



## **SCRUTINY COMMISSION – 30 NOVEMBER 2016**

### **2016/17 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 2016/17 revenue budget and capital programme monitoring position.

### **Policy Framework and Previous Decisions**

2. 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 17 February 2016 as part of the Medium Term Financial Strategy (MTFS). The MTFS is monitored throughout the financial year.
3. The Cabinet on 11 October 2016 approved additional areas of investment to be funded from additional resources arising from projected underspends, as set out in paragraph 44 below. The Cabinet also approved 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.

### **Background**

4. The latest revenue budget monitoring exercise shows a net projected underspend of £16.2m, as summarised in Appendix 1. Details of major variances are set out below and on Appendix 2.
5. The latest capital programme monitoring exercise shows a net projected acceleration of £0.6m compared with the updated budget on those schemes categorised as "live".
6. 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**

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

## **Children and Family Services**

8. The Department is forecasting a net overspend of £3.6m on the Dedicated Schools Grant (DSG) Block and is on budget regarding the Local Authority (LA) Block.
9. 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. 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 made and the SEN services were allocated a savings target of £2.8m in order to accommodate the costs within the available funding.
10. For 2016/17 a budget overspend of £3.8m is being reported on SEN, £1.9m of which 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 increased support offer to retain primary age pupils within mainstream schools to reduce the need for more costly specialist provision. However, for 2016/17 the actions and their financial impact are 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 placements. Although in the current year this can be met from the DSG earmarked fund, it is a major concern.
11. 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 local authority budget if overspends on the high needs block are not reduced. The outcome of this consultation and implementation date is unknown.
12. 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.
13. Further options to reduce costs are being formulated and these were presented to a Star Chamber and 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.
14. The balanced position on the LA Block includes underspends on Social Care Placements, Education Learning and Skills, Targeted Early Help and Social Care and Safeguarding Assurance, offset by agency costs related to interim departmental management changes.

15. 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 and Unaccompanied Asylum Seeking Children (UASC) explained in the following paragraphs.

#### Social Care Placements

16. Continuing pressure on this budget heading. 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 a further £0.7m in 2016/17 (in addition to the £0.4m already reported). 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.
17. Of the £2.1m savings, the focus on reducing costs of placements and the closure of Greengate 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.
18. The estimated underlying growth for placements for 2016/17 is £1.6m. 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, however this is being reviewed as part of the new MTFS.
19. For 2016/17 the number of looked after children has increased from 469 in March to 502 at the end of September. 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.
20. In summary, of the £3.3m additional funding at the start of the year, £1.6m has been allocated as additional growth, £0.6m savings on foster carers have not yet been evidenced, and £1.1m potential underspend. The position is being kept under continual review.

#### Unaccompanied Asylum Seeking Children

21. The national position on Unaccompanied Asylum Seeking Children is extremely volatile. Currently there are three different national schemes supporting asylum seekers:
- Spontaneous Arrivals – children that have and will continue to arrive in Leicestershire usually through transport links, usually at motorway services. Home Office grant is received for eligible children but is insufficient to cover

costs. An estimate for those children is included in the Social Care Placement forecast but it is a potentially volatile area.

- National Transfer Scheme (NTS) – the Cabinet received a report on 11 October 2016 and subsequently withdrew from this scheme. This was based on the expectation of an additional 70 children with an average net cost of £79 per day (£2m per annum). Whilst 7 children have been received the Cabinet decision will result in no further children being accommodated.
- Resettlement of Syrian Refugees – this scheme is being administered through Charnwood Borough Council. The grant payable includes an educational element for eligible children which is being paid directly to the admitting school. Councils may also claim ‘exceptional’ education and social care costs within 1 year of the family’s arrival. To date one family has been settled in Leicestershire with further families expected to arrive shortly.

22. In terms of cost the unfunded elements of spontaneous arrivals and the NTS fall to local authorities. The current forecast is an overspend of £0.1m.

23. It is expected that the number of unaccompanied children in the UK will increase as a result of actions being taken by the French Government in Calais to clear the current ‘jungle’ camps. Children are expected to arrive via 2 criteria:

- The Dublin Treaty – children will be reunited with family members already in the UK. It is expected that the local authority in which the family reside will complete the necessary checks and assessments; children will be initially placed in reception centres. The looked after status for these children is unclear and the Home Office have been asked for clarification.
- The Dubs Amendment- These children will be allocated to local authorities through the NTS; it is not expected that Children will arrive in Leicestershire as a result of the Cabinet decision to withdraw from the scheme. If the position were to change the £2m estimate may increase.

### **Adults and Communities**

24. The Department is forecasting a net underspend of £6.7m (4.9%). The main variances relate to:

- An underspend due to predicted growth on the number of commissioned hours and costs of home care (£3.6m) not being required. The number of hours have been relatively stable during 2016/17 at 2015/16 levels to date.
- An underspend on direct cash payments (£1.0m) due to lower average payments compared with last year, lower growth in expected numbers and clawback of unspent cash payment balances. The underspend has been reduced by allocating £1m of the savings required under MTFSS savings ‘AC14 for reduced cost and demand for social care’.

- An underspend in supported living (£0.8m) 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. The underspend has been reduced by allocating £1m of the savings required under AC14 for “Reduced cost and demand for social care”.
  - Other significant savings include reductions in contract costs, increased income from Continuing Health Care (CHC) and vacancy management (total £3.2m).
  - An overspend on Residential and Nursing Care (£1.9m) – Service user and CHC contributions are forecast to be £1.0m lower than budgeted and an increase in expenditure on social care provision forecast of £0.9m due to an increase in payments for additional needs, and some significant new care packages. The overall number of service users remains static at around 2,400.
25. 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.
26. 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**

27. The Department is forecast to achieve an overall underspend of around £50,000, mainly due to a delay to the expansion of Local Area Co-ordination while further evidence of Health outcomes is being collected.
28. 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**

29. At this stage the Department is forecasting a net £0.1m (0.2%) underspend.
30. Transport budgets are currently overspending. This mainly relates to 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 overall increase in average daily costs per user of 10%. There is also a forecast overspend of £0.2m on Social Care transport due to increased demand.

31. These overspends are offset by lower usage of Mainstream School Transport £0.3m, savings on Public Bus Service contracts £0.2m, and savings on a number of Environment and Waste budgets £0.3m, mostly through more cost effective waste treatment and lower waste tonnages.
32. There is also an underspend on Highways maintenance budgets from lower energy costs due to acceleration of the LED installation programme and fewer drainage repairs being carried out as a result of a lack of resources being available to identify and evaluate jobs linked in part to transition arrangements arising from the departmental restructure, total £0.3m.
33. The income elements of the staffing and administration budgets are forecast to overspend by £0.2m due to unachieved MTFs savings. These will now be achieved in 2017/18.

### **Chief Executives**

34. The Department is forecast to underspend by £0.4m (4.4%). The underspend is mainly due to staff vacancies and increased income, partly offset by an overspend of around £0.1m on the Coroners Service, relating to increasing running costs and investigations linked to the rising number of Deprivation of Liberty cases.

### **Corporate Resources**

35. The Department is forecast to underspend by £0.3m (0.9%). This is mainly due to staff vacancies ahead of impending staff reviews in Human Resources £0.1m, Commissioning Support Unit £0.1m and Strategic Finance £0.2m and reduced spend on Learning and Development £0.2m. Commercial Services are also making profit gains of £0.1m above budget across most services as a result of increased sales and reduced costs.
36. The position is offset by overspends in; Strategic Property, £0.1m, due to increased revenue costs required to fund feasibility and other costs associated with the Asset Investment programme, Operational Property, £0.1m, due to delays to achieving Supported Employment savings as retirements have been delayed and increased demand costs in maintenance and unattached properties, and the Customer Service Centre, £0.1m, due to a combination of maternity and training cover.

### **Contingencies**

37. 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.

38. 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**

39. 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.
40. 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.
41. 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**

42. 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, less a contingency for future Business Rate Pools, to be allocated to the Leicester and Leicestershire Enterprise Partnership (LLEP) for investment projects in Leicestershire.
43. The 2015/16 Pool has now been finalised and reported a surplus of £2.7m. There is a contingency of £0.7m from previous years giving a final 2015/16 total of £3.4m. Of this £2m has been allocated to the LLEP and the balance brought forward as a contingency to the current and future Business Rate pools.

### **Revenue Summary / Areas of investment funded from underspend**

44. Overall a net revenue underspend of £16.2m is reported as at period 6, 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. The Cabinet on 11 October agreed to use £15.6m of the underspend to fund investments in projects that reduce

liabilities and ongoing costs, generate or increases income and offsets areas of high demand and pressure. The approved areas of investment are:

- 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 £3m – likely that the programme will need funding for some time
- Energy Schemes £1m – to generate savings

45. In addition to the above, the Cabinet agreed an investment of up to £10m into Pooled Property Investment Funds (in addition to the £15m approved by 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.

### **CAPITAL PROGRAMME**

46. The updated capital programme for 2016/17 totals £100.3m, including funding carried forward from 2015/16. The results of the latest capital monitoring exercise is summarised in Appendix 3 and Appendix 4.

47. 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

48. 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**

49. Overall £92.9m of the total programme is categorised as at a Live stage. Forecast spend is £93.5m resulting in acceleration of £0.6m from 2017/18 to 2016/17.

### **Children and Family Services**

50. There is an underspend on the School Accommodation Programme of £0.5m mainly relating to reduced costs of external works at Sibley Redlands Primary School. The funding will be carried forward to 2017/18 to fund additional school accommodation projects.

### **Adults and Communities**

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



Public Health

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

Environment and Transport – Transportation Programme

53. The latest forecast shows net acceleration of £1.1m compared with the updated budget.

54. 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.
- Slippage of £1.0m on Transport Asset Management – Surface Dressing Scheme - due to resources being directed to winter maintenance in April, flooding issues and fewer days of surface dressing due to unsuitable weather.
- 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.

Environment and Transport – Waste Management

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

Chief Executive's

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

Corporate Resources

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

58. 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

59. 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 obtaining planning permission.
- 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 / Funding Available Stage**

60. Overall there is a total of £4.2m (updated budget) of schemes at the preparatory stage, awaiting approvals to proceed. Of this £3.1m is forecast to be spent in 2016/17. The main areas are:
- E&T 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.
  - 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.
61. 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:
- 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.
  - 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.

### **Capital Receipts**

62. The forecast of general capital receipts in 2016/17 is £13.6m. The budget target is £12.1m. The increase in the estimate relates to a sale which is expected to bring in more capital receipt than forecasted.

### **Capital Summary**

63. The latest forecast shows net acceleration of £0.6m compared with the updated capital programme for projects categorised as 'Live'.

### **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?MIId=4427>

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

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

### **Circulation under the Local Issues Alert Procedure**

None

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### **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

### **Equality and Human Rights Implications**

There are no direct implications arising from this report.

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