will need to be revised to reflect the latest position and these are likely to have a material effect on the MTFs in both the medium and short term. These are:
- Potential additional growth requirement for Social Care which is reflected in a forecast £3.8m overspend on Adult Social Care in the current year and a forecast £2.5m overspend on placements for children in the care of the local authority;
  - The cost of implementation of the Care Act. There is huge uncertainty as to the costs of the Care Act and the extent to which these reforms will be fully funded by central government. The estimates of 'steady state' cost to the County Council range from £30m to £60m per annum. The impact will be from 2015/16 onwards. At present the MTFs assumes that additional costs will be fully funded by central government.
  - The Government has required a re-submission of all Better Care Plans and has changed the guidance as well as introducing new payment by results rules. This could reduce income by up to £3m next year. Discussions have been underway since late July with NHS partners to agree the submission a new Better Care Plan by the Government's deadline of 19<sup>th</sup> September.
  - National austerity will last until at least 2018/19 so the roll forward of the MTFs will mean that there is another year of lower funding and savings for

local authorities. The report to the Cabinet in April (“Implications of the 2014 Budget on the Medium Term Financial Strategy”) indicated that further savings of £27.5m would be required to reflect this.

- There are indications that some of the savings in the current MTFS will need to be rephased. This is to reflect more up to date information and ensure appropriate consultation is undertaken.
- There will be a shortfall in funding for the Supporting Leicestershire Families programme by 2016/17. This shortfall will need to be filled by contributions from partner organisations, particularly those that benefit financially by reduced demand on their services, otherwise further County Council funding will need to be made available.

19. At this stage further work needs to be undertaken to quantify these risks. However, there is no doubt there will be an impact on the MTFS and an estimate of the current position is summarised in the table below;

Savings and additional income in approved 4 year MTFS	£68.4m
Funding gap in current MTFS	<u>£12.5m</u>
Total savings required in current MTFS	£80.9m <sup>(1)</sup>
Estimated further savings required in 2018/19	£27.5m
Estimate of potential new spending pressures in 2015/16	£10.0m <sup>(2)</sup>
Total savings requirement 2014/15 to 2018/19	£118.4m

( <sup>1</sup> ) 5 years saving requirement	£110.0m
Less 2013/14 savings	£23.0m
Less New Homes budget	£3.4m
Balance of various adjustments	<u>£2.7m</u>
4 years saving requirement in current MTFS	£80.9m

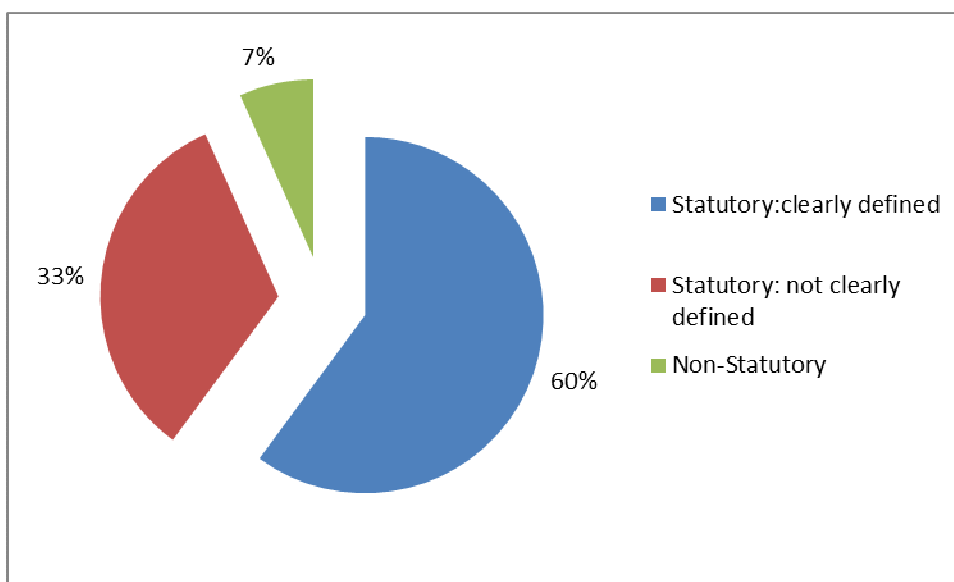
- (<sup>2</sup>) The £10m additional pressures in 2015/16 is very much an initial estimate and assumes an element of mitigation. It includes;

Potential reduced contribution from the Better Care Fund	£3m
Additional growth arising from in year overspend	£5m
Non achievement of savings in 2015/16	<u>£2m</u>
	<u>£10m</u>

20. The MTFS will be reviewed to mitigate, in part, the new spending pressures. In the short term, in order to balance the MTFS, the phasing of all savings will need to be considered and further savings will be required. This confirms the

financial position facing the County Council is increasingly serious as, therefore, is the impact on services.

21. In identifying savings it is worth noting that 93% of the Council's budget relates to 'statutory' services if a wide definition is taken. 60% is clearly defined by Government, such as Residential Care, Concessionary Travel and Child Protection. However, there is imprecision in the definition of 33%, which would include Libraries, Adult Social Care Reablement and Highways Maintenance. Non-statutory services include museums and country parks. The pie chart below shows the position. The key point, however, is to show how severely this limits the scope for service reductions, although non-statutory services must be at greater risk given the overall savings requirements.



22. Scope to reduce statutory services is limited and efficiency will be the main source of savings in these areas. There are only a few services such as museums, elements of early intervention and safety cameras where there is no statutory basis.

### **Planning Framework**

23. Council departments will be asked to prepare further savings proposals and to reconsider the phasing of already agreed savings.
24. The Transformation Programme (which covers part of the required savings) will seek to ensure that savings are based on sound business cases and the outcome of this work will be reflected in the updated MTFS. The County

Council will continue to maximise efficiency savings and consider new and innovative ways of providing services. Even so, there is no doubt that there will be significant implications for services. This will range from major reductions in non-statutory services, reductions in statutory services to the minimum required to meet legal obligations and reductions in back office functions to the bare minimum. Overall it is inevitable that the priority will lie with protecting and providing statutory services. The scale of the challenge cannot be underestimated and delivery will be hugely challenging requiring robust planning and clear focus.

25. Given the implications on local services, local MPs should be informed of the County Council's position, the impact on their constituents and asked for their views. The last time this was done in autumn 2013 consideration was given to unitary local government in Leicestershire, i.e. a single council. As a result independent work was commissioned and shared with partners. This work, which looked at the outcome of recent moves to unitary authorities elsewhere, indicated that circa £30m per annum ongoing could be saved from the establishment of a County Unitary Authority. These savings would be classed as efficiency and the benefit would be to protect and invest in front line services.
26. The broad MTFS timetable is:
- October – Consideration of future savings proposals by Lead Members
  - November -Transformation Board to consider MTFS and implications for the Transformation programme.
  - December – Local Government Finance Settlement
  - January/February – Cabinet, Scrutiny and County Council

### **Consultation Response**

27. The Government is consulting over the summer on some technical proposals for the 2015/16 local government finance settlement. The draft response is set out in Appendix C. Although many of the proposals can be supported, a number cannot. In addition, concerns over the long term sustainability of the local government finance system remain.

### **Business Rate pooling**

28. The County Council was part of a business rate pool in 2012/13 which generated £700,000 to invest in proposals to improve economic growth across the sub region. Due to risks and uncertainties arising from the lack of



clear guidance from Government, the pool was dissolved in 2014/15. It is proposed that, along with other partners, we express an interest to re-establish a pool and undertake further work over the Autumn/Winter to determine the financial viability of establishing the pool in 2015/16.

### **Dedicated Schools Grant**

29. The local authority receives Dedicated Schools Grant (DSG) which provides for delegated school budgets and other education services:
- a) Schools Block – This block funds delegated school budgets and budgets that are prescribed in the School and Early Years Finance (England) Regulations as held centrally by the local authority on behalf of schools such as premature retirement for school based staff and school copyright licences.
  - b) High Needs Block – This funds special schools, special needs units within maintained schools, top up funding for Special Educational Needs (SEN) in mainstream schools and academies and all other special needs providers.
  - c) Early Years Block – This block funds the free entitlement to early years education for disadvantaged 2 year olds and the early years offer for 3 and 4 year olds.
30. The Schools Budget will be agreed as part of the MTFs and will involve appropriate consultation with schools, the Schools Forum and, the Education Funding Agency. The Government recently announced that £390m would be available to low funded authorities and an extra £20m will be allocated to Leicestershire. This will be the subject of a further report to the Cabinet in October.
31. In the past DSG has been used to fund a range of strategic issues related to schools such as absorbing deficits for schools being required to enter into sponsored academy arrangements and the costs arising from schools admitting additional year groups as a result of age range changes and protection for those losing pupils. Despite the additional schools funding it is unlikely that such capacity will continue.

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

32. There are no direct implications arising from this report.

**Background Papers**

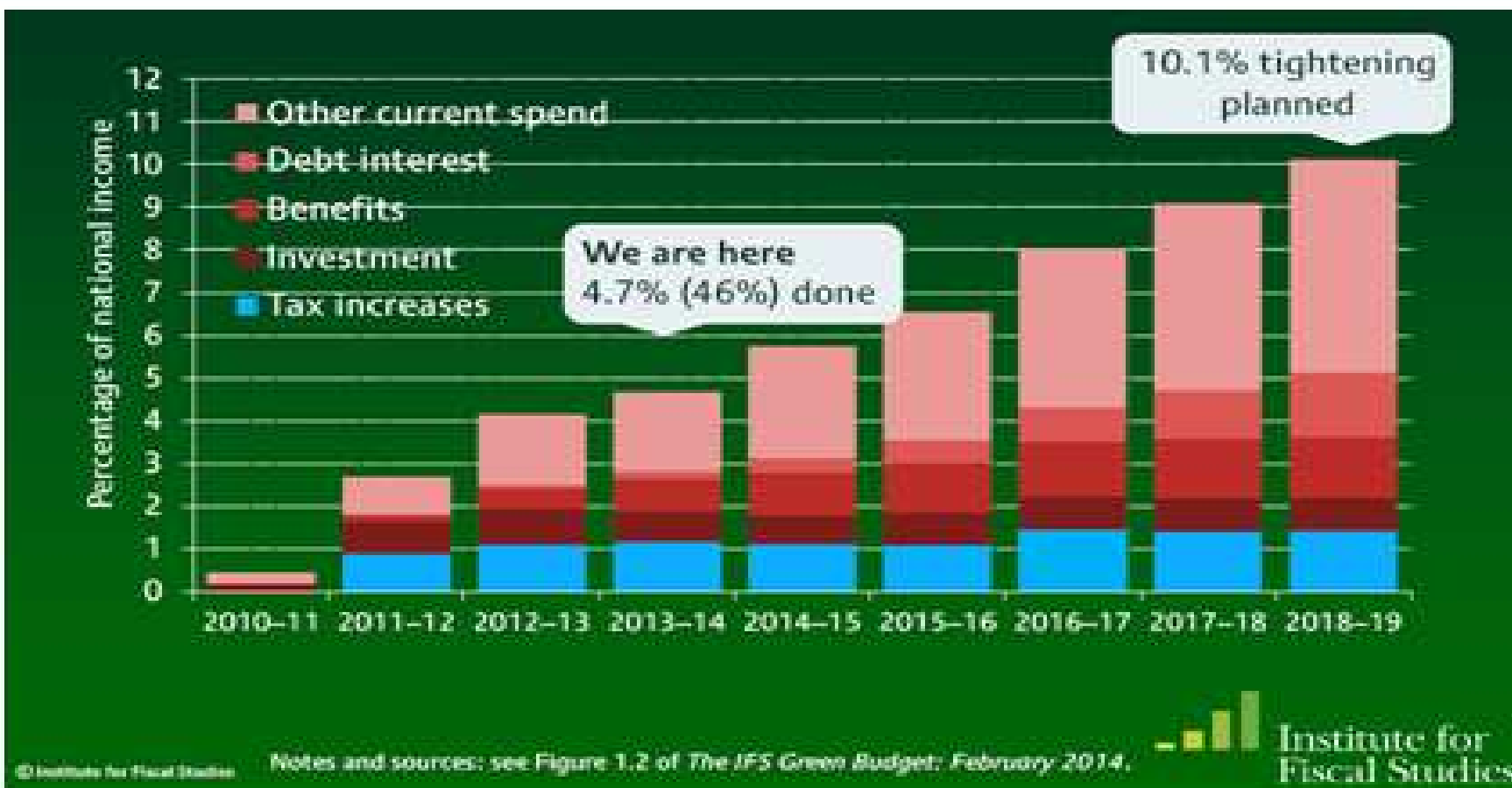
Report to County Council 'Medium Term Financial Strategy 2014/15 to 2017/18', February 2014

[http://cexmodgov1/Published/C00000134/M00003961/AI00037151/\\$5aBudgetReportoftheCabinet.docx.pdf](http://cexmodgov1/Published/C00000134/M00003961/AI00037151/$5aBudgetReportoftheCabinet.docx.pdf)

Report to the Cabinet – 'Implications of the 2014 Budget on the Medium Term Financial Strategy' April 2014

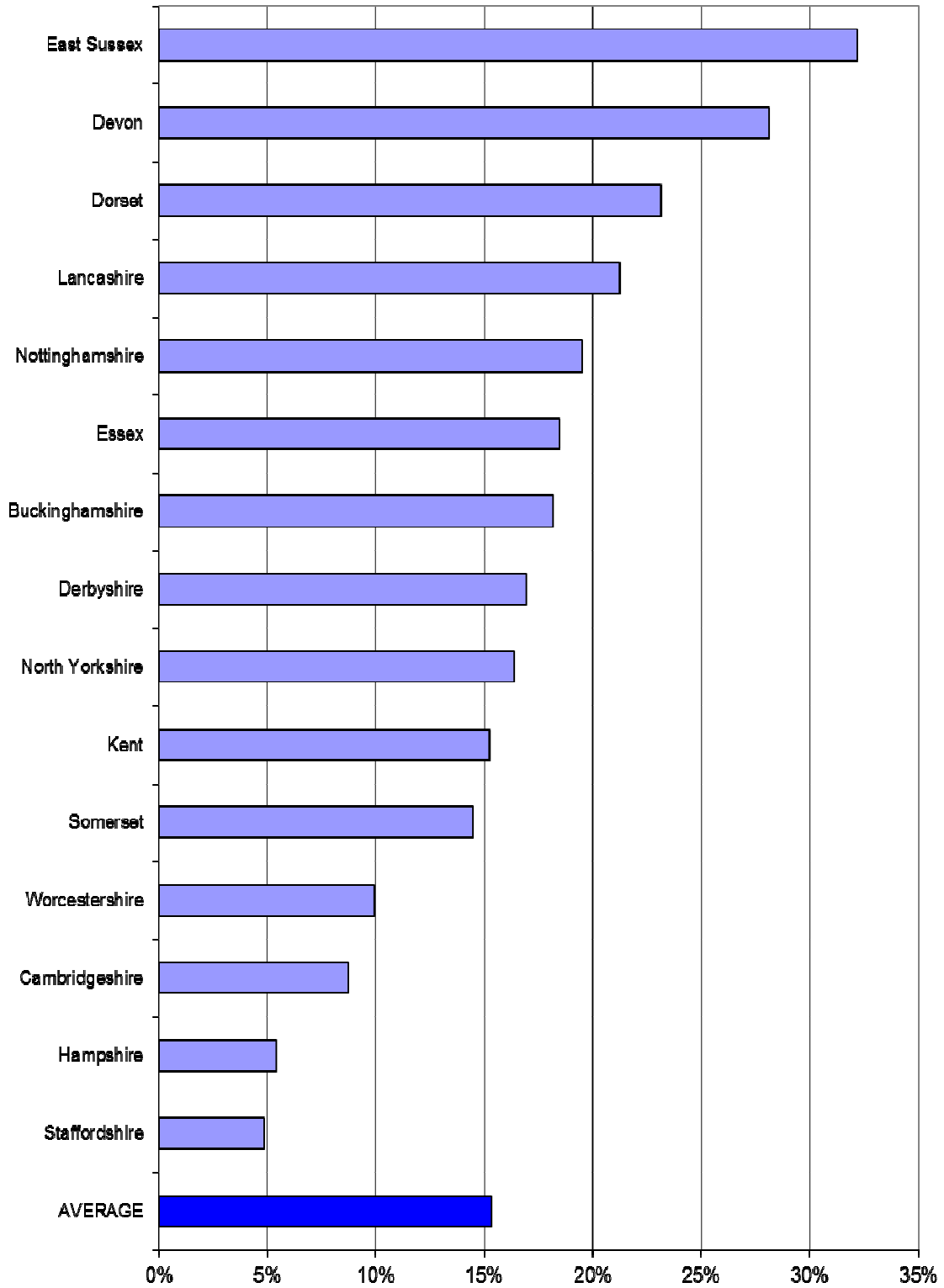
[http://cexmodgov1/Published/C00000135/M00003989/AI00037769/\\$5Implicationsof2014onMTFS.docA.ps.pdf](http://cexmodgov1/Published/C00000135/M00003989/AI00037769/$5Implicationsof2014onMTFS.docA.ps.pdf)

# The Planned Consolidation





**2014/15 Budget Requirement (BR)\* per head of population - differences from Leicestershire County Council's BR per head (excluding County Councils that provide Fire, as not comparable)**



**Local Government Finance Settlement 2015-16  
Technical Consultation**

Start: 22 July 2014

Closing Date: 25 September 2014

---

Leicestershire County Council welcomes the opportunity to respond to the consultation.

The Council fully understands the need for reductions in public sector expenditure and accepts the need for Councils to take their fair share of funding cuts. However, the Council firmly believes that the proposed level of reductions set out in the provisional 2015/16 settlement is unfair and will have a significant detrimental impact on services and their users.

It follows a series of changes to local government finance which have failed to deliver what was claimed and have proved to be both ill thought out and damaging. In the view of the Council the long term funding for local government is not sustainable.

The proposals in this particular consultation are to a large extent measures that in the case of the Council have been anticipated in its medium term financial strategy and are rightly described as technical matters. They do nothing to address the unsustainable pressures on local government.

One important issue referred to in the Consultation document which has not been deemed to merit a question is the removal of specific grant funding for local welfare provision. The Council strongly opposes the proposed removal of this funding. At a time when local government is facing severe cuts in funding it appears to be totally inappropriate to dismiss this issue and to say that it can be addressed by "allow(ing) local authorities to decide the appropriate proportion of their general fund to spend in providing such services", given that these services provide crisis support for the most vulnerable residents. The suggestion that "it might be possible to create a notional line in the settlement for local welfare funding as an indication on how councils are likely to spend some of their budget" simply adds insult to injury and is ludicrous.

**Question 1: Do you agree that compensation for the cap should be paid on the basis of the reduction to retained business rates income adjusted to account for lower tariffs and top-ups, as in 2014-15?**

The Council agrees that compensation should be paid on the proposed basis, in 2015-16 and each subsequent year.

**Question 2: Do you agree that the 2014-15 Council Tax Freeze Grant should be rolled into Revenue Support Grant, and combined with the 2013-14 Council Tax Freeze funding element as a single element?**

The Council agrees with this proposal.

The Council has frozen its element of council tax in each of the four years 2011-12 to 2014-15. The Council did consider a 1.5% council tax increase in 2014-15 but amended this to a freeze on the basis of clearer indications from the Government that there would not be a “cliff-edge” effect after the current Comprehensive Spending Round period and that freeze grants (other than for 2012-13) would continue to be reflected in future funding settlements.

The 2011-12, 2013-14 and 2014-15 Council Tax Freeze compensation should be increased in cash terms to reflect the fact that the tax base has continued to increase. This was reflected in the initial costings of the Freeze Grant, but DCLG has not made any such increases in subsequent years. In the case of the County Council, tax base increases on the 2011-12 and 2013-14 Council Tax Freeze grants would equate to a further £0.2m funding in 2014-15.

**Question 3: Do you agree that, subject to satisfactory progress by individual authorities, the 2014-15 Efficiency Support Grant should be rolled in as a separate element for the qualifying authorities?**

The Council agrees with this proposal. It grants a limited measure of protection to those authorities which have been the most severely impacted by Government cuts in funding.

**Question 4: Do you agree that the 2014-15 Rural Services Delivery Grant should be rolled in and combined with the rural funding element?**

The Council agrees with this proposal.

This grant goes a small way to recognising that the Local Government Finance Settlement has consistently underfunded rural authorities whilst providing relatively higher funding to predominately urban authorities.

**Question 5: Do you agree with the proposed methodology for reducing funding to authorities which have fallen below the threshold for participation in the Carbon Reduction Commitment Energy Efficiency Scheme, to take account of the loss in tax revenue to the Exchequer?**

The Council does not agree with this proposal, as the Carbon Reduction Commitment was not supported by New Burdens additional funding when it was introduced, so it is unfair to take funding away when the burden reduces.

**Question 6: Do you have any comments on the impact of the 2015-16 settlement on protected groups, and on the draft Equality Statement?**

The draft Equality Statement comments that the impact of the 2015-16 settlement on protected groups will depend on the choices made by authorities in framing their budget for 2015-16 (and subsequent years). The County Council has consulted widely on the services which residents wish the authority to protect and those which could be reduced, if required. Whilst the Council will seek to maintain services to the most vulnerable groups, further cuts to funding in subsequent years may well lead to such services regrettably having to be reduced.