Leicestershire County Council

SCRUTINY COMMISSION – 31 OCTOBER 2018

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

2018/19 MEDIUM TERM FINANCIAL STRATEGY MONITORING (PERIOD 6)

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 £4.7m.

5. The latest capital programme monitoring exercise shows a net projected slippage of £8.6m.

6. 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

7. The latest revenue budget monitoring exercise shows a net projected underspend of £4.7m. 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 £3.5m due to continued pressure within the High Needs Block.

9. The number of Education Health and Care Plans (EHCP) is increasing through population increases and as a result of Special Educational Needs and Disabilities (SEND) reform which results in an estimated overspend of £3.5m. 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 opened in the new academic year. Under SEND reform, students are able to 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. 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 of £1.3m 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 County Council General Fund, as noted in paragraph 31 below.

Local Authority Budget

11. The local authority budget is reported to overspend by £0.8m (1.1%).

12. The main variances are explained below, and are partially offset by smaller savings, reported in Appendix 2.

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 is estimated to be an overspend of £0.7m (children’s social care, and safeguarding and quality assurance budgets).

14. The Unaccompanied Asylum Seeking Children budget is forecast to overspend by £0.5m. 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. 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

16. A net underspend of £2.9m (2.1%) is forecast. The main variances are:

- Residential Care £1.5m underspend due to a reduction in number of service users, a reduction in the cost of packages and increase in service user income.
- Direct Payments £0.6m underspend due to a higher than expected clawback of unused balances and falling service user numbers.
- Supported Living £0.6m underspend due to Transforming Care service users that have not yet transferred to Supported Living from Health.
- Homecare £1.0m overspend relating to increased number of adult social care service users and higher 17/18 payments then were accrued.

17. Staffing and overhead budgets are forecasting an underspend of £1.3m. As last year following the restructure of the Department it has 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.

18. 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 c.£160m.

Public Health

19. The department is forecast to be on budget. The Public Health grant for the year is £24.9m.

Environment & Transport

20. The Department is forecasting a net overspend of £0.8m (1.2%).

Highways

21. A net overspend of £0.9m is forecast mainly due to the following items:

- Staffing and Administration (£0.8m) 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

22. A net overspend of £0.4m is forecast due to the following variances:

    - Special Educational Needs transport (£0.6m) 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.
    - Social Care transport (£0.1m) due to increased service requirements.
    - Mainstream school transport (-£0.4m) underspend arising from a reduction in pupil numbers.

Environment and Waste

23. A net underspend of £0.5m 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.
    - Recycling and Household Waste Sites (£0.1m) due to higher than expected staff costs.

    Underspends

    - Treatment Contracts (£0.3m) mainly due to contract price reduction for wood.
    - Composting Contracts (£0.2m) due to decrease in green waste tonnage due to weather (drier and therefore lower growth).
    - Haulage and Waste Transfer (£0.2m) due to an increase in direct deliveries.
    - Income (£0.1m) extra income forecast from increased trade waste.

24. The department is reviewing the overall position and is taking effective management to reduce where possible the overall overspend position, including ensuring that all income is being forecast and included in recharges.

Chief Executives

25. The department is forecasting an underspend of £0.5m (4.7%) which is mainly due to staff vacancies and increased income

Corporate Resources

26. The department is forecasting a net underspend of £0.3m (0.8%). This is primarily the result of savings through staff vacancies. These are partially offset by increased cost pressures associated with maternity leave, building running costs, locality offices and libraries and community facilities property costs, alongside additional uncertainty on the achievement of Commercial income targets.

Contingencies

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

28. Transfers of £11.7m have been made from the inflation contingency, mainly relating to the 2018/19 pay award, increases in employer pension contributions, the Adult Social Care Fee Review and inflation pressures on highways, transport and waste budgets. This results in a revised budget of £3.2m 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. The balance of £1.2m is held for other inflation issues to be finalised during the year.

Central Items

29. The Central Grants and Income budget is forecasting additional income of £5.7m, mainly relating to the following:
(includes explanation of the revenue funding of capital variance)

    - 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.
    - An additional 2018/19 grant for Adult Social Care winter pressures was announced at the Conservative Party Conference in October 2018. Details have now been received; the County Council's allocation is £2.4m and includes conditions on its use. An assessment and discussions with health partners will now take place with the aim to transfer the funding to the Future Developments Fund, to support investment in ASC.
    - Bank and other interest, additional income of £0.2m is forecast due to an increase in the Bank of England base rate in August and a further £2.5m investment in Pooled Property investments midway through the year. As in previous years the additional income has been added to the Revenue Funding of Capital budget for the Future Developments Fund.
    - 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 (£1.5m).

30. An underspend of £0.2m is reported on Central expenditure. The underspend is made up of several small items, the largest relates to additional ESPO surplus income.

31. As set out in paragraphs 8 to 10 above, the DSG budget is forecast to overspend by £3.5m, of which £2.2m can be funded from the current balance on the DSG earmarked fund. The remaining £1.3m shortfall would potentially be 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 County Council General Fund by £1.3m.

Business Rates Pooling

32. The Government introduced the Business Rates Retention system from April 2013, as part of which local authorities were able to enter into Pools for levy and safety net purposes. The surpluses will be retained locally rather than being returned to the Government as would have been the case if no Pool had existed.

33. In 2013/14 the County Council along with Leicester City Council, the Combined Fire Authority and all seven Leicestershire District Councils formed the ‘Leicester and Leicestershire Pool’. The pooling agreement between the partners allows the surplus to be provided to the Leicester and Leicestershire Economic Partnership (LLEP) for investment in the wider sub-regional area.

34. In the first year of operation, 2013/14, a surplus of £0.7m was achieved, which was retained as a contingency for future risks. Modelling of a Pool for 2014/15 was undertaken in January 2014, however due to number of significant difficulties at that time, particularly around business rates appeals, the pooling partners agreed reluctantly not to Pool.

35. In 2015/16 the mechanics of the Business Rates Retention system were clearer and the partners agreed to reform the Pool. At the end of 2015/16 a surplus of £2.7m was achieved. Of this £2m was paid to the LLEP and £0.7m retained to increase the contingency to a revised £1.4m.

36. The Pool continued in 2016/17 and 2017/18 and achieved surpluses of £5.0m and £6.1m respectively. The overall total achieved by the end of 2017/18 was £14.5m. The contingency has been increased to £2m with the balance of £12.5m allocated to the LLEP. The LLEP have committed £2m of their allocation to a number of projects across Leicester and Leicestershire with further rounds of new projects to be allocated funding during 2018/19 and 2019/20.

37. Monitoring of the 2018/19 position shows a potential surplus of around £7.4m compared with a forecast of around £6.0m in January 2018.

38. On 25 September 2018 the partners of the Business Rates Pool submitted a bid to central government to be a pilot for 75% business rates retention in 2019/20. It is estimated that a successful bid could lever an additional c.£13.8m in funding for the Leicester and Leicestershire area. A decision on the successful pilots will be announced in December 2018.

39. The business rates pooling agreement demonstrates good working relationships across the Pooling partners that has been in place since 2013/14 and has retained £14.5m by 2017/18 within the Leicester and Leicestershire area that would have otherwise been paid to central government.

Overall Revenue Summary

40. Overall there is a forecast underspend of £4.7m. At this stage it is anticipated that £2m of the underspend will be used to fund works to heat damaged roads (see capital section later in the report) and that the balance 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 £49m. Further details on the fund are provided later in the report.

CAPITAL PROGRAMME

41. The capital programme for 2018/19 totals £112.4m, including net slippage of £0.4m from 2017/18. At this stage a net underspend of £8.6m is forecast. The main variances are reported below.

Children and Family Services

42. The latest forecast shows an underspend of £4.3m 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 – £4.3m underspend. A contingency was held within the programme for any issues arising from September 2018 admission which was not required.

Adults and Communities

43. The latest forecast shows net slippage of £0.3m compared with the updated budget. The main variances are, Changing Places - £0.2m slippage while further applications are sought and Mobile Library Vehicles - £0.1m slippage, no further vehicles planned to be purchased in 2018/19.

Environment and Transport

44. The latest forecast shows net slippage of £4.1m compared with the updated budget.

Highways & Transportation Programme

45. Net slippage of £4.5m is forecast. The main variances are:

- Transport Asset Management – Maintenance - £1.7m acceleration due to damage to the highways from the heat in the summer months; cracking and movement from sub-soil shrinkage; slippery surfaces through bitumen rising to the top of the road surface; and previous repairs that have lost their adhesion to the road surface causing potholes to reopen. Additional works have been identified to be completed this year. In addition increased capital costs following a reassessment of recharges of staff time to capital schemes to ensure all costs are appropriately recovered.

- Melton Mowbray Eastern Distributor Road - £0.9m acceleration due to design work brought forward from 2019/20.
- County Council Vehicle Programme - £0.9m 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 as well as additional vehicle requirements.
- Strategic Economic Plan (SEP) M1 Junction 23 - £3.0m slippage due to identifying appropriate contractors to complete the work through the Medium Schemes Framework 3 (MSF3) framework. Also securing Section 106 agreements with developers has delayed progress but this is not expected to impact on the estimated final completion date, March 2021.
- 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 - £1.4m slippage due to identifying appropriate contractors to complete the work through the MSF3 which has now been issued. There is no forecast impact on the final completion date, March 2020.
- National Productivity Investment Fund (NPIF) Hinckley Hub - £1.1m slippage due to the figures were from the original bid but spend profile has now been updated to reflect the actual delivery programme.

Environment and Waste Management

46. The latest forecast shows net acceleration of £0.3m compared with the updated budget. The main variances relates to the additional costs to repair the pushwall at Loughborough Transfer Station and also for new compaction equipment.

Chief Executives

47. Overall slippage of £2.6m 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 be awarded in May 2019.

Corporate Resources

48. The latest forecast shows net slippage of £0.8m compared with the updated budget. The main variance relates to the Snibston Country Park Future Strategy, with 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

49. The latest forecast shows net acceleration of £3.5m 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 – 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. Resolution of tenant issues have delayed the build programme.

Capital Receipts

50. The requirement for capital receipts for 2018/19 is £15.4m. The latest forecast of receipts is £7.8m, a shortfall of £7.6m, due to timing delays with the sale of six sites which are now expected to take place in 2019/20. This temporary position can be managed due to the overall level of slippage on the capital programme. A review of the timing of potential capital receipts over the next four years will be undertaken as part of the refresh of the MTFS.

Future Developments Fund

51. The overall balance of funding available for future developments currently totals £40m by 2021/22, including the potential 2018/19 revenue budget underspend 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).
- Supported Living Scheme in Great Glen, £2.5m (Cabinet 6 July 2018).
- Embankment House, Nottingham – land appraisal works, £0.2m.

52. There is a long list of projects that will potentially require 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 collections hub, major IT system replacements and a contribution and underwriting of section 106 developer contributions for the Melton Mowbray distributor road.

53. The current estimate of the funding required is £110m compared with funding currently available of £40m, which leaves a shortfall of £70m. A County Council

funding likelihood high, medium, low assessment has been applied to the list of schemes, which reduces the estimated shortfall to £49m.

54. The list of Future Developments is continually refreshed and the current requirement exceeds the current funding available. This will need to be managed through prioritisation and identification of alternative funding sources, including contributions from partners.

55. Closing the gap by taking on new loans is not the preferred option, as this increases the requirement for future savings. It is still expected that this situation can be avoided as over the course of the MTFS one or more of the following opportunities will arise:

- Underspends on the County Council revenue budget.
- Unexpected grants are received to replace previously earmarked County Council resources.
- Temporarily use of the cash supporting earmarked funds in advance of it being required, rather than making short term cash investments.
- Delay some of the expenditure until resources are available.

Corporate Asset Investment Fund

56. A summary of the Corporate Asset Investment Fund (CAIF) position as at period 6 for 2018/19 is set out below:

Asset Class	**Opening Capital Value**	**Capital Incurred 2018/19**	**Net Income YTD**	**Forecast Net Income FY**	**Forecast Net Inc. Return FY**
	£000	**£000**	**£000**	**£000**	**%**
Office	25,610	1	671	1,846	7.2%
Industrial	12,034	-	597	710	5.9%
Distribution	350	-	17	5	1.4%
Development	15,015	900	1	10	0.1%
Rural	18,751	143	160	740	3.9%
Other	1,115	-	0	92	8.3%
Pooled Property	20,423	2,500	390	850	3.7%
Private Debt	7,126	13,000	300	650	3.2%
TOTAL	**100,424**	**16,544**	**2,136**	**4,903**	**4.2%**

57. Overall the fund is forecasting to achieve a 4.2% income return for 2018/19. Excluding the ‘Development’ classification, which includes Airfield Farm, Bardon and works at Lutterworth South, the return would increase to 4.8%. The overall rate is also temporarily reduced due to investments made part way through 2018/19,

particularly Pooled Property and Private Debt, where forecast income is part year. A full year effect is estimated to increase the overall return to 5.2%.

58. 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.

59. During September 2018, an additional £2.5m was invested in Pooled Property funds bringing the total invested to £22.5m of the original plan to invest up to £25m.

60. Additional investment of £13m was also made in Private Debt during 2018/19, increasing the total to the planned £20m.

Recommendation

61. The Scrutiny Commission is asked to note the content 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.

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