Leicestershire County Council

CABINET – 8 FEBRUARY 2019

PROVISIONAL MEDIUM TERM FINANCIAL STRATEGY 2019/20 - 2022/23

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PART A

Purpose of the Report

1. This report presents the County Council's proposed 2019/20 to 2022/23 Medium Term Financial Strategy (MTFS) for approval, following consideration of the draft MTFS by the Cabinet in December 2018 and the Overview and Scrutiny bodies in January and receipt of the Local Government Finance Settlement.

Recommendation

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

   (a) That subject to the items below, approval be given to the Medium Term Financial Strategy (MTFS) which incorporates the recommended revenue budget for 2019/20 totalling £377m 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 2020/21, 2021/22 and 2022/23, 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 Corporate Resources agreeing to funding being available;

   (d) That the level of earmarked funds as set out in Appendix K be noted and the use of those earmarked funds as indicated 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 2019/20 be as set out in Appendix L (including 1% 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 2019/20 to 2022/23 capital programme as set out in Appendix F;

(h) That the Director of Corporate Resources following consultation with the Lead Member for Resources be authorised to approve new capital schemes, including revenue costs associated with their delivery, shown as future developments in the capital programme, to be funded from funding available;

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

	2019/20 £m	20/2021 £m	2021/22 £m	2022/23 £m
Operational boundary for external debt i) Borrowing ii) Other long term liabilities	 264.1 1.2	 263.6 1.1	 263.1 1.0	 262.6 1.0
TOTAL	265.3	264.7	264.1	263.6
Authorised limit for external debt i) Borrowing ii) Other long term liabilities	 274.1 1.2	 273.6 1.1	 273.1 1.0	 272.6 1.0
TOTAL	275.3	274.7	274.1	273.6

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

(k) That the following borrowing limits be approved for the period 2019/20 to 2022/23:

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

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

(l) That the Director of Corporate Resources be authorised to enter into such loans or undertake such arrangements as necessary to finance capital payments in 2019/20, subject to the prudential limits in Appendix M;

(m) That the Treasury Management Strategy Statement and the Annual Investment Strategy for 2019/20, as set out in Appendix M, be approved including:
   (i) The Treasury Management Policy Statement, Appendix M; Annex 4
   (ii) The Annual Statement of the Annual Minimum Revenue Provision as set out in Appendix M, Annex 1;

(n) That the Risk Management Policy and Strategy (Appendix I) be approved;

(o) That the Capital Strategy (Appendix G), Corporate Asset Investment Fund Strategy (Appendix H) and Earmarked Funds Policy (Appendix J) be approved;

(p) That it be noted that the partners of the Leicester and Leicestershire Business Rate Pool have agreed to continue with the arrangements for 2019/20 and to operate the 75% business rates retention pilot;

(q) That the Director of Corporate Resources following consultation with the Lead Member for Resources be authorised to make any changes to the provisional MTFS which may be required as a result of changes arising between the Cabinet and County Council meetings, noting that 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 2019/20, to allow efficient financial administration during 2019/20 and to provide a basis for the planning of services over the next four years.

Timetable for Decisions (including Scrutiny)

4. On 18th December 2018 the Cabinet agreed the proposed MTFS, including the 2019/20 revenue budget and 2019/20 to 2022/23 capital programme, for consultation. The Overview and Scrutiny Committees and the Scrutiny Commission then considered the proposals in January 2019 (the comments of those bodies are attached as Appendix O).

5. The County Council meets on 20th February 2019 to consider the MTFS including the 2019/20 revenue budget and capital programme. This will enable the 2019/20 budget to be set before the statutory deadline of the end of February 2019.

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 21st February 2018. 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 following nine years of austerity and spending pressures, particularly from social care. There is also significant uncertainty around future funding levels. Despite recent Government announcements that austerity is coming to an end, it is unclear how this will affect Local Government funding. Next year, 2019/20, will be the final year of the four-year Local Government Settlement and the position for 2020/21 onwards will be subject to a Comprehensive Spending Review in 2019 and the results of Government reviews on Fair Funding and the Business Rates Retention Scheme.

10. Delivery of the MTFS requires savings of £74.5m to be made from 2019/20 to 2022/23. This MTFS sets out in detail £34.8m of savings and proposed reviews that will identify further savings to offset the £19.9m funding gap in 2022/23. A further £19.9m of savings will be required to ensure that High Needs funding can be contained within the Government grant. 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 2022/23 this represents an investment of £49.7m, primarily to meet the forecast increase in demand for social care. The MTFS also includes a £43.8m provision for pay and price inflation.

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 2018

13. Changes to the draft budget considered by the Cabinet on 18th December 2018 are summarised in the table below:

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Shortfall at 18th December 2018	0	0	5,253	19,533
Funding changes				
Council Tax Base	1,177	910	950	980
Collection Funds' surplus	-539	0	0	0
Business Rates Pilot – one-off income	-6,600	0	0	0
Business Rates – Levy surplus (one-off)	-934	0	0	0
Business Rates (other changes)	-142	-163	-169	-169
New Homes Bonus	-56	-56	-56	-56
Savings changes	0	-470	-395	-395
Growth changes	30	30	30	30
General Fund - contribution changes	194	-151	0	0
Inflation	270	-100	0	0
Funding of Future Developments	6,600	0	0	0
Revised Shortfall	**0**	**0**	**5,613**	**19,923**

14. Other funding changes summarised in the table above relate to:

- Council Tax Base – The initial forecast of 2% has been reduced to 1.6% following updated tax base information received from the District Councils. The forecast increase in tax base for 2020/21 has been increased from 1.5% to 1.6%. This generates £1.2m less council tax income in 2019/20 than previously forecast.
- Collection Funds' surplus – the forecast has increased by £0.5m to £1.5m following formal estimates provided by the billing authorities in mid-January 2019.
- Business Rates Pilot – one-off income in 2019/20 of £6.6m is forecast as the County Council's share of additional income of £13.8m arising from the 75% Business Rates Pilot.
- Business Rates Levy surplus – a one off allocation of £0.9m is expected from the national levy account held by the Ministry of Housing, Communities and Local Government (MHCLG).
- Business Rates (other changes). Values for "baseline" and Section 31 grants have been updated to reflect the latest forecasts from MHCLG.
- New Homes Bonus – updated estimates per the 2019/20 Local Government Finance Settlement.

15. The following adjustments have been made to the savings list:
    - Public Health - 0-19 Health Visiting and School Nursing. This saving has been promoted from the Savings under Development list and savings of £0.5m are included from 2020/21.
    - Chief Executive's Department - funding for economic development activity to external agency. Savings of £175,000 were planned by reducing funding for tourism support services. By working in partnership with Leicester City Council the County Council has jointly established a Place Marketing team (incorporating strategic tourism, inward investment and place marketing) thereby reducing costs. However, ambitions for this to become self-financing have not been realised and hence some core funding is still required to undertake strategic tourism activities, for this reason £75,000 of the saving previously included from 2021/22 will now not be achieved.
    - Chief Executive's Department - Trading Standards, reductions in staffing and agency budgets £30,000 from 2020/21. This saving has been removed due to likely additional pressures on the service as a result of Brexit; increase in demand to provide regulatory advice to Leicestershire businesses and where the advice provision fails, additional enforcement will need to be deployed.

16. Growth of £30,000 has been included for a travel co-ordinator post within the Environment and Transport Department. Part of the role will be to manage the County Hall car park which will lead to additional office rental income.

17. It is planned to increase the General Fund to £23m by the end of 2020/21 to reflect increasing uncertainty and risks over the medium term. The contributions from the revenue budget to achieve that aim have been slightly re-profiled over 2019/20 and 2020/21.

18. The inflation contingency has been adjusted in 2019/20 and 2020/21, to reflect the balance of resources in those years.

19. The forecast one-off income of £6.6m from the Business Rates Pilot has been added to the funding of Future Developments, for investment in major infrastructure projects and children's social care investments.

20. In December 2018 the Department for Education announced that the County Council will receive an additional £1.5m grant for the Dedicated Schools Grant (DSG) High Needs Block in 2019/20 (and also in 2018/19). The additional funding is being used to offset the forecast High Needs element of the DSG deficit explained later in the report.

21. The various changes have left resources available in later years at similar levels to that reported in December 2018, with the overall shortfall in 2022/23 being £19.9m.

Autumn Budget 2018

22. On 29 October 2018 the Chancellor of the Exchequer delivered the Autumn Budget 2018. The Budget was largely positive, fitting with the Prime Minister's 'end of austerity' message. However, with a Comprehensive Spending Review due in 2019 Local Government impacts were largely constrained to 2019/20.

23. Growth forecasts were increased from the levels in the 2018 Spring Statement but at an average of 1.5% they are still at low levels on a historic basis. Despite the optimistic tone of the Budget the Chancellor will continue to have a difficult time managing the nation's finances and there will not be enough money to satisfy all the demands.

24. An extra £6.5m was announced for social care in 2019/20. £2.4m of this is winter pressures money that will be administered through the Better Care Fund. The amount and approach are identical to the additional funding received in the current year. The balance of £4.1m has been provided for adults and children's social care. This portion of the grant is not ring-fenced, but is expected to be used to "ensure that adult social care pressures do not create additional demand on the NHS" and to improve the "social care offer for older people, people with disabilities and children".

25. Highways funding of £6.3 million was announced for local roads in 2018/19. The allocation is to tackle potholes, repair damaged roads, and invest in keeping bridges open and safe.

26. The Government continued its policy of increasing the National Living Wage (NLW) until it reaches 60% of median earnings by 2020. This will result in an increase in the NLW by 4.9% from £7.83 to £8.21 from April 2019.The Government also announced a consultation, to take place in 2019, for the Low Pay Commission's remit beyond 2020.

27. The National Productivity Investment Fund was increased in size and extended until 2023/24. This includes funding towards the roll-out of full fibre broadband, which could benefit Leicestershire.

28. The 'end of austerity' message does come with the caveat of securing a "good Brexit". This has not been defined.

Local Government Finance Settlement

29. The Secretary of State for Housing, Communities and Local Government announced the Provisional Local Government Finance Settlement for 2019/20 on 13th December 2018. The key elements for the County Council are:

    - A 75% Business Rates Retention Pilot bid has been agreed. This is estimated to achieve at least £14m additional income across the Pooling partners (County Council, Leicester City Council, the Combined Fire Authority and all Leicestershire District Councils). The County Council share is estimated at £6.6m, which is to be used for infrastructure and financial sustainability.

- Confirmation of the final year of the Four Year Settlement (2016-20) – this is in line with the draft 2019-23 MTFS and there are no details of later years.
- Confirmation of the core council tax referendum limit of 3% - in line with the assumptions used in the draft 2019-23 MTFS.
- No change to the Adult Social Care council tax precept flexibility - in line with MTFS assumptions.
- Police allowed to increase council tax by £24 (increased from £12 threshold in 2018/19), equating to a 12% increase if implemented in Leicestershire.
- Confirmation of the removal of “negative Revenue Support Grant” (£2.1m) - in line with MTFS assumptions.
- These assumptions combine to result in an overall Core Spending Power in line with the estimates used in the draft MTFS.
- There is a £0.9m one-off grant in 2019/20, relating to the “£180m surplus on the levy account“.
- Consultations have been issued regarding the Government’s plans arising from the Fair Funding Review and the changes to the Business Rates Retention Scheme due from April 2020 (the subject of a separate report on the agenda for this Cabinet meeting).

30. The final settlement was announced on 29th January 2019 and there were no changes to the provisional Settlement regarding the County Council.

Revenue Support Grant (RSG) and Spending Power

31. 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 had no RSG since 2017/18.

32. Once RSG has been removed the MHCLG proposed to adjust Business Rates Top-up /Tariff amounts to reduce an authority’s funding further. As a consequence the County Council was due to lose £2.1m from its Top-up in 2019/20.

33. Due to the controversy created by this “negative RSG” the Government has proposed to provide one-off funding to mitigate this reduction. The future position on this and other funding reductions will not be known until the Local Government Settlement in December 2019. In the absence of specific Government guidance the MTFS assumes that the same level of reductions (£10.7m) will continue to be applied in future years.

34. 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.

35. The elements of core spending power from the provisional Settlement are shown below:

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Settlement Funding Assessment :RSG	56.2	37.0	19.5	8.5	0.0
Settlement Funding: Business Rates	60.5	57.4	58.7	61.0	62.9
Council Tax*	233.4	242.8	253.1	266.8	280.8
Adult Social Care Precept*	0.0	4.8	10.0	18.7	22.6
Improved Better Care Fund**	0.0	0.0	9.5	12.4	14.8
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	1.5	0.0
Winter Pressures Grant	0.0	0.0	0.0	2.4	2.4
Social Care Support Grant	0.0	0.0	0.0	0.0	4.1
Core Spending Power	353.4	349.6	360.6	374.9	391.3

* MHCLG forecasts of Council tax and Council tax base increases in 2019/20 – MHCLG's tax base increase forecast is higher than the actual increase.
** includes one off Social Care Grant announced in the Budget 2017

36. The table shows that the County Council will not receive any RSG in 2019/20. Combined with earlier cuts this has resulted in a cumulative real terms reduction in excess of £100m in government grants since 2010.

37. The table also shows that after a reduction in 2016/17, 'core spending power' is expected to increase in cash terms by £37.9m (10.7%) by 2019/20. With inflation running at circa 3% each year this represents a real terms decrease and provides no allowance for increasing service demand.

Comprehensive Spending Review and Fair Funding

38. The Chancellor has announced the broad spending envelope for public services that will form the basis of the next Comprehensive Spending Review (CSR). The announcement confirmed the NHS will receive a greater than real terms increase in funding. On average all other Government departments are expected to receive a real terms funding increase. Individual department allocations have not been confirmed and it is likely that there will be further differentiation between funding levels. A real terms increase would be an improvement on the current Local Government Settlement, but this is still a reduction on a per head of population basis.

39. The CSR is expected in 2019, probably in the autumn. The period of time this will cover is not known but it is unlikely to be 4 years, as Government will be reluctant to over commit before the next General Election, which is scheduled for May 2022 under the Fixed-term Parliaments Act.

40. The Local Government funding allocation will be announced as part of the CSR at a total level. This overall spending envelope will provide an indication of the pressure that Local Government will face in totality. However, at an individual council level the County Council will have to wait for the outcome of Local Government funding reforms to be announced.

41. 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, for example, an additional £330m of funding would be received each year.

42. 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. A cross-party support group, the County Councils Network (CCN), is also backing the campaign for local government funding reform.

43. The Government has accepted many of the arguments put forward and has indicted a preference for a simpler system that recognises the relative need of areas, rather than just reflecting historic funding levels.

44. A consultation on Government’s initial proposals was released alongside the Local Government Settlement. This appears generally positive and will be followed by a more detailed consultation later in 2019.

Business Rates Retention Scheme

45. The Business Rates Retention Scheme includes “Top-Up” and “Baseline” figures for the County Council. The Provisional Settlement includes an increase of 2.3% for these amounts. 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% each year, based on forecasts of rises in the Consumer Price Index (CPI) which is used as the basis of business rates inflation.

46. Government has indicated its intention for a full reset of baselines in 2020/21. This will result in councils’ share of accumulated growth being lost. This will cost the County Council £3m per annum due to the allowance for reduced funding described in paragraph 33, and the income to the Leicester and Leicestershire Enterprise Partnership (LLEP) from the Leicester and Leicestershire Business Rates Pool would reduce by circa £8m.

47. The MTFS also includes an estimate of £6.6m one-off income in 2019/20 for the County Council regarding the allocation of an estimated £13.8m additional income to the Business Rates Pool as a result of the 75% Business Rates Retention Pilot.

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

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Business Rates 'Top-Up'	39.7	40.4	41.2	42.1
'Top-Up' adjustment	0.0	-12.8	-23.5	-34.2
Business Rates 'Baseline'*	23.4	24.0	24.5	25.0
S31 grants - Business Rates	3.6	3.7	3.7	3.8
Levy surplus	0.9	0.0	0.0	0.0
75% Pilot	6.6	0.0	0.0	0.0
Total	74.2	55.3	45.9	36.7

*Business Rates Baseline is forecast to be £2.2m higher than the amount used by MHCLG in calculating the 'spending power'.

<u>Business Rates Pooling / 75% Retention Pilot</u>

49. The latest estimates for the 2018/19 Pool show a potential surplus of £7.7m. This will be retained locally rather than being returned to the Government as would have been the case if no Pool had existed. The surplus will be provided to the LLEP for investment in the wider sub-regional area.

50. Over the period 2013/14 to 2018/19, in total £22m is forecast to have been retained in Leicestershire, due to the success of the Pool.

51. In July 2018 the MHCLG announced plans to extend its business rates retention pilot programme for 2019/20, the proposed pilots reflecting the change, announced in December 2017, to ultimately target 75% local retention.

52. Pilot areas retain 75% of locally-collected business rates. The creation of the pilots will be "fiscally neutral" at baseline, but authorities will gain from retaining additional growth in their business rates income, above baseline growth. The safety net threshold for the pilots will be set at 95% of the baseline funding (instead of 92.5% as now). The Government has also confirmed that the pilots will not benefit from a 'no detriment' clause. Due to accumulated growth in Leicestershire this is unlikely to be an issue.

53. Modelling was undertaken with the current Pool partners which shows a potential gain of £14m in 2019/20 if 75% of business rates are retained. This is in addition to an estimated £8m from the continuation of the existing Pool. The bid proposed that the gain be used to provide investment in infrastructure, city and town centres and financial sustainability for partner areas.

54. MHCLG announced the 75% Pilots for 2019/20 as part of the Provisional Settlement and the Leicester and Leicestershire submission was among the successful bids. Of the estimated £14m gain the County Council share is forecast to be £6.6m, to be used towards major infrastructure projects and children's social care investments.

Council Tax

55. The draft MTFS is based on a 3.99% increase in Council Tax for 2019/20, which includes the additional 1% adult social care precept. Increases of 1.99% are assumed regarding 2020/21, 2021/22 and 2022/23. Over the next four years a total of £47m in extra Council Tax is expected to be generated.

56. 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 2019/20 will be a 3% rise in Council Tax. The 2% threshold is assumed to resume from 2020/21.

57. Local authorities responsible for delivering adult social care are allowed to raise a council tax "precept" of 6% for 2017/18 to 2019/20. This is in addition to the council tax referendum thresholds and is "to be used entirely for adult social care". The County Council increased Council Tax by 2% in 2017/18 and by 3% in 2018/19 regarding the "precept" and can therefore raise 1% more in 2019/20. The ability to raise the Adult Social Care precept is not assumed to be extended.

58. Final Council Tax base figures for 2019/20 have now been provided by the District Councils and show an overall estimated increase of 1.6%. The assumption for 2020/21 has been increased to 1.6%, as additional income is anticipated from a Single Person Discount exercise and adjustments to empty home discounts and premia.

59. The District Councils provide quarterly monitoring information on the forecast Collection Funds surplus/deficit position. At the end of September 2018 a surplus of around £1m for the County Council was reported and this income was reflected in the 2019/20 budget in the report to the Cabinet in December 2018. Formal estimates for the surplus/deficit have now been received and show an overall net surplus of £1.5m.

2019/20 - 2022/23 Budget

60. 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 2019/20 budget excluding DSG is detailed in Appendix A.

Provisional Budget	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Services including inflation	330.4	355.0	367.6	380.6
Add growth	14.0	11.9	11.9	11.9
Less savings	-10.0	-9.3	-7.3	-4.0
	334.4	357.6	372.2	388.5
Central Items	37.6	12.2	2.9	3.0
Less savings	-0.6	-3.5	0.0	0.0
	371.4	366.3	375.1	391.5
Contributions to/from General Fund	6.0	1.5	0.0	0.0
Total Expenditure	**377.4**	**367.8**	**375.1**	**391.5**
Funding				
Revenue Support Grant	0.0	0.0	0.0	0.0
Business Rates	-74.2	-55.3	-45.9	-36.7
Council Tax	-303.2	-312.5	-323.6	-334.9
Total Funding	**-377.4**	**-367.8**	**-369.5**	**-371.6**
Shortfall	**0.0**	**0.0**	**-5.6**	**-19.9**

61. The MTFS is balanced in 2019/20 and 2020/21 and shows shortfalls of £5.6m in 2021/22 rising to £19.9m in 2022/23. As set out in paragraph 68 below there is a range of initiatives currently being developed that will aim to bridge the gap.

Savings and Transformation

62. Overall, savings of £74.5m are required over the period of the MTFS.

63. Savings of £34.8m have been identified with more expected over the next four years, 2019 to 2023, with £10.6m to be made in 2019/20. This is a challenging task especially given that savings of £200m have already been delivered over the last nine years. This has been largely driven by the real terms reduction in government grants, which is in excess of £100m since 2010. The savings are shown in Appendix C, the detail of which has been included in reports to the Overview and Scrutiny Committees in January 2019.

64. The main four-year savings are:

- Children and Family Services (£5.7m). This includes savings from increasing internal foster care provision and reviewing early help services.
- Adults and Communities (£5.9m). This includes managing demand and reducing costs of social care by reviewing personal budget allocations and contracts.
- Public Health (£1.6m). This includes savings from reviewing early help and prevention services.
- Environment and Transport (£2.6m). Savings include passenger transport service reviews, changes to Recycling and Household Waste Sites (RHWS) operations and the future residual waste strategy.

- Chief Executive's Department (£0.2m). This mainly includes service reviews.
- Corporate Resources (£6.0m). This includes returns from the Corporate Asset Investment Fund, savings from "Fit for the Future" (replacement of the Oracle e-Business Suite), and a further contribution from Commercial Services.
- Corporate/ Central Items (£12.7m). This includes savings from the Efficiency and Productivity Programme and a revised Minimum Revenue Provision. The Efficiency and Productivity saving totals £8m by 2022/23. This work will span all of the departments, but is likely to approach the delivery of savings in a variety of ways. The first programme of work is expected to be the development of a new operating model for adult social care. This has the potential to deliver the majority of savings included in the MTFS. Further savings are expected to be developed through the work of the Innovation Partner in the Children and Family Services and a series of challenge programmes facilitated by the Transformation Unit in other departments.

65. Of the £34.8m identified savings, efficiency savings account for £27m, and can be grouped into four main types*:*

    a) Reductions in senior management and administration (£1m)
    b) Better commissioning and procurement (£9m)
    c) Service re-design (£13m)
    d) Other (£4m)

66. 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.

67. Further savings will be required to close the budget shortfall of £5.6m in 2021/22 rising to £19.9m in 2022/23.

68. 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:

    - Home First – care for people at home wherever possible to prevent hospital admissions and ensure timely discharge from hospital.
    - Place to Live – a programme of work to co-ordinate the Council's Adult Social Care accommodation strategies.
    - Schools Offer – explore which parts of Public Health services delivered to schools could be suitable for a traded offer.
    - Corporate Asset Investment Fund – further investment, leading to benefits to the local economy and generation of additional income.
    - Commercialism – review of new opportunities to trade and create a more commercial culture across the Council.
    - Efficiency and Productivity Programme (further savings) – work will span all departments, approaching the delivery of savings in a variety of ways.

- Customer Service Centre – Review of practices following the new system implementation.

69. The development and ultimate 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.

70. In addition, the High Needs Block Development Plan will target cost reductions to ensure that the expenditure can be contained within the allocation through the Dedicated Schools Grant. Savings of £19.9m are planned over the MTFS period.

71. Having a well-planned proactive programme of change activity is essential given the County Council's low funding position. Coupled with strong performance across services, this has resulted in Leicestershire being named the most productive council in the country for the second successive year.

Transforming the Way We Work

72. Since its inception in 2014, over £45m of savings have been delivered through the Transformation Programme. The Programme is refreshed annually and as at December 2018 contains initiatives with a total future savings value in excess of £21m.

73. The Programme has effective governance and assurance mechanisms, which ensures regular reporting to Members though the Transformation Board. This reporting provides the assurance that savings initiatives are progressing from early design and into delivery, and ensuring that the anticipated benefits are being realised.

74. The implementation of the County Council's Strategic Plan is bringing about opportunities to focus on the Council's strategic priority outcomes and to align investment, productivity and performance to delivering these outcomes.

75. Ensuring the Transformation Programme reflects these priorities for the County Council will help to continue the pursuit of service delivery and efficiency savings, and also ensure the aligned investment of effort and resources towards ensuring 'a sustainable and successful organisation leading modern, highly effective services'.

76. A key emphasis for the new MTFS is a focus on internal efficiency and productivity, spanning the County Council through a series of priority areas of work. Through evidence-based strategic challenge, this work will begin to capture new opportunities to be delivered through practice-based change and the utilisation of new technology, digital innovation and best practice. Early areas of focus for this work are included within the Savings Under Development, with further opportunities to be identified.

Growth

77. Over the period of the MTFS, growth of £49.7m is required to meet demand and cost pressures with £14.0m required in 2019/20. The main elements of growth are:

- Children and Family Services (£10.5m). This is mainly due to pressures on the placements budget arising from increased numbers of Looked After Children, increased capacity within the Special Educational Needs Assessment Service (SENA) and Unaccompanied Asylum Seeking Children (UASC).
- Adult Social Care (£12.1m). This is largely the result of increasing numbers of people with learning disabilities and an ageing population with increasing care needs.
- Public Health (£0.7m). This is mainly due to reductions in the Public Health specific grant.
- Environment and Transport (£5.2m). This primarily relates to increased numbers of clients and costs on the Special Educational Needs (SEN) Transport budget.
- Corporate Resources (£0.9m). This mainly relates to increased ICT licencing costs.
- Corporate Growth (£19.9m). This has been included to act as a contingency for potential further cost pressures, based upon historic levels of growth.

78. There are continued pressures within the Children and Family Services budget in respect of the cost of placements for looked after children and agency social workers largely as a result of a competitive recruitment market making recruitment difficult. This reflects the national position.

79. The number of Looked After Children (LAC) continues to increase both nationally and within Leicestershire. The 2018/19 MTFS was based upon an expectation of 610 LAC and for growth of circa 8% per annum. Based upon current trends it is expected that the number of LAC in March 2019 will be 600, which is an increase of 13%. A number of actions implemented in 2018, including the management of high cost places, the increased challenge to the type of placement and the introduction of a therapeutic wrap-around service - Multi-disciplinary Intervention Support Team Leicestershire (MISTLE) - are beginning to have an impact. This is particularly evident in the number of residential placements, which are projected to fall from 70 to 55. Overall the number of children in foster placements is forecast to increase from 364 to 373. However, as a result of Staying Put legislation (enabling young people to remain with foster carers after the age of 18) and the Southwark Judgement (on responsibility for homeless 16-17 year olds) the number of children in semi-independent living has grown from 33 to 54.

80. Details of proposed growth to meet spending pressures are shown in Appendix C to this report.

Inflation

81. The Government's preferred measure of inflation is the Consumer Price Index (CPI). In December 2018 this was 2.1% and the Office for Budget Responsibility (OBR) predicts it will reduce to around 2.0% in 2019/20 and 2020/21 before increasing slightly to 2.1% in 2021/22 and 2022/23. The OBR predicts that the Retail Prices Index (RPI) will increase from its current level of 2.7% to around 3.1% in 2019/20 and 2020/21 and then increase slightly to 3.2% in 2021/22 and then fall slightly again to 3.1% in 2022/23.

82. However, the Council's cost base does not always reflect these household inflation measures. Energy and fuel increases, for example, have a much more significant impact on its procurement. The draft MTFS assumes 3% per annum inflation over the period 2019/20 to 2022/23. More recently, social care costs have been driven up by the introduction of the NLW, for which an additional provision has been made.

83. 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 included larger increases for the lower scale points. The MTFS provides for the cost of the pay offer for 2019/20. A 2% assumption has been included for pay awards from 2020/21.

84. The central inflation contingency includes provision for an increase of 1% each year in the employer's pension contribution rate, in line with the requirements of the actuarial assessment.

85. Detailed service budgets for 2019/20 are compiled on the basis of no pay or price increases. A central contingency for inflation is held, which will be allocated to services as necessary.

Central Items

86. Interest income relating to Treasury Management investments is budgeted at £2.8m in 2019/20 and later years. This reflects the expectation that Bank of England base rates will remain at a low level for the foreseeable future.

87. Capital financing costs are expected to decrease to £19.4m per annum in 2022/23 (from £22.5m in 2018/19), mainly as a result of the proposed change to the Minimum Revenue Provision outlined below.

88. 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 £31.4m in 2019/20, £6.6m in 2020/21and £0.7m in 2021/22 and 2022/23.

89. The budget also includes a one-off provision of £6.6m in 2019/20 for revenue funding of capital expenditure regarding the County Council's allocation of additional business rates income arising from the 75% Business Rates retention Pilot.

90. 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.

91. 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.

92. Central expenditure budgets include (figures are for 2019/20):

- Pensions (£1.7m) - contributions for added years agreed before and as part of Local Government Reorganisation in 1997;
- Members' Expenses and support (£1.2m);
- Flood Defence Levies (£0.3m) payable to the Environment Agency;
- Elections (£0.2m) annual contribution to an earmarked fund to fund County Council elections;
- Financial Arrangements (-£0.6m) – including income from Eastern Shire Purchasing Organisation surpluses and external audit fee costs.

93. Central grants and other income budgets include (figures are for 2019/20):

- Improved Better Care Fund (-£11.4m)
- Adult and Children's Social Care Support Grant (-£4.1m)
- Adult Social Care - Winter Pressures Grant (-£2.4m)
- New Homes Bonus Grant (-£3.7m)
- Former Education Services Grant (now part of DSG) (-£1.5m)
- Local Services Support Grant (-£0.5m)
- Bank and Other Interest (-£2.8m)

Health and Social Care Integration

94. 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.

95. The NHS Long Term Plan, published in January 2019, sets out a 10 year programme of further transformation for the NHS. The Plan states that across the NHS, all areas will be expected to evolve from Sustainability and Transformation Partnerships to operate as Integrated Care Systems by 2020/21. Integrated Care Systems have no statutory basis and rest on the willingness of NHS organisations to work together to plan how to improve health and care. As they develop, it is expected that NHS partners will have:

- Shared accountability for performance of the health and care system.
- Shared accountability for funding across a defined population.
- More effective decision-making and governance structures across organisational boundaries.
- A more rigorous approach to population health management across the defined population/area.

96. Further briefing information about the NHS Plan and the implications for the County Council can be found in a separate report to this meeting of the Cabinet.

97. The configuration of NHS organisations in Leicester, Leicestershire and Rutland (LLR) will be affected by these developments and discussions are already in progress to determine how local Clinical Commissioning Groups (CCGs) can operate as a more effective joint management team across the LLR geography. The increasing trend is for a single CCG to match the area of an Integrated Care System.

98. The Council has received funding from the NHS through the Better Care Fund (BCF) since 2014/15 in line with levels determined by Government. This NHS funding comes from CCG budgets, with the amount each CCG contributes to their local BCF pooled budget mandated by NHS England. The BCF's purpose is to help the Council finance the delivery and transformation of integrated health and care services to the residents of Leicestershire, in conjunction with NHS partners.

99. BCF funding for Leicestershire is set out in the table below:

	2017/18 £m	2018/19 £m	2019/20 £m
CCG Minimum Allocation	36.7	37.4	37.4
IBCF - Autumn 2015 review	Nil	5.6	11.4
IBCF (additional ASC allocation) - Spring 2017 Budget	9.5	6.8	3.4
IBCF (Winter Pressures) - Autumn Budget 2018	Nil	Nil *	2.4
Disabled Facilities Grant	3.3	3.6	3.9
Total BCF Plan	49.5	53.4	58.5

* The Council received a £2.4m allocation of winter pressures funding in 2018/19 but not through the Improved Better Care Fund (IBCF).

100. The protection of adult social care services accounts for £17m of the CCG minimum allocation to the BCF. This funding is expected to continue and is crucial to enabling the Council to deliver a balanced budget, while ensuring that some of its most vulnerable users are protected, unnecessary hospital admissions are avoided, and delayed transfer of care performance is maintained.

101. In addition to funding set aside to protect social care service provision, a further £5m of BCF funding has been allocated for social care commissioned services. These services are aimed at improving safeguarding, mental health discharge, dementia support, crisis response and falls prevention. Any reduction in this funding would place additional pressure on the Council's MTFS. Without this BCF funding there is a real risk that the Council would not be able to manage demand or take forward the wider integration agenda. This is also a key consideration for senior officers when negotiating with CCG colleagues as part of the BCF Refresh.

102. The IBCF will contribute £39m, over the three-year period from 2017 to 2020. Of this, £25m will go towards addressing the significant demand and cost pressures faced by adult social care, including support for non-BCF change activity. In addition, there is an investment of £12m (non-recurrent) in new initiatives such as expanding the crisis response service to become a 24/7 provision, increasing capacity in the domiciliary care market, implementing Home First, providing an enhanced carers offer, and developing additional bed capacity (discharge to assess).

103. 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
- Assistive Technology
- Data Integration
- Integrated Commissioning
- Falls Prevention.

Other Grants and Funds

104. There are a number of other specific grants, some of which are still to be announced, none of which are protected by the four-year Local Government Finance Settlement, for example:

- Public Health – the 2019/20 allocation of £24.2m is a 2.6% reduction on the 2018/19 level, as expected.
- Skills Funding Agency – £3.4m in 2018/19, no details have been received for the 2019/20 academic year.
- Section 31 Business Rates (Government funding for 2% cap on business rates growth and other Government measures) – an estimate of £3.6m has been included in the MTFS.
- Independent Living Fund. Grant figures have been agreed for 2019/20 (£1.16m).
- Ministry of Justice Grants – details not yet known.
- Troubled Families Grant (see below) – to be confirmed, estimated at £0.8m.
- Schools Block Dedicated Schools Grant, £394.5m.
- Central Schools Services Dedicated Schools Grant, £3.4m
- High Needs Dedicated Schools Grant – provisional settlement of £68.7m, final settlement expected in June 2019.
- Early Years Dedicated Schools Grant – estimate of £34.9m, pupil rates have been confirmed and the final figure is expected in May 2020 when the final census data is known.
- New Homes Bonus – £3.7m for 2019/20.

105. 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 lifetime of 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. There is a significant risk that partner and Government contributions will cease after current commitments have been met. This equates to a loss of £2.3m of income. The 2018/19 MTFS included 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 2019/20

Schools Block

106. The Department for Education (DfE) has confirmed that the 'soft' school funding formula will be in place for 2019/20 and 2020/21. A 'soft' formula is where a National Funding Formula (NFF) calculates notional school allocations based upon pupil characteristics to which local authorities apply their own local funding formula to generate individual school budgets. The Leicestershire School funding formula reflects the NFF and will remain unchanged for 2019/20. The 2019/20 Schools Block DSG settlement is £394.5m (£392.2m NFF / £2.3m School Growth Fund), and this is based upon the 2018 October school census.

107. 2019/20 is the second year of the NFF. Schools will receive a minimum per pupil increase in funding of 0.5% and a maximum increase of 3%. Despite the overall increase in budget, at individual school level a number of schools remain 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. As the funding guarantee is at pupil level, schools with decreases in pupil numbers will see an overall decrease in budget allocation.

108. Within the Schools Block is a funding allocation of £2.3m to meet the revenue costs of additional school places within new and expanding schools. This allocation is formula based for the first time in 2019/20 and a significant increase from the £0.9m within the 2018/19 DSG. The revenue cost of commissioning a new school ranges from £0.5m to £0.8m for a primary and from £2.2m to £2.5m for a secondary depending upon size and opening arrangements. In the medium to long term, 23 new primary and 2 new secondary schools are expected to be built in Leicestershire. A reassessment of the financial commitment associated with new schools will be completed in early 2019.

High Needs

109. The provisional High Needs DSG is £68.7m and includes additional funding announced in December, but confirmed funding only to March 2020. Should this level of funding continue the DSG deficit is expected to begin to be recovered in 2022/23. At the end of the 2019/20 MTFS period the cumulative deficit is estimated to be £5.2m.

110. The December funding announcement coincided with the publication of the "Have we reached a 'tipping point'? Trends in spending for children and young people with SEND in England" report commissioned by the Local Government Association (LGA). This cites four main factors for increasing expenditure;

- 2014 SEND reform
- Underlying demographic changes
- National policy changes that have resulted in an environment in mainstream schools where inclusivity is not rewarded
- Pressure in mainstream school budgets reducing the level of SEND support schools are able to provide.

111. The report refers to pressures on demand that are beyond local authority control, and that there are structural features within the current SEND system which means a significant risk of overspending the high needs block is highly likely. The report suggests that a fundamental review is needed of the powers that local government need to act as an effective strategic commissioner of SEND provision.

112. The formula allocates funding across a set of pupil-related indicators and also includes an allocation based on historic spend. For Leicestershire the grant includes circa £4.3m of protection funding, which is not guaranteed in the long term.

113. In December 2018 the Cabinet agreed to consult on the proposed approach to planning, commissioning and delivering SEND services set out in the High Needs Development Plan. Consultation closes on 31st March 2019.

114. The plan has been developed, and addresses the key cost drivers identified in the LGA research; delivery will focus on three key areas:

a) To develop and embed an inclusive approach and practice amongst schools, local authority staff and other settings

b) The modernisation of SEN services through;

- Improved (joint) commissioning
- Improved processes and decision making
- Improved quality and assurance
- Digitisation to support improved partnership working

c) The development of a range of cost effective, high quality provision for children and young people with special educational needs;

- SEN units attached to mainstream schools
- Development of special schools
- Expansion of existing, or new build, area special school
- Development of Further Education provision.

115. The High Needs Development plan financial forecast has been updated to reflect the most recent budget and grant forecasts, further revisions will be required as provision is developed and start up costs are confirmed and the additional places

become opertational. The revised position is shown in the table below and is dependent on matching individual education need to the timing and the cost of new provision. The High Needs DSG amounts shown include the additional grant funding allocated in December 2018 of £1.5m in 2018/19 and 2019/20. This is assumed to continue in later years.

High Needs Forecast	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**
High Needs DSG	-67,455	-68,659	-68,659	-68,659	-68,659
Estimated Operational Expenditure	69,990	75,284	77,864	81,366	84,132
Estimated Project Expenditure	296	1,756	1,046	30	0
Total Potential Savings*	0	-2,653	-7,251	-12,467	-19,852
Annual Funding Gap	2,831	5,728	3,000	270	-4,379
Funded from Reserve	-2,228				
Cumulative Funding Gap – High Needs DSG Deficit	**603**	**6,331**	**9,331**	**9,601**	**5,222**

*Dependent on matching individual education need to the timing and the cost of new provision

116. The above position sets out the position purely in relation to the High Needs element of DSG. Overall the DSG earmarked fund is forecast to show a surplus of £1m for 2018/19 as a result of underspends within the Schools and Early Years blocks.

117. A DSG deficit can be carried forward to the following year with the approval of the Schools Forum. Should approval not be granted then adjudication can be sought from the Secretary of State. The Leicestershire Schools Forum agreed the carry forward of the 2018/19 High Needs Block Deficit at its meeting on 26 November 2018; annual approval will be required. In the short to medium term the High Needs deficit will be offset by funding for new school growth being carried forward.

Central Services Block

118. The central services block funds 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.

119. This block also includes funding for the statutory duties that local authorities retain for all schools such as ensuring sufficient supply of school places. The 2019/20 provisional settlement is £3.4m, an increase of 1.6%.

Early Years Block

120. There are no changes to the Early Years Block. Grant remains determined by the number of children participating in early years education. The funding supports the 30 hours Free Entitlement to Early Education (FEEE) for eligible parents and continued delivery of the early years offer for disadvantaged two year olds. The rate of funding is unchanged from 2018/19 at £4.30 per hour; a maximum of 5% of the overall settlement is retained to fund the early learning service which fulfils the local authority's statutory duty to ensure sufficiency of places for those parents that request one.

Adequacy of Earmarked Funds and Robustness of Estimates

121. The Local Government Act 2003 requires the Director of Corporate Resources to report on:

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

122. This is the tenth 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 £74.5m over the next four years of which £19.9m 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.
- Adult Social Care fee review, currently underway, exceeds provision made in the corporate inflation contingency. The gross expenditure budget involved is £170m.
- 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.
- 2020 is a year which could see the biggest changes to local government for a generation. The following initiatives, are all planned to be implemented in that year:
    - 75% Business Rate retention, including significant new responsibilities.
    - Fair Funding Review, covering redistribution of funding nationally.
    - Health Integration plans implemented.

123. 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. The paper, due sometime in 2019, 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.

124. 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.

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

125. The General Fund balance is available for unforeseen risks and their remediation. Examples include extreme flooding, historic claims and excessive service demand. The forecast balance on the General Fund (non-earmarked fund) at the end of 2018/19 is £16m (excluding schools' delegated budgets). It is planned to increase the General Fund to £23m (6.3% of the net revenue budget) by the end of 2020/21 to reflect increasing uncertainty and risks over the medium term. To put the level of resources into context, with the exclusion of schools, the County Council spends nearly £50m a month. The revised earmarked funds policy is to hold a balance on the General Fund in the range of 5% - 7%.

126. 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 2020/21. There is no contingency in the first year to reflect the greater, comparative, level of comfort over the financial assumptions for 2019/20. Examples of requirements of the contingency are set out in paragraph 122. If the contingency is not required it will be used to invest in services dependent on the funding available.

Earmarked Funds

127. A detailed review of the Council's earmarked funds was undertaken and reported to the Scrutiny Commission on 31st October 2018. As part of the MTFS this work has been refreshed as at the end of December 2018.

128. The estimated balance for revenue earmarked funds (excluding schools and partnerships) as at 31st March 2019 is £30.9m and for capital funding purposes £94.1m, details of which are shown in Appendix K. 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.

129. Earmarked funds and balances are held for specific purposes. The main earmarked funds and balances projected at 31st March 2019 are:

(a) Capital Financing (£52.6m). This fund is used to hold MTFS revenue contributions to match the timing of capital expenditure in the capital programme.
(b) Future Developments (£41.5m). This fund holds the balance of contributions that will be used to fund future developments, mainly capital projects, as they are approved.
(c) Transformation (£10.7m). The fund is used to invest in transformation projects to achieve efficiency savings and also to fund severance costs.
(d) Insurance (£13.5m). 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 (£5.6m). 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.

130. 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 £125.4m over the next four years; the main areas are summarised below:

- £94.1m Capital Financing and Future Developments
- £10.7m Transformation
- £3.9m Adult and Communities developments
- £3.9m Investment in Broadband
- £3.0m Renewal of systems, equipment and vehicles.

131. It is likely that the balance of the Future Development earmarked fund will be spent, but this has not yet been allocated to specific schemes to provide a phasing.

132. KPMG, the County Council's external auditor at the time, reviewed the level of earmarked and non-earmarked funds held by the County Council as part of its annual Value for Money review in July 2018. For the 2018-22 MTFS it reported:

"The level of reserves are appropriate for the size of the organisation given the continued uncertainties and risk that lie ahead for the whole sector and the individual pressure and challenges the Authority faces in the short to medium term. The Authority will need to continue to keep the level of reserves under review on a periodic basis as its reserve requirements change."

133. CIPFA has also recently released results of its Financial Resilience Index, which uses key indicators of the financial position of local authorities, including the level of earmarked and unallocated funds, reserves depletion time, and comparisons of children's and adult social care budgets and council tax and business rates income to the net revenue budget. When compared with County Councils, Leicestershire is in the lower risk range across the board.

School Balances

134. 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 2018 was £9.0m. The balance at 31st March 2019 has not been estimated, but is expected to have reduced as a result of spending pressure. It is also affected by the number of schools converting to Academies.

Risk Management Policy and Strategy

135. The Council's Risk Management Policy Statement and Strategy are reviewed annually and are included as Appendix I to this report.

136. The policy was considered by the Corporate Governance Committee on 18th January 2019.

Robustness of Estimates

137. The Director of Corporate Resources 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 Corporate Resources. The main risks are described earlier in the report.

138. 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.

139. 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

140. 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.

141. 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 – Revenue Position

142. There are significant uncertainties that could change the financial position of the County Council. These can be summarised as uncertainty over funding, cost growth and delivery of savings.

143. Funding uncertainties are predominately driven by Government. Despite the positive "end of austerity" message it is likely that some funding streams will reduce, for example the planned reset of the Business Rate Baseline will remove the benefit of growth. In line with previous practice the MTFS assumes the continuation of funding reductions, but the accuracy of this assumption is less certain than previous years. In addition, the position on some specific grants after 2019/20 is uncertain.

144. Cost growth manifests itself as either inflationary pressures or service growth. Service growth primarily relates to 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. Increases in the National Living Wage have been the main driver of inflationary pressure; these increases are announced on an annual basis. Cost pressures are the highest for several years; the County Council's transformation activity needs to bring increases under control at the same time as delivering savings initiatives.

145. Successful delivery of savings is dependent upon a range of factors, not all of which are in the control of the County Council. All savings included in the MTFS have had an initial deliverability assessment so that a realistic financial plan can be presented. Savings initiatives that are classified as Savings Under Development have not been included in the MTFS. Hence successful development of these savings would contribute to reducing the shortfall.

146. In additional to these direct uncertainties the County Council is not insulated from financial difficulties of partner organisations. Currently the County Council's ongoing financial plans include circa £59m of funding related to the BCF. Even a partial loss of this funding would be difficult to manage.

147. Schools and academies are under significant financial pressure. This could affect the County Council through its statutory responsibilities relating to education, for example to ensure the provision of sufficient school places. This pressure also increases the risk of lost commercial income, as maintained schools and academies are the Authority's main commercial trading partner.

148. 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 decade, 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.

149. 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.

150. The County Council will be a very different organisation by 2023. It increasingly needs to be more innovative, risk aware and commercial in its approach. The plan is deliverable and the MTFS can be balanced over the medium term.

<u>Treasury Management Strategy Statement and Annual Investment Strategy</u>

151. 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 M to this report sets out the combined Treasury Management and Investment Strategy including the Treasury Management Policy Statement for 2019/20.

152. The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

153. The Act requires the Council to set its treasury strategy for borrowing and to prepare an Annual Investment strategy (for Treasury Management investments) set out in the strategy. The strategy sets out the Council's policies for managing its Treasury Management investments and for giving priority to the security and liquidity of those investments. This Strategy should be read in conjunction with the Corporate Asset Investment Fund (CAIF) strategy, which sets out the Council's approach when considering the acquisition of investments for the purposes of inclusion within the CAIF, and the Capital Strategy (Appendix G), which sets out the Council's approach to determining its medium term capital requirements.

154. In 2019/20 there is expected to be an economic slowdown in the US, Eurozone and the UK. Central Banks are continuing on the path to returning monetary policy to more 'normal' operations. Nevertheless, overtightening of monetary policy remains one of the biggest risks to global growth, meaning it seems likely that Central Banks will be cautious in taking action and will wait for clear evidence before implementing policy changes.

155. The Bank of England raised interest rates to 0.75% in August 2018, the highest rates have been since March 2009. The Bank is very keen to give clear guidance to markets about the likely timing and extent of future base rate movements. The current expectation is that the Bank will not change rates until after the UK exits the European Union and the economic implications of this exit become clearer.

156. The expectation is that there will be no new external borrowing by the County Council in the period covered by the MTFS, namely 2019 to 2023.

157. 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 counterparties has, however, been updated to reflect new structural reform requirements in the UK banking sector which came into effect in on 1st January 2019.

158. The strategies were considered by the Corporate Governance Committee on 18th January 2019.

Capital Programme 2019/20 to 2022/23

159. The draft capital programme totals £398m over the four years 2019 to 2023 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.

160. The draft programme and funding is shown below:

Draft Capital Programme 2019-23

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000
Children and Family Services	24,660	26,370	29,670	18,380	99,080
Adults and Communities	11,700	11,560	3,630	3,630	30,520
Environment and Transport	51,020	61,710	39,660	22,980	175,370
Chief Executive's Dept.	710	5,030	5,820	100	11,660
Corporate Resources	7,805	2,665	250	70	10,790
Corporate Programme	44,150	16,040	4,800	5,450	70,440
Total	140,045	123,375	83,830	50,610	397,860

Capital Resources 2019-23

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000
Grants	56,238	61,881	67,755	33,634	219,508
Capital Receipts from sales	580	12,803	1,553	1,553	16,489
Revenue/ Earmarked funds contributions	75,825	29,486	4,153	9,775	119,239
Earmarked Capital funds	0	5,472	0	0	5,472
External Contributions	7,402	13,733	10,369	5,648	37,152
Total	140,045	123,375	83,830	50,610	397,860

161. The overall approach to developing the capital programme is set out in the capital strategy (Appendix G) and is based on the following key principles:

- To invest in priority areas including roads, infrastructure, economic growth and projects that generate a positive revenue return.
- Passport Government capital grants received for key priorities for highways and education to those departments.
- Maximise the achievement of capital receipts.
- Maximise other sources of income such as bids to the Department for Education, LLEP, section106 developer contributions and other external funding agencies.
- No or limited prudential borrowing (only if the returns exceed the borrowing costs).

162. 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, they will be assessed against the balance of available resources (£18m) and included in the capital programme as appropriate.

Changes to the draft Capital Programme proposed in December 2018

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Draft Programme at 18th December 2018	131,070	114,500	83,830	50,910
Expenditure changes				
A&C: Records Office relocation	3,000	7,000		
E&T: Waste Transfer Station – land acquisition	4,000			
CR: Watermead Footbridge and Cycleway	1,250			
CR: Snibston CP Future Strategy -Masterplan	1,050	1,000		
CR: Snibston CP Future Strategy –Land works	2,325	875		
CR: Fit for the Future – remove revenue costs	-3,000			
Other minor changes	350			-300
Revised Programme Total	**140,045**	**123,375**	**83,830**	**50,610**
Original draft funding	131,070	114,500	83,830	50,910
Funding Changes				
Future Devs - Collections Hub/Records Office	3,000	7,000		
Future Devs - Waste Transfer Station	4,000			
External Contributions - Watermead Park	1,250			
Homes England – Snibston land grant	730			
Snibston – capital receipts	0	4,250		
Future Developments – increase in funding required	320			
Fit for the Future – transfer to revenue budget	-3,000			
Profile changes to funding (net nil)	2,675	-2,375	0	-300
Revised Funding Total	**140,045**	**123,375**	**83,830**	**50,610**

163. The main changes to the programme are:

164. Records Office relocation. A new option has been established that will relocate the Records Office to the County Hall campus, addressing the expansion requirement. In addition, provision for relocation costs has also been included in the Future Developments Fund. Proposals for a new Heritage and Learning Collections Hub will be developed and at this stage are included in the Future Developments Fund. The split operational layout of this option however will require the deliverability of the MTFS savings target of £0.35m to be re-assessed. This position will be reviewed as the details of the schemes are confirmed.

165. Waste Transfer Station land acquisition costs, previously included in the future developments programme, have been promoted to the main capital programme alongside the construction costs (£7.5m). A potentially suitable site has been identified following the assessment that various parcels of land owned by the County Council, on which a Waste Transfer Station could have been developed, did not meet the requirements of the Minerals and Waste Local Plan.

166. Watermead Park Footbridge and Cycleway – the County Council will now lead on the construction project. As a result the full project costs are now shown alongside an equivalent increase in external contributions from Leicester City Council (£0.75m) and the Local Growth Fund (£0.5m).

167. Snibston and Country Park Future Strategy – master plan £2m, updated estimates to meet planning conditions including external zinc cladding, a new link from the café to the Century Theatre, and a remodel of the roof design to let more natural light into the café extension. In addition, there are land restoration costs (£3.2m) on the site of the former Snibston Discovery Museum, and a fee payable to the Coal Authority for the release of the covenant on the proposed development areas of the site which currently restricts its use to 'recreational purposes' only. The additional works will be funded by the increase in the capital receipt, £4.3m, as a result of the work. Capital receipt values and land remediation costs are difficult to predict.

168. Corporate Resources: elements of the Fit for the Future programme costs are revenue and will now be accounted for as revenue expenditure. The change is neutral as the equivalent amount of funding will also be transferred to the revenue budget.

Funding and Affordability

Capital Grants

169. Grant funding is the largest source of financing for the capital programme and totals £220m across the 2019-23 programme. The majority of grants are awarded by Government departments including the DfE and the Department for Transport (DfT).

Children and Family Services

170. 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 schools and academies or 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 area. The DfE has announced details of the grant awards for 2019/20 (£11.5m) and 2020/21 (£8.8m). No details have been announced for future years. An estimate of £10m per annum has been used for 2021/22 and 2022/23.

b) Strategic Capital Maintenance – this grant provides the maintenance funding for the maintained school asset base. Details of the grant for 2019/20 and future years have not yet been announced. An estimate of £8.3m (in total) has been included in the capital programme for 2019/20 to 2022/23. It is expected that this grant will continue but will reduce as further schools convert to academy status.

c) Devolved Formula Capital (DFC) - funding provided to maintained schools. The DfE has not yet announced details of grant allocations. However, an estimate can be made based on pupil numbers which totals £2.1m for 2019/20 to 2022/23.

d) Special Provision Fund – DfE grant allocations of £1.9m for 2019/20 and 2020/21 have been confirmed.

e) DfE - New (Free) School bid – the programme funding includes an estimate of £8m in grant funding, subject to DfE approval, to fund a new Social, Emotional and Mental Health special school in 2021/22 required as part of the High Needs Development plan. If the bid was unsuccessful the requirement would need to be funded from the capital programme. However, positive indications have been received from the Secretary of State for Education.

Environment and Transport

171. The DfT has informed local authorities of the amounts they will receive in capital grant for the Local Transport Plan (LTP) for 2019/20. Estimates have been included for 2020/21 to 2022/23 at the same level as 2019/20. The funding has two elements:

a) Improvement Schemes - grant funding of £10.9m (£2.7m per annum).
b) Maintenance funding - grant funding of £45.8m (£11.4m per annum)

172. Other significant capital grants included are:

- DfT Melton Mowbray Distributor Road funding - £49.5m.
- LLEP Local Growth Fund - £12m.
- DfT Incentive Fund - £9.5m. Funding to 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).
- DfT Pothole Fund £2.9m – indicative allocations in line with previous years.
- National Productivity Investment Fund - £2.8m.

Chief Executive's Department

173. The programme includes capital grant of £5.6m for an extension of the Superfast Broadband phase 3 programme from the Rural Development Programme (part of the Department for Environment, Food and Rural Affairs – DEFRA).

Capital Receipts

174. The generation of capital receipts is a key priority for the County Council. The draft capital programme includes an estimate of £16m across the four years to 2022/23. Actual capital receipts are estimated to be £25m. However, this includes £9m in delayed receipts budgeted to fund the 2018/19 capital programme that will be received in 2019/20.

175. 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 20% (equates to £4.7m) of future sales subject to planning permission has been included.

Revenue / Earmarked Funds/ Contributions

176. 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 £119m of revenue resources has been included in the draft programme funded from:

Capital Financing Earmarked Fund	£42m
One-off MTFS 2019-23 revenue contributions	£17m
Departmental Earmarked Funds	£5m
Future Developments Fund – Additional Schemes	£50m
Future Developments Fund – Supplementary funding	£5m
Total	£119m

177. The capital financing earmarked fund temporarily holds previous years' revenue contributions to fund the capital programme until they are required. The balance includes £2m for Environment and Transport (E&T) set aside from the 2018/19 forecast underspend, and a contribution to the E&T revenue budget for the substitution of £13m in E&T capital grants.

178. Future developments funding for additional projects (projects promoted from the future developments programme) totals £50m. This includes:

- £11.5m New Waste Transfer Station,
- £10.0m for the forward funding of section 106 contributions to fund the Melton Mowbray Distributor Road,
- £10.0m Records Office relocation
- £5.7m contribution towards the High Needs Development Plan.
- £4.5m Kibworth RHWS redevelopment and other RHWS site improvements
- £3.7m for development of Hamilton Court / Smith Crescent Care Home
- £2.3m Highways Maintenance (of a total of £5m)
- £1.5m Supported Living accommodation, Great Glen
- £0.8m Watermead Park Bridge

179. Supplementary funding is required where schemes cannot be fully funded by alternative sources, such as grants. Examples of this are the replacement of operational assets, such as the vehicle replacement programme and ICT systems.

External Contributions and Earmarked Capital Funds

180. A total of £43m is included in the funding of the capital programme 2019-23, from external contributions (£37m) and earmarked capital receipts (£6m).

Prudential Borrowing

181. 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 2019-23 programme. The County Council's current level of external debt is £264m, 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

182. The draft programme totals £99m over the four years 2019/20 to 2022/23. The priorities for the programme are informed by the Council's School Place Planning Strategy and investment in SEND as part of the High Needs Development Plan, explained earlier in this report.

183. The programme includes £65m investment to build accommodation where additional pupil places are needed, £22m investment in SEND to provide a range of cost effective, high quality provision for children and young people with SEN, including a bid to build a new special school subject to DfE approval, and school improvements (£12m) through the strategic capital maintenance and schools devolved capital funds.

Adults and Communities

184. The draft programme totals £31m.

185. The programme includes £15m relating to the Better Care Fund Disabled Facilities Grant programme, where funding is passported to District Councils to fund major housing adaptations in the County for vulnerable people to stay safely in their own home and £10m for the Records Office relocation, mentioned earlier in this report.

186. The programme also includes capital investment for the development of Hamilton Court / Smith Crescent in North West Leicestershire, to provide supported living accommodation, short breaks and community life choices on the site (£3.7m) and the refurbishment of Brookfields, Great Glen, acquired in 2018/19, to provide supported living accommodation (£1.5m).

Environment and Transport

187. The programme totals £175m over the four years 2019-23. The main areas are:

- Melton Mowbray Distributor Road - £62m. Construction of new road is partly funded by £50m DfT grant and the balance is funded by developer contributions that will be received after the road is completed. Discussions are ongoing with Melton Borough Council about sharing the risk of forward funding the developer contributions.
- Transport Asset Management Programme - £54m. This ensures that 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 Department.
- Anstey Lane A46 improvements, £4m. (Total scheme £9m, of which £5m programmed in 2018/19)
- M1 Junction 23 improvements, £20m (total scheme £25m of which £5m is programmed in 2018/19).
- County Council Vehicle Programme - £8m. Investment in new vehicles to replace aged vehicles and reduce running costs.
- Advanced Design work - £7m. A programme of advanced design works to support future major transport schemes and bids to the DfT and LLEP for funding.
- The Environment and Waste programme totals £16m and includes a new Waste Transfer Station Development (£12m), redevelopment works at Kibworth Recycling and Household Waste Site (£3m), and a programme of general improvements, including resurfacing, security, safety and drainage, across the other recycling and household waste sites.

Chief Executive’s Department

188. The programme totals £12m.

189. The main scheme is the Rural Broadband Phase 3 programme, £11m. The project will be expanded following a recent government grant awarded for £5.6m to further extend superfast rural broadband. The funding includes £2m underwriting by the County Council pending repayment from BT in 2023.

190. The departmental programme also includes Shire Community Grants, totalling £0.4m across the four years to 2023.

Corporate Resources

191. The programme totals £11m for 2019-23 with the main priorities for investment being:

- Snibston and Country Park Future Strategy - £5.8m, development of the masterplan and land remedial works, funded mainly from resulting capital receipts.
- Investment in the ICT upgrade and replacement programme, £2m, including the replacement of the local area network and storage area network.
- Workplace Strategy, £1m – investment in County Council buildings to deliver ongoing revenue savings (£0.3m per annum by 2022/23).
- Watermead Park, £2.0m - a new footbridge, jointly funded with Leicester City Council and the LLEP, to improve connectivity between the two parks.

Corporate Programme

192. The corporate programme totals £70m for 2019-23. The main area is the investment in the Corporate Asset Investment Fund (CAIF), totalling £67m, 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).

193. Other investments within the corporate programme include the Energy and Water Strategy (£3.4m) to reduce energy consumption across the Council's property estate to deliver ongoing efficiency savings and reduce carbon emissions.

194. The CAIF programme was originally targeted to grow to £200m by the end of the MTFS. Existing holdings plus named projects in the draft capital programme for 2019-23 will result in a CAIF investment of £186m. The balance of £14m has been included in the draft programme as future asset acquisitions.

195. Further investment opportunities have been identified that could increase the overall CAIF programme to £260m. These are at very early stages and have therefore not been included within the draft four-year capital programme. Given the overall availability of discretionary capital resources and the estimated calls on the Future Developments fund, it is likely that these projects would require prudential borrowing. This would only be considered where the investment returns would cover the additional borrowing costs.

196. The CAIF Strategy 2018/19 to 2021/22 was approved by the Cabinet in September 2018. However, going forwards it was agreed that future updates would be brought in line with the timetable for updating the MTFS, the Capital Strategy and Treasury Management Strategy. This ensures that these strategies are appropriately linked.

197. As such, some minor amendments have made to the Strategy approved in December, primarily updating some of the financial information based on the latest position and the inclusion of the quantitative performance measures

recommended for inclusion in the Statutory Guidance on Local Government Investments (3rd Edition) which is issued under s15(1)(a) of the Local Government Act 2003 . The updated CAIF Strategy is attached as Appendix H.

Future Developments Fund

198. The estimated balance of available funds for future developments between 2019/20 and 2022/23 totals £18m. This is after the following changes to the fund:

Previous estimated balance to 2023 (Cabinet 18/12/18)	£25m
Add Business Rates Pilot – infrastructure and social care	£7m
Less transfers to main capital programme: Records Office Less transfer for Waste Transfer Station land	 (£10m) (£4m)
Balance Available	£18m

199. The balance on the Future Developments fund is held to contribute towards schemes that have been identified but are not sufficiently detailed for inclusion in the capital programme at this time. 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 health and social care service user accommodation, highways match funding of capital bids, investment in community speed enforcement (depending on the outcome of the pilot), funding for the heritage and learning collection hub, a contingency and transitional costs for the new records office, and investment for the efficiency and productivity programme. The list of future developments is continually refreshed.

200. The latest estimate of funding required is £71m, compared with the funding available of £18m. This leaves a potential shortfall of £53m.

201. Closing the gap by taking on new loans is not the preferred option, as this increases the requirement for future savings. The position will managed through prioritisation and where possible the identification of alternative funding sources. Financial modelling is being completed and all potential income streams are being considered including contributions from partners. It is 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.
- Temporary 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 would avoid £6.5m per annum of borrowing.
- Delay some of the expenditure until resources are available.

202. 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

203. 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. 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 to support schemes but it is likely that County Council resources will need to be used to "bid, cashflow, support" projects. Funding will be allocated by priority, including considering housing schemes.

204. 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.

205. 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.

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

207. The potential shortfall on the future developments programme will continue to be monitored closely and opportunities taken to reduce the gap.

Budget Consultation

208. The Cabinet at its meeting in December 2018 approved the MTFS proposals for consultation. 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 N. Respondents broadly support the proposed council tax increase and budget.

209. A large scale consultation for the 2020-24 MTFS, linked to the Comprehensive Spending Review 2019, will be undertaken later in 2019. This will incorporate a range of methods in addition to the usual on-line surveys performed for the annual budget.

Results of Scrutiny Process

210. 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 O sets out the comments arising from meetings of Scrutiny bodies

Equality and Human Rights Implications

211. 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.

212. 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.

213. 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

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

Environmental Implications

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

Partnership Working and Associated Issues

216. 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

217. 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 21st February 2018: Medium Term Financial Strategy 2018/19 - 2021/22
http://politics.leics.gov.uk/documents/s135701/MTFS%20report.pdf

County Council Strategic Plan
https://www.leicestershire.gov.uk/about-the-council/council-plans/the-strategic-plan

Appendices

Appendix A: Four Year Revenue Budget 2019/20 to 2022/23
Appendix B: 2019/20 Revenue Budget
Appendix C: Savings 2019/20 to 2022/23
Appendix D: Savings under Development
Appendix E: Growth 2019/20 to 2022/23
Appendix F: Detailed Capital Programme 2019/20 to 2022/23
Appendix G: Capital Strategy
Appendix H: Corporate Asset Investment Fund Strategy
Appendix I: Risk Management Policy and Strategy
Appendix J: Earmarked Funds Policy
Appendix K: Earmarked Funds
Appendix L: Council Tax and Precept
Appendix M: Treasury Management Strategy Statement and Annual Investment Strategy
Appendix N: MTFS Consultation Report
Appendix O: Comments of the Overview and Scrutiny Committees and Scrutiny Commission