Leicestershire County Council

CABINET – 11TH FEBRUARY 2022

PROVISIONAL MEDIUM TERM FINANCIAL STRATEGY 2022/23 - 2025/26

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PART A

Purpose of the Report

1. This report presents the County Council's proposed 2022/23 to 2025/26 Medium Term Financial Strategy (MTFS) for approval, following consideration of the draft MTFS by the Cabinet in December 2021 and the Overview and Scrutiny bodies in January and receipt of the Local Government Finance Settlement.

Recommendations

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

   (a) That subject to the items below, approval be given to the Medium Term Financial Strategy (MTFS) which incorporates the recommended revenue budget for 2022/23 totalling £471.7m 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 2023/24, 2024/25 and 2025/26, 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 2022/23 be as set out in Appendix M (including 1% for the adult social care precept);

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

(g) That approval be given to the 2022/23 to 2025/26 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:

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Operational boundary for external debt i) Borrowing ii) Other long term liabilities	 263 1	 263 1	 311 1	 340 1
TOTAL	264	264	312	341
 Authorised limit for external debt i) Borrowing ii) Other long term liabilities	 273 1	 273 1	 321 1	 350 1
TOTAL	274	274	322	351

(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 2022/23 to 2025/26:

(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 2022/23, subject to the prudential limits in Appendix N;

(m) That the Treasury Management Strategy Statement and the Annual Investment Strategy for 2022/23, 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 2022/23;

(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 23rd February 2022;

(q) That the Leicestershire School Funding Formula is unchanged and continues to reflect the National Funding Formula for 2022/23.

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 2022/23, to allow efficient financial administration during 2022/23 and to provide a basis for the planning of services over the next four years.

4. Continuing an unchanged Leicestershire School Funding Formula for 2022/23 will ensure that it fully reflects the National Funding Formula (NFF).

Timetable for Decisions (including Scrutiny)

5. On 14 December 2021 the Cabinet agreed the proposed MTFS, including the 2022/23 revenue budget and 2022/23 to 2025/26 capital programme, for consultation. The Overview and Scrutiny Committees and the Scrutiny Commission then considered the proposals in January 2022 (the comments of these bodies are attached as Appendix Q).

6. The County Council meets on 23rd February 2022 to consider the MTFS including the 2022/23 revenue budget and capital programme. This will enable the 2022/23 budget to be set before the statutory deadline of the end of February 2022.

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 17th February 2021. The County Council's Strategic Plan (agreed by the Council on 6th December 2017) outlines the Council's long-term vision for the organisation and the people and place of Leicestershire. An updated version is currently being consulted upon - https://www.leicestershire.gov.uk/have-your-say/current-engagement/leicestershire-county-council%E2%80%99s-strategic-plan-2022-2026

8. The key aims of the Plan being consulted on are:
   - Clean, green future;
   - Create communities;
   - Improving opportunities;
   - Strong economy, transport and infrastructure;
   - Keeping people safe and well.

9. The MTFS, along with other plans and strategies such as the Transformation Programme, aligns with these aims and underpins the Strategic Plan's delivery. The closing date for the consultation is the 18th February 2022.

10. In December 2021, the Cabinet approved authority to be granted to the Chief Executive and the Director of Corporate Resources, following consultation with the Lead Member for Resources, to approve the use of any additional funding which may be made available by the NHS locally to ease the burden on the health and care system, noting that this is likely to be non-recurrent funding for use in the current financial year.

Legal Implications

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

12. 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.

13. 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 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.

14. 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.

15. 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.

16. The County Council as a major precepting authority is required to consult representatives of business ratepayers.

Resource Implications

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

18. The County Council is operating in an extremely challenging financial environment following a decade of austerity and spending pressures, particularly from social care and special education needs. The financial position in 2020/21 and 2021/22 has been severely affected by Covid-19 and the on-going financial impacts of the pandemic are still not fully understood. 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.

19. The Office for Budget Responsibility's (OBR's) economic forecast (October 2021) shows a continuing gradual return to some sort of economic normality. However, the impact of Covid-19 will take many years to unwind and as such the Government has very limited room for manoeuvre, above the Spending Review levels, in terms of supporting the public sector to deal with the Covid-19 aftermath and dealing with the pressures of significant demand and cost increases.

20. Public Sector Net Borrowing (PSNB) has totalled £127 billion in the first 7 months of the current financial year. This is down £103 billion (or 45%) on the equivalent periods last year. However, it should be remembered that in 2020/21, PSNB was at its highest ever peace time level.

21. Government spending has fallen by 7% in this 7 month period compared to the same period last year, largely due to the unwinding of the job retention scheme (furlough) and self-employment support schemes.

22. Inflation is expected to remain around 5% for the next few months. The Consumer Price Index (CPI) is expected to peak at about 6% in April 2022 according to the Bank of England, although some commentators are suggesting higher levels

23. It increasingly looks as though many local government services will never return to what might have been considered as 'normal' but what this will actually mean in the medium term is very difficult to forecast. So again this year, the level of uncertainty in the MTFS is greater than would have been the case in recent years. But also the scale of the challenge faced to balance the MTFS by year 4 is much more significant than has been the case in the past.

24. The current MTFS was balanced for years one and two, with a gap of £23m in year four. This revised MTFS balances in year one only with the gap in year four rising to £39m.

25. Delivery of the MTFS requires savings of £94m to be made from 2022/23 to 2025/26. This MTFS sets out in detail £40.0m of savings and proposed reviews that will identify further savings to offset the £39.5m funding gap in 2025/26. A further £14.4m 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, plans and discipline will be essential in the delivery of the MTFS.

26. To ensure that the MTFS is a credible financial plan, unavoidable cost pressures have been included as growth. By 2025/26 this represents an investment of £88m, primarily to meet the forecast increase in demand for social care. The MTFS also includes a £72m provision for pay and price inflation. The majority of these pressures are unavoidable due to the nationally set National Living Wage and pay awards.

27. Balancing the budget is a continued challenge. With continual growth in service demand recent MTFS's have tended to show two years of balanced budgets followed by two 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.

28. The deficit forecast in 2023/24 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 suppressed. A heightened focus on the County Council's

finances is required whilst this situation remains. Reserves will need to be set aside to ensure that the County Council has sufficient time to formulate and deliver savings.

29. The draft four-year capital programme totals £515m. 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 £372m with the balance of £143m being temporarily funded from the County Council's internal cash balances.

30. 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

31. This report has been circulated to all Members of the County Council.

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PART B

Changes to the draft Budget proposed in December 2021

32. Changes to the draft budget considered by the Cabinet on 14th December 2021 are summarised in the table below:

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Shortfall at 14th December 2021	0	11,464	28,979	46,439
Funding changes				
Revenue Support Grant (New Burdens)	-10	-10	-10	-10
Business Rates Section 31 Grant	-1,260	-1,320	-1,350	-1,390
New Homes Bonus Grant	-1,201	0	0	0
Improved Better Care Grant	-520	-520	-520	-520
Social Care Grant	-5,699	-5,699	-5,699	-5,699
Services Grant (2022/23)	-4,265	0	0	0
New Grants (assumed share of £1.6bn -replaced)	8,000	8,000	8,000	8,000
Market Sustainability & Fair Cost of Care	-1,630	-1,630	-1,630	-1,630
Council Tax Precept	584	610	630	650
Council Tax Collection Funds	-2,569	0	0	0
Provision for impact of Covid-19 on funding	-1,000	-1,000	-1,000	-1,000
Budget Equalisation Earmarked Fund – Contribution changes	7,790	-5,700	-7,100	-8,300
Other Changes				
Inflation Contingency	1,630	3,630	3,630	3,630
Leicestershire Grants – increased allocation	150	150	150	150
Other	0	0	-200	-800
Revised Shortfalls	**0**	**7,975**	**23,880**	**39,520**

33. The changes are as detailed below:

- The County Council last received Revenue Support Grant (RSG) in 2018/19. The provisional Local Government Finance Settlement shows a RSG figure of £10,000 which relates to new burdens funding.

- Business Rates Section 31 Grant – the provisional Settlement includes Section 31 grants reflecting CPI inflation, whereas the final Settlement will be updated to reflect RPI inflation levels, which will increase income to the Council by around £1.3m.

- New Homes Bonus (+£1.2m) updated estimate per the 2022/23 Local Government Finance Settlement. The Settlement includes an additional year of the grant and the remaining legacy amount of £0.9m, in respect of 2019/20, both of which will be phased out by 2023/24.

- Improved Better Care Fund (+£0.5m) updated estimate per the 2022/23 Settlement.

- Social Care Grant (+£5.7m) increased allocation in the Settlement. The allocation includes an adjustment based on the relative levels of funding that Councils can raise from council tax (via the Adult Social Care Precept), which reallocates grant from areas such as County Councils to areas with low council tax levels, particularly in London. This is causing the County Council's share of the national allocation to reduce each year.

- Services Grant 2022/23 (+£4.3m). The Settlement includes a one-off grant of £822m nationally, of which the County Council will receive £4.3m. The Settlement states that "This will provide funding to all tiers of local government in recognition of the vital services, including social care, delivered at every level of local government. This grant includes funding for local government costs for the increase in employer National Insurance Contributions" and also that the Government "intends to work closely with local government on how to best use this funding from 2023/24 onwards".

- New Grant 2022/23 (-£8.0m). The draft MTFS included an estimate that the County Council would receive around 0.5% of the additional funding referred to in the Chancellor's Spending Review. That assumption can now be removed and be replaced by the grants announced in the Settlement.

- Market Sustainability and Fair Cost of Care Fund (+£1.6m). The Settlement includes £162m for this new ringfenced funding, of which the County Council will receive £1.63m. The funding is towards the inflationary and demographic pressures facing adults and children's social care services.

- Council tax precept 2022/23 tax bases provided by the District Councils are 0.2% lower than previously anticipated, leading to a £0.6m reduction in income. This is offset by the removal of a £1m provision included in the draft MTFS for the impact of Covid-19 on income levels.

- Provisional council tax collection fund estimates for 2021/22 have now been received from the billing authorities which show an increase of £2.6m compared with the previous estimate.

- The net changes to the 2022/23 budget total £7.8m, which can be contributed to the budget equalisation reserve to provide cover for budget shortfalls in later years. In addition, the latest assessment of the High Needs Block position for 2023/24 to 2025/26 forecasts a reduction in the deficit due to higher than expected government grant allocations, following release of revised information and new guidance by Government. This has allowed for reduced contributions to the budget equalisation reserve of £5.7m, £7.1m and £8.3m. The overall High Needs deficit, by the end of the MTFS, is now forecast to be £63m compared with £86m reported in the draft MTFS report to the Cabinet in December 2021.

- The contribution to the budget equalisation reserve in 2022/23 includes £0.1m to fund a temporary policy officer to implement an anti-racism strategy (£80,000 over 2 years) and to provide funding for Highways closures for the Queen's Platinum Jubilee celebrations in June 2022 (£50,000).

- The central inflation contingency will be increased by £1.6m in 2022/23 to reflect the Market Sustainability and Fair Cost of Care funding referred to above, and then by a further £2m from 2023/24 for increasing estimates of inflation. Overall this provides £29m for inflation in 2022/23 rising to £72m by 2025/26.

- Other changes include, the Financing of Capital and the Bank and Other Interest budgets which have been reduced by £0.2m in 2024/25 and £0.8m in 2025/26 due to the latest forecasts on the financing of the capital programme. An increase of £150,000 per annum for the Leicestershire grants programme has also been included as a result of the better than forecast collection fund surpluses described earlier.

Expected Service Reforms

34. The Government's review of special education needs and disabilities (SEND), initially launched in September 2019, was expected to report in early 2021 but is still awaited. The review is expected to assess how this system has evolved since the introduction of education, health and care plans in 2014, and school funding reform in 2013. It is also expected to look at links with health care provision and 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. There are serious concerns that the review will not adequately address the affordability of the system.

35. On 1 December 2021 the Government released its long awaited White Paper on social care reform, 'People at the Heart of Care'. The White Paper articulates a 10 year vision for adult social care and provides information on funding proposals over the next 3 years. It sets out how some of the £1.7bn announced at the SR (of the £5.4bn total previously announced) for adult social care reform over the next 3 years will be used for major improvements across the adult social care system to begin to transform the adult social care system in England, such as new investments in:

- housing and home adaptations
- technology and digitisation
- workforce training and wellbeing support
- support for unpaid carers, and improved information and advice
- innovation and improvement

36. Within the local government Settlement a new 'Market Sustainability and Fair Cost of Care Fund' was announced to "ensure that local authorities are able to move towards paying a fair cost of care". A total of £1.6m has been allocated to the County Council for 2022/23. To prepare markets, the Government requires local authorities to carry out activities such as:

- conduct a cost of care exercise to determine the sustainable rates and identify how close they are to it.

- engage with local providers to improve data on operational costs and number of self-funders to better understand the impact of reform on the local market (particularly the 65+ residential care market, but also additional pressures to domiciliary care).

- strengthen capacity to plan for, and execute, greater market oversight (as a result of increased section 18(3) commissioning) and improved market management to ensure markets are well positioned to deliver on our reform ambitions.

- use this additional funding to genuinely increase fee rates, as appropriate to local circumstances. To fund core pressures, local authorities can make use of over £1 billion of additional resource specifically for social care in 2022 to 2023. This includes the increase in Social Care Grant and the improved Better Care Fund, a 1% adult social care precept and deferred flexibilities from last year's settlement.

37. It is important to be mindful that, whilst it is welcomed that the Government is looking to address these issues, there is no guarantee that it will actually be beneficial to the County Council financially and potentially could increase costs. A significant portion of the funding will be to reduce the contributions that self-funders make towards their care. Leicestershire has significantly more self-funders than the national average, which will cause a disproportionate impact on the County Council if the reforms are underfunded. This has not been reflected in the first funding allocation.

Local Government Finance Settlement

38. The 2022/23 provisional Local Government Finance Settlement was issued on 16th December 2021. 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.

39. Although the 2021 Spending Review relates to 2022/23 to 2024/25, the Settlement only relates to 2022/23 financial year. Although a one year Settlement leads to uncertainty around medium term funding the SR does at least offer some hope for a reallocation of funding.

40. The main impacts of the provisional Settlement on the draft MTFS are covered in paragraph 33 earlier in the report.

41. 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 2022/23 may not be confirmed in the current financial year and the ongoing implications are subject to significant uncertainty.

Spending Power

42. The Government uses a measure of core spending power in assessing an authority's financial position. The County Council's historic annual core spending power from the provisional 2022/23 Settlement is shown below. The key thing to note is that over this period Revenue Support Grant (RSG) had disappeared completely by 2019/20 compared to a figure of £56m 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 prospect of "negative RSG".

	15/16 £m	16/17 £m	17/18 £m	18/19 £m	19/20 £m	20/21 £m	21/22 £m	22/23 £m
Settlement Funding Assessment: RSG	56.2	37.0	19.5	8.5	0.0	0.0	0.0	0.0
Settlement Funding: Business Rates	60.5	57.4	58.7	60.9	62.9	64.4	65.1	67.0
Council Tax*	233.4	247.6	263.1	285.5	301.6	319.3	336.9	352.5
Improved BCF**	0.0	0.0	9.5	12.4	14.8	17.2	17.2	17.7
New Homes Bonus	3.3	4.3	4.1	3.7	3.7	3.7	2.6	2.1
Transition Grant	0.0	3.3	3.3	0.0	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	0.0
Winter Pressures Grant#	0.0	0.0	0.0	2.4	2.4	0.0	0.0	0.0
Social Care Grant	0.0	0.0	0.0	0.0	4.1	13.0	14.2	19.9
Market Sustainability	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.6
2022/23 Services Grant	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.3
Core Spending Power	353.4	349.6	360.6	374.9	389.5	417.6	436.0	465.0

*Government forecasts of 2022/23 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.

43. The table shows that 'core spending power' (CSP) increased in cash terms by £111.6m (31.6%) from 2015/16 to 2022/23. With inflation historically running at circa 3% each year this represents a relatively 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 and special education needs. This is particularly difficult for Leicestershire which continues to be an area of one of the fastest growing populations nationally.

44. 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.

45. The Government's assumption, and a factor in the new social care grant allocations, was that the full 3% increase in the adult social care precept would be taken by councils in 2021/22.

46. The Government also assumed that the average tax base growth seen in recent years (2% in the case of the County Council) would be repeated in 2021/22. That assumption had not been adjusted for the adverse impacts of Covid-19 and the actual net increase in the 2021/22 tax base was only 0.5%. As anticipated, the Government has now amended the 2021/22 CSP by -£5.1m to reflect this.

47. There is a relatively smaller overstatement of £0.9m in the 2022/23 CSP, with Council Tax being assumed at £352.5m compared with the proposed Precept of £351.6m. The tax base increase in 2022/23 of 1.3% is a significant improvement on the 0.5% in 2021/22 but is still below the average in recent years.

48. 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.

49. There are still significant risks due to the uncertainty of future funding levels.

Funding Reforms

50. Local Government funding went through considerable upheaval in the 2010's. 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.

51. 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).

52. More recently the County Council has led the formation of the F20 group of councils which have the unenviable position of facing higher levels of council tax and lower levels of core spending power. The group has been formed to continue to press for reforms and offer practical suggestions to the Government that could be implemented quickly.

53. 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 as an area was funded at the same level as Surrey, it would be £115m per year better off, or £292m, compared to Camden.

54. 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.

55. 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.

56. This non-committal 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 support 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.

57. The “Other Grants and Funds” section of this report show the main specific grants received. These grants are usually announced late and only for one financial year. The levels for future years are therefore highly uncertain. Some grants are also impacted by economic measures, most notably inflation. To deal with anticipated reductions in future years a £3m allowance has been made for grant reductions in both 2024/25 and 2025/26, reflected as a potential reduction to the Business Rates “Top-up”.

Business Rates

58. 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.

59. When Government makes changes to the national Business Rate Scheme compensation for funding losses are made through a series of grants, referred to as Section 31 grants.

60. The proposed MTFS includes an assumption that the total of the baseline, top up and Section 31 grant elements will be increased by 3.1% in 2022/23, in line with the CPI in September 2021, and that the increase will be received in the form of an additional Section 31 grant from the Government, as the Chancellor of the Exchequer has frozen the “poundage” charged to business for 2022/23 at 2021/22 levels.

61. 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 was deferred again until 2022/23. The Settlement in December 2021 has confirmed that the reset will be deferred again, possibly until 2023/24. This will result in councils losing their share of accumulated growth. For the County Council this amounts to £6m 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 £10m.

62. 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.

63. 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 £41m is forecast to have been retained in Leicestershire since 2013/14, due to the success of the Pool, with a further potential surplus of £10.5m in 2021/22.

64. The partners decided in January 2022 to continue with the Pool in 2022/23. Although the medium-term economic effects of Covid-19 on business rates on 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

65. 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 2022/23. In addition, they are permitted to raise an additional 1% to fund adult social care (the adult social care precept).

66. 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 impacts the level of income available ad infinitum. Every 1% Council Tax is increased by is worth £3.4m to the County Council and costs each household in a band D property an additional £14.10 per year. The 2022/23 draft budget assumes a 2.99% increase, which contributes towards a balanced budget. If this increase was not taken service cuts would be the inevitable consequence.

67. The draft MTFS is based on a council tax increase of 2.99% in 2022/23 and 1.99% in each subsequent year. There is likely to be scope to take an additional amount for the Adult Social Care precept in the subsequent years as well but that would be assessed in light of the revised position this time next year.

68. The amounts of the County Council's Council Tax for each band of dwelling and the precept payable by each billing authority for 2022/23 are set out in Appendix M (including 1% for the adult social care precept).

2022/23 - 2025/26 Budget

69. The provisional 2022/23 budget is detailed in Appendix A. The provisional detailed four-year MTFS is set out in Appendix B and is summarised in the table below:

Provisional Budget	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Services including inflation	407.6	440.2	461.6	487.9
Add growth	35.5	17.5	17.5	17.4
Less savings	-17.6	-10.5	-5.6	-6.0
	425.5	447.2	473.5	499.3
Central Items	23.0	22.1	23.1	24.9
Less savings	-0.1	0.0	-0.1	0.0
	448.4	469.3	496.5	524.2
Contributions to:				
Budget equalisation earmarked fund	22.3	7.7	9.1	8.9
General Fund	1.0	1.0	1.0	1.0
Total Spending	**471.7**	**478.0**	**506.6**	**534.1**
Funding				
Business Rates	-74.5	-71.3	-70.2	-68.8
Council Tax	-355.2	-363.0	-376.8	-390.1
Central Grants	-42.0	-35.7	-35.7	-35.7
Total Funding	**-471.7**	**-470.0**	**-482.7**	**-494.6**
Shortfall	**0.0**	**8.0**	**23.9**	**39.5**

70. The MTFS shows a balanced position for 2022/23 and shortfalls of £8m in 2023/24 rising to £39.5m in 2025/26. As set out in the following section there is a range of initiatives currently being developed that will aim to bridge the gap.

Savings and Transformation

71. Overall, the balance between expenditure and income shows a gap of £39.5m 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 £40m that have been identified, £17.8m of which are to be made in 2022/23.

72. This is a challenging task especially given that savings of over £230m have already been delivered over the last twelve 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.

73. The main four-year savings are:

- Children and Family Services (£14.5m). This includes savings of £12.3m from the Defining CFS 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 (£15.8m). This includes £6m from additional income, £2.3m from implementation of digital assistive technology to

service users, £1.3m additional BCF/Health income and £1m from the Social Care Investment Plan.

- Public Health (£0.3m) from completing the Early Help and Prevention Review, service redesign and a review of commissioned services.
- Environment and Transport (£3.6m). Savings include £1.1m from the SEN Transport Lean Review, £1m from improved options for the treatment of residual waste and £0.5m from a range of small scale opportunities that form the E&T Continuous Improvement Programme.
- Chief Executive's Department (£0.7m). This includes saving of £0.5m from a review of case management and new ways of working.
- Corporate Resources (£4.9m). This includes £1.6m from increasing returns from the Corporate Asset Investment Fund, savings of £1.4m from the Workplace Strategy / Ways of Working, £0.7m from the Customer and Digital Programme and £0.6m from Commercial Services.

74. Of the £40m identified savings, efficiency savings and additional income account for £39m, and can be grouped into three main types*:*

    a) Service re-design (£24m)
    b) Better commissioning and procurement (£3m)
    c) Senior management and administration (£1m)
    d) Income (£11m)

75. 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.

76. Further savings or additional funding will be required to close the budget shortfall of £8m in 2023/24 rising to £39.5m in 2025/26.

77. 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.

78. 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.

79. The MTFS also includes the High Needs Block Development Plan which is reducing costs through increased 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 £14.4m are planned over the MTFS period.

Transforming the way the Council works – Strategic Change

80. 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, represents savings in excess of £94m, including £14m for SEND. This will be aligned to the MTFS refresh to 2025/26 and will reflect the priorities of the Council's new Strategic Plan.

81. Alongside the need for financial sustainability, this latest refresh of the portfolio retains three further primary programmes of work, each representing key strategic priorities for change. The Council's commitment to reducing the environmental impact of its operations is represented in its Carbon Reduction programme with a clear target to achieve a net zero position by 2030. Improving customer contact through the use of automation and digital technology is a central premise of the Customer and Digital programme. Finally, the Authority's Ways of Working programme is bringing together Technology, People and Workplace change to redefine how it operates and shares its resources.

82. 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 and mitigate where possible the need for future growth in spending.

Growth

83. Over the period of the MTFS, growth of £87.9m is required to meet demand and service pressures with £35.5m required in 2022/23. The main elements of growth are:

- Children and Family Services (£25.1m). This is mainly due to £19.3m for pressures on the Social Care placements budget arising from increased numbers of Looked After Children and £5.6m for increased Social Care caseloads.
- Adult Social Care (£35.0m). This is largely the result of an ageing population with increasing care needs and increasing numbers of people with learning disabilities.
- Environment and Transport (£5.6m). This primarily relates to increased numbers of clients and costs on the Special Educational Needs (SEN) Transport budget (£5.2m).
- Chief Executive's (£0.3m). This includes additional funding for Leicestershire grants and provision for increased requirements on Trading Standards.
- Corporate Resources (£1.9m). This mainly relates to cost pressures on Commercial Services (£1.2m) and ICT licence subscriptions and support costs (£0.3m).
- Corporate Growth (£20.0m). 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.

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

Inflation

85. The Government's preferred measure of inflation is the CPI. In December 2021 this was 5.4% and it is forecast to peak at 6% in April 2022. The Office for Budget Responsibility (OBR) predicts it will be around 3.9% in 2022/23 (3rd quarter 2022), 2.4% in 2023/24 and 2.0% in both 2024/25 and 2025/26.

86. However, the Council's cost base does not always reflect CPI. Energy and fuel increases, for example, have a much more significant impact. The draft MTFS assumes 5% inflation in 2022/23 and 3% per annum over the period 2023/24 to 2025/26.

87. 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 2021-25 MTFS reflected the Government's manifesto commitment that the NLW will rise to £10.50 per hour by 2024. The 2020 Spending Review on 25th November 2020 included an increase of 2.2% from £8.72 to £8.91, effective from April 2021. Although that increase was lower than anticipated, it was assumed that the lower increase would simply be caught up in future years; the Budget / Spending Review on 27th October 2021 included an increase of 6.6% from £8.91 to £9.50, effective from April 2022, which puts the NLW back on track for a rate of around £10.50 by 2024.

88. The MTFS provides an estimated average pay award of 2% each year, with an allowance for higher increases in the lower grades to reflect the impact of the NLW.

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

90. Detailed service budgets for 2022/23 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. The contingency includes a total of £28.8m for 2022/23, rising to £43.5m in 2023/24, £57.9m in 2024/25, and £72.3m in 2025/26. The components of the contingency are provisions for:

- Pay awards £21.7m
- Pension contribution increases £4.1m
- National Insurance increase £3.2m
- National Living Wage/ Adult Social Care fee reviews £29.5m
- Other running costs, net of income £12.2m
- ASC reforms £1.6m

Central Items

91. Capital financing costs are expected to rise to £19.5m in 2022/23 (from £19.0m in 2021/22) and then to rise to £22.5m in 2025/26, as a result of the increasing financing requirements for the capital programme.

92. The budget includes revenue funding of capital expenditure, to reduce the overall need for borrowing to fund the capital programme, of £2.5m in 2022/23 and £1.5m in 2023/24 and later years.

93. Interest income relating to Treasury Management investments is budgeted at £1.4m in 2022/23 and is estimated to reduce to £1m by 2025/26 as cash balances are reduced to fund internal borrowing for the capital programme.

94. Central grant income in 2022/23 totals £42.1m and includes:

- New Homes Bonus Grant £2.1m (£1.2m higher than anticipated; final amount of £0.9m expected in 2023/24)
- Improved Better Care Grant £14.2m (increased by £0.5m)
- Social Care Grant £19.9m (increased by £5.7m)
- Market Sustainability and Fair Cost of Care Fund £1.6m – new funding from 2022/23, reflected in an increase in the inflation contingency
- Services Grant – one-off funding in 2022/23 £4.3m.

Health and Social Care Integration

Better Care Fund (BCF)

95. 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.

96. The Council has received funding from the NHS through the Better Care Fund (BCF) since 2015/16 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.

97. The BCF Policy Framework and Planning Requirements are refreshed regularly and may cover one year or a number of years. The Department of Health and Social Care (DHSC) and the Department for Levelling Up, Housing and Communities (DLUHC) published a Policy Framework for the implementation of the BCF in 2021/22 on 19th August 2021. The requirements of the planning process have been focused on continuity, while enabling areas to agree plans for integrated care that support recovery from the pandemic and build on the closer working many systems developed to respond to the impact. NHS England will approve BCF plans in consultation with DHSC and DLUHC.

98. The four national conditions set by the Government in the policy framework for 2021/22 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) That a clear plan is in place to improve outcomes for people being discharged from hospital.

99. BCF funding for Leicestershire in 2021/22 has been confirmed and is shown in the table below:

	2021/22 £m	
CCG Minimum Allocation	43.7	Level mandated by NHS England
IBCF	17.7	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	4.4	Passed to district councils
Total BCF Plan	65.3	

100. £19.4m 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.

101. In addition to the required level of funding for sustaining social care service provision, a further £6.6m of Leicestershire's BCF funding has been allocated for social care commissioned services in 2021/22. These services are aimed at improving carers' health and wellbeing, safeguarding, mental health discharge, dementia support and crisis response.

102. The balance of the CCG Minimum Allocation £17.7m is allocated for NHS commissioned out of hospital services.

103. The provisional 2022/23 Local Government finance settlement for Leicestershire included an inflationary increase of £0.5m in the improved Better Care Fund (IBCF) grant. Any reduction in the funding for social care from the BCF would place additional pressure on the Council's MTFS, and without this funding there is a real risk that the Council would not be able to manage demand or take forward the wider integration agenda.

<u>Other Grants and Funds</u>

104. There are a number of other specific grants included in the MTFS, for example:

- Public Health – the 2022/23 allocation is assumed to be £25.5m, the same as in 2021/22. The grant is expected to be increased by inflation, although allocations have not been received.
- Education and Skills Funding Agency - £4.1m assumed in line with 2021/22.
- Section 31 Business Rates (Government funding for caps on business rates growth and other Government measures) – an estimate of £8.6m has been included for 2022/23, based on the Local Government Finance Settlement.
- Independent Living Fund – £1.0m assumed for 2022/23, compared with £1.2m in 2021/22.
- Music Education Hubs Grants - £1.3m as in 2021/22.
- Troubled Families Grant – £1.1m assumed.
- Grant funding for partnership delivery of Safe Accommodation duty under the Domestic Abuse Act 2021, £1.1m.
- Schools Block Dedicated Schools Grant, £471m.
- Central Schools Services Dedicated Schools Grant, £3.7m.
- High Needs Dedicated Schools Grant, £95m.
- Early Years Dedicated Schools Grant, £36m.
- New Homes Bonus – £2.1m for 2022/23 reducing to nil by 2023/24, based on the Local Government Finance Settlement.

<u>Dedicated Schools Grant Settlement 2022/23</u>

105. For 2022/23 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 £470.7m consisting of; • School formula funding £467.6m	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	2022/22 reflects the DfE's intention for 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

• School Growth £3.1m	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.	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 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 3.9%.
Central School Services Block £3.7m	This funds historic financial commitments related to schools such as premature retirement costs, some budgets related to schools that are centrally retained e.g. admissions, servicing the Schools Forum and school copyright licences. This block now includes funding from the retained duties element of the former Education Services Grant for the responsibilities that local authorities have for all pupils such as school place planning and asset management.	This is distributed through a per pupil allocation basis and is retained by the local authority. The funding allocation for some historic financial commitments is being reduced nationally 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	Funds special schools and other specialist providers for high needs pupils and	The formula is based upon population of 0-19 year olds and proxy indicators for

£94.8m	students, the pupil referral unit and support services for high needs pupils including high needs students in further education provision. As with the Schools Block this includes funding for special academies and post 16 providers which is recouped by the ESFA who then directly fund academies.	additional educational need including deprivation, ill heath, disability and low attainment. Also included is an element based on historic spend. The formula also includes a funding floor to ensure that local authorities do not receive a funding reduction as a result of the introduction of the formula. Leicestershire receives £2.6m through this element. The grant allocation includes the additional funding announced by the DfE following the December Spending Review and is a cash increase of 14%.
Early Years Est £36.1m	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 2021 census. The grant will be updated in July 2022 for the January census and again in June 2022 for the January 2022 census. The final grant will not be confirmed until June 2023.	The allocation is based on individual pupil characteristics and converted to a rate per hour of participation. Leicestershire receives the lowest rate of £4.61 per hour for 3 and 4 year olds and the lowest rate of £5.57 per hour for disadvantaged 2 year olds. This position is an increase of funding of £0.21 per hour for 2 year old funding and £0.17.
£605.3m	**2022/23 Estimated DSG**	

106. The 2022/23 MTFS continues to set the overall Schools Budget as a net nil budget at local authority level. However, in 2022/23 there is a funding gap of

£9.1m on the High Needs Block which will be carried forward as an overspend against the grant.

Schools Block

107. The DfE have further stated their intention to move to a ‘hard’ National Funding Formula (NFF) whereby budget allocations for all maintained schools and academies is calculated by the DfE. The NFF 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 will, and continue to, vary as a result of pupil characteristics rather than national funding levels.

108. School funding remains a ‘soft’ school funding formula for 2022/23 which allows local authorities able to adopt their own funding formula. A consultation was undertaken by the DfE in the summer on the next steps towards a ’hard’ formula in which proposals would restrict the local authority flexibility for 2023/24 where a local formula is adopted with a potential hard formula in 2024/25, the outcome of this consultation is unknown at this point.

109. 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 2022/23 is £3.1m The revenue cost of commissioning a new school ranges from £0.5m to £0.8m for a primary and £2.2m to £2.5m for a secondary, depending upon size and opening arrangements. 26 new primary and 3 new secondary schools are expected to be built in Leicestershire in the medium to long term. The revenue requirement for new schools is difficult to assess as it is dependent upon the speed of housing developments, growth in the basic need for additional school places, the school funding formula and the level and the methodology for the DSG growth funding calculation. The DfE summer consultation on school funding proposed moving to a national system to meet the cost of new school growth.

School Funding Formula

110. The NFF delivers a minimum amount of funding per pupil, £4,265 for primary and £5,321 for Key Stage 3 and £5,831 per Key Stage 4 pupil. Despite the overall increase in budget, at individual school level 72 (32% of primary schools) and 7 (16% of secondary schools) remain on the funding floor and is a slight improvement from 40% of primary and 19% of secondary schools for 2021/22. These schools, despite additional funding, may experience a real terms decrease in income. As the funding guarantee is at pupil level, schools with decreases in pupil numbers will see an overall decrease in budget allocation. Schools will also receive grant to offset additional costs including such as those encountered through the Introduction of the Health and Social Care Levy and the Pupil Premium where rates have also increased for 2022/23.

111. The NFF for schools is based upon the 2021 School Census but funding for local authorities is based upon the pupil characteristics recorded on the 2020 school census. Nationally a concern remains 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 Coronavirus 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 2021 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.

112. It remains possible for local authorities to transfer up to 0.5% of the Schools Block DSG to High Needs following consultation with schools and with the approval of the Schools Forum. Secretary of State approval can be sought where Schools Forum do not agree a transfer, where local authorities wish to transfer more than 0.5% and for local variations to some of the technical aspects of the NFF. Consultation was carried out with schools on two options for a transfer in September to which thirteen responses were received from a total of 271 consultees. Of the twelve complete responses 10 disagreed with the transfer with two in agreement.

113. The Schools Forum were recommended to approve the transfer on 15 November 2021 but voted to reject the transfer. A request for Secretary of State approval for the transfer was submitted for both options set out within the consultation, the Secretary of State has not approved the transfer which would have reduced the deficit by £2.3m for 2022/23. The County Council will continue to seek dialogue with the DfE directly and through MPs.

114. Local authorities are required to submit their funding formula to the ESFA in mid-January.

<u>High Needs</u>

115. 2022/23 is the final year of a three-year settlement for school funding which also provides the High Needs Block. The Spending Review included additional funding within the formula and an additional allocation to reflect the additional costs for providers from the Social Care Levy and other cost pressures.

116. The High Needs DSG is £94.7m and an increase of 14%. The formula allocates funding across a set of pupil-related indicators and also includes an allocation based on historic spend. A review of the formula was expected alongside the publication of the findings of the long awaited national SEND Review. However, this appears to be further delayed.

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

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
High Needs Dedicated Schools Grant	-91,393	-95,963	-98,842	-101,807
Additional DSG - 2022/23 settlement	-3,676	-3,676	-3,676	-3,676
Placement Costs	95,163	101,052	109,361	117,271
Other HNB Cost	9,381	9,381	9,381	9,381
Commissioning Cost - New Places	3,131	3,664	3,727	2,221
Invest to Save Project Costs	989	465	0	0
Total Expenditure	**108,664**	**114,562**	**122,469**	**128,873**
Funding Gap Pre Savings	**13,595**	**14,924**	**19,952**	**23,390**
Demand Savings	-282	-1,009	-2,048	-3,376
Benefit of Local Provision and Practice Improvements	-4,215	-6,190	-8,844	-11,072
Total Savings	**-4,497**	**-7,200**	**-10,892**	**-14,447**
Annual Revenue Funding Gap	**9,098**	**7,724**	**9,060**	**8,943**
2019/20 Deficit Brought Forward	**7,062**			
2020/21 High Needs Deficit Brought Forward	**10,387**			
2021/22 High Needs Deficit Brought Forward P6 Forecast	**10,521**			
Cumulative High Needs Funding Gap	**37,068**	**44,792**	**53,852**	**62,794**
Surplus (-ve) / Deficit Other DSG Blocks Forward	-8,163	-10,125	-5,497	-997
Surplus (-ve) / Deficit Other DSG Blocks In Year	-1,962	4,628	4,500	997
Dedicated Schools Grant Surplus (-ve) / Deficit	**26,943**	**39,295**	**52,855**	**62,794**
Surplus / Deficit as % of Total DSG	**4%**	**6%**	**8%**	**10%**

118. The financial plan will be subject to change following the findings of the diagnostic work currently being completed by Newton Europe. This will reflect any savings opportunities identified and any potential impact on the expected growth trajectory from any internal system changes.

119. National research sets out systematic problems with the SEND system that are responsible for high needs deficits, yet to date there is no response to addressing them by the DfE with the exception of additional funding in the 2022/23 high needs settlement. However, increased funding levels do not provide a solution. Research 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 have undertaken a review of the SEND system but it is unclear when any findings from that research will be published.

120. 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 have encapsulated in legislation until 2023, 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.

Central Services Block

121. 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. The settlement is £3.1m for 2022/23 and includes funding transferred in respect of the former teacher pay. The provisional settlement continues an annual reduction of 20% for the Historic Costs element of the settlement but a guarantee remains in place to ensure that funding doesn’t decrease below the financial commitment to meet former teacher employment costs. This block also provides an element of funding to support the Education Effectiveness function. The recent funding consultation asked for views on transferring this funding from DSG into the Local Government Funding Settlement from 2023/24.

Early Years Block

122. The provisional settlement is £36.1m and is the only DSG block that takes account of demand changes across the financial year, the final allocation will not be confirmed until June 2023. Nationally funding for early years has increased by £160m and the Spending Review set out further increases in both 2023/24 and 2024/25. For 2022/23 the increase equates to an increase in the hourly rate for 2 year olds of £0.21 per hour and £0.17 for 3 and 4 year olds. Leicestershire remains on the funding floor and receives the lowest rate of funding. The maximum allowable 5% of this block is retained to fund the Early Leaning Service which fulfils local authority’s statutory duty to ensure sufficiency of places for those parents who request one.

123. There are further increases to the Early Years Pupil Premium of £0.07 and funding for the Disability Access fund increases by £185 to £800 per year which fulfils the local authority’s statutory duty to ensure sufficiency of places for those parents that request one.

Adequacy of Earmarked Funds and Robustness of Estimates

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

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

125. The financial environment continues to be challenging with a number of known major risks over the next few years. These include:

- Ongoing impact of Covid 19.
- Higher inflation levels than currently allowed for in the Inflation contingency.
- Non-achievement of savings and income targets. The requirement for savings and additional income totals £94m over the next four years of which £39m is unidentified. Successful delivery of savings is dependent upon a range of factors, not all of which are in the control of the County Council.
- The financial positions of Health and Social Care are intrinsically linked and of growing importance. Depending on the financial position of the CCG’s, the implications for the County Council could be reductions in the funding received through the BCF and additional costs as a result of changes in the NHS, such as the Transforming Care programme that will move more care into the community or the discharge process from hospital.
- Service pressures resulting in an overspend, including demand-led children’s and adult social care, particularly on the children’s social care and SEN placements budget.
- Continued increase in the National Living Wage, only notified a few months in advance of each financial year. Compounded by higher anticipated wage inflation.
- The strength of the economy dictates the funding of the public sector both directly through council tax and business rate income and indirectly through the influence on Government funding decisions.
- The increasing reliance on income generated from services in other parts of the public sector. Given the much tighter financial environment for the sector it will be challenging to maintain or keep increasing income.
- 2023 is a year which could see the biggest changes to local government for a generation. The following initiatives are all now planned or anticipated to be implemented in that year, although further delays would not be unexpected:

    - Review of Business Rate retention, including significant new responsibilities and a “reset” of the system’s baselines (deferred from April 2020).
    - Fair Funding Review, covering redistribution of funding nationally (deferred from April 2020).
    - Health Integration plans implemented (deferred from 2020).
    - Review of SEND reforms.

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

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

General Fund

127. The General Fund balance is available for unforeseen risks that require short term funding. The forecast balance on the General Fund (non-earmarked fund) at the end of 2021/22 is £18m which represents 3.8% of the net 2022/23 budget (excluding schools' delegated budgets). It is planned to increase the General Fund to £22m by the end of 2025/26 to reflect increasing uncertainty and risks over the medium term, and to avoid a reduction in the percentage of the net budget covered. 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.
    - Ongoing impact of Covid-19.

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

129. The proposed MTFS also includes a MTFS risks contingency of £8m in 2022/23 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.

130. If the MTFS risks contingency can be released, 'free' resources are directed toward the Future Developments earmarked fund to reduce the shortfall in capital funding discussed later in this report.

Earmarked Funds

131. Earmarked funds and balances are held for specific purposes in line with the Council's Earmarked Funds Policy attached as Appendix J.

132. Earmarked funds for revenue purposes (excluding schools and partnerships) are estimated at £85.1m as at 31 March 2022 and earmarked funds for capital funding purposes are estimated at £97.3m, based on the latest information. The forecasts are set out in more detail in Appendix K to this report. The final level of earmarked funds will be subject to the actual expenditure and any partner contributions, e.g. health funding arrangements and specific grants.

133. The main earmarked funds and balances projected at 31 March 2022 are:
   (a) Capital Financing (£97.3m). 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 (£13.3m). Funds are held to meet the estimated cost of future claims to enable the County Council to meet excesses not covered by insurance policies. The levels are informed by recommendations by independent advisors. The insurance earmarked funds includes funding for uninsured losses (£5.3m). This is mainly held to meet additional liabilities arising from Municipal Mutual Insurance Ltd (MMI) that is subject to a run-off of claims following liquidation in 1992 and also of other failed insurers such as The Independent Insurance Company.
   (c) Budget Equalisation Fund (£40.9m) – fund to manage shortfalls 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 £28m by the end of 2021/22. The fund includes £8m earmarked to offset the forecast 2023/24 net MTFS deficit and a further £5.3m to contribute to the forecast 2024/25 deficit. The intention is to manage these through further ongoing cost reductions.
   (d) Transformation (£4.2m). The fund is used to invest in transformation projects to achieve efficiency savings and also to fund severance costs.
   (e) Covid-19 Council Tax etc (£4m). The fund will be used to offset any longer term reductions in Council Tax and Business Rates as a result of the economic impacts of the pandemic.
   (f) Funds for specific departmental infrastructure, asset renewal and other initiatives (£22.7m).
   (g) Pooled Property investments (-£23.6m) – invested against the balance of earmarked funds held.

134. Grant Thornton UK LLP, the County Council's external auditor, has reviewed the level of earmarked funds held by the County Council in respect of financial sustainability as part of its value for money review of the current MTFS and reported no issues. In their latest audit Grant Thornton commented that "Leicestershire County Council has a good track record of sound financial management. The Council understands the financial risks which it faces and managed these risks by maintaining an appropriate level of reserves and sound financial management".

<u>School Balances</u>

135. 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 2021 was £9.7m. The balance at 31st March 2022 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.

CIPFA Financial Resilience Index

136. In 2019 CIPFA launched its Financial Resilience Index, which uses key indicators of the financial position of local authorities. The Index received a mixed reception from the Local Government sector and its impact is reduced by the historic nature of the information. That said it is a reasonable attempt at simplifying the financial appraisal of a complex sector and prompts questions to be asked in key areas that are often overlooked. The Index has recently been updated for the 2020/21 financial statements.

137. The Index contains sixteen financial measures that can be broadly grouped into three categories:

- Levels of reserves, with higher values considered good.
- Hard to reduce expenditure, for example social care, with lower levels good.
- Certainty of income, with higher levels good.

138. For the latest information available, the results are broadly positive, showing the County Council in the lower risk range for most indicators compared with other County Councils. One indicator is rated as high risk, with four rated as medium risk.

- Growth above baseline – high risk. The value of 8% is the highest increase across all County Councils, the level represents £5.4m. A provision has been included in the MTFS should the Council be adversely affected by a business rates reset in 2023/24.
- Change in overall reserves – medium risk. This shows the average change in reserves over the last three years and ranks the Council in the middle range.
- Reserves sustainability measure – medium risk. All County Councils scored medium risk, due to all County Councils reporting an increase in reserves.
- Unallocated reserves – medium risk. The proposed MTFS includes plans to increase the level of the General Fund.
- Change in earmarked reserves – medium risk.

139. Although the 2020/21 position shows that overall risks are increasing, particularly in relation to the level of reserves, the County Council is still in a better position than average.

Risk Management

140. The Council’s Risk Management Policy Statement and Strategy, and Insurance Policy are reviewed annually and are included as Appendix I and L to this report.

141. The Policies were considered and noted by the Corporate Governance Committee on 28 January 2022.

Robustness of Estimates

142. 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.

143. 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.

144. 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 the External Auditor 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

145. 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.

Concluding Comments – Revenue Position

146. 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.

147. Funding uncertainties are predominately driven by Government. Despite the positive "end of austerity" message it is expected 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 2022/23 is uncertain. In line with previous practice the MTFS assumes a reduction in business rates and some grants, albeit at a far lower level than the austerity years.

148. Cost growth manifests itself as either inflationary pressures or service growth. Service growth primarily relates to a growing and ageing population and a large increase in school-age children requiring support, which put huge demands on social care and SEND service.

149. Successful delivery of savings is dependent upon a range of factors, not all of which are in the control of the County Council. All savings included in the MTFS have had an initial deliverability assessment so that a realistic financial plan can be presented. With 2023/24 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.

150. The economic impact and impact on County Council operations of the Covid-19 pandemic has lessened due to the roll-out of vaccinations and refinement of social interventions. The MTFS is built on the assumptions that any reversal in this trend or new requests from Government are fully funded.

151. 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 £44m of funding related to the BCF. Even a partial loss of this funding would be difficult to manage.

152. 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.

153. It is key to note that the delivery of the refreshed MTFS will be even more challenging than usual. Some local authorities, which are better funded than Leicestershire, are already in financial difficulties. The DLUHC has been engaging with 150 local authorities regarding their financial situations during the Covid-19 pandemic, and 10 have agreed exceptional financial support from the Department. 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. It is essential that the focus on medium term financial planning and strong financial discipline is maintained.

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

- Managing the short-term cost pressures and anticipated on-going reduction in resources arising from the Covid pandemic.
- The absolute need to deliver the savings in the MTFS. The key risks are the technical difficulty of some projects and the public acceptance of some savings.
- The need to have very tight control over demand-led budgets, such as social care and special education needs. Overspends such as those experienced in social care in recent years will put the County Council in a very difficult position with a need to make immediate offsetting savings.

- The need to manage other risks that could affect the Authority's financial position. These include costs currently being borne by the NHS shifting to local authorities and loss of trading income.

Treasury Management Strategy Statement and Annual Investment Strategy

155. 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 2022/23.

156. 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.

157. 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.

158. The expectation is that there will be no new external borrowing by the County Council in the period covered by this MTFS, namely 2022 to 2026.

159. Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut the Base Rate to 0.10%, it left the Base Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021.

160. It is not expected that the Base Rate will go up fast after the initial rate rise as the supply potential of the economy is not likely to have taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the Monetary Policy Committee's 2% target after the spike up to around 5%. The forecast includes four increases in Bank Rate over the three-year forecast period to March 2025, ending at 1.25%.

161. 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.

162. The strategies were considered and noted by the Corporate Governance Committee on 28 January 2022.

Capital Programme 2022/23 to 2025/26

163. The overall approach to developing the capital programme has been based on the following key principles:

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

Changes to the draft Capital Programme proposed in December 2021

164. Since the report to the Cabinet, the overall borrowing requirement is proposed to reduce from £161m to £143m following a review of reserves and contingencies held for Covid-19 which are no longer expected to be required. The latest position shows that much of this provision will not be required and can be freed up to fund additional one-off expenditure. This includes; the £8m remaining balance from the Covid-19 and MTFS risks 2021/22 provision that was s, reported to the Cabinet on 14th December 2021, and £5m set aside in the Council Tax / Business Rates losses reserve at year end in 2020/21.

165. The expenditure profiles of schemes have also been reviewed and updated to reflect the last known position.

166. The proposed capital programme totals £515m over the four years to 2025/26, 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.

167. The proposed programme and funding are shown below:

<u>Draft Capital Programme 2022-26</u>

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Children and Family Services	35.0	31.5	19.0	8.5	94.0
Adults and Communities	6.9	9.0	6.9	4.4	27.2
Environment and Transport	59.2	77.1	66.0	24.1	226.4
Chief Executive's	0.1	0.4	0.1	0.1	0.7
Corporate Resources	5.2	2.2	1.4	3.7	12.5
Corporate Programme	22.9	40.3	38.5	52.1	153.8
Total	**129.3**	**160.5**	**131.9**	**92.9**	**514.6**

<u>Capital Resources 2022-26</u>

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Grants	59.1	64.7	38.6	28.5	190.9
Capital Receipts from sales	8.7	6.9	6.6	2.0	24.2
Revenue/ Earmarked funds Contributions	51.8	24.0	13.6	21.7	111.1
External Contributions	9.7	18.6	14.1	3.2	45.6
Total	**129.3**	**114.2**	**72.9**	**55.4**	**371.8**
Funding Required	**0.0**	**46.3**	**59.0**	**37.5**	**142.8**

168. Where capital projects are not yet fully developed, or plans agreed, these have been included under the heading of 'Future Developments' under each departmental programme. It is intended that as these schemes are developed during the year, they will be assessed against the balance of available resources and included in the capital programme as appropriate. A fund of £60m is included in the draft capital programme.

169. The proposed programme can be summarised as:

Service Improvements	£236m
Investment for Growth	£124m
Invest to Save	£95m
Future Developments	£60m
Total	**£515m**

Funding and Affordability

<u>Forward Funding</u>

170. 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. The County Council's ability to forward fund,

however, is not unlimited. A total of £33m in forward funding is included in the proposed capital programme (in addition to £6m in previous years) that is planned to be repaid in the future. 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.

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

- Opportunities to secure external funding are 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 the benefit of the local community.

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

173. Given the benefits to Leicestershire that the increased investment will bring it is considered that district councils should share in these risks in a proportionate way. The County Council continues to work with districts in relation to major infrastructure schemes being progressed in their areas; district councils will benefit directly through additional tax revenues and increases in Government grants. However, the circumstances around individual projects vary. Hence individual measures need to be put in place to minimise the risks in each district area.

174. 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.

175. A significant problem associated with funding major infrastructure projects is the way in which capital funding is allocated. Significant resource is required to develop bids which may ultimately be unsuccessful. 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 usually 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.

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

177. The County Council is pursuing the possibility of a County Deal with Government which would provide a much more stable and sustainable approach to infrastructure decisions to be taken, and allow all funding received to be used in a more cost-effective manner.

Capital Programme Funding

178. The proposed capital programme funding is shown below.

Capital Grants	£191m
Capital Receipts from sales	£24m
Revenue/ Earmarked funds	£111m
External Contributions	£46m
Borrowing (from internal balances)	£143m
Total	**£515m**

Capital Grants

179. Grant funding for the capital programme totals £191m across the 2022-26 programme. The majority of grants are awarded by Government departments including the Department for Education (DfE) and the Department for Transport (DfT).

Children and Family Services

180. Capital grant funding for schools is provided by the DfE. The main grants are:

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 2022/23 (£8.8m). No details have been announced for future years. An estimate of £3m has been used for 2023/24 to 2025/26.

b) Strategic Capital Maintenance – this grant provides the maintenance funding for the maintained school asset base. Details of the grant for 2022/23 and future years have not yet been announced. An estimate of £2m per annum is included in the capital programme. It is expected that this grant will continue but will reduce as further schools convert to academy status.

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

d) New (Free) School bid – the programme funding includes an £8m DfE grant to fund a new Social Emotional and Mental Health special school in 2023/24 required as part of the High Needs Development plan.

Adult Social Care

181. Capital funding for the Disabled Facilities Grant (DFG) programme has not yet been announced. An estimate in line with previous years, £4.4m per annum, has been included in the capital programme.

Environment and Transport

182. The DfT grants have not yet been announced and so estimates have been included, based on previous years. These include:

a) Integrated Transport Block - £2.7m p.a. (£10.9m overall).
b) Maintenance - £9.9m p.a. (£39.5m overall).
c) Transport Infrastructure Investment Fund (inc. Pot Holes) - £7.9m p.a. (£31.6m overall).

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

- DfT Melton Mowbray Distributor Road funding - £40.5m (total £49.5m including 2020/21 allocation).
- Housing Infrastructure Fund – Melton Southern Distributor Road - £15.9m (total £18.2m including 2020/21).

Capital Receipts

184. The generation of capital receipts is a key priority for the County Council. The draft capital programme includes an estimate of £24.2m across the four years to 2025/26.

185. 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 £6m of future estimated sales subject to planning permission has been included.

Revenue / Earmarked Funds/ Contributions

186. To supplement the capital resources available and avoid the need for borrowing £111m of revenue/ reserves funding is being used to fund the programme consisting of:

One-off MTFS 2022-26 revenue contributions	£7m
Departmental earmarked funds	£5m
Capital Financing earmarked fund	£99m
Total	**£111m**

187. The capital financing earmarked fund temporarily holds previous years' revenue contributions to fund the capital programme until they are required.

188. 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

189. A total of £45.6m is included in the funding of the capital programme 2022-26. All of it relates to section 106 developer contributions.

Funding from Internal Balances

190. 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 £39m of this funding will be repaid through the associated developer contributions.

191. 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 external loans. Levels of cash balances held by the Council comprise the amounts held for earmarked funds, provisions, the Minimum Revenue Provision (MRP) set aside for the repayment of debt and working capital of the Council. The cost of raising external loans currently exceeds the cost of interest lost on cash balances by circa 1.5%.

192. The overall cost of using internal balances to fund £143m of investment is dependent on what happens to interest rates in the coming years. For example, if the Bank of England base rate rises to 1.5%, it is estimated that internal borrowing will cost around £5.7m per annum by 2025/26, comprising MRP of £3.6m and reduced interest from investments of £2.1m. If external loans were to be raised instead, the cost is estimated to be £7.2m per annum on the basis that external borrowing rates would be around 2.5%. But because of the uncertainty on interest rates, this position will be kept under review as part of the treasury management strategy.

193. The County Council's current level of external debt is £263m. As described above this is not assumed to increase during the MTFS. The relative interest rates and cash balances will be kept under review to ensure that this is the right approach.

Capital Programme Summary by Department

194. Over the period of the MTFS, a capital programme of £515m is required of which £129m is planned for 2022/23. The main elements of the 4 year programme are:

- Children and Family Services - £94m. 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.
- Adults and Communities - £27m. The programme includes £18m relating to the Disabled Facilities Grant (DFG) programme and schemes for the Social Care Investment Plan (SCIP).
- Environment and Transport - £226m. 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 & Waste Programme. Other significant projects include Melton Depot replacement, vehicle replacement and advanced design.
- Chief Executive's - £0.7m, mainly Leicestershire Community Grants.
- Corporate Resources - £12.5m. This mainly relates to investment in ICT, Transformation, Property and Environmental Improvements.
- Corporate Programme - £154m. Investment includes the Corporate Asset Investment Fund (CAIF), the Future Developments fund (subject to business cases), and Major Schemes Portfolio Risk.

Capital Summary

195. The capital programme totals £515m over the four years to 2025/26. 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 £33m (£39m cumulative).

196. 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 10% increase in the County's population between 2020 and 2030. It is assumed that section 106 and Government funding will be available at the necessary level.

197. Overall £143m from internal cash balances will be used to fund the cash flow of capital programme. As such there is very limited scope to add further capital schemes to the capital programme. The additional revenue costs arising from this total £5.7m per annum.

198. 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.

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

200. 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. The future of LEPs has been under consideration by the Government.

Budget Consultation

201. The County Council has undertaken an annual stakeholder consultation on the draft budget, in addition to the scrutiny review process. 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.

202. Respondents broadly support the proposed budget including the proposed growth and savings plans. Around 52% of respondents supported a Council Tax increase of 3% or more (including the adult social care precept). There was also broad support for the fair funding campaign and general agreement for promoting local government reforms and seeking a devolution deal.

203. A key finding from the detailed 2019 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.

204. The refreshed MTFS as presented continues to represent a good fit with the outcome of the 2019 detailed consultation. Further growth has 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.

Other Funding Issues

Freeport

205. The County Council is acting as Lead Authority in relation to the establishment and ongoing activity of the East Midlands Freeport (EMF). The final business case is required to be submitted to the Department for Levelling Up, Housing and Communities (DLUHC) by late February/early March 2022 with a likely designation of EMF soon after, depending on the availability of a legislative timeslot.

206. During the current year the County Council has funded costs around business case development and wider set up costs. Net costs are expected to total around £1m by the end of this current financial year. Agreement has been reached that

any costs incurred by the County Council will be recovered from future retained business rates once the sites are up and running. However, this does mean that the County Council is required to cash flow at risk of non-designation.

207. The governance arrangements going forwards are currently being developed through an EMF constitution, which will be agreed and signed off by the EMF Board. The constitution will include measures to protect the overall financial exposure of the County Council in its capacity as Lead Authority/Designated Body. As part of this, consideration is being given to how EMF governance can link in with that of the East Midlands Development Corporation (The Integrated Rail Plan published in November referred to 'accelerating a delivery vehicle' for the sites identified by the Development Corporation.).

208. The County Council has committed £0.5m per annum, for three years from 2021/22, to the Development Corporation. This contribution will need to be kept under review, depending upon progress of the venture and commitment of local and national partners.

Use of 2021/22 Covid-19 Budget / MTFS Risks Contingency

209. Within the current year's revenue budget, provision was made for significant unplanned and expenditure, primarily in relation to the uncertainty on what additional funding would be required to manage the ongoing implications of Covid-19. Along with provision for more general MTFS risks, £36m was set aside.

210. In the December report £28m of this was allocated out as laid out below:

- An additional £8m is allocated for Highways investment, split between 2022/23 and 2023/24.
- Due to the inflationary cost pressures impacting on the capital programme, £10m is added to the capital programme to cover wider portfolio risks on major capital programme schemes
- In order to improve financial sustainability, £8m is added to the capital programme to reduce capital borrowing required and provide additional funding for invest to save schemes.
- An investment fund of £2m is created for carbon reduction schemes, subject to business cases.

211. The remaining balance of £8m was at that point retained to cover unexpected costs up to the end of the financial year, especially in light of the potential additional threats that the Omicron variant looked like posing at the time. At this stage this £8m can now be freed up and is being used to reduce the capital programme shortfall as mentioned in paragraph 164.

Equality and Human Rights Implications

212. 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.

213. 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.

214. A high level Equalities and Human Rights Impact assessment of the MTFS 2022-26 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.

215. 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.

216. 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.

217. The Community Insight Survey of 2021 asked a representative sample of Leicestershire residents if they had been affected by service changes. A significantly larger proportion of respondents who were non-White British, non-heterosexual or disabled reported that they had been affected by service changes than the average respondent.

218. 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.

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

Crime and Disorder Implications

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

Environmental Implications

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

Partnership Working and Associated Issues

222. 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

223. 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 Cabinet 14 December 2021 – Medium Term Financial Strategy 2022-26 – Proposals for Consultation.
https://politics.leics.gov.uk/documents/s165746/MTFS%202022-26.pdf]

Report to the County Council on 17th February 2021: Medium Term Financial Strategy 2021-25
https://bit.ly/3uh4ok5

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

Appendices

Appendix A: 2022/23 Revenue Budget
Appendix B: Four Year Revenue Budget 2022/23 to 2025/26
Appendix C: Growth and Savings 2022/23 to 2025/26
Appendix D: Savings under Development
Appendix E: Detailed Revenue Budgets 2022/23
Appendix F: Capital Programme 2022/23 to 2025/26
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: Equality and Human Rights Impact Assessment
Appendix Q: Comments of the Overview and Scrutiny Committees and Scrutiny Commission

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