Leicestershire County Council

SCRUTINY COMMISSION – 30 JANUARY 2023

PROVISIONAL MEDIUM TERM FINANCIAL STRATEGY 2023/24 - 2026/27

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of the Report

1. The purpose of this report is to:

   a) Provide information on the proposed 2023/24 to 2026/27 Medium Term Financial Strategy (MTFS) as it relates to Corporate and Central Items;

   b) Provide an update on changes to funding and other issues, arising since the publication of the draft MTFS;

   c) Provide details of the Earmarked Reserves Policy and Capital Strategy;

   d) Ask members of the Commission to consider any issues as part of the consultation process and make any recommendations to the Cabinet accordingly.

Timetable for Decisions (including Scrutiny)

2. On 16 December 2022 the Cabinet agreed the proposed MTFS, including the 2023/24 revenue budget and 2023/24 to 2026/27 capital programme, for consultation. The Overview and Scrutiny Committees and the Scrutiny Commission will consider the proposals during January 2023.

3. An update of the MTFS will be reported to the Cabinet on 10 February 2023, and then to the County Council on 22 February 2023 to approve the MTFS including the 2023/24 revenue budget and capital programme. This will enable the 2023/24 budget to be set before the statutory deadline of the end of February 2023.

Policy Framework and Previous Decisions

4. The MTFS is a rolling financial plan that is updated annually. The current MTFS was approved by the County Council on 23 February 2022. The County Council's Strategic Plan (agreed by the Council on 18 May 2022) outlines the Council's long-term vision for the organisation and the people and place of Leicestershire.

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

MTFS Summary – Cabinet 16 December 2022

5. The draft MTFS was approved by the Cabinet on 16 December 2022.

6. The key revenue budget details were:

- Two year Local Government Settlement anticipated
- No Revenue Support Grant
- Council Tax increase of 2.99% plus 2% Adult Social Care Precept in 2022/23, and 1.99% for the following three years
- Growth of £69m was required, primarily to meet the forecast increase in demand for social care
- Provision for pay and price inflation, £110m, driven by the National Living Wage (NLW) and relatively high inflation forecasts for 2023/24
- Savings required of £155m - of which £38m were identified, £25m relate to Special Education Needs, leaving a shortfall of £92m to be found.

7. The key capital programme details were:

- The draft four-year capital programme totalled £509m
- Capital funding available totalled £380m
- Balance of £129m, temporarily funded from the County Council's internal cash balances in advance of section 106 contributions and other funding being received in the future, e.g. increased capital receipts or new grants.

Changes to the Revenue Budget 2023-27

8. A summary of the overall MTFS revenue position as reported to Cabinet on 16 December 2022 is shown in Appendix A.

9. Since the report to the Cabinet, the local government settlement was announced. Changes from the settlement and other known issues since then are summarised below.

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Shortfall at 16th December 2022	0.0	16.6	53.6	91.8
Funding changes				
Grants not inflated	1.0	1.0	1.0	1.0
New Homes Bonus Grant	-0.1	0.0	0.0	0.0
Social Care Grants	-1.1	-1.1	-1.1	-1.1
Services Grant	-0.9	-0.9	-0.9	-0.9
Market Sustainability & Improvement Fund	-4.0	-4.0	-4.0	-4.0
Council Tax Base	-2.3	0.5	0.5	0.5
Other Changes				
Growth Assumptions	1.1	1.1	1.1	1.1

Service Reduction Contingency	1.0	1.0	1.0	1.0
Revenue funding of Capital	4.3	-0.1	-0.2	-0.2
Budget Equalisation Earmarked Reserve – contribution changes	1.0	-1.1	-1.2	-1.1
Revised Shortfalls	**0.0**	**13.0**	**49.8**	**88.1**

10. Grants not inflated (+£1m). The Government had indicated ahead of the provisional settlement that Revenue Support Grant would be inflated. The draft MTFS assumed that grants such as the Improved Better Care Fund, and Social Care and Market Sustainability Fund would be inflated in a similar manner. The provisional settlement did not include inflation on those grants.

11. New Homes Bonus (-£0.1m) updated estimate per the 2023/24 provisional settlement, which includes -£1.3m compared with -£1.2m anticipated in the draft MTFS.

12. Social Care Grants (-£1.1m) increased allocation in the provisional settlement. The Council's allocation from additional funding would have been c.£1.9m higher than anticipated. However, the overall 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.

13. Services Grant (-£0.9m). The Settlement includes -£2.4m for this grant, compared with -£1.5m anticipated in the draft MTFS.

14. ASC Market Sustainability and Improvement Fund (-£4.0m). This Fund (-£5.6m) replaces the previous Market Sustainability and Fair Cost of Care Fund (-£1.6m). The Settlement states that "The government expects this new grant funding will enable local authorities to make tangible improvements to adult social care and, in particular, to address discharge delays, social care waiting times, low fee rates, workforce pressures, and to promote technological innovation in the sector. This will be combined with the existing £162 million in Fair Cost of Care funding to reflect the shared goal of improving market sustainability." Also there will be "reporting requirements regarding performance and use of funding to support improvement against the objectives" which are awaited from the Government. The draft MTFS includes a separate expenditure budget of £4.6m in 2023/24 rising to £21.4m by 2026/27 for the potential costs of Fair Cost of Care and ASC Reform.

15. Government have not provided the grant conditions for the new social care grants, which presents a significant level of uncertainty.

16. Council tax bases for 2023/24 provided by the District Councils are 0.6% higher than previously anticipated, leading to a £2.3m increase in income. It is assumed that the tax base will effectively remain at that level for 2024/25, rather than increasing by 0.75% as it is anticipated that the tax base will be impacted by the effects of the current economic climate. Therefore income forecasts in 2024/25 and later years show a net reduction of £0.5m compared with the draft MTFS.

17. The Growth assumptions have been updated. A £1m increase to reflect potential pressures on transport budgets relating to SEND, mainstream schools and social care. A further growth of £50,000 for the Corporate Resources department is required due to pressures arising from additional external audit requirements.

18. The improvement in the overall funding position will allow the scale of service reductions to be reviewed. A contingency of £1m has been added to reflect this.

19. The improved funding position in 2023/24 will also allow additional revenue funding of the capital programme, £4.3m has been allowed for, reducing the borrowing requirement of the draft MTFS to £124m. This will lead to reductions in the financing of capital budget of £0.1m in 2024/25 and £0.2m thereafter.

20. The improved funding position in 2023/24 will also allow an additional contribution of £2m to be made to the budget equalisation earmarked reserve, preparing for the deficits in future years. The improved estimates of grant funding for the high needs block will allow the contributions to the budget equalisation reserve to be reduced by between £1.0m and £1.2m each year. The net change to the contribution in 2023/24 is £1.0m.

21. Provisional council tax collection fund estimates for 2022/23 are due during January. The net effect of these on the MTFS will be reported to Cabinet on 10th February.

22. The above changes have not yet been reflected in the appendices to this report. The net effect of these changes and any others that may arise subsequently will be proposed to the Cabinet on 10 February 2023.

Corporate and Central Items

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

Dedicated Schools Grant (DSG) - Central Dept Recharges

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

MTFS Risks Contingency

25. The proposed MTFS includes a contingency of £10m in the first two years, reducing to £8m from 2025/26 for other specific key risks that could affect the financial position on an ongoing basis. Examples include:

- The non-achievement of savings.
- Uncertainty 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.
- Risks around commercial services.
- Other one-off pressures.

26. The increase in the first two years relates to significant resource requests to deal with operational pressures and service changes alongside a high level of uncertainty. If the contingency is not required resources will be directed to priority areas, e.g. reducing the shortfall in capital funding discussed later in this report.

Contingency for Inflation / Living Wage

27. A total of £42.2m has been included in the latest MTFS for 2023/24, rising to £67.0m in 2024/25, £87.9m in 2025/26, and £109.6m in 2026/27. This contingency will be allocated to services as necessary.

28. The main components of the contingency are provisions for:
    - Pay awards £34m
    - Pension contribution increase (2023/24) £2m
    - National Living Wage/ Adult Social Care fee reviews £52m
    - Other running costs, net of income, £22m

29. The main local government pay awards in 2022/23 have been based on all full-time staff receiving an increase of £1,925 equating to a 10.5% increase on the first pay point and averaging around 6.4% across the whole pay scale. The MTFS provides for an estimated average pay award increase of 5.5% in 2023/24, weighted towards higher percentage increases in lower grades, as in the 2022 pay award, followed by average increases of 3.5% in later years.

30. The central inflation contingency includes provision for an increase of 1.1% in the employer's pension contribution rate in 2023/24 in line with the requirements of the latest Leicestershire Local Government Pension Scheme (LGPS) triennial actuarial assessment. That assessment indicates that there is not a requirement to increase the contribution rate in subsequent years.

31. The Leicestershire LGPS overall funding level has improved to 105% of estimated liabilities as at 1 April 2022, mainly due to strong investment returns during the last 3 years. The improved funding position has had a positive outcome on contribution rates and has avoided increases that may have been expected given the worsening economic outlook. This outlook includes recessionary fears, increasing inflation, the Ukraine conflict (and other geo-political tensions) and climate risk, which all create uncertainty for long-term investment returns. If investment returns are lower than expected for the next 3 years, this position could be reversed, and contribution rates will need to increase again at the next triennial review.

32. The impact of the National Living Wage (NLW) is particularly significant. The NLW will rise from £9.50 to £10.42 in April 2023, an increase of 9.7%. It is expected to increase further to between £10.82 and £11.35 by 2024/25. In recent years social care costs have been driven up by its continued increases, for which

an additional provision of £52m has been made. The NLW also creates a significant upward pressure on the Council's pay costs.

33. The Government's preferred measure of inflation is the consumer prices index (CPI). In October 2022 this was 11.1%. The Office for Budget Responsibility (OBR) expects inflation to fall over 2023 to 3.8% at the end of that year and to fall below the 2% target by the end of 2024. Inflation may then turn slightly negative as energy and food prices are expected to fall.

34. However, the Council's cost base does not always reflect CPI. Energy and fuel increases, for example, have a much more significant impact (and of course there is no benefit to local authorities from the energy price cap). It is also anticipated that a significant element of the inflation being seen in 2022 will not impact on the Council's costs until 2023 due to factors such as contract renewal lagging behind headline inflation rates and forward purchasing of energy. The draft MTFS therefore assumes 10% inflation in 2023/24, 6% in 2024/25 and 3% per annum in 2025/26 and 2026/27.

35. The level of inflation contingency is assessed on an annual basis. This allows any over or under provision to be adjusted for without balances building, which could otherwise be directed to service provision, or unmanageable liabilities growing.

Financing of Capital

36. Capital financing costs are budgeted at £19.5m in 2023/24 and 2024/25 and are then expected to rise to £20m in 2025/26 and £21.5m in 2026/27, as a result of the increasing need to borrow for the capital programme

Revenue Funding of Capital

37. The budget includes revenue funding of capital expenditure, to reduce the overall need for borrowing to fund the capital programme, of £1.5m in 2023/24 and later years. The changes explained earlier in the report will propose to increase the contribution in 2023/24 by £4.3m to £5.8m.

Central Expenditure

38. The 2023/24 budget includes £2.5m for Central Expenditure consisting of:

- Pensions (£1.4m) - funding for added years, agreed before and as part of Local Government Reorganisation in 1997;
- Members' Expenses and support (£1.3m);
- Flood Defence Levies (£0.3m) payable to the Environment Agency;
- Elections (£0.2m) annual contribution to an earmarked reserve to fund County Council elections;
- Financial Arrangements (-£0.7m) – including income from Eastern Shire Purchasing Organisation (ESPO) and external audit fee costs. This includes a growth item of £170,000 for increased external audit fees in 2023/24 and

a saving of £20,000 (rising to £100,000 from 2024/25) from growth in in the County Council's share of ESPO's net income.

Central Income

39. The forecast interest income relating to treasury management investments is budgeted at £13.6m in 2023/24 and is estimated to reduce to £8.8m in 2024/25, £4.0m in 2025/26 and £1.4m in 2026/27 as balances are reduced to fund internal borrowing for the capital programme and interest rates are expected to fall.

Corporate Growth and Savings

40. G20 - Corporate Growth contingency, £4.2m in 2024/25, rising to £8.2m in 2025/26 and £11.7m in 2026/27. This has been included to act as a contingency for potential further cost pressures in the later years of the MTFS. The value has been set based upon historic levels of growth incurred. Without the use of such a contingency the Council is likely to be required to make savings in a very short time period.

Adequacy of Earmarked Reserves and Robustness of Estimates

41. The Local Government Act 2003 requires the Director of Corporate Resources to report on the adequacy of reserves, and the robustness of the estimates included in the budget.

42. 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.
- High inflation persisting for longer than expected.
- Non-achievement of savings and income targets. The requirement for savings and additional income totals £150m over the next four years of which £88m is unidentified. Successful delivery of savings is not wholly in the control of the County Council.
- Unforeseen service pressures resulting in an overspend, particularly demand-led children's and adult social care.
- SEN spend in excess of grant. A cumulative deficit of £91m is anticipated by the end of 2026/27. Expenditure each year is expected to be between £12m and £14m more than high needs block funding, despite £25m of savings being targeted.
- The National Living Wage is estimated for 3 of the 4 years of the MTFS and pay awards are unknown for any year.
- The strength of the economy dictates the funding of the public sector, both directly through council tax and business rate income and indirectly through the influence on Government funding decisions.
- The increasing reliance on income generated from services in other parts of the public sector (such as schools and NHS). Given the tight financial environment it will be challenging to maintain or keep increasing income.
- A number of significant government initiatives already delayed with further delays expected:

- Review of Business Rate retention, including a “reset” of the system’s baselines (delayed to 2025/26)
- Fair Funding Review (deferred to 2025/26).
- Review of SEND reforms (delayed to 2023)
- Adult Social Care charging reforms (delayed to 2025/26)
- Children’s Social Care reforms (no estimated date)

43. No budget can ever be completely free from risk. Necessarily, assumptions are made which means that the budget will always have an amount of uncertainty.

44. 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 reserves
- Effective risk management arrangements.

General Fund

45. The General Fund balance is available for unforeseen risks that require short term funding. The forecast balance at the end of 2022/23 is £19m which represents 3.7% of the net budget (excluding schools’ delegated budgets). It is planned to increase the General Fund to £23m by the end of 2026/27 to reflect increasing uncertainty and risks over the medium term, and to avoid a reduction in the percentage of the net budget covered. Examples of risks include:

- Legal challenges that result in 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.

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

47. The proposed MTFS also includes a contingency of £10m in the first two years, reducing to £8m from 2025/26 for other specific key risks that could affect the financial position on an ongoing basis. Further details are provided earlier in the report.

Earmarked Reserves

48. The estimated balance for revenue earmarked reserves (excluding schools and partnerships) as at 31 March 2023 is £54.3m and for capital funding purposes £87.5m. This is set out in detail in Appendix C to this report. The final level of earmarked reserves will be subject to the current year budget outturn.

49. Earmarked funds and balances are held for specific purposes in line with the Council's Earmarked Reserves Policy attached as Appendix D. The main earmarked reserves and balances projected at 31st March 2023 are:

    (a) Capital Financing (£87.5m). Holds MTFS revenue contributions for capital expenditure or one-off projects.
    (b) Insurance (£11.6m). Held to meet the cost of future claims not covered by insurance policies.
    (c) Budget Equalisation (£40.5m). Used to manage variations in funding across financial years. This includes the cash requirements of the High Needs element of the Dedicated Support Grant (DSG). The reserve includes £13.1m earmarked to offset the forecast 2024/25 net MTFS deficit and a further £7.0m to contribute to the forecast 2025/26 deficit. The intention is to manage the deficits through further ongoing cost reductions.
    (d) Transformation (£8.3m). Used to invest in transformation projects to achieve efficiency savings and also to fund severance costs.
    (e) Earmarked reserves are held for specific departmental infrastructure, asset renewal and other initiatives (£18.5m).
    (f) Pooled Property investments (-£24.6m) – invested against the balance of earmarked reserves held.

50. The level of earmarked reserves and balances is monitored regularly throughout the year where funds have been identified that are no longer required transfers have been made. Reports are taken to members as part of the MTFS.

51. The CIPFA financial resilience index for local authorities provides a useful set of indicators of the financial risks facing local authorities 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.

52. The latest index is for balances as at 31 March 2022 and broadly shows positive results. One indicator is rated as high risk, with four rated as medium risk.

    - Growth above business rates baseline – high risk. Leicestershire has the highest increase across all County Councils. A provision of £7m has been included in the MTFS for the business rates reset in 2025/26.
    - Reserves sustainability measure – medium risk. All County Councils scored medium risk, due to an increase in reserves being reported.
    - Interest Payable / Net Revenue Expenditure – medium risk. Interest payable on external debt, due to the high debt interest rates relative to current available rates.
    - Unallocated reserves – medium risk. The proposed MTFS includes plans to increase the level of the General Fund.
    - Change in unallocated reserves – medium risk. In the middle range of increases made over the last three years.
    - Change in earmarked reserves – medium risk.

53. Although the 2021/22 position shows that overall risks are increasing, particularly in relation to the level of reserves, the County Council is still reporting a better position than most County Councils.

54. Grant Thornton UK LLP, the Council's external auditor, have also reviewed the level of earmarked reserves held by the Council in respect of financial sustainability as part of its value for money review of 2021/22. They reported that they are satisfied that the Council had appropriate arrangements in place to manage the financial risks it faced with regard to medium term financial planning during 2021/22.

School Balances

55. Balances are also held by schools. They are held for two main reasons: firstly, as a contingency against financial risks and secondly, to meet planned commitments in future years. The balance at 31st March 2022 was £11.3m. The balance at 31st March 2023 has not been estimated but is expected to have reduced as a result of spending pressure. It is also affected by the number of schools converting to Academies.

Risk Management

56. The Council's risk management policy statement and strategy, and insurance policy are reviewed annually and will be considered by the Corporate Governance Committee on 27 January 2023.

Robustness of Estimates

57. 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.

58. 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, but are reported for information in Appendix X as savings under development.

59. 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

60. 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.

LGPS Pension Fund Net Zero Climate Strategy Consultation

61. The Fund is inviting scheme members, employers and other stakeholders with a chance to review and provide their thoughts on the draft strategy. It aims to manage the risk of climate change to the Fund and ensure pensions can be sustainably paid to more than 100,000 beneficiaries in the coming decades. The strategy focuses on four main pillars, including:

- Climate change risk and opportunities
- Targets and measures
- Decision making
- Stewardship, engagement, and divestment

62. The consultation closes on 5 February 2023. The Director of Corporate Resources will submit a response to the Strategy on behalf of the County Council.

Capital Programme 2023/24 to 2026/27

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

- To invest in priority areas of growth, including roads, infrastructure, economic growth;
- 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 bids to the LLEP, section106 housing developer contributions and other external funding agencies.
- No investment in capital schemes primarily for financial return, where borrowing is required anywhere within the capital programme (in line with the prudential code).
- In exceptional circumstances limited prudential borrowing will be considered where needed to fund essential investment in service delivery.

64. The draft capital programme totals £509m over the four years to 2026/27, 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.

65. 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 £40m is included in the draft capital programme, shown with the Corporate programme. This is a reduction of £20m compared with previous years following the promotion of schemes to the main capital programme and an updating of the latest requirements in light of increasing pressures on the Council's financial position.

66. The proposed programme can be summarised as:

Service Improvements	£234m
Investment for Growth	£159m
Invest to Save	£76m
Future Developments	£40m
Total	£509m

<u>Funding and Affordability</u>

Forward Funding

67. Forward funding presents a significant financial commitment and risk for the County Council and is being undertaken to ensure:

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

68. There are risks involved in managing and financing a programme of this size. And an increased reliance on developer contributions through section 106 agreements means that it may take many years for investment to be repaid. Historic agreements may not be sufficient for the actual cost of infrastructure in the high inflation environment that is currently being experienced. The drivers of inflation are having a particularly profound impact upon construction schemes. Risks could be further compounded in the event of an economic slowdown, which could delay the housing development required before Section 106 funding is paid.

69. 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.

70. The Council's financial position, both in relation to capital and revenue funds is grave. As the lowest funded county council in England, the Council has limited capacity to provide capital funding, or forward funding (recovered over a period of time) to support planned growth and therefore the focus must be on maximising

developer contributions and delivery rather than the County Council filling viability gaps in highways infrastructure requirements.

71. The Capital Programme includes some of the infrastructure funding for 2, out of 7, district local plans. Without appropriate funding, infrastructure relating to further plans cannot be added to the programme. The limited financial resources available will need to be focused on schools, as they are the County Council's statutory responsibility, although this will need to be kept to a minimum. It is therefore critical that Local Plans are prepared with sufficient evidence to secure contributions and delivery for critical infrastructure.

72. Whilst this approach significantly reduces the financial risk faced by the County Council, in the shorter term, it does not remove it entirely. Until such time as Government policy reflects and addresses the challenges faced by local authorities in meeting housing needs whilst ensuring infrastructure is available and appropriate, district councils, as planning authorities are in the best position to manage the developer contribution risk. It is therefore necessary for the district councils to work with the County Council to ensure Local Plans include policies that balance the need to support delivery of growth without exposing the County Council to further financial risk. District councils also need to work with the County Council to direct more funding towards priority infrastructure

73. The expectation is that without new funding the County Council can only commit to constructing new infrastructure upon receipt of funds from developers. Whilst the County Council will always be mindful of its statutory duty to ensure that highway safety is not compromised, there could be adverse impacts of development, such as congestion, if sufficient developer funding is not secured through the planning process.

74. Existing forward funding commitments will continue to be supported including those for the Melton Mowbray Distributor Road (MMDR) North and East sections, MMDR south, A511 Major Road Network, and the Hinckley Hub.

Capital Programme Funding

75. The proposed capital programme funding is shown below.

Capital Grants	£217m
Capital Receipts from sales	£20m
Revenue/ Earmarked funds	£95m
External Contributions	£53m
Borrowing (from internal balances)	£124m
Total	**£509m**

Capital Grants

76. Grant funding for the capital programme totals £217m across the 2023-27 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

77. 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 2023/24 £14.3m and 2024/25 £3.1m. No details have been announced for future years. An estimate of £2m has been used for 2025/26 to 2026/27.

b) Strategic Capital Maintenance – this grant provides the maintenance funding for the maintained school asset base. Details of the grant for 2023/24 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 2024/25 required as part of the High Needs Development plan.

Adult Social Care

78. 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

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

a) Integrated Transport Block - £2.8m p.a. (£11.0m 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).

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

- DfT North and East Melton Mowbray Distributor Road funding - £49.5m
- Housing Infrastructure Fund – Melton Mowbray Southern Distributor Road - £16.7m (total £18.2m including previous years).

Capital Receipts

81. The generation of capital receipts is a key priority for the County Council. The draft capital programme includes an estimate of £20.3m across the four years to 2026/27.

82. 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 prudent total of £3m of future estimated sales subject to planning permission has been included.

Revenue / Earmarked Funds/ Contributions

83. To supplement the capital resources available and avoid the need for borrowing £95m of revenue/ reserves funding is being used to fund the programme consisting of:

One-off MTFS 2023-27 revenue contributions*	£10m
Departmental earmarked funds	£4m
Capital Financing earmarked fund	£81m
Total	£95m

**updated to include proposed £4.3m from changes following the local government settlement as described earlier in the report.*

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

External Contributions and Earmarked Capital Funds

85. A total of £53m is included in the funding of the capital programme 2023-27. This relates to section 106 developer contributions, including an estimated £5.2m in section 106 receipts relating to forward funded capital schemes over the next four years.

Funding from Internal Balances

86. A total of £124m in funding required is included to fund the draft programme and enable investment in schools and highway infrastructure to be made. Over the next 10 to 15 years it is anticipated that circa £32m of this funding will be repaid through the associated developer contributions.

87. 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 over the medium

to long term is forecast to exceed the cost of interest lost on cash balances by circa 1%.

88. The overall cost of using internal balances to fund £124m of investment is dependent on what happens to interest and borrowing rates over the medium to long term. Current forecasts show the cost of borrowing £124m externally would be around £8m per annum for the next 40 years, in interest and repayment of principal - minimum revenue provision (MRP). Internal borrowing would still require MRP setting aside but net interest savings could amount to £1.5m per annum. But because of the uncertainty on interest rates, this position will be kept under review as part of the treasury management strategy.

89. The County Council's current level of external debt is £262m. 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

90. Over the period of the MTFS, a capital programme of £509m is required of which £161m is planned for 2023/24. The main elements are:

- Children and Family Services - £104m. The priorities for the programme are informed by the Council's School Place Planning Strategy and investment in SEND as part of the High Needs Development Plan, explained earlier in this report.
- Adults and Communities - £21m. The programme includes £18m relating to the Disabled Facilities Grant (DFG) programme and schemes for the Social Care Investment Plan (SCIP).
- Environment and Transport - £255m. This relates to: Major Schemes such as Melton Mowbray Distributor Road North/East and Southern Sections, Zouch Bridge replacement as well as the Transport Asset Management Programme and the Environment and Waste Programme. Other significant projects include Melton Depot replacement, vehicle replacement and advanced design.
- Chief Executive's - £0.2m, for Legal - Case Management System.
- Corporate Resources - £10m. This mainly relates to investment in ICT, Transformation, Property and Environmental Improvements.
- Corporate Programme - £118m. Investment includes the Corporate Asset Investment Fund (CAIF), the Future Developments fund (subject to business cases), and Major Schemes Portfolio Risk.

<u>Changes to the Capital Programme 2023-27</u>

91. Since the report to the Cabinet, the overall borrowing requirement is proposed to reduce from £129m to £124m due to an additional revenue contribution of £4.3m arising from the provisional local government settlement, and a £0.3m contribution from reserves that is no longer required.

92. The expenditure profiles on all schemes are currently being reviewed and updated to reflect the latest known position. The updated profiles will be reported in the MTFS report to the Cabinet in February 2023.

Corporate Asset Investment Fund (CAIF)

93. The CAIF annual strategy has been updated for 2023-27 and will be included in the MTFS update to the Cabinet and County Council in February 2023. The update for 2023-27 is being reported separately to this committee on the same agenda.

Freeport

94. 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 expected to be approved imminently although tax site designation has been in place since the start of the financial year.

95. The County Council has provided up front funding to support business case development and wider set up costs. This is in the form of a loan capped at £2.5m. Capacity funding has also been received from DLUHC. By the end of the current financial year it is expected that around £1.9m of the £2.5m will have been drawn down with the remainder in 2023/24. This loan will begin to be paid back by the end of the next financial year from the Freeport's retained business rates income stream and it is expected to be fully repaid, with interest, within the 2025/26 financial year.

Budget Consultation

96. The Cabinet at its meeting on 16th December 2022 approved the MTFS proposals for consultation. The consultation asked for views on the savings plan and the appetite for Council Tax increases. The consultation closed on 15th January 2023. There were 619 responses which are currently being analysed. A report on the outcome will be included within the MTFS report to the Cabinet on 10 February 2023.

Results of Scrutiny Process

97. The Overview and Scrutiny Committees and the Scrutiny Commission have received detailed reports on the revenue budget and capital programme proposals, which can be viewed via the County Council's website (www.leicestershire.gov.uk). A summary of the comments arising from the meetings of Scrutiny bodies will be presented with the MTFS report to the Cabinet on 10 February 2023.

Equality and Human Rights Implications

98. Under the Equality Act 2010 local authorities are required 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.

99. Given the nature of the services provided, many aspects of the 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.

100. A high-level Equalities and Human Rights Impact assessment of the MTFS 2022-26 was completed last year 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.

101. This assessment will be revised and updated for the new MTFS 2023-27 and included in the proposed MTFS to the Cabinet in February 2023. 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.

102. Overall, the previous assessment found 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 Council. The findings between April 2017 and September 2022 of the Leicestershire Community Insight Survey found that a significantly higher percentage of women, non-white British people, people with health problems, people with a disability, people with a sexual orientation other than heterosexual and people who receive care support responded that they had been affected a "fair amount" or a "great deal" by national and local public sector cuts.

103. 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.

104. If as a result of undertaking an assessment, potential negative impacts are identified, these will be subject to further assessment.

105. Any savings arising out of a reduction in posts will be subject to the County Council's Organisational Change policy which requires an Equality Impact Assessment to be undertaken as part of the Action Plan. Where there are potential Human Rights implications arising from the changes proposed, these will be subject to further assessment including consultation with the Council's Legal Services.

Crime and Disorder Implications

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

Environmental Implications

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

Partnership Working and Associated Issues

108. 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

109. 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 16 December 2022 – Provisional Medium Term Financial Strategy 2023-27 – Proposals for Consultation.
https://politics.leics.gov.uk/documents/s173971/MTFS%202023-27%20Report%20-%20Cab%2016-12-22%20-%20at%2012.12.22%206pm.pdf

Report to the County Council 23 February 2022: Medium Term Financial Strategy 2022-26 - https://bit.ly/3Wdxiwf

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

Report to the Cabinet 25 November 2022 – Managing the Risk Relating to the Delivery of Infrastructure to Support Growth - http://cexmodgov1/documents/s172416/FINAL%20-%20Managing%20Growth.pdf

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Appendices

Appendix A: Four Year Revenue Budget 2023/24 to 2026/27
Appendix B: Corporate and Central Items Revenue Budget 2023/24
Appendix C: Earmarked Reserves Balances
Appendix D: Earmarked Reserves Policy
Appendix E: Capital Strategy
Appendix F: Draft Capital Programme 2023/24 to 2026/27