



SCRUTINY COMMISSION – 6 MARCH 2019

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

**2018/19 MEDIUM TERM FINANCIAL STRATEGY
MONITORING (PERIOD 10)**

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.

Background

3. The latest revenue budget monitoring exercise shows a net projected underspend of £7.5m.
4. The latest capital programme monitoring exercise shows a net projected slippage of £22.5m.
5. 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.
6. The monitoring information contained within this report is based on the pattern of revenue and capital expenditure and income to Period 10 this financial year.

REVENUE BUDGET

7. The latest revenue budget monitoring exercise shows a net projected underspend of £7.5m. 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) expenditure is forecast to overspend by £1.1m 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 £4.0m. 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. This overspend position is partly offset in 2018/19 by an additional £1.5m DSG High Needs Block Grant allocated in December 2018.
10. The Schools Forum approved a £1.3m allocation within 2018/19 for meeting the revenue costs associated with new schools and also for meeting the costs of some funding protection for schools with falling rolls as a result of age range change in other schools. The funding requirements have now been confirmed and an underspend of £1.2m is now forecast. This funding will transfer to the DSG earmarked fund in order to meet the future costs of new schools arising as a result of housing developments across Leicestershire. The revenue cost of commissioning a new school is estimated in total to be £0.5m to £0.8m for a primary and £2.3m to £2.5m for a secondary depending upon size and opening arrangements. 23 new primary and 2 new secondary schools are expected to be built in Leicestershire in the medium to long term.
11. Based on the current position the forecast overspend would be funded from the DSG earmarked fund which totals £2.2m, with the balance of £1.1m carried forward to 2019/20.

Local Authority Budget

12. The local authority budget is reported to overspend by £0.7m (1.0%). The main variances are explained below.
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 £0.6m (children's social care, 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. For example, this period has seen UASC numbers increase from 68 to 83. The grant received from the Home office does not fully cover costs.

15. Expenditure on placements for Looked after Children (LAC) is projected to overspend by £0.5m. This is due to some unusually higher than average placement costs across both the residential and supported accommodation budget areas. For example, one residential placement with a weekly cost of over £8,000 to ensure the needs of the child can be met fully, in comparison to the weekly average of £3,500. This budget also includes additional costs arising from the increase in foster fees and invest to save costs arising from the Therapeutic Wrap Around Support contract (MISTLE).
16. The CFS Business Support function is forecast to underspend by £0.5m. This is largely as a result of a number of vacant posts as the new service was established and staff turnover following the implementation of the Business Support Review.

Adults and Communities

17. A net underspend of £5.0m (3.6%) is forecast. The main variances are:
 - Residential Care £1.6m 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 £1.2m underspend due to a higher than expected clawback of unused balances and falling service user numbers.
 - Supported Living £0.3m underspend due to Transforming Care service users that have not yet transferred to Supported Living from Health.
 - Homecare £1.3m overspend relating to increased number of adult social care service users and higher 2017/18 payments than were accrued.
18. Staffing and overhead budgets are forecasting an underspend of £1.8m. 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.
19. An additional 2018/19 grant for Adult Social Care winter pressures was announced in October 2018. The County Council's allocation is £2.4m. The grant determination states that the funding may only be used for supporting the local health and social care system to manage pressures on the NHS between November 2018 and March 2019 including interventions which support people to be discharged from hospital, which would otherwise be delayed, with the appropriate social care in place. This needs to be in addition to planned spending in 2018/19. It is estimated that approximately £1.4m of A&C current forecast spend is eligible and can be released to the Future Developments Fund to support ASC investment in 2019/20 and later years to fund initiatives that reduce ongoing revenue costs.
20. 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

21. The department is forecast to underspend by £0.2m. The Public Health grant for the year is £24.9m. Additional income from Clinical Commissioning Groups of £0.1m is expected along with a £0.1m underspend on health checks.

Environment & Transport

22. The Department is forecasting a net overspend of £0.6m (1.0%).

Highways

23. A net overspend of £0.8m is forecast mainly due to the following items:
- Winter maintenance (£0.4m) due to the necessity to treat roads in April, an under provision for charges in 2017/18, additional costs to fill empty barns and additional runs to ensure road safety;
 - Staffing and Administration (£0.4m) arising mainly from a delay in the charging for the pre application advice service and lower recharges to the capital programme, slightly offset by additional savings from some vacant posts.

Transportation

24. A net overspend of £1.1m is forecast mainly due to the following variances:
- Special Educational Needs transport (£1.0m) due to increased demand and an increased number of solo occupancy journeys.
 - Fleet and Social Care transport (£0.3m) due to additional staffing costs, vehicle repair and additional contact visits being arranged.
 - Public Bus Services (£0.1m) due to the costs of subsidising additional bus routes that are no longer commercially viable.
 - Mainstream school transport (-£0.4m) underspend arising from a reduction in pupil numbers being transported.

Environment and Waste

25. A net underspend of £1.3m is forecast mainly due to the following key items:
- Dry Recycling (£0.5m) due to higher than anticipated receipts for dry recycling materials.
 - Treatment Contracts (£0.4m) mainly due to contract price reduction for wood and lower waste tonnages.
 - 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.
26. 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

27. The department is forecasting an underspend of £0.5m (5.2%) which is mainly due to staff vacancies and increased income

Corporate Resources

28. The department is forecasting an underspend of £0.1m (0.4%). There are underspends across the department as a result of staff vacancies. These underspends are offset in part due to uncertainty over the achievement of Commercial Services income targets.

Contingencies

29. An underspend of £0.1m is forecast regarding the Carbon Reduction Commitment expenditure. There has been a significant fall in the levels of CO₂ tonnages relating to energy consumption, particularly following the Council's investment in switching street lighting to LEDs.
30. Transfers of £12.0m 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, waste and energy budgets. This results in a revised budget of £2.9m in the contingency. £2m can be released due to a lower net inflation requirement for A&C as a consequence of additional income continuing from 2017/18. No other material issues are anticipated and therefore the remaining balance of £0.9m can also be released as an additional underspend.

Central Items

31. The Revenue Funding of Capital line shows an increase of £3.1m. This relates to the use of the net £1.4m from the winter pressures specific grant, the £1.5m Adult Social Care support grant and additional £0.2m interest income (see below) to provide funding for the Future Developments Fund.
32. An underspend of £0.5m is reported on Central expenditure. The underspend is made up of several small items, the largest relates to additional ESPO surplus income.
33. The Central Grants and Income budget is forecasting additional income of £3.5m, mainly 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.

- 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 adjustment, mainly due to provisional estimates from a detailed review of prior year open purchase orders that are no longer required (£1.6m).
 - On 28 January 2019 MHCLG announced funding of £56.5m to help support councils in England with preparations for Brexit. County Councils will receive £175,000 each, allocated over 2018/19 and 2019/20, 50% of which is reflected in the 2018/19 income forecast.
34. Prior Year Adjustments – the County Council holds two long term prepayments on its balance sheet in respect of payments made upfront for leases of office accommodation. The agreements were entered into as part of the County Council's Office Accommodation Strategy. One agreement was made in 2010/11 in return for a 40 year lease, and the other agreement in 2013/14, in return for a 25 year lease. The current value of the prepayments is £2.8m which is recharged to the revenue budget at £110,000 per annum. Following a review of the accounting treatment it is possible to charge the remaining amount in the current year to revenue budget (prior year adjustments) to remove the going liability and create an annual saving equal to the amount that would have been recharged. It is proposed that this is undertaken in 2018/19 funded from the overall forecast revenue underspend. This is a technical accounting adjustment only, the leases of the properties remain unaffected.
35. A contribution of £1m is forecast to increase the General Fund to £15.8m to reflect the increasing uncertainty and risks over the medium term; these include legal challenges or national matters requiring funding, legislative changes that come with a financial penalty, and service provision issues that require investment. The earmarked funds policy for 2018/19 is to hold the fund in the range of 4% to 5% of the net expenditure, excluding schools. The forecast balance of £15.8m (4.4%) is within that range.

Business Rates Pooling

36. 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 £7.7m in 2018/19 compared with a forecast of around £6.0m in January 2018.
37. In 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. The bid was successful and was announced as part of the Local Government Finance Settlement in December 2018. The latest forecasts show that the Pilot could lever an additional c.£15.7m in funding for the Leicester and Leicestershire area, in addition to the continuation of the Pool surplus at c£9.2m.

Overall Revenue Summary

38. Overall there is a forecast underspend of £7.5m. At this stage it is anticipated that the underspend will be used as below:

- Highways Maintenance in 2019/20, £2m – summer heat damage to roads (see capital section later in the report)
- Long Term Prepayments (prior year adjustments) £2.8m required. The overall revenue underspend is expected to increase by year end that will be able to fund the balance needed.
- Carry forwards at year end. At this stage a potential carry forward of £0.2m has been raised regarding the Chief Executive's Department relating to funding for revenue costs of the Broadband Project Team to complete Phase 3.
- Future Developments £2.5m - to reduce the potential shortfall on the fund. Potential commitments on the Fund exceed current resources by circa £53m. Further details on the fund are provided later in the report.

CAPITAL PROGRAMME

39. The capital programme for 2018/19 totals £111.9m, including net slippage of £0.4m from 2017/18. At this stage a net slippage of £22.5m is forecast. The main variances are reported below.

Children and Family Services

40. The latest forecast shows an underspend of £5.0m compared with the updated budget. The underspend has been reflected in the 2019-23 capital programme. The main variance relates to the provision of Primary Places, £4.7m underspend. A contingency was held within the programme for any issues arising from September 2018 admission which was not required.

Adults and Communities

41. The latest forecast shows net slippage of £0.4m compared with the updated budget. The main variances are, Mobile Library Vehicles - £0.2m slippage, the purchase of a vehicle to allow for rotation of vehicles during maintenance periods has slipped into 2019/20 and Changing Places - £0.2m slippage while further applications are sought.

Environment and Transport

42. The latest forecast for the department shows net slippage of £8.7m compared with the updated budget.

43. The main variances are:

- Transport Asset Management – Maintenance - £1.4m 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. A further £0.6m of planned works have been programmed in 2019/20 giving a total required due to Heat Damage of £2m.)

- Mowbray Eastern Distributor Road - £1.0m acceleration due to design work brought forward from 2019/20.
- County Council Vehicle Programme - £1.0m 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.
- M1 Junction 23 - £4.2m Slippage of budget due to delay in negotiating with land owners and finalising financial payment agreement with developers. After reviewing the scheme with the newly appointed contractor more appropriate timescales have been identified which has meant the project has continued to slip but this is not expected to impact on the estimated final completion date, March 2021.
- Anstey Lane A46 - £3.4m slippage due to identifying appropriate contractors to complete the work through the Medium Schemes Framework 3 (MSF3) which has now been issued. Tree clearance, statutory undertakers works and early contractor mobilisation costs will now be programmed in 2019/20.
- Zouch Bridge - £2.5m slippage due to a public enquiry which took place and confirmed permission to proceed on 28th January 2019. The design work and feasibility of the required works has been progressed and is indicating significant increases will be needed from the original budget. An update will be provided to the Cabinet in due course.
- 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.

44. In the Autumn Budget 2018 the government announced additional one off grant funding for highways maintenance in 2018/19, to repair potholes, bridges and structures, and other minor highways work. The County Council's allocation was £6.3m. Additional corporate funding of £7m was also added to the E&T capital programme in 2018/19 and 2019/20 to deal with urgent maintenance issues that had been identified (£5m highways maintenance and £2m for summer heat damage). Given the future financial position of the Authority there would have been an expectation that this would need to be repaid in future years. However, as a result of the new funding, which has to be spent by the end of March 2019, this can now be used instead. As a result corporate funding of £6.3m will be removed and added to the future developments fund to fund future capital works.

Chief Executives

45. 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

46. The latest forecast shows net slippage of £2.3m compared with the updated budget.

47. The main variances are:

- Snibston Country Park Future Strategy, slippage of £1.1m 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 is planned to start in early 2019.
- Fit for the Future, Oracle Systems Replacement, slippage of £0.9m following a review of the profile of when the capital elements of the project will be incurred. This does not affect the planned completion date of the project.

Corporate Programme

48. The latest forecast shows net slippage of £3.6m 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 £3.4m, the negotiations for this purchase have been complex and are now expected to be finalised in the early part of 2019/20. It had been anticipated that the purchase would have been completed deal before now (acceleration of £12.2m had been forecast at period 9).
- CAIF – Citroen Garage, Leicester – acceleration of £3.2m, purchase completed in December 2018.
- CAIF – Loughborough University Science and Enterprise Park (LUSEP - development of an office block plus car parking spaces) slippage £5.8m due to delay in exchanging contracts with the University, the proposed tenant access and planning issues. Contracts have been exchanged and works commenced on site in February 2019.
- CAIF – Airfield Business Park (development of industrial units on part of site) – slippage £2.4m due to delay in the open tender procurement process. Works commenced on site in February 2019.
- CAIF – Leaders Farm: Site Infrastructure – slippage £0.5m, works to the road will be completed in the new financial year.
- CAIF - Coalville Workspace Project Vulcan Way (development of industrial units) – slippage £0.4m, resolution of tenant issues have delayed the build programme.
- Energy Strategy – slippage £0.8m due to management and process change.

Capital Receipts

49. The requirement for capital receipts for 2018/19 is £15.4m. The latest forecast of receipts is £6.0m, shortfall of £9.4m. The reduction is 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. The shortfall has been adjusted for in the new capital programme as part of the MTFs 2019-23.

Corporate Asset Investment Fund

50. A summary of the Corporate Asset Investment Fund (CAIF) position at the end of quarter 3 (December 2018) 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	28	1,880	1,529	6.0%
Industrial	12,034	1	611	787	6.5%
Distribution	350	-	16	19	5.3%
Development	15,015	6,204	-2	5	0.0%
Rural	18,751	0	220	829	4.4%
Other	1,115	3,088	1	284	6.8%
Pooled Property	20,423	2,500	600	850	3.7%
Private Debt	7,126	13,000	450	650	3.2%
TOTAL	100,424	24,821	3,776	4,953	4.0%

51. Overall the fund is forecasting to achieve a 4.0% 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%.
52. 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.
53. 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.
54. Additional investment of £13m was also made in Private Debt during 2018/19, increasing the total to the planned £20m.

Future Developments Fund

55. The latest estimated balance of available resources for the future developments fund is £18m. This position includes the current year underspend, allocations made in 2018/19 and the MTFs 2019-23.

56. The following allocations have been made in 2018/19:
- ERP Replacement, £2m (£1.3m capital, £0.7m revenue) of a total allocation of £5m (Cabinet 9 Feb 2018).
 - Supported Living Scheme in Great Glen, £1.0m (of a total £2.5m, Cabinet 6 July 2018)
 - Embankment House, Nottingham – land appraisal works, £0.2m
57. The balance on the Future Developments fund is held to contribute towards schemes that have been identified but are not sufficiently detailed for inclusion in the capital programme at this time. There is a long list of projects that may require funding over the next 4 years. These include investment in infrastructure for schools and roads arising from increases in population, investment in health and social care service user accommodation, highways match funding of capital bids, investment in community speed enforcement (depending on the outcome of the pilot), funding for the heritage and learning collection hub, a contingency and transitional costs for the new records office, and investment for the efficiency and productivity programme. The list of future developments is continually refreshed.
58. The latest estimate of funding required is £71m, compared with the funding available of £18m. This leaves a potential shortfall of £53m.
59. Closing the gap by taking on new loans is not the preferred option, as this increases the requirement for future savings. The position will be managed through prioritisation and where possible the identification of alternative funding sources. Financial modelling is being completed and all potential income streams are being considered including contributions from partners. It is 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.
 - Temporary use of the cash supporting earmarked funds in advance of it being required, rather than making short term cash investments.
 - Utilising the annual provision (MRP) made for the repayment of debt that is not required until the 2040s. This would avoid £6.5m per annum of borrowing.
 - Delay some of the expenditure until resources are available.

Recommendation

60. 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>

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.