Leicestershire County Council

SCRUTINY COMMISSION – 8TH MARCH 2017

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

2016/17 MEDIUM TERM FINANCIAL STRATEGY MONITORING (PERIOD 10)

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 17th February 2016 as part of the Medium Term Financial Strategy. 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 37 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 an overall projected underspend of £8.4m, net of £15.6m approved by the Cabinet on 11 October 2016 for investments in projects that reduce liabilities and ongoing costs. A summary of the overall position is shown in Appendix 1.

5. The latest capital programme monitoring exercise shows net projected acceleration of £1.5m compared with the updated budget on those schemes categorised as live. A summary of the overall position is shown in Appendix 3.

6. The monitoring information contained within this report is based on the pattern of revenue and capital expenditure and income for the first ten 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 £1.9m on Dedicated Schools Grant (DSG) and a net underspend of £0.7m (1.2%) regarding the Local Authority (LA) budget.

9. The forecast overspend on DSG mainly relates to the High Needs Block as a result of continuing pressure on the Special Educational Needs (SEN) placement budgets due to increased demand at special schools and an increase in number of pupils diagnosed with Autism Spectrum Disorder (ASD). As a result an overspend of £2.1m is forecast, which is a reduction of £1.7m from the position reported in period 6. The reduction arises following confirmation of the number of pupils and their destinations for the 2016/17 academic year and confirmation of reduced charges for hospital school provision. There are however forecast overspends on Specialist Services to Vulnerable Groups (£0.3m) and set-up costs for alternative support at Oakfield School (£0.2m). The net position will be funded from the DSG earmarked fund at year end.

10. A programme of work has been established through the Transformation Programme to reduce all High Needs expenditure overseen by a Project Board. Work streams include the commissioning of placements and the remodelling of Specialist Teaching Services. This programme of work must deliver sustainable future savings as the current level of expenditure on High Needs cannot be contained within the Government grant.

11. A number of actions are in place to reduce costs. This includes 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. Further actions include a review of placements and the point changes in provision could be enacted as well as a revised approach to commissioning decisions. Early indications show that savings will be realised from these actions, however for 2016/17 the financial impact is limited. Although in the current year the overspend can be met from the DSG earmarked fund, it is a major concern. To balance the budget over the medium term the pace and scale of actions will need to increase.

12. The net underspend of £0.7m on the LA Budget includes underspends on Social Care Placements (£1.5m); in this area a contingency of £0.7m was held against any increase in placements in the latter part of the financial year which has now been released, and a forecast underspend on the Education Learning and Skills budget (£0.2m). These underspends are offset by overspends due to agency costs related to the interim departmental management (£0.6m) and increased numbers of care cases funded from the social care legal budget (£0.4m).

13. The £1.5m Placement underspend is after growth of £7.9m was allocated. Although the increase in expenditure on high cost placements has reduced the overall number of looked after children continues to rise at a significant rate, of c8% per annum. This is putting the budget under increasing pressure.

Adults and Communities

14. The Department is forecasting a net underspend of £5.5m (4.0%). The main variances relate to:

- Home Care £4.9m underspend - due to predicted growth on the number of commissioned hours and costs of home care not being required. Between April and December, there has been a reduction in self-funding service users. This is offset by a corresponding loss of chargeable income.

- Direct Payment £1.8m underspend - due to continuing underspend from 2015/16 and clawback of unspent cash payment balances (£0.8m).

- Residential and Nursing Care £2.6m overspend – The overall number of service users remains static at around 2,400. However, the average cost is increasing due to an increase in payments for additional needs, and some significant new care packages. Service user contributions are forecast to be lower than budgeted (£0.4m).

- Other variations total £1.4m net underspend. These include underspends arising from reductions in contract costs, increased income from continuing health care, vacancy management, and an additional contribution of £0.5m from the Better Care Fund to fund inflationary costs on residential and homecare services. These are offset by a reduction in Community Income of £0.9m due to the loss of chargeable service users and increased Supported Living costs of £0.4m arising from an increase in the number of hours being provided.

15. As in previous years, demographic growth, increasing needs / level of activity and prices are the main drivers of expenditure within adult social care and assumptions have been made to predict these changes. However, there is a risk that demand will change due to factors beyond the control of the Council.

Public Health

16. The Department is forecast to achieve a net underspend of around £0.3m, mainly due to underspends on a number of contracts.

17. 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; examples of this include a change in the approach to chlamydia screening and the stop smoking service which now relies more heavily on online support.

Environment and Transport

18. At this stage the Department is forecasting a net underspend of £1.1m (1.5%).

19. Overall, Transport budgets are forecast to be on budget. There are forecast savings of £0.3m on Public Bus Service contracts due to early achievement of MTFS savings, and an underspend of £0.2m due to lower usage of Mainstream School Transport. There is a forecast overspend on SEN transport (£0.4m), due to a steady increase in the number of pupils coming through the system over and above the additional growth already built into the 2016/17 budget. In addition, the risk assessment process has identified individuals with more complex needs, leading to an overall increase in the average daily cost per user of 8% which has contributed to the overspend. There is also a forecast overspend of £0.1m on Social Care transport due to increased demand.

20. Environment and Waste budgets forecast a net underspend of £0.6m, mostly through more cost effective waste treatment and lower waste tonnages. Reduced volumes of waste are being sent to the Mechanical Biological Treatment (MBT) plant due to restrictions on inputs, leading to a £1.5m overspend on the landfill budget, which is offset by a £1.6m underspend on the treatment contracts budget.

21. There is also a net underspend of £0.5m 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 short term lack of resources being available to identify and evaluate jobs linked in part to transition arrangements arising from the departmental restructure.

Chief Executives

22. The Department is forecast to underspend by £0.3m (3.3%). The underspend is mainly due to staff vacancies and increased income, partly offset by an overspend of around £0.2m on the Coroners Service, relating to increasing running costs and investigations linked to the rising number of Deprivation of Liberty cases.

Corporate Resources

23. The Department is forecast to underspend by £0.4m (1.2%).

24. The position includes underspends mainly due to staff vacancies ahead of impending staff reviews: ICT £0.4m, People Resources £0.3m, Strategic Finance £0.2m and Commissioning Support Unit £0.1m.

25. The underspends are offset by overspends in Operational Property (£0.5m) due to increased demand costs in maintenance and increased unoccupied properties. There is also an overspend on Strategic Property (£0.1m), due to increased revenue costs required to fund feasibility and other costs associated with the Asset Investment programme.

Contingencies

26. 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 has been released to provide funding for initiatives that reduce future budget pressures.

27. 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 £10.9m have been made to departments at this stage, to cover the majority 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. A balance of £5.7m is forecast to not be required at this stage.

Central Items

28. The reduction in bank base rates during 2016 has the impact of reducing the amount of interest earned on revenue balances. However the loan portfolio has 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.

29. The outcome of this action is that there is very little risk that this year's budget of £2m will not be achieved and the latest forecast is for a £0.1m surplus.

30. 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.

31. The Financial Arrangements budget is forecast to have a net underspend of £0.5m, mainly relating to dividend income from the Eastern Shires Purchasing Organisation (ESPO) now being accrued to 2016/17.

32. There is a net underspend of £0.7m on Prior Year Adjustments, mainly relating to car leasing self-insurance; earmarked fund no longer required following the transfer to an external insurer, £0.2m, a technical accounting adjustment regarding overdrawn car leasing provision balances at the end of 2015/16 £0.3m and cleansing of aged credit balances, £0.2m.

Business Rates

33. 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 £4.6m for the sub region in 2016/17. The current 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. Consideration is being given to amending the pooling agreement to allocate any

surpluses to the proposed Leicester and Leicestershire Combined Authority, which would become the decision-making body for the allocation of surpluses.

34. The Pool reported a net surplus of £2.7m in 2015/16. There is a contingency of £0.7m from previous years giving a final 2015/16 total of £3.4m. Of this £2m has been paid to the LLEP and the balance of £1.4m is retained as a Pool contingency for the current and future years.

35. The pooling partners recently reviewed the forecast position for 2017/18, which reported an estimated surplus of £5.9m. All partners have therefore agreed to continue with the Pool for 2017/18.

Revenue Summary / Proposed use of underspend

36. Overall a net revenue underspend of £8.4m is reported as at period 10, which reflects the early achievement of savings, the contingency for savings not being required in 2016/17, an element of the inflation contingency also not being required and growth in certain areas not yet materialising. At this stage carry forward requests of £0.6m have been received, for consideration.

37. The net position is after £15.6m approved by the Cabinet on 11 October 2016, which was the period 5 forecast 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

38. In addition to the above, the Cabinet on 11 October 2016 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.

39. Following the uncertainty surrounding the UK property market after the vote to leave the European Union, a decision was made to split the investment into two lots of £5m – there was a risk that the market might fall a meaningful degree, so a phased investment was deemed appropriate. After a short period of well-reported turbulence within the commercial property market (mainly the result of retail investors trying to get their money out of pooled property funds), prices have stabilised and £3.3m has been invested. A deal has also been agreed to invest a further £1.7m based on December unit prices. Options are being considered for the investment of the balance of £5m. This may be linked to the triggering of Article 50, which could bring a period of volatility to markets and give a good entry point.

40. It is anticipated that the additional net underspend (currently projected at £8.4m, less £0.6m carry forward requests) will be invested in a similar manner to the period 5 underspend (in paragraph 37), to provide additional resources for future capital developments and savings under development, as outlined in the draft MTFS 2017-21.

CAPITAL PROGRAMME

41. The updated capital programme for 2016/17 totals £101.5m, including funding carried forward from the outturn 2015/16. The results of the latest capital monitoring exercise is summarised in Appendix 3 and Appendix 4.

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

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

43. 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

44. Overall £94.9m of the total programme is categorised as at a Live stage. Forecast spend is £96.4m resulting in net acceleration of £1.5m.

Children and Family Services

45. The latest forecast shows net acceleration of £2.1m compared with the updated budget.

46. The following schemes: Birstall Hallam Fields Primary School £1.4m, Structural Changes age10+ £0.8m and Wigston Area Special School £0.6m, are all progressing ahead of schedule with acceleration of works forecast. The overall position is after an underspend on the School Accommodation Programme of £0.7m due to reduced forecast costs on two projects.

Adults and Communities

47. Overall, an underspend of £0.2m is forecast compared with the updated budget. This relates to savings on the purchase of new mobile library vehicles. This underspend will be carried forward at year end to fund new mobile libraries planned in 2017/18.

Public Health

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

Environment and Transport – Transportation Programme

49. The latest forecast shows net acceleration of £1.8m compared with the updated budget.

50. The main variances are reported below:

- M1 Junction 22 scheme – overspend of £1.0m. Gross additional costs of £1.8m forecast due to Traffic Management constraints to working on the strategic road network. As this scheme involved working on the trunk road network, there were additional restrictions on daytime working. This was exacerbated by Government consultations and initiatives around reducing congestion during road works all of which led to the need for additional night working and additional costs. There are additional section 106 developer contributions relating to the Coalville Growth Strategy of £0.8m, for which the scheme is crucial, that have been included resulting in a net £1m overspend.

- A42 Junction 13 – slippage of £1.8m forecast due to aligning the works with Highways England Maintenance schemes. Highways England were carrying out other works on the A42 near the junction, delaying the commencement of works on the scheme until January (originally planned for late summer). Notification was received quite late. However, overall the expenditure on the scheme is still expected to spend in line with original estimates.

- Lubbesthorpe Strategic Employment Site Access – underspend of £1.0m and slippage of £0.8m. This scheme was able to be divided into a number of specific elements. The works that are being undertaken will end up costing £1m less than the resources originally identified. The scheme is likely to finish in April 17, a delay of a month which means some expenditure slipping into the next financial year.

The above three schemes are all part funded by the Leicester & Leicestershire Enterprise Partnership (LLEP) through the Single Local Growth Fund where the grant can be used across the three schemes. Overall, the net position is balanced.

- Loughborough Town Centre and Earl Shilton Bypass – overspend of £0.2m forecast due to land compensation payments which occurred after the scheme finished and were not budgeted for.

- Flood Alleviation scheme – underspend of £0.3m is forecast due to cost savings and enhanced flood investigations being carried out resulting in the removal and de-scoping of some schemes.

- Fleet Renewal scheme – slippage of £1.0m is forecast due to extended lead time for some vehicles. Highway vehicles have unique specifications which can mean a number of months before delivery of the vehicles take place.

- Street Lighting LED invest to save scheme – acceleration of £5.5m. A revised profile of works and additional installation gangs have been contracted.

<u>Environment and Transport – Waste Management</u>

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

Chief Executive's

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

Corporate Resources

53. The forecast shows net slippage of £0.2m compared with the updated budget.

The main variances are reported below:

- Industrial Properties Estate - slippage of £0.1m due to timeliness of delivery of projects - i.e. design, procurement and delivery.

- Replacement of playing field at Melton KE VII site – slippage of £0.3m as the project was due to re-commence on 13th February, unable to get on to site due to water logging. The next window of opportunity is around Easter. This will mean that the majority of capital spend will need to slip to next financial year.

- County Farms Estate - acceleration of £0.2m. To improve farms which will enable an increase in rental income in future years.

Corporate Programme

54. The latest forecast shows slippage of £1.9m compared with the updated budget. The main variances are:

- Corporate Asset Investment Fund – net slippage £2.1m. This includes:
  - Coalville Workspace Project - slippage of £3.0m as revised timescales means that most of the spend will now be in 2017/18.
  - Airfield Farm acceleration of £0.6m for increased cost of purchase funded from future capital receipts included in the MTFS 2017-21.
  - North Kilworth, Walton Holt Farm – total cost of £3.3m, exceeded the un-allocated balance on the Asset Investment Fund by £0.3m. This reduced the total slippage into 2017/18 for the Fund.

- County Hall Maintenance Major Works – slippage £0.3m. First year of a three year programme of works. Work has commenced on replacement of windows in the Rutland building, but the majority of expenditure will be incurred in 2017/18. The first phase of the work is expected to be completed by year end.

- Charnwood Locality Office (Pennine House) - slippage £0.2m. Project is currently in detailed planning stage. The first phase of the work is due to take place prior to March 2017. Option decided is a refurbishment rather than a move.

- Energy Strategy Invest to Save – acceleration, £0.6m, on a number of small scale energy efficiency measures, including boilers, heating controls and LED lighting upgrades.

Preparatory

55. Overall there is a total of £3.6m (updated budget) of schemes at the preparatory stage. Of this £0.7m is forecast to be spent in 2016/17 resulting in a variance of £2.9m. The main areas of variances are:

- Corporate ICT Programme – slippage of £0.5m. The main variance relates to Unified Telephony replacement phase 2 project which has been delayed due to technical issues and is now expected to take place in 2017/18.

- Corporate Programme, Corporate Asset Investment Fund, Loughborough University Science Enterprise Park – slippage £1.2m. Loughborough University are reviewing the project resulting in the need to revise the profile of spend. The project has now been included in the draft MTFS 2017-21 as a future development.

- Corporate Programme, Corporate Asset Investment Fund, Rural Workspace project – slippage £0.7m. Delays have occurred in achieving planning permission resulting in the project timetable and spend profile being reviewed.

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

Funding Available Stage

56. Overall there is a total of £3.0m (updated budget) of schemes at the funding available stage, awaiting schemes to be identified for investment. The main areas of variances are:

- Adults and Communities, New Changing Places / Toilets for people who need personal assistance – slippage £0.2m.
  One scheme is expected to be delivered at Hinckley Leisure Centre. £0.1m of the underspend will be carried forward to 2017/18 and added to the draft programme, to continue the programme of works.

- E&T Transportation – Advanced Design work - slippage £1.7m.
  Funding has been held for future match funding opportunities.

- E&T Waste Management – underspend/slippage of £1.1m. Coalville Transfer Station – underspend £0.7m. The business case for Coalville Transfer Station is no longer viable and the proposed scheme will now not take place. Drainage works and improvements to waste sites – slippage of £0.4m due to the transition arrangements arising from the departmental restructure and works which are subject to agreement with the Environment Agency.

Capital Receipts

57. The latest forecast of general capital receipts in 2016/17 is £13.8m compared with the budget of £12.1m. The increase to budget at year end will be carried forward to fund future capital programmes as part of the MTFS.

Capital Summary

58. The latest forecast shows net acceleration of £1.5m 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?MId=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?CId=135&MId=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 and Changes in Funding

Equality and Human Rights Implications

There are no direct implications arising from this report.