SCRUTINY COMMISSION – 7 MARCH 2018

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

2017/18 MEDIUM TERM FINANCIAL STRATEGY MONITORING (PERIOD 10)

Purpose of Report

1. 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 23 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 15 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 £7.4m.

6. The latest capital programme monitoring exercise shows net acceleration of £1.0m.

7. The monitoring information contained within this report is based on the position as at Period 10.

REVENUE BUDGET

8. The latest revenue budget monitoring exercise shows a net projected underspend of £7.4m. 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 £1.4m on the DSG Budget. This will be funded from the DSG earmarked fund. The main variances relate to the following:

10. An overspend of £0.7m is forecast on placements for pupils with Special Educational Needs (SEN) mainly due to a shortfall in meeting the savings target of £0.7m as a result of increasing demand. Progress on reducing placements at independent schools has been significant, with a reduction in expenditure resulting in a saving of £1.6m against this element of the budget. In previous years expenditure with independent schools increased significantly whereas this year additional capacity, particularly through the development of specialist autism units, has been developed and reduced the number needing independent provision.

11. 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.

Local Authority Budget

12. An overspend of £4.4m (7.2%) 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 has been formalised within the 2018/19 MTFS. The main variances relate to the following:

13. 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 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 565 by the end of the current financial year.

14. Many other authorities are experiencing similar pressures with the Local Government Association reporting 75% of Councils overspending and a cumulative pressure of £600 million. Even with the rise the County Council's overall comparative rate of Looked After Children 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 placements was presented within the Period 4 budget monitoring reports to the Cabinet and the Scrutiny Commission.

15. Social care staffing budgets are estimated to overspend by £2.1m. 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.

16. An overspend of £0.5m is forecast on the legal services budget as the number of court proceedings has increased.

17. 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 £0.5m within the Directorate.

Adults and Communities

18. The Department is forecasting a net underspend of £4.4m (3.3%). 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. Residential and Nursing Care is forecast to underspend by £3.5m. Expenditure on placements in the financial year is below budget due to additional service user and health income (£1.8m), reduction in the number of service users (£1.8m) and lower average care package costs (£1.0m). This has been offset by backdated arrears relating to the previous years (£0.8m) and the costs of debt management (£0.2m). The department is implementing reviews of high cost placements which are contributing to the reduction in costs and an action plan to reduce the instance of arrears in future through implementing weekly reviews of quality and timeliness of care packages. Debts have been rising in recent years requiring additional

investment in debt management. These costs were being funded from one off earmarked funds but due to the underspend can be funded from this budget.

21. Direct Payments (DP) is forecast to underspend by £1.3m. This mainly relates to the clawback of unused balances on payment cards (£2.1m), 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 Allocations’ to address the issue of over allocating the initial financial package. Other Initiatives are being implemented as a part of the review work and to date 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).
- Investigating the possibility of paying Direct Payments in arrears to avoid overpayments.
- A social care worker has been recruited to work, aligned to the Direct Payment Card team, to assist in the clawing back of funds over 8 weeks’ worth of the value of the Direct Payment.

22. The Community Income budget is forecast to underspend by £0.9m in the current year due to increased income from service users.

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

24. Other staffing areas are overspending by £1.1m. This is due to the number of vacancies arising following the departmental restructure which are filled with agency staff. The department is in the process of recruiting to the vacant posts which will reduce the agency costs in the future. In addition, there is £0.6m forecast spend on the department’s transformation programme. Due to the Government’s focus on Adult Social Care expenditure compared to previous years, and the overall departmental underspend, contributions of £1m from earmarked funds to offset part of these costs will not be used.

25. 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 continues to be undertaken to monitor the impact on the budget, which can be significant with demand led expenditure totalling c£160m.

Public Health

26. The Department is forecast to achieve a net underspend of £1.1m. The main variances relate to an underspend on Local Area Co-ordination (£0.5m) due to a change in approach to target the service to priority areas rather than covering the entire County, and an underspend due to reduced numbers of Health Checks being

undertaken (£0.2m). Part of the net underspend is being invested in new Sexual Health accommodation – explained in more detail later in the report.

Environment and Transport

27. The Department is forecast to have a net underspend of £0.9m (1.3%).

Highways

28. A net overspend of £0.6m is forecast. Overspends are forecast on winter maintenance (£0.4m) due to changes to shifts/rota and poor weather conditions (especially in December 2017), reactive maintenance (£0.3m) from repairs to a number of safety critical activities, road safety (£0.2m) from reduced use of earmarked funds and environmental maintenance (£0.2m) from additional forestry work required due to safety critical issues requiring attention, additional drainage repairs and additional jetting required to unblock gullies.

29. These are offset by underspends forecasted on staffing and administration for highways delivery and highways commissioning (£0.2m) due to vacancies and additional income, street lighting energy and maintenance works (£0.2m) due to early realisation of savings, highways management and training (£0.1m) due to vacancies.

Transportation

30. A net underspend of £0.4m is forecast. Underspends are forecast on mainstream school transport (£0.5m) due to contract efficiencies and lower demand for services, public bus services (£0.2m) and staffing (£0.1m). These are partly offset by overspends on concessionary travel (£0.3m), special educational needs transport (£0.1m) and social care transport (£0.1m) (all demand led services).

Environment and Waste

31. A net underspend of £1.3m is forecast. Underspends are forecast on Landfill (£0.4m, net of additional treatment contract costs), and composting contracts (£0.1m) both due to lower tonnages than forecast including additional diversion to energy from waste facilities. Recycling and re-use credits are forecast to underspend (£0.4m) from a combination of tonnages being lower than expected and the estimated accrual made in the 2016/17 accounts being more than the final costs that were incurred. Forecast income (£0.1m) from trade waste is greater than budgeted and additional income from recyclable materials is forecast (£0.2m) 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).

Departmental and Business Management

32. There is an overspend of £0.2m on the departmental business support budgets relating to recruitment, consultancy and additional staff costs.

Chief Executive's

33. The Department is forecasting a net underspend of £0.7m (6.5%). The main variances relate to an underspend of £0.1m regarding growth for a contribution to the running of the proposed Combined Authority not being required due to a delay in the decision by the Government, vacancies and other changes to staffing across the department of £0.4m and one-off income received by Trading Standards and Planning, Historic and Natural Environment, £0.2m.

Corporate Resources

34. Corporate Resources is forecasting an underspend of £0.4m (1.1%), primarily from staffing and other early savings ahead of future savings in ICT, Human Resources, Strategic Finance and the Customer Services Team.

Carbon Reduction Commitment (CRC)

35. The CRC requirement for 2017/18 is forecast to be £0.1m less than the original budget, reflecting reduced energy usage, particularly on street lighting as a result of the acceleration of the capital investment.

Contingencies

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 £3.3m 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 net forecast underspend of £0.1m. The main variance relates to the Financial Arrangements budget, due to a higher anticipated dividend from the Eastern Shires Purchasing Organisation (ESPO), £0.1m.

40. Increased interest income of £0.7m is forecast, mainly due to higher balances than originally estimated.

41. Prior Year Adjustments are forecast to show a net underspend of £0.5m. A detailed review of prior year open purchase orders that are no longer required is being undertaken.

Business Rates

42. The 2018/19 Local Government Finance Settlement included a technical adjustment to the basis of Business Rates Top Up and Tariff figures which also impacts on the amounts due in 2017/18. The County Council will receive £0.1m additional Top Up monies for 2017/18.

43. 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.

44. 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 £4.7m in 2017/18. 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

45. At this stage there is a projected net underspend of £7.4m.

46. There are commitments that will use part of the underspend, (total £5.9m). 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.
    - Future capital developments – requirements currently exceed identified funding. £3.3m from the potential underspend has been included in the financing of the draft MTFS 2018-22 capital programme.
    - Sexual Health Accommodation - £0.5m has been included in the draft MTFS 2018-22 capital programme as a contribution to Leicester City Council for the refurbishment of a new base for integrated sexual health services in Leicester, to generate ongoing revenue savings.

47. There are other potential future commitments that may need to be funded from the balance of the underspend (and other funding). These include:

- 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.
- Potential carry forward requests at the year end.

CAPITAL PROGRAMME

48. The capital programme for 2017/18 totals £91.6m, including slippage of £3.6m from 2016/17. At this stage net acceleration of £1.0m is forecast.

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

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

50. The main variances are reported below and in more detail in Appendix 4.

Children and Family Services (C&FS)

51. The latest forecasts show a net underspend of £5.1m compared with the updated budget. The main variances are:

52. Provision of additional primary places, £4.3m net slippage. The main variances include:

    - Burbage, Sketchley Hill Primary- slippage of £1.5m due to a delay in the start of the project following issues identified within the survey relating to highway, tree and ground works.
    - Market Harborough, Farndon Fields Primary - slippage of £1.2m, project is being delivered by the academy who have redesigned the scheme as a result of affordability issues.
    - Barwell Area Primary – slippage of £0.9m – project delayed pending a review of costs.
    - Hinckley, Richmond Primary - acceleration of £1m.
    - Underspends and Unallocated budget – underspend £2.1m. Underspends across various projects and funding set aside in unallocated budgets not fully used. Funding will be carried forward to 2018/19 for the development of place requirements for September 2018.

53. Wigston Area Special School; forecast underspend (£0.5m) mainly due to a contribution from the school towards part of the works.

Adults and Communities

54. 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. The Cabinet has approved a review of the mobile library service, which is planned to take place in 2018/19.
- Changing Places - £0.2m slippage as no identified schemes deliverable in 2017/18. There are potential schemes planned to take place in 2018/19.

Environment and Transport – Transportation Programme

55. The latest forecast shows net acceleration of £3.3m compared with the updated budget. The main variances are:

- LED Street Lighting - £5.1m acceleration of scheme to enable early completion and early realisation of savings; additional installation gangs were contracted.
- Transport Asset Management schemes - £0.4m overspend arising from additional patching and surface dressing pressures, partly offset by slippage on some scheme works including drainage and bridge maintenance. Additional pre-surface dressing patching required in preparation for next year's schemes.
- A42 Junction 13 and M1 Junction 22 – £0.4m overspend due to additional technical/gas works required on the slip road and extra night time working patterns to ease traffic management.
- M1 Junction 23 and A46 Anstey Lane - £0.3m acceleration for advanced works in preparation for the major schemes.
- Zouch Bridge - £1.5m slippage as land purchase is being protracted and Public Inquiry required. Construction anticipated in 2019/20.
- Hinckley Area Approach - £0.6m slippage due to additional consultation works being performed.
- Advanced Design, Strategic Economic Partnership - £0.4m slippage in schemes to allow for alignment with external programmes.
- Melton Depot - £0.4m slippage due to delays in finding an appropriate location for the new depot.

Environment and Transport – Waste Management

56. The latest forecast shows net slippage of £0.2m which mainly relates to site drainage work at the Shepshed Recycling and Household Waste site which is likely to be completed in 2018/19.

Chief Executive's

57. The latest forecast shows slippage of £3m on the Rural Broadband scheme being delivered through a contract with BT. BT have incurred delays that mean that contractual milestones have not been met and payments will slip into 2018/19.

Corporate Resources

58. The latest forecast shows a net variance of £1.1m. The main variances are:

- Loughborough, Pennine House Area Office - £0.6m underspend due to a reduction in the refurbishment works required. Proposed works have now been profiled and a revised scheme has been re-costed.
- Snibston Country Park - £0.2m slippage. Plans for the Country Park have now been submitted to the District Council, some objections received which may delay the scheme. Response is expected in February 2018.
- ICT Unified Telephony/Skype scheme - £0.2m slippage as deployment to all departments across County Hall will continue until May 2018.
- Beacon Hill Investment - £0.1m slippage. Business case and cost of the proposed Café is being reviewed resulting in a delay and work to 2018/19.

Corporate Programme

59. The latest forecast shows net acceleration of £7.7m compared with the updated budget. The main variances relate to the Corporate Asset Investment Fund (CAIF): (amounts reported are the profiled estimates for 2017/18)

- CAIF - Embankment House, Nottingham – acceleration £12.6m, purchase is expected to be completed earlier than anticipated.
- Energy Strategy – acceleration £0.6m as suitable schemes identified and cost efficiencies achieved from bringing works forward.
- CAIF - Coalville Workspace – slippage £3.2m, the scheme is not financially viable and is being redesigned and re-costed
- CAIF – Other projects - slippage of £2.3m; projects at Leaders Farm (£0.6m), Lutterworth East (£0.9m), Loughborough University Science and Enterprise Park (£0.6m) and Airfield Farm (£0.2m). Delays due to the complexity of the purchases, revision of scheme including planning approvals and agreements with third parties.

60. Due to changes to the CAIF programme it has been necessary to amend the budgets for the following schemes:

- Airfield Business Park - £2m reduction; the original budget included earmarked capital receipts in 2017/18 which will no longer be received due a revised scheme being developed. The revised project is included in the new MTFS 2018-22.
- Coalville Workspace Project - £3.6m reduction; anticipated grant funding included in the original capital programme has been removed pending a redesign of the entire schemes.

- Rural Broadband Scheme - £2.2m reduction; funding from BT, originally included in the capital programme removed as BT will incur the costs directly against the grant.

Future Developments Fund

61. The overall funding available for future developments currently totals £69m. This is an increase in the level reported in previous MTFS monitoring reports and is due to the release of funds from the autumn review of earmarked funds and additional contributions from the 2017/18 revenue budget underspend.

62. Several projects are being worked up and at this stage approval has been given to the following allocations to the capital programme:

    - Workspace Strategy - Refurbishment of the former Fire Service cottages in Anstey Frith House, £0.5m.
    - Lichfield South – acquisition of property in December 2017, £11.4m.
    - Capital Programme – MTFS 2018-22 – £36m has been included in funding of the new capital programme, mainly to fund CAIF projects.
    - Total £47.9m.

63. The balance of funding available (£21.1m) will be carried forward and included in the MTFS 2018-22 to fund new projects. Further contributions to the fund are included in the MTFS 2018-22, from income from investments and additional Council Tax income, which result in a forecast balance available for future developments of £39m by 2021/22.

64. 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 supported living accommodation, 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 a contribution and underwriting of section 106 developer contributions for the Melton Mowbray distributor road. As schemes develop, they will be assessed and if agreed, funding released from the future development fund.

Capital Receipts

65. The latest forecast of general capital receipts in 2017/18 is £8.0m compared with the revised budget of £7.3m.

Recommendation

66. 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 – 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

Report to Cabinet – 15 September 2017 – 2017/18 Medium Term Financial Strategy Monitoring (Period 4) and Investment Proposals
http://politics.leics.gov.uk/documents/s131599/MTFS%20Period%204%20Report.pdf

Report to Scrutiny Commission – 15th November 2017 – 2017/18 Medium Term Financial Strategy Monitoring (Period 6)
http://politics.leics.gov.uk/documents/s133157/P6%202017-18%20MTFS%20Report.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

Officers to Contact

Mr B Roberts – Director of Corporate Resources
☎ 0116 305 7830 E-mail Brian.Roberts@leics.gov.uk

Mr C Tambini, Director of Finance, Corporate Resources Department,
Corporate Resources Department
☎0116 305 6199 E-mail Chris.Tambini@leics.gov.uk

Mr D Keegan, Head of Finance, Corporate Resources Department,
☎0116 305 7668 E-mail Declan.Keegan@leics.gov.uk

Equality and Human Rights Implications

There are no direct implications arising from this report.