Leicestershire County Council

SCRUTINY COMMISSION - 6TH SEPTEMBER 2023

MEDIUM TERM FINANCIAL STRATEGY - LATEST POSITION

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of the Report

1. The purpose of this report is to provide members with an update on the County Council's short and medium term financial position in light of the current economic climate. The report also details the changes to the previously agreed 2023-27 capital programme following the latest review, and covers the specific revenue budget monitoring position as at the end of period 4 (the end of July).

Policy Framework and Previous Decisions

2. The Medium Term Financial Strategy (MTFS) for 2023/24 to 2026/27 was approved by the County Council on 22 February 2023. The MTFS forms part of the Budget and Policy Framework as set out in Part 4C of the Council's Constitution.

Timetable for Decision (including Scrutiny)

3. The Cabinet will consider a report on the MTFS position on 16 September 2023, including the proposed changes to the previously agreed 2023-27 capital programme.

4. The Cabinet will be asked to approve the draft MTFS 2024 to 2028 for consultation in December 2023. All Overview and Scrutiny Committees and the Scrutiny Commission will consider the draft MTFS in late January 2024 and the Cabinet will then make a final recommendation to the County Council in February 2024.

Medium Term Financial Strategy

5. The County Council continues to face a challenging financial outlook. The current MTFS anticipated a funding gap of £13m in 2024/25 rising to £88m by 2026/27, despite savings of £62m being targeted. An initial review of the position in light of the continuing inflation pressures, including the 2022/23 pay offer, indicates that the Council will face additional costs in 2023/24 and future years.

6. At this stage last year the Bank of England was forecasting that inflation would peak at 13% in October 2022, although other commentators were predicting even more ominous levels. The Bank expected inflation to fall quickly but it is staying higher for longer than expected, meaning that inflation pressures exceed those anticipated in the December 2022 Local Government Finance Settlement, which has been an ongoing issue with the Settlement over many years.

7. CPI did indeed peak in October 2022 at 11.1%, remained above 10% until March 2023 and has slowed to 6.8% in the latest set of figures, for July 2023. The Bank of England is currently forecasting that inflation will be around 5% by the end of 2023. Then the Bank expects inflation to keep on falling and that it will reach the Bank's 2% target by early 2025. There are no indications that prices will fall back towards their historic level, resulting in a permanent increase in the Council's underlying cost base.

8. The pressures of high inflation levels, coupled with an ever-increasing demand for core services, is presenting a challenge across the whole local government sector. However, as a very low-funded authority Leicestershire is much worse placed than most to be able resolve the problem.

9. In the short term, the County Council will benefit from higher than anticipated investment interest income due to continued higher level of interest rates. The Bank of England has increased the base rate of interest 14 times in a row since December 2001 in a bid to tackle high inflation. The latest rise in August 2023 took the base rate from 5% to 5.25%, its highest level since the 2008 financial crash. With inflation falling, experts now believe the rate will peak at around a lower-than-expected 5.75% in Spring 2024 before falling to just below 4% over the next five years. In the longer term, the levels of interest are likely to fall, leaving the County Council with the need to find additional savings to offset the longer term impacts of inflation.

10. Based upon the available information, and assuming Government support is not forthcoming, the County Council's budget gap is set to grow from £13m in 2024/25 and could realistically exceed £100m by 2027/28. It is inevitable that the £62m of savings planned will have to increase significantly and that the County Council will need to give serious consideration to further Council Tax increases. The County Council will not be able to resolve this problem on its own, either expectations of what can be delivered will have to reduce or new funding found. £100m is almost one fifth of the Council's net budget.

11. The Council will continue to pursue efficiencies. However, it is clear that in the current climate, and on the back of the £250m of savings already delivered since 2010, it will not be possible to balance the Council's financial position without impacting on front line service delivery. Statutory responsibilities will have to be prioritised, and whilst there may be scope for assessing service levels, it will primarily be discretionary services where most savings will need to be identified.

12. The Capital Programme will also need to be prioritised with only essential projects progressing. The current four-year capital programme includes a shortfall in funding of £122m which will be funded by borrowing. The additional revenue costs arising from this borrowing total £9m per annum, on the basis of internal borrowing.

13. The County Council continues to press the Government to address the imbalance on relative funding levels between local authorities. However, the Government appears to be maintaining the current funding position until the next parliament.

14. Furthermore, the financial situation also requires the Government to deal with the structural national issues around funding for those services, such as social care and Special Educational Needs and Disabilities (SEND), which are experiencing a relentless growth in demand. Proposals currently being pursued provide little comfort that the financial pressures falling on local authorities such as Leicestershire will be reduced in the short or medium term.

15. It is vital that the County Council continues to act as quickly as possible to address its financial problems. The challenges being faced are being felt by most authorities, including the best funded, and the authorities unable to balance their budget first will ultimately face the biggest impact upon services. The number of authorities issuing Section 114 notices, or raising the prospect of doing so, continues to grow.

2023/24 REVENUE BUDGET MONITORING – PERIOD 4

16. The period 4 revenue budget monitoring exercise shows a net projected overspend of £8.9m.

17. The 2023/24 revenue budget and the 2023/24 to 2026/27 capital programme were approved by the County Council at its budget meeting on 22 February 2023 as part of the Medium Term Financial Strategy. The monitoring information contained within this report is based on the pattern of expenditure to the end of July 2023.

18. 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 2023 TO JULY 2023

	Updated Budget	Projected Outturn	Difference from Updated Budget	
	£000	£000	£000	%
Schools Budget – Schools and Early Years	0	-2,090	-2,090	
Schools Budget – High Needs	0	13,970	13,970	
Net Total	0	11,880	11,880	
Children & Family Services (Other)	103,362	111,242	7,880	7.6
Adults & Communities	202,455	210,265	7,810	3.9
Public Health	-1,806	-1,806	0	0.0
Environment & Transport	93,766	93,056	-710	-0.8
Chief Executives	15,430	15,350	-80	-0.5
Corporate Resources	38,815	39,445	630	1.6
Capital Financing	26,520	25,020	-1,500	-5.7
Contingency for Inflation	21,865	25,865	4,000	18.3
Other Areas	346	-9,054	-9,400	n/a
Contribution to budget equalisation earmarked reserve	10,400	22,200	11,800	113.5
Contribution to General Fund	1,000	1,000	0	0.0
Total	512,152	532,582	20,430	4.0
Funding	-512,152	-523,652	-11,500	2.2
Net Total	0	8,930	8,930	

19. 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

20. Overall a net overspend of £11.9m is forecast on the Dedicated Schools Grant (DSG). This is made up mainly of overspends of £14.0m on the High Needs Block, offset by a forecast underspend of £1.6m on the Early Years Block, and an underspend of £0.5m on the Schools Block from schools' growth, which will be retained for meeting the costs of commissioning school places in future years.

21. The High Needs Block projected overspend of a net £14.0m in 2023/24 is £0.7m more than the £13.3m forecast included within the original MTFS.

22. Nationally, concern over the impact of Special Educational Needs and Disabilities (SEND) reform on High Needs expenditure, and the financial difficulties this exposes local authorities to, is growing. Whilst the Government's recent Green Paper is set to result in systemic changes to the national SEND system, such changes may take a number of years to deliver and none appear to address the funding issues.

23. Leicestershire has been invited into the Department of Education's (DfE) Delivering Better Value (DBV) in SEND programme as a result of the deficit. At the end of 2022/23 the accumulated High Needs deficit stood at £35.5m. Leicestershire has received £1m to support the transformation of the SEND system. The Transforming SEND in Leicestershire (TSIL) programme is mobilised and is supported by colleagues across the Authority and by an external strategic partner, Newton Europe, (independent consultants appointed by the Council); this programme and the DBV programme will be closely aligned. Discussions have taken place with the DfE regarding the strategic partner and funding. Whilst the cost of the strategic partner cannot be charged to DSG the investment in TSIL is recognised as a key step in reducing the DSG deficit and as such would be taken into consideration if there was a call on the County Council to contribute to the deficit reduction, as has been the case for authorities with even more serious deficits.

24. Without new interventions the High Needs block deficit is forecast to continue to increase over the MTFS period and is not financially sustainable. This creates a significant and unresolved financial risk to the Council. Work is underway to reassess the financial impact on the budget over the coming months.

25. The Early Years budget is showing an underspend of £1.6m. The budget is based on the number of hours used to calculate the original 2023-24 Early Years DSG income in December 2022. The 2023-24 Early Years DSG income was increased in July 2023 by £1.7m to allow for the Spring Term 2023 census. This includes a prior year adjustment of £0.6m relating to 2022/23. The forecast hours paid to Providers for 2023-24 are £1.2m more than the budget, reflecting the increase in Spring 2023. There is also a planned underspend of £0.9m as part of the payback of previous years' Early Years deficits. The deficit as at 31 March 2023 was £5.3m, so this projected £1.6m underspend will reduce this. The plan is to clear this deficit over 4 years.

<u>Children and Family Services – Local Authority Budget (Other)</u>

26. The Local Authority budget is projected to overspend by a net £7.9m (7.6%), mainly relating to projected overspends on the Children's Social Care Placements budget (£5.5m) and Unaccompanied Asylum Seeking Children's budget (£1.9m).

27. The actual number of Children in Care (CIC), currently circa.686 and broadly consistent with CIC numbers in Leicestershire since early 2021, has continued to stabilise through the work of the Defining CFS Programme. The number of older children with complex emotional needs requiring higher levels of support in residential care has also remained in line with current MTFS projections, circa.10-11% of overall children in care numbers.

28. The projected overspend on the Children's Social Care Placement budget (£5.5m) is largely due to the average weekly cost per residential placement having increased from £4,800 per week (budgeted average cost included in the MTFS) to the current average of £5,750 per week which equates to a 20% increase in the last 12-18 months. The increase is partly related to the cohort of children (those with the most appropriate fit for residential care) but the main contributing factor is market pressures. A lack of provider capacity and volatility in the market, as well as increasing complexity and/or different

cohort of children and young people needing placements, has significantly increased the cost of new placements compared to those placements ending.

29. Market instability and provider choice is resulting in children with a range of complex needs being ‘unattractive’ to the market (needs includes violence, aggression as a result of experiencing trauma) and results in the use of high cost (£10,000+ pw per child) interim provisions until behaviour stabilises or another placement can be found. Other sufficiency issues impacting on budget pressure include a lack of step-down options from residential provision (circa.10 children who have been waiting long periods for family-based placements), with continued searches and work with providers to try to identify suitable provision, not helped with a low recruitment pipeline for mainstream carers which particularly impacts on availability of placements for older children and those with more complex needs.

30. As part of the actions being taken to mitigate against these financial pressures, the Defining Children and Family Services for the Future programme has several workstreams to enable MTFS benefits to be achieved alongside the Social Care Investment Programme (SCIP) working in partnership with Barnardo’s. This will have a positive impact through the creation of additional residential provision capacity for under 16’s, over 16’s and parent and children places. The Council has been successful in obtaining additional capital grant funding (match funded by LCC) to enable investment in nine properties and up to 27 placements over the MTFS, of which one unit is currently up and running with children placed and several other units are to become operational later this financial year. Although part of the registration process of these units requires each unit’s operational infrastructure to be live in preparation for Ofsted to grant its registration. This subsequently adds one-off additional costs to the placement budget forecast. These have been factored into the forecast (current estimate circa £1m), several units are planned to take place over the course of this financial year.

31. The £1.9m projected overspend position in relation to the Unaccompanied Asylum-Seeking Children (UASC) budget is largely due to the rapid increase in UASC in care and care leavers, which has required a greater resource requirement to meet their needs. The different entry routes include both the National Transfer Scheme (NTS), as well as spontaneous arrivals. But more recently through the hotel dispersal scheme where requests to accommodate people placed in Asylum Dispersal Hotels in Leicestershire are made. Whilst they have been deemed adults by the Home Office they subsequently claim to be children which creates an additional pressure for the service to manage which is not fully funded. In addition, delays in asylum claim processes mean that the Council is often accommodating young people well past the age of 18. Home Office funding drops significantly at the age of 18, but the costs do not.

32. Currently there are 97 UASC in care. This is an increase of 37 young people (62%) since 31 March 2022. This rise continues the upward trend experienced in 2021/22, an expected increase due to the NTS becoming mandatory and two dispersal hotels opening in Leicestershire. UASC over 18’s is currently 122, which represents almost a 77% increase since March 2022, and this is linked to the increasing number of care leavers, for whom a reduced funding rate is received in comparison to the costs being incurred.

33. The SENA Service budget is currently forecast to overspend by £1.1m in 2023/24. During the previous financial year increased service demand and complexity resulted in the need for additional service resource to ensure demand can be managed in the most efficient and effective manner, with this position continuing into 2023/24. A heavy reliance on agency workers to undertake Education, Health and Care plan writing and tribunal work has resulted in a significant forecast overspend in this area. Meanwhile mediation costs remain high adding to the overall in year budget pressure.

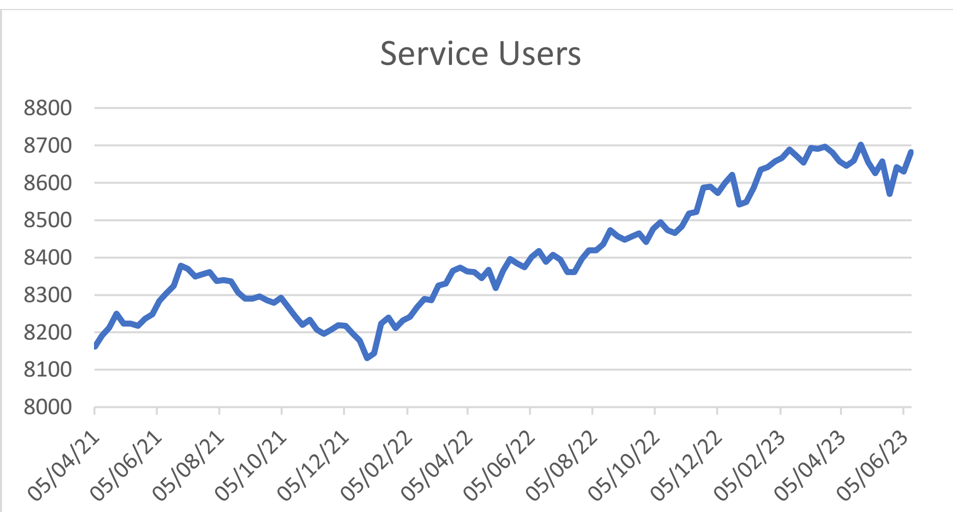
34. As a direct response to the projected overspends as described above, the departmental management team has led a review of non-statutory services together with a robust management and review of vacancies within the department. The output of this work is projecting to deliver some one-off in year efficiencies and budget opportunities of £0.6m which includes delaying recruitment to non-essential posts where appropriate. Further work is being undertaken to explore the feasibility of this work and its scope to deliver on-going future budget efficiencies.

Adults and Communities

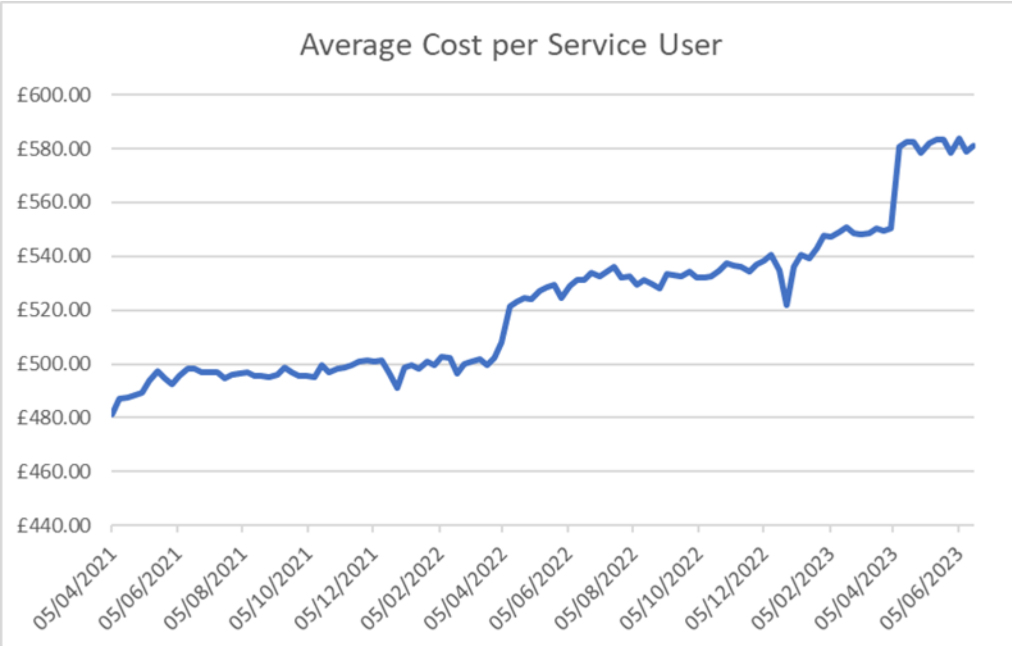
35. A net overspend of £7.8m (3.9%) is forecast for the departmental revenue budget for 2023/24.

Overall Demand Trends

36. The following chart shows the overall numbers of service users being supported across Residential Care, Homecare, Supported Living, Cash Payments and Community Life Choices from April 2021 through to June 2023. Typical growth would be approximately 1-1.5% per annum. However, the current number of service users supported is around 3% per annum.



37. The following chart shows the average cost per service user over the same time period. The steep rise from April relates to the annual fee review uplift.



38. Note the average cost per service user was not static and rose over the course of 2022/23 mainly driven by higher cost packages within residential care from market pressures to secure a placement and increasing hours being commissioned within Homecare from increasing numbers of discharges from hospital.

39. The main areas of variance are:

<u>Homecare - £7.3m overspend.</u>

40. The current weekly homecare payments are estimated to be £0.9m per week. The forecast provides for an average of 2,700 service users for the year which is 6% higher than the budgeted number of 2,540. Current average package costs (or hours) are also 6% higher than budgeted (excluding the fee uplift of 8.4%) at £332 per service user per week compared to the budgeted value of £313. The increase is from delaying admission into residential care and increased provision within the service user's own home, and lower numbers of service users opting to take a direct cash payment.

41. The department has established a wide-ranging demand management programme. This is prioritising an analysis of home care data to establish whether any internal changes in practice have led to the higher spend and to what extent this has been as a result of external influences. The project is also reviewing existing savings activity to ensure these are on track to meet the MTFS targets.

Residential Care - £3.4m overspend.

42. The projected overspend is mainly due to increases in the average weekly cost per residential placement over and above the planned inflationary increases to the banded rates. This is a continuation of the pressure experienced in 2022/23 which led to an overspend. There are an average 2,390 service users with an average weekly rate of £1,017.

43. The main driver of the increases is where the authority has agreed funding above the banded rates to ensure that the service is provided with a suitable care placement, known as Local Authority Agreed Funding (LAAF). The forecast cost of LAAFs in 2023/24 (based on current volumes and values of LAAFs) is £14.6m. This compares to the 2022/23 cost of £12.6m, and 2021/22 of £10.0m. The 2023/24 forecast is a 46% increase on the 2021/22 costs. This increase is a combination of both an increase in the volume and value of LAAFs. The volume of LAAFs has increased from 742 service users per week in 2021/22 to 951 in 2023/24. The value of LAAFs has increased from an average of £258 per service user per week in 2021/22 to £294 in 2023/24. The increase in LAAFs (both volume and value) is predominantly in the older adult's area.

44. This overspend is offset by additional service user income of £1.5m which is mainly due to backdated arrears from working through a backlog of financial assessments. The department is also investigating the allocation of the latest tranche of Market Sustainability and Improvement Fund to reduce this overspend by £3.7m.

Supported Living - £2.9m overspend.

45. The forecast assumes a projected increase of 40 service users over the course of the financial year from 470 to 510. The majority of the increase in service users are from those either transitioning from Children's Social Care, living at home with their parents or moving from a Hospital/Residential setting into Supported Living. They represent new growth in numbers rather than a movement of existing service users from Residential Care, which was the primary driver under the TOM Programme. The Dynamic Purchasing System used by Supported Living commissioners is increasing the supply of additional Supported Living schemes facilitating the increase in the number of placements that can be made. Average placement costs currently stand at £1,400 per week per service user.

Better Care Fund / Other NHS Income - £1.1m loss of income.

46. A total of £6m income was budgeted for from the NHS for additional costs relating to Covid-19 mainly due to hospital discharges. However, current indications are that there will be a £2.8m shortfall in this income for 2023/24. The overall position is offset by additional BCF income and new Discharge Grant of £1.7m.

Community Income - £1.3m additional income

47. The majority of the additional income is for home care packages for people with a temporary health condition (£0.8m). The numbers of people receiving this type of care

increased during 2022/23 due to the removal of hospital discharge funding for home care mid- year. The numbers funded seen at the end of 2022/23 have continued into 2023/24. There is also a continuing increase in the number of chargeable service users who are receiving other non-residential services and the average amount per service user is also increasing.

Other Areas

48. There has been a further allocation of the Market Sustainability and Improvement Fund (tranche 2) of £3.7m which is currently uncommitted and available for offsetting the overspend potentially in Residential Care with the allocation still to be decided. (The £3.7m has been already included in the overall departmental forecast overspend.)

49. These costs are offset by a net £1.9m underspend from staffing and other minor variations.

50. A robust demand management plan will continue to be in place during 2023/24 which will focus on managing demand particularly for homecare:

- reviews of all service users' packages that have commenced or changed since April 2022
- working with NHS partners to help improve the discharge pathway including reviewing funding arrangements
- ensure financial and funding assessments are undertaken
- reviewing internal processes.

Public Health

51. The Department is forecasting an underspend of £0.2m, mainly due to staffing vacancies in the Quit Ready, First Contact Plus, Programme Delivery and Teen Health teams. The underspend will be transferred to the Public Health earmarked reserve.

Environment and Transport

52. A net underspend of £0.7m (0.8%) is forecast.

53. Across Highways and Transport Operations a net £1.0m overspend is reported as a result of:

- Social Care Transport / Passenger Fleet - net overspend £1.0m. Increased costs following a rise in the number of commissioned journeys for Social Care Transport, additional vehicle hire and maintenance costs, net of underspends on Passenger Fleet due to vacant driver and escort posts.
- SEN Transport – £0.6m overspend. Delays in receipt of applications for SEN transport combined with the effects of a shrinking transport sector.
- Mainstream School Transport - £0.5m overspend. Delays in processing mainstream school transport applications, allocation of placements outside residential area and limited bus capacity.

- Staffing vacancies – net £0.7m underspend. On-going staffing vacancies caused by an inability to recruit to vacant posts across teams.
- Additional fee income – net £0.2m underspend. Increase in issues of Temporary Traffic Regulation Orders (TTRO) and network licenses/permits.
- Concessionary travel - £0.2m underspend. Lower than budgeted reimbursement.

54. There is a net underspend of £0.4m on Environment and Waste Management services. Additional income from the sale of dry recyclable materials and electrical items (£0.4m) and net underspends arising from the diversion of waste from Energy from Waste (EfW) and Refused-derived fuel (RDF) facilities into landfill (£0.1m). These offset the cost of legislative change to divert the disposal of upholstered domestic seating containing Persistent Organic Pollutants (POPs) from landfill to incineration (£0.2m). Balance relates to underspends on delivery of Environmental policy and initiatives (£0.1m underspend).

55. At this stage, there are also forecast increased pressures on environmental and reactive maintenance works, total £0.5m. A compensating forecast savings target of £0.5m has been included to offset these additional costs, pending agreement of mitigating actions and approval of any resulting overspend by the Asset Programme Board.

56. The balance relates to vacancies across teams within Development & Growth (£0.4m underspend) and additional income from S38 and S278 fees (£0.9m underspend).

Chief Executive's

57. The Department is reporting a net underspend of £0.1m (0.5%). There are underspends mainly due to increased Registrar's income (£0.4m) and staffing vacancies (£0.1m), offset by additional costs of £0.4m relating to the Coroner's Service.

Corporate Resources

58. The Department is forecasting a net overspend of £0.6m (1.6%). There are continuing pressures on Commercialism budgets, projected as a £0.7m overspend, due to increases in the national living wage and general inflationary pressures. The forecast position is after a one-off transfer of £2m from the MTFS Risks Contingency has been added to the School Meals service budget to mitigate the impact of the inflationary pressures arising from the difficult economic climate. Work is continuing to review pressures and to identify mitigating actions.

Central Contingencies

59. Growth contingency (£1m). At this stage the contingency is show as being released, to offset the overspends due to increased spending pressures in departments.

60. Fair Cost of Care / Adult Social Care Reforms (£4.6m). An element of £3.5m of this contingency is required to fund additional spending in Adults and Communities. The balance of £1.1m is shown as being released as an underspend reflecting the additional expenditure in the department.

61. MTFS Risks Contingency (£10m). £2m of the contingency has been released to provide temporary support to the Commercial Services budget. At this stage no further release of the contingency has been assumed in the projection. However, it is planned to be required to offset the overall forecast revenue overspend.

62. Inflation Contingency (£21.9m balance). The contingency is currently projected to be exceeded by around £4m in the current year. The pay offers on the table for Local Government staff for the current year exceed the amount assumed in the contingency by around £1.6m (and given the fact that votes have been to reject the offer, this could end up being higher still). The position on a number of other key requirements, such as energy and other running cost inflation, should become clearer as the year progresses so at this stage there is considerable uncertainty in this estimate.

Central Items

63. The Financing of Capital budget is forecast to be £1.5m underspent due to a reduction in interest payments following the early repayment of £42m of external debt principal to the Public Works Loans Board (PWLB) over the period June to August 2023. Following market expectations of higher and for longer inflation in the UK, there has been an increase in the discounts/reduction in the premiums available for the premature repayment of debt. At the start of the year the Council was £54m overborrowed against the capital financing requirement (the level of historic capital expenditure required to be funded). The premature repayment rates will continue to be monitored for any further opportunities to repay existing debt early.

64. Bank and other interest, £6.4m increased investment income due to continued increases in the Bank of England base rate, and higher than estimated average Council balances. The base rate now stands at 5.25% with market forecasts for it to continue to increase, possibly to around 5.75% before starting to reduce. Average balances remain strong due to increases in reserves, slippage on the capital programme and government grants paid in advance.

65. Central expenditure budgets are currently forecast at a net underspend of £0.9m. This comprises a forecast £1m underspend on Prior Year Adjustments, due primarily to the cleansing of receipted aged purchase orders that are no longer required and Pensions (pre LGR/LGR) which are projected to be overspend by £0.1m due to the annual pensions increase of 10.1% from April 2023.

66. Additional business rates income, as set out below, are shown as being contributed to the Budget Equalisation Reserve, to be used to offset the anticipated gap in the MTFS projection in 2025/26.

Business Rates

67. Additional Business Rates income of £5.1m is forecast in 2023/24, based on the latest information from districts on their NNDR1 forms and forecast section 31 grants. The MTFS adopted a prudent approach and did not allow for potential real terms growth or for the full impact of inflation in charges to businesses and S31 grants.

68. The latest projection of Leicester and Leicestershire Business Rates Pool shows levies for 2023/24, based on quarter one forecasts to be a total of £18.3m, of which one third (£6.1m) will be allocated to the County Council under the revised treatment of levies reported to Cabinet on 23 June 2023. In addition, there are amounts of £0.2m due as a third share of previous years' levies held by the LLEP and £0.2m relating to interest on 2020/21 and 2021/22 levies, giving an overall forecast of £6.5m.

Overall Revenue Summary

69. At this stage there is a forecast net overspend of £8.9m but given that the impact of inflation on the County Council budget is difficult to assess, this is uncertain. The position will be updated as more information is known during the financial year.

70. The 2023/24 outturn position is very concerning and despite actions to reduce expenditure a significant overspend for the financial year is the most likely outcome. The MTFS Risks contingency (£8m) will be the initial source of funding for the overspend. If this is not sufficient earmarked reserves will need to be diverted from their intended purpose to make up the shortfall. Any use of reserves to meet part of a 2023/24 overspend will have a consequence on the funding available to the County Council in future years, when pressures upon finances are expected to worsen significantly.

CAPITAL PROGRAMME – CAPITAL REVIEW

71. Over the summer the four-year capital programme has been reviewed and refreshed to reflect the latest estimates and profile of capital schemes, new capital grants and other funding changes.

72. The original MTFS 2023-27 capital programme totalled £510m. This was increased to £541m after adjustments from the 2022/23 outturn mainly due to slippage on schemes.

73. Following the review over the summer the revised capital programme has increased to £570m. The increase of £29m in forecast expenditure is fully funded by additional capital grants, external contributions and revenue reserve contributions.

74. The revised 4-year programme is summarised below and is shown in detail in Appendix C.

Capital Programme Expenditure 2023-27	Original MTFS 2023-27 Programme £000	In year and Outturn adjustments (from 22/23) £000	Updated MTFS 2023-27 Programme £000	Revised MTFS 2023-27 Programme £000	Revised Programme Change £000
Children & Family Services	104,205	14,888	119,093	128,163	9,070
Adults and Communities	21,243	314	21,557	21,557	0
Environment & Transport	256,100	8,097	264,197	283,570	19,373

Chief Executive’s	200	30	230	230	0
Corporate Resources	9,652	2,392	12,044	12,223	179
Corporate Programme	118,281	5,738	124,019	124,054	35
Total	**509,681**	**31,459**	**541,140**	**569,797**	**28,657**
Capital Programme Funding 2023-27					
Grant Funding/ Specific Contributions	269,665	2,904	272,569	291,036	18,467
Discretionary Funding – capital receipts/ Revenue/ Reserves	116,216	28,555	144,771	156,250	11,479
Discretionary Funding – borrowing required	123,800	0	123,800	122,511	(1,289)
Total	**509,681**	**31,459**	**541,140**	**569,797**	**28,657**

75. Overall, the net funding required for the programme has decreased by £1.3m following the review of the capital programme. This has the impact of reducing the overall amount of borrowing required to fund the capital programme to £122.5m (from £123.8m) in the original approved 2023-27 MTFS. An additional contribution of £1.3m has been able to be added to the overall capital programme following a review of earmarked reserve balances.

76. The key changes from the capital review are described below.

Children and Families

77. The overall programme has increased by £9m due to the following changes:

- Additional DfE 2025/26 Basic Need grant £17m. The additional funding has been added to the provision of additional school places capital programme.
- Removal of a new project to build a new social, emotional and mental health (SEMH) special (free) school. This was to be funded by a DfE capital grant of £8m. This project is now being commissioned and managed directly by the DfE and therefore the capital expenditure and equivalent funding has been removed from the County Council’s capital programme.

Adults and Communities

78. Minor reprofiling of spend but no other significant changes.

Environment and Transport

79. The revised capital programme has increased by £19.4m, which is entirely funded from additional capital grants and discretionary funding.

80. The main changes are:

- Zouch Bridge – increase of £7.5m, funded from the Council’s share of the Business Rates Pool levies, approved by the Cabinet in June 2023.
- A511/A50 Major Road Network £3.8m - funded from Department for Transport capital grant
- Transport Asset Management (maintenance) schemes - increased by £7.5m, funded by £3.2m additional DfT pothole grant funding, £3m set aside for capital maintenance from the 2022/23 revenue outturn, and section 106 contributions.

Chief Executives

81. No significant changes.

Corporate Resources

82. The overall programme has increased by £0.2m due to new grant funding from the Salix low carbon skills fund. The additional funding has been included in the Energy Initiatives capital scheme allocation.

Corporate

83. No significant overall changes. Some schemes within the Investing in Leicestershire Programme (IILP) have been reprofiled resulting in £13m being moved from 2023/24 to 2024/25. The main area is the Quorn Solar Farm project due to revised timescales following the identification of a relevant framework. Additional time to complete legal review of framework documentation and time to prepare tender documentation was also needed.

Capital Receipts

84. There is no change in the estimate for capital receipts.

Capital Summary

85. The review of the capital programme has resulted in updates to the capital programme for the latest known funding available and latest estimates of profiled spend. The revised four-year capital programme totals £570m.

86. The overall capital programme has increased by £29m, entirely funded by additional resources from capital grants, section 106 contributions and reserve contributions. In addition £1.3m has also been added to the overall programme funding which has reduced the overall borrowing required to fund the capital programme from £123.8m to £122.5m.

Investing in Leicestershire Programme – 2023/24 Quarter 1 Monitoring

87. A summary of the Investing in Leicestershire Programme (IiLP) position as at quarter 1 for 2023/24 is set out below:

Asset Class	Opening Capital Value	Capital Incurred / (Returned) 2023/24	Net Income YTD	Forecast Net Income FY	In year forecast net income return %	Since Inception IRR / Target
	£000	£000	£000	£000	%	%
Development	**46,187**	**0**	**(35)**	**(136)**	**(0.3%)**	n/a
Rural	**24,212**	**0**	**(65)**	**452**	**1.9%**	n/a
Office	53,103	0	643	3,047	5.7%	
Industrial	29,514	0	504	1,424	4.8%	
Distribution	454	0	6	9	2.0%	
Other	4,588	0	33	226	4.9%	
Central costs – additional sinking fund	0	0	0	(262)	0	
Directly Held Properties	**87,658**	**0**	**1,186**	**4,444**	**5.0%**	n/a
Pooled Property (three open ended and one closed ended fund)	22,471	0	225	759	3.4%	2.3%
Private Debt MAC 4 2017	8,739	(1,247)	659	659	7.5%	4.7%
Private Debt MAC 6 2021	19,969	(371)	459	459	2.3%	4.8%
Pooled Infrastructure Fund	8,693	0	0	338	3.9%	6%
Pooled Bank Risk Share	15,541	0	0	635	4.0%	8.5%
Indirect Holdings	**75,413**	**(1,618)**	**1,343**	**2,850**	**1.8%**	
Total (All IiLP)	**233,469**	**(1,618)**	**2,429**	**7,610**	**3.3%**	
Total excl. development and rural	**163,071**	**(1,618)**	**2,530**	**7,294**	**4.5%**	

88. Overall the fund is forecasting to achieve a 3.3% net income return for 2023/24. The forecast net income of £7.6m is in line with the budget.

89. The rural asset class shows a small deficit for quarter one due to the front loading of certain payments and one-off payments. However, the full year budget of £0.5m is still forecast to be achieved.

90. The indirect holdings are made with the purpose of reducing overall portfolio risk by investing in differing asset classes and geographies. The aim is to provide diversified income from a variety of differing sources. During 2022/23 two new investments were made totalling £23.7m, comprising £15m to a bank risk sharing investment and £8.7m into a pooled infrastructure fund.

91. The valuations for the indirect holdings include the four pooled property funds which in 2022/23 fell in aggregate by £5.5m in the year. The position for quarter one 2023/24 shows a decrease in net asset value (NAV) of £0.2m, or -0.7%. Property valuations are sensitive to interest rate expectations with an increase in peak UK rates and or increase in duration before rates reduce to have a negative impact on valuations, all other things being equal. The reduction in valuation of the pooled property funds is due to the repricing of property assets versus the risk free UK bank base rate increases since mid-2022. Income from the underlying holdings is still considerable and is expected to in line with the budget of £0.8m.

92. Private debt income was lower than budgeted by £0.5m in 2022/23 due to the manager holding higher than normal cash levels whilst the volatility in exchange rates persisted during the second half of 2022/23. The exchange rates have since normalised, the manager has distributed £1.1m in quarter one alone. This level of income is not envisaged to continue through the year, some of which was a catch up from last year. A revised cashflow forecast is awaited from the investment manager.

93. Income from the bank risk share investment should commence quarterly later this financial year and the IiLP should receive two payments. Income is expected to be at least in line with the budget.

94. 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 IiLP performance report.

MTFS REFRESH 2024-2028

National Position

95. As noted above, at the Monetary Policy Committee meeting in August, the Bank of England raised interest rates by 0.25% to 5.25%, the fourteenth time in a row that the rates have been increased. The increases are an attempt to help to lower the levels of inflation. Further increases are expected in the coming months with interest rates expected to peak at 5.75% in spring 2024 before falling to 4% over the next five years.

96. CPI inflation is now expected to fall from 6.8% in July to around 5% by the end of 2023. Furthermore, it is forecast that it will remain in excess of the 2% target through 2024 before falling back in line in early 2025. As income is not expected to increase at this rate these forecasts suggest an increasing squeeze on resources throughout 2023 and 2024. As inflation is expected to fall back to the Bank of England's target, rather than go negative, the consequence is that there will be a permanent reduction in the level of services the Council is able to deliver.

97. UK GDP growth is expected grow by around 0.3% in 2023 and 0.7% in 2024, although some forecasters predict declines of -0.4% in 2023 and -0.2% in 2024.

98. Rising wages and continued relatively low unemployment levels will to some extent boost tax revenues although the increase in interest rates will increase the costs of servicing the national debt.

99. However, the UK unemployment rate has increased in the latest quarter, with the largest quarterly increase since August to October 2021. The unemployment rate was estimated at 4.2%, 0.3% higher than the previous quarter and 0.2% above pre Covid-19 levels. The unemployment rate had generally been falling from late 2013 until the start of the pandemic. Thereafter it increased until the end of 2020 but had returned to pre-pandemic rates. Unemployment rates by region show the East Midlands to be at 3.7%, relatively lower than the national average of 4.2%.

100. It is possible that the country will experience a significant recession, driven by inflation. A recession would normally reduce inflation, but the UK is forecast to move into stagflation where the economy is squeezed by slow growth, high unemployment, and rising prices. The fall in GDP resulting from a recession would have a direct impact upon tax revenue, both locally and nationally. It would not just reduce income, but service demand increases as inflation impacts the most vulnerable.

101. There are growing numbers of local authorities that are reporting significant overspends in the current year, with some implementing spending controls and warning of the prospect of having to issue a section 114 notice, often viewed as effectively declaring the particular Council to be bankrupt. Some recent examples of Councils encountering financial difficulties include:

- Guildford Borough Council needs to finance debts of £300m and has issued financial controls and is seeking further external support and advice, and will reconsider if it needs to issue a section 114 notice in October;
- Kent County Council had a significant £47m overspend last year and faces a £44m overspend this year, both mainly relating to children’s and adults social care services and is undertaking a consultation on how it can manage spending within the finance available, or its budget will “become unsustainable”.
- Hampshire County Council had to offset a £51m budget gap in 2022/23 with funding from its budget bridging reserve and faces a £132m gap in its budget for 2025/26. The leader of the opposition attributed the financial situation to the “underfunding of social care services from central government over many years”.
- Warwickshire County Council faces “highly volatile” financial circumstances and “difficult choices” on how it will fund its capital expenditure and services.
- Middlesborough Council has projected a £12m overspend this year and is taking “stringent” action to cut costs and to avoid a section 114 notice. The overspend is due to inflation and increasing demand for children’s and adult social care and homelessness services.

102. Rob Whiteman, CEO at CIPFA, wrote in a Municipal Journal article on 31 July that:

“My judgement is that we may see more s114s from commercialism and excessive borrowing that were in the pipeline before the rules tightened. But generally, new local proposals with excessive risks that breach prudential guidance appear to have ceased, for now. Also, we may see particular technical issues or liabilities such as the HRA or single status give rise to specific potential s114 cases.

More likely, however, if we see more councils in close proximity to issuing a s114 it will be owing to difficulty covering significant pressures, such as adult and children's social care. These may be more like Northamptonshire where over-optimism and poor governance causes them to lose control of their finances and need external help. To avoid this, the first step to recovery is recognising that change is needed. I'm afraid I see some councils that could avoid failure but are still not taking that critical first step. That said, sooner or later we will reach a point when a well managed authority, whose costs benchmark well and resources are managed effectively, hits the buffers through a lack of funding to meet service demands."

103. Andrew Burns, associate director at CIPFA, was also quoted in a Public Finance article on 17 August, saying "We are starting to see councils who traditionally have been well run and well led, starting to report that they are under financial pressure from service demand and the cost of living. We are probably nearer a section 114 notice being served in a council that has traditionally been well led and well managed than we have been for a while."

104. The Local Government Association chair, Cllr Shaun Davies, has warned that "Inflation, the National Living Wage, energy costs and increasing demand for services are adding billions of extra costs just to keep services standing still."

105. County Councils' Network chair Cllr Tim Oliver has said that high inflation and rising demand have left its member authorities "facing some of their toughest budgetary decisions to date. County authorities will do all they can this year to deliver savings while protecting vital frontline services, particularly care services, but there is now little fat to cut after a decade of financial restraint, and many councils are facing significant in-year overspends as a result."

106. The Government's stance is that there is no more funding and that the current framework of the Local Government Settlement will remain in place until the next parliament.

Leicestershire Position

107. The MTFS will be refreshed over the autumn, with a similar approach taken to that followed in previous years, namely continued investment in organisational change, planning and robust delivery of savings and a realistic allowance for growth. However, as with last year's MTFS, this will be done with greater urgency in the context of the serious financial position the County Council is facing, with a significant funding gap in 2024/25 (usually at this stage the following year's financial position would be balanced). There is also a great deal of uncertainty around the likely ongoing impact of inflation, the impact of other service reforms (in particular Adult Social Care) as well as the Council's core income levels.

108. Also, as well as the impact of inflation there are a number of other risks and challenges that will feed into the financial position.

Pay award

109. An offer has been made on the national employers' side of a pay award which is a fixed increase of £1,925 up to Grade 13 (equating to a range from 9.5% to 3.94%), 3.88% for Grades 14 to 17 and 3.5% for Grades 18 and above. At this stage it is unclear whether this will be accepted. The overall impact on the pay bill is estimated at around 6.2%. This will add an additional cost of £1.6m for 2023/24 over and above what was budgeted for, which will continue through the life of the MTFS. It is estimated that the assumptions included regarding pay increases in 2024/25 may need to be increased by a further £2.5m as a consequence. Any increases in subsequent years over and above the 3% provided for will add further to the gap. In simple terms, each extra 1% would add around £2m to the Council's bottom line. So, for example if each of those later years in the MTFS saw a pay award of 5%, the gap by 2027/28 would be £17m higher.

National Living Wage

110. The National Living Wage (NLW) interacts with the impact of the pay award for internal staff. But there are additional costs associated with commissioned services, especially in Adult Social Care. Each 50p increase on the rate adds approximately £10m to the Council's bottom line. The provision made within the corporate inflation contingency for the increased costs in 2023/24 has proved to be adequate and significant provision was made for the 2024/25 to 2026/27 period, but there is a risk that those amounts could prove to be insufficient. The position will be reviewed as part of the preparation of the 2024-28 MTFS. An announcement of the NLW for the next financial year is usually made alongside the Autumn Budget. The Government takes into consideration the recommendations of the Low Pay Commission, who are anticipating that the NLW from April 2024 will be between £10.90 and £11.43, with a central estimate of £11.16, compared with the April 2023 figure of £10.42.

Running costs

111. The current MTFS allowed for running cost inflation of 9% for 2023/24, 6% for 2024/25, and falling back to 3% after that. The inflation assumptions reflect the impact of time lags, so the 9% used for 2023/24 reflects the relatively high inflation levels experienced in 2022/23. At present the assumption for 2023/24 is anticipated to be generally adequate but there are a number of significant inflation items which are still to be resolved over the coming months, and any amounts in excess of the provision made in the current MTFS will impact on the position for the new 2024-28 MTFS.

Adult Social Care Reform

112. The current MTFS included significant provision for the potential impact of ASC Reform. As part of the Autumn Statement in November 2022, the Government announced that the reforms will be delayed by two years to October 2025. If the Government does not start preparations very soon this revised date will not be possible. The new MTFS will need to reflect any additional information that is released by the Government and there is a risk that the current assumptions may prove to be inadequate.

Special Education Needs and Disabilities

113. The underfunding of Special Education Needs and Disabilities (SEND) has caused a significant financial problem for the County Council for a number of years. At the time the budget was set, the cumulative deficit between SEND costs and High Needs funding was expected to reach £53m by the end of the current financial year and grow to £91m by the end of the MTFS. Predictions going forwards are uncertain but the latest forecast shows a relatively improved position, with forecast deficits of £49m at the end of 2023/24, rising to £82m by the end of 2026/27. There seems little prospect of support from Government to help alleviate this position. The DfE seems to be hardening its position with on-going overspends seen as local government's problem.

Services Demand

114. The existing pressures within the MTFS are continuing, this could require increases in growth and adverse in year budget variations for Adult's and Children's social care services. When the MTFS is refreshed and extended for a year, 2027/28 in this case, the new year adds between £25m and £30m to the financial deficit. With higher inflation in the intervening 4-years it is likely that the deficit increase will be closer to £30m.

Mitigations

115. There are also a number of factors that could potentially help mitigate the financial risks:

Main element (core) Council Tax	Permitted increase without referendum is increased from 1.99%. Higher inflation would usually create expectations of a higher cap, as happened in the 2023/24 Settlement - a 1% increase to 2.99% was allowed. Will be confirmed as part of the 2024/25 Settlement due in December. A 1% increase in council tax precept would generate c.£3.7m for each year permitted.
Adult Social Care Precept	Precept permitted to continue. A 2% increase was allowed for 2023/24 and the precept was included for 2024/25 in the last spending review, but it has not been formally confirmed by the Secretary of State and it was therefore excluded in the current MTFS for 2024/25 and later years.
Council Tax Collection funds net surplus	2024/25 currently includes a net nil forecast. Latest forecasts show that a net surplus of £1m from 23/24 will be available.
Business rate reset	Provision of £7m built in against the Government resetting the business rates baselines in 25/26, in line with policy. Every year this gets delayed provides an additional £7m one off funding. (Figure will be reviewed in new MTFS and likely to increase due to higher than anticipated growth in business rates.)
Fair Funding Review	The review implementation date has been postponed several times and has been delayed until after the General Election. The shift in Government priorities has lowered the County

	Council's expectations even if a review does progress. The County Council formed the F20 group that promoted a temporary solution for the worst funded councils, expectations of progress are similarly low.
Business Rates Pool surpluses	LCC share of Pool surplus 22/23 estimated at £5.8m (one-off) – decision on use to be reviewed in new MTFS.
Additional interest on cash balances	Upward movement on interest rates leads to greater returns on treasury management activity
Adult Social Care Grants	The Government indicated that more funding for ASC would be provided in 2024/25.

116. The implications of the various issues described above will be assessed based on the latest emerging information over the coming months and fed into the December Cabinet report. However, in short the financial position is dire and an initial estimate of the challenge is that the current MTFS projected gap of £88m will rise above £100m. Whilst this forecast will undoubtedly change, the scale of the challenge is highly unlikely to diminish to the point that the County Council would not need to take significant corrective action.

117. Facing a 2024/25 MTFS gap of £13m, which assumes currently programmed savings of £17m will be delivered, so close to the budget being set is concerning. Even this challenge pales into insignificance compared to the prospect of a gap exceeding £100m in 4-years' time.

118. To balance the budget the use of reserves or other short-term measures will undoubtedly be adopted by some authorities. Whilst this can deal with short term problems of a one-off nature it does not solve the structural imbalance between income and expenditure that inflation is causing. It is vital that all resources are targeted at solving the problem rather than just delaying tackling it. Options would also need to include a review of the capital programme to cut back on activity in order to release reserves.

119. It is important that the savings that are already under consideration are progressed and delivered on as soon as possible. Furthermore, there will be a need to add in significantly more savings as part of the MTFS refresh in the autumn.

120. However, this will be insufficient to address the financial challenges ahead.

121. In order to identify further areas where savings can be made Departments are being asked to present options for how they could reduce their budgets. Focussing on options around cheaper provision, increased efficiency, increased income and reduced demand. However, this will be far from easy given the savings already being targeted and the significant savings delivered in previous years.

122. Crucial in progressing this is the need to push on crystalising the Savings under Development. The latest position on these is included in Appendix D.

123. Additional savings and reductions in growth will be brought forward for inclusion in the December Cabinet report. Growth will be subject to significant scrutiny to ensure future projections are robust. Additional growth will only be included for unavoidable demand driven pressures. Growth for service improvements is clearly unaffordable and so will not be included.

124. With respect to capital schemes and projects, there is no room for additional schemes to be added unless they are invest to save, related to end of life of assets needed for essential service delivery, or fully funded from external sources.

125. The capital funding gap totals £123m. With interest rates now having increased significantly the annual costs to fund the borrowing will increase and hence the funding gap needs to be reduced.

126. Core service capital schemes (such as Highways Maintenance and Schools) will be restricted to the annual capital grant allocations and banked developer funding only. And services such as ICT and Property will need to be focussed on maintaining service delivery rather than enhancing it. In some cases where it is possible, there will be a need to mothball schemes until they can be delivered after inflationary or acute current cost pressures subside.

127. Whilst there will be a strong focus on identifying and driving out further efficiencies, the reality is that after £250m worth of savings having been made over the last 13 year period there is limited scope. As such this work will also need to involve looking at service reductions across all service areas. Any non-statutory services, or those where service levels are above statutory minimum levels, will need to be considered for reduction or for being stopped following appropriate consultation being undertaken.

128. Many Councils are increasingly putting control measures in place to address overspends. The control measures would be adapted to reflect the severity of the financial position and cover:

- Targeted recruitment controls to restrict non-essential hiring including a focus on agency, consultants and specialist advisors
- Procurement controls to ensure greater commissioning support unit input into contract renewal/extension, use of frameworks and exceptions
- Greater scrutiny of external expenditure
- Limited approval of new projects to essential schemes only
- Controls on grants to ensure that wherever possible they are used to cover existing spend pressures rather than for new service initiatives.
- Restriction of budget inflationary increases where service levels can be amended

129. The County Council introduced similar controls during the Covid-19 pandemic. These controls do not replace the financial responsibilities that officers have in their roles. For the spend controls to be successful, continued ownership by everyone who has a part in spending or generating income is vital. The forecast 2023/24 overspend at period 4 of £8.9m raises the prospect that spend controls could be required until the MTFS gap and delivery risk are at an acceptable level.

130. It should be noted that spending controls do not mean service cuts, although it should influence how services are delivered. Future savings will not be prioritised based on where spend was reduced through the controls and managers will need to consider the potential to make permanent changes to their services.

131. If progress towards resolving the medium-term financial gap is limited, and there is not enough confidence in delivering existing and newly identified savings and managing demand growth in the coming months, spend controls providing greater levels of scrutiny on individual budgetary decisions, will need to be put in place.

Planning Framework

132. The key Government announcements in the coming months will be;

- The Autumn Budget Statement anticipated in November.
- The Provisional Local Government Finance Settlement expected mid/late December.

133. The broad MTFS timetable is:

- September to November 2023 – refresh growth, savings and capital including consideration by Lead Members.
- Autumn - National Budget and National Living Wage announcements
- December 2023 – the Cabinet will be asked to approve the draft MTFS for consultation.
- December 2023 – receipt of the Provisional Local Government Finance Settlement
- January 2024 – consultation on the draft MTFS, including Overview and Scrutiny Committees and the Scrutiny Commission.
- February 2024 – the Cabinet will be asked to approve the final draft MTFS for submission to the County Council.
- February 2024 – County Council is requested to approve the MTFS for 2024/25 to 2027/28.

Recommendation

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

Circulation under the Local Issues Alert Procedure

None.

Equality and Human Rights Implications

There are no direct implications of this report.

Background Papers

Report to the Cabinet – 26 May 2023– 2022/23 Provisional Revenue and Capital Outturn
https://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=7076&Ver=4

Report to County Council -22 February 2023 – Medium Term Financial Strategy 2023/24 to 2026/27
https://politics.leics.gov.uk/ieListDocuments.aspx?CId=134&MId=6913&Ver=4

Appendices

Appendix A: Revenue Position as at Period 4, 2023/24
Appendix B: Revenue budget major variances
Appendix C: Revised Capital Programme 2023-27
Appendix D: Savings Under Development

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