



CABINET – 9 FEBRUARY 2018

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

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PART A

Purpose of the Report

1. This report presents the County Council's proposed 2018/19 to 2021/22 Medium Term Financial Strategy (MTFS) for approval, following consideration of the draft MTFS by the Cabinet in December 2017 and the Overview and Scrutiny bodies in January and receipt of the draft Local Government Finance Settlement on 19 December 2017.

Recommendations

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 2018/19 totalling £361m as set out in Appendices A, B and E of this 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 2019/20, 2020/21 and 2021/22, set out in Appendix B to the report, including the growth and savings for those years as set out in Appendix C, allowing the undertaking of preliminary work, including business case development, consultation and equality impact assessments, as may be necessary towards achieving the savings specified for those years including savings under development, set out in Appendix D;
 - (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 J 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 2018/19 be as set out in Appendix K (including 3% for the adult social care precept);

- (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 2018/19 to 2021/22 capital programme as set out in Appendix F;
- (h) That the Director of Finance following consultation with the Lead Member for Resources be authorised to approve new capital schemes including revenue costs associated with their delivery;
- (i) That it be noted that new capital schemes, referred to in (h), are shown as future developments in the capital programme, to be funded from funding available;
- (j) That the financial indicators required under the Prudential Code included in Appendix L, Annex 2 be noted and that the following limits be approved:

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Operational boundary for external debt				
i) Borrowing	264.6	264.1	263.6	263.1
ii) Other long term liabilities	1.3	1.2	1.1	1.0
TOTAL	265.9	265.3	264.7	264.1
Authorised limit for external debt				
i) Borrowing	274.6	274.1	273.6	273.1
ii) Other long term liabilities	1.3	1.2	1.1	1.0
TOTAL	275.9	275.3	274.7	274.1

- (k) That the Director of Finance be authorised to effect movement within the authorised limit for external debt between borrowing and other long term liabilities;
- (l) That the following borrowing limits be approved for the period 2018/19 to 2021/22:
- (i) Upper limit on fixed interest exposures 100%
 - (ii) Upper limit on variable rate exposures 50%
 - (iii) Maturity of borrowing:-

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

- (m) That the Director of Finance be authorised to enter into such loans or undertake such arrangements as necessary to finance capital payments in 2018/19, subject to the prudential limits in Appendix L;
- (n) That the Treasury Management Strategy Statement and the Annual Investment Strategy for 2018/19, as set out in Appendix L, be approved including:
 - (i) The Treasury Management Policy Statement, Appendix L; Annex 4
 - (ii) The Annual Statement of the Annual Minimum Revenue Provision as set out in Appendix L, Annex 1;
- (o) That approval is given to the Risk Management Policy and Strategy (Appendix H);
- (p) That the Capital Strategy (Appendix G) and Earmarked Funds Policy (Appendix I) to this report be approved;
- (q) That it be noted that the partners of the Leicester and Leicestershire Business Rate Pool have agreed to continue with the arrangements for 2018/19;
- (r) That the Director of Finance following consultation with the Lead Member for Resources be authorised to make changes to the MTFs required as a result changes arising between the Cabinet and County Council meetings, for example the Final Local Government Finance Settlement. Any changes will be reported to the County Council.

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, to allow efficient financial administration during 2018/19 and to provide a basis for the planning of services over the next four years.

Timetable for Decisions (including Scrutiny)

4. On 12th December 2017 the Cabinet agreed the proposed MTFs, including the 2018/19 revenue budget and 2018/19 to 2021/22 capital programme, for consultation. The Overview and Scrutiny Committees and the Scrutiny Commission then considered the proposals in January 2018 (the comments of those bodies are attached as Appendix N).
5. The County Council meets on 21st February 2018 to consider the MTFs including the 2018/19 revenue budget and capital programme. This will enable the 2018/19 budget to be set before the statutory deadline of the end of February 2018.

Policy Framework and Previous Decisions

6. 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

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

Resource Implications

8. The MTFS is the key financial plan for the County Council.
9. The County Council is operating in an extremely challenging financial environment. Whilst the four-year Settlement had already confirmed that this would continue until at least 2019/20, the extension of austerity suggests that the UK is not yet halfway on the road to stability.
10. Delivery of the MTFS requires savings of £50m to be made from 2018/19 to 2021/22. This MTFS sets out in detail £37m of savings and proposed reviews that will identify further savings to offset the £13m funding gap in 2021/22. Strong financial control, plans and discipline will be essential in the delivery of the MTFS.
11. 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 £41m, primarily to meet the forecast increase in demand for social care.

Circulation under the Local Issues Alert Procedure

12. 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**Changes to the draft Budget proposed in December 2017**

13. Changes to the draft budget considered by the Cabinet on 12th December 2017 are summarised in the table below:

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Shortfall at 12 December 2017	0	0	8,832	17,691
Increase Core Council Tax				
Additional 1% increase to 2.99%	-2,693	-2,850	-2,940	-3,050
Supporting Leicestershire Families transition fund	1,000	1,000	0	0
Highway Maintenance investment	600	600	600	600
Support Fund for Community Libraries	100	0	0	0
Increase Inflation provision	1,000	1,100	1,100	1,100
Adult Social Care precept				
1% increase brought forward 1 year	-2,693	60	50	60
Investment in Supported Living	2,693	0	0	0
Other funding changes				
Council Tax Base	-1,230	-1,290	-1,340	-1,380
Collection Funds' surplus	-606	0	0	0
Business Rates (net changes)	-365	-143	-138	-118
New Homes Bonus	-663	-834	-834	-834
Savings changes	-1,060	-1,060	-1,060	-1,060
Growth changes				
C. Execs – legal costs for Asset Investments	-65	-65	-65	-65
Deprivation of Liberty Safeguards (DOLS)	260	260	260	260
Funding of Future Developments	3,722	3,222	0	0
Revised Shortfall	0	0	4,465	13,204

14. The proposal to increase Core Council Tax by an additional 1%, to 2.99%, follows the change in the referendum principle for 2018/19 announced as part of the Local Government Finance Settlement. This will increase the Council Tax precept by £2.7m. It is proposed that this additional funding is invested as follows:

- Supporting Leicestershire Families (SLF): The current level of service is only possible due to earmarked funds and Government and partner contributions. If current commitments are not renewed the service will face a £2.3m per annum shortfall. Given the national uncertainty over what (if anything) will replace SLF funding an earmarked fund will be established to allow the transition to a new model when Government and partner funding

intentions are known. One off contributions of £1m in 2018/19 and 2019/20 will be made to create a fund of £2m.

- Highways Maintenance £0.6m ongoing: Significant reductions have been made to Highways Maintenance budgets over the last 4 years, in total around £5m. Whilst the focus has been on efficiency measures there was always an expectation that service levels would reduce. To try and maintain service levels at the standard the County Council and the public would want there has been partial mitigation of reductions, in previous years, through the release of one-off funding from Council underspends. It is proposed that £0.6m is added to the Highways maintenance budget on an ongoing basis. This will support the targeting of pressure areas, for example pothole repairs, drainage works, gulley emptying, lining and signing.
 - Inflation; £1.0m 2018/19, £1.1m 2019/20 ongoing. The MTFs assumes 2% for pay and 3% for prices. Current RPI is 4.1% and CPI 3.0%. In addition the proposed pay award equates to a c.5.5% increase over two years. Due to these pressures it is appropriate to increase the central contingency.
 - Support Fund for Community Libraries £0.1m. Contribution to earmarked funds to extend County Council support.
 - For 2019/20 the balance of funding (£0.2m) will contribute towards Future Developments. In 2021/22 the additional income will contribute to reducing the financial gap by £1.4m.
15. The profile of the Adult Social Care precept in the draft budget presented in December was 2% in 2018/19 and 2019/20. It is proposed to increase the precept by 1% in 2018/19 followed by a reduction of 1% in 2019/20. This will result in a revised profile of 3% in 2018/19 and 1% in 2019/20. This change will generate an additional £2.7m in 2018/19 only. It is proposed to invest this funding in Supported Living accommodation for working age adults.
16. Supported Living accommodation benefits both the individual, as a more personalised alternative to residential care, and the County Council, as a lower cost alternative. There is currently a waiting list for supported living accommodation and further demand expected from population growth and the desire to reduce use of residential and hospital placements. The funding generated by the precept will be earmarked for capital investment in increasing the supply of accommodation in the county, most likely under County Council ownership.
17. Other funding changes summarised in the table above relate to:
- Council Tax Base – The initial forecast of 1.9% has been increased to 2.4% following updated tax base information received from the District Councils. This generates £1.2m more council tax income in 2018/19 than previously forecast.
 - Collection Funds' surplus – the forecast has increased by £0.6m to £3.6m following formal estimates provided by the billing authorities in mid-January 2018.

- Business Rates (net change). Values for “top-up” and “baseline” amounts have been updated to reflect the latest forecasts from the Department for Communities and Local Government (DCLG).
 - New Homes Bonus – updated estimates per the provisional 2018/19 Settlement.
18. Following a review of the latest budget monitoring information additional savings of £1.1m have been included in the MTFS. The vast majority of this change relates to Adult Social Care, where demand management improvements have reduced growth pressures.
 19. Growth pressures have also been reviewed, the primary change being the inclusion of £0.3m to replace a government grant, for Deprivation of Liberty Safeguards (DOLS). The grant was not renewed despite no reduction in the cost pressure in this area.
 20. The balance of new resources has been allocated for funding future Developments (detailed in the Capital section of this report) in 2018/19 and 2019/20. It is expected that this will lead to revenue savings and investment income which will help to close the overall funding gap in later years.
 21. The net additional resources available in later years have reduced the overall shortfall in the MTFS in 2021/22 to £13m.

Autumn Budget 2017

22. 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.
23. 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.
24. 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 MTFS is that austerity will continue at the same rate.

25. 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).
26. The increase in the National Living Wage (NLW) from £7.50 per hour to £7.83 per hour from April 2018 was in line with expectations. The forecast for 2020, when the NLW will reach 60% of median earnings, is £8.61 per hour.
27. 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 MTFs assumes a 2% increase for all four years.
28. 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.
29. 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

30. The Provisional Local Government Finance Settlement was issued by the Government on 19th December 2017. The key issues are set out below:
 - Government has confirmed that the third year (2018/19) of the four year settlement (2016-20) will be honoured for all authorities which accepted the multi-year offer, which included the County Council. A new funding methodology is expected to be in place following this in 2020/21.
 - 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.
 - Business Rate Pilot: The most disappointing aspect of the settlement is the bid to form a Leicester and Leicestershire Pilot proved unsuccessful. The area could have kept additional income of around £19m, which was to be invested in infrastructure, the city and town centres and in invest to save initiatives. The successful Pilot bids were: Berkshire, Derbyshire, Devon, Gloucestershire, Kent & Medway, Leeds, Lincolnshire, Solent, Suffolk, Surrey and London.
 - Negative RSG: DCLG will be looking at fair and affordable options for dealing with “Negative RSG” and will formally consult on proposals in the spring so that the findings are included in next year’s Settlement. In 2019/20 the County Council has negative RSG of £2m. Any benefit is only expected for one year due to the implementation of a new funding methodology expected in 2020/21.

- Council Tax: Increase in the “core” referendum principle from 2% to 3% for 2018/19 and 2019/20. The initial budget proposals were based on 2% and the revised budget proposal is based on 3%. Each 1% of council tax equals £2.7m. There is also a £12 Council Tax flexibility for police services. The Adult Social Care precept rules are unchanged, allowing the County Council to raise a maximum of 4% in the period 2018/19 to 2019/20.
- New Homes Bonus Grant: No changes to the arrangements already announced, to provide “continuity”. The baseline is maintained at 0.4% and payment years will be reduced from 5 to 4 in 2018/19.
- Adult Social Care: A green paper on future challenges within adult social care will be published in the summer of 2018.
- Fair Funding Review: DCLG has published a consultation on the approach to developing a new funding methodology from 2020/21.
- Business Rate Retention: local share to increase from 50% to 75%, and will include transfer of public health and other grants. Again to be implemented from 2020/21.
- Transition Grant: There was no mention of an extension of transition grant; the County Council received £3.3m in 2016/17 and 2017/18.

Revenue Support Grant and Spending Power

31. The funding projections to 2019/20 in the four-year 2017-20 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 (this adjustment is referred to as “negative RSG). 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 MTFSS assumes that this will continue with further reductions to the Top-Up of £10.7m in both 2020/21 and 2021/22.
32. 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.
33. 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

34. The elements of core spending power from the provisional 2018/19 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	68.1	58.7
Under-indexing of the business rates multiplier	0.8	0.8	0.8	1.2	1.9
Council Tax*	233.4	242.8	253.1	265.9	279.4
2% Council Tax for Social Care**		4.8	10.0	18.6	22.4
Improved Better Care Fund***	0.0	0.0	9.5	12.4	14.7
New Homes Bonus	3.3	4.3	4.1	3.6	3.7
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	353.4	349.6	360.5	369.8	380.8

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

** DCLG forecasts for Social Care Precept assume 3% in 2018/19 and 1% in 2019/20.

*** Improved Better Care Fund includes additional funding announced in Spring Budget 2017.

35. The table shows that after a reduction in 2016/17, 'core spending power' is expected to increase in cash terms by £27.4m (7.7%) by 2019/20. With inflation currently running at 3% per annum, this represents a real terms decrease.

Fair Funding

36. 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.
37. 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.

38. The Government issued a technical consultation on fair funding on 19 December 2017 with a closing date of 12th March 2018. A report containing the proposed response will be presented to the Cabinet.

Business Rates Retention Scheme

39. The Provisional Settlement issued by the Government in December 2017 includes uplifts to Business Rates “Top-Up” and “Baseline” figures of 3.0% in 2018/19 and 2.2% 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 MTFS includes an assumption that the Baseline and Top-Up will increase by around 2% in 2020/21 and 2021/22, as the Government has switched from using the Retail Prices Index (RPI) to the Consumer Price Index (CPI) as the basis of business rates inflation from 2018. It is anticipated that the government will reset baselines in 2020/21.
40. The forecasts used in the MTFS are set out below:

	2018/19 £m	2019/20 £m	2020/21 £m	2020/21 £m
Business Rates ‘Top-Up’	38.8	39.6	40.4	41.3
‘Top-Up’ adjustment	0.0	-2.1	-12.8	-23.5
Business Rates ‘Baseline’*	22.3	22.8	23.3	23.7
S31 grants - Business Rates	2.3	2.9	2.9	2.9
Total	63.4	63.2	53.8	44.4

*Business Rates Baseline is forecast to be £1.6m higher than the amount used by DCLG in calculating the ‘spending power’.

Business Rates Pooling

41. 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.
42. 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 £4.7m. 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.
43. Modelling of the Pool for 2018/19 showed a forecast surplus of £6.0m and consequently the partners have decided to continue with the Pool for 2018/19.

100% Business Rate Retention

44. 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.
45. The Government announced the successful pilot bids alongside the Local Government Settlement on 19 December 2017. Ten pilot bids were accepted, along with a pilot for London. However, the Leicestershire bid proved unsuccessful. The Government intends to continue with pilots for 2019/20 and the Pool partners will need to consider if a pilot bid for 2019/20 should be made in autumn 2018.

Council Tax

46. The change in Council Tax increase since the draft MTFs, proposed in December 2017, is shown in the table below:

	2018/19	2019/20
Core	1.99%	1.99%
ASC precept	2.00%	2.00%
Total per December 2017 draft	3.99%	3.99%
Core	2.99%	1.99%
ASC precept	3.00%	1.00%
Total per current proposal	5.99%	2.99%

47. The MTFs proposes a 5.99% increase in 2018/19, reflecting the change in the Provisional Local Government Settlement to allow a 1% increase in the referendum “core principle” element, and also a change in the phasing of the Adult Social Care precept to 3% in 2018/19 and 1% in 2019/20.
48. 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 Provisional 2018/19 Local Government Finance Settlement included an increase in the threshold in 2018/19 to 3% and an indication that the threshold for 2019/20 will also be around 3%, subject to inflation.
49. Local authorities responsible for delivering adult social care are allowed to raise an additional precept to be used entirely for adult social care. This is in addition to the current council tax referendum threshold. The 2017/18 Settlement included flexibility to allow local authorities to make increases of 3% in 2017/18 and 2018/19, but the increases over 2017/18 to 2019/20 could not exceed 6%. Beyond 2019/20 there is uncertainty about the ability to increase the adult social care precept.

50. The MTFS includes a Council Tax Base increase of 2.38% in 2018/19 and an assumption that future years' growth will be around 1.5% each year. The increase of 2.38% in 2018/19 reflects the updating of estimates for new properties by some of the Districts, following the request from the County Council for a review of council tax to be undertaken.
51. The District Councils have provided a formal estimate for the Council Tax Collection Fund surplus of £3.6m. This income has been reflected in the 2018/19 budget and is £0.6m higher than the previous forecast made at the end of September 2017. 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

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

Provisional Budget	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Services including inflation	322.0	340.2	354.4	367.0
Add growth	14.3	10.5	7.9	8.5
Less savings	<u>-16.0</u>	<u>-8.8</u>	<u>-3.7</u>	<u>-2.8</u>
	320.3	341.9	358.6	372.7
Central Items	41.0	19.8	12.6	4.7
Less savings	<u>-0.3</u>	<u>-0.1</u>	<u>-4.0</u>	<u>0.0</u>
Total Expenditure	<u>361.0</u>	<u>361.6</u>	<u>367.2</u>	<u>377.4</u>
Funding				
Revenue Support Grant	-8.5	0.0	0.0	0.0
Business Rates	-63.4	-63.2	-53.8	-44.4
Council Tax*	<u>-289.1</u>	<u>-298.4</u>	<u>-308.9</u>	<u>-319.8</u>
Total Funding	<u>-361.0</u>	<u>-361.6</u>	<u>-362.7</u>	<u>-364.2</u>
Shortfall	<u>0.0</u>	<u>0.0</u>	<u>4.5</u>	<u>13.2</u>

*includes £1.3m saving in 2018/19

53. The MTFS is balanced in 2018/19 and 2019/20 and shows shortfalls of £4.5m in 2020/21 rising to £13.2m in 2021/22. As set out in paragraph 59 there is a range of initiatives currently being developed that will aim to bridge the gap.

Savings and Transformation

54. Savings of £37m have been identified, with £17.6m to be delivered in 2018/19, more are expected over the next four years 2018-22. This is a challenging task given that savings of £178m have already been delivered over the last eight years. The new savings are shown in Appendix C and further details of savings have been set out in the reports to the Overview and Scrutiny Committees in January.

55. The main four-year savings are:

- Children and Family Services (£6.6m). This includes savings from increasing internal foster care provision and reviewing early help services.
- Adults and Communities (£9.7m). This includes managing demand and reducing costs of social care by reviewing personal budget allocations and contracts and by promoting independence.
- Public Health (£1.3m). 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. Review of parking restrictions in town centres, effect on residents and impact of yellow lines (£0.6m). This includes reviewing on street parking charges in town centres.
- 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 (£6.2m). This includes savings from a revised Minimum Revenue Provision and a review of council tax.

56. Of the £37m 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)

57. It is estimated that the proposals will 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.

58. Further savings will be required to close the budget shortfall of £4.5m in 2020/21 rising to £13.2m in 2021/22.

59. 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 services delivered to schools could be suitable for a traded offer.
60. The development and ultimately the 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.
61. The County Council has only been able to combine high performance across services with a low funding position by being one of the most productive councils in the country. This was confirmed in December by a publication released by iMPower, an independent consultancy. This identified the County Council as the most productive council in the country, following a comparison of expenditure with a range of outcome measures.

Transforming the Way We Work

62. 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 totalling £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.
63. 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.
64. 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'.
65. 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 organisation's resources.
66. 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

67. Over the period of the MTFs, growth of £41.2m is required to meet demand and cost pressures with £14.3m 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 (£10.1m). 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 (£3.3m). 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.
68. 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 financial pressure on the County Council's children's social care budget is reflective of the national position.
69. 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.
70. 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 premium to attract social workers to Leicestershire.
71. Details of growth to meet spending pressures are shown in Appendix C to this report.

Inflation

72. The Government's preferred measure of inflation is the Consumer Price Index (CPI). In December 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 be approximately 1% higher than CPI over this period. The 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.
73. 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% had been included in the MTFS for pay awards from 2018/19 onwards and an additional allowance had been made for the impact of the NLW on lower scale points. However the pay offer was higher than anticipated and an additional £1m has been added to the contingency to meet the higher costs.

74. The central inflation contingency includes provision for an increase of 1% each year in the employer's pension contribution rate.
75. Detailed service budgets for 2018/19 have been compiled on the basis of no pay or price increases. A central contingency for inflation is held so that funding can be allocated to services as necessary.

Central Items

76. 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.
77. 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.
78. The budget includes time-limited provision for revenue funding of capital expenditure, mainly for the corporate asset investment fund and funding of Future Developments, as described later in the report, of £28.5m in 2018/19, £13.4m in 2019/20, £5.7m in 2020/21 and £1.7m in 2021/22.
79. 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.
80. 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.
81. 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

82. 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.

83. 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). The Leicestershire Better Care Fund (BCF) has been constructed to support this agenda.
84. 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 (£8.2m).
85. 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.
86. 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.
87. National conditions in the BCF Policy Framework 2017/18 – 2018/19 set out a DTOC national target. DTOC performance in Leicestershire is improving but the target is not expected to be achieved until spring 2018. Despite this it should be recognised that DTOC performance, in Leicestershire, is above average and social care performance is in the top quartile. Government have confirmed that the progress achieved to date is sufficient to justify no change to the 2018/19 additional allocation of BCF funding outlined in paragraph 84, leaving only £3.4m at risk in 2019/20.

Sustainability and Transformation Plan (STP)

88. 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.
89. 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.

90. 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.
91. However the full implications of the STP for the County Council (and for service users) 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. The Plan is due to be published by the local NHS later this year.
92. 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

93. 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 2018/19 allocation of £24.9m is a 2.6% reduction on the 2017/18 level, as expected.
 - 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 £2.3m 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 – £0.4m has been included, based on a provisional notification from the Government.
 - Ministry of Justice Grants – details not yet known.
 - Troubled Families Grant (see below) – to be confirmed.
 - Special Educational Needs and Disabilities (SEND) Reform Grant – £0.3m, in line with expectations.
 - High Needs Dedicated Schools Grant – provisional settlement, final expected in March 2018.
 - Early Years Dedicated Schools Grant – provisional settlement, final expected in May 2019 when the final census data is known.
 - New Homes Bonus – provisional estimates from the Provisional Settlement of £3.6m for 2018/19 and £3.7m for 2019/20.
94. 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 contributions from earmarked funds will be

extinguished, savings are required as part of the Review of Early Help, and there are 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 MTFS includes setting aside £2m in an earmarked fund to allow the transition to a new model when Government and partner funding intentions are known.

Dedicated Schools Grant Settlement 2018/19

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

Schools Block

96. 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.
97. 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	£3,783
	+	
Number of Secondary Pupils	x	£4,730
	+	
Funding for school led factors New School Growth	– Rent / Rates /	Per 2017/18 expenditure
	=	
Total DSG		£380.1m

98. The final DSG settlement issued in December at £380.1m is an increase of £17.0m compared with 2017/18 (4.7%). This is as a result of increases in pupil numbers. The funding rate per pupil is unchanged.
99. The County Council has worked with a group of school representatives and the Schools Forum to develop a formula which was subject to consultation with all maintained schools and academies prior to approval by the Cabinet on 9 January 2018.
100. Consultation was undertaken on 2016 school census data. However school budgets must be driven by the pupil characteristics identified within the 2017 census. Remodelling the formula for the updated pupil data identified that the proposal to rebalance the formula on the Age Weighted Pupil Unit (AWPU)

required a significant adjustment for 2018/19 and was not the optimal solution. To mitigate this, for 2018/19, there is a positive adjustment which has been enacted by an increase in the ceiling to 3.2% (3% within the National Funding Formula)

High Needs

101. 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. However it is essential that a financial strategy, including the development of a contingency, is established.

102. 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

103. 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 and accounts for the decrease in the high needs grant for 2018/19.

104. 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.
105. 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.
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. 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 and for pre-school children with special educational needs and disability. An action plan is due to be launched in February 2018.

Central Services Block

109. the Central Services Block 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.
110. 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

111. 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.

Adequacy of Earmarked Funds and Robustness of Estimates

112. 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.

113. This is the ninth austerity budget for the County Council. The financial environment continues to be challenging with a number of known major risks over the next few years. These include:

- Non-achievement of savings and income targets. The requirement for savings and additional income totals £50m over the next four years of which £13m is unidentified. Successful delivery of savings is dependent upon a range of factors, not all of which are in the control of the County Council.
- The financial positions of Health and Social Care are intrinsically linked and of growing importance. In common with the County Council the Clinical Commissioning Groups (CCGs) are struggling to produce a balanced budget, although their problems may be more pressing. The implications for the County Council could be reductions in the funding received through the BCF (£30m+) and additional costs as a result of changes in the NHS, such as the Transforming Care programme that will move more care into the community.
- Service pressures resulting in an overspend, including demand-led children's and adult social care, particularly on the children's social care and SEN placements budget.
- The strength of the economy dictates the funding of the public sector. Both directly through council tax and business rate income and indirectly through the influence on Government funding decisions. Growth in the UK economy has slowed; the implications for the County Council will depend upon how long this reduced level of growth persists.
- The increasing reliance on income 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.
- Inflation is higher than the Bank of England's 2% target, which will have a direct impact on the cost of goods and services procured by the County Council and could also influence the rate at which the National Living Wage increases.
- Coinciding with the end of the current Parliament, 2020 is a year which could see the biggest changes to local government for a generation. The

following initiatives, that lack any real detail, are all planned to be implemented in that year:

- (a) 75% Business Rate retention, including significant new responsibilities.
- (b) Fair Funding Review, covering redistribution of funding nationally.
- (c) Health Integration plans implemented.

114. The postponed Care Act measures, including the cap on individual contributions, are no longer expected to be implemented in 2020. Instead the Government will indicate its intentions through a green paper on care and support for older people by summer 2018. The paper will set out plans for how government proposes to improve care and support for older people and tackle the challenge of an ageing population. Unfortunately this will not address the significant pressures being experienced in children's social care and care for working age adults.

115. 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 Fund
- MTFS Contingencies
- Earmarked funds
- Effective risk management arrangements.

General Fund / MTFS Contingencies

116. The General Fund balance is available for unforeseen risks (e.g. extreme flooding or historic claims). The forecast balance on the General Fund (non-earmarked fund) at the end of 2017/18 is £14.8m which represents 4.1% 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%.

117. There is a very real potential for the County Council to encounter a significant on-going issue for which no specific financial provision has been made. This is evidenced by the emergence of several authorities who are facing real difficulties in balancing their budget in a sensible way. To reduce the potential for the County Council to fall into this category the MTFS includes a contingency for risks and uncertainties of £8m from 2019/20. There is no contingency in the first year to reflect the greater, comparative, level of comfort over the financial assumptions for 2018/19. Examples of requirements of the contingency are set out in paragraph 113.

Earmarked Funds

118. A detailed review of the Council's earmarked funds was undertaken and reported to the Scrutiny Commission on 15th November 2017. As part of the MTFS this work has been refreshed as at the end of December 2017. The main changes are the release of unallocated funds from insurance (£3.0m) and C&FS developments earmarked funds (£1.2m). The funding released has been transferred to the Future Developments fund.

119. The estimated balance for revenue earmarked funds (excluding schools and partnerships) as at 31st March 2018 is £31.4m and for capital funding purposes £76.7m, details of which are shown in Appendix J. The final level of earmarked funds will be subject to the actual expenditure and any partner contributions, e.g. health funding arrangements and specific grants.
120. Earmarked funds and balances are held for specific purposes. The main earmarked funds and balances projected at 31st March 2018 are:
- (a) Future Developments (£20.9m). This fund holds the balance of contributions that will be used to fund future developments, mainly capital projects, as they are approved.
 - (b) Capital Financing (£55.8m). This fund is used to hold MTFs revenue contributions to match the timing of capital expenditure in the capital programme.
 - (c) Transformation (£13.9m). The fund is used to invest in transformation projects to achieve efficiency savings and also to fund severance costs.
 - (d) Insurance (£12.1m). 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 informed by recommendations by independent advisors. The earmarked funds also include funding for uninsured losses (£5.0m). 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 insurers such as The Independent Insurance Company.
121. 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 £68m over the next four years, the main areas are summarised below:
- £37.9m Capital Financing and future Developments
 - £10.9m Transformation
 - £5.2m Renewal of Systems, equipment and Vehicles
 - £3.5m Investment in Broadband
122. It is likely that the balance of the Future Development reserve will be spent, but this has not yet been allocated to specific schemes to provide a phasing.
123. 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.

School Balances

124. Balances are also held by schools. They 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 2017 was £9.7m. The balance at 31st March 2018 has not been estimated, but is expected to have reduced, as it is affected by the number of schools converting to Academies.

Risk Management Policy and Strategy

125. The Risk Management Policy and Strategy is set out in Appendix H to this report.

126. The policy was considered by the Corporate Governance Committee on 29th January 2018.

Robustness of Estimates

127. 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 department's 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.

128. All savings included in the MTFs have had an initial deliverability assessment so that a realistic financial plan can be presented. Saving initiatives that are at an early stage of development, or require further work to confirm deliverability, have not been included in the MTFs.

129. The Cabinet and the Scrutiny Commission receive regular revenue and capital monitoring reports, budget and outturn reports. In addition, further financial governance reports, including those from External Audit, 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

130. 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.

131. It is worth noting that last year, KPMG, in its Value for Money work reported that: "We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

Concluding Comments

132. 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.
133. 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.
134. 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 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.
135. 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.
136. 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.

Treasury Management Strategy Statement and Annual Investment Strategy

137. The Treasury Management Strategy Statement and the Treasury Management Annual Investment Strategy must be approved in advance of each financial year by the full Council. Appendix L to this report sets out the combined Treasury Management and Investment Strategy including the Treasury Management Policy Statement for 2018/19.
138. The strategies were considered by the Corporate Governance Committee on 29th January 2018.

139. Global economic growth is at its strongest, and most synchronised, for many years and Central Banks are likely to be looking to tighten the current accommodative monetary policy in the period ahead. They remain wary of taking action that risks harming the recovery and it is likely that the removal of quantitative easing and increases in base rates will be very gradual.
140. The Bank of England raised base rates from the historic low of 0.25% in November to 0.5%. The Governor is generally very strong in his guidance to markets, and has made it clear that further increases are likely to be small and gradual, with one 0.25% increase in each of 2018 and 2019. UK economic growth is lower than many other areas and the risks associated with Brexit are likely to support a 'wait-and-see' approach in respect of monetary policy.
141. The expectation is that there will be no new external borrowing in the period covered by the MTFs, namely 2018-2022.
142. 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 Link Asset Services on all aspects of treasury management. The list of authorised investment types has, however, been expanded to include pooled private debt funds. This does increase the overall risk marginally, but the expected additional return justifies the additional risk.

Capital Programme 2018/19 to 2021/22

143. The 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.

144. The programme and funding is shown below:

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	6,160	3,650	3,630	3,630	17,070
Public Health	480	0	0	0	480
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	28,790	34,780	16,730	20,720	101,020
Total	97,410	102,840	49,320	39,240	288,810

Capital Resources 2018-22

	2018/19	2019/20	2020/21	2021/22	Total
	£000	£000	£000	£000	£000
Grants	54,622	46,158	30,111	20,902	151,793
Capital Receipts from sales	13,094	5,004	1,464	1,484	21,046
Revenue/ Earmarked funds	20,495	35,287	12,745	16,854	85,381
Earmarked Capital funds	6,746	790	0	0	7,536
External Contributions	2,453	15,601	5,000	0	23,054
Total	97,410	102,840	49,320	39,240	288,810

145. The capital strategy is set out in Appendix G. 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, schools and other essential 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, section 106 developer contributions and other external funding agencies.
- No or limited prudential borrowing (only if the returns exceed the borrowing costs).

146. 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 MTFs they are assessed against the balance of available resources and included in the capital programme as appropriate.

Changes to the draft Capital Programme proposed in December 2017

147. The main changes to the programme are:

Expenditure

- Adults & Communities: Libraries – reconfiguration of space, £0.25m.
- Public Health - Integrated Sexual Health Service Accommodation, £0.5m.
- Corporate – Asset Investment Fund, proposed acquisition of Embankment House, Nottingham. Funding allocated from 'Asset Acquisitions / New Investments' to named scheme within the Corporate Programme, £12.6m.

Funding (added to future developments)

- Increase in revenue funding of capital £9.6m, including £2.7m identified for Supported Living.
- Funding released from C&FS earmarked fund, £1.2m
- Increase in income estimates from Asset Investment Fund projects, £0.2m
- Total added to Future Developments, £11m

Funding and Affordability

Capital Grants

148. 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

149. 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

150. 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, but has yet to confirm them. 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.

151. 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

152. The generation of capital receipts is a key priority for the County Council. The 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

153. 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 programme funded from one off MTFs revenue contributions and revenue earmarked funds, primarily for the Future Developments fund.

External Contributions and Earmarked Capital Funds

154. 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

155. 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.

Departmental Programmes

Children and Family Services

156. The 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

157. The programme totals £17.1m. 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 (£0.6m) to locate the adult learning service into an existing County Council premises to improve service provision and reduce costs.

Public Health

158. The programme comprises £0.5m investment in 2018/19 to develop integrated sexual health service accommodation with Leicester City Council.

Environment and Transport (E&T)

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

- Transport Asset Management Programme - £48.9m. 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, for 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 the outcome of a flood risk assessment necessitating redesign work. The Department for Transport have concluded that a Public Inquiry is required which will result in a further delay to the start date.
- The Environment and Waste programme totals £1.0m and includes drainage and general improvement works at recycling and household waste sites.

Chief Executive's

160. 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

161. 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

162. The corporate programme totals £101m for 2018-22. The main area is the investment in the Corporate Asset Investment Fund (CAIF), totalling £96m, of property and land assets to improve economic development, replace assets sold to generate capital receipts, and generate ongoing revenue returns. The CAIF programme also includes allocations for Industrial Properties and County Farms for general improvements (£2m).

163. The CAIF has a notional target of growing to £200m. Existing holdings plus identified commitments will value the CAIF at circa £151m over the MTFS. The balance of £49m has been included in the programme as future asset acquisitions.

164. 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

165. There is a long list of projects that will potentially require funding over the next 4 years. These include investment in infrastructure for schools and roads arising from increases in population, investment in Supported Living accommodation, 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.
166. The balance of available funds for future developments totals £39m by 2021/22.
167. The list of Future Developments is continually refreshed and the current requirement exceeds the current funding available. This will need to be managed through prioritisation and identification of alternative funding sources, including contributions from partners.
168. 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
169. 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

170. 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.
171. 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 every investment will yield a return in line with the business case.

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

173. 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.

Budget Consultation

174. A consultation has been undertaken on the proposals within the draft MTFS approved by the Cabinet for consultation on 12th December 2017. The consultation asked for views on the savings plan and the appetite for Council Tax increases. A report on the outcome of the consultation is attached, Appendix M.

Results of Scrutiny Process

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

Equality and Human Rights Implications

176. 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.

177. 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.

178. 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

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

Environmental Implications

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

Partnership Working and Associated Issues

181. 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

182. 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

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>

Revenue Support Grant provisional settlement 2018-20

<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2018-to-2019>

List of Appendices

Appendix A: 2018/19 Revenue Budget

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

Appendix C: Growth and Savings 2018/19 to 2021/22

Appendix D: Savings under Development

Appendix E: Detailed Revenue budgets for 2018/19

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

Appendix G: Capital Strategy

Appendix H: Risk Management Policy and Strategy

Appendix I: Earmarked Funds Policy

Appendix J: Earmarked Funds

Appendix K: Council Tax and Precept

Appendix L: Treasury Management Strategy Statement and Annual Investment Strategy

Appendix M: MTFs Consultation Report

Appendix N: Comments of the Overview and Scrutiny Committees and Scrutiny Commission

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