



SCRUTINY COMMISSION – 6TH NOVEMBER 2019

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

2019/20 MEDIUM TERM FINANCIAL STRATEGY MONITORING (PERIOD 6)

Purpose

1. To provide members with an update on the key issues impacting on the 2019/20 revenue budget and capital programme monitoring position, and a high level update on earmarked funds.

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 £1.0m.
4. The latest capital programme monitoring exercise shows a net projected variation of £19.5m compared with the 2019/20 budget, mainly due to slippage on the planned completion of schemes.
5. 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

6. Overall a net overspend of £1.0m 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)	75,004	77,534	2,530	3.4
Adults & Communities	148,509	145,599	-2,910	-2.0
Public Health	-88	-218	-130	n/a
Environment & Transport	69,560	71,280	1,720	2.5
Chief Executives	10,973	10,443	-530	-4.8
Corporate Resources	34,035	34,035	0	0.0
Capital Financing	60,560	60,560	0	0.0
Other Areas	4,751	7,741	2,990	62.9
Central grants/other income	-25,894	-28,304	-2,410	9.3
Total	377,410	378,670	1,260	0.3
Funding	-377,410	-377,700	-290	0.1
Net Total	0	970	970	

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

Children & Families – Schools Budget

8. The 2019/20 High Needs expenditure is expected to exceed the available Dedicated Schools Grant (DSG) by £6.1m. This will cause the DSG earmarked fund to record a deficit at the end of the financial year. This will need to be recovered from future years, assuming the position improves. The situation is in line with the high needs development plan although it may take longer than expected for the overall position to be recovered.
9. A number of activities within the 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. Current estimates of the high needs deficit show the deficit peaking in 2021/22 at £13.5m before it is fully recovered in 2024/25. Additional government grant funding for SEN from 2020/21 of £5.5m p.a. has been included in the forecasts. Consultation with schools is underway to transfer funding from the Schools Block to High Needs which if approved would reduce the overall deficit by £2m in 2020/21.
10. Schools Growth - funding has been earmarked to help meet the revenue costs of new schools. The funding requirement for 2019/20 has now been confirmed and an underspend of £2m is forecast, which will be transferred to the DSG earmarked fund to fund pupil growth in future years.

11. The overall DSG earmarked fund is now forecast to be £2.1m in deficit at the end of 2019/20. This is driven by the high needs deficit of £6.1m, which will be carried forward to future years to be recovered from savings on the High Needs Block.

Children & Families – LA Budget (Other)

12. Children's Social Care workforce - £1.9m 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, who in the short term need to be supported by experienced workers. Given the current market these are likely to be agency staff. 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.
13. Operational Placements - £0.7m overspend. While the increase in the numbers of looked after children is slightly above the level assumed in the budget, a combination of placements with increased complex needs and market factors are leading to increased average costs.
14. Asylum Seekers - £0.6m 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 problem continues to grow from 2018/19 where an overspend of £0.4m was incurred.

Adults & Communities

15. Residential Care / Supported Living – net underspend of £0.6m arising from a reduction in the overall number of service users is forecast. A £1.9m increase in costs on supported living is offset by a £3.5m 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 offset by a reduction and changes to the Learning Disabilities pooled budget with Health (£1.0m).
16. 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.
17. Staffing, overhead and other budgets are forecasting an underspend of £1.7m. There is a high level of staffing vacancies across the department. Some of these will be offset by the use of agency staff or are held in advance of savings.

Environment & Transport

18. 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 (around £0.4m of the overspend), including those relating to the impact of the judicial review. Further work to reassess the overspend will be required once the new academic year transport patterns are known.

Corporate / Central

19. Commercial Services - £0.7m overspend. Additional costs arising from the pay award cannot be fully recovered through increased income levels in the short term. Action is being taken to increase income and reduce costs to try to address the forecast overspend.
20. The inflation contingency of £13.9m is projected to be overspent by around £3m. The overspend is mainly due to inflation pressures on the A&C budget which are estimated at around £9.2m, mostly relating to the fee review, including implementing new bands and the 2019/20 inflationary uplift, as detailed in a report to Cabinet on 25th June 2019. This is exceptional compared with previous years (averaging around £4m - £5m). Other pressures include 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.
21. Central Grants and Other Income is forecast to underspend by £2.4m due to an increase in bank interest from higher balances (£0.6m) and a review of prior year open purchase orders and other liabilities that are no longer required (£1.8m).

Business Rates

22. 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 £9m in 2019/20 compared with a forecast of £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

23. Overall there is a forecast net overspend of £1.0m.
24. 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 at this stage of the 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

25. The capital programme for 2019/20 totals £165m, including slippage of £19m from the 2018/19 outturn position. The latest position for 2019/20 shows an overall forecast variance of £19.5m. A summary is shown in Appendix 3 with details of the major variances provided in Appendix 4.
26. The main variances are reported below:
27. Children and Family Services – overall acceleration of £3.4m. The main variation relates to acceleration on the SEN programme (£3.6m in 2019/20). The delivery of additional SEN places is crucial for the delivery of revenue savings which are integral to the High Needs Development Plan.
28. Three new special needs units have opened 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. Development of a 125 place special school for pupils with social, emotional and mental health (SEMH) difficulties has been accelerated and will be located on the current Oakfield site in Blaby. Negotiations with the DfE are ongoing on the development of a DfE funded 125 SEMH located in Shepshed.
29. Adults and Communities, overall net slippage of £5.6m:
 - Records Office Relocation – slippage forecast of £2.9m. A Partner workshop took place on 6 September 2019 to confirm the detailed working relationships which will be included in a revised business case. The revised business case is due to be finalised in November.
 - Hamilton Court / Smith Crescent NWL Development - £2.1m slippage due to the programme of work required for the re-development significantly changing since the capital funding was requested. A detailed feasibility report has been completed which includes indicative timescales and milestones. This has informed the current funding requirement across the financial years. Pre-construction work is due to complete January 2020 at which point construction work will commence.
30. Environment and Transport, overall net slippage of £18.4m:
 - M1 Junction 23 and A512 - £9.7m slippage due to delays in completing the legal agreement with the developers. There has also been a delay due to issues with access to the site. 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.
- County Council Vehicle Programme - £1.9m slippage due to a fleet management review which is now complete with actions and outcomes being considered.
- 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 and will now be requesting some funding for this programme as part of the MTFS refresh. 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. The Council will be entering an expression of interest for funding for the 2nd round of funding which will occur in 2020/21. Subject to funding, the planned scheme start date is now Spring 2020.

31. 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 reallocate funds to other departmental needs. Consultants have been engaged to develop options and plans together with associated cost.

32. Corporate Resources Programme, overall net slippage of £2.7m:

- Watermead Park Footbridge and Cycleway, slippage of £2.0m. The scheme is on hold as one of the landowners is now reconsidering their involvement in the project.
- Workplace Strategy - £0.5m slippage is forecast. The business case has now been approved by CMT and the works associated with this scheme will begin to progress, however, works will not be able to complete in the current year.

33. Corporate Programme, overall net acceleration of £4.3m.

- 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, but often takes significant time for schemes to be approved and progressed to operational stage. As such, likely that majority of budget will slip into next financial year, but should be required as a number of schools are in conversation with the Energy team to progress.

Capital Receipts

34. The requirement for capital receipts for 2019/20 is £12m. The latest forecast of receipts is £3m, a shortfall of £9m. The shortfall is primarily due to delays with three large planned sales where planning permission is required. Of the shortfall, £3m is now expected to be received in 2020/21, with the timing of the balance of £6m uncertain at this stage.
35. The shortfall can be managed in 2019/20 due to the overall level of slippage on the capital programme. However, there is a risk that the difficulties will have an impact on the funding of the future capital programme. The overall position will be reviewed and updated as part of the refresh of the MTFs capital programme.

Corporate Asset Investment Fund

36. A summary of the Corporate Asset Investment Fund (CAIF) position as at quarter 2 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	93	1,031	1,685	6.1%
Industrial	12,479	2	294	894	7.2%
Distribution	456	0	8	38	8.3%
Development	35,120	25,876	50	19	0.0%
Rural	20,585	434	328	948	4.5%
Other	4,344	0	48	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	28,905	2,234	5,911	3.4%

37. Overall the fund is forecasting to achieve a 3.4% net income return for 2019/20. If the development classification was excluded, the return would increase to 5.2%.

38. 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.

39. 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

40. During 2019/20 the following approved allocations have been made from the fund (in addition to those included in the original MTFS):
- E&T - Advanced infrastructure design, £0.5m (of £6m total)
 - E&T – Early contractor involvement and related works for the East of Lutterworth spine road £1.5m
 - E&T – Lutterworth East SDA, planning and pre-highway construction works, £2m (of £4.62m total).
 - A&C – Supported Living, Ashby Court, £1.2m (of £1.7m total)
 - A&C – Social Care Improvement Plan, £4.5m (of £10m total)
 - CR - Transformation Fund - £4.6m Efficiency and Productivity Investment
41. This leaves an estimated balance on the fund at the end of 2019/20 at £19.6m. However, current approved commitments over the next four years will result in the fund being in a forecast deficit position of £10.7m. This will require additional contributions from the new MTFS which is possible due to the improved local government settlement and £8m risk contingency held. This will be reviewed as part of updating the MTFS for 2020-24.
42. 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, and investment for the efficiency and productivity programme. The list of future developments is continually refreshed and will be reviewed alongside the new capital programme for 2020-24.

Review of Earmarked Funds

43. During October 2019 a review of earmarked funds was completed. The review covered all revenue earmarked funds and balances, excluding schools earmarked balances. The review also excluded capital funds (capital receipts, capital grants and contributions unapplied) which are earmarked for capital projects and are reviewed as part of the MTFS capital programme. The forecasts are reported in Appendix 5.
44. Earmarked funds are held in accordance with the County Council's Earmarked Funds Policy that is approved annually by the County Council as part of the MTFS. The level

of earmarked funds and balances are monitored regularly throughout the year and are reported as part of the MTFS and at year end.

45. Overall earmarked funds are forecast to total £68.8m at year end, 31 March 2020. The significant funds held are:
- Insurance Reserves (£13.9m) - held for policy excesses that the Council is liable for and uninsured losses, mainly to meet potential liabilities from failed insurers.
 - Transformation (£7.7m) - used to invest in transformation projects to achieve efficiency savings and also to fund severance costs.
 - Pooled Property Funds (-£24.1m). Investment to achieve a higher rate of return, funded from the overall balance of earmarked funds and can be realised in the future when required.
 - Capital Financing (£27.0m) - holds MTFS revenue contributions to fund the phasing of capital expenditure in the approved 2019-23 MTFS.
 - Future Developments (£19.6m) – one off funding set aside to support future developments, mainly for capital.
46. In addition to the earmarked funds mentioned above the County Council holds the General Fund to meet any unexpected risks. The uncommitted balance on the General County Fund is forecast to increase to £21.8m by 31 March 2020, to reflect increasing uncertainty and risks over the medium term. The level of the General Fund is to maintain balances in line with the inherent risks faced by the County Council. The level of the General Fund is within the target range of 5 to 7% of net expenditure (excluding schools), the projected balance of £21.8m represents 5.8% of estimated net expenditure for 2020/21.

External Audit Review

47. Grant Thornton, the County Council's external auditors have reviewed the level of earmarked funds as part of their Value for Money review of the 2019-23 MTFS and reported no issues:

'Based on the work carried out we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.'

Recommendation

48. 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

Appendix 5 – Summary of review of Earmarked Funds

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