

SCRUTINY COMMISSION - 30 SEPTEMBER 2015

2015/16 MEDIUM TERM FINANCIAL STRATEGY MONITORING (PERIOD 4), USE OF ADDITIONAL RESOURCES AND MEDIUM TERM FINANCIAL PROSPECTS

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of Report

1. To provide members with an update on the 2015/16 revenue budget and capital programme monitoring position. The report includes details of additional one off “invest to save” expenditure approved by Cabinet on 11 September 2015 to use additional resources, and also sets out medium term prospects for the revenue budget.

Policy Framework and Previous Decisions

2. The 2015/16 revenue budget and the 2015/16 to 2018/19 capital programme were approved by the County Council at its budget meeting on 18 February 2015 as part of the Medium Term Financial Strategy (MTFS). The MTFS is monitored throughout the financial year.
3. Cabinet on 11 September 2015 approved additional one off “invest to save” expenditure to be funded from additional resources arising from projected underspends and resources previously earmarked for the street lighting LED project. The report to Cabinet also included details of medium term financial prospects.

MTFS Monitoring (Period 4) - Background

4. The latest revenue budget monitoring exercise shows a net projected underspend of £5.9m, as summarised in Appendix 1. Details of major variances are set out below.
5. The latest capital programme monitoring exercise shows an underspend of £1.3m compared with the updated budget.
6. The monitoring information contained within this report is based on the pattern of revenue and capital expenditure and income for the first four months of this financial year. As a result the forecasts should be regarded as initial indications.

REVENUE BUDGET

7. The results of the latest revenue budget monitoring exercise are summarised in Appendix 1.

Children and Family Services (C&FS)

Dedicated Schools Grant (DSG)

8. A net overspend of around £1.7m is currently forecast, mainly relating to a reduction in High Needs Block DSG funding and increased demand on the Special Educational Needs budget. This net overspend will be funded from the DSG earmarked fund.

Other Children and Family Services

9. The Department has a net forecast overspend of £4.7m (8.0%), mainly relating to an estimated £6.0m overspend due to pressures on the Placements budget. Over the last 6 months there has been a significant increase in the number of 12-15 year olds with complex needs coming to C&FS's attention. Despite increased referrals to Early Help a proportion of these 12 -15 year olds have required high cost responses to address their particular needs, including challenging behaviour, severe emotional distress and/or sexual exploitation. The cost of provision for this type of need is significant and range from £140,000 to £260,000 per annum per case. Whilst numbers are relatively low, 13 in the first quarter of 2015/16, the cost incurred has been c£2.5m and is a significant element within the current projected overspend.
10. A number of actions have been and will continue to be taken to reduce the cost and number of placements which include: commissioning of an external specialist to develop the approach to foster carer recruitment, establishment of 'specialist' foster carers to reduce the number of placements in Independent Fostering Agencies (IFA's), contract negotiations with IFA's to reduce the unit cost of individual placements, the decision making process to take children into care has been revised to introduce more robust and independent challenge at the early stage of the care process, restructure of the fostering and adoption team which has introduced a commissioning / analyst function.
11. The overspend has also been partially offset by the early generation of MTFS savings in Early Help.
12. There are some further, more radical, areas for investigation including directly intervening in the care market by establishing or acquiring providers. Other solutions may also come out of the further analytical work that will try and understand the underlying causes of the increase in numbers and costs of residential placements.

Adults and Communities

13. At this stage a net underspend of £1.5m (1.1%) is forecast. Early achievement of savings projects, particularly on Early Intervention and Prevention and In-house provider services, are generating significant underspends of £2.5m in advance of the savings required in 2016/17. However, these savings have been partially offset by overspends of £1m including from delays to savings impacting demand-led care budgets and lower than budgeted service user income.
14. The Government recently announced (July 2015) its decision to delay the introduction of the cap on care costs until April 2020. However, there is now a risk regarding the funding received for implementing the Care Act (Phase 1 & 2) of approximately £5.5m. The funding allocation was not specific to Phase 2, and it is unclear whether some of this will be needed to be repaid. Furthermore, there is also uncertainty as to whether there will be a reduction of the care allocation in 2016/17. The position may be clearer following the autumn Spending Review for 2016/17 funding.

Public Health

15. The Government's intention to reduce non-NHS Public Health funding as part of debt and deficit reduction proposals announced by the Chancellor of the Exchequer on 4th June is likely to result in a reduction in funding in Leicestershire's ring-fenced grant by an estimated £1.6m (6.2%). The Service is currently looking at planned spend to determine the level of savings that can be absorbed and the implications of those savings. At this early stage it is assumed that around £1m of the grant reduction cannot be absorbed by the service.

Environment and Transport

16. The Department is forecast to be on budget in net total terms. Variances include:
 - Highways – overspends of £0.16m on Structural Maintenance and £0.13m Environment Maintenance.
 - Transportation – overspends on Special Educational Needs Transport (£0.51m) and Social care Transport (£0.15m) are partly offset by underspends on Mainstream School Transport (£0.3m) and Concessionary Travel (£0.25m).
 - Environment – a net overspend of £0.3m due to reduced “energy from waste” capacity (treatment contracts) leading to a transfer of waste to landfill, for which disposal rates are higher.
 - Staffing and Administration – underspend of £0.7m mainly due to vacancies and additional income.

Chief Executives

17. The Department is forecast to have a net underspend of £0.4m (4.2%), mainly relating to staff vacancies and increased income.

Corporate Resources

18. The Department is forecast to have a net underspend of £0.8m (2.2%), mainly relating to contingencies no longer being required, staff vacancies and increased income.

Contingencies

19. A contingency of £8m was made against delays in the achievement of savings. Given the forecast pressure on the Placements budget, reduction in Public Health Grant and possible delays to some MTFs savings, it is assumed that around £2m of the contingency may be required; the remaining £6m is shown as an underspend.

Central Items

20. Bank and other interest is forecast to be £0.5m higher than the original budget. The changes to the lending counterparty list that were effective from 1 April 2015 will have the impact of giving more flexibility in managing the portfolio, and this will lead to a higher average interest rate. An anticipated base rate rise is expected to also lead to higher rates.
21. An underspend of £0.5m is forecast on the Financing of Capital budget, due to the County Council's strategy to take opportunities to utilise one-off revenue balances and earmarked funds to continue to reduce debt.
22. The Financial Arrangements budget is forecast to be underspent by around £0.2m, mainly due to the receipt of a rebate on a centralised agency arrangement.
23. Pension costs arising from Local Government Reorganisation (LGR) in 1997 and prior to LGR are budgeted for as a central item. It is currently forecast that the budget will be underspent by around £0.1m, mainly due to a larger reduction in the number of pensioners than originally anticipated.
24. In 2013/14 the County Council agreed to contribute £125,000 for additional administrative costs and £0.25m towards Discretionary Discount Funds (DDF) to the District Councils, following changes made under the Localisation of Council Tax Support reforms. DDF requirements have been lower than anticipated and the funding provided in 2013/14 has proved sufficient to fund requirements in 2013/14, 2014/15 and estimated requirements in 2015/16, in all Districts with the exception of Melton, which will require a contribution of around £20,000. An underspend of £230,000 is therefore forecast. Quarterly monitoring of DDF is undertaken with the Districts.

Business Rates

25. The Government introduced the Business Rates Retention system from April 2013. The business rates “baseline” (“local share”) income which is to be collected during 2015/16 is based on a formal return submitted to the Government by the District Councils, and this shows an increase of £0.5m compared with the budget in the current MTFS. Any shortfall in the level of actual 2015/16 business rates income will impact on 2016/17 or later years.
26. Section 31 Grants are received regarding compensation for the loss of business rate income arising from various business rates reliefs granted by the Chancellor of the Exchequer. The Government provided an estimate of some of these reliefs in the Local Government Settlement, amounting to £0.8m for the County Council, and that figure was included in the MTFS. Further details were released in April 2015 showing an estimate for all of the reliefs of £1.6m.
27. The County Council is undertaking quarterly monitoring with the District Councils and Leicester City Council regarding the Leicester and Leicestershire Business Rates Pool, which was reformed in 2015/16. The first quarterly exercise showed a potential surplus of around £3.2m for the sub region in 2015/16, compared with a forecast of around £2.5m in January 2015 when the decision to re-constitute the Pool was taken. The Pooling Agreement allows for any surplus to be given to the Leicester and Leicestershire Enterprise Partnership (LLEP) for investment projects in Leicestershire.

Revenue Summary / Invest To Save Projects

28. A net revenue underspend of £5.9m has been identified and additional grant is available to support the project for LED street lighting (£5.1m, see paragraph 43 below).
29. This means there is an opportunity to use these resources to support additional one off areas of spend. Projects have been selected if they meet at least some of the following criteria; generate future savings, supports corporate priorities, generate income and can be used during 2015/16.
30. All departments have been approached for suggestions and the following areas for additional spend were approved by Cabinet on 11 September 2015:
 - a) Highways Maintenance (£2m) including surface dressing, drainage and safety work. This investment will ensure the condition of the highways is maintained, reducing the need for expensive work in the future.
 - b) Modelling and advanced design of highways infrastructure schemes (£2m) to develop potential schemes and support bids for further funding. The population in Leicestershire is forecast to increase significantly and detailed transport modelling is needed to help address this.

An allocation of £2m will only partly fund the anticipated work and further contributions are anticipated to be required in future years, including from partners. This funding would allow transport master plans to be developed

for Coalville, Loughborough and Melton growth areas resulting in a programme of prioritised transport infrastructure improvements to inform developer funding agreements and future bids to the LLEP. These projects have been identified through a prioritisation process that includes an assessment of alignment with LLEP priorities, the contribution the project will make to both housing growth and job creation, deliverability and the level of return on Leicestershire County Council's investment either from developers, external agencies or bid funding. Consideration has also been given as to when work could be carried out and if this matches the availability of funding.

- c) Replacement of aged and leased vehicles for the Council's highways and property services (£2m). This would generate savings in maintenance and lease costs of c£200,000 per annum.
 - d) Property maintenance and improvements (£1m). This would include commercial properties, county farms and country parks would generate further income and savings from maintenance costs. A large element, around £400,000, would be spent on new pay and entry systems at country parks.
 - e) Energy efficiency (£1m). A new service offer, SCORE+, is proposed for schools and academies in Leicestershire. This would enable them to access support from the Council and its contractors to deliver improvements to their buildings to improve energy efficiency and to install renewable energy technology. The scheme would reduce schools' running costs and deliver an ongoing income for the County Council as well as securing reductions in CO2 emissions and providing curriculum support to schools. The service would build upon the success of an existing scheme, which has successfully supported schools and academies through low cost and behaviour change programmes to reduce energy use. The specific approach to be taken at each school will be business case tested so that the impact of current changes to government support for renewable energy are taken into account.
 - f) Improvements to Recycling and Household Waste Sites including a camera system and bulking bays for wood/recyclables at the Loughborough site (£0.25m).
 - g) Additional funding for Shire Grants (£0.2m). This scheme, which helps local groups to provide services and activities to support young, old, or vulnerable people, is very popular and currently over-subscribed.
 - h) Improvements to the Council's Record Management systems, in particular for Legal, Children and Family Services and Property areas. This would include moving files off-site for storage (£0.25m).
31. Some of the above projects such as energy, vehicle replacement and transport modelling will require funding in later years. It is worth noting that the above projects total less than the anticipated available resources. There are also

some projects where further work is necessary to develop business cases. This includes;

- Investment in IT and digital services including an on line customer journey, intranet replacement, VDI and reporting.
- Commercialisation and trading that takes account of our access to cheap capital.
- Beaumanor Hall.

32. Work will continue in parallel on these areas.

33. It is worth noting that prior to Cabinet approval some funding has needed to be committed to develop the schools energy project and resources mobilised to ensure that highways maintenance funding can be spent before the winter.

CAPITAL PROGRAMME

34. The table below shows an updated budget of £89.8m. The change in resources reflects slippage from 2014/15 and additional resources in 2015/16.

	Original Budget £m	Outturn adjustment and Changes in Funding £m	Updated Budget £m	Forecast £m	Updated Budget v Forecast Variance £m
Children & Family Services*	30.8	3.1	33.9	34.1	0.2
Adults and Communities	3.3	0.7	4.0	3.7	-0.3
E&T-Transportation	28.9	5.8	34.7	34.0	-0.7
E&T-Waste Management	0.6	0.3	0.9	0.9	0.0
Chief Executive's	6.6	0.2	6.8	6.8	0.0
Corporate Resources	2.3	1.9	4.2	4.2	0.0
Corporate Programme	3.9	1.4	5.3	4.8	-0.5
Total	76.4	13.4	89.8	88.5	-1.3

*Excludes Devolved Formula Capital (DFC)

Children and Family Services

35. The forecast shows a net acceleration of £0.2m compared with the revised budget.

36. Slippage of £1.2m is forecast comprising:

- delays with finalising academy specifications for a new primary school in Birstall £0.3m,
- delays as a result of awaiting the outcome of Condition Improvement Fund (CIF) grant bid support at Stafford Leys Primary School in Leicester Forest East £0.1m
- deferral of the provision of places in Earl Shilton £0.8m, based on production of the latest requirements of pupil places.

37. In recognition of the forecast slippage it has been agreed by the Corporate Schools Group under delegated powers given to the Director of Children and Family Services and the Director of Corporate Resources by the Cabinet to accelerate two schemes totalling £1.2m from 2016/17: school accommodation work at Countesthorpe Greenfield Primary School and Barrow Hall Orchard Primary School.
38. The Targeted Early Help Hubs programme which started in 2014/15 is forecast to complete early resulting in acceleration of £0.3m from the 2016/17 programme.

Adults and Communities

39. The latest forecast shows an underspend of £0.3m compared with the revised budget.
40. The review of In-House Services has concluded that the scheme to accommodate the Limes Day Centre within the Hinckley Library is no longer required and is in the process of securing alternative service provision for service users. This has led to a forecast underspend of £0.3m as the capital scheme will no longer proceed.

Environment and Transport – Transportation Programme

41. The latest forecast shows slippage of £0.7m compared with the revised budget.
42. The main area of variance relates to slippage of £0.7m on the Street Lighting Column Replacement scheme. This is due to staff resourcing as the focus is on the street lighting LED programme, and obtaining Department for Transport approval to the alignment of column replacement with the LED programme.
43. The County Council has been successful in a bid for £5.1m funding from the Department of Transport's Trunk Challenge Fund towards the costs of the LED Street Lighting invest to save capital scheme. As a result County Council funding of an equivalent amount can be released.

Environment and Transport – Waste Management

44. The forecast expenditure is in line with the budget.

Chief Executive's

45. The forecast expenditure is in line with the budget.

Corporate Resources

46. The forecast expenditure is in line with the budget.

Corporate Programme

47. The latest forecast shows slippage of £0.5m which relates to the three year Energy Strategy on Corporate Buildings project (£0.5m). Due to delays in the implementation of the biomass boiler at County Hall in late 2014/15, this has led to incremental delays in other programmed works resulting in £0.5m slippage to 2016/17. The overall programme is expected to be completed in 2016/17 as originally planned.

Capital Receipts

48. The forecast of general capital receipts in 2015/16 is £8.2m. The budget target is £10.6m. The shortfall relates to the delayed sale of one large land sale which is now expected to take place in 2016/17. The shortfall does not affect the financing of the 2015/16 capital programme as part of the overall budgeted receipts were planned to be used in later years.

Capital Summary

49. The updated capital programme total is £89.8m and is forecast to underspend by £1.3m. At this stage it is projected that spending will be 98.5% of the revised budget. Overall the aim is that 95% of available resources should be spent in year.

MEDIUM TERM FINANCIAL PROSPECTS

50. Over the last four years there have been significant reductions in the Government's funding of local government. Reductions have been higher than in other parts of the public sector which in part reflects the fact that local government, unlike health, overseas development and education, has not been protected.
51. The County Council remains one of the lowest funded and lowest spending Authorities in the country and it is from this low base that further savings need to be made. Settlement Funding (Revenue Support Grant and Business Rates) per head is 21% /£46 below the average for other county councils. If the Council was funded at the same rate as the average county council it would be £31m better off. If Council Tax is also included, the County Council's funding is 14% /£72 per head below the average for other county councils. If the Council was funded at the same rate as the average county council (including Council Tax) it would be £48m better off.

Summer Budget

52. The Summer budget announced by the Government on 8 July had two key implications for the County Council;
- The introduction of a new minimum/National Living Wage
 - Confirmation that local authorities will remain an unprotected part of the public sector.

National Living Wage

53. The introduction of a new minimum wage in the summer budget will have a significant impact on the County Council over the medium term. The national minimum wage will increase by 11% from £6.50 per hour to £7.20 from April 2016. Thereafter it will increase to 60% of the national median wage by 2020.
54. It is not straightforward to forecast the impact on the Council's budget due to a number of uncertainties and unknowns. Based on certain assumptions the overall impact on the MTFs is an increase in costs of £7m in 2016/17 rising to £23m in 2020/21. Whilst this estimate needs to be treated with caution it does indicate the scale of the challenge.
55. This increase is not yet factored into the MTFs. The Government has not stated whether under the new burdens agreement the impact on local government will be offset by additional resources. At this stage the assumption is that if additional resources are made available they will be limited and there will be a major impact on the MTFs.
56. The new minimum wage will affect Dedicated Schools Grant funded services.

Local Government Funding

57. The Government confirmed that Local Authorities will remain an unprotected part of the public sector, thus signalling that spending reductions will continue broadly at the same rate for the next four years as experienced over the last four. The Chancellor did take the opportunity to smooth the reduction in spending, but at the same time increased the time for the national deficit to be eliminated from three to four years. This means that spending reductions will be required for at least the next 4 years.

Summary

58. The introduction of the Living Wage (paragraphs 53 to 56) and the pressures within the Children's and Families Services placement budget (paragraphs 9 to 12) mean that the County Council faces an extremely tight financial position.
59. This will mean that the saving requirement of £87m within the current MTFs will need to increase significantly. This will have profound implications for services delivered by the County Council. It raises questions around affordability of non-statutory services, the level of funding that can realistically be spent on statutory services and future council tax increases. Given the Council's funding position it is likely that it will find itself having to make these increasingly tough choices sooner rather than later. In the short term existing savings may need to be brought forward from future years to balance the 2016/17 budget.

Recommendation

60. The Scrutiny Commission is asked to note the contents of this report.

Background Papers

Report to County Council – 18 February 2015 – Medium Term Financial Strategy 2015/16 – 2018/19

[http://politics.leics.gov.uk/Published/C00000134/M00004176/AI00043041/\\$BUDGETREPORTOFTHECABINET2015.docxA.ps.pdf](http://politics.leics.gov.uk/Published/C00000134/M00004176/AI00043041/$BUDGETREPORTOFTHECABINET2015.docxA.ps.pdf)

Report to Cabinet – 11 September 2015 – Review of the Medium Term Financial Strategy and Investment Proposals

[http://politics.leics.gov.uk/Published/C00000135/M00004230/AI00044721/\\$4reviewofmtfsandinvestmentproposals.docA.ps.pdf](http://politics.leics.gov.uk/Published/C00000135/M00004230/AI00044721/$4reviewofmtfsandinvestmentproposals.docA.ps.pdf)

Circulation under the Local Issues Alert Procedure

None.

Appendices

Appendix 1 – Revenue Budget Monitoring Statement

Appendix 2 – Revenue Budget – Forecast Main Variances

Appendix 3 – Capital Programme – Forecast Main Variances

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Equality and Human Rights Implications

There are no direct implications arising from this report.