



CABINET REPORT – 20TH JULY 2021

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

2021/22 MEDIUM TERM FINANCIAL STRATEGY MONITORING (PERIOD 2)

PART A

Purpose of the Report

1. The purpose of this report is to advise the Cabinet regarding the 2021/22 revenue budget and capital programme monitoring position as at the end of May 2021 (period 2 of the financial year).

Recommendations

2. It is recommended that the 2021/22 revenue and capital monitoring position be noted.

Reasons for Recommendations

3. To highlight the latest forecast financial position for 2021/22, including a net projected overspend of £18.4m.

Timetable for Decisions (including Scrutiny)

4. The Cabinet will receive further reports in the autumn concerning a refresh of the Medium Term Financial Strategy (MTFS).
5. The Scrutiny Commission will receive a report on the position at period 4 at its meeting on 8 September 2021.

Policy Framework and Previous Decisions

6. The County Council approved the 2021/22 to 2024/25 Medium Term Financial Strategy (MTFS) in February 2021. The key aim of the Strategy is to ensure that the Authority has appropriate resources in place to fund key service demands over the next few years. The Strategy includes the establishment of earmarked funds and the allocation of ongoing revenue budget and capital resources for key priorities.

Resource Implications

7. The period 2 revenue budget monitoring exercise shows a net projected overspend of £18.4m. In the current financial year this can be managed through the Covid budget. However, this was a one-off provision and additional pressures will lead to an increased requirement for savings if they cannot be contained. The Covid budget simply allows time to resolve the financial issues.
8. In the 2021-25 MTFs the savings requirement totals £80m, of which £23m still needs to be identified. Even with the declared overspend there are uncertainties in the medium term due to the continuing impacts of Covid-19 on the economy affecting income from local taxation and future central government funding, and the impact on services through changes required for Covid-19.
9. The General Fund stands at £17m as at 31st March 2021, which represents 4.3% of the 2021/22 revenue budget, in line with the County Council's earmarked funds policy and the MTFs approved in February 2021.
10. The period 2 capital programme monitoring exercise shows a projected net slippage of £10.2m compared with the updated 2021/22 budget.
11. The costs of some existing capital schemes are likely to increase (and work is being undertaken to quantify this). Coupled with the wider national picture of increases in the price of construction materials and shortage of construction skills due to, for example, HS2, a review will need to be undertaken over the summer to understand how to deal with the affordability implications. This fits with the ongoing concern regarding the significant financial risk associated with the requirements of infrastructure growth in Leicestershire. Some of the issues being faced may be temporary, but some degree of rationing is likely.
12. As indicated in this report further work will take place over the Summer and a further report will be considered by Cabinet in September.

Circulation under the Local Issues Alert Procedure

13. This report has been sent to all members of the County Council.

Officers to Contact

Mr C Tambini, Director of Corporate Resources
Corporate Resources Department
☎0116 305 6199 E-mail Chris.Tambini@leics.gov.uk

Mr D Keegan, Assistant Director (Strategic Finance and Property), Corporate Resources Department
☎0116 305 7668 E-mail Declan.Keegan@leics.gov.uk

PART B

REVENUE BUDGET

14. Overall a net overspend of £18.4m is forecast.
15. The overall position includes the estimated impact of Coronavirus (Covid-19) where it can be reasonably estimated at this stage. There is a high level of uncertainty in the estimates when forecasting for the full year. This certainty will improve in future monitoring exercises during the year.
16. A summary of the position is summarised below and set out in more detail in Appendix A.

REVENUE BUDGET MONITORING STATEMENT FOR THE PERIOD : APRIL 2021 TO MAY 2021

	Updated Budget	Projected Outturn	Difference from Updated Budget	
	£000	£000	£000	%
Schools Budget – Schools and Early Years	0	-2,200	-2,200	
Schools Budget – High Needs	0	9,350	9,350	
Net Total	0	7,150	7,150	
Children & Family Services (Other)	89,087	90,087	1,000	1.1
Adults & Communities	151,431	165,881	14,450	9.5
Public Health	-1,323	-1,323	0	.0
Environment & Transport	81,355	81,065	-290	-0.4
Chief Executives	12,458	12,758	300	2.4
Corporate Resources	34,089	35,309	1,220	3.6
Capital Financing	21,500	22,550	1,050	4.9
Other Areas	20,964	20,864	-100	-0.5
Central grants/other income	-43,508	-44,008	-500	1.1
Covid-19 budget	28,300	28,300	0	0.0
Contribution to budget equalisation earmarked fund	4,000	7,700	3,700	92.5
Contribution to General Fund	1,000	1,000	0	0.0
Total	399,353	420,183	20,830	5.2
Funding	399,353	-401,753	-2,400	0.6
Net Total	0	18,430	18,430	

17. The key projected variances that have been identified are set out below. Further details of major variances are provided in Appendix B.

Children and Family Services – Schools Budget

18. The schools budget is forecast to overspend the grant received by a net £7.2m at the end of 2021/22, mainly relating to the High Needs block (£9.4m) offset by an underspend on the Schools Block from schools growth (£2.2m) which will be retained for meeting the costs of commissioning school places in future years.
19. Nationally concern over the impact of Special Educational Needs and Disabilities (SEND) reform on High Needs expenditure and the financial difficulties this places on local authorities continues. The position in Leicestershire reflects the national picture. The MTFs included £5.7m as the estimated in year overspend on the High Needs Block of Dedicated Schools Grant (DSG). The current forecast shows that this has increased to £9.4m, an increase of £3.7m as a result of increased number of Independent School and Post-16 places at an additional cost of £1.9m and non-achievement of savings of £1.7m. The Cabinet received a report regarding the High Needs Position at its meeting on 22 June.
20. The SEND Capital Programme is developing new resource bases with the aim of reducing the reliance on expensive independent sector places. During 2019/20 and 2020/21 a number of these bases welcomed their first cohort of students, with more places to be filled during the 2021/22 academic year. The increase in demand however has resulted in these places being filled with new demand as opposed to having the desired impact on existing numbers. Due to set-up costs the full effect of the programme will not be seen until future years. Additionally, the numbers of pupils in mainstream settings that receive top-up funding is rising rapidly.
21. By the end of 2021/22 the estimated accumulated High Needs deficit is forecast to be £26.9m. The Department is investigating a number of actions that could over the course of the MTFs reduce demand and therefore the overall deficit. The high needs deficit continues to increase over the MTFs period and is not financially sustainable, this creates a significant and unresolved financial risk to the Council.

Children and Family Services – Local Authority Budget (Other)

22. The budget is forecast to be £1.0m (1.1%) overspent for the financial year, relating to Children's Social Care Staffing budgets. Whilst good progress has been made with various recruitment and retention activities across the Department, there are currently still isolated issues within certain social care localities. For example, in certain areas it has become increasingly difficult to recruit and retain experienced social workers, senior practitioners, and team managers. The prolonged period of instability in the team has led to higher caseloads and increased use of agency staff; this has further impacted on retention of experienced staff. Within the Defining Children's programme, Newton Europe are currently working with service managers to re-balance workloads, review roles and improve productivity where possible.
23. Pressures continue to be experienced within the placement budgets, especially for residential care and over-16 provision with increased demands year on year and in excess of 10% increase in average unit costs. If this trend continues it will significantly exceed the existing MTFs growth assumptions and more work is being undertaken to both validate these growth assumptions and identify further

action that can be taken. The unit cost pressure is being driven, not only by more complex needs of the children and young people but also by market pressures driven by a shortage of placements both locally and nationally.

24. The Defining Children and Family Services for the Future programme has a number of workstreams to reduce the requirement for residential placements; reduce durations and increase internal fostering capacity. Early signs show this is starting to make an impact and early savings delivery is one of the mitigating factors offsetting a potential overspend in the current year (as well as underspends on the asylum seekers budgets). The Social Care Investment programme working in partnership with Barnardo's will also have an impact through the creation of additional capacity for under 16's, over 16's and parent and children, which should be in place by Autumn 2021. With increasing demands projected and a market shortage, there is a strong case for more investment and a proposal is currently being worked up.

Adults and Communities

25. A net overspend of £14.5m (9.5%) is forecast for the revenue budget for 2021/22.
26. There is continuing significant financial impact due to Covid-19 on adult social care which includes additional cost for commissioned services and loss of service user income in particular. The Department has developed an action plan to start to mitigate the overspend including weekly monitoring of key areas of spend by the management team, more controls to approve spend and review of processes associated with discharge from hospital.
27. Homecare (£8.5m). An overspend of £10.5m is forecast which reflects that both average package costs and client numbers are significantly higher than budgeted. At the time of preparing the budget, the hospital discharge to assess scheme was expected to end on 31 March 2021. The scheme is now due to end on 30 September 2021, although arrangements beyond this date are uncertain. Some of these costs are offset by Health income in the region of £2m.
28. The discharge to assess scheme, along with placing less clients into residential care services during the early stages of the pandemic, has been the main factor behind the increase in the numbers of people receiving home care and the average number of hours commissioned per client since March 2020. The discharge to assess scheme for Covid-19 has meant a focus on lowering patient numbers in hospital, which has reduced the involvement of social care prior to discharge. Further work is needed alongside Health in reviewing these practices. The increase in the average weekly client numbers is from 1,880 per week in 2019-20 to 2,140 in 2020-21. As at 3 May 2021, there were 2,300 home care clients of which it is estimated that 250 accessed services through the discharge scheme.
29. Residential Care Income (£4.7m). As a result of Covid-19 the chargeable number of residential service users has declined. In addition, to this there is an ongoing trend of lower residential service users from the Target Operating Model (TOM) project moving service users into Homecare. There has been an increase in non-

residential income which offsets some of this trend (£1m). An action plan is in place to review all outstanding financial assessments post discharge from hospital and review all those who packages are currently under review.

30. Supported Living (£2.7m). Forecast overspend arising from high cost complex packages relating to a small number of Transforming Care service users being discharged from hospital settings in the community, expected to cost £1.5m, and increased hours being commissioned over the Covid-19 period for the remaining service users.
31. Residential Care (£2.0m). Additional average cost of care packages £4.6m, including transitions from Children's services and Covid-19 costs. Over the last 12 months there has been a significant increase in the number of placements requiring a Supplementary Needs Allowance in addition to basic fee rates which has increased the average cost of care. It is likely that these costs will be an ongoing issue and work is being undertaken to understand the basis for these which could include reduced occupancy. These are offset by NHS discharge income of £2.6m.
32. The ongoing impact of Covid-19 on demand led commissioned services is being validated and reviews of high cost packages will be undertaken. It is still too early to be confident in the 2021/22 forecast expenditure. As the approach to Covid-19 management changes nationally, the impact of these changes are being monitored and are continuing to make accurate forecasting of demand for commissioned services very challenging.
33. These costs are offset by a £3.5m underspend from staffing, overhead and other budgets. This includes an additional Better Care Fund contribution agreed for the year of £1m.
34. The Infection Control and Rapid Test Grant (£3.6m) continues in 2021/22 and provides support to residential, homecare and other providers that meet the strict grant conditions.

Public Health

35. The department is forecasting to be on budget. There are net underspends of £0.2m, mainly due to reduced activities be undertaken due to Covid-19, which will be transferred to Public Health earmarked fund.

Environment and Transport

36. A net underspend of £0.3m (0.4%) is forecast.
37. Transport budgets show a net underspend of £0.4m, mainly relating to the Passenger Fleet budget. There is ongoing reduced demand for services, particularly on Adult Social Care (ASC) services and some on SEN. This has resulted in a large number of vacancies for drivers and escorts. Future demand for ASC services and traded work is difficult to predict and will depend on the

easing of Covid-19 restrictions, both nationally and within the Council, and on service users' appetite to resume the use of transport services.

38. Environment and Waste Management budgets show a net forecast overspend of £0.2m. This includes an overspend of £0.9m on Landfill, offset by related underspends on the Treatment and Contracts budget (£0.5m) and the Haulage and Transfers budget (£0.3m).

Chief Executive's

39. The Department is forecasting to overspend by £0.3m (2.4%) which is mainly due to the increased cost of Coroners Service £0.1m and legal costs £0.1m from additional work due to Covid-19.

Corporate Resources

40. Overall the Department is forecasting a net overspend of £1.2m (3.6%).
41. There is a £1.5m forecast overspend on Commercial Services, primarily related to the continuation of difficult trading conditions and losses of income due to continuing Covid-19 restrictions. Key examples are the continued delays to opening Beaumanor Hall (£0.4m), lower volumes in the School Food Service and reduced scope for development activity. The mitigating action has been taken in the form of furloughing staff and accessing the governments sales, fees and charges grant funding schemes are available to a much lesser extent this year.

Central Items

42. Capital Financing - £1.1m increased contribution to the capital programme. This relates to the use of additional proceeds from the 2019/20 (75%) Business Rates Pilot becoming available in 2021/22 (see below). The additional funds will be used to support the capital programme and reduce the overall funding required.
43. Bank and other interest - £0.5m underspend. Additional interest income is forecast from the returns of the £20m the Council invested in Private Debt, through the Corporate Asset Investment Programme. These investments have started to be repaid resulting in the investment and interest returns been received.
44. Contribution to budget equalisation earmarked fund, £3.7m. The budgeted contribution to the earmarked fund has been increased by £3.7m to match the forecast increase in the DSG High Needs deficit mentioned earlier in the report. This is needed due to the cashflow impact of the additional expenditure.
45. Inflation Contingency (£12.2m). The contingency is currently projected to be required in full. The position on a number of key requirements, such as the annual pay award and adult social care fee increases should become clearer as the year progresses. The last, rejected, offer from the employer would exceed the MTFS assumption.

46. Covid-19 Budget (£28.3m). At this stage no release of this one-off budget has been projected.
47. MTFs Risks Contingency (£8m). At this stage no release of the contingency has been assumed in the projection.

Business Rates

48. Additional Business Rates income of £2.4m is forecast in 2021/22, based on the latest information from NNDR1 forms and forecast section 31 grants. Of this £1.1m relates to the balance arising from the 2019/20 (75%) Business Rates Pilot, which will be used to provide additional funds for the capital programme.
49. The provisional outturn position of the 2020/21 Leicester and Leicestershire Business Rates Pool and (75%) Business Rates Pilot is being brought together with the final position expected to be reported in November, after the completion of the external audits. Similarly, monitoring of the 2021/22 Pool is being undertaken, with the first exercise for quarter one, to the end of June, underway.

Overall Revenue Summary

50. At this very early stage there is a forecast net overspend of £18.4m but this is uncertain due to not being able to fully assess the ongoing impact of the pandemic. This position will be updated as more information is known during the financial year.
51. The 2021/22 outturn position is planned to be closed by the use of the Covid Budget (£28.3m) and the MTFs Risks contingency (£8m).

CAPITAL PROGRAMME

52. The capital programme for 2021/22 totals £165m, including slippage of £32m from the 2020/21 outturn position. Overall slippage from the 2020/21 outturn was £41m, the balance of £9m has been added to later years of the capital programme.
53. The latest forecast on the capital programme for 2021/22 shows an overall net variance of £10.2m. A summary is shown in Appendix C with details of the major variances provided in Appendix D. The main variances are reported below:
54. Children and Family Services - the Department is forecasting minor slippage of £0.2m on the provision of additional school places programme.
55. The Department for Education (DfE) has announced a new capital grant, £2.6m to support the creation of new High Needs places or the improvement of existing provision, and additional capital maintenance grant of £2.1m. These have been added to the 2021/22 programme.
56. Environment and Transport – the Department is forecasting a net overall spend in line with the updated budget. The main variances are:

- Waste Transfer Station Development - £4.5m acceleration. This complex project is proceeding well and making faster progress than envisaged during budget setting.
 - A511 / A50 Major Road Network - Advanced Design - £3.4m slippage due to a delay to Major Road Network funding announcement by the Department for Transport, this has led to slippage in planning and scheme spend. The announcement is still awaited.
 - County Council Vehicle Replacement Programme - £0.7m slippage due to plans this year to only replace essential vehicles while undertaking a review. Also forecasted income from sale of replacing assets which will be used to replace the vehicles.
 - Lutterworth East Road - £0.4m. Allocation released due to other funding available in the Corporate Asset Investment Fund.
57. Specific challenges are being faced with escalating costs on major schemes that cover a number of years as projects progress from early feasibility to delivery. At this stage the schemes are forecast to be in line with the original MTFS 2021/22 allocations. However these will be reviewed as part of the summer review of the capital programme and a wider thorough review of the capital programme to inform future MTFS decisions. Major schemes affected include:
- Zouch Bridge Replacement Programme is being evaluated as part of a potential cost saving exercise.
 - Melton Mowbray Distributor Road – North and East Sections. The programme is currently being re-evaluated due to potential increased costs.
 - Melton Mowbray Distributor Road – South. Scheme being re-evaluated due to ongoing discussions in respect of securing forward funding. Scheme cost are also expected to increase.
58. Corporate Resources – the Department is forecasting overall net slippage of £1.8m. The main variances are:
- Workplace Strategy – End User Device (PC, laptops) - £0.6m acceleration due to expenditure for annual refresh as well as additional costs to fund new purchases required during 2021/22 covering VDI removal, public library devices uplift and meeting new staff equipment demand.
 - Melton, Sysonby Farm Development - site preparation and infrastructure works - £2.5m underspend. Approval was given not to proceed with the grant funding which was imposing a requirement to accept a reduced offer rather than the higher value offer received which is now intended to be accepted. Developer to complete enabling works at their cost.
59. Earlier in the year the County Council was successful in a bid to the Business, Energy and Industrial Strategy towards decarbonisation work. A total of £3.6m was awarded and is being used to fund works at County Hall, Beaumanor Hall and Embankment House.
60. Corporate Programme – the Department is forecasting overall net slippage of £8.2m. The main variances are in the Corporate Asset Investment Fund:

- Quorn Solar Farm - £6.2m slippage. The site will not be developed this financial year due to findings around the archaeology following surveys. Further works is being carried out to adjust the engineering to comply with the requirements of the planners.
- M69 Junction 2 - £2.0m slippage. Land acquisition is no longer expected to be possible this financial, only expenditure on planning promotion.

Capital Receipts

61. The requirement for capital receipts for 2021/22 is £6.9m. The latest forecast of receipts is £6.8m, a shortfall of £0.1m. The shortfall can be managed due to underspends reported in the 2021/22 capital programme.

Equality and Human Rights Implications

62. There are no direct equality or human rights implications arising from the recommendations in this report.

Appendices

Appendix A – Revenue Budget Monitoring Statement

Appendix B – Revenue Budget – Forecast Main Variances

Appendix C – Capital Programme Monitoring Statement

Appendix D – Capital Programme – Forecast Main Variances and Changes in Funding

Background Papers

Report to the County Council on 17 February 2021 “Medium Term Financial Strategy 2021/22 – 2024/25”

<http://cexmodgov1/ieListDocuments.aspx?CId=134&MId=6476>

Report to the Cabinet on 22 June 2021 “Special Educational Needs and Disabilities – Progress with the Delivery Of The High Needs Block Development Plan”

<http://cexmodgov1/ieListDocuments.aspx?CId=135&MId=6444>