



CABINET – 12th DECEMBER 2017

PROVISIONAL MEDIUM TERM FINANCIAL STRATEGY
2018/19 - 2021/22

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PART A

Purpose of the Report

1. The purpose of this report is to set out the proposed Medium Term Financial Strategy (MTFS) for 2018/19 to 2021/22, for consultation and scrutiny.

Recommendation

2. It is recommended that:
 - (a) The proposed Medium Term Financial Strategy, including the 2018/19 revenue budget and capital programme, be approved for consultation and referred to the Overview and Scrutiny Committees and the Scrutiny Commission for consideration;
 - (b) The Director of Finance, following consultation with the Cabinet Lead Member for Resources, be authorised to -
 - i.) agree a response to the draft Local Government Finance Settlement;
 - ii.) decide on the appropriate course of action for the potential Leicester and Leicestershire 100% Business Rates Retention Pilot in 2018/19, and subject to the acceptance of the submission made to the Government and the subsequent agreement by all member authorities to implement this;
 - iii.) decide on the appropriate course of action for the Leicester and Leicestershire Business Rates Pool in 2018/19 and subject to agreement by all member authorities to implement this;
 - (c) A further report is submitted to the Cabinet on 9th February 2018.

Reasons for Recommendation

3. To enable the County Council to meet its statutory requirements with respect to setting a budget and Council Tax precept for 2018/19 and to provide a basis for the planning of services over the next four years.
4. To ensure that the County Council's views on the Local Government Finance Settlement are made known to the Government.
5. A submission was made to the Department for Communities and Local Government (DCLG) for a 100% Business Rates Pilot in 2018/19 for the County Council, Leicester City Council, the Combined Fire Authority and all seven District Councils. The decision of DCLG is expected alongside the Local Government Finance Settlement.
6. Modelling of a Business Rates Pool with the pooling partners is being undertaken and if the application for the pilot is unsuccessful, a decision on whether to proceed with the Pool will need to be taken 28 days after the release of the draft Local Government Finance Settlement.

Timetable for Decisions (including Scrutiny)

7. The external consultation on the MTFS will take place from 13th December 2017 until 21st January 2018. The MTFS will be considered by the County Council's Overview and Scrutiny bodies between 15th and 24th January 2018. The Cabinet will then consider the comments of the scrutiny bodies and responses from the wider consultation process at its meeting on 9th February 2018. The County Council meets on 21st February 2018 to consider the final MTFS.

Policy Framework and Previous Decisions

8. The MTFS is a rolling financial plan that is updated annually. The current MTFS was approved by the County Council on 22nd February 2017. The County Council's Strategic Plan (agreed by the Council on 6th December 2017) outlines the Council's long-term vision for the organisation and the people and place of Leicestershire. The MTFS, along with other plans and strategies such as the Transformation Programme, aligns with and underpins the Strategic Plan.

Legal Implications

9. The Director of Law and Governance has been consulted on this report.

Resource Implications

10. The MTFS is the key financial plan for the County Council.
11. The County Council is operating in an extremely challenging financial environment. Whilst the four-year Settlement had already confirmed that this would continue over the course of the current Parliament, the extension of austerity suggests that the UK is not yet halfway on the road to stability.

12. Delivery of the MTFS requires savings of £54m to be made from 2018/19 to 2021/22. This MTFS sets out in detail £36m of savings and proposed reviews that will identify further savings to offset the £18m funding gap in 2021/22. Strong financial control, plans and discipline will be essential in the delivery of the MTFS.
13. To ensure that the MTFS is a credible financial plan unavoidable cost pressures have been included as growth. By 2021/22 this represents an investment of £40m, primarily to meet the forecast increase in demand for social care.

Circulation under the Local Issues Alert Procedure

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

Officers to Contact

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

Chris Tambini, Director of Finance, Corporate Resources Department
Tel: 0116 305 6199
E-mail: chris.tambini@leics.gov.uk

Declan Keegan, Head of Finance, Corporate Resources Department,
Tel: 0116 305 7668
Email: declan.keegan@leics.gov.uk

PART B**Autumn Budget 2017**

15. On 22nd November 2017 the Chancellor of the Exchequer delivered the Autumn Budget 2017. This was the first economic statement given by the Government since the general election.
16. It had been widely expected that economic growth forecasts would be reduced. The revised forecast reaches a maximum of 1.6% in 2022, meaning that for the first time in modern history the official UK GDP growth forecasts are below 2% every single year over the forecast horizon. The deterioration in growth is accompanied by additional expenditure; more for prisons and infrastructure in last year's autumn statement, more for social care in the March budget, more for health and housing in this budget.
17. In the March 2016 Budget a surplus of £10 billion was projected for 2019/20. The revised expectation is for a £35 billion deficit in that year, leaving the Chancellor's target of eliminating the deficit by the mid-2020s looking doubtful. Such a deterioration would normally be met with a new round of savings. In this budget the opposite is true with Government deciding not to proceed with its Efficiency Review. This does not signal the end of austerity, as the same financial pressures remain. It is likely to be the next Comprehensive Spending Review before Local Government funding beyond 2019/20 is known. Hence the assumption in the draft MTFS is that austerity will continue at the same rate.
18. Fair Funding or any Local Government funding was conspicuous by its absence in the Budget. The announcement of business rate retention pilots was confirmed to be part of the Local Government Settlement in December. However, it was announced that the London pilot will proceed, allowing the retention of growth generated in 2018/19 (£240m).
19. The increase in the National Living Wage (NLW) from £7.50 to £7.83 from April 2018 was in line with expectations. The forecast for 2020, when the NLW will reach 60% of median earnings, is £8.61.
20. The Chancellor confirmed the relaxing of the 1% pay rise cap, although if Local Government employers move from this position no additional funding will be available. The draft MTFS assumes a 2% increase for all four years.
21. Additional investment in housing and infrastructure could benefit the County Council through additional opportunities to secure funding for local schemes. However, this is expected to be awarded through competitive processes and areas with devolution deals are likely to be preferred.
22. To encourage owners of empty homes to bring their properties back into use local authorities will be able to increase the council tax premium from 50% to 100%.

Local Government Finance Settlement

23. The draft Local Government Finance Settlement (the annual determination of funding to local government) has not yet been announced and is expected in mid-December 2017. If the details are available prior to the Cabinet meeting an update will be provided. The previous Settlement, announced in December 2016, included the following key points:
- Adherence to the four-year settlement starting in 2016/17 for all authorities which accepted the multi-year offer, which included the County Council.
 - The multi-year settlement offer only relates to Revenue Support Grant (RSG) and Transitional Grant. Funding for services received through specific grants is not covered, for example: High Needs funding (Dedicated Schools Grant), the Better Care Fund, Public Health Grant and all capital grants.
 - Adult Social Care precept amended to allow increases of up to 3% per annum, but authorities cannot exceed 6% in total over the three-year period ending 2019/20.
 - Changes to New Homes Bonus (NHB) Grant, including reducing the number of years the grant is based on from 6 to 5 in 2017/18 and then to 4 from 2018/19 and introducing a growth threshold of 0.4%.
24. The Chancellor's Spring Budget in March 2017 included additional funding of £2bn for Adult Social Care for the three years 2017/18 to 2019/20. The County Council was allocated £9.5m in 2017/18, £6.8m in 2018/19 and £3.4m in 2019/20.

Revenue Support Grant and Spending Power

25. The funding projections to 2019/20 in the previous Settlement are based around projections of RSG, Business Rates and Council Tax income. The focus has been placed on giving authorities in the same class (e.g. County, District, Unitary) the same overall changes to these elements of core funding. This means that those authorities where RSG is a lower proportion of their total funding will suffer larger reductions in RSG. This will lead to many authorities, including the County Council, losing all of their RSG by 2019/20, with some having no RSG as early as 2017/18. Once RSG has been removed the DCLG proposes to adjust Business Rates Top-up /Tariff amounts to reduce an authority's funding to the target level. As a consequence the County Council is due to lose £2.1m from its Top-Up in 2019/20. In the absence of specific Government guidance the MTFS assumes that this will continue with further reductions to the Top-Up of £10.7m in both 2020/21 and 2021/22.
26. The inherent problem with the current Government methodology to setting funding 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.

27. 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:

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Revenue Support Grant	37.0	19.5	8.5	0.0	0.0
% reduction	-34%	-47%	-56%	-100%	n/a

28. The elements of core spending power from the previous Settlement 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	68.2	59.6
Council Tax*	233.4	242.7	252.4	262.5	272.9
2% Council Tax for Social Care		4.8	10.0	15.7	22.0
Improved Better Care Fund	0.0	0.0	0.0	5.6	11.4
New Homes Bonus	3.3	4.3	4.1	3.0	2.9
Transition Grant	0.0	3.3	3.3	0.0	0.0
Adult Social Care Support Grant	0.0	0.0	2.4	0.0	0.0
Core Spending Power	352.6	348.7	349.5	355.0	368.8

*DCLG forecasts of Council tax and Council tax base increases, which are lower than those used by the County Council.

29. The table shows that after reductions in 2016/17 and 2017/18, 'core spending power' is expected to increase in cash terms by £16.2m (4.6%) by 2019/20. With inflation running at 3% this represents a real terms decrease.

Fair Funding

30. The Government has announced that it is revising the way in which local government funding is calculated, with the aim of having a new system in place by 2020/21. Analysis undertaken by the County Council shows that Leicestershire is the lowest funded county area in England and one of the lowest funded areas in the whole country. If Leicestershire was funded at the same level as the London Borough of Camden an additional £350m of funding would be received each year.
31. This low funded position means that the scope to make savings is severely limited compared to other authorities. The County Council has developed an alternative, fairer, way of distributing resources and continues to lobby the Government to adopt this. Lincolnshire, Kent, North Yorkshire, Worcestershire, Cambridgeshire and Essex – among the 25 lowest funded councils in the country - are lending their support. Cross-party support group the County Councils

Network (CCN) is also backing the campaign for local government funding reform.

Business Rates Retention Scheme

32. The previous Settlement issued by the Government in December 2016 includes uplifts to Business Rates “Top-Up” and “Baseline” figures of 3.2% in 2018/19 and 3.6% in 2019/20. 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 2% in 2020/21 and 2021/22, as the Government proposes to switch from using the Retail Prices Index (RPI) to the Consumer Price Index (CPI) as the basis of business rates inflation from 2020. It is anticipated that the government will reset baselines in 2020/21.
33. The previous Settlement showed a reduction to the “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 and the Government consequently will adjust the Top-Up for 2019/20. As noted earlier in the report, it is anticipated that further reductions of around £10.7m will be applied to the Top-Up in 2020/21 and 2021/22 to reflect the continuation of austerity.
34. The forecasts used in the draft MTFS are set out below:

	2018/19 £m	2019/20 £m	2020/21 £m	2020/21 £m
Business Rates ‘Top-Up’	38.7	40.1	40.9	41.7
‘Top-Up’ adjustment	0.0	-2.1	-12.8	-23.5
Business Rates ‘Baseline’*	22.5	23.3	23.8	24.3
S31 grants - Business Rates	1.8	1.8	1.8	1.8
Total	63.0	63.1	53.7	44.3

*Business Rates Baseline is forecast to be £1.7m higher than the amount used by DCLG in calculating the ‘spending power’.

Business Rates Pooling

35. 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.
36. In 2017/18 the County Council along with Leicester City Council, the Combined Fire Authority and all seven Leicestershire District Councils continued the ‘Leicester and Leicestershire Pool’. The latest estimates for the Pool show a potential surplus of £5.8m. This will be retained locally rather than being returned to the Government as would have been the case if no Pool had existed.

The current pooling agreement between the partners allows the surplus to be provided to the Leicester and Leicestershire Enterprise Partnership (LLEP) for investment in the wider sub-regional area.

37. Modelling of the Pool for 2018/19 is being undertaken and a decision on whether to continue with the Pool will be taken by the partners in early January 2018.

100% Business Rate Retention

38. On 1st September 2017 DCLG announced plans to extend its 100% business rates retention pilot programme for 2018/19. There are five current 100% pilots which have been in operation since 1st April 2017.
39. 100% pilots retain all locally-collected business rates. The creation of the pilots will be “fiscally neutral” at baseline, but authorities will gain from retaining 100% of growth in their business rates income, above baseline growth. The safety net threshold for the pilots will be set at 97% of the baseline funding (instead of 92.5% as now). The Government has also confirmed that the pilots will include a ‘no detriment’ clause, as in the first wave.
40. Modelling has been undertaken, with the current Pool partners, which shows a potential gain of £19m in 2018/19 if 100% of business rates are retained. As a result the Pool partners agreed to submit a bid to be a 100% pilot and this was submitted to the Government on 26th October 2017. The bid proposes that the gain is used to provide investment in infrastructure, city and town centres and invest to save initiatives across the partner areas.
41. Not all bids may be successful and there is a competitive process. The Government will announce the successful bids alongside the Local Government Settlement in mid-December. If the bid is successful the current Pool will operate within the 100% Pilot. However if the bid is unsuccessful, the Pool will operate under its current arrangements, subject to paragraph 37.

Council Tax

42. The draft MTF5 is based on a 3.99% per annum increase in Council Tax for the years 2018/19 and 2019/20, including implementation of the 2% adult social care precept in each year. Increases of 1.99% are assumed regarding 2020/21 and 2021/22, when there is uncertainty about the ability to increase the adult social care precept. Over the next four years a total of £52m in extra Council Tax is expected to be generated.
43. 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 Government has indicated that the threshold for calling a referendum in 2018/19 will be a 2% rise in Council Tax.
44. The Chancellor announced, as part of the 2015 Spending Review, that local authorities responsible for delivering adult social care would 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”. The 2017/18 Settlement included flexibility to allow increases of 3% in 2017/18 and 2018/19, but the increases over 2017/18 to 2019/20 could not exceed 6%.

45. The proposed MTFs includes an assumption that the tax base will grow by around 1.5% each year. Final Council Tax base figures for 2018/19 will be provided by the District Councils in January 2018 and will be reflected in the report to the Cabinet on 9th February 2018.
46. The District Councils are providing quarterly monitoring information on the forecast Collection Funds surplus/deficit position. At the end of September 2017 a surplus of around £3m for the County Council was reported and this income is reflected in the 2018/19 budget. Formal estimates for the surplus/deficit will be received in January 2018. The Council has encouraged the District Councils to ensure that estimates are more accurate than they have been in the past.

2018/19 - 2021/22 Budget

47. The provisional detailed four-year MTFs, excluding Dedicated Schools Grant (DSG), is set out in Appendix A and is summarised in the table below. The provisional 2018/19 budget excluding DSG is detailed in Appendix B.

Provisional Budget	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Services including inflation	320.9	338.3	352.5	366.1
Add growth	12.4	10.6	8.9	8.5
Less savings	<u>-15.0</u>	<u>-8.8</u>	<u>-3.7</u>	<u>-2.8</u>
	318.3	340.1	357.7	371.8
Central Items	35.2	17.4	13.5	5.6
Less savings	<u>-0.2</u>	<u>-0.1</u>	<u>-4.0</u>	<u>0.0</u>
Total Expenditure	<u>353.3</u>	<u>357.4</u>	<u>367.2</u>	<u>377.4</u>
Funding				
Revenue Support Grant	-8.5	0.0	0.0	0.0
Business Rates	-63.0	-63.1	-53.7	-44.3
Council Tax*	<u>-281.8</u>	<u>-294.3</u>	<u>-304.7</u>	<u>-315.4</u>
Total Funding	<u>-353.3</u>	<u>-357.4</u>	<u>-358.4</u>	<u>-359.7</u>
Shortfall	<u>0.0</u>	<u>0.0</u>	<u>-8.8</u>	<u>-17.7</u>

*includes £1.3m saving

48. The MTFs is balanced in 2018/19 and 2019/20 and shows shortfalls of £8.8m in 2020/21 rising to £17.7m in 2021/22. As set out in paragraph 54 there is a range of initiatives currently being developed that will aim to bridge the gap.

Savings and Transformation

49. Savings of £35.9m have been identified with more expected over the next four years, 2018-22, with £16.5m to be made in 2018/19. This is a challenging task especially given that savings of £178m have already been delivered over the last eight years. The new savings are shown in Appendix C and further detail of all savings will be set out in the reports to the Overview and Scrutiny Committees in January.
50. The main four-year savings are:
- Children and Family Services (£6.5m). This includes savings from increasing internal foster care provision and reviewing early help services.
 - Adults and Communities (£8.7m). This includes managing demand and reducing costs of social care by reviewing personal budget allocations and contracts and by promoting independence.
 - Public Health (£1.5m). This includes savings from reviewing early help and prevention services.
 - Environment and Transport (£7.1m). Savings will be delivered through a revised approach to Highways Maintenance, reviewing contracts, service reviews, the continued roll-out of the LED street lighting programme, a revised model for Recycling and Household Waste Sites (RHWS) and a revised payment mechanism for recycling credits.
 - Chief Executive's Department (£0.6m). This includes service reviews and a review of funding for economic development activity.
 - Corporate Resources (£5.4m). This includes reviews of all support services e.g. Property, Traded Services, ICT, Human Resources and Finance and an increased contribution from Commercial Services.
 - Corporate/ Central Items (£6.1m). This includes savings from a revised Minimum Revenue Provision and a review of council tax.
51. Of the £36m identified savings efficiency savings account for £26m, and can be grouped into four main types:
- a) Reductions in senior management and administration (£2m)
 - b) Better commissioning and procurement (£14m)
 - c) Service re-design (£6m)
 - d) Other (£4m)
52. It is estimated that the proposals would lead to a reduction of up to 300 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.
53. Further savings will be required to close the budget shortfall of £8.8m in 2020/21 rising to £17.7m in 2021/22.
54. To help bridge the gap a number of initiatives are under development to generate further savings. Once business cases have been completed savings will be confirmed and included in a future MTFs. The initiatives are:

- Fostering Service – review of recruitment and support for in-house fostering.
 - Lower cost adult social care provision – review of different models.
 - Place to live – fully integrated care pathways for working age adults with disabilities.
 - Home First – care for people at home wherever possible to prevent hospital admissions and ensure timely discharge from hospital.
 - Adult Social Care – develop a new Operating Model to deliver a more efficient and effective service.
 - Future Residual Waste Strategy – review of disposal contracts.
 - Highways Delivery Model – review of alternative delivery models.
 - Highways Income Generation/Section 278 – explore options for increased efficiency and to delivering a new approach around section 278 agreements.
 - Reuse – increase levels of reuse of county waste.
 - Recycling and Household Waste Sites – investigation of any further potential benefits following the insourcing of RHWS sites and review of current provision.
 - Corporate Asset Investment Fund – further investment, leading to benefits to the local economy and generation of additional income.
 - IT & Digital Strategy Implementation – more efficient and effective Council services.
 - Commercialism – review of new opportunities to trade and create a more commercial culture across the Council.
 - Property Initiatives – maximise the use of buildings and reduce accommodation costs.
 - People and Performance Management – review use of the new Apprenticeship Levy and expenditure on agency workers.
 - Fit for the Future – replace existing Oracle ERP system and improve working practices of ICT, Finance, HR, Procurement and East Midlands Shared Services (EMSS).
 - Financial Arrangements – review how future liabilities are provided for.
 - 0-19 Health Visiting and School Nurse service – explore new ways of delivery.
 - Integrated Lifestyles – combining aspects of delivery of lifestyle services.
 - Schools Offer – explore which parts of Public Health services delivered to schools could be suitable for a traded offer.
55. The development and ultimately achievement of these savings will be extremely challenging and will require focus, discipline and innovation. The Transformation Programme will continue to have a key role in supporting the delivery of these savings. Further information is provided in Appendix D.
56. Given the County Council's low funding position and high performance across services. Leicestershire is one of the most productive councils in the country. Further analysis will be contained in the February MTFs report.

Transforming the Way We Work

57. Since its inception in 2014, over £35m of savings have been delivered through the Transformation Programme. The programme has since been refreshed twice and as at November 2017 contains savings initiatives totally £28.1m. This will be further affected by the MTFs refresh to 2021/22 and the implementation of the new Strategic Plan for the County Council.
58. The Transformation Programme is structured by category with projects falling under the heading of 'emerging', 'in-delivery' or 'closed', depending on the stage of the project lifecycle the activity is at. This enables appropriate control and challenge throughout the various stages of project progression and ensures that the programme can adapt to changing priorities and new opportunities.
59. The Programme has effective governance and assurance mechanisms, developed through the Programme Management Office, which ensures regular reporting to Members through the Transformation Board.
60. The implementation of the County Council's Strategic Plan provides an opportunity to renew the focus on the Council's strategic priority outcomes and to align investment, productivity and performance to delivering these outcomes.
61. Ensuring the Transformation Programme reflects these new priorities for the County Council will help to continue the pursuit of service delivery and efficiency savings, but also to ensure the aligned investment of effort and resources towards ensuring 'a sustainable and successful organisation leading modern, highly effective services'.
62. A new portfolio of transformation will also account for the need for more effective support and challenge to commissioning intentions within the County Council's services. Outcome-based reporting has the potential to enable evidence-based change to reduce the cost of commissioned services and to maximise the value of all the organisations' resources.
63. Work is underway to determine the full scope of transformation activity which will see the organisation move from its current operating model to that necessary under the Strategic Plan. A new Transformation programme will embrace the funding challenges within the MTFs and seek to support planned activity under the organisation's various priorities, including strategies for embracing opportunities for new ways of working digitally and commercially and how the County Council will work with communities across the County.

Growth

64. Over the period of the MTFs, growth of £40.4m is required to meet demand and cost pressures with £12.4m required in 2018/19. The main elements of growth are:

- Children and Family Services (£17.5m). This is mainly due to pressures on the placements budget and social work teams from increased numbers of looked after children.
 - Adult Social Care (£9.8m). This is largely the result of increasing numbers of people with learning disabilities and an ageing population with increasing care needs.
 - Public Health (£1.4m). This is mainly due to reductions in the Public Health specific grant.
 - Environment and Transport (£2.7m). This primarily relates to increased numbers of clients and costs on the Special Educational Needs (SEN) Transport budget and to projected increases in household waste due to population and economic growth.
 - Corporate Growth (£8.5m). This has been included to act as a contingency for potential further cost pressures, based upon historic levels of growth.
65. There are significant financial pressures within the Children and Family Services budget in respect of the cost of placements for looked after children and investment in staffing through additional posts and agency social workers to address issues identified by the Ofsted inspection. This reflects the national position.
66. The number of placements for looked after children continue to grow with numbers expected to increase by circa 7.5% per year over the four year period of the MTFs. This equates to an additional cost of £15m in 2021/22. Leicestershire had 37 looked after children per 10,000 population, which is lower than the statistical neighbour average of 51, East Midlands average of 55 and England average of 62. It is estimated that over the MTFs period growth in the numbers will be encountered that will result in Leicestershire becoming in line with the statistical neighbour average.
67. The other significant element of growth relates to the social care workforce, £3m. This is to recruit additional social workers, allow for higher agency costs and introduce a market place premia to attract social workers to Leicestershire.
68. Details of proposed growth to meet spending pressures are shown in Appendix E to this report.

Inflation

69. The Government's preferred measure of inflation is the Consumer Price Index (CPI). In October 2017 this was 3.0% and the Office for Budget Responsibility (OBR) predicts it will reduce to around 2.4% in 2018/19 and to 1.9% in 2019/20 before increasing slightly to 2.0% in 2020/21 and 2021/22. The OBR predicts that the Retail Prices Index (RPI) will reduce from its current level of 4.0% to around 3.3% in 2018/19 and to 2.8% in 2019/20 and then increase slightly to 2.9% in 2020/21 and 2021/22. The draft MTFs assumes 3% per annum inflation over the period 2018/19 to 2021/22. However, the Council's cost base does not always reflect these household inflation measures, for example energy and fuel increases have a much more significant impact on its procurement. More

recently, social care costs have been driven up by the introduction of the NLW, for which an additional provision has been made.

70. Local Government employers made a two-year pay offer on 5 December 2017 of 2% for each year 2018/19 and 2019/20. The pay offer includes larger increases for the lower scale points (between 3.7% and 9.2% in 2018/19) and a revised lower pay spine from April 2019, with the first 12 national pay points being merged into 6 new pay points. A contingency of 2.0% has been included in the MTFs for pay awards from 2018/19 onwards and an additional allowance has been made for the impact of the NLW on lower scale points. However, the extent of headroom above the NLW had not been factored into assumptions. This will cost of £2.2m and further work will be undertaken to establish if there is sufficient capacity in the central inflation contingency to accommodate the proposal.
71. The central inflation contingency includes provision for an increase of 1% each year in the employer's pension contribution rate.
72. Although detailed service budgets for 2018/19 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

73. Bank and other interest is budgeted at £2.3m in 2018/19 and later years. This reflects the expectation that Bank of England base rates will remain at a low level for the foreseeable future.
74. Capital financing costs are expected to decrease to £19.3m per annum in 2021/22 (from £22.8m in 2017/18), mainly as a result of the proposed change to the minimum revenue provision outlined below.
75. The budget includes time-limited provision for revenue funding of capital expenditure, mainly for the Corporate Asset Investment Fund, as described later in the report, of £22.1m in 2018/19, £10.1m in 2019/20, £5.7m in 2020/21 and £1.7m in 2021/22.
76. 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). The current policy is to charge MRP on borrowing supported by the Government at a rate of 4% per annum. This equates to approximately £10.5m per annum. The 4% relates to the rate at which the Government provided support to the Authority through RSG.
77. Following changes to the legislation governing MRP and the reductions in RSG it is no longer possible to demonstrate that Government support is maintained at 4% per annum. This allows the annual MRP charge to be rebased to a period more commensurate with the useful service life of the assets purchased.

78. A high level review shows that based on the average remaining economic life of assets held it is possible to revise the MRP calculation to circa 2.5% per annum which would reduce the MRP charge to around £6.5m per annum. It should be noted that a revised approach does not change the overall amount of MRP payable, the same amount is simply repaid over a longer period of time. A saving of £4m has been included in the MTFS from 2020/21.

Health and Social Care Integration

79. Health and Social Care Integration continues to be a top priority for both the County Council and its NHS partners. 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. The Government's expectation is that every part of the country has a plan for health and social care integration to be implemented by 2020/21.
80. NHS planning guidance directs the progression of the health and care integration agenda via Sustainability and Transformation Plans (STPs – see below) which need to demonstrate how the new models of care proposed in the NHS England Five Year Forward View will be accelerated and implemented. The local STP footprint covers the geographical area of Leicester, Leicestershire and Rutland (LLR).
81. To support this agenda delivery of the Leicestershire Better Care Fund (BCF) is constructed using the following themes:
- Unified prevention offer
 - Home first
 - Integrated housing support
 - Integrated domiciliary care
 - Integrated locality teams
 - Integrated urgent response
 - Integrated points of access
 - Integrated data
 - Integrated commissioning
 - Transforming Care (learning disabilities).
82. It was announced in the Spring 2017 budget that the Government would make available an additional one-off allocation of £2bn nationally over the next three years to meet adult social care need, assist in alleviating pressures on the NHS, with particular emphasis on transfers of care from hospital, and help to stabilise the social care provider market. The County Council's allocation (£19.7m) has been split between directly supporting BCF initiatives (£11.5m) and providing funding for social care costs and impacts (£8.2m).
83. Part of Leicestershire's BCF allocation continues to be allocated towards the protection of adult social care services. This is currently £17m to ensure that the needs of the most vulnerable residents are met. Approximately £5m of other BCF funding is received by the County Council for other social care components of the BCF plan.

84. In 2018/19 the County Council will receive £5.6m from the Improved Better Care Fund, rising to £11.4m from 2019/20. This is assumed to be ongoing. In total the County Council will have £33m of BCF Plan funding incorporated into the base budget from 2019/20. Only a minimal amount of related expenditure could easily be stopped should this funding be reduced or removed, presenting a risk to both service delivery and the financial balance of the MTFS.
85. The risk of funding being reduced has risen in 2017 due to NHS England's additional performance expectations in relation to delayed transfers of care (DTC). This has been the subject of reports to the Cabinet in September and October.
86. National conditions in the BCF Policy Framework 2017/18 – 2018/19 set out a DTC national target of no more than 3.5% of occupied bed days delayed by November 2017. Nationally this equates to ensuring that delayed transfers of care are no more than 9.4 days delayed per 100,000 adults. Leicestershire's share of this target is 6.8 days delayed per 100,000 adults. Failure to reach that target could result in a financial penalty to the Council. DTC performance is improving but the target is not expected to be achieved until early next year. Despite this it should be recognised that DTC performance, in Leicestershire, is above average and social care performance is in the top quartile.

Sustainability and Transformation Plan (STP)

87. STP analysis has identified a funding gap across the Leicester, Leicestershire and Rutland local health and social care economy of £400m by 2020/21 if no action is taken to improve delivery and manage demand.
88. The STP aims to address the way in which health and care services are delivered to meet the needs of local people, while at the same time ensuring that the current financial pressures faced are effectively managed. The five-year plan has identified five key strands for change to meet these challenges which include the development of:
- New models of care focused on prevention, and moderating demand growth, including place-based integrated teams, a new model for primary care, effective and efficient planned care and an integrated urgent care offer.
 - A reconfiguration of hospital-based services, subject to consultation.
 - Redesigned pathways to deliver improved outcomes for patients and residents.
 - Operational efficiencies - to support financial sustainability.
 - Getting the enablers right - including workforce, technology, estates and health and social care commissioning integration.
89. As interventions are focussed towards prevention, avoided hospital admissions, a 'home first' model of care and greater integration across social care, community health care and primary care, it has been recognised that this will affect demand for social care support, public health interventions and community services. The three LLR BCF funds are a key enabler to the delivery of the LLR STP.

90. The full implications of the STP for the County Council (and for service users) however need to be identified and addressed in order to manage the increased pressure on resources and to allow for planning to meet this additional demand.
91. To date there are no additional County Council funds identified beyond those set out in the BCF plan, to resource the STP. However, there is a commitment to ensure a system-wide response, by all partners, to meeting changes in demand across the sector that may enable further funding transfers from the NHS to local authorities with social care responsibilities.

Other Grants and Funds

92. There are a number of other specific grants that are still to be announced, none of which are protected by the four-year local government finance settlement, for example:
- Public Health – the 2017/18 allocation of £25.5m is expected to be reduced by 2.6%. A provisional amount of £24.9m has been included for 2018/19.
 - Skills Funding Agency – £4m in 2017/18, no details have been received for the 2018/19 academic year.
 - Section 31 Business Rates (Government funding for 2% cap on business rates growth and other Government measures) – an estimate of £1.8m has been included in the MTFS.
 - Independent Living Fund. This grant totalled £1.3m in previous years. Figures have been agreed for 2018/19 (£1.2m) and 2019/20 (£1.16m).
 - Extended Rights to Free Travel – an estimate of £0.4m has been included.
 - Ministry of Justice Grants – details not yet known.
 - Troubled Families Grant (see below) – expected to stop.
 - Special Educational Needs and Disabilities (SEND) Reform Grant – details not yet known.
 - High Needs Dedicated Schools Grant – provisional settlement, final expected in March 2018.
 - New Homes Bonus – provisional estimates from last year's Settlement of £3m for 2018/19 and £2.9m for 2019/20 have been used, subject to the provisional settlement due in mid-December.
93. The Supporting Leicestershire Families (SLF) programme is currently funded through a combination of the revenue budget, contributions from County Council earmarked funds, partner funding and the Government's Troubled Families grant. During the MTFS there are significant pressures on these funding sources; MTFS contributions from earmarked funds will be extinguished, savings required as part of the Review of Early Help, and uncertainties over future partner contributions and grant funding. It is expected that partner and Government contributions will cease after current commitments have been met. This equates to a loss of £2.3m of income. The C&FS department is developing plans for consideration by the Cabinet in January 2018.

Dedicated Schools Grant Settlement 2018/19

94. There are significant changes to Schools and High Needs Blocks of the Dedicated Schools Grant (DSG) for 2018/19 which both moves to a formulaic allocation for the first time and the addition of a Central Services Block.

Schools Block

95. For 2018/19 and 2019/20 a 'soft' formula will be in place. This describes a situation whereby notional school allocations are calculated at a national level based upon pupil characteristics. Local authorities will then apply their own local funding formula to generate individual school budgets.
96. The 2018/19 Schools Block DSG settlement to local authorities will be a value per primary and secondary pupil based upon pupil characteristics recorded within the October 2016 school census plus a fixed sum for school-led factors. The figures confirmed for Leicestershire are;

2018/19 DSG	
Number of Primary Pupils x	£3,811
+	
Number of Secondary Pupils x	£4,930
+	
Funding for school led factors – Rent / Rates / New School Growth	Per 2017/18 expenditure
=	
Total DSG	£

97. The total level of DSG is set by Government, meaning that some adjustment to locally set factors will be required to keep the total schools budget within this. Whilst the final grant cannot be confirmed until December, the illustrative figures issued by the Department for Education (DfE) estimate the following increases:

	2018/19		2019/20	
	£m	%	£m	%
Primary	£3.2m	2%	£5.8m	3%
Secondary	£7.5m	5%	£13.3m	8%
Total	£10.7m	3%	£19.1m	5%

98. Despite the overall increase in budget, at individual school level a number of schools are on the funding floor with an increase of 0.5% per pupil. These schools, despite additional funding, will experience a real terms decrease in income. From 2019/20 it is expected that a 'hard' formula will be in place, whereby school budgets are calculated and distributed by the DfE, with no ability for local variations, and will be informed by a future Comprehensive Spending Review.

99. The County Council has worked with a group of school representatives and the Schools Forum to develop a formula for consultation which has been issued to all schools. The formula will be presented to Cabinet for decision on 9th January 2018 prior to submission to the DfE by 19th January 2018.

High Needs

100. The High Needs formula allocates funding across a set of pupil related indicators and also includes an allocation based on current spend. For Leicestershire this results in a minor increase in funding but includes circa £4m of protection funding, which is not guaranteed in the long term. The December 2017 consultation indicated that the formula would be reviewed in 4 years and DfE officials have informally stated that the formula, including the protection, will remain until such point it is reviewed. It is however essential that a financial strategy, including the development of a contingency, is established.
101. The following table sets out the summarised income and expenditure position based on current estimated service demand;

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
High Needs Placements	60,317	60,365	60,923	61,366
Other High Needs Costs	6,062	6,211	6,211	6,211
Total High Needs Expenditure	66,379	66,576	67,134	67,577
High Needs Grant and other income	(65,362)	(64,844)	(65,146)	(65,146)
Savings Requirement	1,017	1,732	1,988	2,431

102. The introduction of the High Needs Funding Formula for 2018/19 introduces a baseline change and funding for SEN Units in mainstream schools is transferred to the Schools Block.
103. The final High Needs DSG is not expected to be announced until March 2018. Whilst it is not possible to precisely determine the savings on a service-by-service basis there are three key areas where savings are being explored;
- SEN Placements – a number of activities will contribute to the savings requirement. Additional local provision for pupils with autism is under development at a lower cost than those within the independent sector. In addition the Department through its commissioning strategy is engaging and challenging providers to ensure that pupil needs are met and value for money is provided.
 - Specialist Teaching Services – the services have been reviewed and an HR action plan will be launched in February 2018.

- Children with Medical Needs – the Department is exploring alternative service models to meet the needs of children who are unable to attend school on medical grounds.
104. The High Needs Inclusion Project is charged with identifying long term and sustainable solutions that ensure that the level of expenditure can be contained within the High Needs Grant both in the short term, whilst the grant is relatively stable, and in the longer term should the level of protection within the current system be reduced. The loss of protection would increase the savings requirement from £2.4m to £6.4m.
 105. The project has a number of workstreams that include the development of a financial strategy to address fluctuations in both expenditure and grant. This will allow the creation of a contingency, allowing the service to manage financial issues in a planned way.
 106. The High Needs Project Board has already implemented a number of changes leading to a reduction in the overspend on the High Needs Block. These include more robust assessment of need, leading to children being placed in appropriate more cost-effective provision, and the development of local lower cost autism provision.
 107. The SEND Strategy is currently under development and will set out a number of areas of development. A key area which will contribute to the savings and a robust financial strategy for the High Needs block is improving the quality and sufficiency of SEND education provision and services. This will be achieved through supporting mainstream schools and settings to develop their SEN provision alongside developing local specialist services to ensure sufficiency of places across a continuum of needs.
 108. Three schools have come forward to support the development of additional places for pupils with autism. The cost avoidance per pupil of this type of provision, as opposed to independent provision, is in the region of £20,000 per pupil per year.
 109. The Department is currently reviewing the structure and service offer within Specialist Teaching Services, which will also consider the future model for early years provision including the delivery of the Free Entitlement to Early Education (FEEE) and for pre-school children with special educational needs and disability. An action plan is due to launch in February 2018.

Central Services Block

110. A Central Services Block will be introduced in 2018/19 which will fund a number of school related expenditure items such as existing school based premature retirement costs, copyright licences under a national DfE contract for all schools and other historic costs.
111. For 2018/19 this block will also include funding for the retained duties that local authorities have for statutory duties for all schools such as ensuring sufficient supply of school places.

Year	Historic commitments	On-going Functions	Total	Overall Change
2017/18	£1.0m	£2.1m	£3.1m	
2018/19	£1.0m	£2.2m	£3.2m	+ 1.8%
2019/20	£1.0m	£2.3m	£3.3m	+ 3.4%

Early Years Block

112. There are no changes to the Early Years Block. Grant remains determined by the number of children participating in early years education. The funding will support the first full year of the 30 hours FEEE which was introduced nationally in September 2017 for eligible parents and continued delivery of the early years offer for disadvantaged two year olds.

Budget Consultation

113. Consultation will be undertaken on this draft MTFs, the results of which will be reported to the February Cabinet meeting. Comments on the proposals can be submitted by visiting the County Council's website (www.leicestershire.gov.uk) from 13th December 2017 until 21st January 2018.

Earmarked Funds and Contingency

114. The General Fund balance is available for unforeseen risks (e.g. extreme flooding). The forecast balance on the General Fund (non-earmarked fund) at the end of 2017/18 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 current policy is to hold a balance on the General Fund in the range of 4% - 5%.

115. The proposed MTFs also includes a contingency of £8m in 2019/20 and later years for other specific key risks which include:

- The non-achievement of savings.
- Provision of services through the BCF, as there are risks around funding in later years and the possible shift of costs.
- Uncertainties over the future levels of Government funding and grants, including the New Homes Bonus grant and Public Health grant.
- Pressure on demand led-budgets particularly in social care.
- Maintaining the level of investment required to deliver savings.
- No contingency in 2018/19 due to greater certainty of plans.

116. Other earmarked funds for revenue purposes (excluding schools' balances and partnerships), estimated at £34.5m by March 2018, are held for specific purposes including insurance, change initiatives, severance costs, invest to save

schemes and renewals of vehicles and equipment. Earmarked funds are also held for capital purposes and are estimated at £69.8m by March 2018.

117. KPMG, the County Councils external auditor, has reviewed the level of earmarked and non-earmarked funds held by the County Council as part of their Value for Money review of the 2017-21 MTFS. They reported that given the uncertainties and service pressures that lie ahead, the overall level of earmarked and non-earmarked funds held is appropriate for the size of the organisation.

Concluding Comments

118. The Autumn Budget confirmed the widely expected continuation of austerity. There is little doubt that this will directly affect the County Council by increasing the funding reductions faced. Combining this with the deepening financial crisis in the NHS and proposed funding reforms in education and local government, it strongly suggests that the biggest challenges lie ahead.
119. 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 requiring support, which put huge demands on social care and SEND services.
120. The delivery of the MTFS will be challenging. Some local authorities, which 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 reductions, 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.
121. The delivery of this MTFS rests on three factors:
- The absolute need to deliver the savings in the MTFS. The key risks are the technical difficulty of some projects and the public acceptance of some savings.
 - 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 County Council in a very difficult position with a need to make immediate offsetting savings.
 - The need to manage other risks that could affect the Authority's financial position. These include costs currently being borne by the NHS shifting to local authorities and loss of trading income.
122. The County Council will be a very different organisation by 2022. It needs to be still more innovative, risk aware and commercial in its approach. The plan is deliverable and the MTFS can be balanced over the medium term.
123. Before the MTFS report to the Cabinet on 9th February 2018, the provisional MTFS will be reviewed and if appropriate updated by the latest budget monitoring position for 2017/18.

Capital Programme 2018/19 to 2021/22

124. The draft capital programme totals £289m over the four years 2018-22 and is shown in detail in Appendix F. The programme is funded by a combination of Government grants, capital receipts, external contributions and revenue balances and earmarked funds.

125. The draft programme and funding is shown below:

Draft Capital Programme 2018-22

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Total £000
Children and Family Services	17,320	22,930	3,210	tbc	43,460
Adults and Communities	5,910	3,630	3,650	3,630	16,820
Environment & Transport	37,220	37,390	25,310	14,610	114,530
Chief Executive's	3,900	2,680	100	100	6,780
Corporate Resources	3,540	1,410	340	180	5,470
Corporate Programme	27,000	23,050	21,730	29,720	101,500
Total	94,890	91,090	54,340	48,240	288,560

Capital Resources 2018-22

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Total £000
Grants	54,622	51,158	25,111	20,902	151,793
Capital Receipts from sales Revenue/ Earmarked funds contributions	13,094	4,984	1,484	1,484	21,046
Earmarked Capital funds	17,975	23,557	17,745	25,854	85,131
External Contributions	6,746	790	0	0	7,536
	2,453	10,601	10,000	0	23,054
Total	94,890	91,090	54,340	48,240	288,560

126. 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 positive revenue returns.
- 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 bids to the LLEP, section106 developer contributions and other external funding agencies.
- No or limited prudential borrowing (only if the returns exceed the borrowing costs).

127. Where capital projects are not yet fully developed or plans agreed these have been included under the heading of 'Future Developments' under each departmental programme. It is intended that as these schemes are developed during the year are assessed against the balance of available resources (£28m) and included in the capital programme as appropriate.

Funding and Affordability

Capital Grants

128. Grant funding is the largest source of financing for the capital programme and totals £151.8m across the 2018-22 programme. The majority of grants included in the programme are awarded by Government departments including the DfE and the Department for Transport (DfT). Other significant grants include funding from the LLEP. The main grants are explained below.

Children and Family Services

129. Capital grant funding for schools is provided by the DfE as follows:
- 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. Funding is determined through an annual submission to the DfE which identifies the need for additional school places in each local authority. The DfE have previously announced details of the grant awards for 2018/19 (£16.9m) and 2019/20 (£11.5m). No details have been announced for future years and therefore these are not included in the programme at this stage.
 - b) **Condition** – this grant provides the maintenance funding for the maintained school asset base. Details of the grant for 2018/19 and future years have not yet been announced. An estimate of £6.8m (in total) has been included in the capital programme for 2018/19 to 2020/21. It is expected that this grant will continue but will reduce as further schools convert to academy status. No estimate has been made for 2021/22.
 - c) **Devolved Formula Capital (DFC)** - funding provided to schools. The DfE has not yet announced details of grant allocations. However, an estimate can be made based on the number of maintained schools which totals £1.8m for 2018/19 to 2020/21. No estimate has been made for 2021/22.

Environment and Transport

130. The DfT has informed local authorities of the indicative amounts they will receive in capital grant for the Local Transport Plan (LTP) for 2018/19 to 2020/21. Estimates have been included for 2021/22. The LTP has two elements:
- a) **Improvement Schemes**. Grant funding of £10.9m (£2.7m per annum) has been included in the four-year programme.

- b) Maintenance funding. Grant funding of £45.8m (£11.4m per annum) has been included in the four-year programme.

131. Other significant capital grants included are:

- DfT Incentive Fund - £9.5m. The DfT has set aside funding to help reward local authorities which can demonstrate they are delivering value for money in carrying out cost effective improvements. The DfT invites each local authority to complete a self-assessment questionnaire to demonstrate that efficiency measures are being pursued. The amount included is estimated to be that applicable for a score at level 3 (out of 3).
- Highways England (Growth and Housing Fund) - £10m
- LLEP local growth fund - £12m
- National Productivity Investment Fund - £3.5m
- DfT Pothole Fund £2.9m – in line with previous years' grant announcements an estimate of £0.7m has been included for each year.

Capital Receipts

132. The generation of capital receipts is a key priority for the County Council. The draft capital programme includes an estimate of £21m across the four years to 2021/22. The estimate includes potential land sales that are subject to planning permission. In these cases the value of the site is significantly increased where planning permission is approved, however, this also comes with a significant amount of uncertainty and potential for delays. For planning purposes an estimate of 25% (equates to £5.8m) of future sales subject to planning permission has been included in the £21m estimate.

Revenue / Earmarked Funds/ Contributions

133. 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 total of £85m has been included in the draft programme funded from one off MTFS revenue contributions and revenue earmarked funds (including the capital future developments fund). The largest contributions are from planned MTFS contributions 2018-22 (£40m) and the capital future developments fund (£35m).

External Contributions and Earmarked Capital Funds

134. A total of £31m is included in the funding of the capital programme 2018-22, mainly from section 106 developer contributions (£20m), external organisations and earmarked capital funds.

Prudential Borrowing

135. The Council is able to finance new capital expenditure by undertaking prudential (unsupported) borrowing. The financing costs of undertaking borrowing, often from the Public Works Loans Board, are charged to the revenue account and are funded by the Council. By using other sources of funding, capital receipts and

one-off revenue contributions, no unsupported borrowing is included in the funding of the 2018-22 programme. The County Council's current level of external debt is £265m which costs circa £23m in capital financing costs each year. If the Council were to undertake prudential borrowing to increase resources then this would result in increased revenue costs by circa 5% per annum of the amount borrowed.

Departmental Programmes

Children and Family Services

136. The draft programme totals £43.5m over the three years 2018/19 to 2020/21. The priorities for the programme are informed by the Council's School Place Planning Strategy and include the provision of additional accommodation where additional pupil places are needed (£31.5m) and school improvements (£6.8m).

Adults and Communities

137. The draft programme totals £16.8m. The main area relates to the Better Care Fund (BCF) Grant programme (£14.5m), which is passported to District Councils to fund major housing adaptations in the County for vulnerable people to stay safely in their own home. Other investments include £0.9m to complete the SMART libraries programme (to enable self-service) that started in 2017/18 and capital works at Enderby Danemill Annex to locate the adult learning service into an existing County Council premises to improve service provision and reduce costs.

Environment and Transport (E&T)

138. The programme totals £114.5m over the four years 2018-22. The main areas are:

- Transport Asset Management Programme - £43.6m. Ensuring transport assets such as roads and footways are well managed. The programme includes an adjustment in each year of circa £3m reduction in respect of a substitution of capital funding to offset revenue expenditure. This supports the delivery of revenue savings in the E&T Department.
- Strategic Economic Plan (SEP) - £34.8m. Anstey Lane Scheme (£7.8m) and M1 Junction 23 (£27m). These two schemes will be funded by contributions from Highways England, the LLEP, developers and Leicester City Council.
- Advanced Design work - £9.2m. A programme of advanced design works to support future major transport schemes and bids to the DfT and LLEP for funding. The programme includes £4m advanced design work towards a potential new distributor road east of Melton Mowbray.
- County Council vehicle programme - £6.8m. Investment in new vehicles to replace aged vehicles and reduce running costs.
- Hinckley Hawley Road - £5m. Hinckley Area Project Zone 4 – junction, traffic management, signage, walking and cycling improvements.

- Street lighting LED Replacement Programme - £5m. Completion of the programme. Good progress is being made with spend likely to be incurred (accelerated) in 2017/18.
- Zouch Bridge Replacement – £1.8m. Funding to complete the bridge works (in addition to £1.6m funding in the current 2017/18 capital programme). The overall costs have risen by £0.7m due to delays on the scheme and flood risk assessment necessitating additional redesign work.
- The Environment and Waste programme totals £1.0m and includes drainage and general improvement works at recycling and household waste sites.

Chief Executive's

139. The programme totals £6.8m. The main scheme is the Rural Broadband Phases 2 and 3 (£6.4m) towards completing superfast rural broadband. The funding includes £1.9m underwriting by the County Council pending repayment from BT in 2023. The departmental programme also includes Shire Community Grants, totalling £0.4m across the four years to 2022.

Corporate Resources

140. The programme totals £5.5m for 2018-22 with the main priorities for investment being:

- £3.3m investment in the ICT upgrade and replacement programme, including the local and wide area networks, the storage area network and server replacement.
- Central Maintenance Fund, £0.5m for major replacement works.
- Snibston and Country Park future strategy, £1.6m to develop the site.

Corporate Programme

141. The corporate programme totals £102m for 2018-22. The main area is the investment in the Corporate Asset Investment Fund (CAIF), totalling £97m, of property and land assets to improve economic development, replace assets sold to generate capital receipts, and generate ongoing revenue returns. The CAIF programme includes allocations for Industrial Properties and County Farms for general improvements (£2m).

142. The CAIF has a notional target of growing to £200m. Existing holdings plus identified commitments will value the CAIF at circa £136m. The balance of £64m has been included in the draft programme as future asset acquisitions.

143. Other investments within the corporate programme include the Energy and Water Strategy, £4.7m, to reduce energy consumption across the Council's property estate to deliver ongoing efficiency savings and reduce carbon emissions.

Future Developments

144. There is a long list of projects that may require funding over the next 4 years. These include investment in infrastructure for schools and roads arising from increases in population, investment in community speed enforcement (depending on the outcome of the pilot), a new records office and collections hub, major IT system replacements (mainly Oracle which the Council has had in place since the early 1990's) and a contribution and underwriting of section 106 developer contributions for the Melton Mowbray distributor road (the subject of a separate report on the agenda for this Cabinet meeting).
145. The balance of available funds for future developments between 2018/19 and 2021/22 totals £28m.
146. The list of Future Developments is continually refreshed and it is likely that the requirement will exceed the current funding available. If this increase is material it will need to be managed through prioritisation and identification of alternative funding sources. Financial modelling is being completed and all potential income streams are being considered including contributions from partners.
147. Closing the gap by taking on new loans is not the preferred option, as this increases the requirement for future savings. It is still expected that this situation can be avoided as over the course of the MTFs one or more of the following opportunities will arise:
- Underspends on the County Council revenue budget.
 - Unexpected grants are received to replace previously earmarked County Council resources.
 - Temporarily use of the cash supporting earmarked funds in advance of it being required, rather than making short term cash investments.
 - Utilising the annual provision (MRP) made for the repayment of debt that is not required until the 2040s. This is expected to be £6.5m per annum.
 - Delay some of the expenditure until resources are available
148. This approach forms part of the wider strategy to ensure that the capital programme is deliverable, affordable and the risks are understood, in line with CIPFA's requirements.

Capital Summary

149. Given the declining financial position it is important that the process for developing long term infrastructure plans continues to improve so that the right investment choices are made. Currently longer term infrastructure schemes are not included in the programme. Pressure on school places and Leicestershire's infrastructure is expected from population growth, with estimates of a 12% increase in the County's population by 2030. It is assumed that Section 106 and Government funding will be available at the necessary level.
150. By their nature discretionary asset investments, which are made to generate capital receipts or revenue returns, are risky. Whilst this is partially mitigated by

the County Council's ability to take a long-term view of investments, removing short-term volatility, it is likely that not all investment will yield returns in line with the business case.

151. A significant portion of the programme enables revenue savings; delays or unsuccessful schemes will directly affect the revenue position.

152. Additional government investment in housing and infrastructure is increasingly subject to a competitive bidding process and areas with devolution deals are likely to be preferred. For the County Council to access additional funding other organisations, such as the LLEP, need to be operating effectively.

Equality and Human Rights Implications

153. 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.

154. Many aspects of the County Council's MTFs may affect service users who have a protected characteristic under equalities legislation. An assessment of the impact of the proposals on the protected groups must be undertaken at a formative stage prior to any final decisions being made. Such assessments will be undertaken in light of the potential impact of proposals and the timing of any proposed changes. Those assessments will be revised as the proposals are developed to ensure that decision-makers have information to understand the effect of any service change, policy or practice on people who have a protected characteristic.

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

Crime and Disorder Implications

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

Environmental Implications

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

Partnership Working and Associated Issues

158. 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

159. 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 provisional settlement 2017-21

<http://ow.ly/GCUI30h0ivw>

Report to the County Council on 22nd February 2017: Medium Term Financial Strategy 2017/18 - 2020/21

<http://politics.leics.gov.uk/documents/s126527/MTFS%202017%20-2021.pdf>

Appendices

Appendix A: Four Year Revenue Budget 2018/19 to 2021/22

Appendix B: 2018/19 Revenue Budget

Appendix C: Savings 2018/19 to 2021/22

Appendix D: Savings under Development

Appendix E: Growth 2018/19 to 2021/22

Appendix F: Capital Programme 2018/19 to 2021/22