

BUDGET REPORT OF THE CABINET

MEDIUM TERM FINANCIAL STRATEGY 2015/16 – 2018/19

Introduction

1. This report relates to the Cabinet's consideration of the 2015 Medium Term Financial Strategy (MTFS) which has the following four main elements:-
 - 2015/16 revenue budget;
 - 2016/17, 2017/18 and 2018/19 provisional revenue budgets;
 - 2015/16 – 2018/19 capital programme;
 - Financial strategies and policies including the capital strategy, treasury management and investment strategy, financial performance indicators and earmarked funds policy.

2. This report reflects the changes to the budget since it was approved for consultation by the Cabinet in December which were reported to the Cabinet and Scrutiny bodies in January and also reflects the additional resource received as a result of the final Local Government Settlement. The MTFS will be updated and rolled forward each year at budget setting time.

3. Supporting this report are the following appendices (which are set out in pages B1 to B144 at the end of this Council Report booklet).

2015/16 Revenue Budget	Appendix A (Buff Paper)
Four Year Revenue Budget 2015/16 – 2018/19	Appendix B
Detailed Revenue Budget 2015/16	Appendix C
Growth and Savings	Appendix D
Earmarked Funds	Appendix E
Council Tax and Precept	Appendix F
Detailed Capital Programme 2015/16 to 2018/19	Appendix G (Green Paper)
Capital Strategy	Appendix H
Risk Management Policy and Strategy	Appendix I
Earmarked Funds Policy	Appendix J
Financial Management Performance Indicators	Appendix K
Treasury Management Strategy Statement and Annual Investment Strategy	Appendix L
2015/16 Local Government Settlement Response	Appendix M
Results of consultation on MTFS	Appendix N
Comments of Scrutiny Committees and Commission	Appendix O

Background

4. The current economic backdrop continues to be extremely challenging, resulting in significant and on-going reductions in Government funding. This means it is essential to continue to focus on medium term service and financial planning.

The Autumn Statement

5. The Government's latest Autumn Statement was given on 3rd December 2014 and it included the following key headlines:
 - Economic growth forecasts are 3.0% for 2014/15, 2.4% for 2015/16, 2.2% for 2016/17, 2.4% for 2017/18, 2.4% for 2018/19 and 2019/20.
 - Public sector net borrowing is not expected to be eliminated until after 2017/18 and a small cash surplus is predicted in 2018/19.
 - Continued substantial savings in public spending.
 - Full review of the structure of business rates. Extending both the doubling of Small Business Rate Relief and the 2% cap on the Retail Price Index (RPI) increase in the business rates multiplier, to April 2016, and an increase in rates discount to help high street shops, pubs and cafes by 50% to £1,500 next year.

6. The Office for Budget Responsibility released a detailed report alongside the Autumn Statement on the Economic and Fiscal Outlook which included the following:
 - “On the Government's latest plans and medium-term assumptions, we are now in the fifth year of what is projected to be a 10-year fiscal consolidation. Relative to GDP, the budget deficit has been halved to date, thanks primarily to lower departmental spending (both current and capital) and lower welfare spending. The tax-to-GDP ratio has risen little since 2009-10. Looking forward, the Government's policy assumption for total spending implies that the burden of the remaining consolidation would fall overwhelmingly on the day-to-day running costs of the public services – and more so after this Autumn Statement. Between 2009-10 and 2019-20, spending on public services, administration and grants by Central Government is projected to fall from 21.2 per cent to 12.6 per cent of GDP and from £5,650 to £3,880 per head in 2014-15 prices. Around 40 per cent of these cuts would have been delivered during this Parliament, with around 60 per cent to come during the next. The implied squeeze on local authority spending is similarly severe.”
 - “Total public spending is projected to fall...to what would probably be its lowest level in 80 years.”
 - “Our forecast implies that general government employment will fall by a further 1.0 million by the start of 2020, making a total fall from early 2011 of 1.3 million.”
 - “Around two thirds of the deficit reduction has come from cuts in day-to-day spending on public services and administration, with the cuts to-date

concentrated on unprotected departments outside health, schools and overseas aid.”

Finance Settlement

7. The Provisional Local Government Settlement was issued on 18th December 2015. Compared with 2014/15, overall central funding has reduced by £16.4m, representing a 12.8% reduction, see table below.

	2014/15	2015/16	% Change
Revenue support grant ¹	£73.2m	£55.8m	-23.8%
Business Rates top up	£35.8m	£36.4m	+1.9%
Business Rates Baseline	£19.3m	£19.7m	+1.9%
Total	£128.3m	£111.9m	-12.8%

¹2014/15 includes £2.4m Council Tax Freeze Grant. 2015/16 includes notional £0.8m for Local Welfare Provision; note this is not new funding as the Government have top sliced this from the main Revenue Support Grant (RSG) allocation.

8. Overall, the settlement is £0.2m lower than the projection included in the report submitted to the Cabinet on 11th December 2014.
9. Spending power aggregates all the resources including Government grants, (general and specific) and council tax and specific grants available to councils. The Government announced that nationally the reduction in spending power for local government is 1.7%. For Leicestershire, spending power is forecast to increase by 1.7% in 2015/16. This is primarily due to the inclusion of the £38m Better Care Fund in the Government’s calculation.
10. Other general Government grant allocations were also announced at the same time as the Provisional Settlement. Overall, these total £0.7m more than forecast in the draft MTFS. These are –
- New Homes Bonus - Grant of £3.4m compared to £2.9m in the MTFS.
 - Education Support - Grant of £4m compared to £3.1m in the MTFS
 - Section 31 Business Rates Reliefs - £0.8m compared to £1.4m in the MTFS. (This grant may increase, however, on the basis of being prudent the lower figure has been used).
 - Extended rights to free travel - Grant of £0.4m compared to £0.5m in the MTFS.
11. Certain Specific Grants and funds were also announced/confirmed as follows -
- Public Health - Grant of £21.9m in line with the MTFS
 - Better Care Fund - Confirmed funding of £38.3m in line with the MTFS
 - Care Act Funding - Specific grant of £3.7m for implementation of the new Care Act. This is in line with expectations.

12. The Government issued a consultation on the provisional Local Government Finance Settlement on 18th December 2014. This consultation closed on 15th January 2015 and the County Council response is attached as Appendix 'M' (pages B77 to B88).
13. The final settlement for local government finance for 2015-16 was announced on 3rd February 2015 which set out a number of minor changes to the provisional settlement, announced in December 2014, including:-
- An additional £74m funding has been added to the upper-tier funding control total in the Settlement Funding Assessment 'to recognise that councils have asked for additional support, including to help them respond to local welfare needs and to improve social care provision'.
 - The Referendum Principles have been published and confirm that the referendum limit for an increase in Council Tax is 2%.
 - Final New Homes Bonus allocations have been published.
14. The net effect is an additional £0.479m funding which has been allocated as growth to the Adults and Communities budget to support financial pressures in social care. The report and appendices have been updated to reflect the latest information.

Low Funding

15. The County Council is both low funded and low spending. On average other similar County Councils (who do not provide fire services) receive £81 (15%) more per head of population in funding (Council Tax and Government Grant). The table below shows the additional resources that would be available to the County Council if it was funded at the same level as other county authorities. East Sussex and Staffordshire have the highest and second lowest budget requirement per head respectively.

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

16. This low funding per head reflects both the County Council's low Government grant funding and relatively low Council Tax receipts. Compared to other counties Leicestershire receives the third lowest Government grant funding which is £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.
17. 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 its 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.

18. Reductions in funding from a low base mean that the financial position faced by the County Council is considerably more challenging than faced by other authorities.

Revenue Support Grant

19. The Government has announced the figures for 2015/16. The funding reduction in 2015/16 is forecast to be repeated in 2016/17, 2017/18 and 2018/19. The next Spending Review is not due until Autumn 2015 and detailed local government information at authority level for 2016/17 and later years is unlikely to be available until the Provisional Local Government Settlement is announced in December 2015. Although the Government has not announced the funding settlement for these years the Autumn Statement shows that austerity budgets will continue.
20. The overall impact of the settlement on the forecast revenue support grant is set out below;

	2015/16	2016/17	2017/18	2018/19
Revenue Support Grant	£56.2m	£41.8m	£27.8m	£13.8m
% reduction	-23.2%	-25.7%	-33.5%	-50.4%

Business Rates Retention Scheme

21. The 2015/16 Provisional Settlement includes an uplift to Business Rates “Top-Up” and “Baseline” figures of 1.9%. The baseline is the County Council’s share (9%) of business rates generated locally and the top-up is allocated to the County Council to compensate for the small baseline allocation. The proposed MTFS includes an assumption that the baseline and top-up will increase by 3% in 2016/17, 2017/18 and 2018/19, based on forecasts of Retail Price Index increases over that period. The forecasts used in the proposed MTFS are set out below:

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Business Rates ‘Top up’	36.4	37.5	38.7	39.8
Business Rates ‘Baseline’	19.7	20.3	20.9	21.6
Total	56.1	57.8	59.6	61.4

22. In addition to these business rates amounts, the County Council will also receive Section 31 grants for the various business rates reliefs granted by the Chancellor of the Exchequer.

Business Rates Pooling

23. The Government introduced the Business Rates Retention system from April 2013. The County Council along with Leicester City Council, the Combined Fire Authority and all Leicestershire District Councils agreed to operate a pooling agreement for business rates for 2013/14, the 'Leicester and Leicestershire Pool'. The 2013/14 Pool achieved a net surplus of £0.7m for the sub region.
24. Modelling of a Pool for 2014/15 was undertaken by the County Council and the partners in the Pool. However a number of significant difficulties at that time shrouded the projections with uncertainty and all of the Partners agreed reluctantly to terminate the Pool after 2013/14.
25. An "Expression of Interest" was lodged with the Department for Communities and Local Government (DCLG) for the Pool to be re-formed with effect from 2015/16. Modelling has been undertaken with partners which shows a potential net surplus of around £2.5m for the sub region and therefore a decision to re constitute a Pool in 2015/16 was taken in January 2015.

Council Tax

26. The draft MTFs was based on a 1.5% per annum increase in Council Tax over the period 2015/16 to 2018/19. On 14th January 2015 the Cabinet agreed to amend the 2015/16 increase to 1.99%. The additional 0.49% equates to an extra £1.2m per annum. The Council Tax bands and precepts payable by each billing authority for 2015/16 are set out in Appendix 'F' (page B23).
27. The Government has stated that a grant equivalent to a 1% increase in Council Tax would be available in 2015/16 to those authorities which freeze Council Tax and that this grant would be built into the base. It is worth noting that a future Government will not be under any obligation to honour this policy.
28. The Localism Act 2011 makes provision to give residents the power to instigate local referendums on any local issue and the power to veto excessive Council Tax increases. The final Settlement confirmed that the Council Tax referendum limit is maintained at 2%.
29. District Councils have now provided updated tax base estimates. These show an increase of 2.14% compared to the 1% included in the draft MTFs. The change results in an ongoing increase of £2.6m in funding. The tax base increase reflects growth in the number of taxable properties, a decline in the levels of Council Tax Support and the impact of a recent review of Single Person Discount cases undertaken by six of the District Councils, with financial support from the County Council, Police, and Fire Authority.
30. The District Councils are providing quarterly monitoring information on the forecast Collection Funds surplus/deficit. At the end of September 2014 a surplus of around £3m for the County Council has been reported which was reflected in the initial 2015/16 budget. Formal estimates have now been

received which show a lower overall surplus of £2.37m which has been reflected in the latest version of the 2015/16 budget. The main change relates to North West Leicestershire District Council, -£0.6m due to a reduction in estimated income.

Localisation of Council Tax Support (LCTS)

31. The Government reformed the national Council Tax Benefit (CTB) scheme, abolishing Council Tax Benefits from 1 April 2013 and replaced it with a grant.
32. A Council Tax 'hardship' fund was established in 2013/14. The Discretionary Discount Fund (DDF) was funded from contributions from preceptors including the County Council. The County Council's contribution of £208,000 was carried forward to support expenditure in 2014/15. There has been a marked increase in calls on DDF in 2014/15; however, it is likely that the monies carried forward from 2013/14 will be adequate to fund the 2014/15 requirements and consequently the £250,000 additional funding in the 2014/15 budget is forecast to be unspent.
33. The proposed MTFs is on the basis that the County Council will:
 - Continue to contribute £125,000 per annum for administrative costs.
 - Allow the carry forward of unspent DDF to 2015/16.
 - Budget for contributions of £250,000 per annum for DDF, subject to a review of requirements with the District Councils in February 2015.

Health and Social Care Integration

34. Health and Social Care Integration is a priority for both the County Council and the NHS. Developing effective ways to co-ordinate care and integrate services around the person is seen nationally and locally as key to improving outcomes and ensuring high quality and sustainable services for the future.
35. The £38.3m Better Care Fund (BCF) is a pooling of health and social care resources to support the provision of integrated services. Joint discussions between key partners across Leicestershire have taken place and the resulting Leicestershire Better Care Fund Plan has been approved by the Health and Wellbeing Board and NHS England with the focus now turning to delivery.
36. The BCF outlines the ambition for improvement in Leicestershire against a set of performance metrics which include a reduction in emergency admissions to hospital. This metric is linked to 'Pay for Performance' whereby £3m of the fund is only payable to the County Council if there is a 3.5% (1,911) reduction in total, non-elective, general and acute admission.
37. The BCF Plan identifies the schemes that contribute to achieving this metric and performance will be closely monitored and reported. To mitigate against this risk to the Council, funds have been earmarked from the health integration fund to cover any loss of income resulting from underperformance. In the plan £16m has been set aside for the protection of social care services to ensure

that the needs of the most vulnerable residents of Leicestershire are met. The BCF also identifies £1.3m for costs associated with the implementation of the new Care Act.

38. Disabled Facilities Grants (DFGs) which until now have been paid to district councils also form part of the BCF. In 2015/16 funds will be passported to district councils who continue to maintain statutory responsibility for DFG provision.

Public Health

39. Since responsibility for Public Health transferred to the County Council the remit has remained broadly similar and is based around improving the health and wellbeing of the local population.
40. Public Health funding continues to be through a Department of Health ring-fenced grant. Each authority has a target grant level based upon the population of the area weighted according to relative need. However, the transitional arrangements put in place when the service transferred are still being applied meaning that the County Council's grant will be £1.3m lower than if the transition arrangements were removed.
41. The grant for 2015/16 will be £21.9m which is an increase of £0.1m compared to 2014/15. This is due to additional responsibilities regarding oral health. No increase for inflation was applied, which reasonably would be expected to be at least £0.4m. The consequence is that the service will need to absorb any increases that arise.
42. Public Health will become responsible for 0-5 year Children's Public Health Services from October 2015. The transfer creates an opportunity to create efficiencies within the current contract and by joining services together to create pathways for 0-19 year olds. The additional grant is expected to be in the region of £6-7m per annum, although the County Council has not yet been notified of the actual grant increase for this transfer.

Budget Consultation

43. A web-based consultation has been undertaken on the proposals within the draft MTFS approved by the Cabinet for consultation on the 11th December 2014. The consultation asked Leicestershire residents for views on the savings plan and the appetite for Council Tax increases. A summary of the outcome of the consultation is attached as Appendix 'N' (pages B 89 to B122).

Results of Scrutiny Process

44. The Overview and Scrutiny Committees and Commission have received detailed reports on the revenue budget and capital programme proposals. Copies are available via the County Council's website (www.leics.gov.uk). Appendix 'O' (pages B123 to B144) sets out the comments arising from meetings of the Scrutiny bodies.

Inflation

45. The Government's preferred measure of inflation is the Consumer Price Index (CPI). In December 2014 this was 0.5% and the Office for Budget Responsibility (OBR) predicts it will remain at around 1.2% in 2015/16 and then rise to 1.8% in 2016/17 and to 2% in 2017/18 and 2018/19. The OBR predicts that the Retail Prices Index (RPI) will increase slightly from its current level of 1.7% to around 2.1% by 2015/16 and then rise to 2.9% in 2016/17, 3.4% in 2017/18 and 3.6% in 2018/19. However, uncertainty surrounds the likely level of inflation in future years with some commentators predicting higher levels of inflation. The draft MTFS assumes 3% per annum inflation over the period 2015/16 to 2018/19. In recent years the Council has faced higher than headline inflation with particular pressures in social care services where sector inflation is heavily influenced by the increase in the national minimum wage.
46. Local Government employee pay was frozen for the three years from 2010/11 to 2012/13. This was followed by a 1% increase in 2013/14. A two-year pay settlement has been agreed which effectively equates to 1% in 2014/15 and a further 1.2% in 2015/16 for most employees. The settlement is complex, with higher increases for the lowest pay points and a one-off non-consolidated payment made in January 2015. Future levels of pay settlement will be determined by national negotiation between the Local Government Employers and the Trade Unions. A contingency of 2.5% has been included in the MTFS for pay awards from 2016/17 onwards.
47. The central inflation contingency also includes provision for an increase in the employer's pension contributions based on the results of the 2013 triennial actuarial revaluation of the Pension Fund. This increase is 1% in the two years 2015/16 and 2016/17 and is required to address the deficit on the Fund and to meet future liabilities. The same increase is assumed to be required in 2017/18 and 2018/19.
48. Although detailed budgets for 2015/16 have been compiled on the basis of no pay or price increases, a central contingency for inflation will be held which will be allocated to services as necessary.

Growth

49. Over the period of the MTFS, growth of £28.5m is required to meet demand and cost pressures. The main elements of growth are:
- Adult Social Care (£22.4m). This is largely the result of increasing numbers of people with learning disabilities and an ageing population with increasing care needs.
 - The cost of waste disposal (£2.7m), which is mainly attributable to landfill tax.
 - Children's Social Care (£2.1m), which is largely due to pressures on the placements budget and to be able to respond to child sexual exploitation allegations.

50. Adult Social Care has a potential overspend of around £2m in 2014/15. Growth has not been included in 2015/16 for this overspend on the assumption that actions being taken by the Department to manage demand will offset the overspend and that growth in the new MTFS will be sufficient to meet growth in demand. However, this will require careful monitoring throughout the year.
51. Details of proposed growth to meet spending pressures are shown in Appendix 'D' (pages B15 to B19) to this report.

Savings

52. Savings of £18m are forecast to be made in the current year, with further savings of £82m identified over the next four years. After allowing for an increase in Council Tax, Business Rates, and other changes shown in paragraph 49 a budget shortfall of £4.7m is forecast in 2018/19. The presentation of the savings is shown in Appendix 'D' (pages B15 to B19).
53. It is proposed to undertake three transformational reviews which are not included in the MTFS at this stage:
- Early help and prevention - this is a key priority for the County Council and it is proposed that a high level review of the overall approach across the Authority will be undertaken by the middle of next year. This will need to take account of public health resources and existing MTFS savings.
 - Social Care Transport – it is proposed that a wider review of transportation be undertaken that includes children's and adults' social care transport costs and special educational needs (SEN).
 - Adult Social Care – it is proposed that a wider review of action being taken by the Department to manage demand be undertaken to ensure that growth in the new MTFS will be sufficient.
54. Efficiency savings account for £35m and can be grouped into four main types:
- a) Reductions in senior management and administration (£5m)
 - b) Better commissioning and procurement (£12m)
 - c) Service re-design (£14m)
 - d) Collaboration/shared or single services (£4m)
55. The proposed savings year by year are:
- 2015/16: £31.9m
 2016/17: £17.5m
 2017/18: £12.6m
 2018/19: £19.6m

56. The achievement of these savings will be extremely challenging and will require focus, discipline and innovation. The Transformation Programme will have a key role in delivering these savings.
57. It is estimated that the proposals would lead to a reduction of up to 700 posts (full time equivalents) over the four-year period. However, it is anticipated that the number of compulsory redundancies will be lower, given the scope to manage the position over the period through staff turnover and vacancy control.

Income

58. The MTFs includes £110m of income and charges. These are reviewed annually, usually in line with inflation and taking into consideration the economy and market conditions. New sources of funding are actively sought where appropriate.
59. The £82m of savings set out in Appendix 'D' (pages B15 to B19) include £13m of additional income (£2.3m included in efficiency savings).

Central Items

60. Bank and other interest is budgeted at £1m during the period of the MTFs. Capital financing costs are expected to decrease to £23m in 2018/19 from £25m in 2014/15 mainly as a result of the County Council's strategy to use one off revenue balances and earmarked funds to reduce debt. In 2011/12 capital financing costs were £29.8m per annum.
61. The MTFs continues the strategy to reduce debt. Over the lifetime of the MTFs a total of £13m has been set aside to repay debt leading to ongoing annual savings of £1m.
62. The budget also includes time limited provision for revenue funding of capital expenditure of £10.9m in 2015/16, £3.25m in 2016/17 and £2m in 2017/18 and 2018/19. The majority of this funding is towards the £25m Street Lighting LED invest to save project to generate ongoing revenue savings (paragraph 132).

Medium Term Financial Strategy

2015/16 Budget

63. The provisional four-year MTFs excluding Dedicated Schools Grant (DSG) is set out in Appendix 'B' (page B5). The provisional 2015/16 budget excluding DSG is set out below and is detailed in Appendix 'A' (page B3).

Provisional Budget	2015/16 £m
Services including inflation	337.0
Add growth	10.8
Less savings	-31.9
	315.9
Add Central Items	33.2
Contribution from earmarked funds	-1.0
Total Expenditure	348.1
Funding	
Revenue Support Grant	-56.2
Business Rates	-56.1
Council Tax	-235.8
Total Funding	-348.1

Medium Term Position

64. The MTFs shows a balanced position over the next two years based upon existing savings and growth estimates. There is a requirement for further savings (over those already identified in the MTFs) of £3.7m in 2017/18 and £4.7m in 2018/19. Given that funding is likely to continue to decrease after 2018/19, and that demand for services for the most vulnerable people will rise, this challenging financial position is likely to continue for at least a further year into 2019/20.

2015/16 Education Funding Settlement – Dedicated Schools Grant

65. The Dedicated Schools Grant (DSG) settlement retains three separate blocks for 2015/16; the DSG allocation for the offer of early education to the 40% most deprived 2 year olds will not be confirmed until June 2015 and has been estimated. Overall the Schools Budget remains set at the level of the grant received. A summary of the grant elements is detailed below:

Funding Block	Areas Funded	Basis for Settlement
Schools Block £364.6m	This block funds delegated budgets for all Leicestershire primary and secondary schools and academies and for the first time the three studio schools in Leicestershire. Funding for academies is recouped from the settlement and paid directly to the academy by the Education Funding Agency (EFA). This block of funding is	The Schools Block Unit of Funding (SBUF) is £4,229.29 per pupil and is based upon the pupil characteristics recorded in the October 2014 schools census. Leicestershire is the 11 th lowest funded for this element of the settlement out of 151 authorities (3 rd lowest 2014/15) and compares to an England average of £4,612.11.

	increased as a result of the 'Fairer Funding' announcement by the DfE in July 2014.	
High Needs Block £52.9m	Funds special schools and other specialist providers for high needs pupils and students, the pupil referral unit and support services for high needs pupils including high needs students in further education provision.	<p>The settlement remains based upon expenditure for 2012/13, adjusted for changes in the number of high needs places commissioned with an element of national growth in funding.</p> <p>Converting the settlement to a per pupil basis using pupil data in the other elements of the DSG settlement places Leicestershire 17th lowest funded at £579.60 against an England average of £775.68.</p>
<p>Early Years £18.7m (3 & 4 year olds)</p> <p>2 year old disadvantaged places £2.8m (est)</p>	<p>Funds the Free Entitlement to Early Education (FEEE) for 3 and 4 year olds and an element of the early learning and childcare service.</p> <p>This allocation includes a provisional allocation of £0.3m for the early years pupil premium which will be adjusted in future years for actual take up.</p>	<p>The settlement is based upon January 2014 pupil numbers and will be adjusted for January 2015 and 2016 pupil data</p> <p>The FEEE funding rate of £3,363.36 is unchanged from 2014/15 and Leicestershire remains 10th lowest funded against an England average of £4,282.60 including the early years pupil premium. This settlement no longer includes funding for FEEE for 2 year olds. Whilst the settlement for this element of DSG will not be confirmed in June 2015 the rate of funding has been confirmed at £4.85 per hour. Leicestershire is one of 52 authorities that receive the lowest rate of funding, the funding level is equal to the rate paid to Leicestershire providers.</p>
£439.07m	Total DSG (including 2 year old estimate)	

66. The DfE has stated that it wishes to move to a formulaic distribution for the High Needs Block and is currently undertaking a research project to determine how that may be achieved. Leicestershire is one of the authorities participating in this research.
67. It is also anticipated that a single funding formula for the Early Years block and early education providers will be introduced at some point in the future.

School Budgets

68. The Government has confirmed that it remains its intention to implement a national funding formula for local authorities and schools. No timescale has been given for the introduction of the national fair funding formula, but that it will happen at 'the right time' and at a point at which there are multi-year funding settlements in order that schools are able to plan for the changes.
69. The framework for local authorities to calculate individual school budgets is largely unchanged for 2015/16, albeit there are some national changes to the definitions of some of the factors. The School Funding Task and Finish Group considered these changes and recommended that the 2015 /16 school funding formula should remain unchanged.
70. The Minimum Funding Guarantee (MFG) remains nationally set at minus 1.5% per pupil. Whilst the approach to the allocation of the additional school funding was to minimise the number of schools receiving MFG, 23 schools remain on minimum funding. The funding released from this change has been recirculated across the school funding formula. As MFG is a per-pupil reduction schools with falling rolls may see their budgets reduce by more than 1.5% overall. Additionally some items funded within the formula, i.e. rent and rates, are not considered within the MFG calculation.
71. The methodology for funding schools undertaking or affected by age range changes and the pupil number count remains unchanged. It continues to include an adjustment for estimated changes in roll for September 2015 which will be adjusted in 2016/17 budgets when actual numbers will be confirmed. Schools unaffected by age range change remain on the national pupil number count and are funded on pupil numbers from the October 2014 school census as required by the school finance regulations.
72. Local authorities are required to fund start-up costs for new schools and for diseconomies of scale there may be until they have a full contingent of year groups. It is planned for the new primary school for the Braunstone Town and Leicester Forest East areas to be open for a September 2016 intake. It is therefore necessary to establish a growth fund and for the Schools Forum to agree the criteria for its allocation. £1m is notionally set aside within the DSG earmarked fund for this purpose, however with further new schools expected as a result of the future development of Sustainable Urban Extensions (SUE's) it is necessary to establish funding on an on-going basis. With no local authority

budget to contribute, this must be funded from within the Schools Block DSG and may require future changes to the values within the school funding formula.

Two Year Old Early Education Offer

73. From September 2014 local authorities were required to extend the offer of FEEE to the 40% most deprived two year olds. Local authorities were funded through DSG based upon the number of two year olds eligible for the offer, and for 2015/16 the basis of this funding changes from the numbers eligible for the offer to the numbers participating.
74. Nationally, participation rates have been lower than eligibility rates, and this has resulted in 'headroom' within the funding settlement. In Leicestershire this has allowed for a substantial proportion of the early learning and childcare service to be DSG funded and has contributed to Children and Family Services savings targets. Whilst the DSG allocation is not expected until June 2015 it is estimated to be £2.8m, which is £2.6m lower than the grant for 2014/15.
75. There is an immediate need for the service to be reconfigured to respond to a significant reduction in funding in the immediate and medium term.

Pupil Premium

76. The DfE have not formally issued a full pupil premium settlement for 2015/16 and expect to make an announcement in late January. At the time of writing this has yet to be made. The settlement is expected to be based upon pupil numbers from the October 2014 school census which will be updated for the January census. Confirmed allocations are not expected until June 2015. The amounts are expected to be increased for primary pupils and remain on the current basis of eligibility as detailed in the following table:

Pupil Premium Payable	2015/16 £	2014/15 £
Primary Free School Meals Ever 6 (any pupil eligible for free school meals in the last 6 years)	1,320	1,300
Secondary Free School Meals Ever 6 (any pupil eligible for free school meals in the last 6 years)	935	935
Children from service families	300	300
Looked after children	1,900	1,900
Children adopted from care, left care under a special guardianship or residence order	1,900	1,900

Academies

77. Currently in Leicestershire 142 schools have converted to academy status, 7 schools are in the conversion process, and 2 are known to have expressed an interest in conversion.
78. Where schools are required to enter a sponsored academy arrangement as a result of an OfSTED judgement of special measures any budget deficit reverts to the local authority on conversion. 4 schools are in this position, £2.5m of the DSG reserve is set aside to meet these costs and is expected to be fully spent from these conversions. Further funding will need to be set aside to meet any future costs.

Education Services Grant

79. The Education Services Grant (ESG) provides funding to authorities for:
- a) the services it provides to all schools and academies such as strategic planning of the education service, development and maintenance of the school funding formula and strategic capital planning
 - b) the services it provides only to maintained schools such as ICT infrastructure, finance and HR.
80. A reduction of 20% in ESG has been confirmed for 2015/16 and reduces the general rate paid to local authorities and academies. ESG is not a specific grant into Children and Family Services but is accounted for as corporate income. Overall the level of grant is affected by the number of pupils in academies and by pupil numbers in schools that convert during the financial year. ESG is estimated to be £4m in 2015/16.

Transforming the Way We Work

81. The financial challenges facing the Council are significant. The Council needs to implement major changes in Government policy regarding provision of health and social care services and children's services which will increase the pressures on resources, coupled with demographic changes increasing the demand for social care support.
82. At the same time, the health and social care integration agenda provides the opportunity for the Council to rethink radically its highest cost services and improve outcomes. Furthermore, the Council has a renewed focus on driving innovation in service provision, to improve outcomes for Leicestershire people.
83. In May 2014 to meet the financial challenge and the need to deliver services differently, the Cabinet approved a Transformation Programme. The Programme has two distinct components:

- Service Transformation – this will deliver £36m over the next four years.
 - Enabling Transformation – this will deliver the council-wide tools and capabilities to support transformation.
84. The Service component is made up of 24 projects which will be delivered by departments over the life of the MTFs. A Transformation Unit has been established to provide leadership and project support for the programme, and elected member input is provided through the Transformation Board. The outcomes from the reviews of early help and prevention and social care transport will be incorporated into an updated Transformation Programme.
85. The Council's service transformation projects have identified a number of requirements that entail a co-ordinated and planned approach across the Authority. These enablers to transformation will impact on the Council's core resources e.g. systems, customer services, management training programmes. When the programme was established there were five enablers:
- People and Organisation Development
 - Data and Business Intelligence
 - Customer and Communities
 - Effective Commissioning
 - Systems and Technology.
86. Recently a sixth enabler, 'Property and Assets', has been added following the Cabinet's approval of the County Hall Masterplan in November 2014.
87. The following projects are closed and fully delivered against their project briefs:
- T9 Health Improvement
 - T18 Market development of Public Health Services
 - T19 Support to the voluntary organisations and communities
88. Good progress is being made across the other service projects and the enablers. Examples of early deliverables include:
- Local Area Coordinators – these start in April 2015 and are there to help people make best use of local resources.
 - £1m Government grant for the Lightbulb Offer – working with partners this scheme will provide joined-up support across housing, health and social care to keep people safe, well, warm and independent.
 - Sharing Information – in November the Council adopted the NHS number in adult social care (a national unique patient identifier) to help share information about people safely, efficiently and accurately across the different agencies in Leicestershire.
 - A new, more customer-focussed County Council website. This will be launched in April 2015.

89. The Council is also looking to transform the way it commissions services. The Commissioning and Procurement Strategy is the subject of another report on the agenda for this meeting. The Strategy sets out the vision and direction for commissioning activity across the Council and how it will achieve this over the next four years. The aim is to ensure a robust and consistent approach is adopted for all commissioning activity.
90. The Council spends annually around £350m externally on buying goods and services from third parties. The balance of annual spend (£200m) is on in-house services. Given the financial challenge, by 2018 the Council will be spending less and the proportion spent internally and externally will change as it focuses on what is strategically important and as opportunities for people to buy their own services directly continue to expand.
91. A Commissioning and Procurement Support Unit has been established and a new head of the unit appointed, to make the most of the Council's resources, share best practice, and achieve greater consistency across the organisation.

Adequacy of Reserves and Robustness of Estimates

92. The Local Government Act 2003 requires the Council's Chief Finance Officer to report on:
- a) The adequacy of reserves, and
 - b) The robustness of the estimates included in the budget.
93. There is little doubt that the Council faces the most uncertain and risky financial environment for a generation. There are a number of known major risks over the next few years that could have a significant financial impact on the Council. These include:
- Non-achievement of savings and income targets. The requirement for savings and additional income totals £86.3m over the next four years of which £4.7m is unidentified.
 - Service pressures resulting in an overspend. Although overall the Council is under-spending, pressures within Adults and Children's social care are increasing.
 - The Care Act reforms to Adult Social Care are due to be implemented starting from 2015. The MTFs is based on the assumption that this will be fully funded given Government assurances. There is a risk however that this does not happen. In areas such as Leicestershire where there are significant numbers of people who fund their own care the impact could be significant. The estimated costs of implementing the reforms are in the region of £30m to £60m per annum.
 - The Better Care Fund is both an opportunity and a risk. There is a risk that the element of the Fund that is available to protect adult social care services is not received in full or does not continue in full after 2015/16.

Although there are good relationships with the local NHS the £38.3m in the BCF is not new money and will need to be made available from existing health budgets. In addition, circa 25% is dependent on performance against a range of performance indicators.

- Public finances continue to deteriorate with the prospect of future cuts following the Comprehensive Spending Review later in 2015.
94. In addition to the risks above which could have a major financial impact, there are other risks which could also impact financially:
- That savings on support services might impact on the capacity to deliver transformation projects e.g. IT, HR, Finance, and Property.
 - Pay inflation. Local government employees have received pay increases totalling around 4.2% over the seven years to April 2016. Although provision for pay has been included it is possible this will not be sufficient. Non-pay inflation is also a risk, in particular the impact of the national minimum wage on social care contracts.
95. There are a number of ways that risks will be mitigated and reduced. These are summarised below and explained in more detail in the following paragraphs.
- The General County Fund
 - MTFS Contingencies - £8m in each year
 - Earmarked funds
 - Effective risk management arrangements

General County Fund/MTFS Contingencies

96. The General County Fund is available for unforeseen risks (e.g. extreme flooding). It allows the Council to manage unforeseen financial events without the need to make immediate offsetting savings, with the potential real impact on County Council services.
97. The forecast balance on the General County Fund at the end of 2014/15 is £14.8m which represents 4.2% of the net budget (excluding schools' delegated budgets). To put the level of resources into context: with the exclusion of schools, the County Council spends nearly £50m a month. The earmarked funds policy, set out in Appendix 'J' (pages B53 to B54), has been updated during 2014/15 following a reassessment of the increased risks facing the Authority and a review of the average general fund balances held by other County Councils. The revised policy is to hold a balance on the General County Fund in the range of 4% - 5% (previously 2%-3%). This has been funded by a transfer from the Transformation earmarked fund. In addition, the proposed MTFS includes a contingency of £8m in each year.

Earmarked Funds

98. A detailed review of the Council's earmarked funds was undertaken in October 2014 and a report was considered by the Scrutiny Commission on 5th November 2014. As part of the MTFs this work has been refreshed as at the end of December 2014. The estimated balance as at 31st March 2015 is £84.7m excluding schools, details of which are shown in Appendix 'E' (page B21). The actual levels of earmarked funds are subject to any year end technical accounting requirements to produce the Statement of Accounts, e.g. health funding arrangements and specific grants.
99. These earmarked funds and balances are held for specific purposes. The main earmarked funds and balances projected at 31st March 2015 are:
- (a) Transformation, £27.2m. This has been set aside to fund support for transformation projects such as remodelling community libraries and museums, departmental projects including improving debt collection for social care, and invest to save projects to achieve efficiency savings. The fund will also be used to fund severance costs.
 - (b) Insurance, £13.6m. Funds are held to meet the estimated cost of future claims to enable the County Council to meet excesses not covered by insurance policies. The levels are recommended by independent advisors. The earmarked fund also includes funding for uninsured losses (£4.8m). This is mainly held to meet additional liabilities arising from Municipal Mutual Insurance Ltd (MMI) that is subject to a run-off of claims following liquidation in 1992 and also of other failed insurers such as The Independent Insurance Co. Limited.
 - (c) Capital Financing, £6.5m. This fund is used to hold revenue contributions to fund capital expenditure in future years including the Street Lighting LED replacement project. The forecast balance includes £6.5m from the forecast revenue underspend in 2014/15.
 - (d) Broadband, £6.2m. This fund was established to allow the development of super-fast broadband within Leicestershire. A contract has been entered into with BT and they have commenced work. There is a significant time lag in spending County Council funds due to grant conditions that required Central Government and European funding to be spent within a set period.
 - (e) Health and Social Care Outcomes, £5.2m. This earmarked fund is used to fund projects that improve health and social care outcomes in Leicestershire, including the prevention of admission and readmission into hospital as well as the prevention of other costly health and social care provision.

- (f) Adults and Communities Developments, £2.4m. This earmarked fund is held to fund a number of investments in maintaining social care service levels and assisting the department in achieving its transformation.
- (g) Supporting Leicestershire Families, £2.4m. This funding has been earmarked to fund both the programme team and the new services under the Supporting Leicestershire Families programme (formerly known as Troubled Families).

100. The extent to which the earmarked funds and balances will be used in the medium term has also been estimated. The MTFs includes using earmarked funds and balances totalling £56m over the next four years. The main areas are summarised below:

- £26.2m Transformation
- £6.5m Capital Financing Contributions
- £5.7m Investment in Broadband
- £5.2m Health and Social Care Outcomes
- £2.4m Supporting Leicestershire Families
- £2.4m Investment in Adult Social Care
- £1.8m Public Health
- £1.8m Children and Family Services Developments
- £1.2m Economic Development
- £1.1m Investment in the Waste Management infrastructure

Risk Management Policy and Strategy

101. The County Council's Code of Corporate Governance sets out a requirement to ensure that an effective risk management system is in place. To this effect, a framework has been developed which incorporates the Risk Management Policy and Strategy setting out the scope, direction and priorities for risk management, along with supporting documentation which summarise the key features of the Council's approach. This integrated framework is underpinned by a risk management toolkit for use across the Authority. Risks are managed at Service and Departmental level or may be escalated onto the Corporate Risk Register which captures the Council's strategic risks and is presented to the Corporate Management Team (CMT) and Corporate Governance Committee for regular scrutiny and challenge. The Risk Management Policy and Strategy is set out in Appendix 'I' (pages B41 to B52) to this report.

102. The policy will be reported to the next Corporate Governance Committee on 20th February 2015. The Committee has a responsibility to 'Monitor the arrangements for the identification monitoring and management of strategic and operational risk within the Council'. It is proposed that the Director of Corporate Resources is given delegated authority to amend the policy as necessary following consideration by the Corporate Governance Committee.

Schools Balances

103. Schools balances are held for two main reasons. Firstly, as a contingency against financial risks and secondly, to save to meet planned commitments in future years. The balance at 31 March 2014 was £8.1m. The balance at 31 March 2015 will be affected by the number of schools converting to Academies.

Robustness of Estimates

104. The Chief Financial Officer provides detailed guidance notes for Departments to follow when producing their budgets. As well as setting out certain assumptions such as inflation, these notes set a framework for the effective review and compilation of budget estimates. As a result, all estimates have been reviewed by appropriate staff in departments. In addition, each Departmental Finance Business Partner has identified the main risk areas in their budget and these have been evaluated by the Chief Financial Officer. The main risks are described earlier in the report.

105. The Cabinet and the Scrutiny Commission receive regular revenue and capital monitoring reports, budget and outturn reports and external audit reports. In addition, further financial governance reports are considered by both the Corporate Governance Committee and the Constitution Committee. This reporting enables members to satisfy themselves about both the financial management and standing of the County Council. These reports will include key financial performance indicators and targets set out in Appendix 'K' (page B55).

Conclusion

106. Having taken account of the overall control framework, budget provisions included to support the delivery of transformation, growth to reflect spending pressures, the inclusion of a contingency for MTFS risks and the earmarked funds and balances of the County Council, assurance can be given that the estimates are considered to be robust and the earmarked funds adequate.

107. It is worth noting that last year, the County Council's external auditors, PricewaterhouseCoopers (PwC) reviewed the MTFS and confirmed that the MTFS was appropriate, robust and based on prudent assumptions including the level of proposed earmarked funds and contingency. PwC have indicated that a similar review will be completed on the 2015-19 MTFS.

Treasury Management Strategy Statement and Annual Investment Strategy

108. The Treasury Management Strategy Statement and the Treasury Management Annual Investment Strategy must be approved in advance of each financial year by the full Council. Appendix 'L' (pages B57 to B75) to this report sets out the combined Treasury Management and Investment Strategy including the Treasury Management Policy Statement for 2015/16.

109. This Strategy Statement has been prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services Code of Practice (the Code). Accordingly, the Council's Treasury Management Strategy includes:

- (a) treasury limits in force which will limit the treasury risk and activities of the Council
- (b) prudential and treasury indicators
- (c) the current treasury position
- (d) the borrowing requirement
- (e) prospects for interest rates
- (f) the borrowing strategy
- (g) policy on borrowing in advance of need
- (h) debt rescheduling
- (i) the investment strategy
- (j) creditworthiness policy
- (k) policy on use of external service providers
- (l) the Minimum Revenue Provision (MRP) strategy

110. A summary of some of the key elements requiring approval is as follows:-

- Treasury Management Strategy Statement and Annual Investment Strategy
- Annual statement of the annual minimum revenue provision
- Prudential Indicators
- The Treasury Management Policy Statement

111. It appears highly unlikely that there will be any increase in UK bank base rates during 2015, and the consensus economic forecast is that there will also be no increase during 2016. The timing and extent of increases from this level is highly dependent on economic growth in not just the UK, but also the rest of the developed world. The general consensus is that base rates will remain below what was previously considered a normal range (4% - 6%) for a significant period of time.

112. In recent years the Council has used one-off revenue underspends and balances released from earmarked funds to reduce the costs of financing external debt leading to annual revenue savings on the capital financing budget. As described earlier in the report, the MTFS 2015-19 continues this strategy and includes additional contributions of £13m, resulting in revenue savings on the capital financing budget of circa £1m per annum by 2018/19.

113. Although the Treasury Management Strategy will need to take account of interest rate levels, the County Council will continue to review opportunities to use general underspends and one-off balances to make further provision to repay debt where possible. Actual debt is currently £286m and is expected to reduce to £264m at the end of 2018/19. No new borrowing is included within the MTFS 2015-2019.

114. In recent years there have been major changes to the manner in which financial institutions are supervised and the amount of capital that they are required to hold, and there is little doubt that the financial system is now considerably less risky than it was previously. There have also been changes (and will be future changes) to the way in which credit rating agencies assign credit ratings, which make it increasingly difficult to modify the ratings required for a counterparty to be considered acceptable to lend money to.
115. The Council's treasury management advisors, Capita Asset Services, have significant experienced resource in the area of treasury management risk and maintain a list of suggested counterparties that is used by the vast majority of their clients. Given the changes to credit rating methodologies and the availability of other factors that can be used as an indicator of financial strength, it is recommended that from 1st April 2015 the Authority's list of acceptable counterparties should be closely aligned to the suggested list produced by Capita Asset Services. Details of the impact that this proposed change will have are contained within the Annual Investment Strategy.
116. The recommended changes will increase the number of acceptable counterparties quite substantially, but these counterparties all have very high credit ratings and there will be no meaningful increase in risk. The increase in counterparties will give much greater flexibility in managing the investment portfolio and, given current market conditions, is expected to lead to an increase in interest earned of between £0.15m to £0.25m per annum.

Capital Programme 2015/16 to 2018/19

117. Capital programme schemes are funded by a combination of Government grants, capital receipts, revenue/earmarked funds, prudential (unsupported by Government) borrowing and external contributions.
118. All Government funding will be through capital grants and the majority of funding is non-ring-fenced. Resources awarded by Central Government for specific services, principally schools and transportation, are prioritised through Government determined mechanisms. The capital strategy is shown in Appendix H (pages B33 – B39).
119. A capital programme of £228.9m (over 4 years) is proposed, funded from resources available to the Council. This includes capital grants of £155.3m, capital receipts of £36.8m, revenue/ earmarked funds of £29.8m, and external contributions £7m. Capital receipts include £8.4m loan repayment from Lloyds Bank for the Local Authority Mortgage Scheme. The detailed capital programme is shown in Appendix 'G' (pages B25 to B31) to this report.
120. The key principles underpinning the Capital Programme are:
- Generate a positive impact on the revenue budget
 - Passport Central Government capital grants for key priorities for highways and education to those departments

- Maximise capital receipts and other sources of income such as the Leicester and Leicestershire Enterprise Partnership (LLEP), and section106 (developer) contributions
- To invest in a limited number of priority areas including roads, infrastructure, economic growth and projects that generate a positive revenue return.
- No or limited prudential borrowing.

121. The proposed programme is summarised in the tables below:

Table 1 Capital Programme 2015/16 to 2018/19

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Children and Family Services	31,588	27,533	*0	*0
Adults and Communities	3,299	1,075	510	200
Transportation	28,932	42,132	30,681	19,660
Waste Management	560	550	0	0
Chief Executive's	6,660	6,445	1,900	200
Corporate Resources	2,250	900	1,000	1,350
Corporate Programme	3,900	8,080	5,500	4,000
Total	77,189	86,715	39,591	25,410

*Government allocations have not yet been announced

Table 2 Capital Resources 2015/16 to 2018/19

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Capital Grants	57,810	59,661	23,669	14,170
Capital Receipts	10,266	7,006	8,738	10,800
Revenue/Earmarked funds	6,064	16,600	6,720	430
External Contributions	3,049	3,448	464	10
Unsupported Borrowing	0	0	0	0
Total	77,189	86,715	39,591	25,410

Children and Family Services

122. Capital funding for schools is provided by the DfE in the following grants:

- a) Basic Need - provides the capital for providing new pupil places by expanding existing maintained schools, free schools or academies and by

establishing new schools. Funding is determined through an annual submission to the DfE which identifies the need for additional school places in each local authority. Basic Need Grant of £51.5m has been confirmed for 2015/16 and 2016/17. Future years' allocations have not yet been announced.

- b) The priorities for the allocation of the grant are aligned to the school place planning strategy 'In the Right Place' approved by the Cabinet on 19th November 2014 and summarised below:
- To provide additional primary school places
 - To ensure a good supply of secondary places
 - To complete the area special school programme
 - To seek opportunities to address structural changes to the pattern of education where this can be linked to basic need
 - To ensure that appropriate developer contributions are received from housing developers
 - To promote choice and diversity
 - To ensure that school assets are maintained fit for purpose.
- c) The proposed programme is based on predicted pupil numbers for each individual school and academy based on the historic pattern of pupil admissions. Schemes may need to be revised should future school admission patterns and / or the expectations of housing growth change. This is particularly relevant to the proposed programme for 2016/17 onwards.
- d) In order that the school accommodation programme is sufficiently flexible to respond to changes in pupil projections, demographic growth and sponsored academy requirements, it is recommended joint delegation is given to the Director of Corporate Resources and the Director of Children and Family Services to approve the inclusion of funded new schemes to the capital programme to enable the County Council to meet its statutory responsibility for the delivery of sufficient school places.
- e) Maintenance – provides the funding to maintain the portfolio of maintained schools only. Grant funding for 2015/16 has not yet been announced but is estimated to be around £3.4m. In 2014/15 the grant was £4.2m. It is anticipated that this grant will continue but will reduce as further schools convert to academy status. The grant is allocated to maintenance priorities such as boiler replacement, structural repairs and electrical works.
- f) Devolved Formula Capital (DFC) is paid to the County Council on a national formula, which is based upon pupil numbers in maintained schools. The funding is passported by the Council directly to schools. Academies receive this funding directly from the DfE. No announcement has yet been made on funding for 2015/16 but it is expected that funding levels will remain in line with previous years. The amount is affected by the number of academy conversions and is estimated to be around £0.77m in 2015/16. (2014/15 £0.88m).

Adults and Communities

123. The key elements are:

- a) Disabled Facilities Grant (DFG) £1.7m. The grant is used to fund major housing adaptations for vulnerable people, allowing them to remain safely in their own home rather than being admitted to a residential care setting. Up to and including 2014/15 the funding was allocated to District Councils, however from 2015/16 DFG will form part of the Better Care Fund paid to the County Council. It has been agreed that for 2015/16 the funding will be passported to District Councils.
- b) Extra Care Accommodation £1.6m. Capital contribution to East Midlands Housing to develop Extra Care accommodation in Loughborough comprising 60 units.
- c) Respite and Community Life Choices, total £0.55m. Refurbishment of buildings to amalgamate community life choices with existing adult social care services.
- d) Replacement of Mobile Libraries, £0.8m. Ongoing programme to replace the ageing fleet of mobile library vehicles to maintain service provision. The programme is dependent on the outcome of the libraries service review.
- e) Re-configuration of Libraries £0.2m. Reconfiguration of space in major libraries to improve library room hire facilities for adult learning and to generate additional income.

Transportation

124. The Department for Transport (DfT) has informed local authorities of the amounts they will receive for the Local Transport Plan (LTP). The LTP comprises two elements:

- a) Improvement Schemes - funding of £2.7m has been confirmed for each of the three years 2015/16 to 2017/18, together with indicative allocations of the same amounts for each year 2018/19 to 2020/21. Part of this funding is being used as matched funding towards Strategic Economic Plan (SEP) projects – see paragraph 133.
- b) Maintenance - funding of £14.2m has been confirmed for 2015/16. The indicative allocations for future years have also been announced and are shown in the table below. While this shows a decline in funding over the period for the needs based element, increasing amounts of funding will be made available by the DfT through the Incentive formula (allocation based on the local authorities record in pursuing efficiency and asset management) and the Challenge Fund (local authority bids for major maintenance schemes). Overall the DfT national control total for the total of these elements remains at £976m each year until 2020/21.

Year	Indicative Allocations (£000)
2016/17	13,036
2017/18	12,641
2018/19	11,442
2019/20	11,442
2020/21	11,442

- c) Guidance has now been received about how to bid for the DfT challenge fund. The first tranche covers the 3 years 2015/16 to 2017/18 and totals £275m nationally. The fund is set up for 2 levels of schemes; small schemes requiring DfT funding between £5m to £20m, and larger schemes greater than £20m. The fund requires match funding contributions of 10% minimum and a maximum of 2 bids can be submitted. The Department is currently working on bids in order to meet the deadline for submission of the 9th February 2015.
125. The County Council has been successful in bidding for five major transport schemes from the Single Local Growth Fund (SLGF) secured via the LLEP for its SEP. The schemes total £36.2m over the next three years. Of this, £27.6m will be funded from the SLGF, £1.5m from Leicester City Council and £7.1m matched-funding from the County Council's LTP improvement schemes grant funding. The schemes are:
- Leicester North West Major Scheme (£19m)
 - Lubbethorpe Strategic Employment Site Access (£5.1m)
 - Hinckley Phases 2 and 3 (£5.5m)
 - M1 Junction 22 (£3.6m)
 - A42 Junction 13 (£3m)
126. Whilst the SLGF monies have been committed to the Local Enterprise Partnerships (LEPs) through the Growth Deals on the 7th July 2014, there is a degree of uncertainty around this funding, especially for 2016/17 and 2017/18. As a result there may be some risks around issuing orders for work on these schemes to ensure the timescales for delivery are met. However, a letter sent to LEP chairs by Sir Bob Kerslake, the Permanent Secretary of the DCLG, suggests that these risks are small and encourages LEPs to proceed with delivery of their schemes. Furthermore, if funding for schemes in future years is subsequently withdrawn, this would also free up the County Council's matched funding element against these schemes which could instead be used to fund any committed expenditure against schemes already progressing for which funding will no longer be forthcoming.
127. There will be further opportunities to bid for LLEP funding in the future. However, where there is a requirement to include matched funding this will be limited as a large proportion of the LTP funding has already been set aside as matched funding for the next three years.
128. The key elements of the discretionary programme are:

- Street lighting - a £25m invest to save programme to replace all County Council maintained street lights (around 66,000) with LED lighting including a Central Management System to control the lighting, and the de-illumination of traffic signs on bollards leading to annual revenue savings of £2m per annum (excluding financing costs). The decision to proceed will be taken following the procurement process and subsequent refresh of the business case.
- M1 New Bridge, Lubbethorpe Sustainable Urban Extension - £2m 2016/17. This is the continuation of the project programmed in the 2014/15 MTFS, (total costs being £8m), funded from Government grant and developer funding. Design works have started. However, there are difficulties in finalising the funding agreements between the Homes and Communities Agency, the land-owner and the developers which will lead to slippage in the current year and a revised profile as to when the final £2m is likely to be required.
- Loughborough Town Centre - £0.4m is allocated to fund Part 1 land compensation claims.
- Zouch Bridge, Loughborough replacement -£3.1m. The bridge over the River Soar at Zouch, which carries the A6006, is beyond economic repair.
- Major Schemes Advanced Design - £0.4m to plan effectively for future major schemes and grant opportunities.
- Vehicles Replacement Programme - £1m is allocated.

Waste Management

129. The programme provides for improvements at Recycling and Household Waste Sites and Transfer Stations (totalling £1.1m) to provide modern, user-friendly facilities, improved health and safety on site and improved recycling facilities to reduce waste tonnage to landfill. These will be funded from earmarked revenue funds.

Chief Executive's

130. The key elements of the programme are:

- Rural Broadband Scheme £5.7m – Phase 1 (also known as Superfast Leicestershire Programme) will roll out superfast broadband to homes and businesses in the County so that access to high speed fibre optic broadband will increase from 75% to 96% of Leicestershire premises by the end of March 2016. The total project costs are £9.8m. (Scheme started in 2014/15).
- Rural Broadband Scheme £7.4m – Phase 2 (also known as the Superfast Extension Programme) will further extend the provision of superfast broadband. Phase 1 and Phase 2 are funded by a combination of government grant, County Council earmarked funds and District Council contributions.
- Loughborough University Science and Enterprise Park £1.3m. The contribution, alongside those from other public sector partners, will assist the University's planned expansion of the existing Science and Enterprise

Park. The total contribution is £1.5m of which £0.2m is included in the 2014/15 capital programme.

- Other projects include the Rural Capital programme (£0.4m) to support rural economic growth and Shire Community Grants programme (£0.4m) to provide small grants.

Corporate Resources

131. The key elements are:

- Corporate ICT capital programme £2.1m. Investment in the replacement and upgrade of the corporate ICT infrastructure.
- ICT Resilience data centre re-provisioning £1m, to improve resilience and energy efficiency.
- Wide Area Network Replacement £0.45m, starting in 2017/18.
- County Farms and Industrial Properties £1.6m. Four year programme of general improvements.
- Projects to enable the sale and redevelopment of surplus land, including works at the former King Edward VII School in Melton Mowbray - £0.4m.

Corporate Programme

132. The key elements are:

- Corporate Asset Investment Fund, £15m. The fund, with oversight by the member led Asset Investment Fund Board, has been established to add and develop the County Council's portfolio of property and land assets, including County Farms and commercial properties to improve economic development, improve the quality and quantity of land and property available, and ensure the sustainability of County Farms by replacing land sold.
- Energy Strategy, £2.2m. Programme of invest to save measures to deliver revenue savings and carbon reduction in line with the Energy Strategy. The programme includes renewable energy generation, behavioural change, energy efficiency improvements to heating and lighting and improvements to energy consumption measurement, monitoring and reporting.
- County Hall Masterplan, £4.2m. Investment in the County Hall campus to reduce property running costs, increase space for rental opportunities and modernisation of Anstey Frith House to create enhanced registration services and to provide an out of hours facility for County Hall. The programme also incorporates major capital maintenance projects on the County Hall campus including renewal of the heating distribution systems, window replacement and re-roofing of specific areas.

Equality and Human Rights Implications

133. 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.

134. Many aspects of the County Council's MTFs may impact upon 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. Assessments are being undertaken in light of the potential impact of proposals and the timing of the proposed changes. Those assessments will be revised as the proposals are developed.

135. Proposals in relation to savings arising out of a reduction in posts will be subject to the County Council Organisational Change policy which requires an Equality Impact Assessment to be undertaken as part of the Action Plan.

Crime and Disorder Implications

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

Environmental Implications

137. The MTFs will include schemes to support the carbon management programme and other environmental improvements.

Partnership Working and Associated Issues

138. 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

139. 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.

Consideration by the Cabinet and Scrutiny

140. As indicated above, the Cabinet's proposals were the subject of reports to Scrutiny bodies. The comments of these bodies are set out in Appendix 'O' to this report (pages B123 to B144).

141. At its meeting on 6th February 2015 the Cabinet considered its proposals having regard to the views of Scrutiny bodies and other developments. The recommendations of the Cabinet are contained in the motion which appears below:-

(Motion to be moved:-

- (a) That subject to the items below, approval be given to the MTFS which incorporates the recommended revenue budget for 2015/16 totalling £348m as set out in Appendices A, B and C of the report and includes the growth and savings for that year as set out in Appendix D;**
- (b) That approval be given to the projected provisional revenue budgets for 2016/17, 2017/18 and 2018/19, set out in Appendix B to the report, including the growth and savings for those years as set out in Appendix D thereto and to the undertaking of such preliminary work, including consultation and equality impact assessment, as may be necessary towards achieving the savings specified for those years;**
- (c) That the level of earmarked funds as set out in Appendix E be noted and the use of earmarked funds be approved;**
- (d) That the amounts of the County Council's Council Tax for each band of dwelling and the precept payable by each billing authority for 2015/16 be as set out in Appendix F;**
- (e) That the Chief Executive be authorised to issue the necessary precepts to billing authorities in accordance with the budget requirement above and the tax base notified by the District Councils, and to take any other action which may be necessary to give effect to the precepts;**
- (f) That approval be given to the 2015/16 – 2018/19 capital programme as set out in Appendix G;**
- (g) That the Director of Corporate Resources be authorised to approve the following for inclusion in the 2015/16 - 2018/19 Capital Programme;**
 - (i) Invest to save schemes;**
 - (ii) Advance design and other advance work on urgent schemes within the capital programme including schools capital maintenance pending confirmation of the allocations from the Department for Education (DfE);**
- (h) That the Director of Corporate Resources and the Director of Children and Family Services be authorised to approve the inclusion of funded new school accommodation capital schemes in**

the Capital Programme to enable the County Council to meet its statutory responsibility for the delivery of sufficient school places;

- (i) That the financial indicators required under the Prudential Code included in Appendix L, Annex 2 be noted and that the following limits be approved:-

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Operational boundary for external debt				
i) Borrowing	289.8	280.9	271.0	270.6
ii) Other long term liabilities	1.3	1.2	1.1	1.0
TOTAL	291.1	282.1	272.1	271.6
Authorised limit for external debt				
i) Borrowing	299.8	290.9	281.0	280.6
ii) Other long term liabilities	1.3	1.2	1.1	1.0
TOTAL	301.1	292.1	282.1	281.6

- (j) That the Director of Corporate Resources be given delegated authority to effect movement within the authorised limit for external debt between borrowing and other long term liabilities;
- (k) That the following borrowing limits be approved for the period 2015/16 to 2018/19:

- (i) Upper limit on fixed interest exposures 100%
(ii) Upper limit on variable rate exposures 50%
(iii) Maturity of borrowing:-

	<u>Upper Limit</u> %	<u>Lower Limit</u> %
Under 12 months	30	0
12 months and within 24 months	30	0
24 months and within 5 years	50	0
5 years and within 10 years	70	0
10 years and above	100	25

- (l) That the Director of Corporate Resources be authorised to enter into such loans or undertake such arrangements as necessary to finance capital payments in 2015/16, subject to the prudential limits in (k) above;

- (m) That the Treasury Management Strategy Statement and the Annual Investment Strategy for 2015/16, as set out in Appendix L, be approved including the following:**
- (i) The Treasury Management Policy Statement, Appendix L, Annex 4;**
 - (ii) The Annual Statement of Annual Minimum Revenue as set out in Appendix L, Annex 1; and**
 - (iii) That from the 1 April 2015 the County Council's list of acceptable counterparties is revised to increase flexibility in managing the Investment Portfolio;**
- (n) That approval be given to the Risk Management Policy and Strategy (Appendix I), subject to consideration by the Corporate Governance Committee on 20 February 2015 with delegation to the Director of Corporate Resources to make amendments if necessary following consideration by the Corporate Governance Committee.**
- (o) That the Capital Strategy (Appendix H) and Earmarked Funds Policy (Appendix J), be approved;**
- (p) That the Director of Corporate Resources following consultation with the Cabinet Lead Member for Resources be given authority to enter into or leave a future Business Rates pool.**

Background Papers

Report of the Director of Corporate Resources to the meeting of the Cabinet on 6th February, 2015 on the Medium Term Financial Strategy.