Leicestershire County Council

CABINET – 7 FEBRUARY 2020

PROVISIONAL MEDIUM TERM FINANCIAL STRATEGY 2020/21 - 2023/24

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PART A

Purpose of the Report

1. This report presents the County Council's proposed 2020/21 to 2023/24 Medium Term Financial Strategy (MTFS) for approval, following consideration of the draft MTFS by the Cabinet in December 2019 and the Overview and Scrutiny bodies in January and receipt of the Local Government Finance Settlement.

Recommendation

2. (i) 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 2020/21 totalling £390m as set out in Appendices A, B and D 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 2021/22, 2022/23 and 2023/24, 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 and human rights impact assessments, as may be necessary towards achieving the savings specified for those years including savings under development;

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

   (d) That the level of earmarked funds as set out in Appendix J be noted and the use of those earmarked funds as indicated in that appendix 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 2020/21 be as set out in Appendix L (including 2% 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 2020/21 to 2023/24 capital programme as set out in Appendix E;

(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:

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Operational boundary for external debt				
i) Borrowing	264	264	263	263
ii) Other long term liabilities	1	1	1	1
TOTAL	265	265	264	264
Authorised limit for external debt				
i) Borrowing	274	274	273	273
ii) Other long term liabilities	1	1	1	1
TOTAL	275	275	274	274

(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 2020/21 to 2023/24:
  - (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 2020/21, subject to the prudential limits in Appendix M;

(m) That the Treasury Management Strategy Statement and the Annual Investment Strategy for 2020/21, 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 Capital Strategy (Appendix F), Corporate Asset Investment Fund Strategy (Appendix G), Risk Management Policy and Strategy (Appendix H), Earmarked Funds Policy (Appendix I) and Insurance Policy (Appendix K) be approved;

(o) That it be noted that the Leicester and Leicestershire Business Rate Pool will continue for 2020/21;

(p) 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 on 19th February.

(q) That it be noted that following the enactment of the relevant legislation a report will be presented to the Council's Constitution Committee and thereafter to County Council regarding the proposed addition to the County Council's Constitution (Part 2, Article 12.04) to confirm that the Director of Corporate Resources, as the Chief Financial Officer, is the Responsible Officer for the Leicestershire County Council Local Government Pension Scheme (LGPS).

ii) That the Leicestershire School Funding Formula be amended to reflect two additional funding factors - sparsity and pupil mobility - for 2020/21.

<u>Reasons for Recommendations</u>

3. To enable the County Council to meet its statutory requirements with respect to setting a budget and Council Tax precept for 2020/21, to allow efficient financial administration during 2020/21 and to provide a basis for the planning of services over the next four years.

4. The amendment to the current Leicestershire School Funding Formula, consultation on which took place in autumn 2019, will ensure that it fully reflects the National Funding Formula (NFF).

Timetable for Decisions (including Scrutiny)

5. On 17th December 2019 the Cabinet agreed the proposed MTFS, including the 2020/21 revenue budget and 2020/21 to 2023/24 capital programme, for consultation. The Overview and Scrutiny Committees and the Scrutiny Commission then considered the proposals in January 2020 (the comments of those bodies are attached as Appendix O).

6. The County Council meets on 19th February 2020 to consider the MTFS including the 2020/21 revenue budget and capital programme. This will enable the 2020/21 budget to be set before the statutory deadline of the end of February 2020.

Policy Framework and Previous Decisions

7. The MTFS is a rolling financial plan that is updated annually. The current MTFS was approved by the County Council on 20th February 2019. 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

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

Resource Implications

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

10. The County Council is operating in an extremely challenging financial environment following ten 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 in the medium term. Although the 2019 Spending Round and the 2020/21 Provisional Settlement indicate an easing in grant reductions in 2020/21, few details are available regarding 2021/22 and later years. The position for 2021/22 onwards will be subject to a Comprehensive Spending Review in 2020 and the results of Government reviews on Fair Funding and the Business Rates Retention Scheme.

11. Delivery of the MTFS requires savings of £80m to be made from 2020/21 to 2023/24. This MTFS sets out in detail £23.6m of savings and proposed reviews that will identify further savings to offset the £39m funding gap in 2023/24. A further £17m 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.

12. To ensure that the MTFS is a credible financial plan unavoidable cost pressures have been included as growth. By 2023/24 this represents an investment of £59m, primarily to meet the forecast increase in demand for social care. The MTFS also includes a £60m provision for pay and price inflation.

13. The four-year capital programme totals £607m. This includes investment for services, road and school infrastructure arising from housing growth in Leicestershire, the corporate asset investment fund, social care accommodation and energy efficiency initiatives. Capital funding available totals £385m with the balance of £222m being temporarily funded from the County Council's internal cash balances in advance of section 106 contributions and other funding being received in the future, for example increased capital receipts or new grants.

14. To deal with the challenges that the County Council has faced in recent years, as the lowest funded County Council, a proactive approach has been required. The County Council has continued to invest in and improve services and is pleased to be named the most productive council for the third year running by consultancy firm IMPOWER.

Circulation under the Local Issues Alert Procedure

15. A copy of this report has been circulated to all Members of the County Council.

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PART B

Changes to the draft Budget proposed in December 2019

16. Changes to the draft budget considered by the Cabinet on 17th December 2019 are summarised in the table below:

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Shortfall at 17th December 2019	0	0	19,000	38,890
Funding changes				
Social Care Grant – extended to later years	0	-8,900	-8,900	-8,900
Council Tax Base	-670	-700	-720	-740
Collection Funds' surplus	-590	0	0	0
Business Rates	-3,000	-1,200	-2,190	-3,190
New Homes Bonus	0	1,810	2,850	3,750
Savings changes	130	130	130	130
Growth changes	170	170	170	170
General Fund - contribution changes	4,500	6,000	6,000	7,000
Inflation & other changes	1,690	2,190	2,395	1,690
Revenue Funding of Capital	-2,230	500	150	150
Revised Shortfall	**0**	**0**	**18,885**	**38,950**

17. Funding changes summarised in the table above relate to:

- Social Care Grant – the £1bn new grant announced in the September 2019 Spending Round for 2020/21 is to be extended to cover the later years of the MTFS. The annual allocation for the County Council is £8.9m.
- Council Tax Base – The initial forecast of 1.6% has been increased to 1.8% following updated tax base information received from the District Councils. This generates £0.7m more council tax income in 2020/21 than previously forecast.
- Collection Funds' surplus – the forecast has increased by £0.6m to £2.1m following formal estimates provided by the District Councils in mid-January 2020.
- Business Rates (other changes). Values for 2020/21 "baseline" and Section 31 grants have been updated to reflect the latest forecasts from the Ministry of Housing, Communities and Local Government (MHCLG). Forecasts in later years have been amended to reflect reduced contingencies for potential austerity assumptions, offset partly by an assumption that a "reset" in 2020/21 could remove the benefit of £3m growth under the current phase of the Business Rates Retention Scheme.

- New Homes Bonus – updated estimates per the 2020/21 Local Government Finance Settlement. There will be no “legacy” payments in subsequent years regarding the 2020/21 part of the grant and the remaining legacy amounts, in respect of 2018/19 and 2019/20, will be phased out by 2023/24.

18. The draft MTFS included savings of £330,000 from the Recycling and Household Waste Sites (RHWS) service approach (ET5). This savings line incorporated a number of work strands including changes to the RHWS operational hours, commissioning options for the Whetstone RHWS and initiatives to increase reuse at the RHWS.

19. A public consultation on proposals to reduce the summer opening hours at the RHWS by two hours per day (closing at 5pm instead of 7pm) was carried out between 1 July and 23 September 2019. A total of 860 responses were received. Of the 683 respondents who expressed a view on how the proposed change to opening hours would affect their ability to use the RHWS, 54% said that the proposed changes would make it somewhat or much more difficult for them to visit; this was mainly from people who worked full time during the day and needed to use the RHWS after work.

20. In light of the consultation feedback, the proposal to reduce the RHWS opening hours has been withdrawn and the savings line (ET5) has been reprofiled to reflect this change.

21. Growth of £170,000 has been included within the Chief Executive’s Department for the following items:

    - LeicesterShire Grants £100,000
    - Trading Standards - Supporting Vulnerable Adults £70,000

22. It is planned to increase the General Fund by £30m over the MTFS period to reflect increasing uncertainty and risks over the medium term. The contributions from the revenue budget to achieve that aim have been re-profiled.

23. The inflation contingency has been increased following the government’s announcement to increase the National Living Wage in 2020/21 to £8.72 per hour (6% increase) compared with an assumption in the original MTFS of £8.62 per hour (5% increase).

24. The budget for Revenue Funding of Capital has been amended to reflect the net change in the overall funding.

Spending Round 2019

25. On 4th September 2019 the Chancellor of the Exchequer delivered the 2019 Spending Round. The announcement included a funding package of more than £3.5 billion for council services, the largest year-on-year real terms increase in spending power for local government in a decade. However, the announcement only related to 2020/21 and gave no indication of the levels of funding for 2021/22 and later years.

26. The Spending Round included the continuation of elements of 2019/20 one-off funding and additions of £1 billion for social care and £700m for children and young people with special educational needs and disabilities. The Chancellor confirmed that key grants to local government will also continue next year.

27. The Spending Round also proposed a 2020/21 council tax referendum limit of 2% and an extension of the adult social care precept of a further 2%.

28. The Government clarified its intention to introduce 75% business rates retention and the outcome of the Fair Funding Review in April 2021. This will allow time for the remaining decisions over the design of the reforms to be made by the government including consultation with councils.

Government Budgets

29. On 14th October 2019 the Chancellor of the Exchequer announced plans to issue an Autumn Budget on 6th November 2019. However, following the delay of Brexit arrangements beyond 31st October 2019, the Chancellor wrote to the Treasury Select Committee on 25th October 2019 to confirm that the Budget announcement would be delayed until after the General Election.

30. On 7th January 2020 the Chancellor of the Exchequer announced that a Budget will be issued on 11th March 2020.

Local Government Finance Settlement

31. The Secretary of State for Housing, Communities and Local Government announced the Provisional Local Government Finance Settlement for 2020/21 on 20th December 2019. The key elements for the County Council are:

- Confirmation of the core council tax referendum limit of 2% - in line with the assumptions used in the draft 2020-24 MTFS.
- The continuation of Adult Social Care council tax precept flexibility into 2020/21 – up to 2% in line with MTFS assumptions.
- Confirmation of the removal of “negative Revenue Support Grant” at 2019/20 levels - in line with draft MTFS assumptions.
- No additional negative RSG adjustment to reflect austerity – a loss of £3m had been assumed in the draft MTFS assumptions.
- Continuation of 2019/20 social care grant funding and a new £1bn grant from 2020/21 (the County Council allocation is £8.9m).

32. The final settlement is awaited.

Revenue Support Grant (RSG) and Spending Power

33. The funding projections to 2019/20 in the previous Settlement are based around projections of RSG, Business Rates and Council Tax income. That approach has been extended to 2020/21. The focus has been placed on giving authorities in the same class (for example, 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 has led to many authorities, including the County Council, losing all of their RSG by 2019/20, with some having had no RSG since 2017/18.

34. 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.

35. 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 2020. In the absence of specific Government guidance the MTFS assumes reductions of £2m each year will continue to be applied in 2021/22 and future years.

36. 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.

37. The elements of core spending power from the 2020/21 Provisional Settlement are shown below:

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Settlement Funding Assessment :RSG	56.2	37.0	19.5	8.5	0.0	0.0
Settlement Funding: Business Rates	60.5	57.4	58.7	61.0	62.9	64.4
Council Tax*	233.4	242.8	253.1	266.8	279.2	290.6
Adult Social Care Precept*	0.0	4.8	10.0	18.7	22.4	29.5
Improved Better Care Fund**	0.0	0.0	9.5	12.4	14.8	17.2
New Homes Bonus	3.3	4.3	4.1	3.6	3.7	3.7
Transition Grant	0.0	3.3	3.3	0.0	0.0	0.0
Adult Social Care Support Grant	0.0	0.0	2.4	1.5	0.0	0.0
Winter Pressures Grant**	0.0	0.0	0.0	2.4	2.4	0.0
Social Care Support Grant***	0.0	0.0	0.0	0.0	4.1	0.0
Social Care Grant***	0.0	0.0	0.0	0.0	0.0	13.0
Core Spending Power	353.4	349.6	360.6	374.9	389.5	418.4

* MHCLG forecasts of Council tax and Council tax base increases in 2020/21 – MHCLG's tax base increase forecast is higher than the actual increase.

** Includes one-off Social Care Grant announced in the Budget 2017, and £2.4m Winter Pressures added in 2020/21.
*** Includes £8.9m allocation from new £1bn grant in 2020/21, combined with continuation of £4.1m Social Care Support Grant

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

39. The table also shows that after a reduction in 2016/17, 'core spending power' is expected to increase in cash terms by £65m (18.4%) by 2020/21. With inflation running at circa 3% each year this represents a small real terms increase and provides very little allowance for increasing service demand.

Comprehensive Spending Review and Fair Funding

40. 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.

41. The CSR is expected in 2020, probably in the spring. The period of time this will cover is not known but it would be expected to be for 3 or 4 years.

42. 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.

43. The Government announced that it intended to revise the way in which local government funding is calculated, with the aim of having a new system in place by 2020/21. That timescale has now been amended to implementation in 2021/22. 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 £301m of funding would be received each year (based on 2020/21 Core Spending Power).

44. 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.

45. 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. A consultation on the Government's initial proposals was issued alongside the 2019/20 Local Government Settlement and confirmed the general move towards a simpler, fairer system. However, there is not yet sufficient detail to judge the success of the County Council's Fair Funding campaign. The expectation is that this will only be known in December 2020 at the earliest.

Business Rates Retention Scheme

46. The two main components of the business rates retention scheme income received by the County Council are the "baseline" and "top up" 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.

47. The Government had indicated its intention for a full reset of baselines in 2020/21 but this has now been postponed until 2021/22. This will result in Councils losing their share of accumulated growth. For the County Council this amounts to £3m per annum, and the income to the Leicester and Leicestershire Enterprise Partnership (LLEP) from the Leicester and Leicestershire Business Rates Pool would reduce by circa £8m.

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

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Business Rates 'Top-Up'	40.3	41.3	42.1	42.9
General contingency	0.0	-2.0	-4.0	-6.0
Business Rates 'Baseline'*	23.9	21.5	22.0	22.5
S31 grants - Business Rates	4.2	4.2	4.3	4.4
Total	68.4	65.0	64.4	63.8

*2021/22 reflects £3m assumed reduction from "reset"

Business Rates Pooling

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

50. In 2019/20 the County Council along with Leicester City Council, the Combined Fire Authority and all seven Leicestershire District Councils continued the 'Leicester and Leicestershire Pool'. The latest estimates for the Pool show a

potential surplus of £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 current pooling agreement between the partners allows the surplus to be provided to the LLEP for investment in the wider sub-regional area.

51. In total £32m is forecast to have been retained in Leicestershire, since the first year of operation in 2013/14, due to the success of the Pool. The LLEP is currently considering submissions for a range of infrastructure projects around the County and City which this funding can be used to support. It is anticipated that the County will receive a share of this funding which will help offset the costs of specific projects which would otherwise need to be funded from the Council's own funding sources.

52. Due to the strong position in 2019/20 the Pool will continue for 2020/21.

Council Tax

53. The draft MTFS is based on a 3.99% increase in Council Tax for 2020/21, which includes an additional 2% on the adult social care precept. Increases of 1.99% are assumed regarding 2021/22, 2022/23 and 2023/24. Over the next four years a total of £51m in extra Council Tax is expected to be generated.

54. 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 2020/21 will be a 4% rise in Council Tax. The 2% threshold is assumed to resume from 2021/22.

55. The Chancellor announced, as part of the 2015 Spending Review, that local authorities responsible for delivering adult social care would be allowed to raise a council tax "precept" of 2% for each of the four years of the Spending Review period to partially fund adult social care. This was in addition to the council tax referendum thresholds and was "to be used entirely for adult social care".

56. The 2020/21 Spending Round issued by the Government in September 2019 included an extension of the Adult Social Care precept to 2020/21, with an increase of up to 2%.

57. The Provisional Settlement issued in December 2019 includes both the 2% "core principle" and 2% Adult Social Care precept increase limits as part of the package of referendum principles for 2020/21.

58. Final Council Tax base figures for 2020/21 have now been provided by the District Councils and show an overall estimated increase of 1.8%, compared with a previous estimate of a 1.6% increase, which results in circa £0.7m of additional income in 2020/21.

59. The District Councils provide quarterly monitoring information on the forecast Collection Funds surplus/deficit position. At the end of September 2019 a surplus of around £1.5m for the County Council was reported and this income

was reflected in the 2020/21 budget in the report to the Cabinet in December 2019. Formal estimates for the surplus/deficit have now been received and show an overall net surplus of £2.1m.

Summer 2019 Consultation

60. The County Council performs an annual consultation on the draft budget. However, it is also important to periodically assess the views of the public, staff and stakeholders that can be used to inform the County Council's future financial priorities. An extensive public consultation exercise took place from 12 June to 10 September 2019 on the Authority's priorities, the outcome of which was reported to the Cabinet on 22 November. A summary is given below.

61. The nearly 13-week consultation exercise included:

- a questionnaire – online and sent to households in a special edition of the residents' newsletter Leicestershire Matters;
- an online, interactive tool enabling people to explore the Council's budget in more detail;
- residents focus groups/workshops;
- information events with stakeholder organisations;
- information events with Council staff and managers;
- public events across the County.

62. A key finding from the consultation is that respondents feel support for vulnerable people should be protected. Residential and community support for older people and mental health – plus special educational needs and disabilities, child protection and children in care – are in the top 10 services people do not want to see reduced.

63. Over 4,300 people took part in survey which also shows:

- 82% of people support a Council Tax rise in line with inflation (2%) or above;
- 81% agree with reorganising local government to make savings;
- 86% support protecting the environment by using renewable energy and reducing carbon.

64. More detail on the approach taken to engagement as part of the consultation, together with the key findings and outputs were considered by the Cabinet on the 22nd November 2019. The MTFS as presented represents a good fit with the outcome of the consultation. Changes to growth and savings and capital allocations have been reviewed in light of the results.

65. For example, it was clear from the results that respondents felt that services for vulnerable children and adults should be protected. Growth has been provided to ensure service levels can be maintained, despite significant increase in demand. Also, additional funding has been provided to help manage the highways network, again a service that was felt to be one of the most important to protect. There was also support for investing in land, property and other assets to

generate future income streams as well as investing in energy/carbon reduction initiatives. The increased capital programme allows for investments to be made in these areas.

66. Going forwards, decisions will continue to be taken mindful of the relative priorities and other feedback received from stakeholders through the consultation exercise.

2020/21 - 2023/24 Budget

67. 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 2020/21 budget including DSG is detailed in Appendix A.

Provisional Budget	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**
Services including inflation	355.5	385.7	405.8	431.8
Add growth	23.9	9.3	13.0	13.0
Less savings	-13.1	-3.6	-1.7	-1.6
	366.3	391.4	417.1	443.2
Central Items	16.1	-0.8	2.4	6.8
Less savings	-3.5	0.0	0.0	0.0
	378.9	390.6	419.5	450.0
Contributions to/from				
General Fund	11.0	6.0	6.0	7.0
Total Expenditure	**389.9**	**396.6**	**425.5**	**457.0**
Funding				
Revenue Support Grant	0.0	0.0	0.0	0.0
Business Rates	-68.4	-67.0	-68.4	-69.8
less contingency	0.0	2.0	4.0	6.0
Council Tax	-321.5	-331.6	-342.2	-354.3
Total Funding	**-389.9**	**-396.6**	**-406.6**	**-418.1**
Shortfall	**0.0**	**0.0**	**-18.9**	**-38.9**

68. The MTFS is balanced in 2020/21 and 2021/22 and shows shortfalls of £18.9m in 2022/23 rising to £38.9m in 2023/24. As set out below there is a range of initiatives currently being developed that will aim to bridge the gap.

Savings and Transformation

69. Overall, the balance between expenditure and income suggest a gap of £80m by the end of the MTFS period. Whilst the Council is optimistic that some additional funding may be made available to reduce this gap, it is clear that significant savings will still be required.

70. Savings of £23.6m have been identified with more expected over the next four years, 2020 to 2024, with £16.6m to be made in 2020/21. This is a challenging

task especially given that savings of £210m have already been delivered over the last ten 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 2020.

71. The main four-year savings are:

- Children and Family Services (£4.0m). This includes savings from reducing Social Care Placement costs.
- Adults and Communities (£8.7m). This includes savings of £6m from implementation of the new Target Operating Model.
- Public Health (£1.1m). This includes savings from reviewing early help and prevention services and from the 0-19 health visiting and school nursing service.
- Environment and Transport (£1.3m). Savings include the future residual waste strategy and changes to Recycling and Household Waste Sites (RHWS) operations.
- Chief Executive's Department (£0.1m). This includes savings from a review of grants and contracts and additional income.
- Corporate Resources (£4.6m). This includes returns from the Corporate Asset Investment Fund and savings from the Workplace Strategy.
- Corporate/ Central Items (£3.8m). This includes savings from a revised Minimum Revenue Provision.

72. Of the £23.6m identified savings, efficiency savings account for £18m, and can be grouped into three main types*:*

a) Better commissioning and procurement (£6m)
b) Service re-design (£8m)
c) Financial policy changes (£4m)

73. It is estimated that the proposals would lead to a reduction of up to 150 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.

74. Further savings will be required to close the budget shortfall of £18.9m in 2022/23 rising to £38.9m in 2023/24.

75. To bridge the gap a number of initiatives are under development to generate further savings. Once business cases have been completed and appropriate consultation processes taken, savings will be confirmed and included in a future MTFS. However, without additional government funding over the medium term, further savings will still be required

76. The development and ultimate achievement of these savings will be extremely challenging and will require focus, discipline and innovation. The Council's Transformation Unit is currently working with Finance colleagues to develop an approach to identify and bring forward opportunities for new savings.

77. The MTFS also includes the High Needs Block Development Plan which is targeting cost reductions to ensure that the expenditure can be contained within the allocation through the Dedicated Schools Grant. Savings of £17m are planned over the MTFS period.

78. The future savings programme will be developed further over the coming months and will be reappraised in light of further information, including the CSR. 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 approach has contributed to Leicestershire being named the most productive council in the country for the third successive year by consultancy firm IMPOWER.

Transforming the Way We Work

79. Since its inception in 2014, over £53m of savings have been delivered through the Transformation Programme. The Programme is refreshed annually and as at December 2019 contains initiatives with total future savings targets in excess of £29m. This will be further affected by the MTFS refresh to 2023/24 and the ongoing implementation of the County Council's Strategic Plan.

80. Commencing in 2020, the scope of the Transformation Programme will be widened and redefined to include more areas of Strategic Change within the Council, bringing its Workplace, Carbon and Digital programmes alongside the existing programme of savings through the MTFS.

81. A key emphasis from the new MTFS is a focus on further internal efficiency and productivity and good service decision making, spanning the County Council through a series of priority areas of work. Through evidence-based strategic challenge, including using the outcomes from the recent consultation on the MTFS, this work will help to identify and capture new savings opportunities to be delivered.

Growth

82. Over the period of the MTFS, growth of £59.2m is required to meet demand and cost pressures with £23.9m required in 2020/21. The main elements of growth are:

- Children and Family Services (£20.9m). This is mainly due to pressures on the Social Care placements budget arising from increased numbers of Looked After Children (over 10% per annum increase), increased Social Care caseloads and increased pressures on the Unaccompanied Asylum Seeking Children budget.
- Adult Social Care (£9.2m). This is largely the result of an ageing population with increasing care needs and increasing numbers of people with learning disabilities.
- Environment and Transport (£9.9m). This primarily relates to increased numbers of clients and costs on the Special Educational Needs (SEN)

Transport budget and increased pressures on the Highways Maintenance budget to maintain base services and to keep the road network safe.

- Chief Executive’s (£1.0m). This includes provision for the approved Growth Unit and increased requirements on Business Intelligence and Strategic Planning.
- Corporate Resources (£0.3m). This mainly relates to Strategic Property Services and Country Parks.
- Corporate Growth (£17.8m). This has been included to act as a contingency for potential further cost pressures in the later years of the MTFS – the value has been set based upon historic levels of growth incurred.

83. Some growth has been included at this stage as one-off/temporary, the biggest element being some of the growth for highways. This will continue to be reviewed and updated as appropriate in future iterations of the MTFS.

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

Inflation

85. The Government’s preferred measure of inflation is the Consumer Price Index (CPI). In December 2019 this was 1.3% and the Office for Budget Responsibility (OBR) predicts it will increase to around 1.9% in 2020/21 and 2.0% in 2022/23 and 2023/24. The OBR predicts that the Retail Prices Index (RPI) will increase from its current level of 2.2% to around 2.9% in 2020/21 and then increase to 3.1% in 2021/22, 2022/23 and 2023/24.

86. 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. To compensate the draft MTFS assumes 3% per annum inflation over the period 2020/21 to 2023/24.

87. The impact of the National Living Wage (NLW) is huge. In recent years social care costs have been driven up by its introduction, for which an additional provision has been made. However, on the basis of indications from the Government that the NLW could rise to around £10.50 per hour by 2024/25, and the announcement that the NLW in 2020/21 will be £8.72 per hour (an increase of 6.2%), further provision has been made compared to the previous forecast (£20m) with an impact of an additional £10.4m added to the MTFS by 2023/24.

88. The MTFS provides for annual pay awards of 2%, with an allowance for higher increases in the lower Grades to reflect the impact of the NLW.

89. 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.

90. Detailed service budgets for 2020/21 are compiled on the basis of no pay or price increases. A central contingency for inflation is be held, which will be allocated to services as necessary.

Local Government Pension Scheme

91. The County Council is the administering authority for the Local Government Pension Scheme (LGPS) covering over 200 employers within Leicestershire. This includes local government bodies, universities, colleges and academies.

92. The latest triennial valuation was carried out by the Fund's Actuary as at 31 March 2019. The purpose of the actuarial valuation is to set employer contribution rates for a three-year period, that commences one year after the valuation date (i.e. for the period 1 April 2020 to 31 March 2023). In order to set these contribution rates the Actuary must take account of a large number of factors, most of which are assumptions of what will happen in the future. These assumptions do not affect the ultimate cost of paying benefits; they simply calculate the liability derived from these benefits, which in turn affects the level of contributions set.

93. In 2016 the valuation calculated a 76% funding level. The draft results of the 2019 valuation calculate an 89% funding level which is a significant funding improvement. This was mainly due to exceptional investment returns on assets held by the Fund over the last three years, a circa 30% increase in value to £4.3bn. This level of increase is not expected to continue.

94. The value of the County Council's historic deficit as per the triennial review is estimated to be £170m, as at 31 March 2019. The positive fund valuation results allow the County Council's deficit recovery plan, which was set as part of the 2016 valuation, to be followed resulting in the deficit recovery period reducing from 20 to 17 years. The deficit recovery plan sets the balance between investment returns and additional employer contributions, with the fund actuary approving the contribution level for each employer. In agreeing contribution levels, the County Council needs to balance the impact on the revenue budget against increasing the total amount paid, if deficit recovery is slowed. The positive valuation results have avoided the need for a significant increase in contributions by the County Council, and the annual 1% contribution increases can continue.

95. The new contribution rates have been included in the MTFS. This will result in a primary employer contribution rate (relating to current service) of 19.6% of pensionable pay, and a secondary rate (to fund the historic deficit) of 6.7% of pensionable pay in 2020/21. This will rise by 1% p.a. thereafter.

<u>LGPS - Pension Fund Good Governance Review</u>

96. The Local Government Pension Scheme Advisory Board (LGPS SAB) has recently undertaken a review of the arrangements and structures of LGPS pension funds. The review has considered how governance is managed within the local authority framework in a way that ensures that conflicts of interest are addressed and managed appropriately. A detailed update on the proposals contained with the report will be presented to the County Council's Local Pension Committee at its meeting on 3 February 2020. It is expected that the proposals will be enacted into legislation for the 2020/21 financial year.

97. Within the proposals there is the requirement that each administering fund must have a single named officer who is responsible for the delivery of the pension function (the LGPS Senior Officer). For the County Council LGPS this would be the Director of Corporate Resources (Chief Financial Officer). The proposals require the role to be formally assigned through the administering funds Constitution. It is therefore proposed that as part of the annual review of the Constitution that will take place later in the year (or sooner if the legislation, once introduced, requires this), the following update to Article 12.04 - Functions of the Chief Financial Officer within Part 2 of the Constitution be made

Add:

(g) **Responsible person for the Leicestershire County Council Local Government Pension Fund Scheme.** As the administering authority for the Leicestershire County Council Local Government Pension Scheme, the Chief Finance Officer will have responsibility for the operation and delivery of that Scheme.

(The current Article 12 can be seen at - https://bit.ly/2O2Bpu7)

Central Items

98. Interest income relating to Treasury Management investments is budgeted at £2.8m in 2020/21 and later years. This reflects the expectation that Bank of England base rates will remain at a low level for the foreseeable future.

99. Capital financing costs are expected to decrease to £19.2m in 2020/21 (from £22.6m in 2019/20) and then to rise to £24.6m in 2023/24, mainly as a result of increasing financing requirements for the capital programme, partly offset by the proposed change to the minimum revenue provision outlined below.

100. The budget includes revenue funding of capital expenditure, mainly for the Corporate Asset Investment Fund, as described later in the report, of £23.9m in 2020/21, £1.5m in 2021/22 and £1.2m in later years.

101. 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 £10m per annum. The 4% relates to the rate at which the government provided support to the Authority through the historic revenue support grant (RSG).

102. Following changes to the legislation regarding MRP and the reductions in RSG it is no longer possible to demonstrate that support is maintained at the original government set funding rate of 4% per annum. This allows the annual MRP charge to be rebased to a period more commensurate with the useful service life of the assets purchased.

103. Based on the average remaining economic life of assets held it is proposed to revise the MRP calculation to a period of 40 years, which would reduce the MRP charge to around £6m per annum. It should be noted that the 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 £3.5m has been included in the MTFS from 2020/21.

104. Central expenditure budgets include (figures are for 2020/21):

- 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 (-£0.7m) – including income from Eastern Shire Purchasing Organisation surpluses and external audit fee costs.

105. Central grants and other income budgets include (figures are for 2020/21):

- Improved Better Care Fund (iBCF) (-£11.4m);
- Social Care Grant (new) (-£8.9m);
- Adult and Children's Social Care Support Grant (-£4.1m);
- Adult Social Care - Winter Pressures Grant (-£1.4m);
- 2017 Spring Budget - iBCF (-£0.9m);
- New Homes Bonus Grant (-£3.7m);
- Bank and Other Interest (-£2.8m).

Health and Social Care Integration

National Policy Context – the NHS Long Term Plan

106. 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 and provide more of this care in community settings are seen nationally and locally as key to improving outcomes and ensuring high quality and sustainable services for the future.

107. The direction of travel from an NHS policy point of view is that local health and care systems will 'evolve' from Sustainability Transformation Partnerships into Integrated Care Systems by 2021. This expectation was reinforced in the NHS Long Term Plan, published in January 2019.

108. The County Council's Cabinet report (in February 2019) summarised the content of the NHS plan publication (which set out the policy and delivery requirements of the NHS for the next five years) and analysed the likely implications for the Council. A copy can be found on the County Council's website.

109. Integrated Care Systems (ICSs) do not have a statutory basis, but rest on the willingness of NHS organisations to work together, and with local authorities and other partners, to improve health and care across a geographical footprint. A later report to the Cabinet (September 2019) asked for clarification from the NHS as to what an ICS would mean in practice for the County Council.

110. The footprint is the area of Leicester, Leicestershire, and Rutland (LLR), where a joint programme of transformation has been in place for a number of years, known as “Better Care Together”, the LLR’s Sustainability and Transformation Partnership (STP).

111. The draft NHS Long Term Plan for LLR was submitted to NHS England at the end of September per national requirements. The document set out how they will deliver the requirements of the Long Term Plan. Feedback on the draft submission was received from NHS England during October 2019. The Plan is being updated to reflect the feedback and will be re-submitted to NHS England.

Better Care Fund (BCF)

112. The Council has received funding from the NHS through the BCF since 2014/15 in line with levels determined by government. 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.

113. The Leicestershire BCF pooled budget is comprised of a number of sources of funds (see table below), with the largest component sourced from Clinical Commissioning Group (CCG) budgets. The amount each CCG contributes to its local BCF pooled budget is mandated by NHS England and known as the annual “minimum allocation”.

	Estimated 2020/21 £m	**On-going assumption £m**
CCG Minimum Allocation	40.4	40.4
iBCF - Autumn 2015 review	11.4	11.4
iBCF (additional adult social care allocation) - Spring 2017 Budget	3.4	0
iBCF (Winter Pressures) - Autumn Budget 2018	2.4	0
Disabled Facilities Grant	3.9	3.9
Total BCF Plan	**61.5**	**55.7**

114. The CCG minimum allocation into the BCF is used to sustain adult social care services. The national conditions of the BCF require a certain level of expenditure to be allocated for this purpose. This funding has been crucial in ensuring the Council can maintain a balanced budget, while ensuring that some of the most vulnerable service users are protected; unnecessary hospital admissions are avoided; and the good performance on delayed transfers of care from hospital is maintained.

115. As part of the one-year Spending Round announced in September, it was confirmed that the Government remains committed to the integration of health and social care and that the BCF will continue into 2020/21. The NHS contribution to adult social care will increase by 3.4% (up to £24.2m for Leicestershire if confirmed). This emphasised that as the NHS works with local government on plans for enhanced and improved Primary and Community services, they should also be working together on continued integration of health and social care, as well as alignment to wider local government services such as housing.

116. The Spending Round also indicated that the improved BCF funding will continue into 2020/21; this should be at the same funding levels as the current year, £17.2m. Details for the Disabled Facilities Grant have not been made so an estimate of the same level as 2019/20 has been used and is included within the capital programme, see later in this report.

117. The Council's MTFS and departmental financial planning assumptions for 2020/21 reflect the assumptions notified so far in terms of the future of the BCF, so it is important to recognise the ongoing reliance placed on these sources of funds and the risks to the Council's MTFS and sustainability plans should there be major changes, especially if these are enacted at short notice.

118. Any reduction in this funding would place additional pressure on the Council's MTFS, and 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 the CCGs as part of the BCF Refresh.

Other Grants and Funds

119. There are a number of other specific grants included in the MTFS, some of which are still to be announced for 2020/21, for example:

- Public Health – the 2020/21 allocation of £24.7m is a similar level as 2019/20 of £24.4m;
- Education and Skills Funding Agency - no details, £4.2m estimated as 2019/20;
- Section 31 Business Rates (Government funding for 2% cap on business rates growth and other Government measures) – current estimate for 2019/20 of £3.9m; an estimate of £4.2m has been included for 2020/21, based on figures in the provisional Settlement;
- Independent Living Fund – £1.2m confirmed, which is in line with 2019/20;
- Ministry of Justice Grants – estimate of £83,000 in line with 2019/20;
- Schools Block Dedicated Schools Grant, provisional settlement of £417.9m (Schools £414.8m, Growth estimate £3.1m);
- Central Schools Services Dedicated Schools Grant, £3.3m;
- High Needs Dedicated Schools Grant –provisional Settlement of £74.8m; final settlement expected in June 2020;

- Early Years Dedicated Schools Grant – estimate of £35.5m, pupil rates have been confirmed and the final figure is expected in May 2021 when the final census data is known;
- New Homes Bonus – £3.7m announced as part of the provisional Settlement – amounts in later years are assumed to reduce, subject to further Government consultation.

120. 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. The service is funded to the end of 2020/21. The government has confirmed the grant at the same level as 2020/21, but there are no details for later years. The earmarked fund will be exhausted at the end of 2020/21 (£1.4m is used to fund the service) and there are also uncertainties over future partner contributions. A review of the future funding model of the service will be undertaken in 2020.

Dedicated Schools Grant Settlement 2020/21

121. For 2020/21 the Dedicated Schools Grant (DSG) remains calculated in four separate blocks as set out below;

Funding Block	**Areas Funded**	**Basis for Settlement**
Schools Block £417.9m consisting of; • School formula funding £414.8m • School Growth £3.1m	Individual budgets for maintained schools and academies. Growth funding for the revenue costs of delivering additional mainstream school places and to meet the local authorities' duty to ensure a sufficient number of school places. DSG is notionally allocated to Leicestershire for all maintained schools and academies. A locally agreed funding formula is applied to this to determine school budgets, for maintained schools these are allocated directly by the local authority, for academies the funding is recouped from the settlement by the Education and Skills Funding Agency (ESFA) which then directly funds academies.	2020/21continues the movement towards a National Funding Formula (NFF) for schools which attributes units of funding to pupil characteristics. The grant settlement is based on; • the aggregate of pupil led characteristics for each individual school • an allocation for school led factors based on 2018/19 expenditure. These allocations will be fully delegated to schools. The NFF means that all local authorities receive the same amount of funding for a number of pupil related characteristics. Difference in funding levels relate to the incidence of pupil characteristics rather than differing funding levels.

		The allocation of funding for to support new school growth will be retained to meet the future costs of new and expanding schools. In respect of school formula funding this represents a cash increase of 6%, for growth this is an increase of 29%.
Central School Services Block £3.3m	This funds historic financial commitments related to schools such as premature retirement costs, some budgets related to schools that are centrally retained e.g. admissions, servicing the Schools Forum and school copyright licences. This block now includes funding from the retained duties element of the former Education Services Grant for the responsibilities that local authorities have for all pupils such as school place planning and asset management.	This is distributed through a per pupil allocation basis and is retained by the local authority. The funding allocation for some historic financial commitments is being reduced nationally from 2020/21 as the DfE has an expectation that these financial commitments will naturally expire. However, this element of funding meets the cost of historic premature retirement costs for teaching staff that will remain. This will be a financial pressure for the medium term as this funding is phased out but commitments retained. Overall this is a decrease of 4% over the 2019/20 baseline.
High Needs Block Est. £74.8m	Funds special schools and other specialist providers for high needs pupils and students, the pupil referral unit and support services for high needs pupils including high needs students in further education provision. As with the Schools Block this includes funding for	The formula is based upon population of 0 -19 year olds and proxy indicators for additional educational need including deprivation, ill heath, disability and low attainment. Also included is an element based on historic spend. The formula also includes a funding floor to ensure that local authorities

	special academies and post-16 providers which is recouped by the ESFA which directly funds academies. Confirmation of the 2020/21 grant is not expected until March 2020.	do not receive a funding reduction as a result of the introduction of the formula; Leicestershire receives £2.1m through this element. The grant allocation includes the additional funding announced by the DfE in September 2019 and is an increase of 7% from the 2019/20 baseline
Early Years Est. £35.5m	Funds the Free Entitlement to Early Education (FEEE) for 2, 3 and 4 year olds and an element of the early learning and childcare service. The grant is based on the universal hourly base rate plus additional needs measured with reference to free school meals, disability living allowance and English as an additional language. The initial settlement is based on the October 2019 census, the grant will be updated in July 2020 for the January census and again in June 2021 for the January 2021 census. The final grant will not be confirmed until June 2021.	The allocation is based on individual pupil characteristics and converted to a rate per hour of participation. Leicestershire receives the lowest rate of £4.38 per hour for 3 and 4 year olds and the lowest rate of £5.28 per hour for disadvantaged 2 year olds. This position is an increase of funding of £0.08 per hour on each rate, +1.8% for 3 and 4 year old funding and +1.5% for 2 year old funding from the 2019/20 baseline.
£531.5m	**2020/21 Estimated DSG**	

122. The 2020/21 MTFS sets the overall Schools Budget as a net nil budget at local authority level. However, in 2020/21 there is an estimated annual funding gap of £10.531m which will be an overspend against the grant. For deficits that exceed 1% of DSG local authorities are required to submit a recovery plan to the DfE; it is expected that a submission will be required for each year of the MTFS.

<u>Schools Block</u>

123. 2020/21 sees a further movement towards the National Funding Formula (NFF). This funds all pupils at the same rate irrespective of the authority in which they are educated. The NFF uses pupil characteristics each with a nationally set funding rate to generate school level funding to local authorities. Within the NFF only the per pupil entitlement is universal to all, other factors reflect the incidence of additional needs such as deprivation and low prior attainment. Funding levels between local authorities and individual schools within those local authorities vary as a result of pupil characteristics rather than national funding levels.

124. School funding remains a ‘soft’ school funding formula for 2020/21. A ‘soft’ formula is where NFF calculates notional school allocations based upon pupil characteristics to generate the grant allocation, local authorities then apply their own local funding formula to generate individual school budgets. The Department for Education (DfE) has confirmed its intention to move to a ‘hard’ formula as soon as possible where every school budget will be set on the basis of a single, national formula. It has not given any timescale for implementation. The proposed Leicestershire school funding formula continues to reflect the NFF. For 2020/21 it is proposed to add two additional funding factors to reflect sparsity and mobility.

125. Within the Schools Block, but separate to funding for individual schools, local authorities receive funding for the initial revenue costs of commissioning additional primary and secondary school places. For 2020/21 the grant is confirmed as £3.1m. The revenue cost of commissioning a new school ranges from £0.5m to £0.8m for a primary and £2.2m to £2.5m for a secondary, depending upon size and opening arrangements. 26 new primary and 3 new secondary schools are expected to be built in Leicestershire in the medium to long term. The revenue requirement for new schools is difficult to assess as it is dependent upon the speed of housing developments, growth in the basic need for additional school places, the school funding formula and the level and the methodology for the DSG growth funding calculation. However, early estimates suggest the cost can be managed within the existing grant. Expenditure is expected to rise annually from 2021/22 and to peak at £5m in 2023/24, annual underspends in growth funding will be set aside in the DSG Earmarked Fund to meet this peak. This position will be closely monitored.

School Funding Formula

126. Nationally schools will receive a minimum per pupil increase in funding of 1.84% per pupil with no capping on increases. Whilst there is no timescale for the implementation of the ‘hard’ formula for 2020 the minimum per pupil funding levels of £3,750 for primary and £5,000 for secondary have been made mandatory which is a further step toward the DfE’s intention. Despite the overall increase in budget, at individual school 70 (32% of primary schools and 1 (2%) of secondary schools remain on the funding floor with an increase of 1.84% 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.

127. The 2018/19 and 2019/20 school funding formula was agreed by the Cabinet on 9 January 2018 and largely mirrored the NFF. Consultation was undertaken with schools in October 2019 on the introduction of two additional factors;

- Sparsity - this was originally omitted from the Leicestershire formula as its impact was minimal. 50% of the 102 schools that responded to this element of the consultation agreed with its inclusion. It is proposed that this is included in the 2020/21 formula.
- Pupil Mobility – this is a new element in the Leicestershire funding allocation for 2020/21. 61% of the 101 schools that responded to this element of the consultation agreed with its inclusion. It is proposed that this is included in the 2020/21 formula.

Schools Forum considered the changes at its meeting of 6 November 2019 and supported their inclusion in the 2020/21 school funding formula.

128. The introduction of these two factors will ensure that the Leicestershire formula fully reflects the NFF. All other factors remain unchanged and fully reflect the DfE funding values for 2020/21.

High Needs

129. The provisional High Needs DSG is £74.8m. This will be updated in June 2020 for the most recent data. The formula allocates funding across a set of pupil-related indicators and also includes an allocation based on historic spend. For 2020 Leicestershire receives the minimum guaranteed increase of 8% per pupil with the formula retaining £2.3m of protection funding, which is not guaranteed in the long term.

130. Following confirmation of pupil destinations for the 2019/20 academic year demand for packages to support pupils had increased. Additionally, unit costs for placements at special schools and mainstream have increased. Through the High Needs Development Plan an additional 90 places were made available. However, this additional local capacity has simply met the increase in overall demand and not allowed the use of independent provision to reduce. The additional capacity still has a positive cost avoidance impact of £2.2m, as otherwise pupils would have required independent special school placements.

131. The escalating cost of providing SEND services is one of the main financial pressures affecting local government nationally. This was reflected in the draft MTFS, presented to the Cabinet in December, where expenditure was forecast to exceed the available grant by £6m in 2019/20, rising to a cumulative deficit of £13m by 2021/22.

132. The latest position shows the 2019/20 deficit has risen to £8m, and is expected to rise by a further £11m in 2020/21, leaving a cumulative deficit of £19m. Assuming that current demand trends continue, the cumulative deficit is forecast to continue to increase. Costs are expected to grow each year, quicker than capacity would normally increase, resulting in higher unit costs through use of independents.

133. The Department is investigating a number of actions over the course of the MTFS to reduce the overall deficit. Further investment may be required to broaden and increase the level of activity to control growth and expand capacity.

134. Government announced in September 2019 that additional High Needs funding of £700m would be available to local authorities; this equated to £5.5m for Leicestershire. It is anticipated that this funding will continue and the DfE has indicated that the future high-level funding increases that were also announced will include high needs increases. There is increasing certainty over the next two financial years leading to an assumption of an additional £3m to £5m per annum being received, subject to the division of funding between schools and high needs and minimal funding protections. Funding is expected to increase further in 2023/24, but no indication is expected before the CSR.

135. The High Needs Development Plan is the Council's approach to planning, commissioning and delivering SEND services focused on three key areas:

- To develop and embed an inclusive approach to practice amongst schools, local authority staff and other settings;
- The modernisation of SEN Services through improved commissioning, processes, decision-making and quality assurance;
- The development of a range of cost effective, high quality local provision.

136. The project is taking a holistic view of the whole SEN system. It is now fully staffed and mobilised.

137. Leicestershire continues to invest in developing additional specialist provision to reduce costs. The 2020/21 MTFS continues that approach and includes a proposed capital programme of £17.8m and recognises that a further £10m may be required for an additional special school in the future. Whilst the DfE provides local authorities with funding to meet basic need increases in mainstream schools, no funding is available to meet the opening costs and diseconomies of scale for expanding specialist provision. The estimated revenue cost of bringing the new provision to capacity is £6.3m. This adds to the High Needs deficit.

138. The savings built into the High Needs Development Plan are delivered by increasing local capacity to reduce the use of more costly independent provision and reducing overall demand. These are at risk should demand continue to increase.

139. Local authorities can transfer a maximum of 0.5% of funding from the Schools Block to High Needs following consultation with schools and approval from the Schools Forum. Transfers in excess of 0.5% can be undertaken but require the permission of the Secretary of State, as can approval of the 0.5% should Schools Forum not approve a transfer. A transfer would have yielded circa £2m which would reduce the high needs deficit.

140. Consultation was undertaken with schools in October 2019 on a transfer from the Schools Block to High Needs. 103 schools responded to the consultation with 84% disagreeing with the proposal. Schools Forum considered the proposal at its meeting on 6 November 2019 and unanimously rejected the proposal. In light of this, the Cabinet on 22 November 2019 resolved not to pursue a transfer for

2020/21 but noted that should the high needs block deficit continue to increase, it may be necessary to consider further measures, including the transfer of funding, in future years.

141. A DSG deficit has been able to be carried forward to the following year with the approval of the Schools Forum. However, the DfE has recently removed the need for Schools Forum approval to carry forward of a deficit and prohibiting local authorities from contributing to DSG without the approval of the Secretary of State. Whilst the DfE's view is that this change would remove concerns raised by auditors it will require local authorities to set aside revenue funding to offset the liability. This will require expenditure reductions in other areas of the local authority.

142. A fundamental review of the High Needs Development Plan is taking place and progress along with the financial impact will be reported on a regular basis to Members.

Central Services Block

143. 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.

144. The DfE has stated that its expectation is that over a period of time historic costs should 'unwind', as commitments reduce, for example a reduction in pensioners. To reflect that grant allocations have been reduced for 2020/21; for Leicestershire the reduction is £0.13m. This element of the grant meets costs such as previous commitments for premature retirement costs and school improvement. The reduction can be partially offset against other grant funding in the short term but does create a financial pressure that will increase as further reductions are implemented. The 2020/21 settlement is £3.3m, a decrease of 4.1%.

Early Years Block

145. Nationally early years funding has been increased by £66m. The 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 increase in funding equates to 8p per hour; Leicestershire continues to receive the lowest rate per hour at £5.28 per hour for two year olds and £4.38 per hour for 3 and 4 year olds. The 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

146. 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.

147. 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 £80m over the next four years of which £38.9m 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.
- Continued increase in the National Living Wage, only notified a few months in advance of each financial year.
- 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.
- 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.
- 2021 is a year which could see the biggest changes to local government for a generation. The following initiatives are all now planned or anticipated to be implemented in that year:

    - 75% Business Rate retention, including significant new responsibilities and a "reset" of the system's baselines;
    - Fair Funding Review, covering redistribution of funding nationally;
    - Health Integration plans implemented;
    - Review of Social Care;
    - DfE Review of SEND reforms - the SEND review will report during 2020 and has been tasked with looking at how to arrive at a fair and sustainable system of high needs support for the future.

148. There are a number of ways that risks will be mitigated and reduced. These are summarised below and explained in more detail in the following paragraphs:

- General Fund
- MTFS Contingencies
- Earmarked Funds
- Effective risk management arrangements.

General Fund / MTFS Contingencies

149. The General Fund balance is available for unforeseen risks that require short term funding. A copy of the earmarked funds policy is included in Appendix I. The forecast balance on the General Fund (non-earmarked fund) at the end of 2019/20 is £24m, which represents 6.2% of the net budget (excluding schools' delegated budgets). It is planned to increase the General Fund to £35m by the end of 2020/21 to reflect increasing uncertainty and risks over the medium term. These risks come in a variety of forms:

- Legal challenges such as judicial reviews that require a change in savings approach.
- Legislative changes that come with a financial penalty, for example General Data Protection Regulations (GDPR).
- Service provision issues that require investment, for example the capital investment to support the High Needs Block Development Plan.
- Variability in income, particularly from asset investments

150. To put the level of resources into context: with the exclusion of schools, the County Council spends nearly £60m a month.

151. Nationally concern over the impact of SEND reform on High Needs expenditure and the financial difficulties this places on local authorities is growing. The position in Leicestershire reflects the national picture. Following confirmation of pupil destinations for the 2019/20 academic year demand for packages to support pupils with Education, Health and Care Plans (EHCPs) was found to have exceeded that assumed within the High Needs Development Plan and the average unit cost increased. A deficit of £8m forecast for 2019/20, an increase of £2m on the original budget plans.

152. For 2020/21 it is estimated that the expenditure in excess of the grant will be £11m assuming that current demand trends continue. The accumulated high needs deficit is then expected to total £19m at the end of 2020/21. The Department is investigating a number of actions that could over the course of the MTFS reduce demand and therefore the overall deficit.

153. The proposed MTFS also includes a contingency of £8m in 2021/22 and later years for other specific key risks that could affect the financial position on an ongoing basis. Examples include:

- The non-achievement of savings;
- Certainty of partner funding, for example the provision of services through the BCF;
- Pressure on demand led-budgets particularly in social care;
- Maintaining the level of investment required to deliver savings;
- New service pressures that arise (a recent example is Ash Dieback).

154. The contingency included for 2020/21 is £4m due to greater certainty of expenditure plans and funding. When the contingency is released 'free'

resources are directed toward the Future Developments earmarked fund to reduce the shortfall in capital funding discussed later in this report.

Earmarked Funds

155. The estimated balance for revenue earmarked funds (excluding schools and partnerships) as at 31st March 2020 is £24.7m and for capital funding purposes £42.7m, details of which are shown in Appendix J. The final level of earmarked funds will be subject to the actual expenditure and any partner contributions, for example, health funding arrangements and specific grants.

156. Earmarked funds and balances are held for specific purposes. The main earmarked funds and balances projected at 31st March 2020 are:

(a) Capital Financing (£42.7m). This fund is used to hold MTFS revenue contributions to match the timing of capital expenditure in the capital programme.
(b) Transformation (£7.6m). The fund is used to invest in transformation projects to achieve efficiency savings and also to fund severance costs.
(c) Insurance (£13.4m). 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 (£5.3m). 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.

157. 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 £67.1m over the next four years; the main areas are summarised below:

- £42.7m Capital Financing
- £7.6m Transformation
- £3.4m Adult and Communities developments
- £3.0m Investment in Broadband
- £2.2m Renewal of systems, equipment and vehicles
- £2.2m Leicester and Leicestershire Integrated Transport Model

158. Grant Thornton, the County Council's external auditor, has reviewed the level of earmarked funds held by the County Council as part of its Value for Money review of the 2019-23 MTFS and reported no issues: 'Based on the work carried out we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.'

159. 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

160. 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 2019 was £8.7m. The balance at 31st March 2020 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

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

162. The policy will be considered by the Corporate Governance Committee on 31st January 2020.

Robustness of Estimates

163. 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.

164. 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.

165. 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

166. 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.

Insurance Policy

167. The Council's Insurance programme is arranged in conjunction with its appointed Insurance Brokers. The approach is outlined in the Insurance policy, which is attached as Appendix K.

Climate Change

168. The Council has a long-standing commitment to the environment and has made substantial progress in reducing its carbon emissions by over 64% since 2008/9.

169. The County Council declared a Climate Emergency in May 2019 and committed to achieve carbon neutrality from its own operations by 2030. The Strategic Plan and the Environment Strategy are currently being updated to embed the new commitments into all areas of the Council's activities.

170. Examples of activities to reduce the Council's carbon emissions include:

- Switching to a green electricity tariff - all the Council's electricity now comes from renewable sources;
- Installation of 16 electric vehicle charging points at County Hall;
- Progression of a planning application to develop a 10-megawatt solar farm at Quorn and carbon neutral industrial units;
- Continuation of the energy efficiency scheme for schools and council buildings;
- A new £5.2m industrial park in Market Harborough (Airfield Business Park), set to create more than 200 jobs, is now open for business. The site also features 692 solar panels, which are part of the Council's ongoing commitment to become carbon neutral by 2030.

171. It is intended that the revised Environment Strategy and the updated Strategic Plan will be submitted to the Cabinet in April; both items then to be submitted to full Council for approval in May 2020. Alongside the updating of the Environment Strategy, work has begun to produce a roadmap which will set out how the Council will meet its carbon neutral commitments. The Cabinet approved an initial budget of £0.45m to facilitate the review of the Environment Strategy and the development of the roadmap and to take immediate action to implement measures to reduce carbon emissions. Further funding requirements will be identified through the development of the carbon roadmap and included in future MTFS as required.

Concluding Comments – Revenue Position

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

173. 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 austerity, but the accuracy of this assumption is less certain than previous years. In addition, the position on some specific grants after 2020/21 is uncertain.

174. 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 down to a manageable level at the same time as delivering further saving initiatives, over and above those already built into the MTFS.

175. 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.

176. 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 £60m of funding related to the BCF. Even a partial loss of this funding would be difficult to manage.

177. 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 schools and academies are the Authority's main commercial trading partner.

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

179. 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, such as social care. Overspends such as those experienced in Children's social care in recent years 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.

180. The County Council will be a very different organisation by 2024. It needs to be still more innovative, risk focussed and commercial in its approach. However, the plan is deliverable and the MTFS can be balanced over the medium term.

Treasury Management Strategy Statement and Annual Investment Strategy

181. The Treasury Management Strategy Statement and the Treasury Management Annual Investment Strategy must be approved in advance of each financial year by the full Council. Appendix L to this report sets out the combined Treasury Management and Investment Strategy including the Treasury Management Policy Statement for 2020/21.

182. 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.

183. 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. This 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 (Appendix G), 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 F), which sets out the Council's approach to determining its medium term capital requirements.

184. The expectation is that there will be no new external borrowing by the County Council in the period covered by the MTFS, namely 2020 to 2024.

185. The Bank of England raised interest rates to 0.75% in August 2018, the first above 0.5% since the financial crash. Several pieces of UK economic data (GDP, inflation, retail sales) have recently been released, all of which point towards the prospect of an early rate cut. Further to this, at least five members of the Bank of England Monetary Policy Committee (MPC) have voiced a view that also points towards a potential easing of monetary policy. Balanced against this is waiting for the impact of the General Election to be felt, particularly the expected fiscal loosening that is expected to feature in the March Budget. The next meeting of the MPC is on 30th January 2020 (after publication of this report) and there is now an increasing prospect that rates will be cut.

186. While the general election in December 2019 has provided political certainty leading to implementation of the UK leaving the EU on 31st January 2020,

there is still much uncertainty as to what sort of trade deal may be agreed by the end of 2020 and its likely impact on the UK economy. Bank Rate forecasts will have to change if this assumption does not materialise, for example, a no deal Brexit could prompt the MPC to agree an immediate cut of Bank Rate. All other forecasts for investment and borrowing rates would also have to change.

187. 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. However, the list of authorised counterparties has been updated to reflect new structural reform requirements in the UK banking sector which came into effect in on 1st January 2019.

188. The strategies will be considered by the Corporate Governance Committee on 31 January 2020.

Capital Programme 2020/21 to 2023/24

189. The draft capital programme totals £607m over the four years 2020 to 2024 and is shown in detail in Appendix E. The programme is funded by a combination of Government grants, capital receipts, external contributions and revenue balances and earmarked funds.

190. The draft programme and funding is shown below:

Draft Capital Programme 2020-24

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Children and Family Services	31.7	27.0	31.3	37.7	127.7
Adults and Communities	6.3	12.7	7.3	3.9	30.2
Environment and Transport	55.3	99.0	99.4	24.8	278.5
Chief Executive’s	1.0	3.9	3.7	0.1	8.7
Corporate Resources	8.7	3.6	2.4	2.5	17.2
Corporate Programme	28.3	35.5	35.5	45.4	144.7
Total	**131.3**	**181.7**	**179.6**	**114.4**	**607.0**

Capital Resources 2020-24

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Grants	86.2	66.7	68.0	32.5	253.4
Capital Receipts from sales	3.5	8.3	1.5	2.5	15.8
Revenue/ Earmarked funds contributions	21.9	50.0	0.2	0.2	72.3
External Contributions	19.7	13.1	3.0	7.7	43.5
Total	**131.3**	**138.1**	**72.7**	**42.9**	**385.0**
Funding Required	**0.0**	**43.6**	**106.9**	**71.5**	**222.0**

191. The overall approach to developing the capital programme is set out in the capital strategy (Appendix F) 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).

192. 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 and included in the capital programme as appropriate. A fund of £60m is included in the draft capital programme. The balance on the existing fund has been added to the new capital programme.

193. The proposed programme can be summarised as:

Existing Asset Investment and Service Improvements	£247m
Investment for Growth	£200m
Invest to Save	£100m
Future Developments	£60m
Total	**£607m**

Changes to the draft Capital Programme proposed in December 2019

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Draft Programme at 17th December 2019	204.5	155.3	128.2	114.5	602.5
Expenditure Changes					
Adults and Communities	-4.7	2.3	2.4	0.0	0.0
Environment and Transport	-65.9	17.0	49.0	0.0	0.1
Corporate Resources	4.4	0.0	0.0	0.0	4.4
Corporate Programme	-7.0	7.0	0	0.0	0.0
Revised Programme Total	**131.3**	**181.6**	**179.6**	**114.5**	**607.0**
Original draft funding at 17 December 2019	201.0	84.3	57.8	42.7	385.8
Resource Changes					
Profile changes	-68.9	53.7	14.9	0.3	0.0
Funding changes	-0.8	0.0	0.0	0.0	-0.8
Revised Funding Total	**131.3**	**138.0**	**72.7**	**43.0**	**385.0**
Revised Funding Required	**0.0**	**43.6**	**106.9**	**71.5**	**222.0**

194. The programme has been reviewed for the latest estimates of spend and deliverability. The main changes are:

- Adults and Communities – Specialist Dementia Facility, £5m reprofiled to later years. The entire funding was originally included in 2020/21 which has now been revised following a detailed project plan;
- Environment and Transport – Lutterworth Development Infrastructure, £43m reprofiled to later years as a result of the latest project and planning requirements;
- Environment and Transport – Melton Mowbray Distributor Road – North and East Sections, £19m reprofiled to later years. The original budget was based on the best estimation of the profile of spend per the business case. Upon engaging with contractors and performing a more detailed review of suitability timescales for work the budget has been reprofiled to ensure the best outcomes of the scheme;
- Corporate Resources – Melton, Sysonby Farm – New scheme, site preparation and infrastructure works, funded from £4.4m Homes England Grant;
- Corporate Programme – Quorn Solar Farm and Barrow Road Industrial Units - £7m reprofiled to later years. A revision to the programme, as advised by project consultants.

195. The funding position has also been updated for the latest profile spend and funding available. The main changes are:

- Capital Grants – new grant £4.4m from Homes England

- Revenue Funding – reduction of £5.4m; comprising £3.9m to fund the forecast overspend in the 2019/20 revenue budget and a reduction in MTFS revenue contributions £1.5m, described in paragraph 16.

196. The latest overall position shows overall funding of £385m across the four years, leaving a revised funding required of £222m.

Funding and Affordability

Forward Funding

197. The County Council recognises the need to forward fund investment in infrastructure projects to enable new schools and roads to be built and unlock growth in Leicestershire before funding, mainly from section 106 developer contributions, is received. Forward funding of £28m for schools and £73m for highways has been included within the capital programme. When the expected developer contributions are received, they will be earmarked to the capital programme, to reduce the dependency on internal cash balances in the future.

198. Forward funding presents a significant financial commitment for the County Council, but should ensure:

- External funding is maximised, through successful bids;
- The final cost of infrastructure investment is reduced (compared with what it would be if construction was delivered incrementally as and when smaller developments come forward);
- The design is optimised, to benefit of the local community.

199. The MTFS also includes additional revenue income from district councils from a share of the estimated increase in council tax and business rates generated as a result of the investment.

200. There are risks involved in managing and financing a programme of this size. There is reduced scope for funding additional schemes that are identified in the future. And an increased reliance on developer contributions through section 106 agreements means that it may take many years for investment to be repaid. This could be further compounded in the event of an economic slowdown. To this end, support of district councils is essential to ensure the agreements reached with developers mitigate these risks.

201. The risk with forward funding is that the impact of insufficient or delayed contributions, from developers, will fall upon the County Council. A key determinant in generating sufficient developer contributions is the approach taken by the district council, as the planning authority. The district council will set the local planning context against which section 106 agreements will be agreed and ultimately decide on planning permission. The agreement will ensure the County Council and district council work together effectively, for mutual benefit.

202. Given the benefits to Leicestershire that the increased investment will bring it is considered that district councils should share in these risks in a proportionate

way. The County will look to develop risk-sharing agreements with districts in relation to major infrastructure schemes being progressed in their areas; district councils will benefit directly through additional tax revenues and increases in government grants. However, the circumstances around individual projects vary hence unique agreements will be required for each district council.

203. Given the overall level of forward funding, over £100m, it is imperative that these agreements provide some protection to the County Council.

204. A significant problem associated with funding major infrastructure projects is the way in which capital funding is allocated. Significant resource needs to be invested in developing bids which may ultimately not be successful. Whilst it is important that robust business cases are developed to ensure the benefits of the project are sufficient to justify the investment, the fact that successful bids also need a degree of match/local funding to supplement grant money means that overall tight capital programmes become even more stretched. The County Council considers that such an approach is unsustainable and needs to be reviewed and will continue to raise this with central government.

205. The East Midlands is disadvantaged in terms of the ability to influence Government and attract investment or devolution opportunities compared to the West Midlands. There is an elected mayor and a combined authority for the West Midlands. The most recent devolution deal (2017) for the West Midlands Combined Authority includes £6m for a housing delivery taskforce, £5m for a construction skills training scheme and £250m to be spent on local intra-city transport priorities. The first devolution deal (2015) included over £1bn investment to boost the West Midlands economy.

Capital Grants

206. Grant funding is the largest source of financing for the capital programme and totals £253m across the 2020-24 programme. The majority of grants are awarded by Government departments including the DfE and the Department for Transport (DfT).

<u>Children and Family Services</u>

207. Capital grant funding for schools is provided by the DfE as follows:

a) <u>Basic Need</u> – 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 for 2020/21 (£8.8m). The 2021/22 allocation will be announced in spring 2020 with future allocations subject to the outcome of the Spending Review later in 2020. The MTFS includes an estimate of £8.8m per annum for 2021/22 to 2023/24.

b) <u>Strategic Capital Maintenance</u> – this grant provides the maintenance funding for the maintained school asset base. Details of the grant for

2020/21 and future years have not yet been announced. An estimate of £2m per annum is included in the capital programme. It is expected that this grant will continue but will reduce as further schools convert to academy status.

c) Devolved Formula Capital (DFC) - funding provided to schools. The DfE has not yet announced details of grant allocations. However, an estimate of £0.5m per annum can be made, based on the number of maintained schools.

d) Special Provision Fund – DfE grant allocation of £1.2m for 2020/21 has 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 2022/23 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.

Adult Social Care

208. Capital funding for the Disabled Facilities Grant (DFG) programme has not yet been announced. An estimate in line with previous years, £3.9m per annum, has been included in the capital programme.

Environment and Transport

209. The DfT has informed local authorities of an indicative amount they will receive in capital grant for the Local Transport Plan (LTP) for 2020/21. Estimates at the same level have been included for later years. The funding includes two elements:

a) Improvement Schemes - £2.7m p.a. (£10.9m overall).
b) Maintenance funding - £11.4m p.a. (£45.8m overall)

210. Other significant Environment and Transport capital grants included are:

- DfT Melton Mowbray Northern and Eastern Distributor Road funding - £49.5m.
- Housing Infrastructure Fund – Melton Southern Distributor Road - £14.7m
- Housing Infrastructure Fund – Lutterworth Spine Road - bid of £31m
- Homes England – Lutterworth Spine Road - £8.1m.
- Homes England – Melton, Sysonby Farm - £4.4m

Chief Executive's

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

Corporate Resources

212. The programme includes capital grant of £4.4m for the site preparation and infrastructure works at Sysonby Farm funded from Homes England.

Capital Receipts

213. 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 2023/24. This position includes the delay of £7m in capital receipts from previous years.

214. The estimate includes potential land sales that are subject to planning permission. In these cases the value of the site is significantly increased where planning permission is approved. However, this also comes with a significant amount of uncertainty and potential for delays. For planning purposes an estimate of 25% of future sales subject to planning permission has been included in the £16m estimate.

Revenue / Earmarked Funds/ Contributions

215. The capital strategy recognises the need to limit the need for prudential (unsupported by Government) borrowing and the associated financing costs. A total of £72m has been included in the draft programme funded from:

One-off MTFS 2020-24 revenue contributions	£27m
Departmental earmarked funds	£5m
Capital Financing earmarked fund	£23m
Future Developments fund	£17m
Total	£72m

216. The capital financing earmarked fund temporarily holds previous years' revenue contributions to fund the capital programme until they are required. The balance includes a contribution to the Environment and Transport revenue budget for the substitution of £5m in Environment and Transport capital grants.

217. 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

218. A total of £43m is included in the funding of the capital programme 2020-24. This includes £32m from section 106 developer contributions.

Funding from internal balances

219. A total of £222m in funding required is included within the capital programme to fund the programme and enable investment in schools and highway

infrastructure to be made. Over the next 10 to 15 years it is anticipated that circa £100m of this funding will be repaid through the associated section 106 developer contributions.

220. Due to the strength of the County Council's balance sheet, it is possible to use internal balances (cash balances) to fund the capital programme on a temporary basis instead of raising new loans. Levels of cash balances held by the Council, currently £240m, comprise the amounts held for earmarked funds, provisions, Minimum Revenue Provision (MRP) set aside for the repayment of debt, and working capital of the Council. The cost of raising of external loans currently exceeds the cost of interest lost on cash balances by circa 2.5%.

221. The overall cost of using internal balances to fund £222m of investment is estimated to be £8m per annum by 2024/25, comprising MRP of £6m and reduced interest from investments of £2m. This is a prudent assessment as the impact will reduce in future years as the funding is repaid.

222. The County Council's current level of external debt is £264m. As described above this is not expected to increase during the MTFS.

Departmental Programmes

Children and Family Services

223. The draft programme totals £128m over the four years 2020/21 to 2023/24. 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. The programme includes £28m of forward funding of section 106 developer contributions to be received in the future.

224. The programme includes £99m investment to build accommodation where additional pupil places are needed, £18m 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 (£11m) through the strategic capital maintenance and schools devolved capital funds.

Adults and Communities

225. The draft programme totals £30m.

226. The programme includes £16m relating to the Disabled Facilities Grant (DFG) 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.

227. The programme includes capital investment for the Record Office Relocation £7.0m (total £10m including spend in 2019/20) and investment in the Social Care Improvement Programme (SCIP) with the completion of a Specialist Dementia Facility in Coalville £5.5m (total £10m including spend in 2019/20).

228. Additional funding of £0.5m is being requested for refurbishment works at The Trees, Hinckley – to enable long-stay residential services to continue. This is in addition to the £0.6m budget in the 2019/20 capital programme. During the detailed design phase changes were required due to challenges with the existing footprint, and work on essential safety and energy issues, including new sprinklers, doors, windows and roof works.

Environment and Transport

229. The programme totals £278m over the four years 2020-24. The main areas are:

- Lutterworth Development Infrastructure - £81m. Highways and enabling works including the spine road and related infrastructure (total scheme £86m, including £5m in the 2019/20 capital programme) is partly funded by a £8.1m Homes England Grant and a £31m HIF grant bid with the balance requiring forward funding by the Council of developer contributions that will be received after the road is completed. Should the HIF grant bid be unsuccessful then a decision on the timing of the scheme and additional funding required will need to be taken.
- Melton Mowbray Distributor Road – North and East section - £60m. Construction of the new road (total scheme £64m, including prior year funding) is partly funded by £50m DfT grant and the balance is funded by developer contributions that will be received after the road is completed.
- Melton Mowbray Distributor Road Southern section - £28m. Construction of new road is partly funded by an approved £14m HIF grant and forward funding of developer contributions.
- A legal risk-sharing agreement with Melton Borough Council will include the need to ensure that additional tax revenues and increases in government grants generated from the consequential housing in the area are used towards the scheme.
- Transport Asset Management Programme - £56m. This ensures that transport assets such as roads and footways are well managed. The programme includes an adjustment in each year of £1.2m reduction in respect of a substitution of capital funding to offset revenue expenditure that supports the delivery of revenue savings in the Department.
- County Council Vehicle Programme - £7m. Investment in new vehicles to replace aged vehicles and reduce running costs.
- Zouch Bridge - £6m. Additional funding to the £3m in the current MTFS for construction and enabling works of a new bridge across the A6006 following increased costs due to significant delays on the project and necessary design changes.
- The Environment and Waste programme totals £11m. The programme includes a new Waste Transfer Station Development (£4m), redevelopment works at Kibworth Recycling and Household Waste Site (£5m), and a programme of general improvements, including resurfacing, security, safety and drainage, across the other RHWS.

Chief Executive's

230. The programme totals £9m. The main scheme is the Rural Broadband Phase 3 and Phase 3 extension programme, £8.4m. The project will be expanded following a government grant awarded for £5.6m to further extend superfast rural broadband. The departmental programme also includes Leicestershire Community Grants, totalling £0.4m across the four years to 2024.

Corporate Resources

231. The programme totals £17m for 2020-24 with the main priorities for investment being:

- Investment in the ICT upgrade and replacement programme, £7m, including Workplace Strategy, Corporate ICT programme and the replacement of the local area network.
- Property Services, £8m – site preparation at Melton, Sysonby Farm, and the completion of the Snibston and Country Park Future Strategy work
- Energy and Water Strategy (£2m) to reduce energy consumption across the Council's property estate to deliver ongoing efficiency savings and reduce carbon emissions.

Corporate Programme

232. The corporate programme totals £145m for 2020-24. The main area is the investment in the Corporate Asset Investment Fund (CAIF), totalling £85m, 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).

233. The latest CAIF Strategy (considered by the Scrutiny Commission and the Cabinet in September 2019) includes investment opportunities that would increase the overall CAIF programme to £260m. Current holdings plus schemes in the 2019/20 and draft 2020-2024 capital programme will result in a total holding of £203m. A balance of £57m has been included for new asset investments. The updated Strategy for 2020-24 is attached as Appendix G.

234. The corporate programme also includes additional funding of £60m for the Future Developments fund. The 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, and investment in the efficiency and productivity programme. The list of future developments is continually refreshed. Bids from the Fund will managed through prioritisation and where possible the identification of alternative funding sources. 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

235. The capital programme totals £607m over the four years to 2023/24. The Council recognises the need to fund long term investment and has set a capital programme that includes forward funding of capital infrastructure projects for schools and highways of £100m.

236. However, it is important that the process for developing long term infrastructure plans continues to improve so that the right investment choices are made. Currently, longer term infrastructure schemes are not included in the programme. Pressure on school places and Leicestershire's infrastructure is expected from population growth, with estimates of a 12% increase in the County's population by 2030. It is assumed that section 106 and Government funding will be available at the necessary level.

237. Overall £222m from internal cash balances will be used to fund the cash flow of capital programme. The additional revenue costs arising from this total £8m per annum.

238. The amounts included for new major capital schemes are best estimates based on desktop estimates and site surveys. Contingencies are held to mitigate the risk of potential variations once contract prices are known.

239. 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.

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

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

Budget Consultation

242. The Cabinet at its meeting in December 2019 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.

Results of Scrutiny Process

243. 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.

CIPFA Financial Management Code

244. Towards the end of 2019, CIPFA published its Financial Management Code (FM Code). The Code provides guidance for good and sustainable financial management in Local Authorities. The Code contains 6 key principles supported by 17 financial standards.

245. By complying with the principles and standards within the Code Authorities will be able to demonstrate their financial sustainability. The FM Code identifies risks to financial sustainability and introduces a framework of assurance. This framework is built on existing successful practices and sets out standards of financial management. Complying with the standards is the collective responsibility of the Cabinet, Elected Members, the Chief Finance Officer and other senior officers.

246. The first full year of compliance is 2021/22. This reflects the recognition that organisations will need time to reflect on the contents of the code and can use 2020/21 to demonstrate how they are working towards compliance. CIPFA will be releasing detailed guidance notes (now expected in April 2020), to support the application of the FM Code in practice.

247. An initial review has been undertaken by officers which shows that the County Council is likely to comply with most of the requirements of the Code. Further work will be undertaken, informed by the FM Code guidance notes, and presented to the Corporate Governance Committee at its next meeting in May 2020.

CIPFA Financial Resilience Index

248. CIPFA has published its index of financial resilience, ranking local authorities' resilience in different areas. The index 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. Updates will be provided to the Corporate Governance Committee as appropriate.

Equality and Human Rights Implications

249. 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.

250. Given the nature of the services provided, many aspects of the County Council's MTFS will 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 detailed 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 as well as information to enable proper consideration of the mitigation of the impact of any changes on those with a protected characteristic.

251. A high level Equalities and Human Rights Impact assessment of the MTFS 2020-24 has been completed to:

- Enable decision makers to make decisions on an informed basis which is a necessary component of procedural fairness;
- Inform decision makers of the potential for equality impacts from the budget changes;
- Consider the cumulative equality impacts from all changes across all Departments;
- Provide some background context of the local evidence of cumulative impacts over time from public sector budget cuts.

252. Many of the proposals in the MTFS were agreed as part of the decision to adopt the previous MTFS, and others are amendments to existing plans that have already been agreed. These changes have been included in the EHRIA for completeness.

253. Overall, the assessment finds that the Council's budget changes will have the potential to impact older people, children and young people, working age adults with mental health or disabilities and people with disabilities more than people without these characteristics. This is as expected given the nature of the services provided by the County Council.

254. The findings between April 2017 and September 2019 of the Leicestershire Community insight survey found that a significantly higher percentage of non-white British people, people with health problems, people with a disability, people who provide informal care or receive care support and people of non-Christian religion responded that they had been affected a "fair amount" or a "great deal" by national and local public sector cuts.

255. There are several areas of the budget where there are opportunities for positive benefits for people with protected characteristics both from the additional investment the Council is making into specialist services and to changes to

existing services which offer improved outcomes for users whilst also delivering financial savings.

256. A summary of the findings from this assessment are available as Appendix P to this report.

257. 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. See Appendix P

Crime and Disorder Implications

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

Environmental Implications

259. The MTFS will include schemes to support the Council's response to climate change and to make environmental improvements.

Partnership Working and Associated Issues

260. 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

261. 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.

Appendices

Appendix A: Four Year Revenue Budget 2020/21 to 2023/24
Appendix B: 2020/21 Revenue Budget
Appendix C: Growth and Savings 2020/21 to 2023/24
Appendix D: Detailed Revenue Budgets 2020/21
Appendix E: Detailed Capital Programme 2020/21 to 2023/24
Appendix F: Capital Strategy
Appendix G: Corporate Asset Investment Fund Strategy
Appendix H: Risk Management Policy and Strategy
Appendix I: Earmarked Funds Policy
Appendix J: Earmarked Funds
Appendix K: Insurance Policy
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
Appendix P: Equality and Human Rights Impact Assessment

Background Papers

Report to the County Council on 20th February 2019: Medium Term Financial Strategy 2019/20-2022/23 - http://politics.leics.gov.uk/ieListDocuments.aspx?CId=134&MId=5125

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

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