Leicestershire County Council

# SCRUTINY COMMISSION – 17 NOVEMBER 2021

# 2021/22 MEDIUM TERM FINANCIAL STRATEGY MONITORING (PERIOD 6)

## REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

### Purpose of the Report

1. To provide members with an update on the 2021/22 revenue budget and capital programme monitoring position as at the end of period 6 (the end of September).

### Policy Framework and Previous Decisions

2. The 2021/22 revenue budget and the 2021/22 to 2024/25 capital programme were approved by the County Council at its budget meeting on 17th February 2021 as part of the Medium-Term Financial Strategy.

3. The four-year capital programme was reviewed in July 2021 and an updated programme approved by the Cabinet 17th September 2021.

4. The Cabinet on 15 December 2020 approved delegation to the Chief Executive, following consultation with the Leader of the Council and the Cabinet Lead Member for Resources, be authorised to support or otherwise, the submission of the final Freeport bid.

### Background

5. The period 6 revenue budget monitoring exercise shows a net projected overspend of £2.6m.

6. The period 6 capital programme monitoring exercise shows a projected net slippage of £4m compared with the updated 2021/22 budget.

7. The monitoring information contained within this report is based on the pattern of revenue and capital expenditure to the end of September 2021.

### 2021/22 REVENUE BUDGET MONITORING – PERIOD 6

8. The period 6 revenue budget monitoring exercise shows a net projected overspend of £2.6m. In the current financial year this can be manged 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.

9. 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.

10. The General Fund balance 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.

11. 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.

12. A summary of the position is shown below and set out in more detail in Appendix A.

**REVENUE BUDGET MONITORING STATEMENT**
**FOR THE PERIOD : APRIL 2021 TO SEPTEMBER 2021**

| | Updated Budget | Projected Outturn | Difference from Updated Budget | |
|---|---|---|---|---|
| | £000 | £000 | £000 | % |
| Schools Budget – Schools and Early Years | 0 | -1,900 | -1,900 | |
| Schools Budget – High Needs | 0 | 10,520 | 10,520 | |
| Net Total | 0 | 8,620 | 8,620 | |
| | | | | |
| Children & Family Services (Other) | 89,353 | 87,503 | -1,850 | -2.1 |
| Adults & Communities | 156,546 | 162,376 | 5,830 | 3.7 |
| Public Health | -1,323 | -1,293 | 30 | n/a |
| Environment & Transport | 82,349 | 81,699 | -650 | -0.8 |
| Chief Executives | 12,458 | 12,458 | 0 | 0.0 |
| Corporate Resources | 34,390 | 34,980 | 590 | 1.7 |
| Capital Financing | 21,500 | 22,550 | 1,050 | 4.9 |
| Other Areas | 14,288 | 15,168 | 880 | 6.2 |
| Central grants/other income | -43,508 | -45,048 | -1,540 | 3.5 |
| Covid-19 budget | 28,300 | 28,300 | 0 | 0.0 |
| Contribution to budget equalisation earmarked fund | 4,000 | 8,900 | 4,900 | 122.5 |
| Contribution to General Fund | 1,000 | 1,000 | 0 | 0.0 |
| **Total** | 399,353 | 408,593 | 9,240 | 2.3 |
| | | | | |
| **Funding** | -399,353 | -405,993 | -6,640 | 1.7 |
| | | | | |
| **Net Total** | 0 | 2,600 | 2,600 | |

13. 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

14. The schools budget is forecast to overspend the grant received by a net £8.6m at the end of 2021/22, mainly relating to the High Needs block (£10.5m) with an underspend on the Schools Block from schools growth (£2.2m).

15. 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 £10.5m, an increase of £4.8m. The increase is the result of an increased number of placements including Independent School and Post-16 places at an additional cost of £2.9m and non-achievement of planned savings of £1.9m. The Cabinet received a report regarding the High Needs Position at its meeting on 22 June.

16. 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 pupils as opposed to having the desired impact on reducing numbers in independent settings. 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.

17. By the end of 2021/22 the estimated accumulated High Needs deficit is forecast to be £28m. A refresh of the High Needs Development Plan is underway and 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)

18. The Local Authority budget is forecast to underspend by a net £1.8m (2.1%), mainly relating to a projected underspend on the Children's Social Care Placement budget, including Asylum seekers, of £2.8m based on current demand and activity, offset by an overspend of £1m due to pressures within the social care workforce.

19. Looked after Children in Care numbers increased by 8% last financial year to 705 as at 1st April 2021. The budget for 21/22 had assumed a further 8% increase in LAC numbers, however currently LAC numbers for Leicestershire stand at 683 and are not projected to increase above the April 21 position by the end of the financial year. One of the key drivers behind this positive position is the active work and outcomes being

achieved through the Defining Children and Family Services Programme, which as a result has allowed the department to over-achieve in regard to its MTFS savings targets for 21/22. Such outcomes include reducing a number of LAC starts per year and more specifically reducing the number of residential starts where it was seen the current level of need of children in residential provision could be managed in alternative provision types and sustained through more proactive planning and managing placements. The subsequent impact has seen current placement numbers across various provision types at a lower level than budgeted for both within external fostering and residential provision types.

20. Further work is required over the coming months to establish how sustainable current patterns and trends within Leicestershire's LAC cohort are, and its subsequent financial impact both in year and in future years. Current referrals into both Early Help and First Response service areas have increased sharply, a scenario which was largely expected post Covid-19. It is, however, uncertain at this stage how this demand will impact Leicestershire's LAC numbers. This will be kept under continual review.

21. 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. As per the projected underspend across social care placements, early signs show this is starting to make a positive impact. 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.

22. In relation 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, currently within the Wigston locality it has become increasingly difficult to recruit and retain experienced social workers, senior practitioners, and team managers. The prolonged period of instability in this particular locality 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.

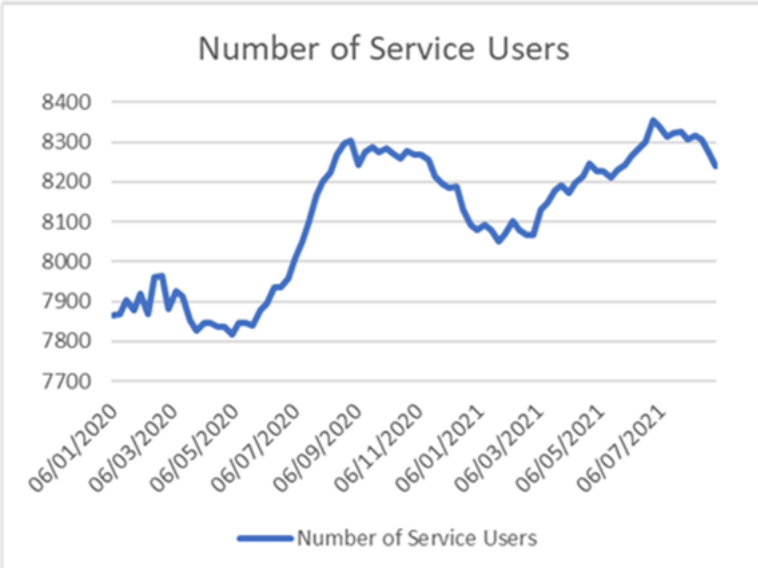
<u>Adults and Communities</u>

23. A net overspend of £5.8m (3.7%) is forecast for the revenue budget for 2021/22.

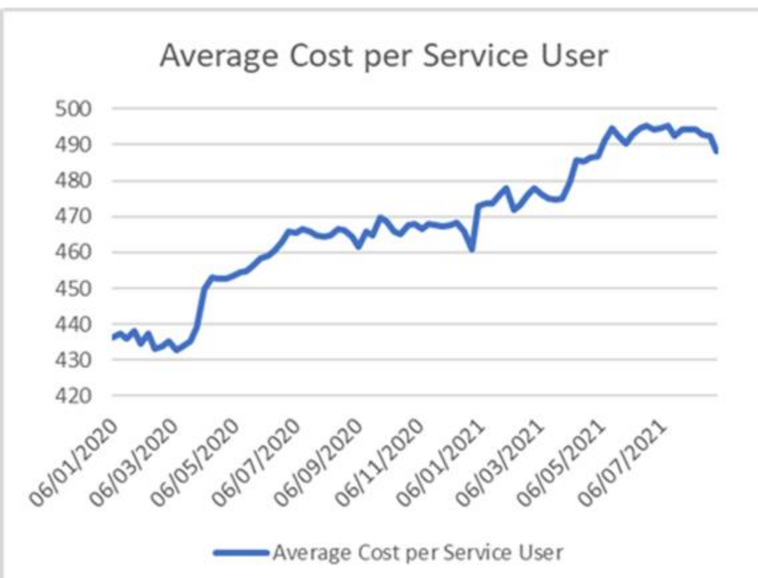
24. There is continuing significant financial impact due to Covid-19 on adult social care which includes additional cost for commissioned services and loss of service user income.

25. The overall number of service users being supported across Residential Care, Homecare, Supported Living, Cash Payments and Community Life Choices from January 2020 through to August 2021 have significantly increased. Typical growth in a year

would be approximately 1.5% per annum, however current number of service users supported is an increase of 3.8%. There are early indications that overall numbers are starting to decrease.




26. Over the same time period the average cost per service user has also increased (the rises in April relates to the annual fee review uplifts), however these seem to be now stabilising.

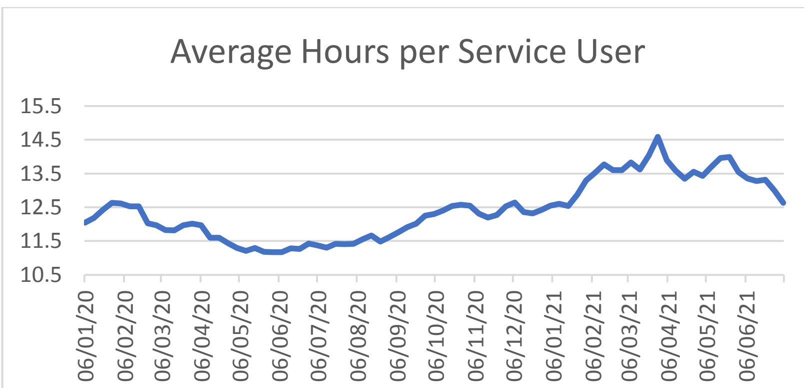



27. The main areas are:

- Homecare - overspend of £10.9m 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 31 March 2022, although arrangements beyond this date are uncertain. Some of these costs are offset by hospital discharge income in the region of £1.3m.

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 continues 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 the end of September 2021, there were on average 2,370 home care clients with an average package of £258 per week.

The average cost per Service User has risen due to increased hours being commissioned, rather than any change in pricing. Home care rates are fixed for the year by location and average rates have been stable over the recent 18 months other than at the times of the inflationary uplift. Since the pandemic the average weekly hours have risen from 12.0 per service user to around 13.5.




- Residential Care £8.1m;
  - Expenditure £7.0m - additional average cost of care packages including transitions from Children's services (£0.9m) and COVID/price costs (£6.1m). Over the last 12 months there has been a significant increase in the number of placements requiring a Supplementary Needs Allowance, short term bed placements and price increases 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 £4.7m.
  - Income £1.1m - 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 is moving them into Homecare.

- Supported Living £6.2m - high cost complex packages relating to a small number of Transforming Care service users being discharged from hospital settings in the community are expected to cost £3.5m along with increased hours being commissioned over the Covid-19 period for the remaining service users. There is additional health funding in the region of £2.5m to support these costs (shown under a separate budget heading – community income).

- Community Income additional £4.7m. As a result of the shift of service users into Non-Residential Services following COVID-19, the volume of chargeable service users has increased compared to previous years. In addition, the review of NHS COVID-19 funded service users has increased the number of chargeable service users on the charging run. The income surplus is forecast to be £1,630k at this stage. Health income is also forecast to overachieve by £2.5m overall.

- Additional one of grant of £5m is to be received from the NHS to help support the additional Covid costs and income from NHS Discharge Scheme £6m.

28. An action plan is in place which includes:

    - Reviewing all service user's packages that have commenced or changed since April 2020 commencing with Homecare.
    - Working with NHS partners to help improve the discharge pathway including reviewing funding arrangements.
    - Ensure financial and funding assessments are undertaken.
    - Reviewing internal processes.

29. The ongoing impact of Covid-19 on demand led commissioned service is being validated and reviews of high cost packages will be undertaken. As the approach to Covid-19 management changes nationally, the impact of these changes is being monitored and are continuing to make accurate forecasting of demand for commissioned services very challenging.

30. These costs are offset by a £3.1m underspend from staffing, overhead and other budgets. In addition there is an additional Better Care Fund contribution agreed for the year of £1m.

31. The Infection Control and Rapid Test Grant (£6.6m) continues in 2021/22 and provides support to residential, homecare and other providers that meet the strict grant conditions.

Public Health

32. The department is forecasting a small net overspend of £30,000. There are no significant variances.

Environment and Transport

33. A net underspend of £0.6m (0.8%) is forecast.

34. There are underspends on Transport budgets due mainly to reduced demand: Adult Social Care and SEN transport in Passenger Fleet (£0.3m), Mainstream School Transport (£0.3m) and Concessionary Fares (£0.3m).

35. Network Staffing and Administration is forecasting additional developer funding as developers start to increase the rate of mobilisation now that lockdown is easing (£0.5m).

36. There is a forecast net underspend of £1.2m on Waste budgets. Underspends of £2.4m, including Dry Recyclables (£0.9m) Treatment Contracts (£0.4m) Haulage and Waste Transfers (£0.3m) and Trade Waste income (£0.2m), are offset by an overspend of £1.2m due to increased tonnages going to Landfill.

37. Due to the County Council's improving position for the current financial year £2 million of the department's underspends will be redirected toward roads maintenance funding. Transferring resources now will allow the work to be scheduled within the current financial year.

Chief Executive's

38. The Department is forecast to be on budget. Additional expenditure on Coroners (£0.2m) and Policy/Communities budgets (£0.1m) due mainly to Covid-19 pressures are offset by savings on other budgets, mainly due to staffing vacancies.

Corporate Resources

39. Overall the Department is forecasting a net overspend of £0.6m (1.7%).

40. There is a £1.7m 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 (£0.5m), lower volumes in the School Food Service and reduced scope for development activity. Mitigating action has been taken in the form of furloughing staff and accessing the governments sales, fees and charges grant funding scheme but both are available to a much lesser extent this year.

41. There is a forecast underspend of £0.6m on Information and Technology, mainly relating to not fully utilising all of the funds allocated for MS Teams licensing and the Contact Centre, and also from vacant posts and reduced printing expenditure.

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 - £1.5m underspend. Additional interest income is forecast from the returns of the £20m the Council invested in Private Debt, through the Corporate

Asset Investment Fund (CAIF) programme. These investments have started to be repaid resulting in the investment and interest returns having been received.

44. Contribution to the budget equalisation earmarked fund - £4.9m overspend. The forecast contribution has been increased by £4.9m 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. The overspend continues to be accounted for against the grant with the expectation that it will ultimately be repaid.

45. The inflation contingency is currently projected to be overspent by £1m. The position on a number of key requirements, such as the annual pay award and energy price increases should become clearer as the year progresses. The latest offer from the Local Government Employers would exceed the MTFS assumption by £2.2m.

46. Covid-19 Budget (£28.3m). At this stage no release of this one-off budget has been projected. The first call on the budget will be to balance the current financial year, with the remaining funding being allocated as the MTFS is updated.

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 £2.6m 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 shows a total Levy of £9.5m; the final position is expected to be reported in December, after the completion of the external audits. Similarly, monitoring of the 2021/22 Pool is being undertaken, with the second exercise for quarter two showing a projected Levy of around £11m.

**Council Tax**

50. The 2021/22 revenue budget included a provision of £9m for the potential impact of Covid-19 on levels of council tax (and business rates) funding. The position has improved compared to the original forecasts, but it is not possible to accurately assess the levels of reductions in the funding streams, particularly as Government funding for furlough only ended on 30 September 2021 and similarly some sectors will receive business rates relief until 31 March 2022. The full impacts of unemployment and business closures are likely to be seen over the remaining months of this financial year and in 2022/23. However, £4m of the provision has been released at this stage as it looks unlikely that the full provision will be required.

51. As referred to above regarding business rates, the District Councils are also providing data on council tax and a clearer picture should emerge over the coming months and the provision will be re-assessed accordingly.

**Freeport**

52. The outline business case has now been developed and was considered at the East Midlands Freeport board on 9th September 2021. Work has since commenced on developing the full business case. The latest estimate of costs to develop the business cases is £1.2m after government grant of £0.3m.

53. As the lead authority for the Freeport there has been a certain level of dependency on the County Council to provide the initial funding to develop the full business case. Provisional agreement has been reached with partners that these costs can be recovered from the first call on retained business rates as the sites start to grow. But this will require the Council to cash flow at risk in the event that Freeport designation is not achieved. The initial funding for the development of the business cases will be provided from balances available in the current financial year to be recovered from future business rates growth.

54. The ongoing operating costs are estimated to be approximately £0.5m. It is expected that these will also need to be funded by the County Council initially until retained business rates become available and they can be repaid. This position will be included in the new MTFS.

**Overall Revenue Summary**

55. At this relatively early stage there is a forecast net overspend of £2.6m 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.

56. The 2021/22 outturn position is planned to be closed by the use of the Covid Budget.

**CAPITAL PROGRAMME**

57. The updated capital programme for 2020/21 totals £117m. This follows a review of the programme undertaken in July 2021 and approved by the Cabinet in September 2021.

58. The latest forecast on the capital programme for 2021/22 shows an overall net variance of £4m. A summary is shown in Appendix C with details of the major variances provided in Appendix D. The main variances are reported below:

59. Environment and Transport – the department is forecasting a net overall net slippage of £5.4m. The main variances are:

- Melton Mowbray Distributor Road, North and East Sections - £3.5m slippage following a revised approach to undertaking advanced works before the full business case is approved by Department for Transport (DfT).
- Melton Distributor Road - Southern Section - £1.3m slippage due to signing of legal agreement of terms for funding from Homes England taking longer than expected. Work has been delayed until agreement is in place.

60. Corporate Resources – the department is forecasting overall net acceleration of £0.9m for Workplace Strategy – End User Device (PC, laptops) scheme due to a revision of the business case and a more ambitious plan as a result of Covid-19.

61. Corporate Programme – the department is forecasting overall net acceleration from the future years asset acquisitions line of £0.5m to complete work on Airfield Business Park phase 2.

**Capital Receipts**

62. The requirement for capital receipts for 2021/22 is £2.4m. The latest forecast of receipts is in line with the requirement.

**Corporate Asset Investment Fund**

63. A summary of the Corporate Asset Investment Fund (CAIF) position as at quarter 2 for 2021/22 is set out below:

| Asset Class | Opening Capital Value | Capital Incurred 2021/22 | Net Income YTD | Forecast Net Income FY | Forecast Net Inc. Return FY |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | % |
| Office | 52,411 | 0 | 1,390 | 2,780 | 5.3% |
| Industrial | 24,244 | 0 | 315 | 978 | 4.0% |
| Distribution | 457 | 0 | 16 | 26 | 5.7% |
| Rural | 28,584 | 0 | 182 | 365 | 1.3% |
| Other | 4,688 | 0 | 84 | 169 | 3.6% |
| Development | 36,035 | -314 | -45 | -90 | -0.3% |
| Pooled Property | 24,305 | 0 | 385 | 770 | 3.1% |
| Private Debt | 16,640 | -2,792 | 949 | 1,250 | 8.2% |
| **TOTAL** | **187,364** | **-3,106** | **3,277** | **6,248** | **3.4%** |

64. Overall the fund is forecasting to achieve a 3.4% net income return for 2021/22. The direct property portfolio (excluding developments, pooled property and private debt) has a forecast net income return of 3.9%.

65. The directly managed property portfolio is expected to perform in line with expectations over 2021/22. The office asset class now holds the LUSEP development alongside five other assets and is expected to return 5.3% or around £2.8m in net income.

66. The Council's exposure to the distribution sector is low risk due to the type of assets held. As such, performance is expected to remain in line with last year. The rural sector is largely unaffected by Covid-19 and is currently expected to return around £0.4m net income - about 1.3% based on the capital value of the rural portfolio.

67. Pooled property income is similar to last year and is forecast to return 3.1% from a diverse portfolio comprising of four institutional property manager funds.

68. Private Debt repayments of capital have totalled £2.8m in the first half of the year alongside £0.9m in interest payments. The percentage return includes the additional interest repaid. Interest payments will reduce over time as capital is returned (from loans being repaid). The private debt investment is invested in a product that is primarily composed of mature secured debt and is highly diversified. This offers considerable downside protection to the capital invested.

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

## **Recommendation**

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

## **Appendices**

Appendix A: Revenue Position as at Period 6, 2021/22
Appendix B: Revenue budget major variances
Appendix C: Capital Programme Monitoring Statement
Appendix D: Capital Programme – Forecast Main Variances and Changes in Funding

## **Circulation under the Local Issues Alert Procedure**

None.

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