Agenda Item 12

SCRUTINY COMMISSION – 4TH SEPTEMBER 2019

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

2019/20 MEDIUM TERM FINANCIAL STRATEGY MONITORING (PERIOD 4)

Purpose

1. To provide members with an update on the key issues impacting on the 2019/20 revenue budget and capital programme monitoring position.

Policy Framework and Previous Decisions

2. The 2019/20 revenue budget and the 2019/20 to 2022/23 capital programme were approved by the County Council at its budget meeting on 20th February 2019 as part of the Medium Term Financial Strategy.

Background

3. The latest revenue budget monitoring exercise shows a net projected overspend of £2.9m.

4. The latest capital programme monitoring exercise shows a net projected underspend of £17.1m.

5. 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

6. At this relatively early stage in the year a net overspend of £2.9m is forecast. The results of the latest exercise are summarised below and laid out in a little more detail in Appendix 1.

	Updated Budget	Projected Outturn	Difference from Updated Budget	
	£000	£000	£000	%
Schools Budget	0	0	0	n/a
Children & Family Services (Other)	75,236	77,166	1,930	2.6
Adults & Communities	139,260	137,820	-1,440	-1.0
Public Health *	-344	-614	-270	n/a
Environment & Transport	68,191	70,171	1,980	2.9
Chief Executives	10,974	10,504	-470	-4.3
Corporate Resources	34,035	34,095	60	0.2
Capital Financing	60,560	60,560	0	0.0
Other Areas	15,392	18,272	2,880	13.1
Central grants/other income	-25,894	-27,344	-1,450	5.6
Total	377,410	380,630	3,220	0.9
Funding	-377,410	-377,700	-290	0.1
Net Total	0	2,930	2,930	

7. The details of major variances are provided in Appendix 2. The key projected variances that have been identified are set out below.

<u>Children & Families</u>

8. For 2019/20 the High Needs budget is set at £6m above the level of Dedicated Schools Grant (DSG) funded through the DSG earmarked fund which is expected to record a deficit at the end of the financial year as set out in the High Needs Development Plan. Current estimates are that in the current year the £6m estimate is correct although it may take longer than expected for the position to be recovered. A number of activities within the High Needs Development Plan are established which include developing the capacity in mainstream schools to meet need without the need for specialist provision and the opening of special needs units and schools to prevent the need to commission higher cost places within independent schools. The impact of changes in demand associated with the actions being taken through the plan will remain under review and costs will become more certain as pupil destinations are known at the commencement of the academic year in September.

9. Children's Social Care workforce - £1.4m overspend. The recruitment of social workers is a concern nationally and that position is reflected in Leicestershire resulting in a continued need to use agency workers to fill vacancies. A number of newly qualified social workers have also been recruited over the last 12 months, which in the short term need to be supported by experienced workers which given the current market, are likely to be agency. Maintaining caseloads at a reasonable level is also an increasing pressure across many social care services. This area overspent by £1.1m in 2018/19.

10. Asylum Seekers - £0.7m overspend. Demand on this budget continues to rise, leading to the need for additional staffing. Although the Home Office has increased funding rates this is not sufficient to offset the overall pressure on this budget. The outturn for 2018/19 was £0.4m so the problem continues to grow.

<u>Adults & Communities</u>

11. Residential Care / Supported Living – net underspend of £0.8m arising from a reduction in the overall number of service users is forecast. A £1.7m increase in costs on supported living is offset by a £2.5m reduction in residential care costs. This is due to the departmental Target Operating Model (TOM) programme of moving service users from residential care to supported living.

12. Direct Payments / Home Care – net underspend of £0.6m. Increased service users receiving a Help to Live at Home (HTLAH) service offset by a reduction in the number of service users receiving a Direct Payment.

13. Community Income is anticipated to overspend by £0.8m due to a loss of health income following changes in the Learning Disabilities pooled budget arrangements (£1.4m, offset by reductions in commissioned demand led service budgets elsewhere, e.g.residential care) and an increase in other service user income (£0.6m).

<u>Environment & Transport</u>

14. Special Educational Needs (SEN) transport - £1.6m overspend. There are increasing numbers of pupils requiring transport provision and in some cases risk assessments and case conferences have highlighted that children require a higher level of transport provision (such as solo travel). Delays in implementing savings are also a factor in the forecast overspend, including those relating to the potential impact of the judicial review. Further work to reassess the overspend will be required once the new academic year transport patterns are known.

15. Public Bus Services - £0.5m overspend, largely due to the costs of subsidising additional bus services that became no longer viable during 2018/19. Delays in implementing some savings are also contributing to the overspend.

<u>Corporate/Central</u>

16. Commercial Services - £0.6m overspend. Income budgets will be difficult to achieve mainly as a result of the impact of pay inflation. Action is being taken to increase income and reduce costs to try to address the forecast overspend.

17. The inflation contingency of £13.9m is projected to be overspent by around £3m. Inflation pressures on the A&C budget are estimated at around £9.2m, mainly relating to the fee review, including implementing new bands and the 2019/20 inflationary uplift, as detailed in a report to the Cabinet on 25th June 2019. The financial impact is uncertain at this stage and an estimate has been included. The 2019/20 pay award and an increase to the employer pension contribution rate amount to £5.3m, and

inflation pressures of around £2.4m are anticipated on highways, transport, waste, energy and other budgets.

18. Central Grants and Other Income is forecast to underspend by £1.5m due to an increase in bank interest from higher balances and a review of prior year open purchase orders that are no longer required.

19. There are also various other smaller variances across departments, totalling £2.8m underspend. The full list of variances is shown in Appendix 2.

Business Rates

20. The County Council is undertaking quarterly monitoring with the District Councils and Leicester City Council regarding the 2019/20 Leicester and Leicestershire Business Rates Pool and 75% Business Rates Pilot. The latest forecasts show:

- Business rates pool surplus of around £9m in 2019/20 compared with a forecast of around £8m in January 2019. The surplus is transferred to the Leicester and Leicestershire Enterprise Partnership (LLEP).

- Business rates pilot surplus of around £14m - £15m, to be distributed to the pooling partners. The County Council's share of c.£7m is included in the MTFS as part of the Future Developments Fund.

Overall Revenue Summary

21. Overall there is a forecast net overspend of £2.9m.

22. The overspends will be kept under review in subsequent months and actions will be taken to reduce them where feasible. Given the prudent nature of budget monitoring, especially when there is such a large amount of uncertainty early in the financial year, it is anticipated that other areas of underspending will emerge which will allow the revenue budget to be balanced in overall terms.

CAPITAL PROGRAMME

23. The capital programme for 2019/20 totals £162m, including slippage of £19m from the 2018/19 outturn position. The latest position for 2019/20 shows an overall forecast variance of £17.1m. A summary is shown in Appendix 3 with details of the major variances provided in Appendix 4.

24. An update on the latest position is reported below.

25. Children and Family Services – there are pressures on the SEND programme within the four year C&FS capital programme to deliver the approved schemes within the approved budgets and the need to consider options to expand local specialist provision. The department are therefore reviewing all C&FS capital schemes and funding to try to ensure that the capital schemes remain where possible within the overall budget. As a result, no variances have been reported as at period 4 while this review takes place. An updated will be provided in the next monitoring report.

26. Three new special needs units will open in September with further provision set to open throughout 2020. This includes a new 80 place special school in Barwell to meet the needs of pupils with communication and interaction difficulties who would otherwise have needed independent school provision. A bid to the Department for Education (DfE) to fund a 125 place special school for pupils with social, emotional and mental health difficulties has been successful and negotiations with the DfE are underway to determine the nature of the capital build and date for opening.

27. Adults and Communities:

- Records Office Relocation - £2.5m slippage due to significant changes to the design which has required a major re-write of the full business case. This is expected to be approved in October 2019. A partner workshop is planned to be held in September 2019 to confirm the detailed working relationship and define partner contributions.
- Hamilton Court/Smith Crescent NWL Development - £1.9m slippage. A feasibility report has been completed which includes indicative timescales and milestones, that has informed the current position regarding the profile of expenditure. Pre-construction work is due to complete December 2019. Construction work will commence in January 2020.

28. Environment and Transport:

- M1 Junction 23 and A512 - £5.2m slippage due to delays in the legal agreement being signed with the developers. The agreement has now been signed and construction works have started.
- Melton Depot Replacement - £3.8m slippage as the winter 2019/20 service is to be provided out of the existing depot following a one-year extension of lease being granted. For winter 2020/21 onwards, there is currently no prospect of

moving to the new depot site until the Melton Distributor Road is completed. Short term options are being investigated.

- National Productivity Investment Fund (NPIF) Hinckley Hub - £3.5m slippage due to delays in negotiations with the land owners. Work is now unlikely to start until March 2020. The funding position will be kept under review as funding is time limited and due to expire March 2021. The project will spend NPIF funding first to mitigate this risk.
- Zouch Bridge - £1.3m slippage following a review of the scheme. Cabinet received a report on 24 May 2019 which reported a shortfall in funding for the replacement of Zouch Bridge with the Department asked to review departmental earmarked funds and the current capital programme to try to meet the funding shortfall. The department has undertaken a review of earmarked funds which has identified some capacity to partially meet the shortfall, but the amount cannot be confirmed until later in the year. In addition, the Department for Transport (DfT) has recently announced a further tranche of the Challenge Fund, which enables local highway authorities in England to bid for major maintenance projects that are otherwise difficult to fund through the usual formula funding allocations they receive from government. Consideration is being given to ascertain whether the Zouch Bridge replacement meets the criteria for this funding and whether a bid should be submitted. Subject to funding, the planned scheme start date is now Spring 2020.

29. The four-year capital programme includes £11.5m for the purchase of land to develop a new Waste Transfer Station. Following a review of potentially suitable sites it has been confirmed that a site currently owned by the County Council may be the most suitable location for this development. As a result, it is likely that the full capital allocation may not be required (part will be needed for the construction) and may offer opportunities to close the Zouch Bridge funding gap. Consultants have been engaged to develop options and plans together with associated cost.

30. In July 2019, the DfT announced an additional £348m nationally over 4 years to boost the quality of local roads. £200m of this funding will form part of the Challenge Funding which the County Council will be able to bid for. Options are currently being investigated and could include a bid to assist in funding for Zouch Bridge. The second tranche of this money, £150m, will be part of the Pinch Point Fund. This will be available in 2021/22 & 2022/23 and is for projects designed to ease congestion. The current options being investigated are for Desford Crossroads and the Market Harborough Transport Strategy.

31. Corporate Resources Programme, Watermead Park Footbridge and Cycleway, slippage of £2.0m. The scheme is now on hold as one of the landowners on which the bridge will be located is now reconsidering their involvement in the project.

32. Corporate Programme, overall net acceleration of £4.5m.

    - CAIF – Loughborough University Science and Enterprise Park, development of an office block plus car parking spaces, accelerated timescale, £6.4m.

- CAIF – Airfield Business Park, development of industrial units on part of the site, underspend £1.1m. Reduction in funding required based on the agreed fixed price contract, partly due to procuring a cheaper construction package through the OJEU process alongside some changes to the scheme.
- Energy Strategy, slippage of £0.7m. Schemes progressing, with Energy improvements at Countesthorpe College likely to proceed shortly. Work is ongoing to finalise schemes at Charnwood College, Lutterworth College and Hinckley Academy. The complexity of the process (assessment of savings and complex repayment agreements) has led to some of the delays in forecast spend.

Capital Receipts

33. The requirement for capital receipts for 2019/20 is £12m. The latest forecast of receipts is £4m, a shortfall of £8m. The shortfall is primarily due to delays with three large planned sales where planning permission is required. £3m is now expected to be received next year, with the timing of the balance of £5m uncertain at this stage. The shortfall can be managed in 2019/20 due to the overall level of slippage on the capital programme.

34. The overall position will be reviewed and updated as part of the refresh of the MTFS capital programme.

Corporate Asset Investment Fund

35. A summary of the Corporate Asset Investment Fund (CAIF) position as at quarter 1 for 2019/20 is set out below:

Asset Class	Opening Capital Value	Capital Incurred 2019/20	Net Income YTD	Forecast Net Income FY	Forecast Net Inc. Return FY
	£000	£000	£000	£000	%
Office	27,657	39	640	1,685	6.1%
Industrial	12,479	1	160	894	7.2%
Distribution	456	0	8	38	8.3%
Development	35,120	5,101	26	19	0.1%
Rural	20,585	120	23	956	4.6%
Other	4,344	0	0	283	6.5%
Pooled Property	23,110	2,500	215	1,000	3.9%
Private Debt	20,890	0	260	1,044	5.0%
TOTAL	**144,641**	**7,761**	**1,332**	**5,919**	**3.9%**

36. Overall the fund is forecasting to achieve a 3.9% net income return for 2019/20. If the development classification was excluded, the return would increase to 5.3%.

37. It should be noted that the above table excludes in year capital growth which is assessed annually as part of the asset revaluation exercise and reported in the annual CAIF performance report.

38. During June 2019, an additional £2.5m was invested in Pooled Property funds bringing the total held to £25m as originally planned, the opening value in the table above includes growth in the valuation of the fund.

Future Developments Fund

39. The latest estimated balance of available resources for the future developments fund is £15m. This position is after the following allocations in 2019/20:

- E&T - Advanced infrastructure design for schemes in the County, £6m
- E&T – Early contractor involvement and related works for the East of Lutterworth spine road £1.5m

40. 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.

41. The latest estimate of funding required is £70m, compared with the funding available of £15m. This leaves a potential shortfall of £55m.

Recommendation

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

Background Papers

County Council, 20 February 2019 – Medium Term Financial Strategy 2019/20 to 2022/23.

http://politics.leics.gov.uk/documents/s144416/Report%20of%20the%20Cabinet%20-%20MTFS.pdf

http://politics.leics.gov.uk/documents/s144417/MTFS%2019-23%20-%20Cab%208-2-19%20v4%20final.pdf

Circulation under the Local Issues Alert Procedure

None.

Equality and Human Rights Implications

There are no direct implications arising from this report.

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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