Agenda Item 8

Leicestershire County Council

SCRUTINY COMMISSION - 19TH JULY 2017

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

2016/17 PROVISIONAL REVENUE AND CAPITAL OUTTURN

Purpose of Report

1. This report sets out the provisional revenue and capital outturn for 2016/17.

Policy Framework and Previous Decisions

2. The County Council approved the 2016/17 to 2019/20 Medium Term Financial Strategy (MTFS) in February 2016. The key aim of the Strategy is to ensure that the Authority has appropriate resources in place to fund key service demands over the next few years. The Strategy includes the establishment of earmarked funds and the allocation of ongoing revenue budget and capital resources for key priorities.

3. The Standard Financial Instructions stipulate that the Executive (the Cabinet) may authorise the carry forward of under or over spending. These may also be agreed by the Chief Financial Officer subject to guidelines agreed by the Cabinet in June 2006. The carry forward requests which could not be approved under delegated powers were approved by Cabinet on 23 June 2017 (see Appendix B).

Overall Position

Revenue Outturn

4. A summary of the revenue outturn for 2016/17, excluding schools grant, is set out below:

	£000
Updated budget	360,490
Less provisional outturn	-348,139
Add additional income	56
Less additional commitments	-11,057
Net underspending	1,350
Carry forwards	
Approved	-700
Cabinet approval required	-650
Net position	0

5. Overall there has been a net underspending of £1.4m after additional commitments, which is offset by carry forwards.

6. The Authority has made significant progress in achieving the savings in the MTFS, but there is still a long way to go. The underspend to a large extent reflects the early achievement of efficiency savings. Price and service demand pressures have been largely contained in the year. Inflation and demographic pressures mean that this position will not be maintained beyond the short term. In the MTFS for the period 2017/18 to 2020/21 the savings requirement totals £66m, of which £23m still needs to be identified.

7. The uncommitted General Fund balance as at 31st March 2017 stands at £14.8m, which represents 4.1% of the 2017/18 revenue budget, in line with the County Council's policy. The Fund will be reviewed again during 2017 taking into account the risks faced by the County Council.

8. Appendix A shows the detailed provisional outturn position for 2016/17. This compares the actual expenditure incurred (provisional outturn) with the updated budget. Column 2 is the original budget updated for 2015/16 carry forwards and transfers between services. Column 3 shows actual expenditure, which in the case of schools reflects the level of delegated schools budgets. This appendix also shows the effect of the provisional outturn on the level of the uncommitted General Fund balance.

9. The Cabinet on 23 June 2017 agreed that £11.1m of the net underspend be used to fund additional commitments, as shown on Appendix A.

10. The Chief Financial Officer can approve carry forwards where the money is to be spent for the purpose for which it was originally allocated in the budget. Where the carry forward is to be used for a different purpose (i.e. effectively comprising virement) the Chief Financial Officer can approve items up to £100,000 with the following exceptions:

    - where a carry forward would result in an overspending position on the department's budget;
    - where a carry forward would represent a change in existing policy; and
    - where ongoing costs might result.

11. On this basis specific approval by the Cabinet was required for the items described in Appendix B and these items were approved by the Cabinet on 23 June 2017. The full list of carry forwards is available on request.

12. Appendix C gives details of significant variances on departmental budgets for 2016/17.

<u>Capital Outturn</u>

13. A summary of the capital outturn for 2016/17, excluding schools devolved formula capital, is set out below:

	£000
Updated budget	102,979
Less provisional outturn	98,143
Net Underspending (slippage)	4,836
Percentage spend to updated budget	95%

14. Overall there has been a net underspending of £4.8m compared with the updated budget which relates mainly to the Corporate Programme where two large schemes were delayed to 2017/18. More detail is given later in this report. The net underspending will be carried forward to 2017/18 to fund schemes that were not completed in 2016/17.

15. Details of the key achievements in delivery of the 2016/17 capital programme are also included in the report.

DETAILS - REVENUE

Children and Family Services

16. The Department has a net overspend of £2.4m on the Dedicated Schools Grant (DSG) and a net underspend of £1.2m on the Local Authority (LA) budget, which reduces to £1.1m (1.8%) after carry forwards.

17. The 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 the number of pupils diagnosed with Autism Spectrum Disorder (ASD), resulting in an overspend of £2.0m. Other significant variances include overspends on Specialist Services to Vulnerable Groups (£0.4m) and set-up costs for alternative support at Oakfield School (£0.2m) to reduce the reliance on placements in independent schools. This is partially offset by an underspend on 0-5 Learning due to recruitment delays and increased grant (£0.4m). The net position has been funded from the DSG earmarked fund at year end.

18. 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.

19. A number of actions are in place to reduce costs. This includes expansion of local provision for pupils with ASD and increased support for primary schools to enable the retention of primary age pupils within mainstream schools to reduce the need for more costly specialist provision - through additional support to increase and develop school capacity and delivered by Oakfield school. Further actions include a review of placements and the point changes in provision could be enacted, a revised approach to commissioning decisions and the point at which specialist placements are accessed. Early indications show that savings will be realised from these actions,

however, for 2016/17 the financial impact is limited. Although 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 be maintained.

20. The net underspend of £1.2m on the LA Budget includes underspends on Children Placements (£1.6m), Targeted Early Help (£0.4m), Education Learning and Skills budget (£0.4m) and Educational Psychology (£0.2m). These underspends are offset by overspends due to agency costs related to the interim departmental management (£0.5m), increased numbers of care cases funded from the social care legal budget (£0.4m) and increased demand on the unaccompanied asylum seeking children budget (£0.4m).

21. The £1.4m Placement underspend is after the allocation of growth of £7.9m. 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

22. The Department has a net underspend of £10.9m (7.9%). The main variances relate to:

- Home Care £5.9m underspend - due to predicted service user growth not being required (£1.8m) and a reduction in the number of service users, changes in price and size of packages (£4.1m). There has also been a reduction in self-funding service users which is offset by a corresponding loss of chargeable income.
- Direct Payment £2.1m underspend - due to clawback of unspent cash payment balances (£1.0m), increase in grant funding (£0.3m) and predicted growth in numbers of service users not materialising (£1.4m). This is offset by an increase in the average package price (£0.5m) and an increase in one-off payments (£0.1m).
- Residential and Nursing Care £1.1m net underspend – additional health contributions (£2.9m), increased client income (£0.7m) and a reduction in the bad debt provision (£0.1m), offset by additional expenditure on social care provision due to an increase in payments for additional needs (£1.1m), backdated arrears to previous years (£0.6m) and an increase in short stay and new care packages (£1.0m). The overall number of service users remains static at around 2,400 though there have been some significant new care packages.
- Other variations result in a net underspend of £1.8m. These include underspends arising from increased income from continuing health care (£1.7m), vacancy management to achieve 2017/18 savings (£1.3m) and an additional contribution from the Better Care Fund (£0.7m) to fund inflationary costs on residential and homecare services. These are offset by increased Supported Living costs (£0.4m) arising from an increase in the number of hours being provided, increased Court of Protection costs (£0.15m), loss of Department of Health Deprivation of Liberty Safeguards (DOLS) Grant (£0.2m) and by not charging some of the additional staffing costs of the departmental to earmarked funds (£0.9m).

23. As in previous years, demographic growth, increasing needs / level of activity and prices are the main drivers of expenditure within adult social care and changes are difficult to predict. For example, the introduction of new homecare contracts during 2016/17 has changed activity levels in both homecare and direct payments. The 2017/18 budgets will be reviewed to reflect any on-going changes arising from 2016/17.

24. Following the approval of the 2017-21 MTFS the government announced in the Spring Budget (March 2017), additional social care grant to support local authorities with Adult Social Care responsibilities. A total of £19.8m was awarded to the County Council over three years 2017/18 to 2019/20. The funding is to be added to the improved Better Care Fund and decisions on its use taken with the local Clinical Commissioning Groups (CCGs). The government also committed to setting out the government's proposals for future social care funding in a green paper later this year. The department is working on proposals with the CCGs to utilise the additional funding.

Public Health

25. The Department has a net underspend of £0.5m before carry forward requests, resulting mainly from the early achievement of savings targets and planned service delivery changes.

26. 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 2016/17 savings have been 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

27. There is a net underspend of £1.8m which reduces to £1.6m (2.2%) after carry forward requests of £0.2m.

28. Overall, transport services are more or less spent to budget. There is an overspend on SEN transport of £0.5m, 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 7% which has contributed to the overspend. There is also an overspend of £0.2m on Social Care transport due to increased demand. There are savings of £0.2m on Public Bus Services due to savings made through tendering of the Park & Ride contract and other contract cost reductions, and an underspend of £0.4m due to lower usage of Mainstream School Transport.

29. Environment and Waste budgets are underspent by £0.7m, 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 £1.3m overspend on the landfill budget, which is offset by a £1.3m underspend on the treatment contracts budget.

30. There is a net underspend of £1.2m on Highways maintenance budgets, mainly from lower energy costs due to acceleration of the LED installation programme. Part of this underspend also relates to a decision to delay some white lining and studs work on the A6 to ensure it coincides with some planned bridgeworks, to avoid duplication of traffic management costs. A carry forward of £0.2m is requested to undertake this work in 2017/18.

Chief Executive's

31. The Department has underspent by £0.4m which reduces to £0.3m (3.6%) after carry forward requests. The underspend is mainly due to staff vacancies and increased income, partly offset by an overspend of £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

32. The Department has underspent by £1.1m (3.0%).

33. The position includes underspends mainly due to staff vacancies held ahead of impending staff reviews and early restructures: ICT £0.6m, Strategic Finance & Assurance £0.3m, People Resources £0.3m and Commissioning Support Unit £0.1m. The position is offset by investment of £0.2m in new infrastructure for commercial activities to take the commercial agenda to generate future benefits.

Contingencies

34. A contingency of £8.0m was originally made against delays in the achievement of savings. No major problems were identified resulting in the contingency being released during 2016/17 to provide funding for initiatives that reduce future budget pressures.

35. The 2016/17 budget included a £17.2m provision for inflation. This was increased by a £0.9m carry forward from a balance on the 2015/16 inflation contingency to £18.1m. Allocations of £10.9m have been made to departments to cover 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. The balance of £7.2m has not been required and is shown as an underspend.

Central Items

36. Bank and other interest was £0.4m (20%) higher than the original budget. The reduction in bank base rates during 2016 had the impact of reducing the amount of future interest that can be earned on revenue balances. However the loan portfolio has a reasonable exposure to the tail-end of longer terms loans that were placed before rates fell and this has provided some protection. Longer term rates remain

above base rates, and the portfolio is focused on adding value by taking advantage of this wherever possible.

37. Interest income has also benefitted from the consistency of income payments received on the investments in pooled property funds (£15m in 2015/16 and a further £5m in December 2016/January 2017) – see further details in paragraph 47. During 2016/17 interest of £0.6m was received and at year end the portfolio had increased in value by £0.1m after taking account of £0.2m transaction fees for the recent £5m investment.

38. The Financing of Capital budget was underspent by £0.6m, due to the County Council's strategy to take opportunities to utilise one-off revenue balances and earmarked funds to continue to reduce debt.

39. The Financial Arrangements budget was underspent by £0.8m, mainly relating to dividend income from the Eastern Shires Purchasing Organisation (ESPO) now being accrued to 2016/17 rather than being recognised when the cash is received.

40. There is a net underspend of £0.9m on prior year adjustments. This relates to a detailed review of prior year open purchase orders that are no longer required (£1m), car leasing self-insurance and provisions no longer required (£0.5m), release of various small unidentified receipts (£0.2m), offset by the potential non recovery of aged credit notes not yet taken (£0.8m).

41. On the 11 October 2016, the Cabinet approved the use of £15.6m of the forecast underspend at the time (period 5) 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 – which will help to reduce costly maintenance on aging vehicles of approximately £50,000 per annum while also ensuring they are fit for purpose.
    - Highways maintenance £5m – including road safety and flood alleviation (allocated as part of the new capital programme 2017-21)
    - Asset Investment Fund £5m – to achieve a level of return of 5%
    - Transformation / Invest to Save £3.6m – the programme will need funding for some time
    - Energy Schemes £1m – to generate a level of return of 4%. The lower return represents the different focus of this programme.

42. As part of the 2017-21 MTFS a further £6.1m, arising from forecast additional 2016/17 underspends identified between period 5 (August 2016) and period 8 (November 2016), was added to the fund the overall capital programme 2017-21.

43. On 10th March 2017 the Cabinet agreed investment of £0.5m for a speed awareness pilot.

44. The Cabinet on 11 October 2016 also 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.

45. Following the uncertainty surrounding the UK property market after the vote to leave the European Union, a decision was made to split the additional 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 the initial £5m was invested in February. Given the relative stability of the commercial property market and the lack of any expectation that capital values will rise sharply in the near future, it is likely that the balance of £5m will be invested if there are signs of market weakness and forced selling at any point in the Brexit negotiation process.

46. There has been coverage recently in the financial press regarding Local Authorities investing in commercial property. Whilst this is nothing new, for example the County Council has owned farms and industrial properties for several decades, some authorities have entered into risky practices reminiscent of the banks prior to the financial crisis. For example:

- A small borough council in the south of England borrowed £380m over 50 years to purchase an office park. Prior to the transaction the borough council had assets of only £90m. The lease to the occupier is only for 15 years.
- Investing in assets that are not easily sold but funding the transaction using short term borrowing, that is currently cheap.
- Using a high proportion of the organisations liquidity to delaying borrowing.

47. The County Council's approach to commercial property has been relatively conservative. The majority of investments have been funded using specifically allocated resources, meaning that the worst case impact upon the County Council is the loss of the revenue stream. This just places the revenue budget in the position as if the investment had never been made. The County Council has not entered into any new borrowing to fund the investments made and this position is not expected to change for future investments.

48. It is worth noting that the greater returns offered by property investment are to compensate investors for the greater risk being taken compared to short term cash deposits. The County Council is managing this risk through a variety of ways, for example; building a balanced portfolio of assets; taking a long term view of investments; using expert advisors to support decisions. The asset investment fund strategy is currently being updated and will be available for consideration in the summer.

Income

49. Additional income of £0.1m has been received regarding government section 31 grants relating to compensation for the loss of business rates income arising from a number of government policy decisions, including a further extension of the temporary increase in Small Business Rate Relief and the 2% cap on business rates in 2014/15 and 2015/16.

Additional Commitments

50. The Cabinet on 23 June 2017 approved the use of £11.1m of the net underspend to fund the following additional commitments:

- Capital Programme Future Developments £8.5m – additional funding will be required to fund a number of major schemes shown as future developments in the 2017-21 capital programme – schemes that are not yet in the main capital programme. Further information is provided in the next section.
- Transformation £2.0m – additional funding to fund the programme for the period of the new MTFS, to 2021.
- Waste Strategy Implementation £0.5m - to fund future capital works at the Recycling and Household Waste sites and also to provide a buffer to manage the impact of the expected fluctuations in the price that can be secured for the various types of recycled materials.

2017/18 Revenue Budget amendments

51. As a result of the 2016/17 provisional outturn a review has been undertaken of the most significant variations that are expected to continue into 2017/18. A number of areas have been identified where the resources allocated can be reduced. These are:

- Inflation, -£5m. The 2017/18 inflation contingency includes £5m for National Living Wage/ Fee Review increases in the Adults and Communities (A&C) department budget. Given the significant underspending on the A&C budget in 2016/17, the contingency for £5m should not be required by A&C.
- MTFS contingency -£4m. In view of the good level of certainty over the achievement of savings it is expected that this contingency will not be required and can be released.
- Business rates income, -£1.1m. The 2017/18 budget was compiled in January 2017, prior to receipt of formal returns made by the district councils to the government. The returns showed that additional "local share" income of around £1.1m is due to the County Council in 2017/18 compared with the budget included in the MTFS.

52. The Cabinet on 23 June 2017 approved that the resources above totaling £10.1m be added to the capital programme 2017-21 to provide additional needed funding for future capital developments to achieve ongoing revenue savings and support necessary service investment.

53. There is a long list of capital projects that were not sufficiently developed to be allocated funding in the 2017-21 MTFS. The 2017-21 MTFS already includes £16.7m in available funding towards these future developments. Combined with the proposed £8.5m allocation from the 2016/17 revenue budget, £10.1m from 2017/18 resources identified above and £1.1m existing fund for Loughborough University Science Park, the overall funding available for future capital developments totals £36.4m. Even at this level funding will not be sufficient across the four years and additional opportunities will need to be taken to increase available funding.

54. The major schemes included as future developments are investment in infrastructure for schools and roads arising from increases in population, investment in community speed enforcement following the pilot, a new records office and collection hub, major IT system replacements, mainly Oracle which the council has had in place since the early 1990s and additional investment in the corporate asset investment fund and energy efficiency programme to generate ongoing revenue savings and additional income. The fund could also be used for revenue priorities, for example highways maintenance.

Business Rates

55. The County Council, Leicester City Council, the Combined Fire Authority and all the Leicestershire District Councils are members of the "Leicester and Leicestershire Business Rates Pool". Provisional results for 2016/17 show a surplus of around £5.0m, which will be retained within Leicestershire rather than being returned to the government as would have been the case if the Pool did not exist. The net surplus is slightly higher than the estimate of £4.6m forecasted in January 2017.

56. 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.

57. In addition to the £5m generated in 2016/17 the Pool held a balance of £3.4m from 2015/16. Of this £2m has been paid to the LLEP and the balance of £1.4m is retained as a Pool contingency for future years.

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

General Fund and Earmarked Funds

59. The uncommitted General Fund balance as at 31 March 2017 stands at £14.8m, which represents 4.1% of the 2017/18 revenue budget, in line with the County Council's policy. The MTFS includes further analysis of the County Council's earmarked funds including the reasons for holding them. A detailed review of earmarked funds will be reported to the Cabinet in the autumn.

60. The total level of earmarked funds held for revenue purposes as at 31 March 2017 is £57.9m, excluding the ring-fenced Dedicated Schools Grant earmarked fund and monies held on behalf of other partnerships, which compares to £53.5m as at 31 March 2016. Earmarked funds for capital purposes total £45.6m as at 31 March 2017 compared with £21.4m at 31 March 2016. Earmarked funds are shown in detail in Appendix D. The main earmarked funds are set out below.

Renewals of Vehicles and Equipment (£5.6m)

61. Departments hold earmarked funds for the future replacement of vehicles (the County Council has a fleet of around 350 vehicles) and equipment such as ICT. The balance on the earmarked fund has increased to provide additional resilience to the vehicle replacement programme allocation in the Capital Programme. This will provide funding for the vehicles required to be purchased for the insourcing of the Recycling and Household Waste Sites and also provide a cushion to manage annual variations in the required replacement profile.

Industrial Properties (£1.1m)

62. These are funds generated from in year underspends over a number of years on the industrial property revenue budgets.

Insurance (£20.4m)

63. Earmarked funds of £13.2m are held to meet the estimated cost of future claims to enable the Council to meet excesses not covered by insurance policies and smooth fluctuations in claims between years. The levels are informed by advice from independent advisors. Excesses include:
    - Property damage (including fire) £500,000
    - Public / Employers' liability £250,000
    - Professional indemnity £25,000
    - Fidelity guarantee £100,000
    - Money – completely self-insured

64. The uninsured loss fund of £7.2m is required mainly to meet potential liabilities arising from Municipal Mutual Insurance (MMI) that is subject to a run-off of claims following liquidation in 1992. The fund also covers the period before the Council purchased insurance cover and the period (1993-97) that the Council was insured with Independent Insurance which is also an insurer in liquidation.

Children and Family Services

65. Supporting Leicestershire Families (£1.6m). This earmarked fund is used to fund the Supporting Leicestershire's Families service which is providing early help and intervention services for vulnerable families across Leicestershire.

66. Children and Family Services Developments (£2.7m). This general earmarked fund provides funding for a number of projects within the department such as improving management information, information access and retention and responding to changing requirements as a result of OfSTED and legislation.

Adults and Communities

67. Adults and Communities Developments (£6.8m). This earmarked fund is held to fund a number of investments in maintaining social care service levels and assisting the department in achieving its transformation. The increase in the fund compared to the forecast is due to the level of the revenue underspend and not requiring to fund

transformation projects or support staffing from earmarked funds. A review of the use of earmarked funds for 2017/18 and future years is being undertaken in the light of the additional Adult Social Care grant funding awarded in the Spring Budget, mentioned earlier in the report.

Public Health

68. Public Health (£1.8m). This fund will be used for preventative and other beneficial Public Health activities.

Environment and Transport

69. Commuted Sums (£2.6m). This funding, received from developers, is used to cover future revenue costs arising from developer schemes, where the specifications are over and above standard developments (e.g. block paving, bollards or trees adjacent to the highway). These liabilities can arise many years after the funding is received and therefore the balance on this earmarked fund has built up over time.

70. Waste Infrastructure (£1.9m). This is available to fund capital improvements to the Recycling and Household Waste Sites (RHWS) and Waste Transfer stations. The increase compared to the forecast represents the proposed additional commitments included in this report.

71. Leicester and Leicestershire Integrated Transport Model (LLITM) (£1.2m). This earmarked fund is for money generated from charging other local authorities for using the model. Surplus income is added into the fund and will be used to finance activity to refresh the model when required in around 3 years' time. Updating the LLITM is important to ensure it accurately predicts the impact of future prospective developments and supports potential bids for future major schemes.

72. E&T Developments / advanced design (£1.4m). This earmarked fund is used to fund feasibility studies and advance design works to enable bids to be made (and provide some match funding) for major capital schemes to improve the transport infrastructure supporting expected growth in Leicestershire. The increase compared to the forecast is mainly due to money returned to the authority from the Road Safety Partnership which will be utilised to manage the implementation of measures being undertaken to generate savings being delivered under saving ET8 in the MTFS 2017-21.

Chief Executive's

73. Economic Development (£1.4m). This is held to provide funding for economic development proposals and for a business loan scheme that provides a gradual return of funding to the County Council.

Corporate

74. Transformation Fund (£21.3m). The fund is used to invest in transformation projects to achieve efficiency savings and also fund severance costs. To achieve the level of savings within the MTFS the Council will need to change significantly and this will require major investment, including in some of the core 'building blocks' of

transformation such as improvements to data quality, and improvements to digital services enabling more self-service. The increase compared to the forecast is due to the proposed additional commitments included in this report.

75. Broadband (£5.4m). This fund was established to allow the development of super-fast broadband within Leicestershire. A contract has been entered into with BT and they have commenced work. There is a significant time lag in spending County Council funds as a result of securing grant funding from Central Government and ERDF that required those funds to be spent first and within a set period. The funding is earmarked to phase 2 of the programme.

76. Business Rates Retention (£1.4m). This fund was established following the introduction of the Business Rates Retention system in 2013 and is held as a contingency to fund potential shortfalls in business rates income impacting in later years, especially the risk of large appeals and fluctuations in Business Rates income.

77. Local Authority Mortgage Scheme (-£8.4m). The County Council has invested £8.4m in the Local Authority Mortgage Scheme to make it easier for first time house buyers to obtain mortgages and thus stimulate the local housing market and benefit the wider local economy. Investment of £3m in 2013/14 and £5.4m 2012/13 has been advanced to Lloyds bank, temporarily funded from the overall balance of earmarked funds. The funding will be returned to the County Council, 5 years after the date it was advanced, in 2017/18 and 2018/19.

78. Pooled Property Fund(s) (-£20.0m). The Cabinet on 11 September 2015 approved the investment of £15m of the Council’s earmarked funds into a pooled property fund. A further investment of up to £10m was approved by the Cabinet on 11 October 2016. The investments are held to achieve higher returns than if the funds were invested as cash. The investment is funded from the overall balance of earmarked funds and can be realised in the future when required.

Capital

79. Capital Financing (£19.3m). This fund is used to hold MTFS revenue contributions to fund capital expenditure in future years. The increase at year end is due to slippage on the overall capital programme.

80. Future Developments (£26.3m). This is additional funding to support future capital programme developments, covered earlier in the report. The dedicated earmarked fund for the Loughborough University Science Park has been amalgamated into this fund for consistency. Including the proposed £10.1m from the 2017/18 MTFS the balance will be £36.4m in 2017/18.

Schools / Partnerships Earmarked Funds

81. Dedicated Schools Grant (£2.8m). DSG is ring fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School and Early Years Finance (England) Regulations. Any underspend on services funded by DSG must be carried forward and ring fenced to those services. This fund is earmarked to fund any deficit budget that reverts back to the local authority as

maintained schools move into sponsored academy arrangements and also to meet the revenue costs of commissioning places in new schools and has supported the high needs block overspend in 2016/17.

CAPITAL PROGRAMME

82. The updated capital programme for 2016/17 totals £103.0m, including funding carried forward from the 2015/16 capital outturn relating to slippage on schemes.

83. A summary of the capital outturn for 2016/17, excluding schools devolved formula capital, is set out below:

Programme Area	Updated Budget £000	Actual Expenditure £000	(Under)/Over spend £000	%
Children and Family Services	29,320	32,555	3,235	111%
Adults and Communities	4,897	4,483	(414)	92%
Public Health	293	293	0	100%
Env't & Transport - Transportation	43,135	44,005	870	102%
Env't & Transport - Waste Management	1,138	133	(1,005)	12%
Chief Executive's	4,625	2,526	(2,099)	55%
Corporate Resources	5,028	4,233	(795)	84%
Corporate Programme	14,543	9,915	(4,628)	68%
Total	**102,979**	**98,143**	**(4,836)**	**95%**

84. A summary of the key achievements and main variations are set in the following paragraphs below. Further details of the main variations are provided in Appendix E.

85. Appendix F compares the provisional prudential indicators with those set and agreed by the Council, at its budget meeting in February 2016. These are all within the limits set except for the capital financing requirement, £268m compared with £266m. At the time the indicator was set, this included an estimated £2m contribution towards voluntary minimum revenue provision (MRP), to be funded from 2015/16 revenue underspends. A decision was subsequently taken at the outturn not to make the contribution and to use the funds for other strategic investment priorities.

Children and Family Services

Key Achievements

86. The 2016/17 programme delivered an additional 1,100 school places, saw the completion of the Fossebrook Primary School in August 2016 and completed the refurbishment of the former Mount Grace High School to provide extended accommodation for Hinckley Parks Primary School.

Main Variances

87. The year end position shows net acceleration of £3.2m compared with the updated budget. The main variances are reported below.

88. School Accommodation Programme – acceleration of £1.5m. Acceleration of a new primary school in Birstall (Hallam Fields) due to works being completed earlier than anticipated. The new school is scheduled to be completed in July 2017 and open at the start of the 2017/18 academic year.

89. Wigston Area Special School - acceleration of £1.1m. Works completed ahead of schedule with the new school now scheduled to be completed in July 2017 and to open at the start of the 2017/18 academic year.

90. School Accommodation Programme 10+ - acceleration of £0.9m. Works have been completed earlier than anticipated and include the following schemes, Long Whatton Primary School, Oadby Brookside Primary School, Oadby Brockshill Primary School and Shepshed St. Botolph's School.

91. Strategic Capital Maintenance – slippage of £0.3m due to delays across a number of smaller projects. The programme of funding includes boiler replacements, structural repairs and electrical works at schools.

Adults and Communities

Key Achievements

92. Extra Care Loughborough. The Council's contribution towards the provision of 60 units is progressing well with completion of the development expected in Summer 2017.

93. Syston Smart Library. The installation of smart technology to enable people to access a library outside of usual opening hours is currently being trialled in Syston offering 24 additional opening hours per week through smart access. Users will be able to use their library card to access the building in order to borrow, return and renew items or use the public computers, wi-fi and printing and copying facilities.

Main Variances

94. The year end position shows a slippage of £0.4m compared with the updated budget. The main reasons are:
    - Changing Places, £0.2m.
    - Replacement of mobile libraries, £0.2m.

Public Health

95. The actual expenditure is in line with the updated budget.

Environment and Transportation – Transportation

Key Achievements

96. £5.2m (funded from external sources) was spent on the new M1 Bridge to help deliver growth and infrastructure in Lubbesthorpe and Leicestershire. It was completed in November 2016 and will be opened to the public in July 2017 following completion of internal roads by the developer. The opening of the bridge and link road will allow

access to the houses already occupied and others being built at the Beggars Lane end of the development.

97. A total of £11m has been spent on the Strategic Economic Plan, mostly funded through the LLEP. Schemes include:

- Lubbesthorpe SES, £3.3m - work at the B4114 junction and the new access into the employment site progressed well in 2016/17 with minimal disruption to the travelling public and were completed in May 2017
- M1 J22, £3.9m – Improvements to the M1 J22 roundabout were completed in August 2016 and feedback from the public regarding the improvements has been very positive.
- A42 J13, £0.8m – work to improve the junction started in late 2016/17 following the completion of M1 J22 works. The scheme is on track for completion this summer and will be followed by improvements to a nearby junction funded under the National Productivity Investment Fund.
- Leicester North West, £1.1m - works to improve the A50 corridor entering Leicester were completed in summer 2016, with traffic flows being much improved. The next phase of the programme is being developed by Leicester City Council and is currently out for public consultation.
- Hinckley Phase 3, £1.7m - Phase 3 of the works to improve walking, cycling and public transport provision was completed in Autumn 2016 with the development of phase 4 schemes for delivery in 2017/18 progressing well.

98. The programme to replace all Street lights in Leicestershire with LED Lanterns is progressing ahead of schedule. £12.2m was spent on replacing over 45,000 lights. The programme has resulted in a significant reduction in on-going energy costs and the work is expected to be completed by March 2018.

99. A total £12.8m was also delivered on Highways Asset Maintenance, including:
    - £10.2m on carriageways
    - £0.9m on footways and rights of way
    - £1.0m on bridge maintenance and strengthening
    - £0.4m on flood alleviation
    - £0.2m on traffic signal renewal
    - £0.1m on other activity including joint sealing

Main Variances

100. The year end position shows a net acceleration of £0.9m compared with the updated budget. The main variances are reported below:

101. M1 Junction 22 scheme – overspend of £1.0m. Gross additional costs of £1.8m 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 were 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.

102. A42 Junction 13 – slippage of £2.4m 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.

103. Lubbesthorpe Strategic Employment Site Access – underspend of £1.0m and slippage of £0.7m. This scheme was 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 will finish in 2017/18 and the delay has resulted in some expenditure slipping into the next financial year.

104. The above three schemes are all part funded by the LLEP through the Single Local Growth Fund where the grant can be used across the three schemes.

105. Flood Alleviation scheme – underspend of £0.2m due to cost savings and enhanced flood investigations being carried out resulting in the removal and de-scoping of some schemes.

106. Advanced Design work - slippage £2.1m due to several schemes that are to be designed in the new financial year and match funding which is to be aligned with future schemes should the department be successful in obtaining external funding.

107. Fleet Renewal scheme – slippage of £1.6m 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.

108. Street Lighting LED invest to save scheme – acceleration of £7.3m. A revised profile of works and additional installation gangs have been contracted to accelerate the programme and associated savings.

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

Key Achievements

109. The programme of small improvements and works to ensure Environmental compliance at the Recycling and Household Waste Sites (RHWS) and Waste Transfer Stations (WTS) has continued. This work builds upon the previous successes and underpins the County Council’s commitment to providing a high quality service.

Main Variances

110. The year end position shows a net variance of £1.0m compared with the updated budget. The main reasons are:

- 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 £0.3m due to the transition arrangements arising from the departmental restructure and works which are subject to agreement with the Environment Agency.

<u>Chief Executive's</u>

Key Achievements

111. Rural Broadband Scheme. The Superfast Leicestershire rural broadband programme is ensuring access to high-speed fibre broadband to rural businesses and communities – boosting business growth and ensuring access to a range of existing digital services. Phase 2 which is the Superfast Expansion Programme is expected to complete in 2017/18.

Main Variances

112. The year end position shows slippage of £2.1m compared with the updated budget. This is due to the revised profile of works. Phase 2 is expected to be completed in 2017/18 when the BDUK grant will also be received.

<u>Corporate Resources</u>

Key Achievements

113. Investment in the ICT infrastructure of £0.5m on:
    - Customisation and roll out of the replacement Intranet which has enabled more efficient sharing of information and smarter working practices.
    - Investment in new Print Equipment will enable the Print team to bid for more work and deliver more orders, leading to an increase in sales figures.
    - Corporate infrastructure for Virtual Desktop Integration (VDI) procured, designed and built. Rollout of VDI completed throughout County Hall and begun at satellite sites across the county, in line with the County Hall Masterplan. VDI is a key enabler of smarter working.

Main Variances

114. The year end position shows net slippage of £0.8m compared with the updated budget. The main variances include:
    - Corporate ICT Capital Programme - slippage of £0.5m, mainly relating to the Unified Telephony / Skype phase 2 project which will now be completed in 2017/18.
    - Demolition of Vacant Buildings – slippage of £0.3m on the replacement of playing field at Melton KE VII site due to water logging in February.

Corporate Programme

Key Achievements

115. Corporate Asset Investment Fund – North Kilworth Walton Holt Farm was purchased for £3.5m (including on-costs) and £4.6m was spent on the Harborough Accelerator Zone (Airfield Farm).

116. Corporate Energy Strategy - £0.4m has been spent on upgrading lighting, boilers and heating controls at County Council premises.

117. Energy Score + Programme - £0.2m has been spent completing works at the Bosworth Academy on Solar PV panels and LED lighting. This will deliver on-going revenue savings for the school

Main Variances

118. The year end position shows overall net slippage of £4.6m compared with the updated budget. The main variances are:

- Corporate Asset Investment Fund – net slippage of £2.2m. The main area of slippage relates to the Coalville Workspace Project due to planning delays and awaiting grant funding.
- Loughborough University Science Enterprise Park – £1.4m. Loughborough University are reviewing the project resulting in the need to revise the profile of spend. The project has now been included in the MTFS 2017-21 as a future development.
- Energy Strategy Invest to Save – acceleration, £0.5m, on a number of small scale energy efficiency measures, including boilers, heating controls and LED lighting upgrades.
- Rural Workspace project – slippage £0.9m. Delays in achieving planning permission on the three schemes at, Billesdon, Leaders Farm Lutterworth and Quorn.
- Countesthorpe, The Drive – slippage £0.5m. The re-provision of the nursery has been delayed while a review of alternatives is being undertaken.

Capital Receipts

119. The actual level of general capital receipts achieved in 2016/17 was £12.7m compared with the target 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.

Circulation under the Local Issues Alert Procedure

None.

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Appendices

Appendix A - Comparison of 2016/17 Expenditure and the Updated Revenue Budget
Appendix B - 2016/17 Carry Forward requests requiring Cabinet approval
Appendix C - Revenue Budget 2016/17 – main variances
Appendix D - Earmarked Fund balances 31/3/17
Appendix E - Variations from the updated 2016/17 capital programme
Appendix F - Prudential Indicators 2016/17

Background Papers

Report to the Cabinet - 27 June 2006 – Provisional Revenue Outturn 2005/06 (regarding guidelines for carry forward requests)
http://politics.leics.gov.uk/Published/C00000135/M00001410/AI00013352/$DProvisionalRevenueOutturn0506includingAppendix3.doc.pdf

Report to the County Council – 17 February 2016 – Medium Term Financial Strategy 2016/17 to 2019/20
http://politics.leics.gov.uk/documents/s116677/SUPPLEMENTARY%20REPORT%20OF%20THE%20CABINET.pdf

Report to Cabinet 11 October 2016 – MTFS Period 5 Monitoring
http://politics.leics.gov.uk/documents/s123005/FINAL%20-%20MTFS%20P5%202016-17%20monitoring%20report.pdf

Report to the County Council – 22 February 2017 – Medium Term Financial Strategy 2017/18 to 2020/21
http://politics.leics.gov.uk/documents/s126527/MTFS%202017%20-2021.pdf

Report to the Cabinet – 23 June 2017 – 2016/17 Provisional Revenue and Capital Outturn
http://politics.leics.gov.uk/documents/s129536/FINAL%20201617%20Provisional%20Revenue%20and%20Capital%20Outturn.pdf

Equal and Human Rights Implications

There are no direct implications arising from this report.