Leicestershire County Council

CABINET – 5TH FEBRUARY 2021
(updated since the Cabinet meeting)

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

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PART A

Purpose of the Report

1. This report presents the County Council's proposed 2021/22 to 2024/25 Medium Term Financial Strategy (MTFS) for approval, following consideration of the draft MTFS by the Cabinet in December 2020 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 2021/22 totalling £399m as set out in Appendices A, B and E of this report and includes the growth and savings for that year as set out in Appendix C;

(b) That approval be given to the projected provisional revenue budgets for 2022/23, 2023/24 and 2024/25, 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, set out in Appendix D;

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

(d) That the level of the general fund and earmarked funds as set out in Appendix K 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 2021/22 be as set out in Appendix M (including 3% for the adult social care precept);

(f) That the Chief Executive be authorised to issue the necessary precepts to billing authorities in accordance with the budget requirement above and the tax base notified by the District Councils, and to take any other action which may be necessary to give effect to the precepts;

(g) That approval be given to the 2021/22 to 2024/25 capital programme as set out in Appendix F;

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

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

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Operational boundary for external debt i) Borrowing ii) Other long term liabilities	 263 1	 263 1	 262 1	 262 1
TOTAL	264	264	263	263
Authorised limit for external debt i) Borrowing ii) Other long term liabilities	 273 1	 273 1	 272 1	 272 1
TOTAL	274	274	273	273

(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 2021/22 to 2024/25:
(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

(iv) An upper limit for principal sums invested for periods longer than 364 days is 10% of the portfolio.

(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 2021/22, subject to the prudential limits in Appendix N;

(m) That the Treasury Management Strategy Statement and the Annual Investment Strategy for 2021/22, as set out in Appendix N, be approved including:
(i) The Treasury Management Policy Statement, Appendix N; Annex 4;
(ii) The Annual Statement of the Annual Minimum Revenue Provision as set out in Appendix N, Annex 1;

(n) That the Capital Strategy (Appendix G), Corporate Asset Investment Fund Strategy (Appendix H), Risk Management Policy and Strategy (Appendix I), Earmarked Funds Policy (Appendix J) and Insurance Policy (Appendix L) be approved;

(o) That it be noted that the Leicester and Leicestershire Business Rate Pool will continue for 2021/22;

(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 17th February 2021;

(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 the 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);

(r) That the Leicestershire School Funding Formula is unchanged and continues to reflect the National Funding Formula for 2021/22.

Reasons for Recommendations

3. To enable the County Council to meet its statutory requirements with respect to setting a budget and Council Tax precept for 2021/22, to allow efficient financial administration during 2021/22 and to provide a basis for the planning of services over the next four years.

4. Continuing an unchanged Leicestershire School Funding Formula for 2021/22 will ensure that it fully reflects the National Funding Formula (NFF).

Timetable for Decisions (including Scrutiny)

5. On 15th 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 then considered the proposals in January 2021 (the comments of those bodies are attached as Appendix P).

6. The County Council meets on 17th February 2021 to consider 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

7. The MTFS is a rolling financial plan that is updated annually. The current MTFS was approved by the County Council on 19th February 2020. The Council's Strategic Plan (agreed 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.

8. 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.

Legal Implications

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

10. The Council's Constitution provides that the budget setting is a function of the full council which is required to consider the budget calculation in accordance with the provisions set out in Local Government Finance Act 1992. This requires that there be a calculation of the total of the expenditure the Council estimates it will incur in performing its functions and will charge to the revenue account for the year, such allowance as the Council estimates will be appropriate for contingencies and the financial reserves which the Council's estimates will be appropriate for meeting estimated future expenditure.

11. The Council is required in due course to set a balanced budget and in so doing must have regard to the advice of the Director of Corporate Resources as Chief Finance officer appointed under s151 Local Government Act 1972. The Council will be required to issue any precept in accordance with s40 Local Government Finance Act 1992 which set sets out the information required in the precept; this must be issued before 1 March in the financial year preceding that for which it is issued.

12. The budget does not itself authorise any changes to services and does not assume that changes will be made. Any changes to services will need to be the subject of appropriate consideration by the appropriate decision maker following, where required, consultation and consideration of the impact of the proposed changes on service users, including in particular the impact on different equality groups.

13. The function of the County Council in setting its budget in due course will engage the public sector equality duty which is set out in the Equality and Human Rights Impact Assessment (EHRIA) section below. An overarching and cumulative impact assessment will be available for the County Council when it considers the budget; it is important to note that the duty does not arise at a fixed point in time but is live and enduring and decision makers are required to have 'due regard' to the duty at each stage in the process.

Resource Implications

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

15. The County Council is operating in an extremely challenging financial environment following a decade of austerity and spending pressures, particularly from social care. The financial position in 2020/21 has been severely affected by Covid-19 and the on-going financial impacts of the pandemic are unclear. There is also significant uncertainty and risk around future funding levels. This is despite Government announcements in 2019 that austerity was coming to an end.

16. The Office for Budget Responsibility's (OBR's) economic forecast created an eye-catching comparison in the recent Spending Review (SR). With Gross Domestic Product (GDP) forecast to shrink by 11.3 per cent in 2020 this will be the largest annual fall since the Great Frost of 1709. To quote the Washington Post:

    "In that winter three centuries ago, temperatures were so consistently low that crops withered, wine barrels burst, and people froze to death in their homes. The economy was devastated — historians think the country's gross domestic product declined 13 percent over the year."

17. The impact of this sharp fall in GDP will be unprecedented peacetime increases in Government borrowing – forecast to be anything between 13 and 21% of

GDP. This is potentially twice what it was during the credit crunch and in all but the most optimistic end of this projection takes debt above 100% of GDP.

18. In the midst of the Covid crisis it was too early for the Chancellor to set out his plans to repair the nation's finances, particularly with the United Kingdom's new trading relationship with the European Union at an early stage. It would be a nervous chancellor who relies purely on continued low interest rates. It must be anticipated that Local Government's funding position will be impacted, whether through cuts, the requirement to raise local taxes or both.

19. The single year SR did allow for an easing in grant reductions, although the majority of headline increases in Local Government spending were either temporary or funded by assumed council tax increases. There was minimal reference to the long-promised reforms to Adult Social Care, Children's Social Care, Special Educational Needs and Disability (SEND), Fair Funding and Business Rates Retention. These reforms are essential for long term sustainability of local government, although experience shows that badly implemented reforms can make the situation worse.

20. The Covid crisis has had an unprecedented impact on the County Council's finances. The additional costs and lost income in the current financial year are forecast to exceed £90m. The County Council has survived the crisis through a combination of Government support, introduction of expenditure controls and re-prioritisation of discretionary spend.

21. The direct implications of the virus will still be felt at the start of next year, with positive vaccine news raising hopes that a return to normality can begin. However, the economic damage will take several years to repair, reducing tax income and driving service demand. Furthermore, some services may never return to normal; use of public transport and the demand for different care settings are prime examples. If history is a guide, government support will be scaled back far before the financial implications have ceased. To deal with the uncertainty the County Council will have to direct resources to manage the transition to reduced support.

22. Delivery of the MTFS requires savings of £79.2m to be made from 2021/22 to 2024/25. This MTFS sets out in detail £30.0m of savings and proposed reviews that will identify further savings to offset the £23.4m funding gap in 2024/25. A further £25.8m of savings, including on-going cost avoidance from the creation of additional school places, will be required to ensure that High Needs funding can be contained within the Government grant. Strong financial control, planning and discipline will be essential in the delivery of the MTFS.

23. To ensure that the MTFS is a credible financial plan, unavoidable cost pressures have been included as growth. By 2024/25 this represents an investment of £58.7m, primarily to meet the forecast increase in demand for social care. The MTFS also includes a £56m provision for pay and price inflation.

24. Balancing the budget is a continued challenge. With continual growth in service demand recent MTFSs have tended to show 2-years of balanced budgets

followed by 2-years of growing deficits. This approach balances the need for sufficient time to identify initiatives that will close the gap without cutting back services excessively. The draft MTFS forecasts the minimum requirement of a balanced budget next year, but the following three years are all in deficit.

25. The deficit forecast in 2022/23 is a concern but manageable whilst the full range of options remain open to the County Council. New savings could be identified or service growth supressed; council tax could be increased above the current assumption by up to 3% over the next two years; a third option of waiting for the spending review in 2021 is not recommended without a quick-to-implement contingency. A heightened focus on the County Council's finances is required whilst this situation remains.

26. The draft four-year capital programme totals £456.8m. 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 £313.8m with the balance of £143m 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, e.g. increased capital receipts or new grants.

27. 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. Given the heightened uncertainty the more important it is that the County Council keeps this focus.

Circulation under the Local Issues Alert Procedure

28. This report has been circulated to all Members of the County Council. A briefing will also be provided to all Members.

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PART B

Changes to the draft Budget proposed in December 2020

29. Changes to the draft budget considered by the Cabinet on 15th December 2020 are summarised in the table below:

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Shortfall at 15th December 2020	0	8,310	21,736	36,286
Funding changes				
Social Care Grant – lower than forecast	1,557	1,557	1,557	1,557
Business Rates	-2,393	-2,393	-2,393	-2,393
New Homes Bonus Grant	-188	0	0	0
LCTS Grant	-3,566	0	0	0
LCTS Support	500	0	0	0
Adult Social Care Precept (3%)	-9,624	-9,960	-10,320	-10,680
Savings changes	40	40	0	0
Budget Equalisation Earmarked Fund – contribution changes	0	0	-1,000	-1,000
Revenue Funding of Capital	0	2,000	0	0
Covid-19				
2021/22 grant funding	-11,750	0	0	0
Covid-19 Budget – additional provision	25,600	0	0	0
Other Changes	-176	446	520	-360
Revised Shortfall	**0**	**0**	**10,100**	**23,410**

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

- Social Care Grant – an additional allocation of £2.7m was anticipated in the draft MTFS but the allocation announced as part of the LGS Local Government Finance Settlement amounts to £1.1m. The reason the allocation was less than expected was because it included 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.
- Business Rates (-£2.4m). The values for the 2021/22 “baseline” and Section 31 grants in the Local Government Finance Settlement are higher than assumed in the draft MTFS.
- 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.

- Local Council Tax Support (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.
- Adult Social Care Precept (-£9.6m). The Settlement allows councils to set an ASC Precept increase of up to 3% in 2021/22, or to allocate 3% across 2021/22 and 2022/23. The draft MTFS reported to the Cabinet in December 2020 did not include an increase at that stage. The increase has now been incorporated in the updated MTFS, applying in 2021/22.

31. The draft MTFS included a saving of £40,000 rising to £80,000 regarding increased income from the County Council's allocation of ESPO surpluses. The savings profile has been revised due to the impact of Covid-19 on trading levels.

32. It is planned to increase the Budget Equalisation Earmarked Fund (and the General Fund) 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 and the contributions in 2023/24 and 2024/25 have been reduced by £1m in each year.

33. The budget for Revenue Funding of Capital has been increased by £2m in 2022/23 to reduce the overall capital shortfall.

34. Covid – grant and additional spend. The Government has allocated £1.55bn of additional Covid funding for 2021/22, of which the County Council's allocation is £11.8m. The Covid Budget has been increased to reflect anticipated additional costs and income losses in 2021/22 of £25.6m.

35. Other changes are primarily refinements to estimates for changes in Council Tax, following information received from the district councils.

36. The use of the ASC precept is the key factor in improving the financial gap reported in December. In the short term it has allowed a significant boost to the Covid budget and balanced 2022/23. This will help to protect services from having to make drastic immediate actions if the financial position deteriorates. In the medium term the financial gap has reduced to a more manageable level making resolution through efficiency savings more likely than swingeing service cuts.

Changes to the draft budget to the Cabinet 5 February 2021

37. The final Local Government Settlement was received on 4th February 2021. No changes were announced that required the MTFS to be amended. Confirmation of the level of some specific grants was received although uncertainty remains around several major grants, Public Health and local roads funding being two examples.

38. A limited number of changes have been made to the draft MTFS presented to Cabinet in February 2021. These changes are mainly presentational and do not

impact the revenue position. Additional text has been added to the Funding and Affordability section to better highlight the risks associated with major infrastructure schemes. The Capital Programme has been updated to reflect the additional cost and developer funding associated with the Melton Mowbray Distributor Road (South). Finally, Appendix M has been updated to correct a small rounding error on the precept for bands G and H.

Covid-19

39. The unprecedented nature of Covid-19 pandemic forced the UK Government to restrict large portions of the UK economy, pushing the country into recession. This result in a double impact of drastically increased costs to deal with the health emergency whilst trying to reduce the economic damage caused by the recession. This scenario has been mirrored at a local level throughout the country.

40. Council tax and business rates account for the majority of the County Council's funding. Once set the main determinant of the amount collected is the state of the economy. The OBR expects the unemployment rate to rise to a peak of 7.5% in Q2 2021, compared to a pre-crisis rate of 3.8% in 2019, which will drive large increases in the £28m of Council Tax support paid in Leicestershire. The economy is not expected to reach pre-crisis levels until the end of 2022 at the earliest. The worst case scenario of three years of lost housing growth would equate to £15m lower income per year than previous forecasts.

41. Behavioural changes and expectations will last long after the pandemic has ended. This will affect the services that the County Council provides directly and those that it provides financial support to. Examples are the impact on Care settings, public bus subsidies and traded services provided to schools. These are expanded on in the following paragraphs.

42. The County Council spends £200 million each year on the provision of social care services. Approximately half of this is for residential placements, which have been particularly impacted by the pandemic. The Care Home market is facing growing costs due to increased infection control expectations, such as restrictions on the movement of staff between care settings, and reduced income as peoples' preferences change. In the current year these financial implications have been mitigated by a combination of Government support (grants and free PPE) and significant payments above contract level by the County Council. The nature of the financial implications mean that they will only settle at their long-term position gradually, when the market establishes a 'new normal'.

43. The County Council subsidises public buses and reimburses concessionary fares by £7 million per annum. This only reflects a small element of the overall bus network's funding with over 90% of journeys fulfilled on a purely commercial basis. The pandemic has changed people's preferences for mode of transport, increased the level of working from home, and hastened the decline of bricks and mortar retail. This loss of income to operators has been mitigated by increased County Council subsidies, paying concessionary travel reimbursements at last year's levels, and additional government grants. Although journey numbers have

reduced this additional support has so far mitigated against withdrawal of commercial services. Without a change in approach it will cost the Council more to subsidise a service that the public benefits less from.

44. The County Council provides a range of services to schools on a traded basis, the most significant being the school food service. The closure of schools and the reduced attendance when they have been open has resulted in a significant decline in income. To compensate for lost income staff were furloughed, costs controlled, and the Government's lost income compensation scheme utilised. However, several traded services will still operate at a net cost to the County Council in 2020/21. Changes in habits developed during the pandemic, such as the choice between school meals and a packed lunch, may be hard to reverse when it is over.

45. Several elements of support for the impact of Covid-19 in 2021/22 were announced as part of the Spending Review (SR). With the expected benefit from the roll out of vaccinations and improvements in managing the pandemic it is natural that the support offered is lower than 2020/21. However, the funding set aside, detailed in the bullet points below, is likely to be much less than is needed.

- £1.55 billion of un-ringfenced grant for councils to manage the immediate and long-term impacts of the pandemic.
- £670 million to support the households least able to afford council tax. This is one third higher than the hardship grant distributed in 2020/21 despite unemployment being expected to more than double.
- Provision of free PPE until the end of 2021/22. This is an improvement on the current year where the provision was only for 6 months.
- Infection Control funding assumed to stop, despite government legislating for the continuation of the related measures. It was worth £13 million in 2020/21.
- Scheme to compensate for 75% irrecoverable loss of council tax and business rates is assumed to stop. Estimated to be worth in excess of £10 million.
- Furlough scheme assumed to stop in April. It was worth £2 million in 2020/21

46. Indications are the Government intends to revert to its approach earlier in the pandemic when insufficient financial support was given until the detrimental impact could no longer be ignored. The difference next year is that with the end of the pandemic in sight Government may not respond. Government financial support in 2020/21 is approaching £100 million. For 2021/22 the support announced to date is only in the order of £20 million. Whilst it is hoped that the impact of Covid is lower in 2021/22 this reduction in funding does not seem to reflect the situation.

47. To provide time to deal with problems, a Covid-19 budget has been created to help manage the position in 2021/22. Whilst this budget will be one-off in nature it will allow the financial position to be managed without taking knee jerk actions. If some of the Covid budget is not required, it can be directed towards other priorities such as the capital programme.

2020 Spending Review

48. On 25th November 2020 the Chancellor of the Exchequer delivered the 2020 Spending Review (SR). It had been intended to be a Comprehensive Spending Review covering a three-year period but due to the economic impacts of Covid-19 the announcement only related to 2021/22 and gave no indication of the levels of funding for 2022/23 and later years. The main details relating to the funding of the County Council were set out in the MTFS report to Cabinet in December 2020.

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49. The focus of the SR was undoubtedly Covid-19 and few clues were given on long term funding intentions. However, it was notable that Capital, Investment and Infrastructure were all in the top-10 words in the SR document. This is in common with other policy statements, when not dominated by the pandemic, that describe a renewal of Britain.

50. The investment targeted at Local Government will inevitably require local funding to participate in bidding competitions or through match-funding. In recent years the County Council has been fortunate to be able to supplement capital funding with revenue resource. The pandemic has prevented this in the current year, although the reduced capital programme envisaged to fund the overspend should no longer be required due to the irrecoverable tax losses scheme mentioned above. To make the most of the investment funding on offer opportunities to add to the, already oversubscribed, Future Development Fund will need to be taken.

Expected Reforms

51. In February 2020, the Education Secretary, Gavin Williamson promised a “fundamental look across children’s social care”. However, due to the Covid-19 crisis the review was delayed. Last month, the Children’s Minister, Vicky Ford, announced on November 5th 2020 that a review would be recommencing.

52. At the same time she also referred to the Government’s review of special education needs and disabilities (SEND), initially launched in September 2019. She stated that it is progressing well and is considering measures to make the system “more robust and high quality” and “getting in early to really help those children”. The review is expected to assess how this system has evolved since the introduction of education, health and care plans back in 2014, and school funding reform in 2013, and look at links with health care provision and talks about aligning incentives and accountability for schools, colleges and local authorities to make sure they provide the best support for children and young people with SEND. However, again because of delays due to Covid-19 the report won’t be published until 2021. Furthermore, there are serious concerns that the review will not adequately address the affordability of the system.

53. The other major review which continues to be delayed is the funding reforms for Adult Social Care linked to the outcome of the review chaired back by Sir Andrew Dilnott back in 2011. One of the key recommendations arising from this review was to place a cap on social care costs. The impact of this would be to further increase the burden of social care costs falling on the public sector when the

underlying increase in demand due to an ageing population is already driving a significant escalation in costs. The Government stopped the reforms in 2015 due to affordability. Following this suspension, a Green Paper was promised in the summer of 2017. The paper has been delayed several time since, although this was the only reform mentioned in the SR “the government is committed to sustainable improvement of the adult social care system and will bring forward proposals next year.”

54. It is important therefore to be mindful that whilst the Government’s renewed enthusiasm for addressing these issues is welcomed, there is no guarantee that it will actually be beneficial to the County Council financially and potentially could increase costs.

<u>Local Government Finance Settlement</u>

55. The 2021/22 provisional Local Government Finance Settlement was issued on 17th December 2020. Local Government legislation requires a period of consultation on the announcement of usually around four weeks, prior to a debate on the final Settlement in the House of Commons.

56. Given that the 2020 Spending Review relates to 2021/22 only, the Settlement also only relates to that financial year.

57. The 2021/22 Settlement is broadly similar to that in 2020/21. The main impacts of the provisional Settlement on the draft MTFS are:
    - The County Council will receive a £1.1m allocation of the additional £300m social care grant funding in the SR, compared with the previous assumption of £2.7m.
    - Core council tax increases of up to 1.99% will be allowed without a referendum.
    - The Adult Social Care precept will be extended to allow an increase of 3% in 2021/22 with the flexibility to spread the increase over 2021/22 and 2022/23 New Homes Bonus Grant is £0.2m higher than anticipated.
    - A Covid-19 grant of £11.8m announced for 2021/22.
    - No changes to the current 50% business rates retention scheme for 2021/22; proposals on a change to a 75% scheme from 2022/23 are under development.

58. Funding for services received through specific grants is not covered by the Settlement, for example: High Needs funding (Dedicated Schools Grant), the Better Care Fund, Public Health Grant and all capital grants. Some amounts for 2021/22 may not be confirmed in the current financial year and the ongoing implications are subject to significant uncertainty.

<u>Spending Power</u>

59. The Government uses a measure of core spending power in assessing an authority’s financial position. The County Council’s historic core spending power from the previous Settlement are shown below. The key thing to note is that over this period Revenue Support Grant (RSG) has disappeared completely by

2019/20 compared to a figure of £56m back in 2015/16 although in compensation for these reductions, additional specific funding streams have increased. Although a degree of certainty would be expected from having no RSG, Government have previously raised the potential for “negative RSG” adjustments.

60. The elements of core spending power in the 2021/22 provisional Settlement are shown below:

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Settlement Funding Assessment: RSG	56.2	37.0	19.5	8.5	0.0	0.0	0.0
Settlement Funding: Business Rates	60.5	57.4	58.7	60.9	62.9	64.4	65.1
Council Tax*	233.4	247.6	263.1	285.5	301.6	319.3	342.0
Improved Better Care Fund (iBCF)**	0.0	0.0	9.5	12.4	14.8	17.2	17.2
New Homes Bonus	3.3	4.3	4.1	3.7	3.7	3.7	2.6
Transition Grant	0.0	3.3	3.3	0.0	0.0	0.0	0.0
Adult Social Care Support Grant	0.0	0.0	2.4	1.5	0.0	0.0	0.0
Winter Pressures Grant #	0.0	0.0	0.0	2.4	2.4	0.0	0.0
Social Care Grant	0.0	0.0	0.0	0.0	4.1	13.0	14.2
Core Spending Power	353.4	349.6	360.6	374.9	389.5	417.6	441.1

*DCLG forecasts of Council tax and Council tax base increases, which are different from those used by the County Council.
** includes one-off Social Care Grant announced in the Budget 2017, and Winter Pressures Grant of £2.4m added from 2020/21.
# Grant shown as part of iBCF from 2020/21.

61. The table shows that after a reduction in 2016/17, ‘core spending power’ increased in cash terms by £87.7m (24.8%) by 2021/22. With inflation historically running at circa 3% each year this represents a small real terms increase but provides little allowance for increasing populations and the significant increasing service demands local authorities are facing especially around social care services.

62. Moreover, the core spending power measure assumes councils increase council tax by the maximum amount permitted, including raising the full adult social care precept. Whilst the County Council has always done this since the adult social care precept was introduced, it is mindful that in doing so it has raised council tax above inflation for a number of years.

63. The Government’s assumption, and a factor in the new social care grant allocations, is that the full 3% increase in the adult social care precept is taken by councils in 2021/22.

64. The Government has also assumed that the average tax base growth seen in recent years (2% in the case of the County Council) will be repeated in 2021/22. That assumption has not been adjusted for the adverse impacts of Covid-19 and the actual net increase in the 2021/22 tax base is only 0.5%.

65. 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.

66. There are still significant risks due to the uncertainty of future funding levels. Due to Covid-19, the Government has only undertaken a spending review covering one year.

Funding Reforms

67. Local government funding went through considerable upheaval in the 2010s. Government grants were substantially reduced; council tax fell in real terms until 2015 when the Adult Social Care Precept was introduced; since 2013 business rate retention has rewarded councils with a share of local growth; and new grants have been introduced in a piecemeal response to the social care funding crisis.

68. Following increasing complaints about the application of austerity related cuts, in February 2016 the Government announced a ‘fair funding review’ and reform of business rate retention. The County Council has been a vocal advocate of the reforms, as have a cross-party support group, the County Councils’ Network (CCN).

69. The County Council has been historically underfunded in comparison with other authorities, including other counties, and has for some years been running a campaign to raise awareness of this and to influence the outcome of government funding reforms. If Leicestershire was funded at the same level as Surrey, it would be £106 million per year better off and if it was funded to the same level as Camden, £301 million per year better off.

70. 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. Consultation documents on the reforms indicated a positive outcome.

71. Unfortunately, the ‘Indicative numbers’ for funding allocations to individual councils have never been made available and the reforms postponed from the 2019/20 implementation date. Following the SR the Secretary of State wrote to all local authorities confirming that the reforms would not be implemented in 2021/22 and that Government would simply “work with the sector on the way forward”.

72. This non-comital stance on reforms may be partly explained by Government’s enthusiasm for its “Levelling up” agenda. It may also be explained by Government’s increased use of specific grants through the Covid-19 crisis to direct local government. The working assumption is that there will not be any benefit from funding reforms and financial problems will need to be solved locally.

73. Away from the headline grants, the Government has continued to tinker with funding allocations. Some examples of planned and potential changes that have a detrimental impact are given in this report:

- Withdrawal of New Homes Bonus (£4m)
- No inflationary increase on Public Health grant (£0.5m)
- Reduction in schools' Central Services Block (£0.2m)

74. The "Other Grants and Funds" section of this report shows the main specific grants received, several of which have not been confirmed and are unlikely to be until later in 2021. Some grants are also affected by economic measures, most notably inflation. The main impact is felt on retained business rates where a 0.5% fall in inflation results in £0.3m less income. To deal with anticipated reductions and mitigate any surprises close to the start of the financial year a £3m allowance has been made for grant reductions.

Business Rates

75. 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.

76. The Government had indicated its intention for a full reset of baselines in 2020/21 but this was postponed until 2021/22 and, due to the pandemic, has been deferred again until 2022/23. 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.

77. When Government makes changes to the national Business Rate Scheme compensation for funding losses are made through a series of grants. These were worth £4m in 2020/21 and increase to £4.9m in 2021/22.

78. 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. Net surpluses are 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.

79. The 'Leicester and Leicestershire Pool' for business rates increases the amount of growth that can be retained locally rather than being returned to the Government. In total £42m is forecast to have been retained in Leicestershire since 2013/14, due to the success of the Pool, with a further potential surplus of £8.4m in 2020/21.

80. The Pool partners decided in January 2021 to continue with the Pool

in 2021/22. Although the medium term economic effects of Covid-19 on business rates overall income are likely to continue to reduce the levels of surpluses that can be achieved, continued pooling is expected to remain beneficial.

Council Tax

81. The Localism Act 2011 provides for residents to instigate local referendums on any local issue and the power to veto excessive council tax increases. A cap on the core increase of 2% is in place for County Councils for 2021/22. In addition, they are permitted to raise by an additional 3% to fund adult social care (the adult social care precept). This can be levied in either 2021/22, in 2022/23, or spread between the years providing the total additional increase over the two years does not exceed 3%.

82. The most financially significant decision of any budget is usually the level that council tax will be increased by. This is not just a consideration for the current year, it affects the level of income available ad infinitum. Every 1% council tax is increased by is worth £3.2m to the County Council and costs each household in a band D property an additional £13.50 per year.

83. The 2021/22 draft budget includes a 4.99% increase, which contributes towards a balanced budget, enabling the first two years of the MTFS to be balanced and reducing the estimated shortfalls in the final two years of the MTFS. If this increase was not taken service cuts would be the inevitable consequence. An increase in council tax was broadly supported by respondents to the recent budget survey.

84. The draft MTFS is based on a council tax increase of 1.99% in each of the subsequent years.

85. 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. Business rates income is also affected by this although this is more problematic for district councils. Overall, the County Council has built in an estimated shortfall compared to previous estimates of £9m in 2021/22, £6m in 2022/23 and £1m in later years.

86. Council Tax base estimates have now been received from the district councils for 2021/22. These show the tax base will increase by 0.5% in 2021/22, compared with recent average increases of 2% each year. It is assumed that the tax base will decrease in the medium term because of the economic impacts of Covid-19.

87. Formal estimates for the Collection Fund balances as at 31st March 2021 have been received from the District Councils and show that the County Council's share of overall deficits as at 31st March 2021 are £3.6m. The Government has allowed the deficit to be spread over 3 years, the impact of which is to defer £2m over 2022/23 and 2023/24. However, the County Council has made provision in the current financial year, so that problems are not stored up for the future.

Budget Consultation

88. The County Council has undertaken an annual consultation on the draft budget. 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 as Appendix O.

89. Respondents broadly support the proposed budget including the proposed growth and savings plans. Around 55% of respondents supported a Council Tax increase of 3% or more, and of those over half supported an increase of 5% or above. There was also broad support for the fair funding campaign and general agreement for promoting local government reforms and seeking a devolution deal.

90. It is important that the results of this more detailed engagement continue to influence the County Council's budgetary decisions. A key finding from the consultation was that respondents felt that 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 – were in the top 10 services people did not want to see reduced.

91. The refreshed MTFS as presented continues to represent a good fit with the outcome of detailed consultation carried out in 2019 on the Council's priorities. Further growth been provided to ensure service levels can be maintained, despite significant increases in demand. 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 capital programme provides for investment in these areas.

2021/22 - 2024/25 Budget

92. The provisional 2021/22 budget excluding DSG is detailed in Appendix A. The provisional detailed four-year MTFS, excluding Dedicated Schools Grant (DSG), is set out in Appendix B and is summarised in the table below.

Provisional Budget	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**
Services including inflation	408.9	399.4	421.0	444.2
Add growth	13.8	14.9	15.0	15.0
Less savings	-9.4	-8.0	-6.2	-6.2
	413.3	406.3	429.8	453.0
Central Items	-18.9	-1.5	0.5	0.3
Less savings	0.0	0.0	0.0	0.0
	394.4	404.8	430.3	453.3
Contributions to/from:				
Budget equalisation earmarked fund	4.0	1.0	2.0	4.0
General Fund	1.0	1.0	1.0	1.0
Total Expenditure	**399.4**	**406.8**	**433.3**	**458.3**

Funding				
Business Rates	-69.4	-65.0	-64.1	-62.1
Council Tax	-330.0	-341.8	-359.1	-372.8
Total Funding	**-399.4**	**-406.8**	**-423.2**	**-434.9**
Shortfall	**0.0**	**0.0**	**10.1**	**23.4**

93. The MTFS is balanced in 2021/22 and 2022/23 and shows shortfalls of £10.1m in 2023/24 rising to £23.4m in 2024/25. As set in out in the following section there is a range of initiatives currently being developed that will aim to bridge the gap.

Savings and Transformation

94. Overall, the balance between expenditure and income suggests a gap of £23.4m 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 additional savings will still be required on top of the £30m that have been identified, £9.4m of which are to be made in 2021/22.

95. This is a challenging task especially given that savings of over £220m have already been delivered over the last eleven years. This was initially driven by the real terms reduction in government grants, which is in excess of £100m since 2010. In recent years, service demand pressures have become the main driver. The identified savings are shown in Appendix C and further detail of all savings has been set out in the reports to the Overview and Scrutiny Committees in January 2021.

96. The main four-year savings are:

- Children and Family Services (£16.0m). This includes savings of £13.2m from the Defining Children and Family Services For the Future Programme. This programme of work aims to improve outcomes for children, young people and their families whilst delivering significant financial savings.
- Adults and Communities (£8.1m). This includes £3m of further benefits from implementing the new Target Operating Model and £2m from implementation of digital assistive technology to service users.
- Public Health (£0.1m) from completing the Early Help and Prevention Review.
- Environment and Transport (£2.8m). Savings include £0.8m from improved options for the treatment of residual waste and £0.6m from a range of small scale opportunities that form the Environment and Transport Continuous Improvement Programme.
- Chief Executive’s Department (£0.4m). This includes savings on staffing budgets from vacancy control and reducing the use of agency staff, and additional income.
- Corporate Resources (£2.5m). This includes savings of £0.7m from the Workplace Strategy, £0.6m from increasing returns from the Corporate Asset Investment Fund and £0.5m from Commercial Services.

97. Of the £30m identified savings, efficiency savings account for £27m, and can be grouped into three main types*:*

a) Better commissioning and procurement (£10m)
b) Service re-design (£14m)
c) Senior management and administration (£3m)

98. It is estimated that the proposals would lead to a reduction of around 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.

Further savings or additional funding will be required to close the budget shortfall of £810.1m in 2023/24 rising to £23.4m in 2024/25.

99. To help bridge the gap several initiatives are being investigated to generate further savings. Outlines of the proposals have been included as Appendix D - Savings under Development. Once business cases have been completed and appropriate consultation processes taken, savings will be confirmed and included in a future MTFS. This is not a definitive list of all potential savings over the next four years, just the current ideas. Without additional government funding over the medium term, further savings will still be required.

100. The development and ultimate achievement of these savings was already challenging, following a decade of austerity. The pandemic has increased the difficulty of delivery even further by; increasing the urgency of delivery; creating new pressures to be resolved and reducing people's capacity to work on savings.

101. The MTFS also includes the High Needs Block Development Plan which is reducing costs through increase local provision of places, practice improvements and demand reduction initiatives. The aim of the programme is to ensure that the expenditure can be contained within the allocation through the Dedicated Schools Grant. Savings of £26m are planned over the MTFS period.

Transforming the way we work – Strategic Change

102. The savings requirements contained within the MTFS remain the central driver for the Council's change portfolio. The body of work contained within the portfolio, refreshed annually, currently represents future savings targets in excess of £48m, including £21m for SEND. This will be aligned to the MTFS refresh to 2024/25 and the ongoing implementation of the Council's Strategic Plan.

103. This latest refresh of the portfolio includes four primary programmes, each representing key drivers for change. Alongside the need for financial sustainability, the Council has introduced Carbon Reduction and Digital Value programmes and a revised 'Ways of Working' programme which will include supporting the County Council's Covid recovery work.

104. A key emphasis from the new MTFS is a focus on the identification of further internal efficiencies, productivity improvements and effective service decision making, spanning the County Council through a series of priority areas of work. Through evidence-based continuous improvement, this work will help to identify and capture new savings opportunities to be delivered.

Growth

105. The increasing costs of social care and SEND services are well documented. In 2021/22 these services are expected to account for more than three quarters of the County Council's service budget. This proportion is expected to be pushed even higher as these services also account for 95% of the service growth in the MTFS.

106. Over the period of the MTFS, growth of £58.7m is required to meet demand and service pressures with £13.8m required in 2021/22. The main elements of growth are:

- Children and Family Services (£23.1m). This is mainly due to £17.2m for pressures on the Social Care placements budget arising from increased numbers of Looked After Children (over 10% per annum increase) and £4.9m for increased Social Care caseloads.
- Adult Social Care (£12.8m). This is largely the result of an ageing population with increasing care needs and increasing numbers of people with learning disabilities.
- Environment and Transport (£4.3m). This primarily relates to increased numbers of clients and costs on the Special Educational Needs (SEN) Transport budget.
- Chief Executive's (£0.2m). This includes provision for increased requirements on Legal Services and Business Intelligence.
- Corporate Resources (£0.7m). This mainly relates to cost pressures on ICT license subscriptions and support costs.
- Corporate Growth (£17.6m). This has been included to act as a contingency for potential further cost pressures in the later years of the MTFS – the amount has been set based upon historic levels of growth incurred. The contingency reflects that it is not possible to specifically identify all of the growth before the first year of a 4-year MTFS.

107. Details of proposed growth to meet spending pressures are shown in Appendix C.

Inflation

108. The Government's preferred measure of inflation is the Consumer Price Index (CPI). In December 2020 this was 0.6% and the Office for Budget Responsibility (OBR) predicts it will increase to around 1.2% in 2021/22, 1.6% in 2022/23, 1.7% in 2023/24 and 1.9% in 2024/25.

109. However, the Council's cost base does not always reflect CPI. Energy and fuel increases, for example, have a much more significant impact. The pandemic is

anticipated to have increased the disconnect to CPI with additional PPE, cleaning costs and higher insurance premiums examples of new pressures. The draft MTFS assumes 3% per annum inflation over the period 2021/22 to 2024/25.

110. The impact of the National Living Wage (NLW) is particularly significant. In recent years social care costs have been driven up by its continued increases, for which an additional provision has been made. The 2020-24 MTFS reflected the Government's manifesto commitment that the NLW will rise to £10.50 per hour by 2024. The SR on 25th November 2020 included an increase to the NLW of 2.2% from £8.72 to £8.91, effective from April 2021. Although that increase is lower than anticipated, the element within the inflation contingency for the NLW has not been amended, due to additional pressures on care settings, including new legislation around staff movements. If Government maintains the manifesto commitment the lower increase will simply be caught up in future years.

111. The MTFS provides an estimated average increase 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 NLW.

112. 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.

113. Detailed service budgets for 2021/22 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.

Central Items

114. Interest income relating to Treasury Management investments is budgeted at £2.8m in 2020/21. However, only £1.3m is now expected to be generated. This reflects significant decreases to the Bank of England base rates and the expectation that rates will remain at very low levels for the foreseeable future. Therefore in 2021/22 a budget of £1.3m has been included and a further reduction to £0.8m by 2023/24.

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

116. The budget includes revenue funding of capital expenditure, mainly for the Corporate Asset Investment Fund, as described later in the report, of £2.5m in 2021/22, £3.5m in 2022/23 and £1.5m in 2023/24 and later years.

117. Central grant income is projected to increase in 2021/22 due to one-off Covid 19 funding and will then decrease in 2022/23 and later years due to the phasing out of New Homes Bonus grant and elements of social care funding.

Health and Social Care Integration

National Policy Context – the NHS Long Term Plan

118. 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.

119. Nationally, it has been confirmed that the 2020/21 Better Care Fund (BCF) Policy Framework will be published in due course with systems continuing to focus effort into managing the Covid-19 pandemic. It is anticipated that the while the BCF policy framework and guidance for 2020/21 will essentially be a continuation of the 2019/20 guidance. BCF arrangements from April 2020/21 will be informed by the outcome of the national review, due later this year, which is expected to inform policy to 2023/24.

BCF National Conditions

120. The four national conditions set by the government in the policy framework for 2019/20 are expected to remain the same, and are:

a) That a BCF plan, including at least the minimum mandated funding to the pooled fund specified in the BCF allocations and grant determinations, must be signed off by the Health and Wellbeing Board, and by the constituent local authorities and CCGs.

b) A demonstration of how the area will maintain the level of spending on social care services from the CCG minimum contribution in line with the uplift to the CCG minimum contribution.

c) That a specific proportion of the area's allocation is invested in NHS commissioned out of hospital services, which may include seven-day services and adult social care.

d) A clear plan on managing transfers of care (and improving delayed transfers of care), including implementation of the national high impact change model.

Better Care Fund (BCF)

121. 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.

122. BCF funding for Leicestershire in 2020/21 has been approved and is shown in the table below:

	2020/21 £m	
CCG Minimum Allocation	41.4	Level mandated by NHS England
IBCF	17.1	Allocated to local authorities, specifically to meet social care need and assist with alleviating pressures on the NHS, with emphasis on improving hospital discharge, and stabilising the social care provider market.
Disabled Facilities Grant	3.9	Passed to district councils
Total BCF Plan	62.4	

123. £19m of 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 its most vulnerable users are protected; unnecessary hospital admissions are avoided; and the good performance on delayed transfers of care from hospital is maintained.

124. In addition to the required level of funding for sustaining social care service provision, a further £6m of Leicestershire's BCF funding has been allocated for social care commissioned services in 2020/21. These services are aimed at improving carers' health and wellbeing, safeguarding, mental health discharge, dementia support and crisis response.

125. 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 CCG colleagues as part of the BCF Refresh.

Other Grants and Funds

126. There are a number of other specific grants included in the MTFS, most of which are still to be announced for 2021/22, for example:

- Public Health – the 2021/22 allocation is assumed to be £25.2m, the same as in 2020/21.
- Education and Skills Funding Agency - no details, £4.2m assumed in line with 2020/21.
- Section 31 Business Rates (Government funding for caps on business rates annual increases and other Government measures) – an estimate of £4.9m has been included for 2021/22 and later years.
- Independent Living Fund – no details, £1.2m assumed in line with 2020/21.
- Music Education Hubs Grants - £1.5m anticipated in 2021/22 based on latest information from DfE, in line with 2020/21.
- Ministry of Justice Grants – no details, £0.5m assumed in line with 2020/21.

- Troubled Families Grant – a continuation of funding has been advised for 2021/22 only but the amount is still to be confirmed. If similar levels to 2020/21 will be £0.8m and will also require up to £0.8m of funding from earmarked funds to continue the service at the same level.
- Schools Block Dedicated Schools Grant - settlement of £455.2m (including a transfer of Teachers Pay and Pensions of £20.4m and school growth funding of £2.4m).
- Central Schools Services Dedicated Schools Grant, £3.6m (including a transfer of Teachers Pay and Pension Grant of £0.3m).
- High Needs Dedicated Schools Grant – provisional settlement of £83.1m (including transfer of Teachers Pay and Pension).
- Early Years Dedicated Schools Grant – provisional settlement of £36.4m (including an increase announced in the spending review to support providers).
- New Homes Bonus Grant – £2.6m for 2021/22 reducing to nil by 2023/24.

<u>Dedicated Schools Grant Settlement 2021/22</u>

127. For 2021/22 the Dedicated Schools Grant (DSG) remains calculated in four separate blocks as set out below;

Funding Block	**Areas Funded**	**Basis for Settlement**
Schools Block Est £455.2m consisting of; • School formula funding £452.8m • School Growth £2.4m	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) who then directly fund academies.	2021/22 continues 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. 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

	For 2021/22 the funding block now includes a transfer of funding for teacher pay and pension grants for maintained schools formerly funded through specific grant.	The allocation of funding 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 9.7% as a result of increased pupil numbers, pay and pension grant transfer and national 2021/22 minimum funding guarantees. Growth funding is estimated to remain at previous levels.
Central School Services Block £3.6m	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. For 2021/22 this funding block now includes a transfer of funding for teacher pay and pension grants for centrally employed teachers formerly funded through specific grant.	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 as the DfE have 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.
High Needs Block Est £83.1m	Funds special schools and other specialist providers for high needs pupils and students, the pupil referral	The formula is based upon population of 0-19 year olds and proxy indicators for additional educational need

	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 special academies and post 16 providers which is recouped by the ESFA who then directly fund academies. For 2021/22 this element of grant now includes a transfer of funding for teacher pay and pension grants for special schools formerly funded through specific grant. Confirmation of the 2021/22 grant is not expected until March 2021.	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 do not receive a funding reduction as a result of the introduction of the formula. Leicestershire receives £1.5m through this element. The grant allocation includes the additional funding announced by the DfE in September 2019 and is an increase of 8% per head of population from the 2021/22 baseline.
Early Years Est £36.4m	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 2020 census. The grant will be updated in July 2021 for the January census and again in June 2022 for the January 2022 census. The final grant will not be confirmed until June 2022.	The allocation is based on individual pupil characteristics and converted to a rate per hour of participation. Leicestershire receives the lowest rate of £4.44 per hour for 3 and 4 year olds and the lowest rate of £5.36 per hour for disadvantaged 2 year olds. This position is an increase of funding of £0.08 per hour for 2 year old funding and £0.06 for 3 and 4 year old funding, +1.0% for 3 & 4 year old funding and +1.5% for 2 year old funding from the 2020/21 baseline.

£578.3m	**2021/22 Estimated DSG**	

128. The 2021/22 MTFS continues to set the overall Schools Budget as a net nil budget at local authority level. However, in 2021/22 there is a funding gap of £5.6m on the High Needs Block which will be carried forward as an overspend against the grant.

Schools Block

129. 2021/22 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.

130. School funding remains a ‘soft’ school funding formula for 2021/22. 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. A consultation is expected from the DfE in early 2021 on the next stage of transition to the NFF.

131. 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. The allocation for 2020/21 was £3.3m and 2021/22 funding will reduce to £2.4m. 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

132. Nationally schools will receive a minimum per pupil increase in funding of 2% per pupil with no capping on increases. Minimum per pupil funding levels of £4,180 for primary, £5,215 per KS3 pupil and £5,715 per KS4 pupil are mandatory. These values include a transfer of funding into the NFF for funding for teachers' pay and pensions that was previously funded through specific grant. Despite the overall increase in budget, at individual schools there are 91 (40%) primary and 4 (9%) secondary schools funded at the funding floor. This is an increase from the 2019/20 position of 70 (32%) of primary schools and 1 (2%) of secondary schools. These schools, despite additional funding, will experience a real terms decrease in income and can be expected to fare least favourably from the implementation of a hard NFF without minimum funding increases. As the funding guarantee is at pupil level, schools with decreases in pupil numbers will see an overall decrease in budget allocation. The Leicestershire school funding formula is unchanged for 2021/22 and it continues to replicate the NFF and its funding rates.

133. The 2021/22 Schools Block provisional DSG settlement is £455.2m, which is based upon the 2019 October school census. This includes a transfer of funding of £20.2m for the Teachers' Pay and Pensions Grant previously paid directly to schools but from 2021 will be included in the NFF. Within this block is also an allocation of £2.4m of growth funding allocated to meet the revenue costs of new and expanding schools.

134. The NFF for schools is based upon the 2020 school census but funding for local authorities is based upon the pupil characteristics recorded on the 2019 school census. Nationally there is concern that the number of pupils recorded in receipt of Free School Meals and pupils that trigger deprivation funding may have increased as a result of the pandemic. Any increase would be unfunded and could result in the cost of fully delivering the NFF being unable to be met from the Schools Bock DSG. This position will be reviewed once individual school data from the 2020 Census has been analysed. The national regulations allow for an adjustment within the formula to ensure the budgets for schools can be met from the DSG allocation. Local authorities are required to submit their funding formula to the ESFA in mid-January.

<u>High Needs</u>

135. 2021/22 is the second year of a three-year settlement for school funding and nationally high needs funding has increased by £730m (10%). Local authorities have a guaranteed minimum increase of 8% per head of population and are capped at a 12% increase. Leicestershire remains on the funding floor and receives an increase of 8%. The settlement includes £1.5m of protection funding which is not guaranteed in the long term.

136. The provisional High Needs DSG is £83.1m and includes a transfer of funding in respect of former teacher pay and pension grants for special schools which will be paid directly to them for 2021/22. The settlement will be updated in June 2021 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.

137. The High Needs Development Plan remains 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 provision.

138. The forecast position on the High Needs element of the DSG is shown below:

	2021/22 £,000	2022/23 £,000	2023/24 £,000	2024/25 £,000
High Needs Funding	-81,964	-81,964	-81,964	-81,964
Placement Costs	87,096	94,345	98,987	103,545
Other HNB Cost	8,708	8,708	8,708	8,708
Commissioning Cost - New Places	1,908	1,416	667	44
Project Costs	1,059	0	0	0
Total Expenditure	**98,771**	**104,469**	**108,362**	**112,297**
Funding Gap Pre Savings	**16,807**	**22,505**	**26,398**	**30,333**
Funding Changes	0	-6,544	-4,544	-4,544
Demand Savings	-4,447	-5,076	-5,577	-5,577
Benefit of Local Provision and Practice Improvements	-6,710	-11,017	-14,187	-15,695
Total Savings	**-11,157**	**-22,637**	**-24,308**	**-25,816**
Annual Revenue Funding Gap	**5,650**	**-132**	**2,089**	**4,517**
2019/20 Deficit Brought Forward	**7,062**			
2020/21 High Needs Deficit Brought Forward	**10,011**			
Cumulative Funding Gap	**22,723**	**22,591**	**24,680**	**29,197**

139. National research sets out systematic problems with the SEND system that are responsible for High Needs deficits. The research shows that deficits are growing within almost all local authorities in a deficit position or close to that position. Amongst a number of findings research commissioned by the Local Government Association reported that there are structural features of the SEND system which would lead to deficits even if budgets were significantly increased and that local authorities bear all the risk in this area but have no levers with which to influence

demand and cost. The DfE has undertaken a review of the SEND system but it is unclear when any findings will be published.

140. The funding position above includes a transfer from the Schools Block DSG to High Needs in 2022/23 of £2m. Schools will be engaged in developing proposals for the transfer early in 2021 before entering into consultation and seeking approval from the Schools Forum. Should Schools Forum not approve a transfer then permission may be sought from the Secretary of State. If approval cannot be secured the financial position for 2022/23 will worsen by £2m in 2022/23 only.

141. Local authorities are now required to carry forward DSG deficits to the following year and may only now contribute to DSG with the approval of the Secretary of State. Whilst this is the approach the DfE has encapsulated in legislation, it is not a sustainable or reasonable approach. Without the DfE addressing this through additional funding, local authorities will be required to set aside resources to offset the deficit.

142. The central services block funds 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 and the settlement is £3.6m for 2021/22 and includes funding transferred in respect of the former teacher pay and pensions grant for teachers employed centrally across the County Council.

143. The settlement reduces the funding for historic commitments. This is being reduced by 20% but a guarantee is in place to ensure that funding does not decrease below the financial commitment to meet former teacher employment costs. This has resulted in a loss of £147,000, but this has been offset by an increase in formula funding of £178,000.

144. Nationally, Early Years funding has been increased by £66m. The grant remains determined by the number of children participating. 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 2 year olds. The increase in funding equates to £0.08 per hour (1.5%) for 2 year olds and £0.06 per hour (1%) for 3 and 4 year olds. Leicestershire continues to receive the lowest rate per hour at £5.36 per hour for 2 year olds and £4.44 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 local authority's statutory duty to ensure sufficiency of places for those parents that request one.

Earmarked Funds and Contingency

145. 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 J. The forecast balance on the General Fund (non-earmarked fund) at the end of 2020/21 is £17m which represents 4.4% of the net budget (excluding schools' delegated budgets). It is planned to increase the General Fund to £21m by the end of 2024/25 to reflect increasing uncertainty and risks over the medium term

and the growth in the County Council's budget. 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.

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

147. 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).

148. 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.

149. Other earmarked funds for revenue purposes (excluding schools' balances and partnerships), estimated at £39m by March 2021, are held for specific purposes including insurance, change initiatives, severance costs, invest to save schemes and renewals of vehicles and equipment. Earmarked funds are also held for capital purposes and are estimated at £52m by March 2021. Details of earmarked funds are shown in Appendix K.

150. Earmarked funds and balances are held for specific purposes. The main earmarked funds and balances projected at 31 March 2021 are:

(a) Capital Financing (£51.6m). 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 runoff 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 Children and Family Services Department is investigating a number of actions that could over the course of the MTFS reduce demand and therefore the overall deficit.

(e) Council Tax and Business Rates (£5m). Income reductions due to Covid-19.

(f) Funds for specific departmental infrastructure, asset renewal and other initiatives (£24.7m).

(g) Pooled Property investments (-£24m) – invested against the balance of earmarked funds held.

151. Grant Thornton, the County Council's external auditor, has reviewed the level of earmarked funds held by the 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

152. 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 2020 was £8.0m. 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

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

154. The Policy will be considered by the Corporate Governance Committee on 29 January 2021.

Robustness of Estimates

155. 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.

156. 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.

157. 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

158. 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

159. 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 L.

Concluding Comments – Revenue Position

160. 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.

161. 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 addition, the position on some specific grants after 2020/21 is uncertain. In line with previous practice the MTFS assumes a reduction in some grants, albeit at a far lower level than the austerity years.

162. The Spending Review made clear the extent of the financial challenge to Government. By 2024/25, the forecasts indicate that Government borrowing will be running at £100 billion, which is £42 billion above that forecast for the same year back in March. The Chancellor's stated aim is to balance the books; what is not clear is the mix of spending cuts and tax increases that will be employed.

163. 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 puts 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, although Government's £10.50 target acts as a guide.

164. Cost pressures have been further compounded by the Covid pandemic. 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.

165. Successful delivery of savings is dependent upon a range of factors, not all of which are in the Council's control. All savings included in the MTFS have had an initial deliverability assessment so that a realistic financial plan can be presented. With 2022/23 not forecast to be balanced there is less time to generate new savings and a lower margin of error on delivery. Identifying new savings will be a key activity a task made harder by the reduced options available. A significant level of savings has been delivered in Adult Social Care in the last two years with more planned. The Children and Family Services' savings target of £16m is four-times its current MTFS target.

166. 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 £62m of funding related to the BCF. Even a partial loss of this funding would be difficult to manage.

167. Maintained 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.

168. The delivery of the MTFS will be more challenging than usual. Some local authorities, which are better funded than Leicestershire, are already in financial difficulties. For example, Croydon issued a Section 114 Notice on 11th November 2020, effectively declaring itself bankrupt and imposing emergency spending restrictions. 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.

169. By focusing on the financial position over the medium-term the importance of the Council Tax increase can be seen. Without the increase minimal certainty would be placed on the next financial year where continued Covid costs are a certainty, but Government support is not. Services can be offered more protection in the medium-term with the financial gap being reduced and delayed a year, this allows greater confidence that efficiency improvements can be identified and delivered or new funding sources.

170. The delivery of this MTFS rests on four factors:

- Dealing with the short-term cost pressures and anticipated on-going reduction in resources arising from the Covid pandemic.
- The absolute need to deliver the savings set out in this 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, for example costs currently being borne by the NHS shifting to local authorities and loss of trading income.

Treasury Management Strategy Statement and Annual Investment Strategy

171. 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 N to this report sets out the combined Treasury Management and Investment Strategy including the Treasury Management Policy Statement for 2021/22.

172. 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.

173. 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 H), which sets out the Council's approach when considering the acquisition of investments for the purposes of inclusion within the CAIF, and the Capital Strategy (Appendix G), which sets out the Council's approach to determining its medium term capital requirements.

174. The expectation is that there will be no new external borrowing by the County Council in the period covered by this MTFS, namely 2021 to 2025.

175. The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 16th December 2020, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and

that more quantitative easing is the favoured tool if further action becomes necessary.

176. 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.

177. The strategies will be considered by the Corporate Governance Committee on 29 January 2021.

Capital Programme 2021/22 to 2024/25

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

- To invest in priority areas 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 the relevant departments;
- Maximise the achievement of capital receipts;
- Maximise other sources of income such as bids to the LLEP, section 106 developer contributions and other external funding agencies;
- No or limited prudential borrowing (only if the returns exceed the borrowing costs).

179. The proposed 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.

180. The draft programme and funding is shown below:

Draft Capital Programme 2021-25

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
Children and Family Services	38.5	13.4	16.0	16.5	84.4
Adults and Communities	9.6	6.5	4.5	4.3	24.9
Environment and Transport	53.8	83.4	44.9	30.7	212.8
Chief Executive’s	2.0	0.1	0.1	0.1	2.3
Corporate Resources	5.1	2.5	2.0	1.7	11.3
Corporate Programme	16.0	40.1	28.5	36.5	121.1
Total	**125.0**	**146.0**	**96.0**	**89.8**	**456.8**

Capital Resources 2021-25

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
Grants	65.2	79.4	38.2	29.4	212.2
Capital Receipts from sales	7.7	2.0	2.0	2.0	13.7
Revenue/ Earmarked funds Contributions	42.1	4.1	1.8	1.7	49.7
External Contributions	10.0	3.7	3.7	20.8	38.2
Total	**125.0**	**89.2**	**45.7**	**53.9**	**313.8**
Funding Required	**0**	**56.8**	**50.3**	**35.9**	**143.0**

181. 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 capital programme.

182. The proposed programme can be summarised as:

Service Improvements	£223m
Investment for Growth	£103m
Invest to Save	£81m
Future Developments	£50m
Total	**£457m**

<u>Changes to the draft Capital Programme proposed in December 2020 and January 2021</u>

183. The overall programme has increased by £7m to £456.8m. Within the overall total spending profiles for schemes have been updated for the latest estimates.

184. Overall funding has increased by £10m for additional funding from developer contributions (£7m), the MTFS 2021-25 (£2m) and earmarked funds (£1m), increasing the overall funding of the programme to £313.8m. This results in an updated overall shortfall of £143m across the four year programme.

185. The initial estimate for the cost of delivering the Melton Mowbray Distributor Road (South) was £28m. As part of work undertaken with developers to contribute to the production of an effective Masterplan by Melton Borough Council, a revised viability assessment for the scheme has been undertaken. This included a refresh of the infrastructure costs to reflect changes to the location of the schools and alignment of the road which reduces the land take from the site and accommodates additional land for development.

186. As reported to Cabinet in December 2020, following the redesign work undertaken, the cost estimate for the road has increased by £7m to £35m. However, the updated viability assessment confirms that with Housing Infrastructure Fund investment the Southern Neighbourhood development is viable based on the working assumption in the concept development layout plan. Taking into account contributions from other development dependent on the road including employment land, the evidence suggest that the expected increase in costs should be recoverable from additional developer contributions.

187. Initial contractor estimates for the Melton Mowbray Distributor Road North/East scheme suggest a material increase in costs are expected. The £63.5m scheme is the largest and most complex project in the capital programme. Despite significant internal and external resources being involved a high degree of estimation has been required to create the project budget. Options to resolve are currently being worked on. The capital programme has not been updated to reflect this anticipated change.

Funding and Affordability

Forward Funding

188. 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. 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.

189. Forward funding presents a significant financial commitment for the County Council, but is intended to 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.

190. There are increasing risks involved in managing and financing a programme of this size, whose costs will continue to grow, most likely significantly, in line with increasing construction costs and district council Local Plans. 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.

191. 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. It is important that the assessment of risk is undertaken simultaneously with district council Local Plans and that transport infrastructure requirements of housing and economic growth are not presented to the County Council as a fait accompli.

192. The risk with forward funding is that 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.

193. Given the overall level of forward funding, it is imperative that these agreements provide some protection to the County Council.

194. 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.

195. The East Midlands is disadvantaged in terms of the ability to influence Government and attract investment or devolution opportunities compared to the West Midlands which has an elected mayor and a combined authority. The most recent devolution deal (2017) for the West Midlands 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

196. 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).

<u>Children and Family Services</u>

197. 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 - 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 Council's High Needs Development Plan.

Adult Social Care

198. 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

199. The DfT grants have not yet been announced. Estimates have been included for Improvement Schemes and Maintenance based on previous years. The funding includes:
a) Improvement Schemes - £2.7m per annum (£10.9m overall).
b) Maintenance funding - £11.4m per annum (£45.8m overall).
c) Pothole and Challenge fund - £7.8m per annum (£31.3m overall).

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

- DfT Melton Mowbray Distributor Road funding - £42.3m (total £49.5m including 2020/21 allocation)
- Housing Infrastructure Fund – Melton Southern Distributor Road - £13.2m.

Capital Receipts

201. 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.

202. 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

203. To supplement the capital resources available and avoid the need for borrowing £50m of revenue funding is being used in the draft programme consisting of:

One-off MTFS 2021-25 revenue contributions	£9m
Departmental earmarked funds	£1m
Capital Financing earmarked fund	£40m
Total	£50m

204. 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.

205. 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

206. A total of £38m is included in the funding of the capital programme 2021-25. This includes £37m from section 106 developer contributions.

Funding from Internal Balances

207. A total of £143m 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.

208. 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 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%.

209. The overall cost of using internal balances to fund £143m of investment is estimated to be £6m per annum by 2024/25, comprising Minimum Revenue

Provision of £4m 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.

210. 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

211. Over the period of the MTFS, capital programme of £457m 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 - £213m. This relates to: Major Schemes such as Melton Mowbray Distributor Road North/East and Southern Sections, Zouch Bridge replacement as well as the Transport Asset Management Programme and the Environment and 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).

Capital Summary

212. The capital programme totals £457m over the four years to 2024/25. 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 highways of £13m (£30m cumulative).

213. Longer term infrastructure schemes (outside of the MTFS period) 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.

214. Overall £143m from internal cash balances will be used to fund the cash flow of capital programme. The additional revenue costs arising from this total £6m per annum.

215. 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.

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

217. 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.

Results of Scrutiny Process

218. 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 P sets out the comments arising from meetings of Scrutiny bodies.

Equality and Human Rights Implications

219. 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.

220. 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.

221. A high level Equalities and Human Rights Impact assessment of the MTFS 2021-25 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.

222. 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.

223. 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.

224. The findings between April 2017 and March 2020 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.

225. 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.

226. A summary of the findings from this assessment are available as Appendix Q to this report.

Crime and Disorder Implications

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

Environmental Implications

228. The MTFS includes schemes to support the Council's response to climate change and to make environmental improvements.

Partnership Working and Associated Issues

229. 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

230. 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 19th 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 15th 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: 2021/22 Revenue Budget
Appendix B: Four Year Revenue Budget 2021/22 to 2024/25
Appendix C: Growth and Savings 2021/22 to 2024/25
Appendix D: Savings under Development
Appendix E: Detailed Revenue Budgets 2021/22
Appendix F: Capital Programme 2021/22 to 2024/25
Appendix G: Capital Strategy
Appendix H: Corporate Asset Investment Fund Strategy
Appendix I: Risk Management Policy and Strategy
Appendix J: Earmarked Funds Policy
Appendix K: Earmarked Funds
Appendix L: Insurance Policy
Appendix M: Council Tax and Precept
Appendix N: Treasury Management Strategy Statement and Annual Investment Strategy
Appendix O: MTFS Consultation Report
Appendix P: Comments of the Overview and Scrutiny Committees and Scrutiny Commission
Appendix Q: Equality and Human Rights Impact Assessment