Agenda Item 4

Leicestershire County Council

CABINET - 11TH OCTOBER 2016

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

2016/17 MEDIUM TERM FINANCIAL STRATEGY MONITORING (PERIOD 5) AND INVESTMENT PROPOSALS

PART A

Purpose of Report

1. The purpose of this report is to provide members with an update on the 2016/17 revenue budget and capital programme monitoring position and to seek approval for investments in services predominantly aimed at generating future savings, and investment in Pooled Property Investment Funds.

Recommendation

2. The Cabinet is recommended to:

    a) Note the current year financial position as outlined in the report;

    b) Approve the areas of investment set out in paragraph 45 of this report, to be funded from the projected 2016/17 revenue budget underspend;

    c) Approve the investment of up to £10m of the County Council's earmarked funds into a pooled property fund, or a small number of pooled property funds as the Director of Corporate Resources deems appropriate, subject to the medium-term return outlook being acceptable.

Reasons for Recommendations

3. To enable the County Council to invest resources in investments which will generate future savings.

4. A total of around £15.6m is expected to be available from the forecast net revenue underspend released in 2015/16. Investment projects have been identified which should assist with future savings, support corporate priorities, and generate income.

5. Earmarked fund balances not required in the short term can be invested in to Pooled Property Investment Funds, to generate additional income.

Timetable for Decision (including Scrutiny)

6. The Scrutiny Commission will consider a report on the Medium Term Financial Strategy monitoring and investment proposals at its meeting on 30th November 2016.

Policy Framework and Previous Decisions

7. The Medium Term Financial Strategy for 2016/17 to 2019/20 was approved by the County Council on 17th February 2016.

Resource Implications

8. The financial position faced by the County Council is both serious and extremely challenging. This is particularly the case for low funded authorities such as Leicestershire as the ability to generate further savings is limited. The forecast current year underspend and the levels of earmarked fund balances provide an opportunity to invest in projects and Pooled Property Investment Funds, to generate additional savings and income.

9. As at 31st March 2016 the County Council had earmarked funds of £85.3m, excluding Dedicated Schools Grant, which are invested in short term (less than 12 months) investments with counterparties who have a minimal risk of default.

10. Investing a further £10m into pooled property funds will reduce earmarked funds to £75.3m and increase the total amount held in property funds to £25m. The rational for using pooled property funds is to increase the income received on the County Council's investments. There is an increase in risk should the value of the property fall below the initial purchase prices, but as the investment is expected to remain in place for a meaningful period of time (at least 5 years) this risk is considered to be low.

11. The acquisition of pooled property funds is accounted for as capital expenditure and this will be included in the Medium Term Financial Strategy (MTFS) capital programme. The investment will be funded from the overall balance of earmarked funds, as some funds are held over the longer term. When the investments are sold the proceeds will be treated as capital receipts, which are restricted by statute to fund future capital expenditure. Substitution with other revenue contributions to the capital programme will therefore be required to reinstate the original level of earmarked funds. This will be monitored to ensure that the position can be managed.

12. The Director of Law and Governance has been consulted on the content of this report.

Circulation under the Local Issues Alert Procedure

13. None.

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PART B

Background

14. The latest revenue budget monitoring exercise shows a net projected underspend of £15.6m, as summarised in Appendix 1.

15. The latest capital programme monitoring exercise shows a net projected acceleration of £1.6m compared with the updated budget on those schemes categorised as live. The net position is after the reprogramming of several schemes in the Children and Family Services programme to 2017/18 totalling £8.0m following a detailed review of deliverability.

16. The 2016/17 revenue budget and the 2016/17 to 2019/20 capital programme were approved by the County Council at its budget meeting on 17th February 2016 as part of the Medium Term Financial Strategy.

17. The monitoring information contained within this report is based on the pattern of revenue and capital expenditure and income for the first five months of this financial year.

REVENUE BUDGET

Children and Family Services

18. The Department is forecasting a net overspend of £3.3m on the Dedicated Schools Grant (DSG) Block and a net £30,000 (0.0%) underspend on the Local Authority (LA) Block.

19. The DSG Block overspend mainly relates to continuing pressure on the Special Educational Needs (SEN) budget. An overspend of £3.1m was recorded on SEN placements in 2015/16. This, together with further anticipated growth in cost and volume, were addressed within the 2016/17 budget setting exercise when SEN budgets were increased by £7.6m. £4.3m of this was funded from a transfer from the Schools Block, including a reduction in the Age Weighted Pupil Unit within school budgets. Further budget adjustments were also made and the SEN services were allocated a savings target of £2.8m in order to accommodate the costs within the available funding.

20. For 2016/17 a budget overspend of £3.5m is being reported; £2.3m of this relates to the non-achievement of savings. Some actions have been put in place to reduce costs. This includes a limited expansion of local provision for pupils with Autistic Spectrum Disorders (ASD) and an increased support offer to retain primary age pupils within mainstream schools to reduce the need for more costly specialist provision. However, so far the actions and their financial impact has been limited and will be seen in the medium rather than short term, and not at the scale or pace required. The remaining overspend relates to increases in cost and volume of SEN placement. Although in the current year this can be met from the DSG earmarked fund, it is a major concern.

21. In March the Department of Education (DfE) consulted on changes to the methodology for the High Needs grant allocations. Whilst the impact of the proposed changes on DSG income is uncertain, the consultation included firm proposals to ring fence the three elements of DSG to stop local authorities moving funding between schools, early years and high needs. This will have a significant impact on the Authority's budget if overspends on the high needs block are not reduced. The outcome of this consultation and implementation date is unknown.

22. Although it is not possible until all pupil destinations for the 2016/17 academic year are confirmed to ascertain the full extent of any overspend in next year, there is no doubt this budget will be under extreme pressure in 2017/18 and later years.

23. Further options to reduce costs are being formulated and these will be presented to the Schools Forum in October. It is essential that a comprehensive and practical plan is developed as soon as possible. Schools along with the County Council need to work together to address this budget issue as the current emphasis on specialist provision is not affordable. This work is being supported by the Transformation Programme.

24. The net underspend on the LA Block is mainly due to underspends on Education Learning and Skills, Targeted Early Help and Social Care and Safeguarding Assurance, largely offset by agency costs related to interim departmental management changes (£0.4m).

25. There are financial risks within the LA budget that have not been included in the forecasts at this stage but that may arise during the year. These include:

- Social Care Placements – continuing pressure on this budget. The budget overspent by £4.6m in 2015/16 which was addressed by growth of £7.9m to cover this and provide capacity for an increase in costs in 2016/17. The net effect is an increase of £3.3m assuming that the savings included in the budget of £2.1m for reduced cost/ demands on placements, an increase in in-house foster carers and the children's home closure could be met.

  The latest forecast, including a continuation of growth at recent levels, is that the overall budget will be underspent by £0.8m in 2016/17. However, this is a volatile area where local and national child protection cases can be expected to influence the number of children requiring care packages and therefore the underspend has not yet been released.

  Of the £2.1m savings, the focus on reducing costs of placements and the closure of Greengate children's home have reduced costs by £1.5m and can be seen by the reduction in the average placement cost. The balance of savings, relating to the increase in in-house foster care placements of £0.6m, is not yet evident.

  The estimated underlying growth for placements for 2016/17 is £1.9m. Although the average cost of a placement has reduced, the child population continues to grow which will result in a greater number of children in care and lead to financial growth. There is no provision for growth in the current MTFS for future years.

For 2016/17 the number of looked after children has increased from 469 in March to 508 at the end of August. Analysis of the type of placement and the financial position shows a reduction in children in residential care and a movement to lower cost provision.

In summary, of the £3.3m additional funding at the start of the year, £1.9m has been allocated as additional growth, £0.6m savings on foster carers have not yet been evidenced, and £0.8m underspend not yet released. The position is being kept under continual review.

- Unaccompanied Asylum Seekers – the Cabinet received a report on 18 July 2016 which detailed the expectation that Leicestershire would receive 74 unaccompanied asylum seeking children (UASC) under the National Transfer Scheme implemented by the Home Office. Grant received from the Home Office largely only covers the cost of accommodation and not social work costs. Whilst precise information is unclear about timings and costs it is estimated that the annual costs from 2017/18 onwards are £2m. The impact on 2016/17 is expected to be minimal. A report concerning the Scheme will be considered by the Cabinet elsewhere on the agenda.

Adults and Communities

26. The Department is forecasting a net underspend of £6.3m (4.6%). The main variances relate to:

- An underspend due to predicted growth on the number of commissioned hours and costs of home care (£2.4m) not being required. The number of hours have been relatively stable to date with 2016/17 running at similar levels to 2015/16;

- An underspend on direct payments (£2.0m) due to lower average payments compared with last year, lower growth in expected numbers and clawback of unspent cash payment balances;

- An underspend in supported living (£1.8m) due to the predicted growth in service users, as a result of changes to ordinary residence rules following the introduction of the Care Act, not materialising;

- Other significant savings include reductions in contract costs, increased income from continuing health care and vacancy management (total £1.7m);

- Overspend on Residential and Nursing Care (£1.0m) – Service user contributions are forecast to be £0.5m lower than budgeted and an increase in expenditure on social care provision forecast of £0.5m. Further analysis is being undertaken to understand the reasons for these variances. An update will be provided in the next monitoring report.

27. The forecast position includes a £2m savings requirement for reduced cost and demand for social care. This has been achieved within the underspends reported above and are in the process of being allocated to the specific services.

28. In addition to the above there is a risk to the level of income received for residential care where a shortfall of £0.5m is being forecast. Income varies from year to year and will continue to be closely monitored to identify any trends in the commissioning of services that will have an ongoing impact on budgeted income.

29. During 2016/17 an additional contribution of £0.5m was agreed from the Better Care Fund to fund the same levels of service on residential care and homecare to avoid the impact on the NHS.

Public Health

30. The Department is forecast to achieve an overall underspend of around £0.1m, mainly due to a delay to the expansion of Local Area Co-ordination while further evidence of Health outcomes is being collected.

31. As a result of the 2015 comprehensive spending review, which cut non-NHS Public Health funding by an average of 3.9% in real terms per annum, significant savings have had to be achieved in the MTFS. Although the savings have already been or are on track to be achieved, there are risks associated with the reduction in preventive spend. Additionally, NHS England’s decision to appeal the High Court ruling that the NHS, and not local authorities, were responsible for providing an anti-retroviral drug aimed at controlling the spread of HIV creates further risk. The cost of this amongst high risk groups for Leicestershire could be in excess of £1m but would be highly dependent on take-up.

Environment and Transport

32. At this stage the Department is forecast to overspend by around £0.1m (0.2%).

33. The net position mainly relates to Special Educational Needs (SEN) transport (£0.6m), where there is an increase in the number of pupils coming through the system over and above the additional growth already built into the 2016/17 budget (97 new users or contract changes since February 2016 when growth was agreed). Overall there are approximately 1,600 service users, although this number fluctuates throughout the year. In addition, the risk assessment process has identified individuals with more complex needs, leading to an increase in average daily costs of 2.4%. There is also a forecast overspend of £0.3m on Social Care transport due to increased demand.

34. These overspends are partly offset by savings on Public Bus Service contracts of £0.2m, lower usage of Concessionary Travel of £0.1m, and savings on a number of Environment and Waste budgets, mostly through more cost effective waste treatment and lower waste tonnages.

35. The Department is taking action to contain the potential overspend by the year end through the use of the commuted sums earmarked fund, managing vacancies and managing service demand.

Chief Executives

36. The Department is forecast to underspend by around £0.4m (3.7%). The underspend is mainly due to staff vacancies and increased income, partly offset by an overspend of around £0.1m on the Coroners Service, related to increasing running costs and investigations linked to the rising number of Deprivation of Liberty cases.

Corporate Resources

37. The Department is forecast to underspend by around £0.5m (1.5%). This is mainly due to staff vacancies in ICT ahead of staff reviews and a shortage of specialist staff (£0.3m). There are no other significant risks to this position at this stage.

Contingencies

38. A contingency of £8.0m was made against delays in the achievement of savings. At this stage of the year and in the context of the overall spend reported above, it is unlikely that the contingency will be required and can be released to provide funding for initiatives that reduce future budget pressures.

39. The 2016/17 budget included a £17.2m provision for inflation. This has been increased by a £0.9m carry forward from a balance on the 2015/16 inflation contingency. Allocations of £9.7m have been made to departments at this stage, to cover part of the Adult Social Care Fee Review, the April 2016 pay award, a major change to National Insurance, an increase in pension contribution rates, transport inflation and a number of minor issues. Further transfers will be required to cover the full impact of the National Living Wage on the Adult Social Care Fee Review and a number of other inflation issues.

Central Items

40. The recent reduction in bank base rates will have the impact of reducing the amount of interest earned on revenue balances. The loan portfolio does, however, have a large exposure to longer terms loans (6 month/12 month) that were placed late in the last financial year or early in the current one in the expectation that base rates were not going to be rising and the rates offered were, therefore, attractive. Following the outcome of the EU referendum it seemed fairly clear that base rates would actually be reduced and further loans were placed in order to protect returns for as long as possible.

41. The outcome of this action is that there is very little risk that this year's budget of £2m will not be achieved. Forecasts in future years' budgets, which took account of the expectation of gradually increasing base rates over the period, will need to be revised downwards as part of the new MTFS.

42. 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.

Business Rates

43. The County Council is undertaking quarterly monitoring with the District Councils and Leicester City Council regarding the 2016/17 Leicester and Leicestershire Business Rates Pool. The latest forecasts show a potential surplus of around £4.3m for the sub region in 2016/17. The Pooling Agreement allows for any surplus to be allocated to the Leicester and Leicestershire Enterprise Partnership (LLEP) for investment projects in Leicestershire.

Revenue Summary / Proposed use of underspend

44. Overall a net revenue underspend of £15.6m is reported as at period 5, which reflects the early achievement of savings, the contingency for savings not being required in 2016/17 and growth in certain areas not yet materialising. This means that there is an opportunity to use these resources to support additional one off areas of spend that meet the following principles; to fund projects and investments that reduce liabilities and ongoing costs, generate or increases income and offsets areas of high demand and pressure.

45. Proposed uses of the net underspend are set out below:

- Vehicle replacement £1m – to generate savings
- Highways maintenance £5m – including road safety and flood alleviation
- Asset Investment Fund £5m – to generate extra income
- Transformation / Invest to Save £3.6m – likely that the programme will need funding for some time
- Energy Schemes £1m – to generate savings

46. In addition to the above, it is proposed that the Authority invests up to a further £10m into Pooled Property Investment Funds (in addition to the £15m approved by the Cabinet in September 2015) against the overall level of forecast earmarked fund balances (£85.3m as at 31 March 2016, excluding Dedicated Schools Grant). The investment will generate higher financial returns than the funding held as cash balances. The investment can be realised when the funding is needed.

47. The Council has the legal power to invest in a large number of different types of investments, and each of these investments has a different risk/return relationship. Whilst property provides a reasonable return the underlying investment is not liquid, hence can be expensive to trade. The UK property market remains attractive to investors, but this does not prevent economic shocks impacting the capital value of property funds. If an economic downturn coincided with the County Council needing to sell their property fund investment quickly the loss could be significant. This risk can be significantly reduced by the County Council only investing a relatively small proportion of the available cash into medium term investments. This allows the investment in property funds to be held for a reasonable period of time (probably at least 5 years). The Authority can then withstand a certain amount of short-term volatility in the capital value of the investment. Risks will be mitigated further by engaging property managers who are familiar with the market and use a pooled fund or funds to provide diversification from asset-specific risk.

CAPITAL PROGRAMME

48. The updated capital programme for 2016/17 totals £100.1m, including funding carried forward from 2015/16. The results of the latest capital monitoring exercise is summarised in Appendix 3 and Appendix 4.

49. The analysis in Appendix 3 shows the current status of delivery of projects analysed by three categories:

- L = Live Schemes: works have commenced or are in a position to start
- P = Preparatory Schemes: schemes identified, require regulatory or internal approval
- F = Funding Available: schemes at ideas stage

Schemes are expected to move through the stages during the year. Schemes at the funding available stage have a greater level of uncertainty and potential for delay.

Live Schemes

50. Overall £92.7m of the total programme is categorised as at a ‘Live’ stage. Forecast spend is £94.3m resulting in acceleration of £1.6m from 2017/18 to 2016/17.

Children and Family Services

51. Following a detailed review of the deliverability of the capital programme several projects within the School Accommodation Programme will need to be reprogrammed to different financial years. The net total is £8.0m. The schemes involved are:

Reprogramming to 2017/18 - £8.7m:

- Barwell Area, Primary Places - £1.0m
- Earl Shilton, Townlands Primary School - £1.3m
- Ibstock Junior School - £0.2m
- Market Harborough, Farndon Fields Primary School - £0.3m
- Birstall, Hallam Fields New Primary school - £1.4m
- Wigston Area Special School - £1.5m
- Address Structural Changes (10 + Retention) - £3.0m

Reprogramming to 2016/17 (Brought Forward) - £0.7m:

- Sileby, Highgate Primary School - £0.5m
- Thurnby, St Lukes Primary School - £0.2m

52. The above schemes are funded from the Department for Education Basic Need capital grant, which can be carried forward to 2017/18. This will provide a smoothing of capital expenditure across the three financial years; 2016/17 £26.4m, 2017/18 £4.5m and 2018/19 £16.9m.

53. There is an underspend on the School Accommodation Programme of £0.4m relating to reduced costs of external works at Sileby Redlands Primary School. The funding will be carried forward to 2017/18 to fund additional school accommodation projects.

Adults and Communities

54. The forecast expenditure is in line with the updated budget.

Public Health

55. The forecast expenditure is in line with the updated budget.

Environment and Transport – Transportation Programme

56. The latest forecast shows net acceleration of £2.0m compared with the updated budget.

57. The main variances are reported below:

- Slippage of £1.1m on work to the A42 Junction 13 due to aligning the works with Highways England Maintenance schemes.

- Acceleration of £3.0m on the Street Lighting LED invest to save scheme due to a revised profile of works and additional installation gangs that have been contracted.

58. The updated programme includes £0.7m Pot Hole Action Fund capital grant, awarded by the Department for Transport in April 2016.

Environment and Transport – Waste Management

59. The forecast expenditure is in line with the updated budget.

Chief Executive's

60. The forecast expenditure is in line with the updated budget.

Corporate Resources

61. The latest forecast shows a net underspend of £0.3m compared with the updated budget.

62. The main variances are reported below:

- Underspend of £0.2m on Demolition of Vacant Buildings as a result of requiring potential purchasers to pay for demolition costs.

- Underspend of £0.1m on the Internet Replacement programme. The project is forecast to spend to budget but more costs will now be revenue than capital.

Corporate Programme

63. The latest forecast shows a net variance of £0.3m compared with the updated budget. This includes the following variances:

- Slippage of £0.6m on Corporate Asset Investment Fund. The Coalville Workspace Project is forecast to slip to 2017/18 due to delays in obtaining planning permission. An outline plan is due to be submitted to the Local Planning Authority on 6th October 2016.

- Acceleration of £0.8m on the Energy Strategy Invest to Save project due to an increase in interest from maintained and academy schools.

- An overspend of £0.3m on the acquisition of North Kilworth, Walton Holt Farm as part of the Corporate Asset Investment Fund. The agreed purchase fee is higher than originally expected due to the desirability of the site and the number of other bidders.

Preparatory Stage

64. Overall there is a total of £4.2m (updated budget) of schemes at the preparatory stage, awaiting approvals to proceed / no longer required. This includes:

- Corporate Programme – investment at Loughborough University Science Enterprise Park (£1.6m) pending confirmation of the investment required.

- Corporate Programme – County Hall Maintenance (£0.5m), first year of a three year programme of works. Scheme preparation is underway with tenders now being prepared. The first phase of works are expected to be completed by year end.

- Corporate Programme - Countesthorpe, The Drive (£0.5m) re-provision of nursery has been delayed while a review of alternatives is being undertaken.

- Environment and Transport - Waste Management - funding no longer required for the Coalville Transfer Station (£0.7m). The business case for Coalville Transfer Station is no longer viable and the proposed scheme will now not take place.

Funding Available Stage

65. Overall there is a total of £3.2m (updated budget) of schemes at the funding available stage; awaiting schemes to be identified for investment. These include:

- E&T Transportation – Advanced Design work (£1.9m) work pending the formulation of future year scheme plans.

- E&T Transportation – Fleet Renewal (£1m) and Road Safety (£0.2m) while confirming detailed requirements. The funding is expected to be spent in 2016/17.

- Adults and Communities - new Changing Places / Toilets for people who need personal assistance (£0.1m). Two schemes are expected to be delivered - one at Hinckley Leisure Centre and the other at Watermead Country Park. Further schemes are being scoped that would reduce the underspend if they can be delivered in 2016/17.

Capital Receipts

66. The forecast of general capital receipts in 2016/17 is £10.3m. The budget target is £12.1m. The shortfall relates to the delay of sale on one large site which is now expected to take place in 2017/18. The shortfall does not affect the financing of the 2016/17 capital programme as part of the overall budgeted receipts were planned to be used in later years.

Capital Summary

67. The latest forecast shows net acceleration of £1.6m compared with the updated capital programme for projects categorised as 'Live'.

Equality and Human Rights Implications

68. There are no direct implications arising from this report.

Background Papers

Report to County Council -17 February 2016 – Medium Term Financial Strategy 2016/17 to 2019/20
http://politics.leics.gov.uk/ieListDocuments.aspx?MId=4427

Appendices

Appendix 1 – Revenue Budget Monitoring Statement
Appendix 2 – Revenue Budget – Forecast Main Variances
Appendix 3 – Capital Programme Monitoring Statement
Appendix 4 - Capital Programme – Forecast Main Variances

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