Agenda Item 8

Leicestershire County Council

SCRUTINY COMMISSION - 12 SEPTEMBER 2018

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

2018/19 MEDIUM TERM FINANCIAL STRATEGY MONITORING (PERIOD 4)

Purpose

1. To provide members with an update on the 2018/19 revenue budget and capital programme monitoring position.

Policy Framework and Previous Decisions

2. The 2018/19 revenue budget and the 2018/19 to 2021/22 capital programme were approved by the County Council at its budget meeting on 21st February 2018 as part of the Medium Term Financial Strategy.

3. The Cabinet on 22nd May 2018 approved the following revisions to the 2018-22 MTFS:
   - An additional investment of £5m for highways maintenance, funded from returns generated by the Corporate Asset Investment Fund over the next 2 years;
   - The expected increase in 2018/19 business rates income of £1.2m be allocated to the future developments fund.

Background

4. The latest revenue budget monitoring exercise shows a net projected underspend of £3.4m.

5. The latest capital programme monitoring exercise shows a net projected underspend of £6.1m.

6. The monitoring information contained within this report is based on the pattern of revenue and capital expenditure and income for the first four months of this financial year.

REVENUE BUDGET

7. The latest revenue budget monitoring exercise shows a net projected underspend of £3.4m. 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

8. Dedicated Schools Grant (DSG) is forecast to overspend by £3.3m due to continued pressure within the High Needs Block.

9. The number of Education Health and Care Plans (EHCP) is increasing through population increases as a result of Special Educational Needs and Disabilities (SEND) reform and results in an estimated overspend of £3.2m. Lower cost local provision continues to be developed as an alternative to more costly independent provision; three further units for children with Autism Spectrum Disorders will open in the new academic year. Under SEND reform students can access high needs support where they have an EHCP up to the age of 25, and numbers are increasing. The forecast includes expected destinations for pupils for the 2018/19 academic year, which will only be determined as destinations are confirmed in October.

10. Some staff within the department are employed on Teachers' terms and conditions and the Department for Education has announced a 3.5% pay award for this group of employees. It has not yet been possible to ascertain the impact of this pay award but this will further increase the pressure on budgets. Whilst the Department for Education have announced that there will be additional funding for schools to meet the pay award, no funding is expected for centrally employed staff. This will increase the pressure on the DSG as the grant has not been increased to cover this additional cost.

11. A deficit on DSG can be carried forward with the permission of the Schools Forum and becomes the first call on the following years grant; should approval not be granted the local authority can seek adjudication from the Secretary of State. Based on the current position the forecast overspend would be part funded from the DSG earmarked fund which totals £2.2m, with the balance (£1.1m) potentially carried forward to 2019/20 as a deficit on the DSG earmarked fund to be a first call on the 2019/20 schools budget. There is a risk that the balance may need to be met from the overall County Council budget and this is reflected by a contingency to use part of the overall net underspend to increase the DSG earmarked fund, as noted in paragraph 34 below.

Local Authority Budget

12. The local authority budget is reported to overspend by £1.3m (1.8%).

13. The recruitment of social workers is a concern nationally and that position is reflected in Leicestershire resulting in the need to use agency workers to fill vacancies. The

financial impact of this is an estimated overspend of £0.5m (children's social care, and safeguarding and quality assurance budgets).

14. The Unaccompanied Asylum Seeking Children budget is forecast to overspend by £0.4m. This is a volatile area of the budget where numbers of children and associated costs can change rapidly. The grant received from the Home office does not fully cover costs.

15. The Children's Social Work Act 2017 extended the statutory duty to provide personal advisors to care leavers from age 18 to 25. Whilst grant has been received it is insufficient to meet the additional cost, resulting in a forecast overspend of £0.2m on the Children in Care Service budget.

16. Expenditure on placements for Looked after Children (LAC) is in line with budget expectations and includes additional costs arising from the increase in foster fees and invest to save costs arising from the Therapeutic Wrap Around Support contract (MISTLE). The position will continue to be closely monitored.

Adults and Communities

17. A net underspend of £3.4m (2.5%) is forecast. This is after inflation of £5.7m mainly due to Fee Review increases, offset by £2m of the 2017/18 underspend that was not adjusted for in the original 2018/19 budget.

18. The main variances are:

- Residential Care £1.2m underspend due to a reduction in number of service users, a reduction in the cost of packages and an increase in service user income.
- Supported living £0.7m underspend due to Transforming Care service users that have not yet transferred to Supported Living from Health.
- Direct Payments £0.5m net underspend due to changes in service users and their packages.
- Homecare £0.4m overspend relating to increased costs of service user packages.

19. In addition, staffing and overhead budgets across the department are forecasting an underspend of £1.1m. As last year following the restructure of the Department there are a high number of social care vacancies; some of these will be offset by the use of agency staff or are held in advance of savings. Recruitment is in progress and the level of agency staff is reducing.

20. Other budgets forecast a net underspend of £0.3m which is mainly due to changes in demand and implementing changes at in house accommodation.

21. As in previous years the profile of service users and their care needs are constantly changing which may impact on the services commissioned. Overall demand led expenditure totals circa £160m.

Public Health

22. The department is forecasting an overspend of £0.1m comprising a number of small variances across various commissioned activities. The Public Health grant for the year is £24.9m.

Environment & Transport

23. The Department is forecasting a net overspend of £1.2m (1.8%).

Highways

24. A net overspend of £1.1m is forecast comprising the following items:

- Staffing and Administration (£0.9m) due in part to the introduction of market premia, staffing costs which will not be fully met by income, a delay in the charging in the pre application advice service, slightly offset by additional Section 38 and Section 278 income and savings from some vacant posts.
- Winter maintenance (£0.2m) due to the necessity to treat roads in April, an under provision for charges in 2017/18 and additional costs to fill empty barns.

Transportation

25. A net overspend of £0.4m due mainly to is forecast including:

- Special Educational Needs transport (£0.5m) due to an increased number of solo occupancy journeys. Work is ongoing to minimise these costs in 2018/19.
- Fleet transport (£0.1m) due to additional staffing costs and vehicle repairs.
- Mainstream school transport (-£0.2m) underspend arising from a reduction in pupil numbers.

Environment and Waste

26. A net underspend of £0.3m is forecast which is made up of the following key items:

Overspend

- Landfill (£0.1m) due to increased waste tonnages. This is partly due to increased trade waste and also because rigid plastics now go to landfill.

Underspends

- Treatment Contracts (£0.1m) due to contract price reduction for wood.
- Composting Contracts (£0.1m) due to decrease in green waste tonnage due to weather (drier and therefore lower growth).
- Haulage and Waste Transfer (£0.1m) due to an increase in direct deliveries.
- Income (£0.1m) extra income forecast from increased trade waste.

27. The department is reviewing the overall position and is taking effective management to reduce where possible the overall position, including ensuring that all income is

being forecast and included in recharges. A further update on the overall position will be provided in period 5.

Chief Executives

28. The department is forecasting an underspend of £0.3m (3.1%) which is mainly due to staff vacancies.

Corporate Resources

29. The department is forecasting a net underspend of £0.2m (0.6%). This is primarily the result of savings through staff attrition. These are partially offset by increased cost pressures associated with maternity leave, building running costs, locality offices and libraries and community facilities property costs.

Contingencies

30. An underspend of £0.1m is forecast regarding the Carbon Reduction Commitment expenditure. There has been a significant fall in the scale of CO_2 tonnages relating to energy consumption, particularly following the Council's investment in switching street lighting to LEDs.

31. Transfers of £10.0m have been made from the inflation contingency, mainly relating to the 2018/19 pay award, increases in employer pension contributions and the Adult Social Care Fee Review. This results in a revised budget of £5.0m in the contingency, of which £2m can be released due to a lower net inflation requirement for A&C as a consequence of additional income continuing from 2017/18 as described earlier in the report. The balance of £3m is held for other inflation issues to be finalised during the year.

Central Items

32. The Central Grants and Income budget shows additional income of £2.4m, relating to the following:

    - The late notification of the Adult Social Care Support Grant (£1.5m, 2018/19 only). The additional income has been added to the Future Developments Fund (and is shown on the Revenue Funding of Capital line) to provide funding for proposals to reconfigure the Council's in-house learning disability residential accommodation, approved by the Cabinet on 12th June 2018.
    - Prior year adjustments, mainly due to provisional estimates from the continuation of a detailed review of prior year open purchase orders that are no longer required (£0.9m).

33. An underspend of £0.1m is reported on Central expenditure. The underspend is made up of several small items, the largest relates to a £30,000 underspend on pre 1997 Local Government Reorganisation and LGR-related pension costs.

34. As set out in paragraphs 8 to 11 above, the DSG budget is forecast to overspend by £3.3m, £2.2m of which can be funded from the current balance on the DSG earmarked fund, with the remaining £1.1m shortfall potentially carried forward to 2019/20 as a deficit on the DSG earmarked fund to be a first call on the 2019/20 schools budget. There is a risk that the balance may need to be met from the overall County Council budget and this is reflected by a contingency to use part of the overall net underspend to increase the DSG earmarked fund by £1.1m.

Business Rates

35. The County Council is undertaking quarterly monitoring with the District Councils and Leicester City Council regarding the 2018/19 Leicester and Leicestershire Business Rates Pool. The latest forecasts show a potential surplus of around £6.6m in 2018/19 compared with a forecast of around £6.0m in January 2018.

Overall Revenue Summary

36. Overall there is a forecast underspend of £3.4m. At this stage it is anticipated that the underspend will be added to the Future Developments Fund to reduce the potential shortfall on the fund. Potential commitments on the Fund exceed current resources by circa £45m. Further details on the fund are provided later in the report.

CAPITAL PROGRAMME

37. The capital programme for 2018/19 totals £110.5m, including net slippage of £0.4m from 2017/18. At this stage an underspend of £6.1m is forecast. The main variances are reported below.

Children and Family Services

38. The latest forecast shows an underspend of £5.5m compared with the updated budget. The underspend will be carried forward at year end and included in the refresh of the capital programme as part of the 2019-23 MTFS. The main variances are:
    - Provision of Primary Places – £4.4m underspend. A contingency was held within the programme for any issues arising from September 2018 admission which was not required.
    - SEND Initiatives – additional places for children with Autism have been established from September 2018. An underspend of £0.8m has been held whilst the department establishes actions that may arise as a result of the High Needs block overspend.

Adults and Communities

39. The latest forecast shows net slippage of £0.4m compared with the updated budget. The main variances are:

    - Mobile Library Vehicles - £0.3m slippage, no further vehicles planned to be purchased in 18/19.

- Changing Places - £0.2m slippage while further applications are sought.

Environment and Transport – Transportation Programme

40. The latest forecast shows net slippage of £3.0m compared with the updated budget. The main variances are:

- Melton Mowbray Eastern Distributor Road - £0.8m acceleration due to design work brought forward from 2019/20.
- County Council Vehicle Programme - £0.8m acceleration of spend from future years' allocations after evaluation of the fleet leading to some assets being identified as no longer being economical/safe to continue repairing and running.
- Advance design - £0.5m acceleration due to works brought forward on the microsimulation project which will enable the project to finish earlier and the tool available for use earlier than planned.
- Highways Capital Maintenance schemes - £0.4m acceleration of highways schemes.
- Zouch Bridge - £2.5m slippage due to a public enquiry which took place in August 2018. The Department for Transport can take 12 weeks to publish their decision. Subject to the outcome the majority of spend is not anticipated until 2019/20; forecast start date in spring 2019. Works will take 18 months to complete.
- Strategic Economic Plan (SEP) Anstey Lane A46 - £1.7m slippage due to identifying appropriate contractors to complete the work through the Medium Schemes Framework 3 (MSF3) which has now been issued. There is no forecast impact on the final completion date.
- Strategic Economic Plan (SEP) M1 Junction 23 - £0.6m slippage due to identifying appropriate contractors to complete the work through the MSF3 framework. Also securing S106 agreements with developers has delayed progress but no impact on final completion date.
- Croft Office Blocks Improvements - £0.3m slippage. Works have slipped primarily due to changes in key personnel to progress the project.

Chief Executives

41. Overall slippage of £1.9m is reported on the Rural Broadband Scheme, Phase 3 as delays have resulted from a longer than expected Open Market Review stage of the procurement, due to additional information being requested from a potential supplier to support their response. This was necessary to ensure the procurement met the requirements of the Broadband Programme Authority (BDUK). The contract is now expected to commence in January 2019.

Corporate Resources

42. The latest forecast shows net slippage of £0.6m compared with the updated budget. The main variances relates to the Snibston Country Park Future Strategy – slippage of £0.5m as a result of the delay in being granted planning permission and the subsequent need to review plans to reflect planning conditions and changes to the scheme. Work will now begin on site in January 2019.

Corporate Programme

43. The latest forecast shows net acceleration of £5.3m compared with the updated budget. The main variances relate to the Corporate Asset Investment Fund (CAIF):

- CAIF – East of Lutterworth Strategic Development Area (land purchase for residential and employment development) – acceleration £8.0m, land purchases expected to be completed in 2018/19, earlier than anticipated.
- CAIF – Airfield Business Park (development of industrial units on part of the site) – acceleration £1.4m per the latest estimates of the spend profile.
- CAIF – Loughborough University Science and Enterprise Park (LUSEP - development of an office block plus car parking spaces) slippage £2.7m due to delay in exchanging contracts with the University and the proposed tenant access. Contracts have been exchanged in July 2018 with a view to commencing works on site in February 2019.
- CAIF - Coalville Workspace Project Vulcan Way (development of industrial units) – slippage £1.3m, works on site delayed to October/November 2018.

Capital Receipts

44. The requirement for capital receipts for 2018/19 is £15.4m, comprising £14.6m general and £0.8m earmarked capital receipts.

45. The latest forecast of receipts is £8.7m and a shortfall of £6.7m to the target. The shortfall relates to delays of the sale of five sites which are now expected to take place in 2019/20. Funding for the shortfall in the timing of capital receipts will be managed by temporarily using the capital financing earmarked fund, which is not required until later years of the MTFS.

Future Developments Fund

46. The overall balance of funding available for future developments currently totals £35m by 2021/22, excluding the £4.5m mentioned earlier in the report. The forecast position is after the following allocations made in 2018/19:

- Highways Maintenance – Restorative patching of roads, £5m, (Cabinet 22 May 2018).
- ERP Replacement, £5m, (Cabinet 9 Feb 2018).
- Reconfiguration Inhouse Short Breaks Accommodation, £1.5m (Cabinet 12 June 2018)
- Embankment House, Nottingham – land appraisal works, £0.2m

47. 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.

Corporate Asset Investment Fund

48. A summary of the Corporate Asset Investment Fund (CAIF) position as at period 4 for 2018/19 is set out below:

Asset Class	Opening Capital Value	Capital Expend-iture Incurred	Net Income YTD	Forecast Income FY	Forecast Income Return FY
	£000	£000	£000	£000	%
Office	25,610	6	804	1,846	7.2%
Industrial	12,034	-	380	708	5.9%
Distribution	980	-	35	13	1.3%
Development	15,015	142	17	10	0.1%
Rural	18,751	154	-7	739	3.9%
Other	1,115	-	0	92	8.3%
Pooled Property	20,423	0	244	975	4.8%
Private Debt	7,126	3,000	125	500	4.9%
TOTAL	**101,054**	**3,302**	**1,598**	**4,883**	**4.7%**

49. Overall the fund is forecasting to achieve a 4.7% income return for 2018/19. Excluding the ‘Development’ classification, which includes Airfield Farm, Bardon and works at Lutterworth South, the return would increase to 5.5%.

50. It should be noted that the above table excludes capital growth which is assessed annually as part of the asset revaluation exercise. The overall position will be included in the Annual Report produced after year end.

51. During April 2018, a further £3m was invested in Private Debt, increasing the total held to £10m (of a potential maximum of £20m).

Recommendation

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

Background Papers

Report to County Council – 21 February 2018 – Medium Term Financial Strategy 2018/19 to 2021/22

http://politics.leics.gov.uk/documents/s135701/MTFS%20report.pdf

Report to Cabinet - 22nd May 2018 – 2017/18 Provisional Revenue and Capital Outturn

http://politics.leics.gov.uk/documents/s137593/Cabinet%2022%20May%20-%20Prov%20Outturn%20v5.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.