

SCRUTINY COMMISSION - 4 NOVEMBER 2015

2015/16 MEDIUM TERM FINANCIAL STRATEGY MONITORING (PERIOD 6)

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.

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.

MTFS Monitoring (Period 6) - Background

4. The latest revenue budget monitoring exercise shows a net projected underspend of £6.7m, as summarised in Appendix 1. Details of major variances are set out below.
5. The latest capital programme monitoring exercise shows an underspend of £1.7m compared with the updated budget.
6. 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).
7. Cabinet on 11 September 2015 approved the use of available resources to fund “invest to save” projects totalling £8.7m, as set out in paragraph 33 below.
8. The monitoring information contained within this report is based on the pattern of revenue and capital expenditure and income for the first six months of this financial year.

REVENUE BUDGET

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

Children and Family Services (C&FS)

Dedicated Schools Grant (DSG)

10. A net overspend of around £2.6m is currently forecast, mainly relating to increased demand on the Special Educational Needs (SEN) budget (£2.3m) and a reduction in High Needs Block DSG funding (£0.8m). The net overspend will be funded from the DSG earmarked fund in the short term whilst further work on mitigating actions takes place. The DSG earmarked fund totals £10.8m at 1 April 2015 and can be used to fund the pressure this year. However there are a number of other pressures on the earmarked fund as some of the fund is already meeting 2015/16 costs and other elements are earmarked for specific purposes. The fund will be reviewed as part of the 2016 MTFs.
11. The forecast SEN overspend relates to increased demand for places at special schools, compared with previous years, with fewer age 19 leavers and a larger intake of younger pupils. The change in education Participation Age in September 2015 from age 17 to age 18 is also a factor in the increase. The position is further impacted by an increase in the numbers of pupils diagnosed with Autism Spectrum Disorder (ASD) needing high cost independent specialist provision. This increase in numbers of ASD pupils diagnosed is a national issue due to changes in the diagnostic pathway.

Other Children and Family Services

12. The Department has a net forecast overspend of £4.3m (7.3%). The position has improved slightly compared with £4.7m forecast in period 4. The overspend mainly relates to an estimated £5.9m overspend due to pressures on the Social Care 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 £312,000 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. The number of high cost placements has stabilised in quarter 2. Detailed work is underway on forecasting for quarters 3 and 4 however this is very difficult to predict.
13. 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; a draft business case with a number of options has been received and is being considered;
 - Establishment of 'specialist' foster carers to reduce the number of placements in Independent Fostering Agencies (IFA's); one placement has been made and further carers are in the assessment process underway;
 - Contract negotiations with IFA's to reduce the unit cost of individual placements; this has resulted in savings being delivered;
 - 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. The implementation plan is almost complete and the first cases will be considered in November;
 - Restructure of the fostering and adoption team which has introduced a commissioning / analyst function; this is focusing on the development of enhanced management and performance data.
14. The overspend has also been partially offset by the early generation of MTFS savings in Early Help.
15. 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

16. At this stage a net underspend of £1.7m (1.3%) is forecast. Early achievement of savings projects, particularly on Early Intervention and Prevention and In-house provider services, are generating significant underspends (£2.8m) in advance of the savings required in 2016/17. These savings have been partially offset by delays to savings impacting demand led care budgets, lower than budgeted service user income and forecast bad debt write offs.
17. The Government announced in July 2015 its decision to delay the introduction of the cap on care costs until April 2020. Although confirmation has been received that the current year grant will not be impacted there remains a risk regarding the funding received for implementing the Care Act (Phase 1 & 2) of approximately £5.5m for future years. The position may be clearer following the autumn Spending Review for 2016/17 funding.

Public Health

18. 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 2015 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 stage it is assumed that around £1m of the grant reduction cannot be absorbed by the Service.

Environment and Transport

19. The Department has a forecast net overspend of £120,000 (0.2%). Variances include:
 - Highways – overspends of £0.11m on Safety Maintenance and £0.1m on Structural Maintenance, offset by an underspend of £0.1m on Road Safety;
 - Transportation – overspends on Special Educational Needs Transport (£0.75m) and Social Care Transport (£0.15m) are offset by underspends on Concessionary Travel (£0.44m), Mainstream School Transport (£0.3m) and the Blue Badge Scheme (£0.1m);
 - Environment – a net overspend of £0.1m, mainly due to reduced “energy from waste” capacity (treatment contracts) leading to a transfer of waste to landfill, for which disposal rates are higher, and a general increase in landfill tonnages;
 - Staffing and Administration – a net underspend of £0.2m mainly due to vacancies and additional income.

Chief Executive's

20. The Department is forecast to have a net underspend of £0.54m (5.3%), mainly relating to staff vacancies and increased income.

Corporate Resources

21. The Department is forecast to have a net underspend of £0.94m (2.7%), mainly relating to contingencies no longer being required, staff vacancies and increased income.

Contingencies

22. 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

23. 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.
24. Cabinet on 11 September 2015 approved the investment of £15m of the Council's earmarked funds into a pooled property fund. The Pension Fund property advisor has submitted a recommendation to invest in two UK pooled property funds (£7.5m in each) with Lothbury Property Trust and Hermes Property Unit Trust and this has been agreed by the Lead Member for Corporate Resources. This will raise interest by a significant amount, in effect replacing £15m at 0.5% with £15m at around 4%. There will only be a part-year impact in the current year and the level of impact will depend on the timing of the investment(s), which will depend to a certain extent on market conditions. The investment is funded from the overall balance of earmarked funds and can be realised in the future when required. At present any additional income from this potential investment has been excluded from the forecasts.
25. 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.
26. The Financial Arrangements budget is forecast to be underspent by around £0.18m, mainly due to the receipt of a rebate on a centralised agency arrangement.
27. 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.
28. 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 District Councils.

Business Rates

29. 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.
30. 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.
31. 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 latest forecasts show 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 expenditure

32. A net revenue underspend of £6.7m has been identified and additional grant is available to support the project for LED street lighting (£5.1m, see paragraph 50 below).
33. This means there is an opportunity to use these resources to support additional one off areas of spend. Cabinet on 11 September approved the use of £8.7m for the following projects:
 - Highways Maintenance £2m;
 - Modelling and advanced design of highways infrastructure schemes £2m;
 - Replacement of aged and leased vehicles for highways and property £2m;
 - Property maintenance and improvements £1m;
 - Energy efficiency £1m;
 - Recycling and Household Waste Sites (RHWS) improvements £0.25m;
 - Shire grants £0.2m;
 - Improved Record Management £0.25m.
34. A potential carry forward request of £0.5m has been included in the forecast. This request is to use part of the projected Corporate Resources Department underspend to fund higher than expected costs for VDI.

35. It is proposed that any additional net underspends be used to fund Transformation work and the voluntary repayment of debt.

CAPITAL PROGRAMME

36. The table below shows an updated budget of £96.4m. The change in resources reflects slippage from 2014/15 and additional resources in 2015/16 including part of £8.7m which was agreed by Cabinet on 11 September 2015 relating to capital.

	Original Budget	Outturn adjustment and Changes in Funding	Updated Budget	Forecast	Updated Budget v Forecast Variance
	£m	£m	£m	£m	£m
Children & Family Services*	30.8	3.1	33.9	33.3	-0.6
Adults and Communities	3.3	0.8	4.1	3.7	-0.4
E&T-Transportation	28.9	10.8	39.7	38.4	-1.3
E&T-Waste Management	0.6	0.4	1.0	0.8	-0.2
Chief Executive's	6.6	0.2	6.8	6.2	-0.6
Corporate Resources	2.3	2.7	5.0	3.5	-1.5
Corporate Programme	3.9	2.0	5.9	8.8	2.9
Total	76.4	20.0	96.4	94.7	-1.7

*Excludes Devolved Formula Capital (DFC)

Children and Family Services

37. The forecast shows slippage of £0.6m compared with the updated budget.
38. The main areas of variance relates to slippage of £2.2m, 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, based on production of the latest requirements of pupil places (£0.8m);
 - Inclusion of Section 106 developer funding (£0.8m) and internal contribution of (£0.2m) to the school accommodation programme.
39. 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.

40. 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

41. The latest forecast shows an underspend of £0.3m and slippage of £0.1m compared with the updated budget.
42. 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. This has led to a forecast underspend of £0.3m as the capital scheme will no longer proceed.
43. Slippage of £0.1m is forecast for Extracare scheme in Loughborough due to delays in the purchase of the land.

Environment and Transport – Transportation Programme

44. The latest forecast shows slippage of £1.3m compared with the updated budget.
45. The main area of variance relates to slippage of £1.7m on the Zouch Bridge replacement scheme due to delays with the land purchase which means that the work is now likely to commence in Spring 2016; the revised completion date is March 2017 rather than December 2016.
46. Slippage of £1.3m is forecast on the M1 Junction 22 scheme. This is due to a delay in receiving technical approval from Highways England.
47. Slippage of £0.5m is forecast 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 which came through on 15th September.
48. Acceleration of £2.0m is forecast for M1 New Bridge based on a revised profile of expenditure and works.
49. Acceleration of £0.1m is forecast on the Hinckley Phase 3 scheme. Advance design work for Phase 3 has been brought forward to enable works to begin in 2016/17.

50. 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

51. The latest forecast shows slippage of £0.2m compared with the updated budget.
52. Slippage of £0.2m is forecast on the Coalville Transfer Station. The business case will be evaluated to ensure that the optimal solution is identified. Should the project go ahead it is unlikely that the expenditure will take place in this financial year.

Chief Executive's

53. The latest forecast shows slippage of £0.6m compared with the updated budget.
54. Slippage of £1.0m is forecast on the Loughborough University Science and Enterprise Park. Discussions with Loughborough University over a business investment opportunity are progressing. However, proposals are still to go through both organisations' governance processes.
55. The County Council was successful in securing EU funding (DEFRA – Leader Project) targeted at supporting economic growth in rural areas in Leicestershire. As a result of the grant it is forecast that £0.1m of the LCC Rural Economic Grants Programme will not be required until 2016/17.
56. Acceleration of £0.5m is forecast on the Rural Broadband Scheme Phase 1. Work by British Telecom has continued to progress ahead of the planned timetable. Spend which was originally expected to occur in 2016/17 will take place by the end of March 2016

Corporate Resources

57. The latest forecast shows slippage of £1.5m compared with the updated budget.
58. Slippage of £1.1m is forecast on ICT Data Centre re-provisioning. Following the initial procurement exercise the schedule of works has been revised in light of information from the contractor. Works are now expected to start on site in the new calendar year. The scheme funding includes £0.2m transferred from the County Hall Master Plan for works being done as part of the Data Centre project.
59. Slippage of £0.2m is forecast for Industrial Properties Estate due to the timescales to design, tender and procure the works for a biomass boiler system

at Riverside Court and façade replacement at Loughborough Technology Centre.

60. Slippage of £0.2m is forecast on the demolition of vacant buildings programme. Works have been delayed due to specification and planning delays together with the seasonal nature of restoration/landscaping works.
61. The new Property Asset Management System is forecast to slip by £0.1m. Implementation has been delayed as the contractor has been unable to deliver the development work to the agreed timescales.
62. Works to repair the bridge at Quorn are forecast to overspend by £0.1m. During removal the bridge's stability decreased dramatically and parts of the bridge abutments collapsed. The forecast reflects increased costs of repairing the bridge and reinstating the structure.

Corporate Programme

63. The latest forecast shows acceleration of £2.9m compared with the updated budget.
64. Acceleration of £1.8m is forecast on the Corporate Asset Investment Fund (total fund of £16m between 2014 and 2019). As part of the fund a land purchase has been agreed for investment at "Airfield Farm" to develop industrial and office space in Market Harborough.
65. Expenditure on the County Hall Master Plan is expected to be ahead of schedule with the scheme forecast to complete by March 2016, resulting in acceleration of £1.3m from 2016/17. Works include £0.5m on providing an Out of Hours facility for County Hall and Virtual Desktop Infrastructure to enable mobile and flexible working.
66. Slippage of £0.3m is forecast for the three-year corporate buildings Energy Strategy project. Delays in the implementation of the biomass boiler at County Hall in late 2014/15 have led to incremental delays in other programmed works, resulting in £0.3m slippage to 2016/17. The overall programme is expected to be completed in 2016/17 as originally planned.

Capital Receipts

67. The forecast of general capital receipts in 2015/16 is £5.2m. The budget target is £10.6m. The shortfall relates to the delay of sale on five schemes which are 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

68. The updated capital programme total is £96.4m and is forecast to slip by £1.7m. At this stage it is projected that spending will be 98.3% of the updated budget. Overall the aim is that 95% of available resources should be spent in year.

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)

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None.

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List of Appendices:

Appendix 1 – Revenue Budget Monitoring Statement

Appendix 2 – Revenue Budget – Forecast Main Variances

Appendix 3 – Capital Programme – Forecast Main Variances

Equality and Human Rights Implications

There are no direct implications arising from this report.