Leicestershire County Council

# CABINET – 9 FEBRUARY 2024

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

# REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

# PART A

## Purpose of the Report

1. The purpose of this report is to present the County Council's proposed 2024/25 to 2027/28 Medium Term Financial Strategy (MTFS) for approval, following consideration of the draft MTFS by the Cabinet in December 2023 and the Overview and Scrutiny bodies in January and receipt of the provisional Local Government Finance Settlement.

## Recommendations

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

   (a) That subject to the items below, approval be given to the Medium Term Financial Strategy (MTFS) which incorporates the recommended revenue budget for 2024/25 totalling £567.6m as set out in Appendices A, B and E of this report and includes the growth and savings for that year as set out in Appendix C;

   (b) That approval be given to the projected provisional revenue budgets for 2025/26, 2026/27 and 2027/28, set out in Appendix B to the report, including the growth and savings for those years as set out in Appendix C, allowing the undertaking of preliminary work, including business case development, engagement and equality and human rights impact assessments, as may be necessary to achieve the savings specified for those years including savings under development, set out in Appendix D;

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

   (d) That the level of the general fund and earmarked reserves as set out in Appendix K be noted and the use of those earmarked reserves as indicated in that appendix be approved;

(e) That the amounts of the County Council's Council Tax for each band of dwelling and the precept payable by each billing authority for 2024/25 be as set out in Appendix M (including 2% for the adult social care precept);

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

(g) That approval be given to the 2024/25 to 2027/28 capital programme, totalling £447m, as set out in Appendix F;

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

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

| | 2024/25 £m | 2025/26 £m | 2026/27 £m | 2027/28 £m |
|---|---|---|---|---|
| Operational boundary for external debt | | | | |
| i) Borrowing | 220 | 219 | 243 | 273 |
| ii) Other long term liabilities | 1 | 1 | 1 | 1 |
| **TOTAL** | **221** | **220** | **244** | **274** |
| Authorised limit for external debt | | | | |
| i) Borrowing | 230 | 229 | 253 | 283 |
| ii) Other long term liabilities | 1 | 1 | 1 | 1 |
| **TOTAL** | **231** | **230** | **254** | **284** |

(j) That the Director of Corporate Resources be authorised to effect movement within the authorised limit for external debt between borrowing and other long-term liabilities;

(k) That the following borrowing limits be approved for the period 2024/25 to 2027/28:

(i) Maturity of borrowing:-

| | Upper Limit | Lower Limit |
|---|---|---|
| | % | % |
| Under 12 months | 30 | 0 |
| 12 months and within 24 months | 30 | 0 |
| 24 months and within 5 years | 50 | 0 |
| 5 years and within 10 years | 70 | 0 |
| 10 years and above | 100 | 25 |

(ii) An upper limit for principal sums invested for periods longer than 364 days is 20% of the portfolio.

(l) That the Director of Corporate Resources be authorised to enter into such loans or undertake such arrangements as necessary to finance capital payments in 2024/25, subject to the prudential limits in Appendix N;

(m) That the Treasury Management Strategy Statement and the Annual Investment Strategy for 2024/25, as set out in Appendix N, be approved including:

(i) The Treasury Management Policy Statement, Appendix N; Annex 4;
(ii) The Annual Statement of the Annual Minimum Revenue Provision as set out in Appendix N, Annex 1;

(n) That the Capital Strategy (Appendix G), Investing in Leicestershire Programme Strategy (Appendix H), Risk Management Policy and Strategy (Appendix I), Earmarked Reserves Policy (Appendix J) and Insurance Policy (Appendix L) be approved;

(o) That it be noted that the Leicester and Leicestershire Business Rate Pool will continue for 2024/25;

(p) That the Director of Corporate Resources following consultation with the Lead Member for Resources be authorised to make any changes to the provisional MTFS which may be required as a result of changes arising between the Cabinet and County Council meetings, noting that any changes will be reported to the County Council on 21 February 2024;

(q) That the Leicestershire School Funding Formula is subject to capping and scaling continues to reflect the National Funding Formula for 2024/25;

(r) That delegated authority be given to the Director of Children and Family Services following consultation with the Lead Member for Children and Family Services to agree the funding rates for early years providers;

(s) That in light of the Council’s financial position, the proposal to revise the Council’s net zero targets for its own operations, from 2030 to 2035, and for the wider County, from 2045 to 2050, be approved;

(t) That the proposed changes to the Recycling and Household Waste Site service as outlined at paragraph 37 be noted, to be funded from the Service Investment budget and subject to the outcome of further consultation;

(u) That delegated authority be given to the Director of Environment and Transport to carry out a further consultation on proposed changes to the Recycling and Household Waste sites as outlined at paragraph 37 below, with a further report to be submitted to the Cabinet on the outcome of the consultation.

**Reasons for Recommendations**

3. To enable the County Council to meet its statutory requirements with respect to setting a balanced budget and Council Tax precept for 2024/25, to allow efficient financial administration during 2024/25 and to provide a basis for the planning of services over the next four years.

4. To enable early work to be undertaken on the development of new savings to address the worsening financial position.

5. Applying capping and scaling to the Leicestershire School Funding Formula for 2024/25 will ensure the cost does not exceed the Schools Block Dedicated Schools Grant whilst continuing to fully reflect the National Funding Formula (NFF).

6. To enable rates to be set for early years providers for 2024/25. The delegation will enable the rates to be set for the providers.

7. To enable County Council to debate the proposal to extend the current net zero targets in light of the Council's financial position and to consider the impact on current environmental priorities, action plans and funding strategies.

**Timetable for Decisions (including Scrutiny)**

8. 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 then considered the proposals at their meetings in January 2024 (the comments of these bodies will be circulated separately).

9. The County Council meets on 21 February 2024 to consider 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**

10. The MTFS is a rolling financial plan that is updated annually. The current MTFS was approved by the County Council on 22 February 2023.

11. The County Council's Strategic Plan (agreed by the Council on 18 May 2022) summarises the Council's vision for Leicestershire through five strategic outcomes and a single line vision statement. The outcomes represent long-term aspirations for Leicestershire which may not be achieved in full during the four-year course of the Strategic Plan. Therefore, the Plan also includes specific aims for the Council to achieve by 2026 in order to progress towards each outcome. It also sets out some of the key actions which the Council will deliver to achieve these aims. The five outcomes are:

    - Clean, green future
    - Great communities

- Improving opportunities
- Strong economy, transport and infrastructure
- Keeping people safe and well

12. The MTFS, along with other plans and strategies such as the Transformation Programme, the Capital Strategy, the Treasury Management Strategy, the Corporate Asset Management Plan and the Risk Management Strategy, aligns with these aims and underpins the Strategic Plan’s delivery.

13. The Cabinet at its meeting on 15 September 2023 noted the significant financial challenges faced by the Council and inter alia agreed the approach to updating the MTFS.

**Legal Implications**

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

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

16. The Council is required to set a balanced budget each year following the processes set out in the Local Government Finance Act 1992. The Director of Corporate Resources as the Council’s section 151 Officer has a number of duties relating the Council’s financial administration and resilience including to report on the robustness of the Council’s budget estimates and the adequacy of its reserves. There is a further duty to issue a formal report if the s151 Officer believes that the Council is unable to set or maintain a balanced budget. In addition, there is a requirement set out in the Local Government Act 2003 and relevant regulations[1] for the council when carrying out its duties to have regard to the Prudential Code for Capital Finance in Local Authorities.

17. The Council is further charged with a duty to secure best value by making ‘arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness". This duty is supplemented by statutory guidance to which the Council must have regard.

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

[1] Local Authorities (Capital Finance and Accounting) (England) Regulations 2003

in the process' although it is recognised that it is at the point in time when plans are developed to reconfigure or reduce services that the assessment is key.

19. The County Council as a major precepting authority is required to consult representatives of business rate payers and details of the budget consultation are set out below. There is no statutory requirement to undertake a public consultation on the MTFS but it is important to bear in mind that decisions which flow from the MTFS in relation to a change of provision or service will require adequate and proper lawful consultation before any decision is made as well as an equalities assessment to comply with the Public Sector Equality duty as referred to above.

20. There is a requirement for the precept to be approved by the Council and notified to the billing authorities by no later than 1 March 2024.

**Resource Implications**

21. The MTFS is the key financial plan for the County Council. The County Council's financial position has been challenging for a number of years due to over a decade of austerity combined with significant growth in spending pressures, particularly from social care and special education needs. This was exacerbated by the impact of the Covid-19 pandemic and significant increases in inflation, to levels not seen for many decades.

22. The Autumn Statement announced in November 2023 provided very little information to the updated financial position reported to the Cabinet in September 2023 with the exception of the announcement of the National Living Wage rate to be applied from April 2024. The Department for Levelling Up, Housing and Communities (DLUHC) issued a Policy Paper on the 2024/25 Settlement on 5 December 2023 which confirmed many of the assumptions used in the drafting of the new MTFS. The Provisional 2024/25 Local Government Finance Settlement was issued on 18 December 2023.

23. The level of uncertainty in the MTFS continues to remain much higher than it was pre-Covid and the scale of the challenge faced to balance the MTFS by Year 4 is much more significant than has been the case in the past.

24. The current MTFS was balanced for Year 1 only, with a gap of £13m in year two rising to £88m in Year 4.

25. This revised MTFS for 2024-28 projects a gap of £6m in the first year that will need to be balanced by the use of earmarked reserves. There is then a gap of £33m in year two rising to £83m in Year 4.

26. Delivery of the MTFS requires savings of £164m to be made from 2024/25 to 2027/28, unless service demand reduces, or additional income is secured. This MTFS sets out in detail £81m of savings and proposed reviews that will identify further savings to reduce the £83m funding gap on the main revenue budget and the £111m estimated funding gap on High Needs in 2027/28. High Needs expenditure within the Government grant going forwards has (in recent years) exceeded grant to the extent that a cumulative deficit of £65m is forecast by the

end of the current financial year. Strong financial control, plans and discipline will be essential in the delivery of the MTFS.

27. To ensure that the MTFS is a credible financial plan, unavoidable cost pressures have been included as growth. By 2027/28 this represents an investment of £129m, primarily to meet the forecast increase in demand for social care. The MTFS also includes a £100m provision for pay and price inflation. The majority of these pressures are unavoidable due to the nationally set National Living Wage, which has a significant influence on social care contracts, pay awards and increases to running costs driven by the levels of inflation.

28. Balancing the budget is a continued and increasing 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. This MTFS only forecasts a balanced budget next year, after using £6.4m of earmarked reserves to meet the gap, but the following three years are all in deficit.

29. It is concerning that the MTFS still shows considerable budget gaps, especially in 2025/26. To have a realistic chance of maintaining a sustainable budget position the County Council will need to identify mitigations that allow the 2025/26 position to be significantly improved. This includes a reinforcement of existing financial control measures and the introduction of new ones to ensure a tight focus on eliminating non-essential spend.

30. Reserves are only a short-term solution and the Council will need to ensure it has identified and can deliver adequate savings and growth mitigation plans from 2025/26. A heightened focus on the County Council's finances continues to be required whilst this situation remains.

31. The draft four-year capital programme totals £447m. This includes investment for services, road and school infrastructure arising from housing growth in Leicestershire, social care accommodation and essential ICT and Property capital schemes. Capital funding available totals £354m, with the balance of £93m being temporarily funded from the County Council's internal cash balances, with external borrowing potentially being required in future years.

32. In the Autumn Statement the Chancellor set out a range of measures designed to stimulate economic growth. He was only able to do this by extending the restrictions on public service spending. Although the headlines show that expenditure will increase faster than inflation unprotected departments in England, of which local government is one, face an annual 3.4% real terms reduction. The decision over where the cuts will fall is likely to be left to the next Parliament. If economic growth does not improve there will be difficult decisions, both nationally and locally, about what services will be scaled back.

33. To deal with the challenges that the County Council has faced in recent years, as the lowest funded County Council, a proactive approach has been required. Given the heightened uncertainty the more important it is that the County Council keeps this focus.

**Circulation under the Local Issues Alert Procedure**

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

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# PART B

## Changes to the draft Budget proposed in December 2023

35. The report on the draft MTFS taken to the Cabinet on the 19 December provided a lot of detail on the Chancellor's statement, the national financial context, the local government financial settlement and expected service and funding reforms. That detail is not repeated in this report. Instead it focuses on what has changed since then. These changes are summarised in the table below:

| | 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 | -5.4 | -0.4 | -0.4 | -0.4 |
| Services Grant | 1.1 | 0.7 | 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 |
| **Other Changes** | | | | |
| Growth | 2.0 | 2.0 | 2.0 | 2.0 |
| Additional savings | -2.3 | -2.7 | -2.7 | -3.5 |
| Contribution to General Fund | -1.0 | 0.0 | 0.0 | 0.0 |
| Additional bank & other interest | -0.2 | -0.2 | -0.2 | -0.2 |
| Service Investment Fund | 0.2 | 0.2 | 0.2 | 0.2 |
| **Contribution from Reserves** (to balance 24/25) | -6.4 | 0.0 | 0.0 | 0.0 |
| **Revised Shortfalls** | **0.0** | **33.2** | **59.6** | **82.9** |

36. The changes are as detailed below:

- 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.

- Social Care Grants (-£0.4m) increased allocation in the provisional settlement, which includes -£38.7m compared with -£38.3m anticipated in the draft MTFS. The Government announced a further national allocation of £500m on 24 January 2024 of which it is estimated that the County Council will receive £5m. It is assumed that this will be one-off funding in 2024/25. Actual allocations of this funding will not be confirmed until the final settlement is announced expected in early February.

- 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.

- 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.

- Council tax collection fund estimates for 2023/24 have now been received from the billing authorities and are £0.5m lower than the previous estimate.

- Additional growth of £2.0m has been included following a steep increase in the projected overspend in 2023/24 on the Unaccompanied Asylum Seeking Children budget.

- Further savings of £2.3m in 2024/25, rising to £3.5m by 2027/28, have been included in the updated MTFS. These are included in Appendix C and have been confirmed as achievable by the relevant Director. The most significant additional saving is the earlier delivery of savings under the Defining Children and Family Services for the Future programme. Other savings largely relate to operational efficiencies and increased income generation.

- Additional Bank and Other Interest of £0.2m is anticipated due the reduction in the need to use reserves to offset the budget gap in 2024/25, following the announcement on 24 January 2024 of additional Social Care grant funding.

- It is proposed that the additional interest income be used to provide a Service Investment Fund and the proposed use of this fund is outlined further at paragraph 37 below.

- A planned £1m contribution to the General Fund in 2024/25 has been removed, as unallocated amounts on several earmarked reserves will be reallocated to the General Fund in the 2023/24 final accounts.

- The remaining budget gap of £6.4m in 2024/25 will be funded by a contribution from the Budget Equalisation earmarked reserve, to enable the Council to meet its legal duty to set a balanced budget for 2024/25 following the processes set out in the Local Government Finance Act 1992. The amount to be funded from reserves is subject to change if the £5m estimate of additional Social Care grant differs from the final settlement announcement.

37. It is proposed that the Service Investment Fund noted above is used as follows, subject to appropriate consultation being undertaken:

    - £0.1m to be used to reduce the planned saving in the Recycling and Household Waste Sites service. A 12-week public consultation has just closed in relation to a revised operating model, including the closure of three sites. After initial consideration of the consultation feedback, the revised proposed operating model would look to continue with the majority of the proposals consulted on but retain the Shepshed RHWS and Market Harborough RHWS with revised opening hours – two days a week for Shepshed and three days a week for Market Harborough. It is also proposed that the opening hours for Kibworth are changed to four days per week. As the previous consultation did not include any changes to

Kibworth, a further consultation will need to be carried out and feedback considered before a final decision can be made.

- £0.1m to be used for flood investigation and scheme development work to address flooding as well as bidding for funding for project delivery. It will also provide capacity to administer Government flood-related grant funding.

38. Whilst the additional social care funding announced on 24 January is welcome, it is important to note that the Council still requires the use of reserves to balance the budget in 2024/25, albeit to a lower level. As the funding is assumed to be one-off, it does not improve the medium-term position, which is still a funding gap in excess of £80m by 2027/28. Any conditions on the new funding are not known at this stage.

39. Whilst not explicit in either the Autumn Statement or provisional settlement, the government has not indicated that there will be any further funding allocations for the Household Support Fund. This is a government scheme that the Council has administered since 2022 to support Leicestershire residents during the Cost of Living crisis. In 2023/24 the Council has received £7.24m which has supported eligible residents with food and fuel vouchers as well as provided Free School Meals during school holidays for eligible children.

**Final Local Government Settlement**

40. The final Local Government Settlement has not yet been received and is due in early February 2024. Any significant changes will be reported to the Cabinet.

**Spending Power**

41. The Government uses a measure of core spending power in assessing an authority's financial position. The County Council's historic annual core spending power from the 2024/25 Settlement is shown below. The key thing to note is that over this period Revenue Support Grant (RSG) had disappeared completely by 2019/20 compared to a figure of £56m in 2015/16 (in 2013/14 RSG was £81m).

42. In compensation for these reductions, additional specific funding streams have increased. Although a degree of certainty would be expected from having no RSG, Government previously raise the possibility of "negative RSG".

| | 15/16 £m | | 20/21 £m | 21/22 £m | 22/23 £m | 23/24 £m | 24/25 £m | Updated[4] 24/25 £m |
|---|---|---|---|---|---|---|---|---|
| Settlement Funding Assessment: RSG | 56.2 | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Settlement Funding: Business Rates | 60.5 | | 64.4 | 65.1 | 68.2 | 75.1 | 80.0 | 80.0 |
| Council Tax | 233.4 | | 319.3 | 336.9 | 351.6 | 374.2 | 397.8 | 397.8 |
| Improved BCF[1] | 0.0 | | 17.2 | 17.2 | 17.7 | 17.7 | 17.7 | 17.7 |
| New Homes Bonus | 3.3 | | 3.7 | 2.6 | 2.1 | 1.2 | 1.0 | 1.0 |
| Transition Grant | 0.0 | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Adult Social Care Support Grant | 0.0 | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Winter Pressures Grant[2] | 0.0 | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Social Care Grant | 0.0 | | 13.0 | 14.2 | 19.9 | 33.2 | 38.7 | 43.7 |
| Market Sustainability | 0.0 | | 0.0 | 0.0 | 1.6 | 5.7 | 10.6 | 10.6 |
| ASC Discharge Fund | 0.0 | | 0.0 | 0.0 | 0.0 | 2.5 | 4.1 | 4.1 |
| Services Grant | 0.0 | | 0.0 | 0.0 | 4.3 | 2.5 | 0.4 | 0.4 |
| Grants rolled in[3] | 1.0 | | 1.2 | 1.2 | 1.2 | 3.7 | 0.0 | 0.0 |
| Core Spending Power | 354.4 | | 418.8 | 437.2 | 466.6 | 515.8 | 550.3 | 555.3 |

[1] includes one-off Social Care Grant announced in the Budget 2017, and Winter Pressures Grant of £2.4m added from 2020/21.
[2] grant shown as part of iBCF from 2020/21.
[3] £3.7m in 23/24 relates to a second tranche of Market Sustainability grant, which is rolled into that grant line in 24/25.
[4] includes £5m increase in social care grant

43. The table shows that ‘core spending power’ increased in cash terms by £200m (57%) from 2015/16 to 2024/25. However, most of that increase relates to Council Tax which has increased by £164m (a 70% increase), while Business Rates show a 32% increase and Government grant only 20%. With inflation historically running at circa 3% each year, and rising above 10% in 2022/23 and averaging above 6% so far in 2023/24, the overall 55% increase represents a relatively small real terms increase but provides little allowance for increasing populations, the above inflation increases to the National Living Wage and the significant increasing service demands local authorities are facing especially around social care services. This is particularly difficult for Leicestershire which continues to be an area of one of the fastest growing populations nationally.

44. Moreover, the Core Spending Power (CSP) measure assumes councils increase council tax by the maximum amount permitted, including raising the full adult social care precept. Whilst the County Council has always done this since the adult social care precept was introduced, it is mindful that in doing so it has raised council tax above inflation in some years.

45. The inherent problem with the current Government methodology to setting funding is that it takes no account of the relative funding position of individual authorities.

46. Given annual Government announcements on funding, there are still significant risks due to the uncertainty of future funding levels.

**Business Rates**

47. The two main components of the business rates retention scheme income received by the County Council are the “baseline” and “top up” amounts. The baseline is the County Council’s share (9%) of business rates generated locally and the top-up is allocated to the County Council to compensate for the small baseline allocation.

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

49. The proposed MTFS includes an assumption that the total of the baseline, top up and Section 31 grant elements will be increased by 6.7% in 2024/25, in line with the CPI in September 2023, and that the increase will be mainly received in the form of additional Section 31 grant from the Government, as the Chancellor of the Exchequer has frozen the “poundage” charged to “small” businesses for 2024/25 at 2023/24 levels and has also extended reliefs to some sectors of the economy.

50. The Government had indicated its intention for a full reset of baselines in 2020/21 but this was postponed until 2021/22 and, due to the pandemic was deferred again until 2022/23. The Local Government Finance Settlement in December 2022 has confirmed that the reset will be deferred again until at least 2025/26. When the reset does take place it will result in councils losing their share of accumulated growth. For the County Council this is projected to amount to around £10m per annum, and the income to the Leicester and Leicestershire Business Rates Pool (of which the County Council would receive around a third, subject to agreement of the Pool members) would reduce by circa £20m.

51. The Government introduced the Business Rates Retention System from April 2013 and as part of these changes Local Authorities were able to enter into Pools for levy and safety net purposes. Net surpluses are retained locally rather than being returned to the Government as would have been the case if no Pool had existed. The current pooling agreement allows for the surplus to be shared between the County Council, Leicester City Council and the seven district councils. An estimate of £6.5m has been included in 2024/25 for the County Council’s share of that year’s levies, which is shown as a contribution to the Budget Equalisation reserve.

52. In total £74m has been retained in Leicestershire between 2013/14 and 2022/23, due to the success of the Business Rates Pool, with a further potential surplus for the pool of £18.6m forecast in 2023/24.

53. The partners decided in January 2024 to continue with the Pool in 2024/25. Due to the level of accumulated surplus, continued pooling in 2024/25 is expected to remain beneficial compared to not being in a pool, despite the wider economic challenges.

## Council Tax

54. The Localism Act 2011 provides for referendums on any proposed increase in Council Tax which is defined as excessive (using definitions prescribed by central Government) which effectively gives a power of veto. A cap on the core increase of 3% is permitted for County Councils for 2024/25. In addition, the Councils will be permitted to raise an additional 2% to fund adult social care (the adult social care precept).

55. The most financially significant decision of any budget is usually the level that Council Tax will be increased by. This is not just a consideration for the current year, it affects the level of income available ad infinitum. Every 1% Council Tax is increased by is worth £3.7m to the County Council. The 2024/25 draft budget

assumes a 4.99% increase, which would cost each household in a band D property the following:

| Council Tax (Band D Property) | Main (Core) | ASC Precept | Total |
|---|---|---|---|
| Increase | 2.99% | 2.00% | 4.99% |
| Cost Per Week | £0.88 | £0.58 | £1.46 |

56. This contributes significantly towards achieving a balanced budget. If this increase were not taken more service cuts would be the inevitable consequence. A recent survey by the County Council Network indicated that nine out of ten County Councils were planning to increase Council Tax by 4.99%.

57. The draft MTFS is based on a Council Tax increase of 4.99% in 2025/26 also but reducing to 2.99% in each subsequent year. Subject to Government announcements there may be scope to raise additional amounts for both the core Council Tax and for the Adult Social Care precept in the subsequent years, but that would need to be assessed by the Council in light of the revised position in each refresh of the MTFS in future years.

58. Council Tax base growth in 2024/25 of 1.3% is higher than anticipated in the current MTFS and the draft MTFS assumes increases of 1.5% in subsequent years.

59. Collection fund forecasts have been received from the district councils in January 2024 and show a reduction of £0.5m from the £2.4m net surplus included in the draft MTFS reported to the Cabinet in December 2023.

**Budget Consultation**

60. The County Council had undertaken its annual consultation on the draft budget. The consultation period ran from 19 December 2023 until 17 January 2024 and asked for view on the planned savings and growth included in the draft budgets as well as on the level by which council tax should be increased. A detailed report on the consultation outcome is attached as Appendix O.

61. Of those that expressed a preference on the Council's proposed growth and savings programme, the majority were supportive of the approach taken.

62. With respect to Council Tax, 52% of responses supported an increase of 3% or higher for the core element and 46% supported an increase in the adult social care precept element of 2% or higher.

63. There continued to be strong support for the Council continuing with its fair funding campaign to lobby Government to review the way funding is distributed between councils.

**2024/25 - 2027/28 Budget**

64. The 2024/25 budget is detailed in Appendix A. The detailed four-year MTFS is set out in Appendix B and is summarised in the table below.

| **Provisional Budget** | **2024/25 £m** | **2025/26 £m** | **2026/27 £m** | **2027/28 £m** |
|---|---|---|---|---|
| Services including inflation | 518.8 | 571.9 | 610.0 | 649.7 |
| Add growth | 48.3 | 27.0 | 27.0 | 27.0 |
| Less savings | -14.1 | -10.3 | -9.2 | -5.7 |
| | 553.0 | 588.6 | 627.8 | 671.0 |
| Central Items | 5.9 | 12.6 | 16.3 | 18.1 |
| Add growth | 0.2 | 0.0 | 0.0 | 0.0 |
| Less savings | -0.1 | 0.0 | 0.0 | 0.0 |
| | 559.0 | 601.2 | 644.1 | 689.1 |
| Contributions to: | | | | |
| Earmarked reserves | 15.0 | 8.1 | 7.4 | 7.2 |
| General Fund | 0.0 | 1.0 | 1.0 | 1.0 |
| | | | | |
| Contribution from Budget Equalisation reserve (to balance 24/25) | -6.4 | 0.0 | 0.0 | 0.0 |
| | | | | |
| **Total Spending** | **567.6** | **610.3** | **652.5** | **697.3** |
| | | | | |
| Funding | | | | |
| Business Rates | -97.9 | -89.2 | -85.7 | -87.1 |
| Council Tax | -399.8 | -424.5 | -443.8 | -463.9 |
| Central Grants | -69.9 | -63.4 | -63.4 | -63.4 |
| **Total Funding** | **-567.6** | **-577.1** | **-592.9** | **-614.4** |
| | | | | |
| **Shortfall** | **0.0** | **33.2** | **59.6** | **82.9** |

65. The MTFS shows a shortfall of £6.4m in 2024/25, which will need to be met by a transfer from the Budget Equalisation earmarked reserve. The forecast above includes estimated additional income of £5m from the Ministerial Statement on 24th January, setting out £600m additional funding for Local Government. Actual allocations per authority will not be known until the final settlement is announced in early February, neither have potential conditions been advised. Before this additional funding the shortfall to fund from reserves was £11.4m. There are shortfalls of £33m in 2025/26 rising to £83m in 2027/28. As set out in the following section there is a range of initiatives currently being developed that will aim to bridge the gap.

66. The Council maintains a range of earmarked reserves which are held to cover identified risks or for specific future projects. The Budget Equalisation reserve is held as contingency for the risks and uncertainties in the MTFS and to smooth the impact of budget gaps across the Strategy. After accounting for the £6.4m

required for the 2024/25 gap, this reserve does not have a sufficient balance to fund the gap currently forecast for 2025/26 and so urgent attention will need to be given to identifying further savings or income generation opportunities that can be delivered from 2025/26 onwards.

**Savings and Transformation**

67. The Council is not optimistic that additional government funding may be made available to reduce the gaps outlined in the previous paragraph, so it is clear that significant additional savings will still be required on top of the £39m that have been identified, £14m of which are to be made in 2024/25.

68. This is a challenging task, especially given that savings of £262m have already been delivered over the last fourteen years. This was initially driven by the real terms reduction in Government grants, which is in excess of £100m since 2010. In recent years, service demand pressures have become the main driver.

69. The identified savings are shown in Appendix C. The main proposed four-year savings are:

- Children and Family Services (£15.9m). This includes savings of £6.0m from smarter procurement and contract re-negotiations on social care placements, £3.1m from reduced care costs through growth of internal family-based placements, £2.6m from the second phase of the Defining Children and Family Services for the future programme and £2.3m from the innovation partnership.
- Adults and Communities (£14.0m). This includes £4.0m from increased Better Care Fund income, £3.3m from implementation of digital assistive technology to service users and £1.3m from improving outcomes from the Homecare Assessment and Reablement Team and Community Response Service.
- Public Health (£0.9m) from the review and redesign of several service areas.
- Environment and Transport (£4.6m). Savings include £1.2m from the assisted transport programme review and £0.7m from extended producer responsibility for packaging.
- Chief Executive's Department (£0.4m). This includes savings from reviews of several service areas and additional income.
- Corporate Resources (£3.5m). This includes savings of £1.0m from ICT efficiencies, £0.8m from the ways of working office programme and £0.6m from the customer and digital programme.

70. Of the £39m identified savings, efficiency savings account for £36m, and can be grouped into three main types:

a) Service re-design and delivery (£17m)
b) Better commissioning and procurement (£12m)
c) Other efficiencies (£1m)
d) Additional income (£6m)

71. Further savings or additional funding will be required to close the budget shortfall of £33m in 2025/26 rising to £83m in 2027/28.

72. It is estimated that the overall savings requirement would lead to a reduction of around 200 posts (full time equivalents) over the four-year period. However, it is expected that the number of compulsory redundancies will be much lower, given the scope to manage the position over the period through staff turnover and vacancy control. Demand management in the Council's social care services will be critical to achieving a balanced MTFS and may help minimise the impact on employees.

**<u>Closing the budget gap over the medium term</u>**

73. It is clear that the Council faces a significant financial challenge, as with many other local authorities, and urgent attention will need to be paid to identifying further savings or income generation options to close the gap over the medium term. Whilst reserves have been used to close the budget shortfall for 2024/25, this is only a short-term measure and it with a growing financial gap in future years this is not a sustainable approach to balancing the budget.

74. The Council's strategic change portfolio currently encompasses more than 150 change initiatives, projects and programmes of varying size, scale, and complexity. These initiatives collectively contribute to meeting the savings targets outlined in the existing MTFS but will need to go further, identifying, designing and implementing additional opportunities for change.

75. To help bridge the gap several initiatives are being investigated to generate further savings and these are being prioritised to ensure that Council resources are focused on the initiatives that will have the greatest impact. The activity already underway can be broadly categorised as:
    - Progressing significant cross cutting initiatives – Sustainable Support Services, Prevention, Customer Programme and the Data Strategy
    - Savings Under Development (outlined below)
    - Focus on demand management – given that a significant proportion of growth in the MTFS comes from increase demand for services, ways to reduce that demand in the future will be pivotal
    - Income generation
    - Spend Controls Phase 1 – escalated operational controls to ensure robust financial management

76. Outlines of the Savings Under Development have been included as Appendix D. Once business cases have been completed and appropriate consultation and assessment processes undertaken, savings will be confirmed and included in a future MTFS. This is not a definitive list of all potential savings over the next four years, just the current ideas being developed.

77. The development and ultimate achievement of these savings was already challenging, following more than a decade of austerity, which has now been exacerbated by impact of inflation on the Council's finances. It is unlikely that the

Savings Under Development at Appendix D will be sufficient to close the current forecast gap of £83m even if they are all achieved to their maximum potential.

78. It is expected that the strategy to close the budget gap and ensure the Council remains financially sustainable will need to focus on the following activity:

- Service Redesign and review of policies to focus on essential spend
- Reassessing Council priorities, looking at how the Council can react and adapt to the Government's vision for a smaller public sector, as set out in the Autumn Statement in November 2023.
- Effective procurement, a root and branch review of how the Council spends its money and efficiency expectations on suppliers of goods and services.
- Spend Controls – further escalations to tighten corporate oversight on spending
- Work with partners to ensure service responsibilities and funding are aligned

79. There are some specific actions that will be undertaken in the Spring of 2024 to move forward delivery of the MTFS. These include:

- Review of the Council's Strategic Plan Outcomes
- Agree realistic savings targets for the cross-cutting workstreams set out above
- Complete the prioritisation of the Transformation Programme and develop a rolling 3-year programme with a clear resource plan.
- Redesign the oversight process to ensure effective challenge of the MTFS process and Directorate spending plans is in place
- Implement a Corporate Fees and Charges framework and cost recovery policy to ensure the Council is maximising income
- Fundamental review of the Capital Programme and financing strategy
- Robust control of external cost drivers

80. As mentioned above, several substantial cross-cutting change programmes are in progress to enhance the efficiency of the Authority. The Prevention Review programme involves a systemic examination of prevention activities undertaken across the Authority and its partners, aiming to reduce unnecessary expenditures and alleviate demand on higher-cost services. The Customer programme focuses on streamlining and modernizing customer contact through automation and technology. The Sustainable Support Services Programme will ensure the optimal allocation of internal support resources and processes to enhance compliance and reduce costs. The Council is also fully embedding the Ways of Working programme, striking the right balance between home, office, and remote working. This initiative will maximise the utilisation of council property and technology to drive improvements in productivity and efficiency and cost.

81. There will need to be a renewed focus on these programmes during the next few months to ensure that savings are identified and delivered to support the 2025/26 budget gap. Given the scale of the financial challenge, focus will be needed to prioritise resources on the change initiatives that will have the greatest impact, and work is already underway to do this.

82. The MTFS also includes the Transforming SEND and Inclusion in Leicestershire (TSIL) Programme which is reducing the rate of cost growth through increase local provision of places, practice improvements and demand reduction initiatives. The aim of the programme is to ensure that the expenditure can be contained within the allocation through the Dedicated Schools Grant. Savings of £41.5m are planned over the MTFS period.

83. Despite these savings, the High Needs Block deficit continues to grow and is an increasing concern, additional mitigations will need to be identified. Further details are provided in the Dedicated Schools Grants section of the report below.

**Net Zero**

84. When the Council made its net zero commitments it was expected that progress would be aided by Government grants, legislative changes, and improvements in technology. Whilst this is happening, and there have been some notable successes for the County Council, the Government signalled a shift in priority for this agenda with several recent announcements. Forecasts for the national finances, in the next parliament, show a savings requirement for unprotected departments, which includes Local Government. Regardless of the outcome of any national election, there is greater likelihood that significant grant funding required to support a transition to net zero before the national 2050 target will not be forthcoming. The Council's financial position does not allow it to make up for the shortfall in national support.

85. In light of the varied Government statements on environment in recent months, as well as the Council's unprecedented financial challenges, consideration is being given to revising the Council's net zero targets for its own operations, from 2030 to 2035, and for the wider County, from 2045 to 2050. Subject to Cabinet and County Council approval of revised net zero commitments, it may be necessary to reconsider the Council's environmental priorities, including the Net Zero Strategy and Action Plan and provide a credible plan to deliver on the revised targets within the limited resources available for this agenda.

**Financial Control Measures**

86. Given the increasingly challenging financial outlook there is a need to ensure that financial controls are tightly operated and additional measures introduced to restrict expenditure.

87. In particular the areas of focus are on:
    - Recruitment
    - Use of Agency staff
    - Overtime
    - Mobile phones
    - Procurement
    - Grant funding
    - A range of other non-essential spend including use of consultants, advertising and promotions, conferences, travel/subsistence and levels of stock holdings

88. Reviews will be undertaken within these areas to identify where spend can be reduced and stopped. Also new approvals around areas such as recruitment and procurement will be required to be signed off by Departmental Directors and/or approved by corporate oversight boards.

89. These controls will be kept under review and consideration will be given to stepping them up or down as required, subject to the Council's financial position and expected reliance on reserves. These are largely operational controls which are likely to provide some low-level, short term support for the Council's financial position but may also assist in identifying longer term savings options.

**Growth**

90. Over the period of the MTFS, growth of £129m is required to meet demand and service pressures with £48m required in 2024/25. The main elements of growth are:

- Children and Family Services (£43.3m). This is mainly due to £39.8m for pressures on the Social Care placements budget arising from increased numbers of Looked After Children, predominantly unaccompanied asylum seeking children, alongside significant increases in cost of placements for children looked after and care leavers.
- Adult Social Care (£46.0m). This is largely the result of an ageing population with increasing care needs and increasing numbers of people with learning disabilities.
- Environment and Transport (£11.0m). This mainly relates to increased service user numbers and costs for Special Educational Needs (SEN) transport.
- Corporate Growth (£28.7m). This has been included to act as a contingency for potential further cost pressures in the later years of the MTFS. The amount has been set based upon historic levels of growth incurred. The contingency reflects that it is not possible to specifically identify all of the growth before the first year of a four-year MTFS.

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

**Inflation**

92. The Government's preferred measure of inflation is the CPI. In December 2023 this was 4.0%. 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.

93. 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 will not impact on the Council's costs until 2024 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 in 2024/25 and 3% per annum in later years.

94. 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 has been made. The NLW also has a significant impact on the Council's pay costs.

95. 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.

96. 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.

97. Detailed service budgets for 2024/25 are compiled on the basis of no pay or price increases. A central contingency for inflation is to be held, which will be allocated to services as necessary.

**Central Items**

98. 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.

99. Interest income relating to Treasury Management investments is budgeted at £14.2m in 2024/25 and is estimated to reduce to £3.2m by 2027/28 as balances are reduced to fund internal borrowing for the capital programme and interest rates are expected to fall.

100. Central grant income in the 2023/24 budget totalled £55.5m. The projected total of £69.8m in 2024/25 reflects the following changes:

- £10.5m additional Social Care Grant
- £2.9m additional Market Sustainability and Improvement Fund (MSIF) grant announced alongside the 2023 Local Government Settlement
- £2.1m from the Workforce Fund (part of MSIF)
- £1.2m Independent Living Fund grant from Adults and Communities
- (£2.1m) reduction to the Services Grant
- (£0.3m) reduction to the New Homes Bonus Grant

**Health and Social Care Integration**

Better Care Fund (BCF)

101. The importance of the Better Care Fund was detailed in the December Cabinet report. The value of BCF funding for Leicestershire is shown in the table below:

| | 2023/24 £m | 2024/25 £m | |
|---|---|---|---|
| NHS Minimum Allocation | 48.8 | 51.5 | Level mandated by NHS England |
| Discharge Fund | 4.8 | 8.5 | Allocated to both ICBs and local authorities to support safe and timely discharge from hospitals |
| IBCF | 17.7 | 17.7 | Allocated to local authorities, specifically to meet social care need and assist with alleviating pressures on the NHS, with emphasis on improving hospital discharge, and stabilising the social care provider market. |
| Disabled Facilities Grant | 4.8 | 4.8 | Passed to district councils |
| **Total BCF Plan** | **76.1** | **82.5** | |

102. In 2024/25, £22.9m of the NHS minimum allocation into the BCF will be used to sustain adult social care services. The national conditions of the BCF require a certain level of expenditure to be allocated for this purpose. This funding has been crucial in ensuring the Council can maintain a balanced budget, while ensuring that some of its most vulnerable users are protected; unnecessary hospital admissions are avoided; and the good performance on delayed transfers of care from hospital is maintained.

103. In addition to the required level of funding for sustaining social care service provision, in 2024/25 a further £7.9m of Leicestershire’s BCF funding has been allocated for social care commissioned services. These services are aimed at improving carers’ health and wellbeing, safeguarding, mental health discharge, dementia support and crisis response.

104. The balance of the NHS Minimum Allocation £20.7m is allocated for NHS commissioned out-of-hospital services. The County Council commissions community care services on behalf of the NHS through shared care and joint funding arrangements. The Council is reviewing these arrangements alongside the provision of Continuing Health care and Funded Nursing care to ensure residents are receiving optimal care and it is funded appropriately.

105. Any reduction in the funding for social care from the BCF would place additional pressure on the Council’s MTFS, and without this funding there is a real risk that the Council would not be able to manage demand or take forward the wider integration agenda.

## Other Grants and Funds

106. There are a number of other specific grants included in the MTFS, some of which are still to be announced for 2024/25, for example:

- Public Health – the 2024/25 indicative allocation is £27.4m.
- Pupil Premium – estimated £5.6m.
- Education & Skills Funding Agency – estimated £5.2m.
- Universal Infant Free School Meals – estimated £2.5m.
- Music Education Hubs Grants – estimated £1.5m.
- Supporting Families Grant – estimated £1.4m.
- Section 31 Business Rates (Government funding for caps on business rates growth and other Government measures) – estimate of £16.7m.
- New Homes Bonus – £1.0m for 2024/25.
- Network North (Bus improvement) - £4.1m.
- Bus Service Improvement Plan (BSIP+) £1.8m.

## Dedicated Schools Grant Settlement 2024/25

107. For 2024/25 the Dedicated Schools Grant (DSG) remains calculated in separate blocks as set out below:

| **DSG Funding Block** | **£m** |
|---|---:|
| Schools Block – National Funding Formula | 518.5 |
| Schools Block – School Revenue Growth | 2.8 |
| Central School Services | 3.9 |
| High Needs (Provisional) | 108.4 |
| Early Years (Provisional) | 63.2 |
| **Total** | **696.8** |

108. The 2024/25 MTFS continues to set the overall Schools Budget as a net nil budget at local authority level. However, as at 31 March 2024 there is a cumulative forecast funding gap of £49m on the High Needs Block which will be carried forward as an overspend against the grant.

Schools Block

109. School funding remains delivered by the National Funding Formula (NFF) which funds all pupils at the same rate irrespective of the authority in which they are educated. The NFF uses pupil characteristics each with a nationally set funding rate to generate school level funding to local authorities. Within the NFF only the per pupil entitlement is universal to all. Other factors reflect the incidence of additional needs such as deprivation and low prior attainment. Funding levels between local authorities and individual schools within those local authorities vary as a result of pupil characteristics rather than national funding levels between authorities.

110. The Department for Education (DfE) has taken further steps towards the full implementation of the NFF in 2024/25 by requiring local authorities to move within 10% of that nationally set NFF levels and only use these factors within

their local funding formula. This has required Leicestershire to seek permission to continue to fund rental costs in some small schools and maintain the approach to funding schools undertaking and affected by age range changes by adjusting pupil numbers which has been in place since 2013. With these exceptions, assuming approval from the DfE, the Leicestershire funding formula remains in accordance with the NFF.

111. The 2024/25 Schools Block DSG settlement is £518.5m, a per pupil increase of 1.85%.

112. Whilst the NFF for schools is based upon the 2023 School Census, funding for local authorities is based upon the pupil characteristics recorded in the 2022 school census. An increase in the number of pupils eligible within the NFF for Free School Meals (FSM) and with English as an additional language (EAL) has resulted in a funding gap of £1.2m. In order to close that gap and ensure that the funding formula is fully delivered within the grant available it has been necessary to enact the DfE’s mechanism of capping and scaling school level increases, this has required a cap of 1.6% scaled by 50%. However, all schools continue to receive the DfE’s guaranteed increase of 0.5% per pupil.

113. The DfE published provisional DSG allocations in July and then issued a revised and reduced funding NFF settlement in October to reflect an error it had made in its pupil forecast. However, the revised forecast still delivers a guaranteed minimum increase of 0.5% per pupil. The minimum per pupil funding levels are £4,665 per primary and £6,050 per secondary pupil.

114. A total of 34 primary schools and 1 secondary school are expected to be funded at the funding floor leaving them vulnerable to changes in future levels of DfE protection. As the funding guarantee is at pupil level, schools with decreases in pupil numbers will see an overall decrease in budget allocation.

115. Additionally, within the Schools Block, but separate to funding for individual schools, local authorities receive funding for the initial revenue costs of commissioning additional primary and secondary school places The DfE has changed the funding methodology for the grant and introduced minimum funding requirements linked to payment by place rather than by block allocations. This has in turn required a new policy to be adopted which links the payment rates received within the grant allocation to the payments made to schools. The revised policy was considered and approved by the Schools Forum on 21 November 2023 and will be applicable to school growth from April 2024. The grant is confirmed as £2.8m.

116. It remains possible for local authorities to transfer up to 0.5% of the Schools Block DSG to High Needs following consultation with schools and with the approval of the Schools Forum. Secretary of State approval can be sought where the Schools Forum does not agree a transfer, where local authorities wish to transfer more than 0.5% and for local variations to some of the technical aspects of the NFF. No such transfer is proposed for 2024/25 but may need to be considered for future years as a result of the High Needs financial position.

High  Needs

117. The structure of the High Needs NFF is unchanged from 2023/24 and the provisional settlement at £108.4m and a 3% increase per head of population. However, it should be noted that the population factor accounts for just £38.7m (36%) of the settlement figure meaning that 64% of the formula is subject to no uplift unlike the schools NFF where all funding factors have been increased for 2024/25.

118. Leicestershire remains at the funding floor i.e. the application of the high needs NFF would generate a lower settlement without this protection. The NFF remains unresponsive to changes in the overall SEN population:

- £10.1m (9%) of the NFF is driven by the number pupils in special school and independent school places
- £31.8m (28%) of the formula relates to historic spend from 2017/18, this was £58.4m compared to a forecast spend of £121.2m for 2023/24.
- £2.8m (3%) of the formula is from the funding floor.

119. There is no indication of whether the high needs NFF will be reviewed although there is an expectation of national tariffs arising from the SEND and Alternative Provision Action Plan. There is no indication of timescales for any associated funding changes and the only reference within the Settlement is  '….by the end of 2025, the department [DfE] will have made progress towards introducing a national framework of banding and price tariffs. It is unlikely that any changes to the funding structure, and indeed the method by which local authorities are funded, will be implemented before the 2027 financial year'. Additionally given that the NFF for mainstream schools commenced in 2018 and remains unfinished, funding change in this financially and politically sensitive area could be many years away.

120. The forecast position on the High Needs element of the DSG over the MTFS period is shown below:

| | 2024/25<br>£,000 | 2025/26<br>£,000 | 2026/27<br>£,000 | 2027/28<br>£,000 |
|---|---|---|---|---|
| Grant Income | -109,176 | -112,430 | -115,781 | -119,233 |
| | | | | |
| Placement Costs | 120,579 | 133,297 | 147,279 | 162,705 |
| Other HNB Cost | 10,679 | 11,279 | 11,279 | 11,279 |
| Commissioning Cost - New Places | 162 | 37 | 0 | 0 |
| Invest to Save Project Costs - TSIL | 986 | 986 | 986 | 986 |
| **Total Expenditure** | **132,406** | **145,599** | **159,544** | **174,970** |
| | | | | |
| **Funding Gap Pre Savings** | **23,230** | **33,169** | **43,763** | **55,737** |
| | | | | |
| TSIL Programme Defined Opportunities | -3,788 | -10,976 | -19,195 | -27,666 |
| Increase in Local Specialist Places | -2,480 | -5,995 | -9,868 | -13,803 |
| | | | | |
| **Total Savings** | **-6,268** | **-16,972** | **-29,063** | **-41,469** |

| | | | | |
|---|---|---|---|---|
| | | | | |
| **Annual Revenue Funding Gap** | **16,963** | **16,197** | **14,700** | **14,268** |
| | | | | |
| **Cumulative High Needs Deficit Brought Forward** | **48,501** | | | |
| | | | | |
| **Cumulative High Needs Funding Gap** | **65,464** | **81,661** | **96,361** | **110,629** |
| | | | | |
| Surplus (-ve) / Deficit Other DSG Blocks | -8,060 | -8,057 | -7,557 | -4,957 |
| | | | | |
| **Dedicated Schools Grant Surplus (-ve) / Deficit** | **57,404** | **73,604** | **88,804** | **105,672** |
| | | | | |
| **High Needs Spend as % of High Needs DSG** | **122%** | **130%** | **139%** | **148%** |
| | | | | |
| **Surplus / Deficit as % of Total DSG** | **8%** | **10%** | **12%** | **14%** |

121. Currently local authorities are required to carry forward DSG deficits in an unusable reserve through the continued use of a Statutory Accounts override and may only now contribute to DSG with the approval of the Secretary of State. The accounts override legislation is confirmed until March 2026 when it is expected to end. Unless further legislation is enacted, from this point local authorities will be required to make financial provision for the deficit.

122. Despite significant investment in transforming the service the County Council is facing a deficit of £74m when the statutory override expires. If meaningful reform (or funding) is not instigated before March 2026 the deficit will have to be paid. This would have a significant impact on services. This will be a key consideration when the MTFS is set next year.

123. It is nationally recognised that additional funding alone will not address the financial difficulties, many of which are created by a system where school and parental expectations have a greater influence than a local authority assessment of needs, appropriate provision and affordability. It is clear that national policy changes are needed. At the continued levels of expected growth, the position is unsustainable and puts the Council’s finances in a very difficult position. As such it is essential that the planned measures to contain ongoing growth are successful, but additional measures are also required to reduce both demand and costs.

Central Services Block

124. The central services block funds a number of school-related expenditure items such as existing school-based premature retirement costs, copyright licences under a national DfE contract for all schools and other historic costs. DSG for 2024/25 is £3.9m.

125. The settlement continues an annual reduction of 20% for the Historic Costs element of the settlement but a guarantee remains in place to ensure that

funding does not decrease below the financial commitment to meet former teacher employment costs. The Leicestershire allocation is £118,000 below the cost and a claim for additional funding will be submitted in February.

Early Years Block

126. The DfE has announced additional early years DSG to extend early years entitlements. In addition to the offer of the Free Entitlement to Early Education (FEEE) of 15 hours for 38 weeks per year for 3 and 4 year olds, the existing 2-year-old entitlement to 15 hours of free childcare for eligible children of disadvantaged parents expands to include to 15 hours of free childcare for eligible children of working parents starting from April 2024 for 2 year olds and September 2024 for children aged between 9 months and 2 years old.

127. Whilst the Early Years DSG settlement has yet to be published it is estimated to be £63.2m and based on funding rates of £4.77 per hour for the three – four-year-olds and £7.07 for two-year-olds. Local authorities are required to pass through 95% of the settlement to providers, the remaining 5% meeting the cost of the Early Learning and Childcare service and continuing to recoup the early years deficit recorded in 2022/23. The rates to be paid to providers are currently subject to consultation. A delegation to the Director of Children and Family Services following consultation with the Lead Member is recommended to set the rates for 2024/25.

## Adequacy of Earmarked Reserves and Robustness of Estimates

128. 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.

129. When setting the MTFS prudent and realistic estimates have been used for core assumptions. The following table provides a summary of the impact of changes to those key assumptions:

| Impact of (+ or -) | Likelihood | Equates to (+ or -) |
|---|---|---|
| 1% Council Tax | Low | £3.7m |
| 1% Business Rates growth | Medium | £0.5m |
| 1% Pay award (excludes staff funded from specific grant (e.g. Dedicated Schools Grant, Public Health etc.) | Medium | £2.0m |
| 1% Non-pay budget (excludes ASC demand growth) | Medium | £1.6m |
| 1% ASC demand growth | Medium | £1.8m |

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

| **Risk Area** | **Commentary** | **Mitigation/Provision** | RAG |
|---|---|---|---|
| Inflation | High inflation persisting for longer than expected leading to increased costs and continuation of Cost of Living crisis. Government not expected to continue Household Support Fund. | Inflation allowance within the budget and MTFS | Amber |
| Non achievement of savings and income targets | The requirement for savings and additional income totals £164m over the next four years of which £83m is unidentified | Strong governance in place to maximise savings delivery and early identification of any slippage. MTFS risks contingency and budget equalisation reserve in place | Amber |
| SEND spend in excess of grant | A cumulative deficit of £111m 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. | Statutory override currently in place but significant risk if this ends and no alternative arrangements are put in place by government | Red |
| National Living Wage and salary increases | Increases in the NLW have been estimated for 3 of the 4 years of the MTFS and pay awards are unknown for any year. Each 1% increase in the NLW increases the Council's cost base by around £2m per annum. Whilst there is some provision for this in the inflation allowance, there is a risk that it may not be sufficient. | Inflation allowance to manage in-year fluctuations | Amber |
| Local Government Finance Reform and other policy reforms | A number of significant government initiatives already delayed with further delays expected. These include:<br>• Review of Business Rate retention, including a "reset" of the system's baselines<br>• Fair Funding Review<br>• Review of SEND reforms<br>• Adult Social Care charging reforms<br>• Children's Social Care reforms | Prudent assumptions made in the MTFS for future funding e.g. business rates growth phased out and other grant income kept flat | Amber |
| Further service demand | Unforeseen service pressures resulting in an overspend, particularly demand-led children's and adult social care. | Prudent growth assumptions in the MTFS, financial controls, MTFS contingencies | Amber |

131. 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.

132. There are a number of ways that risks will be mitigated and reduced which are highlighted above and explained further below:

- General Fund
- MTFS contingencies
- Earmarked reserves
- Effective risk management arrangements.

General Fund

133. The General Fund balance is available for unforeseen risks that require short term funding. The forecast balance at the end of 2023/24 is £21m which represents 3.7% 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 arising from 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.
- New legislation introducing new burdens or service requirements

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

135. 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.

Earmarked Reserves

136. 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 K to this report. The final level of earmarked reserves will be subject to the current year budget outturn.

137. Earmarked funds and balances are held for specific purposes in line with the Council's Earmarked Reserves Policy attached as Appendix J. 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 £6.4m 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.

138. 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.

139. 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.

140. 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.

141. The Government has recently established the Office for Local Government (OfLOG), which will act as a performance body for local government, providing data and analysis about the performance of Councils to support improvement. The OfLOG indicators also show a broadly positive picture for the County Council. It shows that the Council continues to be the lowest funded county and is the second lowest for spend on social care.

142. 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.

143. 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

144. 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

145. The Council's risk management policy statement and strategy, and insurance policy are reviewed annually and are included as Appendix I and L respectively. The policies were considered and noted by the Corporate Governance Committee on 26 January 2024.

Robustness of Estimates

146. 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.

147. 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.

148. 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.

## Concluding Comments – Revenue Position

149. 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 reserves and balances of the County Council, assurance can be given that the estimates are considered to be robust and the earmarked reserves are adequate.

150. The draft MTFS is balanced in 2024/25, but only by using £6m of one-off reserves. There is then a financial gap of £33m in 2025/26 rising to £83m by 2027/28.

151. There are significant uncertainties that could change the financial gap facing the County Council. These can be summarised as uncertainty over funding and future government policy, cost and demand growth and delivery of savings.

152. Funding uncertainties are predominately driven by Government and external factors. It is expected that some funding streams will reduce, for example if the planned reset of the Business Rate Baseline is implemented, the Council will lose the benefit of growth built up over a number of years and currently worth around £10m per annum. In addition, the position on some specific grants after 2024/25 is uncertain. In line with previous practice the MTFS assumes a reduction in business rates and some grants, albeit at a far lower level than during the austerity years.

153. The future direction of government policy is also unclear, especially with a General Election due before January 2025 and a new Spending Review period from 2025/26. There are a range of government policy initiatives and reforms that have been delayed, including Fair Funding and Adult Social Care and there remains uncertainty over the timing and implications of these reforms.

154. Cost growth manifests itself as either inflationary pressures or service growth. Service growth primarily relates to a growing and ageing population and a large increase in school-age children requiring support, which put huge demands on social care and SEND service. The Council is also seeing an increase in complex cases and exceptionally high cost placements which is putting further pressure on social care costs.

155. Successful delivery of savings is dependent upon a range of factors, not all of which are in the control of the County Council. All savings included in the MTFS have had an initial deliverability assessment so that a realistic financial plan can be presented. With 2025/26 forecast to not be balanced there is less time to generate new savings and a lower margin of error on delivery. Identifying new savings will be a key activity a task made harder by the reduced options available.

156. 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 MTFS only forecasts a balanced budget next year, after using £6.4m of earmarked reserves to meet the gap, but the following three years are all in deficit.

157. The gaps in the second, third and fourth years of the MTFS are particularly concerning. To have a realistic chance of closing them the County Council will need to identify mitigations that allow 2025/26 to be balanced without the use of reserves. This includes a reinforcement of existing financial control measures and the introduction of new ones to ensure a tight focus on eliminating non-essential spend.

158. 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.

159. In additional to these direct uncertainties the County Council is not insulated from financial difficulties of partner organisations. Currently the County Council's ongoing financial plans include £52m of funding related to the BCF. Even a partial loss of this funding would be difficult to manage.

160. Maintained schools and academies are under significant financial pressure; this could affect the County Council through its statutory responsibilities relating to education, for example to ensure the provision of sufficient school places. This pressure also increases the risk of lost commercial income, as schools and academies are the Authority's main commercial trading partner.

161. It is key to note that the delivery of the refreshed MTFS will be even more challenging than usual. Some local authorities, which are better funded than Leicestershire, were already in financial difficulties before the cost of living crisis began, and in recent months many, like Leicestershire, have been publicly stating that their budgets are under unprecedented pressures. A recent Society of County Treasurers survey highlighted the pressures being faced across the sector, with many authorities reporting the need to use reserve to plug budget gaps and a lack of confidence in the ability to balance future budgets. For instance, on average, £13m of reserves are expected to be used in 2023/24 to balance budgets with overspends in the current year averaging £16m. Whilst Leicestershire is forecasting an overspend, because of the prudent approach taken during budget setting it is not expected to be at this level. Furthermore, 4 in 10 councils were unsure or not confident that they could produce a balance budget for 2024/25.

162. The focus on Leicestershire's finances over the past few years, including taking tough decisions on service reductions, has put the Council in a relatively sound short-term position. It is essential that the focus on medium term financial planning and strong financial discipline is maintained.

163. The scale of the continued growth in demand for social care, compounded by high inflation, is currently the main cause of the County Council’s financial pressures. However, the most challenging issue facing the Council is the cumulative SEND deficit. A well-resourced programme is in place that recognises the need to get the service into financial balance. The Council will need to ensure delivery of the programme is a key priority

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

- Dealing with the steep increase in cost pressures, which will involve innovative and proactive commissioning strategies.
- The absolute need to deliver the savings in the MTFS. The key risks are the technical difficulty of some projects and the public acceptance of some savings.
- The need to have very tight control over demand-led budgets, such as social care and special education needs, and focus on initiatives to reduce the level of future demand through prevention and promoting independence.
- The need to manage other risks and external factors that could affect the Authority’s financial position. These include costs currently being borne by the NHS shifting to local authorities, continuation of inflationary pressures and loss of trading income.

**Treasury Management Strategy Statement**

165. The Treasury Management Strategy Statement, which includes the minimum revenue provision (MRP) statement and annual investment strategy, must be approved in advance of each financial year by the County Council. Appendix N to this report sets out the Treasury Management Strategy Statement for 2024/25.

166. The Local Government Act 2003 (the Act) and supporting regulations requires the Council to ‘have regard to’ the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice. The Council is required to approve an annual MRP statement and set prudential and treasury indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable. These are included with the Treasury Management Strategy as Annex 1 and Annex 2.

167. The legislation requires the Council to set its treasury strategy for borrowing and to prepare an annual investment strategy (for treasury management investments). This sets out the Council’s policies for managing its treasury management investments and for giving priority to the security and liquidity of those investments. This Strategy should be read in conjunction with the Investing in Leicestershire Programme (IILP) Strategy (Appendix H), which sets out the Council’s approach when considering the acquisition of investments for the purposes of inclusion within the IILP, and the Capital Strategy (Appendix G), which sets out the Council’s approach to determining its medium term capital requirements.

168. The Treasury Management Strategy has been updated for 2024/25 and includes the following:

- Conformance to the CIPFA prudential and treasury management Code, which provides that authorities must not borrow (internally or externally to invest in physical assets primarily for financial gain).
- Liability benchmark prudential indicator, included in Annex 2 - shows in a graphical form the projection of loan debt the Council needs each year into the future to fund its existing debt liabilities.
- Average investment balances of £400m contributing to bank and other interest income included in the MTFS of £14m in 2024/25 reducing to £3m by 2027/28 and balances and interest rates are forecast to reduce.

169. The expectation is that there will be no new external borrowing by the County Council in the period covered by this MTFS.

170. The Council continues to maintain a low risk approach to the manner in which its list of authorised counterparties is produced and takes advice from the Council's treasury management advisors, Link Group, on all aspects of treasury management.

171. The strategies were considered and noted by the Corporate Governance Committee on 26 January 2024.

**Capital Programme 2024/25 to 2027/28**

172. The overall approach to developing the capital programme is set out in the capital strategy (Appendix F) 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 income from other external funding agencies.
- No or limited prudential borrowing (only if the returns exceed the borrowing costs).

173. The draft capital programme totals £447m 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.

Changes to the Draft Capital Programme since 19 December 2023

174. There have been minimal changes to the programme since the draft reported to the Cabinet in December. All capital profiles have been reviewed for the latest estimates of expenditure and updated in the proposed programme.

175. 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 | 31.6 | 48.0 | 7.8 | 3.5 | 90.9 |
| Adults and Communities | 6.4 | 4.9 | 6.1 | 4.8 | 22.2 |
| Environment and Transport | 80.0 | 54.4 | 38.3 | 34.7 | 207.4 |
| 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 | 26.1 | 29.1 | 23.2 | 38.4 | 116.8 |
| **Total** | **147.0** | **138.4** | **77.2** | **84.8** | **447.4** |

Capital Resources 2024-28

| | 2024/25 £m | 2025/26 £m | 2026/27 £m | 2027/28 £m | Total £m |
|---|---|---|---|---|---|
| Grants | 41.2 | 50.4 | 38.9 | 43.0 | 173.5 |
| Capital Receipts from sales | 24.4 | 2.9 | 1.0 | 3.8 | 32.1 |
| Revenue/ Reserve Contributions | 63.7 | 42.2 | 0.1 | 0.1 | 106.1 |
| External Contributions | 17.7 | 18.3 | 5.8 | 0.5 | 42.3 |
| **Total** | **147.0** | **113.8** | **45.8** | **47.4** | **354.0** |
| | | | | | |
| **Funding Required** | **0.0** | **24.6** | **31.4** | **37.4** | **93.4** |

176. 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.

177. The proposed programme can be summarised as:

| | |
|---|---|
| Service Improvements | £258m |
| Invest to Save | £73m |
| Investment for Growth | £61m |
| Future Developments/ Risk Contingency | £55m |
| **Total** | £447m |

## Funding and Affordability

### Forward Funding

178. 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.

179. 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.

180. There are risks involved in managing and financing a programme of this size. 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.

181. A key determinant in generating sufficient developer contributions is the approach taken by the district councils, as the planning authorities. The district council will set the local planning context against which section 106 agreements will be agreed and ultimately decide on planning permission.

182. 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.

183. 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.

184. 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 Grants**

185. Grant funding for the capital programme totals £174m across the 2024-28 programme. The majority of grants are awarded by Government departments including the DfE and the DfT.

Children and Family Services

186. 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) Childcare Expansion Capital Grant – new grant to support local authorities in delivering the expansion of childcare places, £1.2m.

d) 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

187. Capital funding for the Disabled Facilities Grant (DFG) programme has not yet been announced. An estimate in line with previous years of £4.9m per annum has been included in the capital programme.

Environment and Transport

188. 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).

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

- Melton Mowbray North and 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.

190. 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**

191. 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.

192. 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**

193. To supplement the capital resources available and avoid the need for borrowing £106m of revenue/ reserves funding is being used to fund the programme consisting of:

| | |
|---|---:|
| Departmental reserves | £1m |
| Capital financing reserve | £105m |
| Total | £106m |

194. 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

195. 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

196. 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).

197. 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 reserves, provisions for future liabilities, 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%.

198. 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. However, because of the uncertainty on interest rates, this position will be kept under review as part of the treasury management strategy.

199. 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

200. Over the period of the MTFS, a capital programme of £447m is required of which £147m is planned for 2024/25. The main elements are:

- Children and Family Services - £91m. 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 - £207m. 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 - 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.

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

Capital Summary

202. The capital programme totals £447m over the four years to 2027/28. The Council recognises the need to fund long term investment and has set a capital programme that includes forward funding of capital infrastructure projects for highways of £9m (£20m cumulative including prior years).

203. Longer term infrastructure schemes (outside of the MTFS period) are not included in the programme. Pressure on school places and Leicestershire’s infrastructure is expected from population growth, with estimates of a 10% increase in the County’s population between 2020 and 2030. It is assumed that section 106 and Government funding will be available at the necessary level.

204. Other capital pressures include schemes shown as future developments under each departmental capital programme. These are schemes that have been identified but are not sufficiently detailed for inclusion in the capital programme at this time. There is a long list of projects that may require funding over the next 4 years. These include funding for potential improvements to the archives, collections and learning hub, highways match funding of capital bids, highways depot maintenance, investment in ICT major system replacements, country parks and climate change. A fund of £40m has been set aside in the capital programme for future developments but this will be insufficient to fund all of the schemes identified. The list of future developments is continually refreshed.

205. Overall £93m from internal cash balances will be used to fund the cash flow of the capital programme. As such there is very limited scope to add further capital schemes to the capital programme. The additional revenue costs arising from this total £7.5m per annum, on the basis of internal borrowing.

206. By their nature, discretionary asset investments, which are made to generate capital receipts or revenue returns, are risky. Whilst this is partially mitigated by the Council’s ability to take a long-term view of investments, removing short-term

volatility, it is likely that not all investments will yield returns in line with the business case.

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

208. Additional Government investment in housing and infrastructure is increasingly subject to a competitive bidding process and areas with devolution deals are likely to be preferred.

**Investing in Leicestershire Programme**

209. The Council directly owns and manages properties, including Industrial, Office and County Farms as part of the Investing in Leicestershire Programme (IILP). The programme also includes financial investments outside of direct property ownership, for example private debt, and pooled property investments. These indirect investments provide diversification of the programme. The programme 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).

210. 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
- -£7m: net change in maturing indirect investments held

211. 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.

212. The IILP Strategy has been updated for 2024-28 and is included as Appendix H to this report. The Strategy has been reviewed by Hymans Robertson and a summary of their conclusions included in the appendix.

**Other Funding Issues**

Freeport

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

214. 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.

**Equality Implications**

215. 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.

216. The Council uses an Equality Impact Assessment (EIA) to consider if any proposals may impact (either positively or negatively) on these priorities. An initial EIA has been undertaken on the MTFS as a whole. However, individual proposals will need to be separately considered and assessed.

217. The Council has also chosen to consider the impact of proposals on other communities of interest who might experience discrimination and disadvantage. These are:

- People serving within the armed forces or ex-armed forces
- Gypsy and Traveller communities
- Asylum seeker and refugee communities
- Migrant workers and other new arrivals
- Looked after children
- Care leavers
- Deprived or disadvantaged communities

218. A high-level Equalities Impact Assessment of the MTFS 2024-28 has been completed to:

- Enable decision makers to make decisions on an informed basis.
- Inform decision makers of the potential for equality impacts from the budget proposals.

219. The assessment found that there are several areas where there are opportunities for positive benefits from addition investment that the Council is making. However there is a risk that this investment will not keep up with demand, impacting on the outcomes for people with protected characteristics who use Council services. Overall, the assessment finds that the Council’s budget proposals risk a greater impact on older people, children, and disabled people

more than people without these characteristics. This is as expected given the nature of the services provided by the Council.

220. Individual proposals will need to be developed and subjected to individual equality impact assessments. The proposals may need to be reassessed and modified in light of these findings.

221. 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.

**Human Rights Implications**

222. 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**

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

**Environmental Implications**

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

**Partnership Working and Associated Issues**

225. 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**

226. 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 2024-28 – 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: 2024/25 Revenue Budget
Appendix B: Four Year Revenue Budget 2024/25 to 2027/28
Appendix C: Growth and Savings 2024/25 to 2027/28
Appendix D: Savings under Development
Appendix E: Detailed Revenue Budgets 2024/25
Appendix F: Capital Programme 2024/25 to 2027/28
Appendix G: Capital Strategy
Appendix H: Investing in Leicestershire Programme Strategy
Appendix I: Risk Management Policy and Strategy
Appendix J: Earmarked Reserves Policy
Appendix K: Earmarked Reserves forecasts
Appendix L: Insurance Policy
Appendix M: Council Tax and Precept
Appendix N: Treasury Management Strategy Statement and Annual Investment Strategy
Appendix O: MTFS Consultation Report
Appendix P: Equality Impact Assessment
Appendix Q: Comments of the Overview and Scrutiny Committees and Scrutiny Commission (to follow)

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