



## **SCRUTINY COMMISSION – 25 JANUARY 2021**

### **PROVISIONAL MEDIUM TERM FINANCIAL STRATEGY** **2021/22 - 2024/25**

### **REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

#### **Purpose of the Report**

1. The purpose of this report is to:
  - a) Provide information on the proposed 2021/22 to 2024/25 Medium Term Financial Strategy (MTFS) as it relates to Corporate and Central Items;
  - b) Provide an update on changes to funding and other issues, arising since the publication of the draft MTFS;
  - c) Provide details of the following strategies and policies: Capital Strategy, Earmarked Funds Policy, and Insurance Policy;
  - d) Ask members of the Commission to consider any issues as part of the consultation process and make any recommendations to the Cabinet accordingly.

#### **Timetable for Decisions (including Scrutiny)**

2. On 15 December 2020 the Cabinet agreed the proposed MTFS, including the 2021/22 revenue budget and 2021/22 to 2024/25 capital programme, for consultation. The Overview and Scrutiny Committees and the Scrutiny Commission will consider the proposals during January 2021.
3. An update of the MTFS will be reported to the Cabinet on 5 February 2021, and then to the County Council on 17 February 2021 to approve the MTFS including the 2021/22 revenue budget and capital programme. This will enable the 2021/22 budget to be set before the statutory deadline of the end of February 2021.

#### **Policy Framework and Previous Decisions**

4. The MTFS is a rolling financial plan that is updated annually. The current MTFS was approved by the County Council on 19 February 2020. The County Council's Strategic Plan (agreed by the Council on 6 December 2017) outlines the Council's long-term vision for the organisation and the people and place of Leicestershire.

The MTFFS, along with other plans and strategies such as the Transformation Programme, aligns with and underpins the Strategic Plan.

### **MTFFS Summary – Cabinet 15 December 2020**

5. The draft MTFFS was approved by the Cabinet on 15 December 2020.
6. The key revenue budget details were:
  - One year Local Government Settlement
  - No Revenue Support Grant
  - Council Tax increase of 1.99% for all years
  - Option to add an additional 3% to the adult social care precept in 2021/22, or split over 2021/22 and 2022/23
  - Growth of £59m is required, primarily to meet the forecast increase in demand for social care
  - Provision for pay and price inflation, £56m, driven by the National Living Wage
  - Savings required of £92m - of which £30m are identified, £26m relate to Special Education Needs, leaving a shortfall of £36m to be found
  - Comprehensive Spending Review expected later in 2021
7. The key capital programme details were:
  - The draft four-year capital programme totals £450m
  - Capital funding available totals £304m
  - Balance of £146m, temporarily funded from the County Council's internal cash balances in advance of section 106 contributions and other funding being received in the future, e.g. increased capital receipts or new grants.

### **Changes to the Revenue Budget 2021-25**

8. A summary of the overall MTFFS revenue position as reported to Cabinet on 5th December 2020 is shown in Appendix A.
9. Since the report to the Cabinet, the Local Government Settlement (LGS) was announced. Changes from the settlement and other known issues since then are summarised below.
10. Social Care Grant (-£1.6m) – an additional allocation of £2.7m was anticipated in the draft MTFFS but the allocation announced as part of the LGS amounts to £1.1m. The allocation includes a significant adjustment based on the relative levels of funding that Councils can raise from council tax, which reallocates grant from areas such as County Councils to areas with low council tax levels, particularly in London.
11. Covid 19 Grant (+£11.8m) – Additional general government funding to support the Council's response to the impact of Covid 19 continuing in 2021/22. The funding will be added to the Covid budget for 2021/22.

12. LCTS Grant (+£3.6m). This additional funding will be set aside in an earmarked fund to contribute towards the anticipated increase in Local Council Tax Support, that is driven by unemployment.
13. New Homes Bonus (+0.2m) updated estimates per the 2021/22 Local Government Finance Settlement. There will be no “legacy” payments in subsequent years regarding the 2020/21 and 2021/22 parts of the grant and the remaining legacy amounts, in respect of 2018/19 and 2019/20, will be phased out by 2023/24.
14. Business Rates (+£2.4m). The values for the 2021/22 “baseline” and Section 31 grants in the LGS are higher than assumed in the draft MTFS.
15. The above changes have not yet been reflected in the Appendices to this report. The net effect of these changes is expected to be added to the Covid-19 budget and also to reduce the shortfall on the funding of the capital programme. The detailed updates will be included in the updated proposals to the Cabinet on 5<sup>th</sup> February 2021.
16. The Local Government Settlement is not expected to be finalised before the meeting of the Cabinet.

### **Corporate and Central Items**

17. Details of the corporate and central items elements of the MTFS are shown in Appendix B.

#### DSG (Central Dept Recharges)

18. A total of £2.3m is set aside from the DSG to fund central department costs of Schools.

#### Corporate Savings

19. There are two existing savings that align to current initiatives, savings will ultimately be delivered through department budgets; Review of Key Supplier Contracts (£250,000), and ICT Implementation of Digital Initiatives (£100,000).

#### MTFS Risks Contingency

20. In common with previous years the proposed MTFS 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 services provided 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).

21. 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.

### Covid-19 Budget

22. Whilst it is fully expected that the impact of Covid-19 will continue to impact the Council's finances into the 2021/22 financial year, knowing the extent of this and how long the impact will last is extremely difficult to anticipate. Therefore departmental budgets have been constructed and presented on the basis as business as usual. Instead a budget has been included in 2021/22 only, to make provision for those Covid-19 related spending pressures and income losses as they occur. The key risks include:
- Lockdown and other restrictions continue for an unknown period, increasing costs, reducing trading income and impeding the ability to generate savings.
  - Economy continues to decline, suppressing tax income and driving service demand
  - Pressures on partners budgets impact the County Council, for example the hospital discharge funding is not maintained but expectations are.
  - The nature of Government support changes too soon. For example Holiday Activity funding has replaced the Winter Grant Scheme which is providing Free School Meals in school holidays.
23. The budget will also include the 2021/22 Covid-19 grant funding announced alongside the Local Government Finance Settlement.
24. It is expected that further government support will be made available to Councils in 2021/22 to supplement the County Council's resources. The level of support confirmed is less than a quarter of that received in the current financial year.
25. The extent to which the contingency is sufficient to cover the additional Covid-19 financial pressures will obviously be monitored on an ongoing basis and reported as part of the usual budget monitoring cycle.

### Contingency for Inflation / Living Wage

26. A total of £12.6m has been included in the latest MTFs for 2021/22, rising to £27m in 2022/23, £41.7m in 2023/24, and £56.1m in 2024/25. This contingency will be allocated to services as necessary.
27. The main components of the contingency are provisions for:
- Pay awards £15m
  - Pension contribution increases £4m
  - National Living Wage/ Adult Social Care fee reviews £29m
  - Other running costs, net of income £8m

28. The MTFS provides an estimated average increase for pay of 1% in 2021/22, reflecting the Spending Review announcement of a pay award “pause” for staff earning more than £24,000 and £250 increases for staff earning £24,000 or less. The MTFS provides for annual pay awards in 2022/23 onwards of 2%, with an allowance for higher increases in the lower Grades to reflect the impact of the National Living Wage (NLW).
29. The central inflation contingency includes provision for an increase of 1% each year in the employers’ pension contribution rate, in line with the requirements of the actuarial assessment.
30. The contingency includes provision of £29m for anticipated increases in costs driven by increases in the NLW, with Adult Social Care costs being the main contributor. The Governments stated policy remains for the NLW to increase to £10.50 by 2024, an increase of 20% from the current level (£8.72).
31. The Government’s preferred measure of inflation is the Consumer Price Index (CPI), which the Bank of England is tasked with targeting at a 2% rate. 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 2021/22 to 2024/25 for other running costs. Conversely elements of the County Council’s cost base do not inflate. For example debt financing and fixed price contracts, as a result no inflation provision is applied to 25% of the cost base.
32. The level of inflation contingency is assessed on an annual basis. This allows any over or under provision to be adjusted for without balances building, which could be directed to service provision, or unmanageable liabilities growing.

#### Financing of Capital

33. Capital financing costs are expected to decrease to £19.0m in 2021/22 (from £19.2m in 2020/21) and then to rise to £20m in 2022/23 and £23m in 2023/24. The increase is as a result of increasing financing requirements for the capital programme.

#### Revenue Funding of Capital

34. The budget includes revenue funding of capital expenditure, mainly for the Corporate Asset Investment Fund and for Future Developments, as described under the capital section later in the report. The latest position includes a total of £2.5m in 2021/22 and £1.5m from 2022/23 onwards.

#### Central Expenditure

35. The 2021/22 budget includes:
  - Pensions (£1.5m) - funding 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. This includes a saving of £40,000 (rising to £80,000 by 2022/23) from growth in ESPO's net income.

### Central Grants and Other Income

36. The 2021/22 budget includes:

- Improved Better Care Fund (iBCF) grant income (-£11.4m)
- Social Care Grant (new from 2020/21) (-£11.6m)
- Adult and Children's Social Care Support Grant (-£4.1m)
- Adult Social Care - Winter Pressures Grant (-£1.4m)
- "Spring Budget" iBCF (-£0.9m) – one year continuation of the 2019/20 grant
- New Homes Bonus Grant (-£2.4m)
- Bank and Other Interest (-£1.3m) - Interest income relating to Treasury Management investments. The forecast reduces in later years as balances are forecast to be used to fund the capital programme. The levels of interest are based on the expectation that Bank of England base rates will remain at a low level for the foreseeable future.

### Corporate Growth and Savings

37. G25 - Corporate Growth contingency - £6.8m in 2021/22, £12.4m in 2023/24 rising to £17.6m in 2024/25. 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. Without the contingency the County Council would be required to make savings in a very short time period.

### Council Tax and Business Rates

38. The overall quantum of funding expected to be raised through council tax has been reassessed in light of the Covid-19 pandemic. In the current year, district councils are seeing increased claims for council tax support, linked to increased unemployment and hardship across the County.
39. Across Leicestershire the overall Local Council Tax Schemes (LCTS) totals £30m of which approximately £15m relates to working age adults. The Bank of England has recently forecast that unemployment rates could increase from the current rate of 4% up to 7% by the middle of 2021. The impact of this could increase working age adults LCTS to around £26m resulting in less Council Tax payable. The impact on the County Council would be around 71% of the £11m reduction in Council Tax (approximately £8m). The position could be worse if there was a very hard recession that was long lasting.

40. Council Tax payable is also affected by collection rates which could be impacted by rising unemployment. These factors are reflected in the assumptions relating to the Council's taxbase. It is assumed that the tax base will fall by around 2.8% in 2021/22 but then rise by 2.9% in 2022/23, rise by 3.1% in 2023/24 and rise by 1.5% in 2023/24. Final Council Tax base figures for 2021/22 will be provided by the district councils in January 2021 and will be reflected in the report to the Cabinet on the 5<sup>th</sup> February 2021.
41. The negative impact upon housing growth has been lower than might be expected in the circumstances. Governments direction for construction sites to remain open and Stamp Duty incentives have maintained the market. When incentives expire and unemployment increases the impact is likely to grow.
42. Business rates income is also affected although the impact on the County Council is lower and is more problematic for district councils, as they benefit from the majority of the growth incentive.
43. To manage the risks, the County Council has built in an estimated shortfall compared to previous estimates of £14m in 2021/22, £10m in 2022/23 and £5m in later years.

#### **Adequacy of Earmarked Funds and Robustness of Estimates**

44. 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.
45. The financial environment continues to be challenging with a number of known major risks over the next few years. These include:
  - Impact of Covid 19, continuing in 2021/22 and effects into later years.
  - Non-achievement of savings and income targets. The requirement for savings and additional income totals £92m over the next four years of which £36m 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 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.
- 2022 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, although further delays would not be unexpected:
  - 75% Business Rate retention, including significant new responsibilities and a “reset” of the system’s baselines (deferred from April 2020).
  - Fair Funding Review, covering redistribution of funding nationally (deferred from April 2020).
  - Health Integration plans implemented (deferred from 2020).
  - Review of Social Care (deferred from 2017).
  - Review of SEND reforms.

46. 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

47. The General Fund balance is available for unforeseen risks that require short term funding, estimated to be £16m as at 31 March 2021. A copy of the earmarked funds policy is included in Appendix C. 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 – see below.
- Variability in income, particularly from asset investments



### Earmarked Funds

48. The estimated balance for revenue earmarked funds (excluding schools and partnerships) as at 31 March 2021 is £32m and for capital funding purposes £34m, based on forecasts made in the Autumn 2020 review. Forecasts are currently under review and will be updated as part of the MTFS report to the Cabinet in February 2021. The final level of earmarked funds will be subject to the actual expenditure and any partner contributions, e.g. health funding arrangements and specific grants.
49. Earmarked funds and balances are held for specific purposes. The main earmarked funds and balances projected at 31 March 2021 are:
- (a) Capital Financing (£34.0m). This fund is used to hold MTFS revenue contributions to match the timing of capital expenditure in the capital programme and also holds the balance of contributions that will be used to fund future developments, mainly capital projects, as they are approved.
  - (b) Insurance (£11.9m). 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 insurance earmarked funds includes 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.
  - (c) Transformation (£4.0m). The fund is used to invest in transformation projects to achieve efficiency savings and also to fund severance costs.
  - (d) Budget Equalisation Fund (£18m) – fund to manage variations in funding across financial years. This includes the increasing pressures on the High Needs element of the Dedicated Support Grant (DSG) which forecasts a deficit of £18m by the end of 2020/21. The C&FS Department are investigating a number of actions that could over the course of the MTFS reduce demand and therefore the overall deficit.
  - (e) Funds for specific departmental infrastructure, asset renewal and other initiatives (£22m).
  - (f) Pooled Property investments (-£24m) – invested against the balance of earmarked funds held.
50. 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 current MTFS and reported no issues. In their latest audit Grant Thornton considers financial sustainability in the context of Covid-19. Their commentary included "Overall, we are satisfied that the Council has arrangements in place to monitor its financial position for the short term, and has appropriate level of general reserves to mitigate any shortfalls if required".

### School Balances

51. 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 31<sup>st</sup> March 2020 was £8.0m. The balance at 31<sup>st</sup> March 2021 has not been estimated but is expected to have reduced as a result of spending pressures. It is also affected by the number of schools converting to Academies.

### Insurance Policy

52. 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 D.

### Capital Programme 2021/22 to 2024/25

53. The programme has been updated for the latest programme of deliverability and resources. The overall approach to developing the capital programme is set out in the capital strategy (Appendix E) and is based on the following key principles:
- To invest in priority areas of growth, including roads, infrastructure, climate change, including the forward funding of projects;
  - To invest in projects that generate a positive revenue return (spend to save);
  - To invest in ways which support delivery of essential services;
  - Passport Government capital grants received for key priorities for highways and education to those departments;
  - Maximise the achievement of capital receipts;
  - Maximise other sources of income such as bids to the LLEP, section106 developer contributions and other external funding agencies;
  - No or limited prudential borrowing (only if the returns exceed the borrowing costs).
54. The draft capital programme totals £450m over the four years to 2024/25, shown in detail in Appendix F. The programme is funded by a combination of Government grants, capital receipts, external contributions, revenue balances and earmarked funds.
55. 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 £50m is included in the draft corporate capital programme.

56. The proposed programme can be summarised as:

Service Improvements	£223m
Investment for Growth	£96m
Invest to Save	£81m
Future Developments	£50m
<b>Total</b>	<b>£450m</b>

## **Funding and Affordability**

### **Forward Funding**

57. 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 developer contributions, is received. This allows a more co-ordinated approach to infrastructure development. Forward funding of £13m for highways has been included within the capital programme (in addition to £17.4m added in the 2020/21 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.
58. 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.
59. 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 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 the chances of insufficient contributions coming forward, compromising the County Council's financial position. 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.
60. 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 is looking to develop an approach to working with districts, developers and other stake holders to mitigate the County Council's risks as much as possible. However, the circumstances around individual projects vary hence any specific agreements will need to be tailored accordingly.

61. 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 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.
62. 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. Their most recent devolution deal (2017) 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**

63. Grant funding is the largest source of financing for the capital programme and totals £212m across the 2021-25 programme. The majority of grants are awarded by Government departments including the DfE and the Department for Transport (DfT).

#### Children and Family Services

64. Capital grant funding for schools is provided by the DfE as follows:
- a) Basic Need – this grant provides funding for new pupil places by expanding existing schools and academies or by establishing new schools. Funding is determined through an annual submission to the DfE which identifies the need for additional school places in each local authority area. The DfE has announced details of the grant awards for 2021/22 (£22.1m). No details have been announced for future years. An estimate of £7.5m has been used for 2022/23 to 2024/25.
  - b) Strategic Capital Maintenance – this grant provides the maintenance funding for the maintained school asset base. Details of the grant for 2021/22 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) DfE - New (Free) School bid – the programme funding includes an £8m grant to fund a new Social Emotional and Mental Health special school in 2023/24 required as part of the High Needs Development plan.

### Adult Social Care

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

### Environment and Transport

66. The DfT grants have not yet been announced. Estimates have been included for Improvement Schemes and Maintenance based on previous years. The funding includes:

- Improvement Schemes - £2.7m p.a. (£10.9m overall).
- Maintenance funding - £11.4m p.a. (£45.8m overall).
- Pothole and Challenge fund - £7.8m p.a. (£31.3m overall).

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

- DfT Melton Mowbray Distributor Road funding - £42.3m (total £49.5m including 20/21 allocation)
- Housing Infrastructure Fund – Melton Southern Distributor Road - £13.2m.

### **Capital Receipts**

68. The generation of capital receipts is a key priority for the County Council. The draft capital programme includes an estimate of £14m across the four years to 2024/25.
69. The estimate includes potential land sales that are subject to planning permission. In these cases the value of the site is significantly increased when planning permission is approved. However, this also comes with a significant amount of uncertainty and potential for delays. For planning purposes a total of £3m of future estimated sales, subject to planning permission, has been included.

### **Revenue / Earmarked Funds/ Contributions**

70. To supplement the capital resources available and avoid the need for borrowing £47m of revenue funding is being used in the draft programme consisting of:

One-off MTFS 2021-25 revenue contributions	£7m
Departmental earmarked funds	£1m
Capital Financing earmarked fund	£39m
Total	£47m

71. 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 £6m in Environment and Transport capital grants.
72. 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**

73. A total of £31m is included in the funding of the capital programme 2021-25. This includes £30m from section 106 developer contributions.

### **Funding from Internal Balances**

74. A total of £146m 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 £30m of this funding will be repaid through the associated developer contributions.
75. 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 comprise the amounts held for earmarked funds, provisions, the Minimum Revenue Provision (MRP) set aside for the repayment of debt, and working capital of the Council. The cost of raising external loans currently exceeds the cost of interest lost on cash balances by circa 2%.
76. The overall cost of using internal balances to fund £146m of investment is estimated to be £6.5m per annum by 2024/25, comprising MRP of £4m and reduced interest from investments of £2.5m. This is a prudent assessment as the impact will reduce in future years as the funding is repaid.
77. The County Council's current level of external debt is £263m. As described above this is not anticipated to increase during the MTFS.

### **Capital Programme - Summary by Department**

78. Over the period of the MTFS, capital programme of £450m is required of which £138m is planned for 2021/22. The main elements are:
  - Children and Family Services - £85m. 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.

- Adults and Communities - £25m. The programme includes £16m relating to the Disabled Facilities Grant (DFG) programme and schemes for the Social Care Investment Plan (SCIP).
- Environment and Transport - £206m. This relates to: Major Schemes such as Melton Mowbray Distributor Road N/E and Southern Sections, Zouch Bridge replacement as well as the Transport Asset Management Programme and the Environment & Waste Programme.
- Chief Executive's - £2m. The main scheme is the Rural Broadband Phase 3 and also includes Leicestershire Community Grants.
- Corporate Resources - £11m. This mainly relates to investment in the ICT Programme, Property Services and Climate Change (Environmental Improvements).
- Corporate Programme - £121m. The main area is the investment in the Corporate Asset Investment Fund (CAIF) includes £5m for planning and preparatory work at Lutterworth East, and Future Development Projects (subject to business cases). The latest CAIF strategy 2021-25 will be reported to the Scrutiny Commission on 25 January 2021.

### **Budget Consultation**

79. The Cabinet at its meeting in December 2020 approved the MTFS proposals for consultation. The consultation asked for views on the savings plan and the appetite for Council Tax increases. The consultation closes on 17<sup>th</sup> January 2021 and a report on the outcome will be included within the MTFS report to the Cabinet on 5<sup>th</sup> February 2021.

### **Results of Scrutiny Process**

80. The Overview and Scrutiny Committees and the Scrutiny Commission have 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](http://www.leicestershire.gov.uk)). A summary of the comments arising from the meetings of Scrutiny bodies will be presented with the MTFS report to the Cabinet on 5<sup>th</sup> February 2021.

### **Equality and Human Rights Implications**

81. 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.
82. Many aspects of the County Council's MTFS may affect service users who have a protected characteristic under equalities legislation. An assessment of the impact of the proposals on the protected groups must be undertaken at a formative stage prior to any final decisions being made. Such assessments will be undertaken in light of the potential impact of proposals and the timing of any

proposed changes. Those assessments will be revised as the proposals are developed to ensure that decision-makers have information to understand the effect of any service change, policy or practice on people who have a protected characteristic.

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

### **Crime and Disorder Implications**

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

### **Environmental Implications**

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

### **Partnership Working and Associated Issues**

86. 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**

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

### **Background Papers**

Report to the County Council on 19<sup>th</sup> February 2020: Medium Term Financial Strategy 2020/21-2023/24 -

<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=134&MId=6038&Ver=4>

County Council Strategic Plan –

<https://www.leicestershire.gov.uk/about-the-council/council-plans/the-strategic-plan>

Report to the Cabinet on 15<sup>th</sup> December 2020: Provisional Medium Term Financial Strategy 2021/22 – 2024/25 -

<http://politics.leics.gov.uk/documents/s158708/MTFS%202021-25%20Supplementary%20Report.pdf>

### **Appendices**

Appendix A: Four Year Revenue Budget 2021/22 to 2024/25

Appendix B: Corporate and Central Items Revenue Budget 2021/22

Appendix C: Earmarked Funds Policy



Appendix D: Insurance Policy

Appendix E: Capital Strategy

Appendix F: Draft Capital Programme 2021/22 to 2024/25

### **Officers to Contact**

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