

REPORT OF THE CABINET

MEDIUM TERM FINANCIAL STRATEGY 2017/18 – 2020/21

Introduction

1. This report relates to the Cabinet's consideration of the 2017/18 to 2020/21 Medium Term Financial Strategy (MTFS) which has the following four main elements:-
 - 2017/18 revenue budget;
 - 2018/19, 2019/20 and 2020/21 provisional revenue budgets;
 - 2017/18 – 2020/21 capital programme;
 - Financial strategies and policies including the capital strategy, treasury management and investment strategy, financial performance indicators and earmarked funds policy.
2. This report reflects the changes to the budget since it was approved for consultation by the Cabinet on 13th December. At the time of writing this report the final Local Government Settlement was awaited. Any significant changes to the MTFS as a result of the final settlement will be reported to the Council. The MTFS will be updated and rolled forward each year at budget setting time.
3. Supporting this report are the following appendices (which are set out in pages 65 to 206 at the end of this report).

2017/18 Revenue Budget	Appendix A (Buff Paper)
Four Year Revenue Budget 2017/18 – 2020/21	Appendix B
Growth and Savings	Appendix C
Savings under Development	Appendix D
Detailed Revenue Budget 2017/18	Appendix E
Detailed Capital Programme 2017/18 to 2020/21	Appendix F (Green Paper)
Capital Strategy	Appendix G
Risk Management Policy and Strategy	Appendix H
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Background

4. The County Council is operating in an extremely challenging financial environment. Whilst the four-year Settlement had already confirmed that this would continue over the course of the current Parliament the extension of austerity suggests that the UK is not yet halfway on the road to economic stability. The deepening financial crisis in the NHS, proposed funding reforms in Education and Local Government, and the expected transfer of new responsibilities to the County Council suggest that the second half of this period of austerity is going to be much harder than the first.
5. Delivery of the MTFS requires savings of £66m to be made from 2017/18 to 2020/21. This MTFS sets out in detail £43m of savings and proposed reviews that will identify further savings to offset the £23m funding gap in 2020/21. Strong financial control, plans and discipline will be essential in the delivery of the MTFS.
6. To ensure that the MTFS is a credible financial plan unavoidable cost pressures have been included as growth. By 2020/21 this represents an investment of £25m, primarily to meet the forecast increase in demand for social care.

Changes to the draft Budget proposed in December 2016

7. Changes to the draft budget considered by the Cabinet on 13th December 2016 are summarised in the table below:

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Shortfall	0	2,788	8,801	23,942
Additional Resources				
Adult Social Care Support Grant	-2,425	0	0	0
New Homes Bonus – net changes	285	-264	-253	-253
Education Services Grant	-215	0	0	0
Business Rates – net changes	-41	-198	-419	-430
Council Tax Base	-548	-580	-610	-640
Collection Fund Surplus	-596	0	0	0
Savings changes				
LCTS saving not achieved	500	500	500	500
Review LCTS admin and discretionary discount fund contributions	-100	-225	-225	-225
New Investments				
Supporting Leicestershire Families	300	0	0	0
Adult Social Care (net support grant)	2,140	0	0	0
Revenue funding of capital increased	3,850	100	0	0
Review of Assumptions (Inflation)	-3,150	-50	150	150
Revised Shortfall	0	2,071	7,944	23,044

8. The additional resources are:
- Adult Social Care Support Grant (£2.4m one-off in 2017/18) announced as part of the Provisional Settlement in December 2016 and funded by changes to New Homes Bonus Grant.
 - New Homes Bonus Grant – 2017/18 grant £0.3m lower than anticipated; later years' elements £0.3m more than previously forecast.
 - Education Services Grant – 2017/18 grant £0.2m higher than previously forecast.
 - Business Rates – net changes to “top-up” and “baseline” amounts in the latest forecasts from the Department for Communities and Local Government (DCLG); inflation forecasts have increased.
 - Council Tax Base increase – a 2% forecast was used previously; tax bases set by the District Councils show a 2.2% increase, producing £0.5m more council tax income in 2017/18 than previously forecast.
 - Collection Fund Surplus – increase of £0.6m to £5.6m following formal estimates provided by the billing authorities in mid-January 2017.
9. The Local Council Tax Support (LCTS) savings will no longer be achieved, as the District Councils have decided not to increase the LCTS caps to the levels anticipated. The loss is proposed to be partially mitigated by a review of the contributions to LCTS administration and discretionary hardship funds.
10. New investments are:
- One-off growth of £0.3m in 2017/18 for Supporting Leicestershire Families to allow the programme to continue through to 2019/20, although the programme still relies on funding from partners and Government.
 - One-off growth of £2.1m in 2017/18, funded from the Adult Social Care Support Grant net of the New Homes Bonus Grant reduction. This funding has been allocated to Adult Social Care.
 - £3.9 million in 2017/18 is being used to provide resources for investment in the capital programme.
11. The main assumption changes are due to a reduction in the inflation contingency reflecting the slower increase in general inflation and National Living Wage experienced.
12. The net additional resources available in later years have reduced the shortfall in the MTFs by around £0.9m each year.

Autumn Statement 2016

13. On 23 November 2016 the Chancellor of the Exchequer delivered the Autumn Statement 2016.
14. As had been widely expected the Government has abandoned its target for a budget surplus by 2019/20 and adopted a more flexible approach of returning “the public finances to balance at the earliest possible date in the next Parliament”. This follows the deterioration in the forecast for public finance

since the 2016 budget. This primarily results from a lower tax take, related to slower economic growth, but also from higher spending.

15. Despite the forecast deterioration spending plans have not been amended. There is a clear expectation that there will be further cuts when the Efficiency Review, announced in the 2016 budget, reports next autumn. It is unlikely that local government will receive preferential treatment, with the expectation that authorities can “manage the envelope of resource that they are given”. Hence the assumption in the draft MTFs that austerity will continue.
16. The Government’s policy on the National Living Wage (NLW) is unchanged, with the aim of reaching 60% of median earnings by 2020. However the softening of pay forecasts has caused the expected NLW in 2020 to reduce from £9.16 per hour to £8.61. The reduced level of NLW increase will have a positive impact on the MTFs through lower price inflation, particularly for social care contracts. This will be partially offset by the expected increase in general inflation following the fall in value of sterling.

Local Government Finance Settlement

17. The draft Local Government Finance Settlement (the annual determination of funding to local government) was announced on 15th December 2016 and included the following key points:
 - Adherence to the four-year settlement starting 2016/17 for all authorities which accepted the multi-year offer. The County Council received confirmation in November 2016 that it is formally on the multi-year settlement.
 - The multi-year settlement offer only relates to Revenue Support Grant (RSG) and Transitional Grant. Funding for services received through specific grants and business rates is not included. This is a significant omission that covers in excess of £100m per annum of services delivered by the County Council. Examples of specific grants not covered include: High Needs funding (Dedicated Schools Grant), the Better Care Fund, Public Health Grant and all capital grants.
 - Adult Social Care precept amended to allow increases of up to 3% in 2017/18 and 2018/19, but authorities still cannot exceed 6% in total over the three-year period ending 2019/20.
 - Changes to New Homes Bonus (NHB) Grant, including reducing the number of years the grant is based on from 6 to 5 in 2017/18 and then to 4 from 2018/19 and introducing a growth threshold of 0.4%; the County Council’s 2017/18 grant is £0.3m lower than previously anticipated.
 - The changes to NHB reduced that grant nationally by £241m. This has been redistributed to local government, using the 2013/14 Adult Social Care Relative Needs Formula. The County Council will receive an allocation of £2.425m in 2017/18 to be used as a one-off Adult Social Care Support grant.

Revenue Support Grant and Spending Power

18. The funding projections to 2019/20 in the draft Settlement are based around projections of RSG, Business Rates and Council Tax income. The focus has been placed on giving authorities in the same class (e.g. County, District, Unitary) the same overall changes to these elements of core funding. This means that those authorities where RSG is a lower proportion of their total funding will suffer larger reductions in RSG. This will lead to many authorities losing all of their RSG by 2019/20, with some having no RSG as early as 2017/18. Once RSG has been removed the DCLG proposes to adjust Business Rates Top-up /Tariff amounts to reduce an authority's funding to the desired level.
19. The inherent problem with this methodology for setting funding is that it takes no account of the relative funding position of individual authorities. The County Council has been historically underfunded in comparison with other authorities, including other counties.
20. The elements of the Government's core spending power from the draft Settlement are shown below:

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
<u>Settlement Funding</u>				
Revenue Support Grant	37.0	19.5	8.5	0.0
Business Rates*	56.6	57.8	59.7	59.6
Council Tax**	242.8	252.4	262.5	272.9
2% Council Tax for Social Care	4.8	10.0	15.7	22.0
Improved Better Care Fund	0.0	0.0	5.6	11.4
New Homes Bonus	4.3	4.0	3.0	2.9
Transition Grant	3.3	3.3	0.0	0.0
Adult Social Care Support Grant	0.0	2.4	0.0	0.0
Core Spending Power	348.8	349.4	355.0	368.8

*Excludes section 31 business rates grants

**DCLG forecasts of Council tax and Council tax base increases, which are higher than those used by the County Council.

21. The table shows that 'core spending power' is expected to increase in cash terms by £20m (5.7%) by 2019/20. This compares to overall demand and cost pressures across the County Council of circa £45m over the same period.

Fair Funding

22. The Government has announced that it is revising the way in which local government funding is calculated, with the aim of having a new system in place by 2020/21. Analysis undertaken by the County Council shows that Leicestershire is the lowest funded county area in England and one of the lowest funded areas in the whole country. If Leicestershire was funded at the

same level as the London Borough of Camden an additional £350m of funding would be received each year.

23. This low funded position means that the scope to make savings is severely limited compared to other authorities. The County Council has developed an alternative, fairer, way of distributing resources and continues to lobby Government to adopt this.

Business Rates Retention Scheme

24. The draft Settlement includes an uplift to Business Rates “Top-Up” and “Baseline” figures of 2% in 2017/18. 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. The proposed MTFs includes Government assumptions that the Baseline and Top-Up will increase by around 3% in 2018/19 and 2019/20 and by 2% in 2020/21.
25. The draft Settlement shows a reduction to the Top-Up of £2.1m in 2019/20. This relates to the impact of the new method of calculating “Core Spending Power” reductions introduced last year. The reduction to the County Council’s overall funding in 2019/20 exceeds the remaining RSG in 2018/19 and the Government consequently will adjust the Top-Up for 2019/20. It is anticipated that a further reduction of around £10.7m will be applied to the Top-Up in 2020/21 to reflect the continuation of austerity.
26. The forecasts used in the draft MTFs are set out below:

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Business Rates ‘Top-Up’	37.5	38.8	40.1	40.9
‘Top-Up’ adjustment	0.0	0.0	-2.1	-12.8
Business Rates ‘Baseline’*	20.7	21.3	22.1	22.6
S31 grants - Business Rates	1.5	1.5	1.5	1.5
Total	59.7	61.6	61.6	52.2

*Business Rates Baseline is forecast to be £0.4m higher than the amount used by DCLG in calculating the ‘spending power’.

Business Rates Pooling

27. The Government introduced the Business Rates Retention system from April 2013, as part of which local authorities were able to enter into Pools for levy and safety net purposes.
28. In 2016/17 the County Council along with Leicester City Council, the Combined Fire Authority and all seven Leicestershire District Councils formed the ‘Leicester and Leicestershire Pool’. The latest estimates for the 2016/17 Pool show a potential surplus of £4.6m.

29. The recent national revaluation exercise that takes effect from April 2017 creates greater uncertainty around appeals than previous years. However, modelling of the Pool for 2017/18 showed a forecast surplus of £5.9m and consequently the partners have decided to continue with the Pool for 2017/18.
30. The surpluses will be retained locally rather than being returned to the Government as would have been the case if no Pool had existed. The current pooling agreement between the partners allows the surplus to be provided to the Leicester and Leicestershire Economic Partnership (LLEP) for investment in the wider sub-regional area. Consideration is being given to amending the pooling agreement to allocate any surpluses to the proposed Leicester and Leicestershire Combined Authority (LLCA), which would become the decision-making body for the allocation of surpluses. It is recommended that the Director of Finance be authorised to agree changes to the Pooling agreement as a result of the proposed LLCA.

100% Business Rate Retention

31. The DCLG consulted in the autumn on changes to the local government finance system to pave the way for the implementation of 100% business rates retention, from 2020. The consultation was very broad and gave little indication of how a future system would work.
32. Part of the DCLG consultation explored potential new responsibilities that could be devolved, in recognition that local authorities would be a net beneficiary if 100% of rates were retained. The most significant suggestion was for the transfer of the administration of Attendance Allowance to local authorities. This has now been ruled out by the Secretary of State, although there is no indication of what would take its place.

Council Tax

33. The draft MTFS is based on a 3.99% per annum increase in Council Tax for the years 2017/18 to 2019/20, including implementation of the adult social care precept at 2% in each year. An increase of 1.99% is assumed regarding 2020/21, when there is uncertainty about the ability to raise the adult social care precept. Over the next four years a total of £56m in extra Council Tax is expected to be generated.
34. The Localism Act 2011 provides for residents to instigate local referendums on any local issue and the power to veto excessive Council Tax increases. The Government has indicated that the threshold for calling a referendum in 2017/18 will be a 2% rise in Council Tax.
35. The Chancellor announced, as part of the 2015 Spending Review, that local authorities responsible for delivering adult social care would be allowed to raise a council tax “precept” of 2% for each year of the Spending Review period to partially fund adult social care. This will be in addition to the current council tax referendum threshold and is “to be used entirely for adult social care”. The draft 2017/18 Settlement includes flexibility to allow increases of 3% in 2017/18 and 2018/19, but the increases over 2017/18 to 2019/20 cannot exceed 6%.

36. The proposed MTFS includes a Council Tax Base increase of 2.21% in 2017/18 and an assumption that future years' growth will be around 1.5% each year.
37. District Councils have provided a formal estimate for the Council Tax Collection Fund surplus of £5.6m. This income has been reflected in the 2017/18 budget. The County Council will work with the District Councils to ensure that estimates are more accurate than they have been in the past.

Localisation of Council Tax Support (LCTS)

38. The Government reformed the national Council Tax Benefit (CTB) scheme, abolishing Council Tax Benefit from 1 April 2013 and replacing it with a grant (incorporated within Settlement funding). The District Councils operate the scheme with a cap on the maximum of Council Tax that recipients will pay. The caps range between 12% and 15%.
39. The District Councils undertook a consultation on proposed changes to the LCTS schemes over Summer 2016. If all areas implemented a 20% cap, in line with Leicester City Council, this could raise Council Tax for the County Council by circa £0.5m per annum. This level of additional Council Tax income was included as a saving within the draft MTFS reported to the Cabinet on 13th December 2016. The decisions of the District Councils were not known at that time although information indicated that the Councils were likely not to increase the cap, and it was noted that offsetting savings would need to be made if that proved to be the case. The Districts have now confirmed that they will not be amending the caps, with the exception of Melton, where the current 12% cap will be increased to 15%.
40. The County Council contributes £125,000 per annum to the District Councils for administration of the scheme and £100,000 per annum to a county-wide local discretionary Council Tax 'hardship' fund to reduce Council Tax bills for qualifying claimants on a case-by-case basis. The revised MTFS proposes a review of the continuation of this funding, which will entail a consultation with the Districts.
41. It is noted that the Districts are due to receive grant of £560,000 from DCLG in 2017/18 to support the administration of LCTS.

2017/18- 2020/21 Budget

42. The provisional detailed four-year MTFS, excluding Dedicated Schools Grant (DSG), is set out in Appendix A and is summarised in the table below. The provisional 2017/18 budget excluding DSG is detailed in Appendix B.

Provisional Budget	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Services including inflation	329.1	340.9	342.1	357.1
Add growth	7.0	4.0	8.0	6.1
Less savings	<u>-16.2</u>	<u>-14.5</u>	<u>-5.2</u>	<u>-3.4</u>
	319.9	330.4	344.9	359.8
Central Items	29.3	25.2	18.8	18.8
Less savings	-0.2	-3.7	-0.1	0.0
Contribution from earmarked funds	<u>-1.0</u>	<u>-1.0</u>	<u>-1.0</u>	<u>0.0</u>
Total Expenditure	<u>348.0</u>	<u>350.9</u>	<u>362.6</u>	<u>378.6</u>
Funding				
Revenue Support Grant	-19.5	-8.5	0.0	0.0
Business Rates	-59.7	-61.6	-61.6	-52.2
Council Tax	<u>-268.8</u>	<u>-278.7</u>	<u>-293.1</u>	<u>-303.4</u>
Total Funding	<u>-348.0</u>	<u>-348.8</u>	<u>-354.7</u>	<u>-355.6</u>
Shortfall	<u>0.0</u>	<u>-2.1</u>	<u>-7.9</u>	<u>-23.0</u>

43. The MTFs is balanced in 2017/18 and shows shortfalls of £2.1m in 2018/19 rising to £23m in 2020/21. As set out in paragraph 49 there is a range of initiatives currently being developed that will aim to bridge the gap. These will need to start to deliver savings by 2018/19. In addition, Better Care Fund resources are potentially available from 2018/19.

Savings and Transformation

44. Savings of £43.3m have been identified to be made over the next four years, 2017-21, with £16.4m to be made in 2017/18. This is a challenging task especially given that savings of £161m have already been delivered over the last seven years. The planned savings are shown in Appendix C.

45. The main four-year savings are:

- Children and Family Services (£8.1m). This includes reducing costs for social care placements, managing demand and reviewing early help and prevention services.
- Adults and Communities (£11m). This includes managing demand and reducing costs of social care by reviewing personal budget allocations and contracts.
- Public Health (£2.3m). This includes savings from reviewing early help and prevention services.
- Highways and Transportation (£8m). Savings will delivered through a revised approach to Highways Maintenance, reviewing contracts, service reviews and by making savings from the continued roll-out of the LED street lighting.

- Environment (£3.2m). Service delivery reviews for Recycling and Household Waste Sites and a revised payment mechanism for recycling credits are planned.
 - Chief Executive (£1.1m). This includes service reviews and seeking to achieve increased income.
 - Corporate Resources (£5.6m). This includes reviews of all support services e.g. Property, ICT, Human Resources and Finance and an increased contribution from Commercial Services.
 - Central Items (£4.0m). This includes savings from a revised Minimum Revenue Provision policy.
46. Efficiency savings account for £33m and can be grouped into four main types:
- a) Reductions in senior management and administration (£3m)
 - b) Better commissioning and procurement (£14m)
 - c) Service re-design (£12m)
 - d) Other (£4m).
47. It is estimated that the proposals would lead to a reduction of up to 400 posts (full time equivalents) over the four-year period. However, it is expected that the number of compulsory redundancies will be lower, given the scope to manage the position over the period through staff turnover and vacancy control.
48. Further savings will be required to close the budget shortfall of £2.1m in 2018/19 rising to £23m in 2020/21.
49. To help bridge the gap a number of initiatives are under development to generate further savings. Once business cases have been completed savings will be confirmed and included in a future MTF5. The initiatives are:
- Review of the County Council's role in running schools.
 - Disabled Children's Respite Care – review of service models.
 - Education of Children in Care - review current service model and offer.
 - Lower cost adult social care provision – review of different models.
 - Whole life disability – consider options to deliver fully integrated care pathways.
 - Promoting independence in the home for high dependency service users.
 - Social Care and SEN Transport – review of initiatives to reduce spend and offset growth pressures.
 - Increased revenues from Asset Investments – from new investments.
 - Integrated ICT Systems – review common systems and increase joint working with partners.
 - Review Structures and Delivery Models - review the Target Operating Model and the balance between externally provided and in-house services.

- Proactively Manage Demand - manage customer expectations for council services.
 - Commercialism – review of new opportunities and consideration of alternative delivery models.
 - Commissioning and Procurement – develop an improved more targeted approach.
 - People and Performance Management – further improving performance and productivity.
 - Digital Services - help people do things for themselves.
 - Property Initiatives – maximise the use of buildings and reduce costs of accommodation and/or realise capital receipts.
 - Review of Council Tax and Business Rates collection and forecasts in conjunction with the District Councils.
50. The development and ultimately achievement of these savings will be extremely challenging and will require focus, discipline and innovation. The Transformation Programme will continue to have a key role in supporting the delivery of these savings. Further information is provided in Appendix D.
51. The County Council, in 2014, commissioned EY (formerly Ernst & Young) to produce a strategic financial review to explore the implications of establishing a unitary authority, in place of the current two-tier (County and Districts) system in Leicestershire. The review suggested that an annual saving of £31m could be achieved and re-invested in front line services. Given the scale of the financial challenge facing the County Council and changes in Government policy this remains a potential source of significant savings to be noted.

Transforming the Way We Work

52. The Transformation Programme was first agreed by the Cabinet in May 2014 and has since been updated to meet the changing requirements of the MTFs, new organisational priorities and an increased focus on cross-cutting corporate reviews.
53. The Transformation Programme saved £24.6m in 2015/16. The programme has since been refreshed and as at October 2016, there are further expected savings of £34.7m for the four-year period.
54. The Programme has previously consisted of a number of organisational enablers that have successfully delivered outcomes including the County Hall Masterplan which resulted in the delivery of circa £0.8m savings as well as supporting greater partnership working through relocating NHS bodies into County Hall.
55. The Customer and Communities enabler sets out a new approach to working with Leicestershire communities in order to help them support themselves, to work in partnership to design and deliver services and to develop the voluntary and community sector as effective providers in a diverse market. This enabler also supports community groups in developing business cases to enable them to take on the running of community libraries.

56. Cross-cutting activity is complex. However it has the potential to deliver the biggest organisational benefits and is transformative by its nature. These cross-cutting priorities are at various stages in their development and they may be further influenced through the development of a Single Outcomes Framework for the County Council. However three critical areas that have been prioritised are: commissioning, commercialisation and performance management.
57. A range of measures is being considered with the aim of improving the County Council's approach to commissioning and procurement. These measures should allow resources to be targeted where they will have the biggest potential impact and ensure that the most appropriate mechanisms are used, leading to lower cost services. Proposals that are currently being developed include more integrated ways of working, making greater use of community provision, strengthening the County Council's contract management arrangements, and exploring the potential consolidation of some internal functions.
58. The County Council's approach to commercialism aims to make a contribution by generating income, reducing costs and improving productivity and efficiency. This will be achieved by adopting new ways of working, a more business-like approach to service delivery and consideration as to how the County Council will further develop trading and income generation. A commercial approach is already underway within the Corporate Resources Department, having brought together services into a commercial business unit. This has been underpinned by the creation of the Leicestershire Traded Services (LTS) brand and supported through the development of LTS online. Discussions are now underway as to how this approach can be expanded across the County Council.
59. To support the achievement of outcomes in the areas of commissioning and commercialisation, it is necessary to align the people and performance management agenda to ensure organisational readiness to operate in new and commercial ways. As such, consideration is being given to the County Council's approach to performance management with an increased focus on productivity, to develop new competencies amongst staff to operate differently and to reduce the cost of delivery through new and efficient ways of working.
60. In addition to the cross-cutting work outlined above, departments continue to deliver a range of projects within the corporate Transformation Programme that support the achievement of the MTFS. The programme continues to be led and supported by the Transformation Unit with significant input from Finance officers.

Early Help and Prevention

61. The Cabinet approved the Early Help and Prevention Strategy on 17th June 2016. The Strategy made a number of recommendations to improve the coordination of the preventative offer across the County Council. By reducing duplication, improving contract management and ensuring that consistent approaches are taken to prevention the dual benefit of cost reduction and increased effectiveness can be achieved.

62. Implementation of the Strategy will require reductions in expenditure on specific contracts, even though the activity they deliver may fit with the new Strategy. This will allow reinvestment in services that will have a greater impact, for example the potential to save £100,000 from the community capacity building budget. Tier 0, community capacity building, is at the heart of the Target Operating Model for the Strategy. This will be developed through the refresh of the Communities Strategy and by considering the expansion of Local Area Coordinators, an explicit recommendation of the review. A business case is being developed to consider how best to deliver Local Area Coordination, drawing on the learning of the pilot and requirements of funders across the public sector in Leicestershire.

Growth

63. Over the period of the MTFs, growth of £25.1m is required to meet demand and cost pressures with £7.0m required in 2017/18. The main elements of growth are:
- Children and Family Services (£3.9m). This is mainly due to pressures on the placements budget from additional service users.
 - Adult Social Care (£13.3m). This is largely the result of increasing numbers of people with learning disabilities and an ageing population with increasing care needs. One-off growth of £2.1m is included in 2017/18 funded from the Adult Social Care Support Grant (net of the New Homes Bonus Grant reduction). The use of this grant is to be determined by the department.
 - Highways and Transportation. Growth of £2.9m for Special Educational Needs (SEN) Transport is offset by the removal of 2016/17 time-limited growth for highways maintenance (-£3m) and SEN Transport (-£0.7m).
 - Environment (£2.7m), which is mainly attributable to Landfill Tax and projected increases in household waste due to population and economic growth.
 - Corporate Growth (£3m). This has been included to provide for potential further cost pressures on children's and adults' social care budgets.
64. Details of proposed growth to meet spending pressures are shown in Appendix C to this report.

Inflation

65. The Government's preferred measure of inflation is the Consumer Price Index (CPI). In December 2016 this was 1.6% and the Office for Budget Responsibility (OBR) predicts it will increase to around 2.3% in 2017/18 and to 2.5% in 2018/19 before reducing to 2.1% in 2019/20 and 2.0% in 2020/21. The OBR predicts that the Retail Prices Index (RPI) will increase from its current level of 2.5% to around 3.2% in 2017/18 and to 3.5% in 2018/19 and then reduce to 3.2% in 2019/20 and 3.1% in 2020/21. The draft MTFs assumes 3% per annum inflation over the period 2017/18 to 2020/21. However, the Council's cost base does not always reflect these household inflation measures, for example energy and fuel increases have a much more significant

impact on its procurement. More recently social care costs have been driven up by the introduction of the National Living Wage, for which an additional provision has been made.

66. The most recent pay settlement, for local government employees, was agreed to cover the two years 2016/17 and 2017/18. There are higher increases for the lowest pay points (to reflect the National Living Wage) and 1% per annum increases on the remaining pay points. Future levels of pay settlement will be determined by national negotiation between the Local Government Employers and the Trade Unions. An allowance of 2.0% has been included in the MTFS for pay awards from 2018/19 onwards.
67. The central inflation contingency includes provision for an increase in the employer's pension contributions subject to the results of the 2016 triennial actuarial revaluation of the Pension Fund. An increase of 1% has been assumed for each year of the MTFS.
68. The Government is introducing an Apprenticeship Levy from April 2017 and the inflation contingency provides £1m for the forecast impact of the Levy.
69. Although detailed service budgets for 2017/18 have been compiled on the basis of no pay or price increases, a central contingency for inflation will be held which will be allocated to services as necessary.

Central Items

70. Central items are shown in detail in Appendix E. Bank and other interest is budgeted at £1.6m in 2017/18 falling to £1.5m during the period of the MTFS. This reflects the expectation that Bank of England base rates will remain at a low level for the foreseeable future.
71. Capital financing costs are expected to decrease to £19.7m per annum in 2020/21 (from £24.1m in 2016/17) mainly as a result of the proposed change to the minimum revenue provision outlined below.
72. Capital financing costs include debt interest on loans outstanding and an amount set aside to repay debt principal on maturity, called the minimum revenue provision (MRP). The current policy is to charge MRP on borrowing supported by the Government at a rate of 4% per annum. This equates to approximately £10m per annum. The 4% relates to the rate at which the Government provided support to the Authority through RSG.
73. Following changes to the legislation governing MRP and the reductions in RSG it is no longer possible to demonstrate that Government support is maintained at 4% per annum. This allows the annual MRP charge to be rebased to a period more commensurate with the useful service life of the assets purchased.
74. A high level review shows that based on the average remaining economic life of assets held it is possible to revise the MRP calculation to circa 2.5% per annum which would reduce the MRP charge by circa £3.5m to around £6.5m per annum. It should be noted that a revised approach does not change the overall

amount of MRP payable, the same amount is simply repaid over a longer period of time. A saving of £3.5m has been included in the MTFs from 2018/19.

75. The budget includes time-limited provision for revenue funding of capital expenditure of £16.9m in 2017/18, £4.0m in 2018/19 and £0.8m in 2019/20 and 2020/21 to fund investments that achieve revenue savings and also to avoid the need to undertake prudential borrowing.

Health and Social Care Integration

76. Health and Social Care Integration is a priority for both the County Council and the NHS. Developing effective ways to co-ordinate care and integrate services around the person is seen nationally and locally as key to improving outcomes and ensuring high quality and sustainable services for the future. The Government's expectation is that every part of the country has a plan for health and social care integration by 2017 to be implemented by 2020. Notwithstanding the absence of national guidance local opportunities to achieve the overall goal of integration continue to be pursued, recognising its importance to the people of Leicestershire. Initiatives being developed and/or implemented at this time include:

- Integrated Health and Social Care Locality Teams
- Help to Live at Home
- Integrated Point of Access
- Integrated Discharge.

77. NHS planning guidance reinforces the progression of the health and care integration agenda including via Sustainability and Transformation Plans (STPs) which need to demonstrate how the new models of care proposed in the NHS England Five Year Forward View will be accelerated and implemented. The local STP is for Leicester, Leicestershire and Rutland (LLR).

78. The Better Care Fund (BCF) is a pooling of health and social care resources to support the provision of integrated services. Delivery of the BCF Plan has traditionally been based on 4 themes:

- Unified prevention offer
- Integrated, proactive care for those with long term conditions
- Integrated urgent response
- Hospital discharge and re-ablement.

79. The BCF plan for 2017/18 is currently being prepared and the themed approach above is being reviewed as part of this process.

80. Detailed policy framework guidance for the BCF for 2017/18 has yet to be issued, so it has been assumed that Leicestershire's BCF allocation will remain unchanged at £39m for 2017/18 and budgets are being refreshed on this basis.

81. When the guidance is received, the assumptions made in compiling the budget for the BCF will be revised accordingly. The initial refresh discussions have identified approximately £3m of financial pressures. The increase in the Disabled Facilities Grant, above 2015/16 levels, is unfunded and will require £1 million of savings to be identified if resources are not returned by District Councils. The CCGs are under similar financial pressures, to the County Council, and they have requested that £2m of savings are found within the BCF to help alleviate their financial position. The services funded by the BCF are currently being reviewed to identify the scope for savings. Some of the additional growth, funded by the Adult Social Care Support Grant, could be used to alleviate the issue caused by the Disabled Facility Grant if sufficient savings are not found.
82. Part of Leicestershire's BCF allocation has been allocated towards the protection of adult social care services. This is currently £17m and the same amount has been included in the budget for 2017/18 to ensure that the needs of the most vulnerable residents are met. Approximately £7m of additional BCF funding is earmarked for other social care components of the BCF plan. A reduction in any of this funding will increase the savings above the level proposed in the draft MTFS.
83. The 2015 Spending Review set out the Government's intention to increase social care funding through the BCF, which should translate into an additional £11m of funding for the County Council by 2019/20. However, due to reductions in the New Homes Bonus and the additional £500m for Disabled Facilities Grants, the net benefit is significantly less. This funding has not been included in the proposed MTFS as no guidance has been provided by Government.
84. In the LLR local health and social care economy, a funding gap of £400m by 2020/21, has been identified if no action were to be taken on how current services are being delivered and demand managed.
85. The STP aims to address the way in which health and care services are delivered to meet the needs of the local people, while at the same time ensuring that the current financial pressures faced are effectively managed. The five-year plan has identified five key strands for change to meet these challenges. The five key strands include the development of:
 - New models of care focused on prevention, and moderating demand growth, including place based integrated teams, a new model for primary care, effective and efficient planned care and an integrated urgent care offer.
 - A reconfiguration of hospital based services, subject to consultation.
 - Redesigned pathways to deliver improved outcomes for patients and residents.
 - Operational efficiencies - to support financial sustainability.
 - Getting the enablers right - including workforce; technology; estates; and health and social care commissioning integration.

86. As interventions are focussed towards prevention, avoided hospital admissions, a 'home first' model of care and greater integration across social care, community health care and primary care, it has been recognised that this will affect demand for social care support, public health interventions and community services.
87. The full implications of the strategy for the County Council need to be identified and addressed in order to manage the increased pressure on resources and to allow for planning to meet this additional demand. To date there are no additional County Council funds identified to resource this. However, there is a commitment to ensure a system wide response, by all partners, to meeting changes in demand across the sector that may enable further funding transfers from the NHS to local authorities with social care responsibilities.

Other Grants and Funds

88. There are a number of other specific grants that are included in the MTFs, none of which are protected by the four-year settlement, for example:
- Public Health – 2017/18 allocation of £25.5m was announced in December 2016, in line with expectations.
 - Skills Funding Agency – £4m in 2016/17, no details have been received for 2017/18.
 - Section 31 Business Rates (Government funding for 2% cap on business rates growth and other Government measures) – an estimate of £1.5m has been included in the MTFs.
 - Independent Living Fund. The grant totalled £1.3m in previous years and this is expected to continue per DCLG indications earlier this year.
 - Extended Rights to Free Travel – an estimate of £0.4m has been included.
 - Ministry of Justice Grants – details not yet known.
 - Education Support Grant – the Spending Review indicated a national £600m reduction in future years. The MTFs includes an estimate of £2.2m for 2017/18, but assumes that this grant will not be available for future years.
 - New Homes Bonus – £3.9m in 2017/18 and forecast to reduce in later years.
 - Pupil Premium Grant, estimated £6.3m – passported to schools to raise attainment.
 - Universal Infant Free School Meals, estimated £4.1m – funding passported to schools to offer free school lunch to pupils in reception, year 1 and year 2 from September.

Budget Consultation

89. A consultation has been undertaken on the proposals within the draft MTFs approved by the Cabinet for consultation on 13th December 2016. The consultation asked for views on the savings plan and the appetite for Council Tax increases. A report on the outcome of the consultation is attached as Appendix M.

Results of Scrutiny Process

90. The Overview and Scrutiny Committees and the Scrutiny Commission received detailed reports on the revenue budget and capital programme proposals, which can be viewed via the County Council's website (www.leicestershire.gov.uk). Appendix N sets out the comments arising from meetings of Scrutiny bodies.

Dedicated Schools Grant Settlement 2017/18

91. For 2017/18 the Dedicated Schools Grant (DSG) remains in three separate blocks. However, the basis for each block has changed. The Department for Education (DfE) undertook a 'baseline' exercise early in 2016 in preparation for the expected introduction of the schools national funding formula which results in the school and the high needs blocks adjusted to reflect actual expenditure rather than historic patterns of spend. The early years block reflects the introduction of the early years national funding formula in April 2017.

Funding Block	Areas Funded	Basis for Settlement
Schools Block £368.3m	<p>This block funds delegated budgets for all Leicestershire primary and secondary schools and academies and also the two studio schools in Leicestershire.</p> <p>Funding for academies is recouped from the settlement and paid directly to the academy by the EFA.</p>	<p>The Schools Block Unit of Funding (SBUF) is £4,156.59 and based upon the pupil numbers recorded in the October 2016 schools census.</p> <p>Leicestershire is the 3rd lowest funded for this element of the settlement out of 151 authorities and compares to an England average of £4,618.63.</p> <p>This block reflects the funding provided through school delegated budgets in 2016/17.</p>
High Needs Block £63.2m	<p>Funds special schools and other specialist providers for high needs pupils and students, the pupil referral unit and support services for high needs pupils including high needs students in further education provision.</p>	<p>The settlement is based upon local authorities expenditure for 2016/17.</p> <p>As the settlement is not based upon pupil / student numbers there is no national comparator against which to measure relative funding. However, converting the settlement to a per pupil basis using pupil data in the other elements of the DSG settlement places Leicestershire 48th lowest funded at £712.82 against an England average of £863.04.</p>

<p>Early Years est. £28.0m (3 & 4 year olds)</p> <p>2 year old disadvantaged places £3.2m (est.)</p>	<p>Funds the Free Entitlement to Early Education (FEEE) for 2, 3 and 4 year olds and an element of the early learning and childcare service.</p>	<p>From April 2017 the early years national funding formula is implemented and the allocation is now based on individual pupil characteristics. Leicestershire is one of 48 local authorities receiving the lowest rate of £4.30 per hour, this however is an increase of 13.5% from the equivalent 2016/17 rate.</p>
<p>£462.7m</p>	<p>2017/18 Estimated DSG (Early Years estimates)</p>	

Schools Block

92. It was anticipated that the Schools Block DSG and delegated school budgets would be generated through the implementation of the National Funding Formula (NFF) from April 2017. The DfE has confirmed that the NFF has been delayed until April 2018 through a consultation launched in December which sets out the proposals in more detail. A response to the consultation is being formulated and will be considered by the Cabinet and Scrutiny.
93. Funding rates within the Schools Block have remained unchanged since 2015/16. Schools will not receive any increase in funding to meet inflationary pressures such as pay, national insurance and pension inflation nor for additional costs such as the Apprenticeship Levy. Both maintained schools and academies are reporting financial pressures, especially where schools are affected from reducing numbers as a result of age range changes.
94. It has been confirmed that the Minimum Funding Guarantee (MFG) will remain at minus 1.5% per pupil. MFG is calculated at pupil level and provides protection from the change in the underlying data within an individual school budget but does not protect against falls in pupil numbers. Schools with falling rolls may see cash reductions in budgets in excess of 1.5%.
95. A Schools Funding Formula Review working group consisting of headteachers, governors and school business managers has reviewed the school funding formula within the constraints of the funding settlement and the transition to the NFF and no changes to the formula are proposed for 2017/18.
96. Headroom within the Schools Block settlement is confirmed at £2.85m, this will be transferred to meet the increased financial pressure in High Needs.
97. The Schools Funding Formula Review Group considered the allocation of the headroom to high needs. The group did not agree with the proposal to allocate the totality of the headroom to high needs and requested that the local authority use some of this to address a funding disparity at Key Stage 3 with the rates within the Leicestershire school funding formula being significantly below those used by comparator authorities.

High Needs Block

98. The 2017/18 DSG settlement confirms the baselining of the 2016/17 £7.2m transfer from the Schools Block to High Needs, and it is also confirmed that the proposed transfer of a further estimated £2.85m is permissible for 2017/18. It is recommended that the Cabinet approves the proposed transfer. This additional transfer may only provide temporary mitigation against rising costs, as the DfE will undertake an exercise to determine whether it considers that this is appropriate.
99. The DfE published the High Needs settlement in July at £61.88m. The final settlement in December confirmed DSG at £63.16m which includes an uplift to the grant on the basis of population growth, significant financial pressures however remain. The position has been updated for the latest available information:

	2016/17 Forecast £,000	2017/18 Budget £,000	2018/19 Budget £,000
Placement Costs	54,015	54,950	56,646
Estimated Placement Growth		1,800	1,900
Other High Needs Expenditure	9,074	10,118	9,672
Total High Needs Expenditure	63,089	66,868	68,218
<u>Funded By:</u>			
Dedicated Schools Grant – High Needs	-52,761	-61,463	-61,463
Dedicated Schools Grant – Schools Block	-7,151	-2,850	-2,850
6 th Form Grants – Special Schools	-860	-860	-860
<u>Proposed Savings</u>			
SEN Placements		-875	-1,645
Other savings		-820	-1,400
Forecast Overspend, funded from DSG Reserve	-2,317	0	0
Cost to Local Authority Budget	0	0	0

100. A further consultation on the movement to a formulaic basis for High Needs DSG was issued by the DfE in December and suggests that Leicestershire would receive £2.8m less under the formula when compared to the 2016/17 baseline. However, the consultation proposes that no local authority will lose funding for 4 years. Whilst this prevents a short term “funding shock” preparations need to be made for when the alignment with the formula happens.
101. The uncertainty over funding levels and any further increase in cost and demand will need to be factored into the Special Educational Needs and Disability (SEND) strategy and specifically the transformation project to reduce the level of SEN expenditure.

102. To respond to the need to reduce high needs expenditure a number of savings are proposed:

- Review of Specialist Teaching Services - £790,000 in 2017/18, rising to £1,350,000 in 2018/19.
- Reduced Cost and Demand for SEN Placements - £725,000 in 2017/18 rising to £1,495,000 in 2018/19.
- Review of Budget Allocation for Oakfield Pupil Referral Unit - £30,000 in 2017/18 rising to £50,000 in 2018/19.

103. If expenditure cannot be contained within the available grant then other resources will need to be diverted to fund the shortfall. For 2016/17 the forecast £2.0m overspend can be funded from DSG earmarked funds. This approach will not be possible in future years, as the remaining DSG earmarked funds are fully committed.

Early Years Block

104. From April 2017 the DfE will introduce the National Early Years Funding Formula (EYFF) which changes both the methodology used to generate local authority funding, the basis upon which nursery education providers are funded and requires local authorities to 'passport' 95% (93% in 2017/18) of funding to providers.

105. A further change to the funding mechanism for maintained nursery schools is implemented through the introduction of the EYFF and it will no longer be permissible to fund maintained nurseries at a higher rate than other providers. This will result in reduced funding for the Countesthorpe Nursery, which currently receives £6.80 per hour compared to £3.58 - £ 3.65 for private, voluntary and independent providers.

106. The nursery is run by the Headteacher and Governors of Greenfield Primary School, Countesthorpe, which is a large 630-place, maintained school located nearby. The Headteacher, Governing Body and staff at the Nursery are keen to relocate and operate it as a governor-run provision rather than a maintained nursery. They are working with the County Council to implement this scheme through the statutory process which commenced on 3 January with a public consultation on the proposed change. All parties involved see this as a positive step towards safeguarding the future of the Nursery.

107. Following consultation it is proposed that the 2017/18 rates within the Early Years National Funding Formula will be:

	Per Hour
3 and 4 Year Base Rate	£3.97
3 and 4 Year Deprivation top-up	£0.04 - £0.08
3 and 4 Special Needs top-up	£6.99
2 Year Old Base Rate	£4.93
2 Year Old Special Needs top-up	£6.99

108. The Free Entitlement to Early Education (FEEE) for 3 and 4 year olds will increase from 15 to 30 hours for eligible parents in September 2017. The DfE is requesting local authorities to consider whether they will be in a position to make the extended offer available from April and this is being considered. The Early Learning and Childcare Service is working with providers to support this expansion.

Adequacy of Earmarked Funds and Robustness of Estimates

109. The Local Government Act 2003 requires the Director of Finance to report on:

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

110. This is the eighth austerity budget for the County Council. The financial environment continues to be challenging with a number of known major risks over the next few years. These include:

- Non-achievement of savings and income targets. The requirement for savings and additional income totals £66m over the next four years of which £23m is unidentified. Successful delivery of savings is dependent upon a range of factors, not all of which are in the control of the County Council.
- The financial positions of Health and Social Care are intrinsically linked. In common with the County Council the Clinical Commissioning Groups (CCGs) are struggling to produce a balanced budget, although their problems may be more pressing. The implications for the County Council could be reductions in the funding received through the BCF (£20m +) and additional costs as a result of changes in the NHS, such as the Transforming Care programme that will move more care into the community.
- Service pressures resulting in an overspend, including demand-led children's and adult social care.
- Even though four-year settlements have been announced the Government will consult on changes such as New Homes Bonus and Business Rates Localisation in 2017/18. The strength of the economy dictates the funding of the public sector. There are some concerns that world growth is slowing with implications for UK growth and tax revenues.
- Financial provision has not been made for unaccompanied asylum seeking children under the National Transfer Scheme. This financial risk is in the region of £2m should the Secretary of State make the scheme mandatory.
- The increasing reliance on income generated from services in other parts of the public sector. Given the much tighter financial environment for the sector it will be challenging to maintain or keep increasing income.

- Inflation has been consistently below the Bank of England's 2% target for three years. Following the dramatic fall in the value of sterling inflation is expected to increase significantly passing the targeted level in 2017. This will have a direct impact on the cost of goods and services procured by the County Council and could also influence the rate at which the National Living Wage increases.
- Coinciding with the end of the current Parliament, 2020 is a year which could see the biggest changes to local government for a generation. The following initiatives, that lack any real detail, are all planned to be implemented in that year:
 - a. Postponed Care Act measures, including the cap on individual contributions.
 - b. 100% Business Rate retention, including significant new responsibilities.
 - c. Fair Funding Review, covering redistribution of funding nationally.
 - d. Health Integration plans implemented.

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

- General County Fund
- MTFs Contingencies
- Earmarked funds
- Effective risk management arrangements.

General County Fund / MTFs Contingencies

112. The General County Fund balance is available for unforeseen risks (e.g. extreme flooding). The forecast balance on the General County Fund (non-earmarked fund) at the end of 2016/17 is £14.8m which represents 4.3% of the net budget (excluding schools' delegated budgets). To put the level of resources into context: with the exclusion of schools, the County Council spends nearly £50m a month. The current policy is to hold a balance on the General County Fund in the range of 4% - 5%.

113. There is a very real potential for the County Council to encounter a significant on-going issue for which no specific financial provision has been made. This is evidenced by the emergence of several authorities who are facing real difficulties in balancing their budget in a sensible way. To reduce the potential for the County Council to fall into this category the MTFs includes a contingency for risks and uncertainties of £4m in 2017/18 rising to £8m from 2018/19. The lower contingency in the first year is to reflect the greater, comparative, level of comfort over the financial assumptions. Examples of requirements of the contingency are set out in paragraph 110.

Earmarked Funds

114. A detailed review of the Council's earmarked funds was undertaken and reported to the Scrutiny Commission on 30 November 2016. As part of the MTFS this work has been refreshed as at the end of December 2016. The estimated balance as at 31st March 2017 is £83.7m excluding schools and partnerships, details of which are shown in Appendix J. The final level of earmarked funds will be subject to the actual expenditure and any partner contributions, e.g. health funding arrangements and specific grants.
115. These earmarked funds and balances are held for specific purposes. The main earmarked funds and balances projected at 31st March 2017 are:
- (a) Capital Financing (£35.0m). This fund is used to hold MTFS revenue contributions to fund capital expenditure in future years including the Street Lighting LED replacement project and investment decisions agreed by the Cabinet on 11th October 2016.
 - (b) Transformation (£19.3m). The fund is used to invest in transformation projects to achieve efficiency savings and also to fund severance costs.
 - (c) Insurance (£19.3m). Funds are held to meet the estimated cost of future claims to enable the County Council to meet excesses not covered by insurance policies. The levels are informed by recommendations by independent advisors. The earmarked fund also includes funding for uninsured losses (£7.4m). This is mainly held to meet additional liabilities arising from Municipal Mutual Insurance Ltd (MMI) that is subject to a run-off of claims following liquidation in 1992 and also of other failed insurers such as The Independent Insurance Co. Limited.
 - (d) Broadband (£5.5m). This fund was established to allow the development of super-fast broadband within Leicestershire. The funding is expected to be spent in 2017/18 and 2018/19.
 - (e) Pooled Property Funds (-£20m). Investment in Pooled Property Investment funds against the overall level of forecast earmarked funds. The investment will generate higher financial returns than the funding held as cash balances. The investments can be realised when the funding is needed.
116. The extent to which the earmarked funds and balances will be used in the medium term has also been estimated. The MTFS includes using earmarked funds and balances totalling £67m over the next four years and the main areas are summarised below:
- £34.8m Capital Financing Contributions
 - £17.8m Transformation
 - £5.5m Investment in Broadband
 - £1.7m Supporting Leicestershire Families
 - £1.5m Investment in waste infrastructure capital works.

117. KPMG, the County Council's external auditor, has reviewed the level of earmarked and uncommitted funds held by the County Council, as part of its Value for Money review of the 2016-20 MTFS. It reported that given the uncertainties and risks that lie ahead the overall level of earmarked and non-earmarked funds held is appropriate for the size of the organisation.

Risk Management Policy and Strategy

118. The Risk Management Policy and Strategy is set out in Appendix H to this report.

119. The policy will be reported to the Corporate Governance Committee on 17th February 2017 for consideration. It is proposed that the Director of Finance is authorised to amend the policy as necessary following consideration by the Corporate Governance Committee.

School Balances

120. Schools balances are held for two main reasons. Firstly, as a contingency against financial risks and secondly, to save to meet planned commitments in future years. The balance at 31st March 2016 was £11.8m. The balance at 31st March 2017 will be affected by the number of schools converting to Academies.

Robustness of Estimates

121. The Director of Finance 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 Departmental Finance Business Partner has identified the main risk areas in their budget and these have been evaluated by the Director of Finance. The main risks are described earlier in the report.

122. 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.

123. The Cabinet and the Scrutiny Commission receive regular revenue and capital monitoring reports, budget and outturn reports and external audit reports. In addition, further financial governance reports are considered by both the Corporate Governance Committee and the Constitution Committee. This comprehensive reporting framework enables members to satisfy themselves about both the financial management and standing of the County Council.

Conclusion

124. Having taken account of the overall control framework, budget provisions included to support the delivery of transformation, growth to reflect spending pressures, the inclusion of a contingency for MTFS risks and the earmarked funds and balances of the County Council, assurance can be given that the estimates are considered to be robust and the earmarked funds adequate.
125. It is worth noting that last year, the County Council's external auditor, KPMG, in its Value for Money work concluded that: "We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

Concluding Comments

126. The Autumn Statement confirmed the widely expected continuation of austerity. There is little doubt that this will directly affect the County Council by increasing the funding reductions faced. Combining this with the deepening financial crisis in the NHS, proposed funding reforms in education and local government, and the expected transfer of new responsibilities to the County Council, strongly suggests that the biggest challenges lie ahead.
127. The financial position of the County Council reflects the fact that income is simply not keeping up with demands on the budget. These demands primarily relate to both a growing and ageing population and a large increase in school age children which put huge demands on social care and SEN services.
128. The delivery of the MTFS will be challenging. Some local authorities, which are better funded than Leicestershire, are already in serious financial difficulties. The focus on Leicestershire's finances over the past few years, including taking tough decisions on service reductions, has put the Council in a relatively sound position. The focus on medium term financial planning and strong financial discipline will need to be maintained.
129. The delivery of this MTFS rests on three factors:
- The first is the absolute need to deliver the savings in the MTFS. The key risks are the technical difficulty of some projects such as the Digital Council and the public acceptance of some savings.
 - The second factor is the need to have very tight control over demand-led budgets in children's and adults' social care. Any overspends will put the County Council in a very difficult position with a need to make immediate offsetting savings.
 - Finally, the County Council needs to manage other risks that could affect its financial position. These include costs currently being borne by the NHS shifting to local authorities and loss of trading income.
130. The County Council will be a very different organisation by 2021. It needs to be much more innovative, risk aware and commercial in its approach. The plan is deliverable and the MTFS can be balanced over the medium term.

Treasury Management Strategy Statement and Annual Investment Strategy

131. The Treasury Management Strategy Statement and the Treasury Management Annual Investment Strategy must be approved in advance of each financial year by the full Council. Appendix L to this report sets out the combined Treasury Management and Investment Strategy including the Treasury Management Policy Statement for 2017/18.
132. Recent comments by the Governor of the Bank of England suggests that he is in no hurry to increase interest rates, although the consensus forecast is that the first rise will occur in mid-to-late 2017 and be followed by a series of slow but steady increases in the years after that. The timing and extent of increases is highly dependent on economic growth in not just the UK but also the rest of the world – the extent of the economic slowdown in China (the world's second largest economy) and how it deals with this may well be the most influential factor.
133. Base rates were reduced to 0.25% in August 2016, due to fears of an economic slowdown caused by Referendum outcome. This slowdown has not yet materialised, although the triggering of Article 50 and a potentially prolonged and difficult set of negotiations may still cause one.
134. Actual debt is currently £275m and is expected to reduce to £263m at the end of 2020/21. No new borrowing is included within the MTFs 2017-2021.
135. 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 Capita Asset Services on all aspects of treasury management.

Capital Programme 2017/18 to 2020/21

136. The draft capital programme totals £180.8m over the four years 2017-21 and is shown in detail in Appendix F. The programme is funded by a combination of Government grant, external grants, capital receipts and contributions from revenue balances and earmarked funds. There is an unallocated balance of funding of £16.7m, which will be available for future capital schemes. This funding can be brought forward in the four-year capital programme and equates to approximately £4m per year.

137. The draft programme and funding is shown below:

Draft Capital Programme 2017-21

	2017/18	2018/19	2019/20	2020/21	Total
	£000	£000	£000	£000	£000
Children and Family Services	18,989	18,214	tbc	tbc	37,203
Adults and Communities	3,740	4,225	3,000	3,000	13,965
E&T - Transportation	30,980	23,700	15,028	14,945	84,653
E&T - Waste Management	300	400	265	150	1,115
Chief Executive's	100	100	100	100	400
Corporate Resources	2,885	3,210	1,110	825	8,030
Corporate Programme	16,100	11,700	5,130	2,520	35,450
Total	73,094	61,549	24,633	21,540	180,816

Capital Resources 2017-21

	2017/18	2018/19	2019/20	2020/21	Total
	£000	£000	£000	£000	£000
Grants	36,329	38,536	19,128	18,645	112,638
Capital Receipts from new sales	6,683	5,490	2,662	2,662	17,497
Revenue/Earmarked funds	11,726	16,247	2,843	16,971	47,787
Capital Earmarked funds/ External Contributions	18,356	1,276	0	0	19,632
Total	73,094	61,549	24,633	38,278	197,554

138. The capital strategy is set out in Appendix G. The overall approach to developing the capital programme has been based on the following key principles:

- To invest in a limited number of priority areas including roads, infrastructure, economic growth and projects that generate positive revenue returns.
- Passport Government capital grants received for key priorities for highways and education to those departments.
- Maximise the achievement of capital receipts.
- Maximise other sources of income such as bids to the LLEP, Section 106 developer contributions and school contributions.
- No or limited prudential borrowing.

139. 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 are assessed against the available resources (£16.7m) and included in the capital programme as appropriate.

140. The schemes included as future developments which could exceed the estimated available resources. Prioritisation of the schemes will be needed together with consideration of additional funding options available, for instance any underspends in the MTFS.

141. To enable flexibility, it is recommended that the Director of Finance, following consultation with the Lead Member for Corporate Resources, is authorised to approve the inclusion of capital schemes shown as future developments in the capital programme, subject to available resources. The decisions will be reported to the Cabinet and Scrutiny Commission in the next MTFS monitoring report.

Changes to the draft Capital Programme proposed in December 2016

142. The unallocated balance of funding available (for funding for future developments) has increased from £9.7m in December 2016 to £16.7m. The change (£7m) is due to:

- Period 8 MTFS 2016/17 revenue budget underspend, +£6.1m
- Increase in revenue funding of capital, MTFS 2017-21, +£3.9m
- Less, investment in Score+ energy efficiency programmes, -£3.0m.

143. The following expenditure changes have been made to the programme:

Environment and Transport

- Strategic Economic Partnership, £0.8m. LLEP grant for Hinckley Area Approach (expenditure already included) will increase the resource available for match funding/advanced design.
- Melton Mowbray Eastern Distributor Road, £2.8m. New grant from the LLEP local major transport schemes programme to develop a business case for the proposed new road.
- National Productivity Investment Fund, £2.7m. New Department for Transport (DfT) grant.

Corporate Programme

- Energy Efficiency, Score +, £3m. Investment in energy efficiency programmes, for schools and academies, to reduce energy emissions and generate future revenue savings, funded from the discretionary capital programme

Funding and Affordability

Capital Grants

144. Grant funding is the largest source of financing for the capital programme and totals £113m across the 2017-21 programme. The majority of grants included in the programme are awarded by Government departments including the Department for Education (DfE), the Department for Transport, the Department of Health (DoH) and the Department for Culture, Media and Sport (DCMS). Other grants include funding from the LLEP. While Government grants are allocated by specific central government departments, they are not ring-fenced. It is noteworthy that Government policy to award grants increasingly favours areas with a devolution deal in place or which have a unitary structure.

Children and Family Services

145. Capital funding for schools is provided by the DfE as follows:

- a) Basic Need – this grant provides funding for new pupil places by expanding existing maintained schools, free schools or academies and 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. The DfE has previously announced details of the grant awards for 2017/18 (£4.5m) and 2018/19 (£16.9m). No details have been announced for future years and therefore these are not included in the programme at this stage.
- b) Condition – this grant provides the maintenance funding for the maintained school asset base. Details of the grant for 2017/18 and future years have not yet been announced. For 2017/18 an estimate of £2.8m has been included in the capital programme. It is expected that this grant will continue but will reduce as further schools convert to academy status.
- c) Devolved Formula Capital (DFC) - funding provided to schools. The DfE has not yet announced details of grant allocations. However, an estimate can be made based on the number of maintained schools which totals £0.7m for 2017/18. No estimates have been included for future years, but the grant is expected to continue.

Environment and Transport

146. The DfT has informed local authorities of the amounts they will receive in capital grant for the Local Transport Plan (LTP). The LTP has two elements:

- a) Improvement Schemes. Grant funding of £10.9m has been included across the four-year programme. In December 2014 the DfT announced grant funding of £2.7m for 2017/18 together with indicative amounts of the same value per annum for 2018/19 to 2020/21.
- b) Maintenance funding. Grant funding of £47.0m has been included in the four-year programme. As with the improvement schemes grant, the amounts were previously announced by the DfT; £12.6m for 2017/18 with indicative allocations of £11.4m per annum for the three years 2018/19 to 2020/21.

147. Other DfT capital grants included are:

- DfT Incentive Fund £4.6m – the DfT has set aside funding to help reward local authorities which can demonstrate they are delivering value for money in carrying out cost effective improvements. The DfT requires each local authority to complete a self-assessment questionnaire to demonstrate that efficiency measures are being pursued. The amount included is prudently estimated to be that applicable for a score at Level 2 (out of 3). However, a programme of work is being undertaken within the Environment and Transport department to develop a more strategic approach to Highways Asset management which it is hoped will lead to Level 3 being achieved for 2018/19.
- DfT Pothole Fund £3.3m – the DfT has confirmed an allocation of £1.1m for 2017/18. An estimate of £0.7m has been included for 2018/19 to 2020/21.
- DfT National Productivity Investment Fund £2.7m - to cover easing congestion, unlocking growth (jobs and housing) and improving maintenance of local highways assets. A programme of work is being developed. (A further £740m will be available nationally from 2018/19 which will be allocated through a competitive process yet to be determined).
- LLEP Large Local Major Transport Schemes £2.8m - funding specifically to develop a business case for the Melton Mowbray Eastern Distributor Road. The amount of grant is an indicative allocation; however the precise level and timing of grant will not be confirmed until later in the financial year.

Capital Receipts

148. The generation of capital receipts is a key priority for the County Council. The draft capital programme includes an estimate of £17.5m of capital receipts from new sales by 2020/21. This includes asset sales that are subject to planning permission. In these cases the value of the site is significantly increased where planning permission is approved. However, this also comes with a significant amount of uncertainty and potential for delays. For planning purposes an estimate of 20% of the estimated gross capital receipts value has been used in the estimated capital receipts.

Revenue / Earmarked Funds

149. The capital strategy recognises the need to avoid prudential (unsupported by government) borrowing in order not to increase levels of debt and associated financing costs. A total of £47.8m has been included in the draft programme funded from one-off MTFS revenue contributions and revenue earmarked funds. The largest contributions are from planned MTFS contributions 2017-21 (£22.5m) and MTFS underspends in 2016/17 and previous years held for future capital expenditure (£22.4m).

Capital Earmarked Funds

150. A total of £19.6m is included in the funding of the capital programme 2017-21 from section 106 developer contributions, re-profiled capital grants and capital receipts received in previous years to fund capital commitments brought forward.

Prudential Borrowing

151. The Council is able to finance new capital expenditure by undertaking unsupported borrowing. The financing costs of undertaking borrowing, often from the Public Works Loans Board, are charged to the revenue account and are funded by the Council. By using other sources of funding, capital receipts and one-off revenue contributions, no prudential borrowing is included in the funding of the 2017-21 programme. The County Council's current level of debt is £275m and costs circa £23m in capital financing costs each year. If the Council were to undertake prudential borrowing to increase resources then this would result in increased revenue costs of circa 7% per annum of the amount borrowed.

Departmental Programmes

Children and Family Services

152. The draft programme totals £37.2m over the two years 2017/18 to 2018/19. The priorities for the programme are informed by the Council's School Place Planning Strategy and include the provision of additional accommodation where additional pupil places are needed (£22.1m), completion of a new primary school in Birstall (£3.2m), completion of a new area special school in Wigston (£4.2m) and school improvements (£2.8m).

153. The programme also includes £3.0m to invest in opportunities to address structural changes to the pattern of education where this can be linked to basic need.

Adults and Communities

154. The draft programme totals £14.0m. The main areas of the programme are the Better Care Fund (BCF) Grant programme (£12.0m), which is passported to District Councils to fund major housing adaptations in the County for vulnerable people to stay safely in their own home and £1.0m investment in SMART libraries (to enable self-service) subject to a successful pilot scheme.

Environment and Transport (E&T)

155. The transportation programme totals £84.7m over the four years 2017-21. The main areas are:

- Transport Asset Management Programme - £42.5m. Ensuring transport assets such as roads and footways are well managed. The programme includes an adjustment in each year of circa £3m reduction in respect of a substitution of capital funding to offset revenue expenditure. This supports the delivery of revenue savings in the E&T Department.
- Street Lighting LED replacement programme £14m. Completion of the £19m programme to replace all County Council maintained street lights with LED lighting and a central management system and de-illumination of traffic signs on bollards by the end of 2018/19.
- Match funding Advanced Design - £8.9m. A programme of advanced design works to support future major transport schemes and bids to the DfT and LLEP for funding.
- County Council vehicle programme - £7.0m. To enable a more coordinated and planned approach to managing and maintaining the County Council's fleet of vehicles to minimise whole life costs.

Environment and Transport - Waste Management

156. The programme totals £1.1m and includes drainage and general improvement works at recycling and household waste sites.

Chief Executive's

157. A programme of small Shire Community Grants, costing a total of £0.4m across the four years to 2021 is planned.

Corporate Resources

158. The programme totals £8.0m for 2017-21 with the main priorities for investment being:

- £3.1m investment in the ICT upgrade and replacement programme, including the local and wide area networks.
- Industrial Properties and County Farms, £1.7m for general improvements.
- Snibston and Country Park future strategy, £1.4m has been earmarked for the development of the site.

Corporate Programme

159. The corporate programme totals £35.5m for 2017-21. The main area is the investment in the Corporate Asset Investment Fund (£25.3m) for property and land assets to improve economic development, replace assets sold to generate capital receipts, and generate ongoing revenue returns.

160. The corporate programme also includes investment in the Energy and Water Strategy of £5.3m, to reduce energy consumption across the Council's property estate to deliver ongoing efficiency savings and reduce carbon emissions. The balance of the programme is accounted for by a £4.8m investment in superfast rural broadband to complete phase 2 of the programme across Leicestershire.

Capital Summary

161. Given the declining financial position it is important that the process for developing long term infrastructure plans continues to improve so that the right investment choices are made. Currently longer term infrastructure schemes are not included in the programme. Pressure on school places and Leicestershire's infrastructure is expected from population growth, with estimates of a 12% increase in the County's population by 2030. It is assumed that section 106 and Government funding will be available at the necessary level.
162. By their nature discretionary asset investments, which are made to generate capital receipts or revenue returns, are risky. Whilst this is partially mitigated by the County Council's ability to take a long term view of investments, removing short term volatility, it is likely that not all investment will yield returns in line with the business case.
163. A significant portion of the programme enables revenue savings; delays or unsuccessful schemes will directly affect the revenue position.

Equality and Human Rights Implications

164. Public authorities are required by law to have due regard to the need to:
- Eliminate unlawful discrimination, harassment and victimisation;
 - Advance equality of opportunity between people who share protected characteristics and those who do not; and
 - Foster good relations between people who share protected characteristics and those who do not.
165. Many aspects of the County Council's MTFs may affect service users who have a protected characteristic under equalities legislation. An assessment of the impact of the proposals on the protected groups must be undertaken at a formative stage prior to any final decisions being made. Such assessments will be undertaken in light of the potential impact of proposals and the timing of any proposed changes. Those assessments will be revised as the proposals are developed to ensure decision makers have information to understand the effect of any service change, policy or practice on people who have a protected characteristic.
166. Proposals in relation to 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.

Crime and Disorder Implications

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

Environmental Implications

168. The MTFS will include schemes to support the carbon management programme and other environmental improvements.

Partnership Working and Associated Issues

169. 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

170. 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.

Consideration by the Cabinet, Scrutiny and the Corporate Governance Committee

171. As indicated above, the Cabinet's proposals were the subject of reports to Scrutiny bodies. These comments of these bodies are set out in Appendix 'N' to this report.

172. At its meeting on 10th February 2017 the Cabinet considered its proposals having regard to the views of the Scrutiny bodies, the results of consultation and developments since the meeting in December 2016. The recommendations of the Cabinet are contained in the motion which appears below.

173. The Corporate Governance Committee at its meeting on 17th February will consider the Risk Management Policy and Strategy set out in Appendix H to this report. Any significant changes proposed will be reported to the Council.

(Motion to be moved:-

- (a) That, subject to the items below, the MTFS which incorporates the recommended revenue budget for 2017/18 totalling £348m as set out in Appendices A, B and E of this report and including the growth and savings for that year as set out in Appendix C, be approved;**
- (b) That the projected provisional revenue budgets for 2018/19, 2019/20 and 2020/21, set out in Appendix B to the report, be approved including the growth and savings for those years as set out in Appendix C, allowing the undertaking of preliminary work,**

including business case development, consultation and equality impact assessments, as may be necessary towards achieving the savings specified for those years including savings under development, set out in Appendix D;

- (c) That the early achievement of savings that are included in the MTFs, as may be necessary, along with associated investment costs, be approved subject to the Director of Finance agreeing to funding being available;
- (d) That the level of earmarked funds as set out in Appendix J be noted and the use of earmarked funds 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 2017/18 be as set out in Appendix K (including the adult social care precept of 2%);
- (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 the Director of Finance be authorised to approve changes to the Business Rates Pooling agreement, which might occur as a result of the creation of a Leicester and Leicestershire Combined Authority;
- (h) That the transfer of £2.85m from the Schools Block to the High Needs Block of Dedicated Schools Grant be approved;
- (i) That the 2017/18 to 2020/21 capital programme as set out in Appendix F be approved;
- (j) That the Director of Finance following consultation with the Lead Member for Corporate Resources be authorised to approve new capital schemes including revenue costs associated with their delivery;
- (k) That it be noted that new capital schemes, referred to in (j), are shown as future developments in the capital programme, to be funded from capital funding available;
- (l) That the financial indicators required under the Prudential Code included in Appendix L, Annex 2 be noted and that the following limits be approved:

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Operational boundary for external debt				
i) Borrowing	274.6	264.6	264.1	263.6
ii) Other long term liabilities	1.3	1.3	1.2	1.2
TOTAL	275.9	265.9	265.3	264.8
Authorised limit for external debt				
i) Borrowing	284.6	274.6	274.1	273.6
ii) Other long term liabilities	1.3	1.3	1.2	1.2
TOTAL	285.9	275.9	275.3	274.8

- (m) That the Director of Finance be authorised to effect movement within the authorised limit for external debt between borrowing and other long term liabilities;
- (n) That the following borrowing limits be approved for the period 2017/18 to 2020/21:
- (i) Upper limit on fixed interest exposures 100%
 - (ii) Upper limit on variable rate exposures 50%
 - (iii) Maturity of borrowing:-

	<u>Upper Limit</u>	<u>Lower Limit</u>
	<u>%</u>	<u>%</u>
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

- (o) That the Director of Finance be authorised to enter into such loans or undertake such arrangements as necessary to finance capital payments in 2017/18, subject to the prudential limits in Appendix L;
- (p) That the Treasury Management Strategy Statement and the Annual Investment Strategy for 2017/18, as set out in Appendix L, be approved including:
- (i) The Treasury Management Policy Statement, Appendix L; Annex 4
 - (ii) The Annual Statement of the Annual Minimum Revenue Provision as set out in Appendix L, Annex 1;

- (q) That the Risk Management Policy and Strategy (Appendix H) be approved subject to consideration by the Corporate Governance Committee on 17th February 2017 and that the Director of Finance be authorised to make any necessary amendments arising from its consideration by the Corporate Governance Committee;
- (r) That the Capital Strategy (Appendix G) and Earmarked Funds Policy (Appendix I) to the report be approved.

10th February 2017

N J Rushton
Leader of the Council

Background Papers

Autumn Statement 2016

<https://www.gov.uk/government/topical-events/autumn-statement-2016>

Final local government finance settlement: England, 2016 to 2017

<http://ow.ly/VWzC308x0Bx>

Provisional local government finance settlement: England, 2017 to 2018

<http://ow.ly/Mn4r308x14j>

Report to the County Council on 17 February 2016: "Medium Term Financial Strategy 2016/17 - 2019/20"

<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=134&MId=4427&Ver=4>

Report to the Cabinet on 11 October 2016: "2016/17 Medium Term Financial Strategy Monitoring (Period 5) and Investment Proposals"

<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=4606&Ver=4>

Report to the Cabinet on 12 January 2016: "Medium Term Financial Strategy (MTFS) 2016-20"

<http://cexmodgov1/ieListDocuments.aspx?CId=135&MId=4608&Ver=4>