Leicestershire County Council

CABINET – 12TH FEBRUARY 2016

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

MEDIUM TERM FINANCIAL STRATEGY 2016/17 - 2019/20

PART A

Purpose of Report

1. This report presents information on the County Council's proposed 2016/17 to 2019/20 Medium Term Financial Strategy (MTFS) for approval; following consideration of the draft MTFS by the Cabinet and Overview and Scrutiny bodies in January and receipt of the local government finance settlement on 8th February 2016.

Recommendation

2. That the following be recommended to the County Council:-

   (a) That subject to the items below, approval be given to the MTFS which incorporates the recommended revenue budget for 2016/17 totalling £345.3m as set out in Appendices A, B and D of the report and includes the growth and savings for that year as set out in Appendix C;

   (b) That approval be given to the projected provisional revenue budgets for 2017/18, 2018/19 and 2019/20, set out in Appendix B to the report, including the growth and savings for those years as set out in Appendix C thereto and to the undertaking of such preliminary work, including consultation and equality impact assessments, as may be necessary towards achieving the savings specified for those years including corporate savings under development;

   (c) That approval is given to the early achievement of savings that are included in the MTFS, as may be necessary, along with associated investment costs, subject to the Director of Finance agreeing to funding being available;

   (d) That the level of earmarked funds as set out in Appendix I be noted and the use of earmarked funds be approved;

   (e) That the amounts of the County Council's Council Tax for each band of dwelling and the precept payable by each billing authority for 2016/17 be as set out in Appendix J (including the adult social care precept, 2%);

   (f) 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;

(g) That approval be given to the 2016/17 – 2019/20 capital programme as set out in Appendix E;

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

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Operational boundary for external debt				
i) Borrowing	274.6	264.6	264.1	263.6
ii) Other long term liabilities	1.4	1.3	1.3	1.2
TOTAL	276.0	265.9	265.4	264.8
Authorised limit for external debt				
i) Borrowing	284.6	274.6	274.1	273.6
ii) Other long term liabilities	1.4	1.3	1.3	1.2
TOTAL	286.0	275.9	275.4	274.8

(i) That the Director of Finance be authorised to effect movement within the authorised limit for external debt between borrowing and other long term liabilities;

(j) That the following borrowing limits be approved for the period 2016/17 to 2019/20:
(i) Upper limit on fixed interest exposures 100%
(ii) Upper limit on variable rate exposures 50%
(iii) Maturity of borrowing:-

	Upper Limit %	Lower Limit %
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

(k) That the Director of Finance be authorised to enter into such loans or undertake such arrangements as necessary to finance capital payments in 2016/17, subject to the prudential limits in Appendix K;

(l) That the Treasury Management Strategy Statement and the Annual Investment Strategy for 2016/17, as set out in Appendix K, be approved including the following:

(i) The Treasury Management Policy Statement, Appendix K; Annex 4
(ii) The Annual Statement of Annual Minimum Revenue as set out in Appendix K, Annex 1;

(m) That approval is given to the Risk Management Policy and Strategy (Appendix G) subject to consideration by the Corporate Governance Committee on 19th February 2016 and that the Director of Finance be authorised to make amendments if necessary following consideration by the Corporate Governance Committee;

(n) That the Capital Strategy (Appendix F) and Earmarked Funds Policy (Appendix H) to this report be approved;

(o) That the Director of Corporate Resources following consultation with the Cabinet Lead Member for Resources be authorised to prepare and approve a separate Efficiency Plan, if specifically required by the Department for Communities and Local Government (DCLG) to accept a 4 year settlement.

Reasons for Recommendations

3. To enable the County Council to establish a basis for the planning of services in the next four years and to meet its statutory requirements with respect to setting a Budget Requirement and Council Tax precept for 2016/17.

Timetable for Decisions (including Scrutiny)

4. On 12th January 2016 the Cabinet agreed the proposed MTFS, including the 2016/17 revenue budget and capital programme, for consultation. The Overview and Scrutiny Committees and the Scrutiny Commission then considered the proposals (the comments of those bodies are attached as Appendix M).

5. The County Council meets on 17th February to consider the MTFS including the 2016/17 revenue budget and capital programme. This will enable the 2016/17 budget to be set before the statutory deadline of the end of February 2016.

Policy Framework and Previous Decisions

6. The MTFS has been developed alongside other service planning frameworks. The Council's Strategic Plan sets out the County Council's high priorities, proposed outcomes and high level targets to 2018. It aligns with the MTFS and is supported by the Transformation Programme and Communities Strategy.

Resource Implications

7. The MTFS is the key financial plan for the County Council.

Circulation under the Local Issues Alert Procedure

8. A copy of this report has been circulated to all Members of the County Council under the Members' News in Brief service.

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PART B

Background

9. The Government plans to eliminate the current public sector deficit by 2019/20 with significant implications for the public sector. Local government is the area that continues to face the largest reduction in funding. As a result the County Council faces an extremely challenging financial environment with a requirement to continue to make significant savings over the medium term.

Local Government Finance Settlement

10. The Government issued the final Local Government Finance (LGF) Settlement (the annual determination of funding to local government) on 8th February 2016 and Parliament approved the LGF settlement on 10th February 2016. This announcement confirmed the following:

    - The Settlement Funding Assessment (SFA) and Revenue Support Grant (RSG) allocations and consultations remain unchanged from those published at the time of the provisional settlement.

    - There will be a review of what the Needs Assessment Formula “should be in a world in which all local government spending is funded by local resources not central grant, and use it to determine the transition to 100% business rates retention”. The process will be set out in the coming weeks.

    - Transitional Funding of £150m will be available in 2016/17 and 2017/18 “for councils with the sharpest reductions in Revenue Support Grant”. This equates to £3.3m each year for 2016/17 and 2017/18 for Leicestershire County Council.

    - Rural Services Delivery Grant has been increased substantially from the provisional settlement to £80.5m in 2016/17. Leicestershire County Council does not meet the criteria to receive the grant.

    - A 2% council tax referendum trigger for 2016/17 (or £5 for all shire districts whichever is the higher - Leicestershire County Council does not meet the criteria to benefit from this).

    - Social Care authorities will be able to raise a 2% adult social care precept. Regulations on how this must be displayed on council tax bills will be published.

    - The deadline for accepting the Four-Year Settlement Funding offer deadline is Friday 14th October. The draft settlement required Councils to produce an Efficiency Plan if they wish to accept a four-year settlement but the Government has not yet provided any detail as to what this should include. The Council’s MTFS is in effect its Efficiency Plan, however if a separate plan is required it is proposed that the Director of Corporate Resources following consultation with the Cabinet Lead Member for Resources is authorised to prepare and approve such a plan.

Revenue Support Grant and Spending Power

11. The Settlement and funding are based around projections to 2019/20 of RSG, Business Rates and Council Tax income. The focus has been placed on giving authorities in the same class (e.g. County, District, and Unitary) the same overall changes to these elements of core funding. Those authorities where RSG is a lower proportion of their total funding will suffer larger reductions in RSG. This will lead to many authorities losing all of their RSG by 2019/20, with some having no RSG as early as 2017/18. Once RSG has been removed DCLG will adjust Business Rates Top-up /Tariff amounts to reduce an authority's funding to the appropriate level. In the provisional Settlement a number of authorities were due to have adjustments to their Top-up/Tariff amounts in 2017/18 and 2018/19 but those adjustments have been removed in the Final Settlement. The adjustments scheduled for 2019/20 are retained, with the County Council is due to lose £2.1m from its top-up in 2019/20.

12. The inherent problem with this approach is that it takes no account of the relative funding position of individual authorities. The County Council has been historically underfunded in comparison with other authorities, including other counties. The Government has recognised that a review of the Needs Assessment Formula is required as 'There is good reason to believe that the demographic pressures affecting particular areas – such as the growth in the elderly population – have affected different areas in different ways, as has the cost of providing services'. The review will be used to determine the transition to 100% business rates retention but the detail and process is still to be announced. Any impact on Council funding cannot be determined at this stage.

13. The overall impact of the 2016/17 Settlement on the forecast RSG is set out below. The County Council will cease to receive any RSG by 2019/20:

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Revenue Support Grant	56.2	37.0	19.5	8.5	0.0
% reduction	-23%	-34%	-47%	-56%	-100%

14. The formula used to calculate RSG does not take into account all the elements of funding used in calculating the Government's measure of Council spending called 'spending power'. The elements of spending power are shown below;

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Settlement Funding Assessment (RSG and Business Rates)	115.9	93.6	77.3	68.0	59.2
Council Tax	233.4	241.0	250.0	259.7	269.9
2% Council Tax for Social Care		4.7	9.9	15.6	21.8
Improved Better Care Fund	0.0	0.0	0.0	5.6	11.4
New Homes Bonus	3.3	4.3	4.3	2.7	2.6
Transition Grant	0.0	3.3	3.3	0.0	0.0
Core Spending Power	352.6	346.9	344.8	351.6	364.9

15. The table includes the Council's allocation of Transitional Funding Grant of £3.3m in 2016/17 and 2017/18 to assist with the reduction in RSG. It also shows that after reductions for a couple of years, 'spending power' is expected to increase, in cash terms by £12.3m (3.5%) by 2019/20. This compares to demand and cost pressures in adult social care alone of £50m over the same period.

Business Rates Retention Scheme

16. The LGF Settlement includes an uplift to Business Rates "Top-Up" and "Baseline" figures of 0.8% in 2016/17. 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 around 3% in 2017/18, 2018/19 and 2019/20.

17. The Settlement also shows a reduction to the Business Rates "Top-Up" of £2.1m in 2019/20. This relates to the impact of the new method of calculating "Core Spending Power" reductions. The reduction to the County Council's overall funding in 2019/20 exceeds the remaining RSG in 2018/19 (£8.5m) and as a result the Government have adjusted the "Top-Up" for 2019/20.

18. The forecasts used in the draft MTFS are set out below:

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Business Rates 'Top-Up'	36.7	37.5	38.6	39.8
'Top-Up' adjustment	0.0	0.0	0.0	-2.1
Business Rates 'Baseline'*	20.4	20.7	21.3	22.0
Total	57.1	58.2	59.9	59.7

*forecast to be £0.5m higher than the amount used by DCLG in calculating the 'spending power'.

Business Rates Pooling

19. The Government introduced the Business Rates Retention system from April 2013 and as part of these changes Local Authorities were able to enter into Pools for levy and safety net purposes.

20. In 2015/16 the County Council along with Leicester City Council, the Combined Fire Authority and all Leicestershire District Councils are part of the 'Leicester and Leicestershire Pool'. Estimates undertaken in January for the he latest estimates for the Pool show a potential surplus of £3.8m. This will be retained within Leicestershire rather than being returned to the Government as would have been the case if no Pool had existed. The Pooling agreement between the partners allows for the surplus to be provided to the Leicester and Leicestershire Enterprise Partnership (LLEP) for investment in the wider Leicestershire area.

21. Modelling of a Pool for 2016/17 showed a forecast surplus of £4.2m, as a result of which the Pool partners have decided to continue with the Pool in 2016/17.

22. DCLG will consult on changes to the local government finance system to pave the way for the implementation of 100% business rates retention. Pooling may still be a feature

of the new finance system but it is likely that the main rationale behind the retention of levy payments in the local area will no longer apply.

Council Tax

23. The proposed MTFS is based on a 1.99% per annum increase in Council Tax for the years 2016/17 to 2019/20, plus the 2% social care precept in each year giving an aggregate annual increase of 3.99%.

24. The Localism Act 2011 provides for residents to instigate local referendums on any local issue and the power to veto excessive Council Tax increases. The threshold for calling a referendum in 2016/17 is a 2% rise in Council Tax.

25. The Chancellor announced as part of the Spending Review that local authorities responsible for delivering adult social care will be allowed to raise a council tax "precept" of 2% for each year of the Spending Review period to partially fund adult social care. This will be in addition to the current council tax referendum threshold and is "to be used entirely for adult social care".

26. Final Council Tax base figures for 2016/17 have now been received from District Councils which show an overall increase of 2.0%. For later years the MTFS includes an assumption that the tax base will grow by around 1.5%.

27. The draft MTFS reported on 12th January 2016 included an estimate of £3m regarding the forecast Collection Funds surplus/deficit. Formal estimates for the surplus/deficit have now been received and show a total for the County Council of £3.68m.

2016/17 – 2019/20 Budget

28. The provisional 2016/17 budget excluding DSG is detailed in Appendix A. The provisional detailed four-year MTFS, excluding Dedicated Schools Grant (DSG), is set out in Appendix B and is summarised in the table below.

Provisional Budget	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Services incl. inflation	330.4	337.2	337.5	343.3
Add growth	23.0	4.5	7.5	6.4
Less savings	-26.6	-16.6	-14.1	-1.1
	326.8	325.1	330.9	348.6
Central Items	19.6	16.6	23.0	22.7
Less savings	-0.1	-0.1	-0.1	-0.1
Contrib. Earmarked funds	-1.0	-1.0	-1.0	-1.0
Total Expenditure	**345.3**	**340.6**	**352.8**	**370.2**
Funding				
Revenue Support Grant	-37.0	-19.5	-8.5	0.0
Business Rates	-57.1	-58.2	-59.9	-59.7
Council Tax	-251.2	-262.3	-275.8	-291.0
Total Funding	**-345.3**	**-340.0**	**-344.2**	**-350.7**
Shortfall	**0.0**	**-0.6**	**-8.6**	**-19.5**

29. The MTFS is balanced in 2016/17 but shows a shortfall of £0.6m in 2017/18 rising to £19.5m in 2019/20. As set out in paragraph 46 there is a pipeline of reviews which will aim to bridge the gap. These will need to start to deliver savings by 2017/18. In addition, Better Care Fund resources are potentially available in 2018/19 and 2019/20.

Savings and Transformation

30. Savings of £58.8m are forecast to be made over the next four years, 2016-20, with £26.7m to be made in 2016/17. This is a challenging task especially given that savings of £100m have already been delivered over the last five years. The new savings are shown in Appendix C and details of all savings were set out in the reports to the Overview and Scrutiny Committees in January.

31. The main four-year savings are:

- Children and Family Services (£8.8m). This includes reducing costs for social care placements, managing demand and development of a new departmental operating model.
- Adult Social Care (£16.7m). This includes managing demand and reducing costs of social care by reviewing personal budget allocations and contracts.
- Highways and Transport (£13.4m). Savings will be delivered through a revised approach to Highways Maintenance, reviewing contracts and service reviews. Also by making savings to non-statutory services such as rural bus subsidies.
- Environment (£3.6m). Service delivery reviews for Recycling and Household Waste Sites plus reducing/ceasing payments for recycling credits are planned.
- Corporate Resources (£8.4m). This includes reviews of all support services e.g. Property, Traded Services, ICT, HR and Finance

32. Efficiency savings account for £27m and can be grouped into four main types:

a) Reductions in senior management and administration (£3m)
b) Better commissioning and procurement (£9m)
c) Service re-design (£14m)
d) Collaboration/shared or single services (£1m)

33. It is estimated that the proposals would lead to a reduction of up to 500 posts (full time equivalents) over the four-year period. However, it is expected 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.

34. There is also a budget shortfall of £0.6m in 2017/18 rising to £19.5m in 2019/20.

35. It is proposed to undertake some corporate transformational reviews to address this gap. Once business cases have been developed savings will be confirmed and included in the MTFS. The reviews are;

- Digital Council/Business Support - The digital council programme is potentially the largest and most complex of the emerging opportunities for further savings. It aims to reduce the 'cost to serve' by challenging the design of service delivery processes through increasing the use of technology and ensuring that services are fulfilled by staff using mobile / self-service process and new work styles.

- Early Help and Prevention Review – paragraph 62 below refers.
- Social Care / Special Educational Needs (SEN) Transport. Regarding the provision of transport to social care and SEN clients.
- Commercial Services. A business plan will be developed to increase significantly income generation.
- Minimum Revenue Provision (MRP). To review the period over which MRP is calculated to reduce the annual costs.
- Council Tax Discount Schemes. Work with District Councils to review the level of Council Tax caps. For example, an increase to a 20% cap could raise Council Tax for the County Council by circa £0.5m.
- Lower cost social care provision. To review of the cost of externally procured residential provision.
- Management of schools. The Government's Autumn Statement included an announcement of its intention to reduce local authorities' statutory responsibilities and remove their role in running schools. A review of the County Council's role will be undertaken.
- People with disabilities. To develop a 'whole life' approach to service provision.

CORPORATE SAVINGS / INCOME UNDER DEVELOPMENT

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Digital Council/Business Support		-500	-1,000	-2,000
Early help/prevention		-1,000	-3,000	-5,000
Social Care and SEN Transport				-1,700
Office, commercial and Industrial Units		-600	-800	-1,000
Commercial income				-2,000
Minimum Revenue Provision (MRP)			-3,500	-3,500
Review of Council Tax Discount Schemes		-500	-500	-500
Lower cost adult social care provision				TBC
Review of County Council's role in running schools				TBC
Whole life disability				TBC
	0	-2,600	-8,800	-15,700

36. The achievement of these savings will be extremely challenging and will require focus, discipline and innovation. The Council's Transformation Programme will continue to have a key role in supporting the delivery of these savings, through changing services and supporting a new approach to commissioning and service delivery.

37. The financial environment is more risky and uncertain than is has been at any time in the last 40 years. This necessitates a more flexible approach to financial management whereby the Authority can react to a changing environment, but within the overall framework of the MTFS and corporate strategy. The financial regulations reflect the need for a flexible approach where there are effective and strong internal controls with good reporting mechanisms. It is recommended that approval is given to the early achievement of savings that are included in the MTFS, as needed, along with the associated investment costs subject to the Director of Finance agreeing to funding being available.

Growth

38. Over the period of the MTFS, significant growth of £41.3m (details in Appendix C) is required to meet demand and cost pressures with £23.m required in 2016/17. The main elements of growth are:

- Adult Social Care (£23.0m). This is largely the result of increasing numbers of people with learning disabilities and an ageing population with increasing care needs.
- Children and Family Services (£8.9m). This is largely due to pressures on the placements budget. This a major risk as the MTFS is based in the assumptions no additional growth will be required after 2016/17.
- The cost of waste disposal (£2.4m), which is mainly attributable to Landfill Tax and projected increases in household waste due to population and economic growth.

Inflation

39. The Government's preferred measure of inflation is the Consumer Price Index (CPI). In November 2016 this was 0.1% and the Office for Budget Responsibility (OBR) predicts it will increase to around 1.0% in 2016/17 and then rise to 1.8% in 2017/18, 1.9% in 2018/19 and 2.0% in 2019/20. The OBR predicts that the Retail Prices Index (RPI) will increase from its current level of 1.1% to around 2.0% by 2016/17 and then rise to 2.9% in 2017/18 and to 3.2% in 2018/19 and 2019/20. The draft MTFS assumes 3% per annum inflation over the period 2016/17 to 2019/20. However in recent years the Council has faced higher than headline inflation with particular pressures in social care services.

40. A national Local Government employee pay offer has recently been made to cover the two years 2016/17 and 2017/18. There are higher increases for the lowest pay points (to reflect the National Living Wage) and 1% per annum increases on the remaining pay points. Future levels of pay settlement will be determined by national negotiation between the Local Government Employers and the Trade Unions. A contingency of 2.0% has been included in the MTFS for pay awards from 2018/19 onwards.

41. The National Living Wage also impacts on other parts of the budget, particularly on social care costs.

42. 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 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, 2018/19 and 2019/20.

43. The Government is introducing a significant change to National Insurance from April 2016, with the removal of rebates in the former "Contracted Out" tables. This will cost the County Council around £2.5m from 2016/17 and that amount is included in the central inflation contingency.

44. Although detailed budgets for 2016/17 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.

Central Items

45. Bank and other interest are budgeted at £1.95m in 2016/17 rising to £2.6m during the period of the MTFS. Capital financing costs are expected to decrease to £23.2m per annum in 2019/20 (from £24.75m in 2015/16) partly as a result of the County Council's strategy to use revenue balances to reduce debt.

46. The MTFS continues the strategy of reducing the cost of debt by including a revenue contribution of £4.5m in 2016/17 which will generate a further saving of around £0.2m per annum ongoing.

47. The budget also includes time limited provision for revenue funding of capital expenditure of £2m in 2016/17, £1m in 2017/18 and £3m in 2018/19 and 2019/20.

48. Capital financing costs include debt interest on loans outstanding and an amount set aside to repay debt principal on maturity, called the minimum revenue provision (MRP).

Health and Social Care Integration

49. 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.

50. April 2015 saw the launch of the Better Care Fund (BCF), a pooling of health and social care resources to support the provision of integrated services. The Better Care Fund Plan for Leicestershire was agreed by partners in 2014 and good progress is being made on delivering against its objectives.

51. Detailed policy framework guidance has yet to be issued, but the Government has confirmed its commitment to the BCF and NHS planning guidance published in December 2015 sets out a number of developments in the health and care integration agenda including:

    - Every health and care system will have to develop a Sustainability and Transformation Plan (STP) to demonstrate how the NHS Five Year Forward View will be accelerated and implemented.
    - STPs will cover the period between October 2016 and March 2021. Plans are to be submitted in June 2016 to be formally assessed the following month.
    - A medium term plan to be in place by March 2017 for better integration of health and social care. The governance and ownership of this will be agreed when the planning guidance is released.
    - Agreement of a system wide plan for reducing delayed transfers of care.

52. Leicestershire's BCF allocation for 2016/17 has been confirmed as £39.1m, an increase of £0.8m (2%) from 2015/16. One significant change to the funding of BCF is that the social care capital grant will no longer exist; this has been replaced by an increased allocation for Disabled Facilities Grants which in 2015/16 were transferred to District Councils. This change has the potential to reduce some of the flexibility that the Council currently has in terms the use of the BCF funding but until planning guidance is received this remains unclear.

53. The recent Spending Review also set out the Government's intention to increase the social care funding through the BCF by £1.5bn. This should translate into an additional £11m of funding for the County Council. However, due to reductions in the New Homes Bonus and the additional £500m for Disabled Facilities Grants by 2019/20, the net benefit is significantly less. This funding has not been included in the proposed MTFS beyond the 2016/17 allocation as a result of lack of guidance.

54. Part of Leicestershire's BCF has been allocated towards the protection of adult social care services. This is currently £16m and the same amount has been included in the budget for 2017/18 to ensure that the needs of the most vulnerable residents are met and outcomes achieved. Further funding has been earmarked for phase 1 of the Care Act and other initiatives led by Adult Social Care that directly benefit Health. A reduction in any of this funding will increase the savings above the level proposed in the draft MTFS.

Better Care Together

55. In the Leicester, Leicestershire and Rutland (LLR) local health economy, a funding gap of £400m has been identified if no action was taken on how current services are being delivered. This is in addition to the current funding pressures faced by social care services.

56. Better Care Together (BCT) is the Leicester, Leicestershire and Rutland (LLR) partnership programme that aims to address the way in which health and care services are delivered to meet the needs of the local people, while at the same time ensuring that the current financial pressures faced are effectively managed. The five year Strategic Plan sets out the most ambitious change for health and social care for LLR and was launched in June 2014.

57. The five year plan does present significant financial risks to the County Council as interventions are focussed towards prevention, avoided hospital admissions and reduced length of hospital stay. It has been recognised that this will affect demand for social care support.

58. While recognised as a real risk to the Council, it has not been possible to quantify with any certainty the financial impact that work streams in the BCT programme will have upon social care.

Public Health

59. In July 2015, a £200m in-year reduction in the Department of Health's non-NHS Public Health funding was announced. This has resulted in a 2015/16 cut of £1.6m (6.2%) to Leicestershire's Public Health grant.

60. The November Spending Review from the Government included:

- Savings in the Public Health grant, from a revised baseline of £3,461m (taking into account the continuation of the in year 6.2% cut in 2015/16) the savings will be phased in at 2.2% in 2016/17, 2.5% in 2017/18, 2.6% in each of the two following years, and no further reductions in 2020/21.
- A clear signal that the Public Health grant will be replaced. The detail of how this will work needs to be worked through and will be subject to full consultation.

61. In 2016/17 £3.1m of Public Health savings have been identified rising to £3.6m from 2017/18. However, the expected reduction in grant over the next four years coupled with existing savings targets mean that further savings will be required. Based on current information further savings of £4m to £5m could be required.

62. To identify these savings an urgent review of early help/prevention is to be undertaken covering services funded by the Public Health grant and early help/prevention services across the Authority. This will be completed by spring 2016 and the resultant model will focus scarce resources on services that have the biggest impact.

63. The Department of Health have recently announced the Public Health grant allocations. The County Council will receive £26.2m for 2016/17 with a provisional allocation of £25.5m for 2017/18, these are in line with expectations. Future years' allocations have not been confirmed.

Other Grants and Funds

64. The DCLG has published a consultation on the former Independent Living Fund which compensates for the cost pressures caused by the closure of the Independent Living Fund (ILF). The consultation sets out grant totals for 2016/17 to 2019/20 and the model which has derived these totals. The consultation closes on 22nd March 2016. The grant for the Council of £1.28m for 2016/17 is in line with expectations; however the grant declines over the four years to £1.16m which may not reflect the actual cost pressure.

65. There are a number of other specific grants and potential transfers to local government that are still to be announced including-

- Extended Rights to Free Travel – an estimate of £0.4m has been included.
- Ministry of Justice Grants – confirmation expected March 2016.

66. As part of the Autumn Statement, the Chancellor also announced a ‘permanent’ pothole fund, for roads maintenance of £250m nationally over the next 4 years. Based on previous allocation processes, the amount the County Council would receive would be between £3.5m and £4m (between £0.9m and £1m a year). However, no details have yet been published on how this funding will be allocated and it has not therefore been included in the MTFS.

Budget Consultation

67. A consultation has been undertaken on the proposals within the draft MTFS approved by the Cabinet for consultation on 12th January 2016. The consultation asked 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 L.

Results of Scrutiny Process

68. The Overview and Scrutiny Committees and Commission received detailed reports on the revenue budget and capital programme proposals, which can be viewed via the County Council’s website (www.leics.gov.uk). Appendix M sets out the comments arising from meetings of Scrutiny bodies.

Changes to the Budget proposed in January 2016

69. Changes to the draft budget considered by the Cabinet on 12th January 2016 are summarised in the table below:

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Shortfall	0	3,705	8,380	19,283
Final Settlement – Transition Grant	-3,307	-3,306	0	0
Business Rates – reduced retained rates	49	42	42	42
S31 Grant on Business Rates	150	150	150	150
Collection Fund Surplus - Increase	-682	0	0	0
Flood Defence Levies	-10	-10	-10	-10
Net position	-3,800	581	8,562	19,465
Highways Maintenance	3,000	0	0	0
SEN/Social Care Transport	700	0	0	0
Change to smoking & tobacco services savings	100	0	0	0
"Tell us Once" saving removed	0	30	30	30
Revised Shortfall	0	611	8,592	19,495

70. The additional resources are:

- Final Settlement Transition Grant – additional one off government funding to smooth the effects of sharp reductions in RSG over these years.
- Business Rates – reduction in retained rates following formal estimates by the billing authorities at the end of January 2016.
- S31 Grant on Business Rates – reduction in estimated government grant following the removal of retail relief that ended in 2015/16.
- Collection Fund Surplus – increase of £0.682m to £3.682m following formal estimates provided by the billing authorities in mid-January 2016.
- Flood defence levies – confirmation of levies from the Environment Agency.

71. It is proposed that the net additional resources are used in 2016/17 to:

- Fund highway maintenance (£3.0m) to minimise the effect of austerity on proposed levels of routine and planned maintenance in 2016/17 thereby protecting the condition of the Council's highway network. In particular, a number of critical carriageway resurfacing and strengthening schemes will be also progressed, along with several much needed footway reconstruction schemes. Programmes of preventative maintenance will be expanded. Additional funding will also be directed towards the current backlog of street lighting column renewal.

- SEN Transport (£0.7m) to support additional demand and cost pressures.

- Public Health Grant (£0.1m) to enable the Council to consider how better to position the new smoking service at the heart of an integrated lifestyle service enabling additional MTFS delivery in 2017/18. This will enable more consideration of the service provided to hard to reach groups such as looked after children, travellers and prisoners**.**

72. In 2017/18 it is proposed that the additional resources are used to reduce the funding gap and to remove the 'tell us once' saving (£30,000).

2016/17 Education Funding Settlement – Dedicated Schools Grant

73. The Dedicated Schools Grant (DSG) settlement retains a settlement in three separate blocks for 2016/17 and rates are unchanged. The DSG allocations for early education to 3 and 4 year olds will not be confirmed until January 2017 and the most deprived 2 year olds will not be confirmed until June 2017. Both of these have been estimated for the purpose of the 2016/17 budget. 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 £369.1m	This block funds delegated budgets for all Leicestershire primary and secondary schools and academies and also the three studio schools in Leicestershire. Some budgets (e.g. school copyright licences, school related premature retirement costs) are centrally retained by the local authority with the approval of the Schools Forum. Funding for academies is recouped from the settlement and paid directly to the academy by the Education Funding Agency (EFA).	The Schools Block Unit of Funding (SBUF) is £4,238.28 and based upon the pupil characteristics recorded in the October 2015 schools census. The figure is an increase of £8.99 per pupil as a result of the change in funding arrangements for Studio Schools. Leicestershire is the 10th lowest funded for this element of the settlement out of 151 authorities (11th lowest 2015/16) and compares to an England average of £4,744.08. The funding settlement maintains the additional 'Fair Funding' allocations granted for 2015/16.
High Needs Block £45.5m	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.	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. As the settlement is not based upon pupil / student numbers there is no national

		comparator against which to measure relative funding. However converting the settlement to a per pupil basis using pupil data in the other elements of the DSG settlement places Leicestershire the 17th lowest funded at £487.47 against an England average of £677.61.
Early Years £18.8m (3 & 4 year olds). 2 year old disadvantaged places £3.3m (estimated).	Funds the Free Entitlement to Early Education (FEEE) for 2, 3 and 4 year olds and an element of the early learning and childcare service.	The settlement is based upon January 2015 pupil numbers and will be adjusted for January 2016 and 2017 pupil data. The FEEE for 3 and 4 year olds funding rate of £3,363.36 is unchanged from 2015/16 and Leicestershire remains the 10th lowest funded against an England average of £4,314.28. This settlement now includes funding for FEEE for 2 year olds. Whilst the settlement for this element of DSG will not be confirmed until June 2016 the rate of funding has been confirmed at £4,607.50 per place. Leicestershire is one of 52 authorities funded at the lowest level.
£436.7m	**Total DSG (Early Years estimates)**	

74. The Department for Education (DfE) have announced that they intend to review the basis for DSG funding for 2017/18 onwards. This review is expected to be widespread and consider each of the DSG blocks:

- Schools Block – to move towards a national funding formula where each pupil with the same pupil characteristics will be funded at the same rate irrespective of the local authority in which they are educated.
- High Needs Block – to move to a formulaic allocation of funding reflecting need rather than the current historic funding basis.
- Early Years – to move to an early year's single funding formula.

75. A consultation on the 2017/18 school funding proposals is expected early in 2016. It is expected that the consultation will consider both the allocation of funding to the local authority and the basis of allocation to both schools and early years providers.

76. There are a number of financial and other pressures within the schools and services that DSG funds:

- School Funding – Many schools and academies are reporting that they are finding it difficult to set balanced budgets, especially those academies with falling rolls as a result of age range changes. These financial pressures will be compounded as it is necessary to reduce school funding to meet the pressure in the High Needs block in 2016/17.

- High Needs – Given rising demand there is a considerable challenge in meeting the needs of these pupils within the grant funding available.

- National Living Wage – this will have a significant impact on DSG funded services, including school delegated budgets, special educational needs placements and the free entitlement to early education.

- Funding School Growth – current planning information suggests a total of 18 new schools – 16 primary and 2 secondary providing 7,620 additional places - will be built and require funding by 2024. As DSG is funded on a single, lagged pupil count, opening new schools requires local authorities to meet two terms of costs with no corresponding increase in DSG.

Adequacy of Earmarked Funds and Robustness of Estimates

77. The Local Government Act 2003 requires the Director of Finance to report on:

a) The adequacy of reserves, and
b) The robustness of the estimates included in the budget.

78. This is the most challenging MTFS that the Council has faced with the most uncertain and risky financial environment since it was established. 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 £78m over the next four years of which £20m is unidentified.

- Service pressures resulting in an overspend. In 2015/16 the children's placement budget is overspending and this follows two years where the adult social care budget over spent. The acute pressure on national health services is likely to result in higher demand for social care services in the future.

- There is a risk that the element of the Better Care Fund that is available to support adult social care services does not continue in the later years of the MTFS.

- Even though four year settlements have been announced the government will consult on changes such as New Homes Bonus and Business Rates Localisation in 2016/17. The strength of the economy dictates the funding of the public sector. There are some concerns that world growth is slowing with implications for UK growth and tax revenues.

- The increasing reliance on income mainly generated from services in other parts of the public sector. Given the much tighter financial environment for the sector it will be challenging to maintain or keep increasing income.

- The National Living Wage has been reflected in the MTFS. However, with such a major policy change there is a possibility that costs could be higher than forecast.

79. 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.

    - General County Fund
    - MTFS Contingencies - £8m in each year
    - Earmarked funds
    - Effective risk management arrangements

<u>General County Fund / MTFS Contingencies</u>

80. The forecast balance on the County Fund (non-earmarked fund) at the end of 2015/16 is £14.8m which represents 4.3% 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 current policy is to hold a balance on the County Fund in the range of 4% - 5%.

81. The County Fund is available for unforeseen risks (e.g. extreme flooding). The proposed MTFS also includes a contingency of £8m in each year for other specific key risks which include:

    - Non-achievement of savings.
    - Pressure on demand led budgets particularly in social care.
    - Level of investment required to delivered savings.
    - Uncertainties over the future levels of Government funding and grants.
    - Provision of services through the Better Care Fund- there are risks around funding in later years and the shift of costs

<u>Earmarked Funds</u>

82. A detailed review of the Council's earmarked funds was undertaken and reported to the Scrutiny Commission in early November 2015. As part of the MTFS this work has been refreshed as at the end of December 2015. The estimated balance as at 31st March 2016 is £78.2m excluding schools and partnerships, details of which are shown in Appendix I. 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.

83. These earmarked funds and balances are held for specific purposes. The main earmarked funds and balances projected at 31st March 2016 are:

(a) Transformation (£20.0m). The fund is used to invest in transformation projects to achieve efficiency savings and also to fund severance costs.

(b) Insurance (£18.7m). 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 (£7.0m). 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 insurer's such as The Independent Insurance Co. Limited.

(c) Capital Financing (£18.0m). This fund is used to hold MTFS revenue contributions to fund capital expenditure in future years including the Street Lighting LED replacement project and investment decisions agreed by Cabinet on 11th September 2015.

(d) Adults and Communities Developments (£5.1m). 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.

(e) Health and Social Care Outcomes (£5.0m). Approximately half of 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.

84. 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 £61m over the next four years and the main areas are summarised below:

- £19.0m Transformation
- £18.0m Capital Financing Contributions
- £5.0m Health and Social Care Outcomes
- £4.5m Investment in Adult Social Care
- £3.2m Renewals of Vehicles and Equipment
- £2.9m Children and Family Services Developments
- £2.3m Supporting Leicestershire Families
- £2.2m Insurance
- £2.2m Investment in Broadband

Risk Management Policy and Strategy

85. The Risk Management Policy and Strategy is set out in Appendix G to this report.

86. The policy will be reported to the Corporate Governance Committee on 19th February 2016. 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

87. 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 31st March 2015 was £7.6m. The balance at 31st March 2016 will be affected by the number of schools converting to Academies.

Robustness of Estimates

88. The Director of Finance 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 Director of Finance. The main risks are described earlier in the report.

89. 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 comprehensive reporting framework enables members to satisfy themselves about both the financial management and standing of the County Council.

Conclusion

90. 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.

91. It is worth noting that last year, the County Council's previous 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. A similar review will be undertaken on the 2016-20 MTFS by the County Council's new external auditors KPMG.

Concluding Comments

92. This is the most challenging MTFS that the Council has faced, probably since it was established over 40 years ago. The funding settlement from Government is very tough and follows five years of funding reductions.

93. It is positive that the Government have allocated a Transitional Grant of £3.3m in 2016/17 and 2017/18 and recognised that a review of the needs based formula is required. However, it should be noted that at a time of reducing resources it is exceptionally difficult to change resource allocations. There is also no certainty that the

review will allocate extra resources to the County Council and so it will be important to respond fully to the review directly and via the County's MP's.

94. The financial position of the County Council reflects the fact that income is simply not keeping up with demands on the budget. These demands primarily relate to both a growing and ageing population and a large increase in school age children. These put large demands on social care services.

95. There is little doubt that the delivery of the MTFS will be challenging. Some local authorities, who are better funded than Leicestershire, are already in financial difficulties. The focus on Leicestershire's finances over the past few years, including taking tough decisions on service cuts, has put the Council in a relatively sound position. The focus on medium term financial planning and strong financial discipline will need to be maintained.

96. The delivery of this MTFS really rests on three factors:

- The first is the absolute need to deliver the savings in the MTFS. The key risks are the technical difficulty of some projects such as the digital council and the public acceptance of some savings such as the rural bus subsidy.
- The second factor is the need to have very tight control over demand led budgets in children's and adults' social care. A repeat of recent overspends will put the Authority in a very difficult place with a need to make immediate off-setting savings.
- Finally, the Authority needs to manage other risks that could impact its financial position. These include costs currently being borne by the NHS shifting to local authorities and loss of trading income.

Treasury Management Strategy Statement and Annual Investment Strategy

97. 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 K to this report sets out the combined Treasury Management and Investment Strategy including the Treasury Management Policy Statement for 2016/17.

98. 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).

99. Recent comments by the Governor of the Bank of England suggests that he is in no hurry to increase interest rates, although the consensus forecast is that the first rise will occur in mid-to-late 2016 and be followed by a series of slow but steady increases in the years after that. The timing and extent of increases is highly dependent on economic growth in not just the UK but also the rest of the world – the extent of the economic slowdown in China (the world's second largest economy) and how it deals with this may well be the most influential factor.

100. 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 £275m and is expected to reduce to £264m at the end of 2019/20. No new borrowing is included within the MTFS 2016-2020.

101. The Council continues to maintain a low risk approach to the manner in which its list of authorised counterparties is produced, and takes advice from Capita Asset Services on all aspects of treasury management.

Capital Programme 2016/17 to 2019/20

102. The draft capital programme totals £208m over the four years 2016-20 and is shown in detail in Appendix E. The programme is funded by a combination of Government grant, external grants, capital receipts and contributions from revenue balances and earmarked funds. The capital programme has been updated by £1.3m for the increased Disabled Facilities Grant, announced as part of the recent Better Care Fund allocations – see paragraph 52. The capital strategy is shown in Appendix F.

103. The draft programme and funding is shown below:

Draft Capital Programme 2016-20

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	Total £000
Children and Family Services	31,957	7,628	tbc	tbc	39,585
Adults and Communities	4.182	510	tbc	tbc	4,692
Public Health	300	0	0	0	300
Transportation	40,818	30,316	23,302	16,689	111,125
Waste Management	665	950	0	0	1,615
Chief Executive's	4,675	3,470	100	100	8,345
Corporate Resources	2,730	975	750	1,100	5,555
Corporate Programme	12,325	19,400	3,280	1,300	36,305
Total	97,652	63,249	27,432	19,189	207,522

Capital Resources 2016-20

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	Total £000
Grants	70,812	37,659	15,838	15,362	139,671
General Receipts brought forward	2,661	0	0	0	2,661
General Capital Receipts – New*	9,909	3,894	2,169	2,112	18,084
General Capital Receipts carry forward	-3,142	3,142			0
LAMS** Repaid (Capital Receipts)	0	5,400	3,000	0	8,400
Earmarked Capital Receipts	2,525	2,710	530	0	5,765
External Contributions	9,788	1,847	0	0	11,635
Revenue/Reserve contributions	4,439	8,597	7,595	3,615	24,246
Capital Contributions Unapplied	660	0	0	0	660
Unsupported Borrowing	0	0	0	0	0
Contingency for Funding Changes	0	0	-1,700	-1,900	-3,600
Total	97,652	63,249	27,432	19,189	207,522

**net of £100,000 per annum to fund revenue costs related to disposals.*
***Local Authority Mortgage Scheme (LAMS) – see paragraph 112.*

104. The overall approach to developing the capital programme has been based on the following key principles:

- To invest in a limited number of priority areas including roads, infrastructure, economic growth and projects that generate a positive revenue return.
- Passport Government capital grants received for key priorities for highways and education to those departments.
- Maximise the achievement of capital receipts.
- Maximise other sources of income such as bids to the LLEP, Section 106 housing developer contributions and school contributions.
- No or limited prudential borrowing.

Funding and Affordability

Capital Grants

105. Grant funding is the largest source of financing for the capital programme and totals £140m across the 2016-20 programme. The majority of grants included in the programme are awarded by Government departments including the Department for Education (DfE), the Department for Transport (DfT), the Department of Health (DoH) and the Department for Culture, Media and Sport (DCMS). Other grants include funding from the LLEP. While Government grants are allocated by specific central government departments, they are not ring-fenced.

Children and Family Services

106. Capital funding for schools is provided by the DfE in two separate grants:

a) Basic Need – this grant provides funding for new pupil places by expanding existing maintained schools, free schools or academies and by establishing new schools. The DfE have previously announced details of the grant awards for 2016/17 (£26.4m) and 2017/18 (£4.5m). No details have been announced yet for future years and have therefore not been included in the programme at this stage.

b) Condition – this grant provides the funding to maintain the maintained school asset base. Details of the grant for 2016/17 and future years have not yet been announced. For 2016/17 an estimate of £3.4m has been included in the capital programme. It is expected that this grant will continue but will reduce as further schools convert to academy status.

c) Devolved Formula Capital (DFC) - funding provided to schools. The DfE have not yet announced details of grant allocations; however an estimate can be made based on the number of maintained schools which totals £0.75m for 2016/17. No estimates have been included for future years, but the grant is expected to continue.

Environment and Transport

107. The DfT has informed local authorities of the amounts they will receive in capital grant for the Local Transport Plan (LTP). The LTP has two elements:

a) Improvement Schemes. Grant funding of £10.9m has been included across the four year programme. In December 2014 the DfT announced grant funding of £2.7m for each year between 2015/16 and 2017/18 together with indicative amounts of the same value per annum for 2018/19 to 2020/21.

b) Maintenance funding. Grant funding of £48.6m has been included in the four year programme. As with the improvement schemes grant, the amounts were previously announced by the DfT; £13.0m for 2016/17 and £12.6m for 2017/18 with indicative allocations of £11.4m per annum for the three years 2018/19 to 2020/21.

108. Other capital grants included are:

- DfT Challenge Fund £4.1m – grant funding for local authorities to bid for major maintenance schemes. The fund covers the period 2015/16 to 2020/21 and is split into two tranches, 2015/16 to 2017/18, and 2018/19 to 2020/21. The Council was successful in its bid for funding from the first tranche with a total of £5.1m awarded for LED street lighting replacement (£1m is profiled in 2015/16 and £4.1m profiled in 2016/17).

- DfT Incentive Fund £4.7m – the DfT have set aside funding to help reward local authorities who can demonstrate they are delivering value for money in carrying out cost effective improvements. The DfT have invited each local authority to complete a self-assessment questionnaire for 2016/17 to demonstrate that efficiency measures are being pursued. The amount included is estimated to be that applicable for a score at level 2 (out of 3).

- LLEP/ Strategic Economic Plan (SEP) £20.1m – this grant is the subsequent years funding from the announcement made by the LLEP last year relating to the five major transport schemes. There is an element of risk to this funding as the funding agreements have yet to be finalised and signed.

Capital Receipts

109. The generation of capital receipts is a key priority for the County Council. The draft capital programme is funded from an estimate of £18.5m in new capital receipts by 2019/20. This includes an estimated £9.1m from potential land sales that are subject to planning permission. For planning purposes an estimate of 25% of the estimated gross capital receipts value has been used in the estimated capital programme funding – gross value £36m.

110. A total of £5.8m in earmarked capital receipts has been included. Capital receipts are earmarked where they relate directly to a replacement asset.

111. The draft programme also includes £8.4m loan repayment from Lloyds Bank for the Local Authority Mortgage Scheme (LAMS). This funding will be substituted in 2017/18 (£5.4m) and 2018/19 (£3m) with an equivalent amount from revenue / earmarked

revenue funds in order to replenish the Transformation / Severance earmarked fund that temporarily funded the original investment.

Revenue Funding

112. The capital strategy recognises the need to avoid prudential (unsupported by Government) borrowing in order not to increase levels of debt and associated financing costs. A gross total of £32.6m has been included in the draft programme funded from revenue earmarked funds and one off revenue contributions. This is offset by an £8.4m adjustment for the substitution required for LAMS mentioned above. The net total is therefore £24.2m across the programme.

External Contributions

113. A total of £11.6m is included in the funding of the capital programme 2016-20, mainly from Section 106 housing developer contributions. This includes a £6.5m contribution from land owners towards the new M1bridge at Lubbesthorpe and £3.5m towards a new primary school in Birstall.

Prudential Borrowing

114. By using other sources of funding, capital receipts and one-off revenue contributions, no prudential borrowing is included in the funding of the 2016-20 programmes. The County Council’s current level of debt is £275m and costs circa £24m in capital financing costs each year. If the Council was to undertake prudential borrowing to increase resources then this would result in increased revenue costs of circa 7% per annum of the amount borrowed.

Capital Contingency

115. A contingency totalling £3.6m has been included in 2018/19 and 2019/20 for changes in capital funding and to provide funding for future invest to save capital schemes.

Departmental Programmes

Children and Family Services

116. The draft programme totals £39.6m for 2016-20. The priorities for the programme are informed by the School Place Planning Strategy and include the provision of additional accommodation where additional pupil places are needed (£19.3m) including the completion of a new primary school for the Leicester Forest East / Braunstone area and a further school in Birstall, a new area special school in Wigston (£10m), and school condition improvements (£3.4m).

117. The programme also includes £3.9m to invest in opportunities to address structural changes to the pattern of education where this can be linked to basic need, and funding of £1m for the Wigston Campus Masterplan to support the removal of the 10+ age group.

Adults and Communities

118. The capital programme totals £4.7m. The main area of the programme is the Disabled Facilities Grant programme £3.1m (and includes the increased BCF grant). The conditions of the grant are yet to be known, as referred to in paragraph 52, after which the detailed plans for the grant will be determined. The capital programme also includes extracare provision in Loughborough (£0.9m) to enable older people to live independently.

Public Health

119. The programme totals £0.3m for a programme to help householders improve the energy efficiency of their homes. The programme is funded by a grant from the charity National Energy Action.

Environment and Transport

120. The transportation programme totals £111.1m over the four years 2016-20. The main areas are:

- Transport Asset Management Programme, £50m. Ensuring transport assets such as roads and footways are well managed.
- Strategic Economic Plan £25.8m. Completion of five major transport improvement schemes, mainly funded by the LLEP. These are:

  Leicester North West Major Scheme
  Hinckley Area Approach – Zone 3
  Hinckley Area Approach – Zone 4
  A42 Junction 13
  M1 Junction 21 (Lubbesthorpe Strategic Employment Site Access)

- Street Lighting LED replacement programme £17m to complete the replacement of all County Council maintained street lights with LED lighting, a central management system and de-illumination of traffic signs on bollards.
- Advanced Design work - £7.6m. Programme of advanced design works for future major transport schemes and bids to the DfT and LLEP for future funding.
- M1 New Bridge - £6.5m. Completion of the new bridge that started in 2015/16.
- Zouch Bridge - £1.1m. Completion of the replacement bridge planned to start in 2015/16.

Environment and Transport - Waste Management

121. The programme totals £1.6m and includes improvements to the Coalville Transfer station and recycling and household waste sites.

Chief Executive's

122. The programme totals £8.3m across the four years to 2020. The main area is the second phase of the rural broadband scheme (£7.4m) to extend the development of superfast broadband to homes and businesses in the County with poor service.

Corporate Resources

123. The programme totals £5.6m for 2016-20. The main priorities for investment are:

- The replacement of the wide area network in 2018/19 and 2019/20, £0.5m.
- Investment in the replacement and upgrade of the Corporate ICT infrastructure £2m.
- Virtual Desktop Infrastructure expansion to non County Hall sites, £1.1m
- Industrial Properties £0.9m – general improvements to various properties.

Corporate Programme

124. The corporate programme totals £36.3m for 2016-20.

125. The main area is the investment in the Corporate Asset Investment Fund to invest in property and land assets to improve economic development, replace assets sold to generate capital receipts, and generate ongoing revenue returns. This programme totals £30.1m and is part funded from capital grant bids to the LLEP Growth Deal programmes 2 and 3 (£6.9m). The scheme costs will be subject to the outcome of the grant bids. The programme is also funded from estimated earmarked capital receipts that will be generated once the sites have been developed, these are estimated to total £4.4m.

126. The other main area is the Energy Strategy programme, £1.8m, to reduce energy consumption across the property estate to deliver ongoing efficiency savings and reduce carbon emissions.

Equality and Human Rights Implications

127. 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.

128. 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.

129. 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 and Human Rights Assessment to be undertaken as part of the Action Plan.

Crime and Disorder Implications

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

Environmental Implications

131. The MTFS will include schemes to support the carbon management programme and other environmental improvements.

Partnership Working and Associated Issues

132. 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

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

Background Papers

Revenue Support Grant final settlement 2016 - http://ow.ly/YcLu4

Report to the County Council on 18th February 2015: "Medium Term Financial Strategy 2014/15 to 2017/18" - http://ow.ly/WSZmf

Report to the Cabinet on 11th September 2015: "Review of the Medium Term Financial Strategy and Investment Proposals" - http://ow.ly/WSZpZ

Report to the Cabinet on 12th January 2016: "Medium Term Financial Strategy (MTFS) 2016-20" - http://ow.ly/YcLDj

Appendices

A: 2016/17 Revenue Budget
B: Four year Revenue Budget 2016/17 to 2019/20
C: Growth and Savings
D: Detailed Revenue budget for 2016/17
E: Detailed Capital Programme 2016/17 to 2019/20
F: Capital Strategy
G: Risk Management Policy and Strategy
H: Earmarked Funds Policy
I: Earmarked Funds
J: Council Tax and Precept
K: Treasury Management Strategy Statement and Annual Investment Strategy
L: Results of Consultation on MTFS
M: Comments of the Overview and Scrutiny Committees and Scrutiny Commission