SCRUTINY COMMISSION – 15TH NOVEMBER 2017

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

2017/18 MEDIUM TERM FINANCIAL STRATEGY MONITORING (PERIOD 6)

Purpose of Report

1. The purpose of this report is to provide members with an update on the 2017/18 revenue budget and capital programme monitoring position.

Policy Framework and Previous Decisions

2. The 2017/18 revenue budget and the 2017/18 to 2020/21 capital programme were approved by the County Council at its budget meeting on 22 February 2017 as part of the Medium Term Financial Strategy (MTFS). The MTFS is monitored throughout the financial year.

3. The Cabinet on 23rd June 2017 approved the following revisions to the 2017/18 revenue budget:

   - MTFS contingency not required: £4m
   - Inflation contingency – National Living Wage/ Fee Review increases in the Adults and Communities department budget not required: £5m
   - Business rates retained income – returns by districts indicate additional ”local share” income due to the County Council: £1.1m
   - The £10.1m funding released by the changes above was added to the Revenue Funding of Capital budget to provide additional funding needed for future capital developments to achieve revenue savings and support necessary service investment.

4. The Cabinet on 15th September 2017 approved that £0.7m of the central inflation contingency balance be released to provide funding for the following issues relating to the Environment and Transportation department:

   - to improve response times in repairing reported pot holes: £0.5m
   - to manage school parking issues better (zig zag enforcement): £0.2m

Background

5. The latest revenue budget monitoring exercise shows a net projected underspend of £5.4m.

6. The latest capital programme monitoring exercise shows net slippage of £4.1m.

7. 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

8. The latest revenue budget monitoring exercise shows a net projected underspend of £5.4m (£0.3m in Period 4). The results of the exercise are summarised in Appendix 1 and details of major variances are provided in Appendix 2.

Children and Family Services

Dedicated Schools Grant (DSG) Budget

9. There is a forecast overspend of £1.0m on the DSG High Needs Block. This will be funded from the DSG earmarked fund. The main variances relate to the following:

10. The Specialist Teaching Service is forecast to overspend by £0.4m; transformation of these services was delayed pending the recruitment of a service lead which will delay the £0.8m MTFS saving. This is partially offset by savings generated through non-recruitment to vacancies pending the restructure of these services. The project to deliver the restructure is now underway but full savings will not be realised until 2018/19.

11. An overspend of £0.3m is forecast on placements for pupils with Special Educational Needs (SEN) mainly due to a shortfall in meeting the savings target of £0.7m. Final pupil destinations for the 2017/18 academic year are now being confirmed and it is likely this overspend will be recovered over the remainder of this financial year. Progress on reducing placements at independent schools has been significant, despite total demand increasing. Expenditure at independent schools is expected to be similar to the 2016/17 level resulting in an underspend of £1.7m against budget. In previous years expenditure with independent schools increased significantly whereas this year additional capacity, particularly in special schools in the county, has been developed and reduced the number needing independent provision.

Local Authority Budget

12. An overspend of £3.9m (6.3%) is forecast on the local authority budget which is inclusive of additional posts in order to enable the department to deliver the Ofsted action plan where growth of £2m will be formalised within the 2018/19 MTFS.

13. Social care staffing budgets are estimated to overspend by £1.6m in total. Additional posts have been agreed in order to respond to issues highlighted by the Ofsted inspection in relation to caseloads and to respond to the post inspection action plan. Pending recruitment it has been necessary to engage agency staff for the additional posts and to provide capacity to cover vacant posts.

14. Projections show a forecast £2.1m overspend on the Social Care Placement Budget. Over the past five years the County Council has seen a significant growth in its Looked After Children (LAC) population, which has risen by 36% (an average of 7% each year, from 375 in March 2012 to 510 in March 2017) and is projected to be 550 by the end of the current financial year. Many other authorities are experiencing similar pressures with the LGA reporting 75% of Councils overspending and a cumulative pressure of £600 million. Even with the rise LCC's the County Council's overall comparative rate remains low, however the Council's use of residential care is high which given the very large cost of these kinds of placement is one of the main drivers for the increase in expenditure in this area. A Care Placement Strategy is being developed as part of the Transformation Programme with the aim of more effectively managing the main aspects of the Looked After Children's System to where possible impact upon demand and reduce costs. An action plan setting out a range of actions aimed to reduce the costs of placement was presented within the Period 4 budget monitoring reports to the Cabinet and the Scrutiny Commission.

15. Recruitment to Heads of Service is now complete, however the need to engage interim staff pending permanent positions being filled will result in an overspend of £0.4m within the Directorate.

16. An overspend of £0.6m is forecast on the legal services budget as the number of court proceedings has increased. Additional funding to address this budget pressure is included within the £2m referred to above and accounts fully for the overspend.

17. Information, Advice and Guidance (IAG) is forecast to underspend by £0.4m. The current contract for the provision of this service from October 2017 at a reduced cost results in early achievement of the MTFS saving planned for 2018/19.

Adults and Communities

18. The Department is forecasting a net underspend of £3.9m (2.9%). The main variances are set out below.

19. The department's outturn position for 2016/17 was a £10.9m underspend, some of which will recur in 2017/18. £4m has already been adjusted for in the 2017/18 budget, as the underspend was forecast before the budget was set. A further £5m adjustment is mentioned earlier in this report and will be used to fund inflation increases on contract spend. The net effect of these adjustments is to reduce the impact on the 2017/18 budget to a c. £2m underspend.

20. The Community Income variance is £1.1m for the current year due to increased income from service users. The position is after a £1.6m budget transfer to Home Care, for Health income received for additional service users compared with the original budget estimates. Health costs and income relating to Help to Live at Home (HTLAH) have a net zero impact, hence were not budgeted for until the magnitude could be more accurately estimated.

21. Direct Payments is forecast to underspend by £1.2m. This mainly relates to the clawback of unused balances on payment cards (£2.0m), offset by an increase in cost of service user packages (£0.8m). A programme of work is being undertaken under MTFS saving 'AC5 effective management of Direct Payments and Personal Budget allocation' to address the issue of over allocating the initial financial package. Initiatives are being implemented as a part of the review work to date and include:

    - A training plan and accompanying guidance for staff to ensure that staff understand how the DP cards work and that they communicate this effectively to their service users when they are set up.
    - Checking to ensure that the DP card has been activated and that the service user has set up direct debits appropriately to pay their provider(s).
    - A social care worker has been recruited to work, aligned to the Direct Payment Card team, to assist in reviewing care packages for accounts with balances over 8 weeks' worth of the value of the Direct Payment.

22. Residential and Nursing Care is forecast to underspend by £0.8m. Expenditure in the financial year is £1.5m below budget due to additional service user income, reduction in the number of service users and lower average care package costs. However, this has been offset by backdated arrears relating to the previous years (£0.8m). The department is implementing an action plan to reduce the instance of arrears in future through implementing a Best Practice Panel to ensure the quality and timeliness of care packages.

23. The in-house provision of care services is underspending (£0.5m) due to a combination of lower demand and vacancies being held in advance of the savings requirement.

24. Other staffing areas are underspending (£0.7m); some of this is temporary relating to vacancies arising following the departmental restructure and are filled with agency staff. However it is anticipated that some of this underspend will benefit future financial years, particularly towards the resolution of posts with temporary funding.

25. Homecare is forecast to overspend (£0.5m) due to a large increase in the number of service users in the past month. This is being investigated to establish whether these are new starters to the Homecare service or they have transferred from different services.

26. The other areas of community care services are all underspending marginally (£0.4m), mainly due to lower than forecast growth.

27. As in previous years the profile of service users and their care needs are constantly changing which may impact on the services commissioned. Detailed work is being undertaken to monitor the impact on the budget, which can be significant with demand led expenditure totalling c£160m.

Public Health

28. The Department is forecast to achieve a net underspend of around £0.1m. There is a significant underspend on Local Area Co-ordination (£0.4m) due to a change in approach to target the service to priority areas rather than covering all of the County. There is an overspend (£0.4m) from proposals for the Sexual Health Service to move premises, which is expected to generate future savings. Early achievement of Early Help and Prevention review savings targets has generated the remainder of the underspend.

Environment and Transport

29. The Department is forecast to have a net underspend of around £1.3m (1.9%).

Highways

30. Underspends are forecast on Street Lighting Energy (£0.1m) due to early realisation of savings, Management and Training (£0.2m) and Highways Delivery staffing and administration (£0.2m) due to vacancies. These are partly offset by overspends on Winter Maintenance (£0.1m) due to changes to shifts/rota and Environmental Maintenance (£0.2m) from additional forestry work required due to safety critical issues requiring attention, and additional jetting required to unblock gulleys.

Transportation

31. Underspends on Mainstream School Transport (£0.3m) and Public Bus Services (£0.2m) are partly offset by overspends on Special Educational Needs Transport (£0.1m), Social Care Transport (£0.2m) and Concessionary Travel (£0.1m) (all demand led services).

Environment and Waste

32. Underspends are forecast on the following:

- Composting contracts (£0.2m), due to lower tonnages than forecast.
- Recycling and re-use credits (£0.2m) arising from a combination of tonnages being lower than expected and the reserve made in the 2016/17 accounts being more than the final costs that were incurred.
- Additional income from recyclable materials (£0.3m) as a result of the insourcing of the RHWS and the recyclable materials market being more buoyant than expected (although these material prices can fluctuate significantly).
- Forecast income (£0.1m) from trade waste is more than budgeted.
- Landfill (£0.1m) due to lower tonnages; other savings from diversion to energy from waste are offset by additional treatment and haulage costs.

Chief Executives

33. The Department is forecast to have a net underspend of £0.5m (5.3%). Growth of £150,000 for a contribution to the running of the proposed Combined Authority will not be required due to a delay in the decision by the Government. There are vacancies in a number of areas and additional one-off income.

Corporate Resources

34. Corporate Resources is forecasting a net underspend of £0.4m (1.3%), primarily from staffing and other early savings ahead of future savings in ICT, Human Resources, Strategic Finance and the Customer Services Centre.

Carbon Reduction Commitment (CRC)

35. The CRC requirement for 2017/18 is forecast to be around £80,000 less than the original budget, reflecting reduced energy usage, particularly on street lighting as a result of the acceleration of the capital investment.

Contingencies and proposed investment

36. Transfers of £4.9m have been made from the updated inflation contingency, mainly relating to the 2017/18 pay award, increases in employer pension contributions, the Apprenticeship Levy, inflation required on transport and waste budgets and transfers of additional one-off funding to transport for pot hole repairs and school parking issues.

37. A balance of £3.4m remains in the contingency, to cover running cost and other inflation issues. It is estimated that around £3m of the contingency will not now be required and can be released as an underspend.

Central Items

38. Additional expenditure of £0.8m is forecast on the Revenue Funding of Capital heading, relating to the transfer of Pooled Property Fund investment income to a separate earmarked fund, to provide funding for future capital developments.

39. The Central Expenditure heading shows a balanced position in net terms. There are savings of £60,000 relating to the Members Expenses and Support budget, due to a new structure being introduced in September to replace three political assistant posts with a Policy Advisor to the Executive. This is offset by an overspend on the Local Council Tax Support Scheme administration contributions budget, following the Cabinet decision on 10th October 2017 to continue contributions for the second half of 2017/18

40. Increased interest income of £0.5m is forecast, mainly due to higher balances than originally estimated.

Business Rates

41. Section 31 grants are received regarding compensation for the loss of business rate income arising from various business rates reliefs granted by the Chancellor of the Exchequer. The 2017/18 MTFS included a forecast of £1.5m, however information subsequently received from the Government indicates a total of £1.8m will be due.

42. The County Council is undertaking quarterly monitoring with the District Councils and Leicester City Council regarding the 2017/18 Leicester and Leicestershire Business Rates Pool. The latest forecasts show a potential surplus of around £6.1m in 2017/18 compared with a forecast of around £5.9m in January 2017.

43. The Pooling Agreement allows for any surplus to be transferred to the Leicester and Leicestershire Enterprise Partnership (LLEP) for investment in the wider sub-regional area.

Revenue Summary

44. At this stage there is a projected net underspend of £5.4m. There are potential commitments that can be funded from the underspend. These are:

    - Temporary extension of discretionary discount fund contributions for 2018/19 to allow time for districts to plan for the impact of withdrawal of County Council support (£0.1m).
    - Additional commitments for Environment and Transport requirements (£2m). This will be used to extend the improved response times in repairing pot holes funding to two years, to provide funding for the implementation of recommendations on managing school parking issues and to provide general support of highways expenditure in 2018/19. This will bring additional Environment and Transport funding provided from current year underspends to a total of £2.7m.

45. There are other potential future commitments that may need to be funded from any further underspend (and other funding). These include:

    - Future capital developments – requirements currently exceed identified funding.
    - Ash Dieback – works to tackle the impact which could cost in the region of £5m over the next few years
    - “Sleep in” shifts in Social Care - following a recent ruling that workers should be paid the national minimum/ national living wage. Third party providers will be liable, as the employing organisation. However, they may seek to recover costs from the County Council.
    - Transformation – continue investment which is funded from one-off funding.

CAPITAL PROGRAMME

46. The capital programme for 2017/18 totals £87.0m, including slippage of £3.6m from 2016/17. At this stage net slippage of £4.1m (4.7%) is forecast (£3.7m in period 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. The main variances are reported below and in more detail in Appendix 4.

Children and Family Services (C&FS)

49. The latest forecasts show net underspend of £0.8m compared with the updated budget. The main variances are:

- Provision of additional primary places - £1.2m underspend as all necessary places for September 2017 have been delivered. Unallocated resources, after funding overspends elsewhere within the C&FS programme, will be carried forward as slippage to 2018/19 for the development of place requirements for September 2018.
- 10+ Structure Change Programme - £0.5m forecast overspend across various schemes, final costs have exceeded budget mainly due to planning issues.

50. The current position excludes the impact of a new policy in relation to sprinklers and fire safety to existing and new school buildings. There is also a risk to deliverability of projects pending agreement of the local authority's approach to this issue. The impact will need to be included in the new MTFS for 2018-22.

Adults and Communities

51. The latest forecast shows slippage of £0.6m compared with the updated budget. The main variances are:

- Mobile Libraries - £0.3m slippage as further mobile library vehicles are not expected to be purchased in 2017/18. A decision on whether to use the remaining funding will be taken after the report to the Cabinet in September 2017 on the implementation of the Communities and Wellbeing Strategy.
- Changing Places - £0.2m slippage as no identified schemes deliverable in 2017/18. There are potential schemes planned to take place in 2018/19.
- Smart Libraries - £0.1m slippage, as the procurement award is likely to occur in late 2017, therefore planned works in 2017/18 at this stage are unlikely and are most likely to occur in 2018/19.

Environment and Transport – Transportation Programme

52. The latest forecast shows net acceleration of £3.5m compared with the updated budget. The main variances are:

- LED Street Lighting - £4.8m acceleration of scheme to enable early finish and therefore early realisation of savings; additional installation gangs have been contracted.
- Transport Asset Management schemes - £0.3m overspend arising from additional patching and surface dressing pressures, partly offset by slippage on some scheme works including drainage and bridge maintenance.
- Zouch Bridge - £1.3m slippage as land purchase is being protracted. A Compulsory Purchase Order is expected to take place in 2017/18 with construction commencing in early 2018/19.
- Melton Depot - £0.3m slippage due to delays in finding an appropriate location for the new depot.

Corporate Resources

53. The latest forecast shows a net underspend of £0.4m. The main variances are:

- Loughborough, Pennine House Area Office - £0.5m underspend due to a reduction in the refurbishment works required.
- Snibston Country Park - £0.2m slippage. Plans for the Country Park have now been submitted to the District Council, awaiting outcome in December 2017.
- ICT WAN Replacement - £0.1m acceleration. Tender exercise is underway and expected to be completed in October.

Corporate Programme

54. The latest forecast shows net slippage of £5.9m compared with the updated budget. The main variances are on Corporate Asset Investment Fund projects:

- Coalville Workspace - £6.9m slippage- the scheme is not financially viable and is being redesigned and re-costed.
- Harborough Accelerator Zone (Airfield Farm) - £1.8m slippage – commencement of work has been delayed until February/March 2018.
- Asset Acquisitions/ New Investments (including projects at Leaders Farm and Lutterworth East) – Acceleration of funding set aside in future years, £2.6m.

Capital Future Developments

55. The overall funding available for future developments currently totals £37.2m.

56. Several projects are being worked up. At this stage approval has been given to the following:

Workspace Strategy
- Refurbishment of the former Fire Service cottages in Anstey Frith House (£0.5m)

Corporate Asset Investment Fund projects
- Lutterworth East (£4.5m)
- Loughborough University Science and Enterprise Park (LUSEP) (£22.0m)

- Leaders Farm, Lutterworth (£6.0m)
- Lichfield South office park (£10.8m)
- Acquisition costs -stamp duty, fees etc (£2.3m)

57. There is a long list of projects requiring funding over the next 4 years. These include investment in infrastructure for schools and roads arising from increases in population, investment in community speed enforcement depending on the outcome of 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. As schemes develop, they will be assessed and if agreed, funding released from the future development fund.

Capital Receipts

58. The latest forecast of general capital receipts in 2017/18 is £10.9m compared with the revised budget of £6.2m. The increase to budget at year end will be carried forward to fund future capital programmes as part of the MTFS.

Recommendation

59. The Scrutiny Commission is asked to note the contents of this report.

Background Papers

Report to 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 Cabinet – 15 September 2017 – 2017/18 Medium Term Financial Strategy Monitoring (Period 4) and Investment Proposals

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

Circulation under the Local Issues Alert Procedure

None.

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

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Equality and Human Rights Implications

There are no direct implications arising from this report.

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