



CABINET – 15TH JANUARY 2014

PROVISIONAL MEDIUM TERM FINANCIAL STRATEGY
2014/15 - 2017/18

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PART A

Purpose of the Report

1. This report sets out the proposed Medium Term Financial Strategy (MTFS) for 2014/15 to 2017/18, for consultation and scrutiny.

Recommendation

2. (a) That the proposed MTFS including the 2014/15 revenue budget and capital programme be approved for consultation and referred for consideration to the Overview and Scrutiny Committees and the Scrutiny Commission;
- (b) That the County Council's response to the Government's consultation on the 2014/15 Grant Settlement (as set out in Appendix B to this report) be approved;
- (c) To note the position (as set out in paragraphs 21 to 22) on business rate pooling.

Reasons for Recommendation

3. To enable the County Council to meet its statutory requirements with respect to setting a budget and Council Tax precept for 2014/15 and to provide a basis for the planning of services over the next four years.

Timetable for Decisions (including Scrutiny)

4. The MTFS will be considered by the County Council's Overview and Scrutiny bodies between 20th and 29th January. The Cabinet will then consider the comments of the Scrutiny bodies and responses from the wider consultation process at its meeting on 4th February. The County Council meets on 19th February to approve the MTFS.

Policy Framework and Previous Decisions

5. The MTFFS is a rolling financial plan that is updated annually. A detailed budget consultation was undertaken over the summer in 2013 and reported to Cabinet in November 2013. The results of this consultation have been used to inform the proposals in this report.

Legal Implications

6. The County Solicitor has been consulted on this report.

Resource Implications

7. The MTFFS is the key financial plan for the County Council.

Circulation under Local Issues Alert Procedure

8. A copy of this report has been circulated to all Members of the County Council under the Members Information Service.

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PART B

Background

9. The current economic backdrop continues to be extremely challenging, resulting in significant and on-going reductions in Government funding. This means it is essential to continue to focus on medium term service and financial planning.
10. The County Council undertook a detailed budget consultation over the summer. Surveys were launched online and through the Council's magazine, Leicestershire Matters. Focus groups were also conducted with residents at various locations across the County. In total, just under 7,150 residents, staff and stakeholders took part in the surveys. The results of this consultation were reported to Cabinet in November 2013.
11. The consultation was undertaken to understand which services Leicestershire residents believe could be reduced and the appetite for Council Tax increases. It also contained useful information on service transformation. The proposals in the draft MTFs are largely based on the results of the consultation and a summary of the results is included in Appendix A to this report.

The Autumn Statement and Finance Settlement

12. The Government's latest Autumn Statement was given on 5th December 2013 and it included the following key headlines:
 - Economic growth forecasts were increased from 0.6% to 1.4% for 2013/14 and from 1.8% to 2.4% for 2014/15.
 - Public sector net borrowing is not expected to be eliminated until after 2017/18 and the Office for Budget Responsibility predicts a small cash surplus in 2018/19.
 - In future, Local Government will have longer term settlements on the same basis as Government Departments.
 - The proposed New Homes Bonus transfer to the Local Growth Fund will not take place.
 - Business rates will be capped at 2% rather than linked to RPI inflation with some retail premises in England to get a discount on their business rates.
 - A commitment to supporting pooled funding for the health and social care system beyond 2015/16.
13. The Government issued a consultation on the provisional Local Government Finance Settlement on 18th December. This consultation closes on 15th January 2014. The County Council's response is set out in Appendix B.
14. The main proposals within the settlement are listed below: -
 - The Department for Communities and Local Government (DCLG) calculates that for the County Council there has been a reduction in spending power of 0.6% in 2014/15 and an increase of 1.7% in 2015/16. Spending power is calculated by Government and its purpose is to show

the change in overall income including Formula Grant, Council Tax and specific grants. The inclusion of the Better Care Fund is the main reason for the increase in 2015/16.

- Revenue Support Grant will fall by 15.4% to £70.8m in 2014/15 and by 25% to £53m in 2015/16.
- The New Homes Bonus (NHB) would continue to be allocated to County Councils, although there would be a review of its effectiveness in 2014. Leicestershire's allocation is £2.4m for 2014/15.
- It was confirmed that the Chancellor would build the 2013/14 Council Tax freeze grant of £2.4m into the base in later years. It had been assumed that this grant would cease in 2016/17.
- A 1% Freeze Grant will be available for 2014/15 and 2015/16 which will be built into the base.
- Extra capital funding has been announced for schools' basic need and the County Council will receive £55m over the next three years.
- Funding of £38.3m should be available in 2015/16 for the NHS and social care Better Care Fund.

Revenue Support Grant

15. The Government has announced the figures for 2014/15 and 2015/16. The 25% funding reduction in 2015/16 is forecast to be repeated in 2016/17 and 2017/18. The Government has not announced the funding settlement for these years, but the Autumn Statement shows that austerity budgets will continue to at least 2018/19.
16. The overall impact of the settlement on the forecast revenue support grant is set out below;

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Revenue Support Grant	70.8	53.0	39.8	29.8
% reduction	15.4%	25.0%	25.0%	25.0%

Business Rates Retention Scheme

17. The 2014/15 and 2015/16 Provisional Settlement includes uplifts to Business Rates "Top-Up" and "Baseline" figures of 2% and 2.8% respectively. 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 increase in 2014/15 reflects the Chancellor's decision to cap the rise in the business rates multiplier at 2%, rather than applying the September 2013 RPI increase of 3.2%.
18. DCLG are to compensate for the loss of funding to Local Authorities arising from the Chancellor's announcements to:
- Cap the 2014/15 increase in the business rates multiplier at 2%

- Grant a further extension to the doubling of Small Business Rates Relief
 - Grant relief to new occupiers of previously empty shops
 - Give a £1,000 discount where rateable values are below £50,000
19. DCLG will provide a Section 31 grant but details of how the compensating grant will be calculated have not been published. It is therefore difficult to predict the value of this grant however, it is not expected to be significant and is not included in the MTFS at this stage.
20. There are uncertainties resulting in difficulties to predict retained business rates. Much of the uncertainty surrounds appeals and is explained more fully below. Given this uncertainty the draft MTFS includes a projected business rates “baseline” which is £1m less than the Government’s “baseline” figures for 2014/15 and 2015/16, and also £1m less than the projected “baseline” for 2016/17 and 2017/18, which is based on 3% rates increases in both years. The forecasts used in the draft MTFS are set out below;

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Business Rates ‘Top up’	35.8	36.7	37.8	39.0
Business Rate Baseline	18.3	18.9	19.5	20.1
Total	54.1	55.6	57.3	59.1

Business Rates Pooling

21. The Government introduced the Business Rates Retention system from April 2013. The County Council along with Leicester City Council, the Combined Fire Authority and all Leicestershire District Councils agreed to operate a pooling agreement for business rates for 2013/14, the ‘Leicester and Leicestershire Pool’.
22. Modelling is currently underway to forecast the position for 2014/15. The County Council and its partners will need to advise DCLG by 15th January 2014 if they wish to continue with the Pool for 2014/15. The position will be impacted by the work of the Valuation Office, as announced in the Autumn Statement, which is working to clear a significant number of outstanding appeals by July 2015. If these were to be incurred in 2014/15 this would equate to a significant loss on the Pool. The Cabinet will be updated at the meeting of the outcome of this further work.

Council Tax

23. The draft MTFS is based on a 1.5% per annum increase in Council Tax over the period 2014/15 to 2017/18.
24. When asked about Council Tax in the recent consultation, 69% of residents said that they would be prepared to pay an increase. An increase of 1.5% was preferred, with 50% of residents selecting this option. Some were prepared to pay more, with 14% saying they would pay a 3% increase, and 5% indicating they would be prepared to pay more. No increase was preferred by 31%.

25. During the resident focus groups, the majority of participants (53%) favoured a 1.5% Council Tax increase. However, they had been briefed of the requirement for a referendum for increases of 2% or above. If it was not for the referendum, the discussions indicated that many would have selected a higher increase.
26. The Government has stated that a grant equivalent to a 1% increase in Council Tax would be available in 2014/15 and 2015/16 to those authorities which freeze Council Tax and this grant would be built into the base. The Localism Act 2011 makes provision to give residents the power to instigate local referendums on any local issue and the power to veto excessive Council Tax increases. Council Tax referendum threshold rules will be announced in the New Year.
27. The written ministerial statement accompanying the provisional settlement states that ministers are "particularly open to representations suggesting that some lower threshold be applied to all or some categories of authorities, given the strong need to protect taxpayers wherever possible from unreasonable increases in bills, and given next year's elections on 22 May across the country allow for referendums to be held at minimal cost." The threshold in 2013/14 was 2%.
28. Figures on the Council Tax base have been received from all District Councils. Based on the information received to date the tax base is expected to increase by 1.7% in 2014/15.
29. The District Councils are providing monthly monitoring information on the forecast Collection Funds surpluses. At the end of November 2013 a surplus of c.£2m for the County Council has been reported. This is built into the 2014/15 budget.

Localisation of Council Tax Support (LCTS)

30. The Government reformed the national Council Tax Benefit (CTB) scheme, abolishing Council Tax Benefits from 1 April 2013 and replacing it with a grant (incorporated within Formula Grant) based on 90% of the projected CTB costs in 2013/14. This 10% reduction equated to £3.6m across Leicestershire (£2.6m for the County Council).
31. For 2013/14, District Councils, working with major preceptors, implemented a new scheme around a common framework of discounts and exemptions that offset the 10% cut in Government funding. This took account of a transitional grant for schemes that met certain criteria, the main one being that all recipients of the discount will only have to pay a maximum of 8.5% of their Council Tax liability. This depends on the District and equates to c.£125 per annum (Band D). All Districts implemented an 8.5% cap except Harborough who implemented a 15% cap. The County Council received transitional grant of £537,000.
32. The County Council contributed £125,000 to the Districts to offset the increased administrative costs and £250,000 to establish a county wide local discretionary discount hardship fund (DDF) to reduce Council Tax bills for qualifying claimants on a case by case basis. At the end of November 2013, only 12% of the DDF had been allocated.

33. For 2014/15 the Districts have written to the County Council to propose changes to the schemes to offset the loss of the transitional grant. In summary:
- All Districts will implement schemes with a 15% cap, except Melton Borough Council and Hinckley & Bosworth Borough Council who propose a 12% cap
 - No changes to other rebates and allowances
34. Modelling indicates that the increase in benefit caps will generate additional Council Tax of £645,000 to the County Council which would offset the loss of the transitional grant of £537,000.
35. The draft MTFs is on the basis that the County Council will:
- continue to contribute £125,000 per annum for administrative costs
 - allow the carry forward of unspent DDF to 2014/15
 - consider providing additional DDF funding for 2014/15 if increased demand means this is appropriate.

Health and Social Care Integration

36. Health and social care integration is a priority both for the County Council and the NHS. Developing effective ways to coordinate care and integrate services around the person is seen nationally and locally as key to improving outcomes and ensuring high quality and sustainable services in the future.
37. The vehicle for incentivising this new approach of integrated health and social care services by 2018 is the Better Care Fund. Joint discussions are taking place between the County Council, NHS organisations and other key partners, to develop the Leicestershire Better Care Fund plan, which must be approved by the Clinical Commissioning Group Boards and the Health and Wellbeing Board prior to submission in February 2014.
38. Initial modelling work includes financial assumptions to meet the national conditions which need to be addressed in the plan, and an element of protection for social care services. These initial assumptions are shown in the Adults and Communities savings schedule for 2014/15 in relation to additional health transfer funding and for 2015/16 in relation to the Better Care Fund. They are significant sums of money which are still to be finally agreed. The total fund in 2015/16 is expected to be £38.3m.

Public Health

39. From April 2013 the County Council took over some of the responsibilities for Public Health previously undertaken by the Primary Care Trust (PCT). The new responsibilities included:
- improve significantly the health and wellbeing of the local population

- carry out health protection functions delegated from the Secretary of State
 - reduce health inequalities across the life course, including within hard to reach groups
 - ensure the provision of population healthcare advice.
40. Funding for the new responsibilities is through a ring-fenced grant from the Department of Health. The level of grant awarded is based upon the population of the area weighted according to relative need. The 2014/15 allocation is £21.9m. Although details of future allocations have not yet been announced, this draft MTFs assumes that they continue at a similar level.

Inflation

41. The Government's preferred measure of inflation is the Consumer Price Index (CPI). In November 2013 this was 2.1% and the Office for Budget Responsibility (OBR) predicts it will remain around 2% throughout the period of the MTFs. The OBR predicts that the Retail Prices Index will increase from its current level of 2.6% to around 3.3% by 2015/16. However, uncertainty surrounds the likely level of inflation in future years with some commentators predicting higher levels of inflation. The draft MTFs assumes 3% per annum inflation over the period 2014/15 to 2017/18.
42. Local Government employee pay was frozen for the three years 2010/11 to 2012/13. This was followed by a 1% increase in 2013/14 and a proposed 1% increase in 2014/15. Future levels of pay settlement will be determined by national negotiation between the Local Government Employers and the Trade Unions. A prudent contingency of 2% has been included in 2014/15 and 2015/16 and 2.5% in later years.
43. Although detailed budgets for 2014/15 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.
44. The budget also includes provision for an increase in the employer's pension contributions based on the results of the 2013 triennial actuarial revaluation of the Pension Fund. This increase is 1% of pay in the three years 2014/15 to 2016/17 and is required to address the deficit on the Fund and to meet future liabilities. The same increase is assumed in 2017/18.

Growth

45. Over the period of the MTFs, growth of £25m is required to meet demand and cost pressures. The main elements of growth are:
- Adult Social Care (£21.3m). Largely the result of increasing numbers of people with Learning Disabilities and an ageing population with increasing care needs.
 - The cost of waste disposal (£2.7m), which is mainly attributable to landfill tax.

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

Savings

47. Over the summer, the County Council announced a five year savings requirement of £110m. Whilst some figures and assumptions have been updated, the overall position is broadly unchanged. Savings of £23m are forecast to be made in the current year, with further savings of £68.4m required over the next four years, 2014/15 to 2017/18 (of which £28m is accounted for by efficiency savings). A budget shortfall of £12.5m is also forecast in 2017/18, although the new homes bonus income of £3.4m is now expected to continue. The balance of required savings (£2.7m) is made up of a number of other movements, including a £1m contribution from Public Health reserves. Details for savings are shown in Appendix D.
48. One of the key principles on which the MTFs is based is the maximisation and contribution of efficiency savings. The Council has already realised many efficiency savings, making it harder to identify even further savings. However, through continued action, the £28m efficiency savings accounted for (within the £69m) will be grouped into four main types:
- a) Reductions in senior management and administration (£4m)
 - b) Better commissioning and procurement (£9m)
 - c) Service transformation/change management projects (£11m)
 - d) Collaboration/shared or single services (£4m)
49. The service reductions contained in the draft MTFs draw heavily on the budget consultation results. For those services where the public has shown a greater appetite for savings a higher percentage reduction is proposed. This includes services such as street lighting and grants to agencies and community groups. Where the public wishes to protect services such as social care for vulnerable adults, gritting and maintaining road and pathways, service reductions have been minimised. However, given the scale of the challenge it has not always been possible to exempt all these services from savings. In addition, because of the statutory nature of some services (such as concessionary travel and home to school transport), even when there is a public appetite for savings it has only been possible to consider the removal of discretionary elements of the schemes. Further detail of all savings will be set out in Scrutiny reports.
50. It is estimated that the proposals would lead to a reduction of up to 700 posts (Full Time Equivalents) over the four-year period. However, it is anticipated that the number of compulsory redundancies will be lower, given the scope to manage the position over the period through staff turnover, natural wastage, and vacancy control.

Central Items

51. Bank and other interest is budgeted at £1m during the period of the MTFs. Capital financing costs are expected to decrease to £25m in 2017/18 from

£28.4m in 2013/14 as a result of the County Council's strategy to use revenue balances to reduce debt. In 2012/13 the County Council voluntarily overpaid the minimum revenue provision by £25.6m which had the effect of generating annual revenue savings of £2.2m.

52. The MTFS continues the strategy of reducing the cost of debt by including revenue contributions of £4.8m in 2014/15, £7.1m in 2015/16, and £0.2m in 2016/17 which will generate a further saving of c.£1m per annum.
53. The budget also includes time limited provision for the following:
- Invest to save/severance costs.
 - Revenue funding of capital expenditure.

Medium Term Financial Strategy

2014/15 Budget

54. The provisional four-year MTFS excluding Dedicated Schools Grant (DSG) is set out in Appendix E. The provisional 2014/15 budget excluding DSG is set out below and is detailed in Appendix F.

2014/15 Provisional Budget	2014/15 £m
Services including inflation	337.1
Add growth	9.0
Less savings	<u>-18.3</u>
	327.8
Add Central Items	29.7
Contribution from earmarked funds	<u>-3.2</u>
Total Expenditure	<u>354.3</u>
Funding	
Revenue Support Grant	70.8
Business Rates	54.1
Council Tax	<u>229.4</u>
Total Funding	<u>354.3</u>

Medium Term Position

55. The MTFS shows a balanced position over the next three years based upon existing savings and growth estimates. There is a requirement for further savings (over those already identified in the MTFS) of £12.5m in 2017/18. Given that funding is likely to continue to decrease after 2017/18, and that demand for services for the most vulnerable people will rise, this challenging financial position is likely to continue for at least a further year into 2018/19.

Transformation

56. Significant change is required within the County Council to both, balance the books over the medium term and be in a position to meet the continued financial challenge. Ultimately this will result in the need to reduce some services as well as provision of other services in different ways. To this effect work has begun on the transformation of services, which has included the development of a new vision and strategic imperatives.

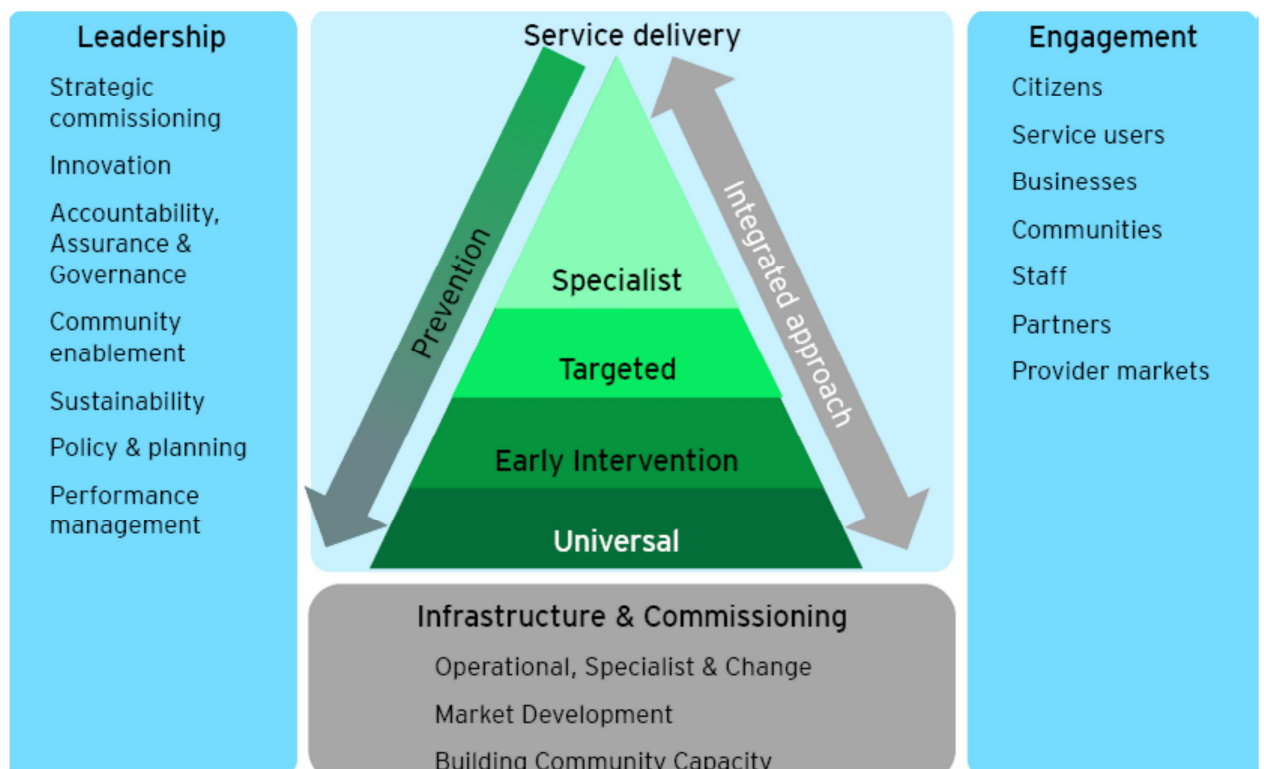
57. A new vision states:

“THE COUNTY COUNCIL WILL LEAD LEICESTERSHIRE BY WORKING WITH OUR COMMUNITIES AND PARTNERS FOR THE BENEFIT OF EVERYONE.”

58. This vision is underpinned by the following strategic imperatives;

- Leading Leicestershire
- Supporting and protecting the most vulnerable people and communities
- Offering local communities the opportunities to be in charge
- Making Leicestershire a better place
- Managing public sector resources effectively
- Having the right organisational structures and behaviours to deliver this approach.

59. These strategic imperatives will shape both the transformation and a new target operating model (TOM). The current version of the TOM is set out below.



60. Key features of the new ways of working are:

- A focus on prevention and early intervention to reduce demand for services
- A focus on the customer/service user
- Integration that reflects both an emphasis on the services provided by County Council, rather than by each department, and the integration and co-ordination of services across partner organisations
- More community involvement in the delivery of appropriate services
- A streamlined, concentrated and coordinated support service function

61. Internal governance arrangements have been scoped into the work undertaken to ensure transformation is successfully delivered. Resources will need to be allocated to support the transformation and funding will be made available from the earmarked funds. Further information will be provided in the February Cabinet report.

Budget Consultation

62. A further consultation will be undertaken on this MTFS and the results will be reported to the next Cabinet meeting. The proposals can be commented upon by visiting www.leics.gov.uk/budgetconsultation from 7th January 2014 until 20th January 2014.

Earmarked Funds and Contingency

63. The forecast balance on the County Fund (non-earmarked fund) at the end of 2013/14 is £10.7m which represents 3.0% 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 County Fund in the range of 2% - 3%.

64. The County Fund is available for unforeseen risks (e.g. extreme flooding). The current MTFS also includes a contingency of £4m in 2014/15 and £8m from 2015/16 to the end of the MTFS for other specific key risks. These risks include:

- Non-achievement of savings - the requirement for savings and additional income totals £81.5m over the next four years.
- Savings where detailed plans remain to be finalised
- Final impact of other significant public sector reforms over the life of MTFS such as Dilnot and Welfare Reform.

65. Other earmarked funds estimated at £100m (excluding schools' balances) by March 2014 are held for specific purposes including insurance, change initiatives, severance costs, invest to save schemes and renewals of vehicles and equipment.

66. The budget in 2014/15 includes a one-off contribution from earmarked funds of £3.2m to offset the reduction in the Early Intervention Grant announced by the Government last year.

67. There is a £1m contribution from the Public Health earmarked fund to support health related projects.
68. A full risk assessment is being undertaken and will be reported to the Cabinet in February 2014.

2014/15 Education Funding Settlement

Dedicated Schools Grant

69. The Dedicated Schools Grant (DSG) settlement retains a settlement in three separate blocks for 2014/15 and is detailed below;

Funding block	Areas Funded	Baseline for Settlement
Schools Block £339.3m	Funds delegated budgets for maintained primary and secondary schools and centrally maintained budgets held with the approval of the Schools Forum or statutory functions of the local authority The national settlement includes funding for Leicestershire academies which is then recouped and paid directly to academies by the Education Funding Agency (EFA).	Settlement determined by a flat rate per pupil of £3,994.63 based upon the October school census. This places Leicestershire 3 rd bottom of the funding table (out of 151 authorities) and compares to an England average of £4,675.11 per pupil The unit rate of funding is unchanged from that in 2013/14
High Needs Block £51.4m (provisional allocation, to be confirmed by the EFA in March 2014)	Funds special schools and other specialist providers for high needs pupils and students, the pupil referral unit and other support services for high needs pupils. Data on high needs learners was submitted to the EFA in December, which will be used to confirm the level of funding for 2014/15.	The baseline is unchanged from 2013/14 and is based upon expenditure for 2012/13 with the exception of the full year impact of the transferred responsibility for Post 16 learners with learning difficulties and disabilities. The settlement is not on a per pupil basis but conversion to that basis places Leicestershire 15 th lowest funded at £569.69 per pupil against an average of £761.92.

<p>Early Years Block £22.9m</p> <p>(Indicative allocation is £17.5m for 3 & 4 year olds and £5.4m for disadvantaged 2 year olds.)</p>	<p>Funds the provision of nursery education for 3 and 4 year olds plus an element of the early learning and childcare service.</p> <p>For 2014/15 this block now includes funding for the extension of nursery education to 40% of disadvantaged two year olds which becomes a statutory duty from September 2014.</p>	<p>The settlement for 3 & 4 year olds is based upon the January 2013 school census and will be updated by the January 2014 early years census and January 2015 census and is £3,363.36 per pupil. This places Leicestershire 10th bottom of the funding table and compares to an England average of £4,314.28 per pupil</p> <p>The settlement for 2 year old disadvantaged children is based upon expected eligibility for places and paid at a rate of £4.85 per hour</p>
<p>£413.6m</p>	<p>2014/15 Provisional DSG Settlement</p>	

70. Not all blocks are pupil related however, taking all three elements of the settlement and pupil numbers used within it, Leicestershire receives DSG of £4,583.37 per pupil and is the lowest funded authority in England.
71. The Department of Energy and Climate Change (DECC) announced in December 2012 that all state funded schools would be withdrawn from the Carbon Reduction Commitment Energy Efficiency Scheme (CRC) participation from April 2014 and the EFA and the Exchequer have required this change to be cost neutral. This results in the removal of £0.53m from DSG. However, the financial provision for Leicestershire schools and academies was £0.45m and results in a loss of funding.

School Budgets

72. The school funding formula allocates budgets to both maintained schools and academies. Significant changes were made to the 2013/14 school funding formula in order to respond to the first phase of the introduction of the national funding formula. Following a review of local authority funding formulae the EFA issued further changes to the allowable factors for 2014/15. These factors were considered alongside a local review which identified that no changes were necessary.
73. Whilst the 2014/15 school funding formula is unchanged from that in 2013/14, there are changes in the methodology for the pupil count for schools and academies undertaking or being affected by age range changes in other schools. Following permission from the Secretary of State for Education, the pupil number

count for the year group affected by age range changes will be based on the October 2013 actual numbers and estimated October 2014 numbers rather than fully based on October 2013 pupils. This will ensure that for expanding schools and academies funding will be received at the point that pupils are admitted. Schools with falling rolls will see reduced budgets but protection for year one of the changes is factored into the formula.

74. The next phase of implementation of the National Fair Funding Formula (NFFF) is expected for 2015/16. The EFA is expected to launch a further consultation on the proposals early in 2014. The 2013/14 changes only affected the distribution of funding from local authority to schools. It is expected that the 2015/16 proposals will consider moving to a formulaic basis from the current position of historic spend which will have a distributional impact. It should be noted that the movement to the NFFF will not result in all authorities receiving an equal amount of funding for each pupil but that pupils with the same characteristics will be funded equally regardless of the Authority the school is located in.
75. The Minimum Funding Guarantee remains at minus 1.5% per pupil for 2014/15. The EFA has confirmed that some level of funding guarantee will be present for 2015/16 onwards, but has given no indication of what that level will be. The level of protection will be dependent upon the speed at which the Department for Education wish to move to the NFFF and what level of turbulence in school budgets Ministers deem to be acceptable.

Pupil Premium

76. Nationally the pupil premium increases by 33% in 2014/15 and the estimated total for all Leicestershire schools and academies is £17.3m. This figure will be revised by the EFA with pupil data from the January school census. Funding for maintained schools is made through the local authority, the EFA makes direct payments to academies.
77. Eligibility for the pupil premium has been extended to children who have been in care for one day or more and for children registered on the school census as being adopted from care or left care under a special guardianship or residence order. Individual values for the pupil premium are:

Pupil Premium payable for:	2013/14 £	2014/15 £
Primary Free School Meals during previous 6 years	953	1,300
Secondary Free School Meals during previous 6 years	900	935
Children from Service Families	300	300

Children adopted from care, special guardianship or residence order	0	1,900
Looked After Children	900	1,900

Academies

78. Currently in Leicestershire 123 schools have converted to academy status, 13 schools are within the conversion process and 18 are consulting on conversion.
79. Within the conversion process are 8 schools converting to a sponsored academy arrangement as a result of an OfSTED judgement of requiring special measures. In this situation any deficit budget reverts to the local authority. The current financial exposure is estimated to be c£1.5m. A contingency of £2.5m is set aside within the DSG to meet these costs. The allocation of additional funding from the 2013/14 Schools Budget underspend will be required to maintain the fund at a level to ensure that future costs can be met.
80. The Education Services Grant (ESG) provides funding to local authorities for:
- the services it provides to all schools and academies such as strategic planning of the education service, development and maintenance of the school funding formula and strategic capital planning of £15 per pupil. This is unchanged from 2013/14.
 - the services it provides only to maintained schools such as ICT infrastructure, finance and HR of £113.17 per pupil, which is reduced from £116 per pupil in 2013/14.
81. The provisional grant allocation for 2014/15 is £5.6m; this allocation is based upon October 2013 pupil numbers and will be adjusted on a quarterly basis as a result of schools converting to academies and is expected to reduce to c£5m during 2014/15. The MTFS includes a provisional estimate of £2m in 2015/16 and later years.
82. The DfE intends to consult early in 2014 on the delivery of a 20% reduction in ESG in 2015/16. This consultation will be based upon the findings of a review of how the grant is used and how much local authorities spend on the areas of expenditure covered by the grant.

Capital Programme 2014/15 to 2017/18

83. Capital programme schemes are funded by a combination of Government grants, external grants, capital receipts, prudential (unsupported by Government) borrowing, external contributions and earmarked funds.
84. All Government funding will be through capital grants and the majority of funding is non-ring-fenced. Resources awarded by Central Government for specific services, principally schools and transportation, are prioritised through Government determined mechanisms.

85. Capital receipts of £22m are included in the programme as funding towards invest to save projects, as this will avoid the need to take out unsupported borrowing for these projects. A revenue contribution of £23m has also been included in the MTFS for 2014/15 onwards.

86. The key principles underpinning the Capital Programme are:

- Generate savings for the revenue budget
- Maximise capital receipts and other sources of income such as Leicester, Leicestershire Economic Partnership (LLEP) resources, developer funds and external grants
- Invest in a limited number of priority areas including roads, infrastructure, economic growth and schemes that generate a positive return
- No or limited prudential borrowing.

87. The proposed programme is summarised in the tables below and shown in detail in Appendix G.

88. Table 1 Capital Programme 2014/15 to 2017/18

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
CYPS *	12,741	25,510	26,397	0**
Transportation	29,279	21,498	15,811	15,866
Waste Management	640	560	550	0**
Adults and Communities	1,580	380	340	200
Corporate Resources	2,692	1,600	650	650
Chief Executive's	3,805	6,375	620	200
Corporate Programme	3,558	4,930	6,290	5,000
Total	54,295	60,853	50,658	21,916

* CYPS – Children and Young People's Services

** Allocation Not Known

89. Table 2 Capital Resources 2014/15 to 2017/18

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Central Government - Capital Grant	34,877	40,436	41,633	15,236
External Contributions	6,779	3,748	10	10
General Capital Receipts	3,606	6,900	5,845	4,340
Earmarked Capital Receipts	1,363	230	0	0
Earmarked Revenue funds	7,670	9,539	3,170	2,330
Total	54,295	60,853	50,658	21,916

Schools and CYPS

90. The Capital settlement for CYPS for 2014/15 is in separate funding streams; basic need, capital maintenance, schools Devolved Formula Capital (DFC) and school kitchens. Allocations for capital maintenance and schools DFC have not yet been announced.
91. The CYPS Capital Programme will need to be considered again by Cabinet once further work on school place planning set out below has been confirmed and the capital maintenance grant allocation has been received. However work will need to be undertaken on advanced design and urgent schemes.

Basic Need

92. This grant allocation funds new school places by expanding existing maintained schools, free schools or academies, and by establishing new schools. The grant allocation is based upon the 2013 School Capacity Survey which collects information on capacities of schools and academies in each local authority. The EFA announced in December that the allocation of this grant would be a three year settlement for 2014/15 to 2016/17. The annual allocations announced by the EFA are:

	2014/15	2015/16	2016/17	Total
	£000	£000	£000	£000
Allocation	3,445	25,140	26,397	54,982

93. A report to the Children and Families Overview and Scrutiny Committee in March 2014 will set out a School Place Planning Strategy and how that can be used effectively to support schools to raise pupil outcomes and define educational priorities. Alongside the school Place Planning Strategy will be a Capital Strategy which will set out the criteria to be used to allocate funding considering the need for school places and wider educational outcomes. A further report will be presented to Cabinet setting out the Strategy at the appropriate time.
94. The Children and Families Overview and Scrutiny Committee on 9 September 2013 received a report setting out the current position and future expectations on the need for additional school places. Particularly acute is pressure for primary school places in Braunstone and Hinckley. The 2014/15 capital programme set out in this report allows for advanced design of the wider programme of works and urgent schemes that need to be completed in 2014/15.
95. Scoping a new capital programme needs to consider a number of areas including build costs. For Leicestershire the data identifies that the average build cost is between £8,000 - £10,000 against the current grant allocation of £5,403 per primary place and £6,754 per secondary place. This places a requirement and challenge on the local authority to build future new places at significantly reduced cost which will impact upon the type of accommodation provided. To build at a greater cost would require taking capital identified for other school places or require contributions to the capital programme.

96. The level of the settlement offers an opportunity to improve schools significantly taking account of the need to improve educational outcomes. To achieve this it is necessary to establish a dedicated resource to research, plan and co-ordinate the capital programme. It is expected that 2014/15 will be the planning period for a programme of works to commence in 2015/16 and £0.5m has been set aside in the revenue budget to fund this work.

Capital Maintenance

97. This grant is paid to local authorities to maintain suitable learning environments, and is received by the local authority for maintained schools only and academies access funding directly from the EFA. No allocation has yet been received for this funding stream but has been estimated to be £3.7m. The local authority will need to consider a number of issues in setting out the programme of works to be funded and whether schemes align with the basic need programme of works. Expenditure will only be incurred once the grant allocation is announced with the most urgent schemes prioritised. An update will be provided to Cabinet at that time.
98. A number of schools within Leicestershire currently are judged to need special measures which under DfE policy require a move to a sponsored academy. Sponsorship results in another school or organisation effectively taking control of the school. Sponsors seek to limit their financial risk. This includes expectations that any immediate capital works are completed. Completion of the works within the current financial envelope carries a risk that only limited resources would be available for maintained schools.
99. As a result of the James Review on school's capital the DfE began a programme of assessing the condition of the national school estate. It is likely that the capital maintenance funding will move to an allocation system in line with that for basic need. This would result in authorities with the greatest school condition issues receiving funding. There is no information available to allow a judgement to be made on what impact any change would have in Leicestershire.
100. The capital maintenance grant and the central maintenance fund have been used interchangeably to fund a range of capital maintenance issues such as boiler replacements, electrical works etc. A review will be undertaken to ensure that the boundaries between these two discrete funding streams are defined and both are used to full effectiveness.

Devolved Formula Capital

101. Devolved Formula Capital (DFC) is allocated to individual schools by a national formula; the funding is received by the local authority for maintained schools and is passported. Academies receive this funding direct from the EFA. No announcement has been made on funding for 2014/15 but it is expected that the funding level will remain unchanged and is estimated to be £0.8m. The actual allocation will be reported to Cabinet once known.

School Kitchen Capacity (Free Meals for Infants)

102. Capital funding has been provided in order to deliver the Government's offer of a free school meal for every child in reception and years 1 and 2 in state schools

from September 2014. In order to achieve this £150m in capital funding has been allocated nationally to ensure that school kitchens can cope with the additional capacity. Local authorities receive the funding for maintained schools. The total allocation for Leicestershire is £1.009m, £0.887m relates to maintained schools and £0.122m to voluntary aided schools. Early feasibility work needs to be completed prior to confirming which schools will receive capital funding.

Transportation

103. The Department for Transport (DfT) has confirmed funding for highways capital maintenance in 2014/15 of £11.4m and for the Integrated Transport block in 2014/15 of £4.9m. This includes £1.1m one off maintenance grant agreed by DfT in 2013.
104. The allocations for individual authorities for 2015/16 to 2017/18 and indicative allocations for 2018/19 to 2020/21 will be notified in early spring 2014. Pending this, the programme for 2015/16 onwards is based on the same level of funding as 2014/15 excluding the one off maintenance funding.
105. It is proposed to adopt a new approach to investment in highways. This will involve focussing limited revenue and capital resources on maintaining the roads rather than making improvements to the network. This means that capital resources will be focussed on keeping the roads in good repair rather than improvements such as new junctions and roundabouts. This will enable savings to be made to the highways maintenance revenue budget without a deterioration in the condition of highways.
106. In addition to the Integrated Transport and Highways Maintenance schemes, the key elements of the 2014/15 Transportation programme include:
- Loughborough Town Centre Improvements (£5m) – completion of project mainly funded by the DfT major scheme grant £14.8m. Construction work on the scheme started in May 2013 following full approval from DfT in March 2013. The scheme is due to be completed by October 2014.
 - M1 Bridge to Growth – The £8m scheme to construct a new bridge across the M1 will provide a gateway to the New Lubbethorpe Sustainable Urban Extension. Work on site is due to start in April 2014 and will be completed by summer 2015. £5m of the construction costs will be funded by DfT Pinch Point Grant with the balance being funded from developer contributions.
 - Oadby and Wigston Town Centre Regeneration Projects. The £0.8m scheme to enhance the local shopping environment.
 - Zouch Bridge, Loughborough replacement, £3.1m. Bridge over the River Soar at Zouch which carries the A6006. Due to the age, condition, complexity of the structure and materials used at the time of construction, the bridge is beyond economic repair.
 - Street Lighting Column Replacement, £3.1m.
 - Ashby Canal, extension from Snarestone towards Illott Wharf, remaining costs £1.2m. Continuation of project that commenced in 2012/13 mainly funded from external contributions including UK Coal section 106 agreement. Total project cost £1.5m (County Council contribution £0.2m).

Waste Management

107. The programme provides for improvements at Recycling and Household Waste Sites and Transfer Stations (£1.5m) to provide modern, user friendly facilities, improved health and safety on site and improved recycling to reduce waste tonnage to landfill. These will be funded from earmarked revenue funds.

Adults and Communities

108. The key elements are:

- A contribution (£1.1m), to develop extra care accommodation in Blaby in partnership with East Midlands Housing Group. The total scheme cost is £7.5m
- Limes Day Centre relocation to Hinckley library, (£0.5m) to refurbish and adapt Hinckley Library to provide an integrated and co-located service
- Replacement of Mobile Libraries, (£0.6m) subject to the libraries service review.

Corporate Resources

109. The key elements are:

- Investment in the replacement and upgrade of the corporate ICT infrastructure (£2m)
- Wide Area Network (WAN) replacement (£0.8m)
- General improvements to County Farms (£0.6m)
- Replacement of the Council's data centre at County Hall. The centre is in urgent need of substantial repair (£1m).

Chief Executive's

110. The key elements are:

- Rural Broadband Scheme (£8.5m) to develop super-fast broadband to areas with poor service. The work will be completed and owned by BT. Funding is from Government grant (£3.4m), European Regional Development Fund (£1.2m) and earmarked County Council funds (£3.9m).
- Loughborough Science and Enterprise Park (£1.5m) for an investment in partnership with Loughborough University and Charnwood BC towards the next phase of development on the Science and Enterprise Park campus.
- Grants to rural businesses to support rural economic growth (£0.5m). Grants to village halls, community centres and church halls, and the programme provides small amounts of match funding for capital projects within town centres (£0.5m).

Corporate Programme

111. Energy Strategy (£4m). Invest to save measures to reduce energy consumption across the County Council property estate to deliver on going efficiency savings and reduce carbon emissions in line with the Environment Strategy.

Corporate Asset Investment Fund

112. It is proposed that a Corporate Asset Investment Fund be established which would be used to add to the County Council's portfolio of property and land assets including County Farms and commercial industrial properties with a view to:

- a) Ensuring that there is a more diverse range of properties available to meet the aims of economic development
- b) Increasing the size of the portfolio
- c) Improving the quality of land and property available and
- d) Ensuring the sustainability of the County Farms portfolio by replacing land sold to generate capital receipts.

113. It would have the incidental benefit of generating a surplus which could be used to support the County Council's functions in these areas.

114. Funding of £15m will be available over the next four years and the governance arrangements for the fund are being developed.

Equal Opportunities Implications

115. Many aspects of the County Council's MTFs are directed towards the needs of disadvantaged people. Where proposed savings are likely to have an adverse impact on service users protected under equalities legislation, assessments of the impact of the proposals must be undertaken at a formative stage of developing proposals prior to all final decisions being made. Assessments are being undertaken in light of the potential impact of proposals and the timing of the proposed changes.

Crime and Disorder Implications

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

Environmental Implications

117. The MTFs will include schemes to support the carbon management programme and other environmental improvements.

Partnership Working and Associated Issues

118. 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 fully consulted on any proposals which affect them.

Risk Assessments

119. 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

Revenue Support Grant provisional settlement

<http://www.local.communities.gov.uk/finance/1314/settle.htm>

List of Appendices

- A: Consultation Summary
- B: Leicestershire County Council's response to the proposed Revenue Support Grant
- C: Growth
- D: Savings
- E: Four Year Revenue Budget 2014/15 to 2017/18
- F: 2014/15 Revenue Budget
- G: Capital Programme 2014/15 to 2017/18

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