Leicestershire County Council

SCRUTINY COMMISSION – 29 JANUARY 2024

PROVISIONAL MEDIUM TERM FINANCIAL STRATEGY 2024/25 - 2027/28

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 2024/25 to 2027/28 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 in December 2023;

   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 19 December 2023 the Cabinet agreed the proposed MTFS, including the 2024/25 revenue budget and 2024/25 to 2027/28 capital programme, for consultation. The Overview and Scrutiny Committees and the Scrutiny Commission will consider the proposals during January 2024.

3. An update of the MTFS will be reported to the Cabinet on 9 February 2024, and then to the County Council on 21 February 2024 to approve the MTFS including the 2024/25 revenue budget and capital programme. This will enable the 2024/25 budget to be set before the statutory deadline of the end of February 2024.

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 22 February 2023. 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 19 December 2023

5. The draft MTFS was approved by the Cabinet on 19 December 2023.

6. The key revenue budget details were:

- Local Government Settlement anticipated to only cover 2024/25
- Council Tax increase of 2.99% plus 2% Adult Social Care Precept in 2024/25 and 2025/26, and 2.99% for the following two years
- Growth of £127m required, primarily to meet the forecast increase in demand for social care
- Provision for pay and price inflation, £114m, driven by the National Living Wage (NLW) and relatively high inflation forecasts.
- Savings required of £162m - of which £36m are identified and £41m relate to Special Education Needs, leaving a shortfall of £85m to be found.

7. The key capital programme details were:

- The draft four-year capital programme totalled £449m
- Capital funding available totalled £356m
- Balance of £93m, temporarily funded from the County Council's internal cash balances, with external borrowing potentially being required in future years.

Changes to the Revenue Budget 2024-28

8. A summary of the overall MTFS revenue position as reported to Cabinet on 19 December 2023 is shown in Appendix A.

9. The draft MTFS to the Cabinet in December was compiled prior to the announcement of the provisional local government settlement. Following receipt of the provisional settlement and council tax base estimates from the district councils, the following changes will be incorporated in the final version of the MTFS to the Cabinet in February.

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Shortfall at 19 December 2023	11.9	33.3	60.4	84.5
Funding changes				
New Homes Bonus Grant	-0.2	0.0	0.0	0.0
Social Care Grants	-0.4	-0.4	-0.4	-0.4
Services Grant	1.1	0.8	0.0	0.0
Council Tax Base	-0.2	-0.2	-0.2	-0.2
Council Tax Collection Funds (latest estimate)	0.5	0.5	0.5	0.5
Revised Shortfalls	**12.7**	**34.0**	**60.3**	**84.4**

10. New Homes Bonus (-£0.2m) updated estimate per the 2024/25 provisional settlement, which includes -£1.0m compared with -£0.8m anticipated in the draft MTFS.

11. Social Care Grants (-£0.4m) increased allocation in the provisional settlement, which includes -£38.7m compared with -£38.3m anticipated in the draft MTFS.

12. Services Grant (£1.1m). The Settlement only includes £0.4m for this grant, compared with £1.5m anticipated in the draft MTFS for 2024/25. The assumption that the grant could reduce to £0.8m in 2025/26 has been revised to £0m.

13. Council tax bases for 2024/25 provided by the district councils are 0.04% higher than previously anticipated, leading to a -£0.2m increase in income.

14. The latest provisional council tax collection fund estimates for 2023/24 are lower than previous estimates by £0.5m. A final position will be reported to the Cabinet in February.

15. 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 in February.

16. 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 only forecasts a balanced budget next year, after assuming the use of £12m of earmarked reserves to meet the currently projected gap, but the following three years are all in deficit

17. The £34m gap in the second year will not be cleared by the time the MTFS is approved in February 2024. Reserves are only a short-term solution and the Council will need to ensure it has adequate savings and growth mitigation plans in place from 2025/26 to avoid the need to rely on reserves again to balance the budget. A heightened focus on the County Council's finances continues to be required whilst this situation remains.

18. Considering the scale of the challenge faced by the Council existing financial control measures are being reinforced and new ones being applied to ensure a tight focus on eliminating non-essential spend. Inevitably, further savings beyond those identified in this report will be needed, and where possible, included in the final MTFS. As a minimum the Council will need to agree a strategy for how and where further savings will be identified.

<u>Corporate and Central Items</u>

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

Dedicated Schools Grant (DSG) - Central Dept Recharges

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

MTFS Risks Contingency

21. The proposed MTFS includes a contingency of £10m in the first year, 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.

22. The increase in the first year 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

23. A total of £50.0m has been included in the latest MTFS for 2024/25, rising to £70.4m in 2025/26, £91.7m in 2026/27, and £113.7m in 2027/28. This contingency will be allocated to services as necessary.

24. The main components of the contingency are provisions for:
    - Pay awards £48m, including provision for the 2023/24 pay award which will be allocated to department budgets in the updated MTFS to be presented to the Cabinet and the County Council in February.
    - National Living Wage/ Adult Social Care fee reviews £53m.
    - Other running costs, net of income, £12m.

25. The main local government pay awards in 2023/24 have been based on full-time staff receiving an increase of £1,925 up to grade 13. In addition, the first grade has been assimilated to the first point of the next grade, equating to a 10.4% increase for those staff on the first grade. Staff on grades 14 to 17 have received an increase of 3.88% and those on grades 18 and above have received 3.5%. The average across the whole pay scale is around 6.2%. The MTFS provides for an estimated average pay award increase of 6.0% in 2024/25, with higher percentage increases in lower grades, as in the 2023/24 pay award. The forecast has been increased following the announcement of the National Living Wage level from April 2024. The MTFS assumes average increases of 3.5% in 2025/26 and later years.

26. The latest Leicestershire Local Government Pension Scheme (LGPS) triennial actuarial assessment indicates that there is not a requirement to increase the employer contribution rate in subsequent years. The position will be reviewed in future MTFS refresh exercises.

27. The impact of the National Living Wage (NLW) is particularly significant. The NLW will rise from £10.42 to £11.44 in April 2024, an increase of 9.8%. In recent years social care costs have been driven up by its continued increases, for which an additional provision of £53m has been made. The NLW also creates a significant upward pressure on the Council's pay costs.

28. The Government's preferred measure of inflation is the consumer prices index (CPI). In October 2023 this was 4.6% and it fell further to 3.9% in November but rose slightly to 4.0% in December. The Office for Budget Responsibility (OBR) expects inflation to fall over 2024 to 3.6% at the end of that year and to fall below the 2% target by the end of 2025.

29. However, the Council's cost base does not always reflect CPI. Energy and fuel increases, for example, have a much more significant impact. It is also anticipated that a significant element of the inflation being seen in 2023/24 will not impact on the Council's costs until 2024/25 due to factors such as contract renewal lagging behind headline inflation rates and forward purchasing of energy. The draft MTFS therefore assumes 4.5% inflation 2024/25 and 3% per annum in later years.

30. 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

31. Capital financing costs are budgeted at £17.4m in 2024/25 and £17.1m in 2025/26 and are then expected to rise to £17.8m in 2026/27 and £18.6m in 2027/28, as a result of the increasing financing requirement for the capital programme.

Bank and Other Interest

32. The forecast interest income relating to treasury management investments is budgeted at £14.0m in 2024/25 and is estimated to reduce to £7.0m in 2025/26, £4.0m in 2026/27 and £3.0m in 2027/28 as balances are reduced to fund internal borrowing for the capital programme and interest rates are expected to fall.

Central Expenditure

33. The 2024/25 budget includes £2.7m for Central Expenditure consisting of:

- Pensions (£1.5m) - funding for added years, agreed before and as part of Local Government Reorganisation in 1997;
- Members' Expenses and support (£1.4m);
- 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 (-£0.6m) – including income from Eastern Shire Purchasing Organisation (ESPO) and external audit fee costs. This includes a growth item of £150,000 for increased external audit fees in 2024/25 and a saving of £80,000 in 2024/25 from growth in the County Council's share of ESPO's net income.

Corporate Growth and Savings

34. G32 - Corporate Growth contingency, £9.7m in 2025/26, rising to £19.4m in 2026/27 and £28.7m in 2027/28. 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

35. 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.

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

    - High inflation persisting for longer than expected.
    - Non-achievement of savings and income targets. The requirement for savings and additional income totals £162m over the next four years of which £85m 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 £112m is anticipated by the end of 2027/28. Expenditure each year is expected to be between £14m and £17m more than high needs block funding, despite £41m 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
  - Fair Funding Review
  - Review of SEND reforms
  - Adult Social Care charging reforms
  - Children’s Social Care reforms

37. 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.

38. 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.

<u>General Fund</u>

39. The General Fund balance is available for unforeseen risks that require short term funding. The forecast balance at the end of 2023/24 is £20m which represents 3.6% of the net budget (excluding schools’ delegated budgets). It is planned to increase the General Fund to £24m by the end of 2027/28 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.

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

41. The proposed MTFS also includes a contingency of £10m in the first year, 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.

<u>Earmarked Reserves</u>

42. The estimated balance for revenue earmarked reserves (excluding schools and partnerships) as at 31 March 2024 is £75.2m and for capital funding purposes £126.1m. This is set out in detail in Appendix C to this report. These figures are provisional and may be updated in the report to Cabinet on 9 February. The final level of earmarked reserves will be subject to the current year budget outturn.

43. Earmarked funds and balances are held for specific purposes in line with the Council's Earmarked Reserves Policy attached as Appendix D. This is subject to review and may be updated in the report to Cabinet. The main earmarked reserves and balances projected at 31 March 2024 are:

    (a) Capital Financing (£126.1m). Holds MTFS revenue contributions for the capital programme or one-off projects.
    (b) Insurance (£16.3m). Held to meet the cost of future claims not covered by insurance policies.
    (c) Budget Equalisation (£56.5m). 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 £11.9m earmarked to offset the forecast 2024/25 net MTFS deficit. The intention is to manage the deficits through further ongoing cost reductions.
    (d) Transformation (£5.0m). 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 (£22.2m).
    (f) Pooled Property investments (-£24.8m) – invested against the balance of earmarked reserves held.

44. 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.

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

46. The latest index is for balances as at 31 March 2023 and broadly shows positive results. One indicator is rated as high risk with the others showing as medium or low risk. The main indicators are:

    - Growth above business rates baseline – high risk. A provision of £10m has been included in the MTFS for a future business rates reset.
    - Reserves sustainability measure – low risk. Ratio of current level of reserves and the average change over each of the last three years.
    - 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 to high risk. The proposed MTFS includes plans to increase the level of the General Fund.
    - Change in earmarked reserves – medium risk.

47. Although the 2022/23 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. The increased risk factor in relation to reserves emphasises the importance of identifying and delivering further savings as a priority to avoid the further use of reserves beyond 2024/25.

48. Grant Thornton, the County Council's external auditor, reviews the level of earmarked funds held by the County Council as part of its value for money review of the current MTFS. The latest available report, from 2022/23, reported no issues.

School Balances

49. 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 31 March 2023 was £9.1m. The balance at 31 March 2024 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

50. 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 26 January 2024.

Robustness of Estimates

51. 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.

52. 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 as savings under development.

53. 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

54. 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 reserves adequate.

Capital Programme 2024/25 to 2027/28

55. 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 as section106 housing developer contributions and other external funding agencies.
- No or limited prudential borrowing (only if the returns exceed the borrowing costs).

56. The draft capital programme totals £449m over the four years to 2027/28, 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.

57. The draft programme and funding are shown below.

Draft Capital Programme 2024-28

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	Total £m
Children and Family Services	41.0	37.5	7.8	3.5	89.8
Adults and Communities	6.4	4.9	6.1	4.8	22.2
Environment and Transport	81.0	54.5	38.9	35.4	209.8
Chief Executive’s	0.1	0.1	0.0	0.0	0.2
Corporate Resources	2.8	1.9	1.8	3.4	9.9
Corporate Programme	35.3	19.9	23.2	38.4	116.8
Total	**166.6**	**118.8**	**77.8**	**85.5**	**448.7**

Capital Resources 2024-28

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	Total £m
Grants	40.4	50.0	38.9	43.0	172.3
Capital Receipts from sales	24.4	2.9	1.0	3.8	32.1
Revenue/ Reserve Contributions	84.1	24.4	0.1	0.1	108.7
External Contributions	17.7	18.2	5.8	0.5	42.2
Total	**166.6**	**95.5**	**45.8**	**47.4**	**355.3**
Funding Required	**0.0**	**23.3**	**32.0**	**38.1**	**93.4**

58. 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 within the Corporate programme.

59. The proposed programme can be summarised as:

Service Improvements	£259m
Invest to Save	£73m
Investment for Growth	£62m
Future Developments/ Risk Contingency	£55m
Total	£449m

Funding and Affordability

Forward Funding

60. The County Council recognises the benefits that can come from forward funding 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. £9m in forward funding has been included in the proposed capital programme (in addition to £11m in previous years). Of this total, £5m has already been repaid, £3m is estimated to be repaid by 2027/28 and has been included in the new MTFS period, with the balance of £12m to be repaid after 2028. 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.

61. 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.

62. 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 received.

63. 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.

64. 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.

65. 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.

66. 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.

Capital Programme Funding

67. The proposed capital programme funding is shown below.

Capital Grants	£172.3m
Capital Receipts from sales	£32.1m
Revenue/ Reserve contributions	£108.7m
External Contributions	£42.2m
Borrowing (from internal balances)	£93.4m
Total	**£448.7m**

Capital Grants

68. Grant funding for the capital programme totals £172m across the 2024-28 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

69. 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 2024/25, £3.1m and 2025/26 £17m. No details have been announced for future years. An estimate of £1m has been used for 2026/27 to 2027/28.

b) Strategic Capital Maintenance – this grant provides the maintenance funding for the maintained school asset base. Details of the grant for 2024/25 and future years have not yet been announced. An estimate of £2m per annum is included in the capital programme.

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 is included in the MTFS, based on the number of maintained schools.

Adult Social Care

70. Capital funding for the Disabled Facilities Grant (DFG) programme has not yet been announced. An estimate in line with previous years of £4.8m per annum has been included in the capital programme.

Environment and Transport

71. The main DfT grants have been announced for 2024/25 and although allocations for later years have not been announced yet, 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).

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

- Melton Mowbray North & East Distributor Road - £5.5m (balance of £49m overall grant awarded in earlier years).
- DfT Network North Funding – £31m estimated in the MTFS. Allocations for 2023/24, and 2024/25 have been confirmed (£2.3m in each year) with allocations for later years yet to be announced but expected to increase over time. This is new additional highways maintenance funding announced in October 2023, for 2023/24 and the next 10 years for local road resurfacing and wider maintenance activity on the local highway network. In total this could be c.£130m over 11 years.

73. As DfT grant allocations are expected to continue and increase year on year it may be possible to accelerate funding to earlier years. This will be subject to approval by the Director of Corporate Resources that funding is available.

Capital Receipts

74. The generation of capital receipts is a key priority for the County Council. The draft capital programme includes an estimate of £32m across the four years to 2027/28.

75. 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. The estimate also includes the planned sale of some investments in Pooled Property Funds, a prudent estimate of £5.6m has been included.

Revenue / Earmarked Funds/ Contributions

76. To supplement the capital resources available and avoid the need for borrowing £109m of revenue/ reserves funding is being used to fund the programme consisting of:

Departmental reserves	£1m
Capital financing reserve	£108m
Total	£109m

77. The capital financing reserve temporarily holds revenue contributions to fund the capital programme until they are required. Other funding sources to the capital programme that contain restrictions are maximised before using the capital financing reserve.

External Contributions and Earmarked Capital Funds

78. A total of £42m is included in the funding of the capital programme 2024-28. This relates to section 106 developer contributions, including an estimated £3m in section 106 receipts relating to forward funded capital schemes over the next four years.

Funding from Internal Balances

79. A total of £93m 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 £15m of this funding will be repaid through the associated developer contributions. This shortfall in funding (£93m) has been reduced by £29m, from the £122m that is included in the current MTFS 2023-27. The main changes are withdrawal of the Melton Mowbray Distributor Road South project and increased funding to the capital programme mainly from the Council's share of the 2022/23 Business Rates Pool levies, (which are being used on projects which contribute towards economic development).

80. 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 2%.

81. The overall cost of using internal balances to fund £93m 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 £93m externally would be around £7.5m 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 £2m per annum. But because of the uncertainty on interest rates, this position will be kept under review as part of the treasury management strategy.

82. The County Council's current level of external debt is £220m. 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

83. Over the period of the MTFS, a capital programme of £449m is required of which £167m is planned for 2024/25. The main elements are:

- Children and Family Services - £90m. 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 - £22m. The programme includes £19m relating to the Disabled Facilities Grant (DFG) programme and schemes for the Social Care Investment Plan (SCIP).
- Environment and Transport - £210m. This relates to: major schemes such as Melton Mowbray Distributor Road North East, Zouch Bridge replacement as well as the Transport Asset Management Programme and the Environment and Waste Programme. Other significant projects include Melton Depot replacement and the vehicle replacement programme.
- Chief Executive's - £0.2m, for a Legal case management system.
- Corporate Resources - £10m investment in ICT, Transformation, Property and Environmental projects.
- Corporate Programme - £117m investment in the Investing In Leicestershire Programme (IILP) £62m (subject to business cases), the Future Developments fund £40m (subject to business cases), and a Major Schemes Portfolio risk fund of £15m.

84. Details of the proposed capital programme are shown in Appendix F to this report.

Changes to the Capital Programme 2024-28

85. 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 2024.

Investing in Leicestershire Programme

86. The Council directly owns and manages properties, including Industrial, Office and County Farms as part of the Investing in Leicestershire Programme (IILP). The fund also includes financial investments outside of direct property ownership, for example private debt, and pooled property investments (the indirect investments provide diversification of the fund). The fund is held for the purposes of supporting the delivery of various economic development objectives and is also income generating so makes a contribution to the Council's overall financial position. The aims of the IILP Strategy align with the five Strategic Outcomes set out in the Council's Strategic Plan (Strong economy, wellbeing and opportunity, keeping people safe, great communities and affordable and quality homes).

87. A total fund of £217m is forecast to be held by the end of 2023/24. Over the MTFS period the following changes have been included:

- £59m – additional investment in MTFS 2024-28 capital programme (excluding general improvement investment), subject to business cases
- (£9m) – sale of direct property held and pooled property funds
- (£8m) – net change in maturing indirect investments held

88. These will bring the total held to £260m (based on historic cost). Annual income returns are currently around £8m and are forecast to increase to £10m by the end of the MTFS period (and higher in later years), contributing ongoing net income for the Council.

89. The IILP annual strategy has been updated for 2024-28 and will be included in the MTFS update to the Cabinet and County Council in February 2024. The update for 2024-28 is also being reported separately to this committee.

Freeport

90. The County Council is acting as the Accountable Body in relation to the establishment and ongoing activity of the East Midlands Freeport (EMF). The Freeport has been in operation since March 2023 and the various governance documents required are in their final stages of completion.

91. 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 commercial loan capped at £4m. Capacity funding has also been received from DLUHC. By the end of the current financial year it is expected that around £2.7m of the £4m will have been drawn down. However, 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

92. The Cabinet at its meeting on 19 December 2023 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 17 January 2024. There were around 450 responses which are currently being analysed. A report on the outcome will be included within the MTFS report to the Cabinet on 9 February 2024.

Results of Scrutiny Process

93. 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 9 February 2024.

Equality and Human Rights Implications

94. Under 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.

95. 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.

96. A high-level Equalities and Human Rights Impact assessment of the MTFS 2023-27 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.

97. This assessment will be revised and updated for the new MTFS 2024-28 and included in the proposed MTFS to the Cabinet in February 2024. 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.

98. 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 2019 and March 2023 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.

99. 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.

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

101. 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

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

Environmental Implications

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

Partnership Working and Associated Issues

104. 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

105. 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 19 December 2023 – Provisional Medium Term Financial Strategy 2023-24 – Proposals for Consultation.
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=7081&Ver=4

Report to the County Council 22 February 2023: Medium Term Financial Strategy 2023-27
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=134&MId=6913&Ver=4

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

Appendices

Appendix A: Four Year Revenue Budget 2024/25 to 2027/28
Appendix B: Corporate and Central Items Revenue Budget 2024/25
Appendix C: Earmarked Reserves Balances
Appendix D: Earmarked Reserves Policy
Appendix E: Capital Strategy
Appendix F: Draft Capital Programme 2024/25 to 2027/28

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