Agenda Item 10

Leicestershire County Council

SCRUTINY COMMISSION - 13 MARCH 2024

2023/24 MEDIUM TERM FINANCIAL STRATEGY MONITORING (PERIOD 10)

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 2023/24 revenue budget and capital programme monitoring position as at the end of period 10 (the end of January 2024).

Policy Framework and Previous Decisions

2. 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.

3. The 2023-27 capital programme was reviewed over the summer and an updated programme was approved by the Cabinet on 15 September 2023.

Background

4. The period 10 revenue budget monitoring exercise shows a net projected overspend by the end of the financial year of £3.2m.

5. The period 10 capital programme monitoring exercise shows a projected net slippage for the year of £18.9m compared with the updated 2023/24 budget.

6. The monitoring information contained within this report is based on the pattern of expenditure to the end of January 2024 and projecting to the end of the financial year.

2023/24 REVENUE BUDGET MONITORING – PERIOD 10

7. The period 10 revenue budget monitoring exercise shows a net projected overspend of £3.2m. A summary of the position on the revenue budget is shown below and set out in more detail in Appendix A.

REVENUE BUDGET MONITORING STATEMENT
FOR THE PERIOD : APRIL 2023 TO JANUARY 2024

	Updated Budget	Projected Outturn	Difference from Updated Budget	
	£000	£000	£000	%
Schools Budget – Schools and Early Years	0	-3,500	-3,500	
Schools Budget – High Needs	0	12,020	12,020	
Net Total	0	8,520	8,520	
Children & Family Services (Other)	106,683	119,063	12,380	11.6
Adults & Communities	210,093	215,253	5,160	2.5
Public Health	-1,806	-1,806	0	0.0
Environment & Transport	101,592	99,482	-2,110	-2.1
Chief Executives	16,203	15,963	-240	-1.5
Corporate Resources	41,231	40,391	-840	-2.0
Capital Financing	26,520	25,020	-1,500	-5.7
Contingency for Inflation	3,315	3,315	0	0.0
Other Areas	-3,079	-12,719	-9,640	n/a
Contribution to budget equalisation earmarked reserve	10,400	22,580	12,180	117.1
Contribution to General Fund	1,000	1,000	0	0.0
Total	512,152	527,542	15,390	3.0
Funding	-512,152	-524,332	-12,180	2.4
Net Total	0	3,210	3,210	

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

Children and Family Services – Schools Budget

9. Overall a net overspend of £8.5m is forecast on the Dedicated Schools Grant (DSG). This comprises an overspend of £12.0m on the High Needs Block, offset by a forecast underspend of £2.5m on the Early Years Block, and an underspend of £1.0m on the Schools Block from schools' growth, which will be retained for meeting the costs of commissioning school places in future years.

10. The High Needs Block projected overspend of a net £12.0m in 2023/24 is £1.3m less than the £13.3m forecast included within the original MTFS. A significant number of places in the C&I (Communication & Interaction) units and SEMH (Social, Emotional and Mental Health needs) units created over the last few years still remain empty - this particular area reports a £0.9m underspend against budget. Whilst growth in Independent Specialist Provider (ISP) places continues, the rate of this is less than reflected in the original MTFS, so also contributes to the reduced overspend. The reduced overspend relates to a lower than anticipated need for higher cost Independent Special Schools

Places and reduced occupancy of SEN Units than budgeted partially offset by an increased use of special school places.

11. 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 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.

12. Leicestershire is actively engaged within the Department of Education's (DfE) Delivering Better Value (DBV) in SEND programme as a result of the DSG deficit. At the end of 2022/23 the accumulated High Needs deficit stood at £35.5m. Leicestershire has received £1m in grant funding from the DfE to support the transformation of the SEND system. The Transforming SEND in Leicestershire (TSIL) has moved to an implementation and sustainability phase and improvements created during the design stage are being rolled out; this programme and the DBV programme are 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.

13. 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 and target savings from the TSIL programme are £32m by 2028/29.

14. The Early Years budget is showing an underspend of £2.5m. 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 £1.8m 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 £0.6m more than the budget, reflecting estimated Spring 2024 payments to providers. There is also a planned underspend of £0.9m as part of the payback of previous years' Early Years deficits, and centrally managed budgets are forecast to underspend by £0.4m. The deficit as at 31 March 2023 was £5.3m, so this projected £2.5m underspend will reduce this. The plan is to clear this deficit over 4 years. The Department for Education will recalculate the 2023-24 Early Years DSG income in 2024-25, based on the Spring 2024 census data. The census is still being compiled, but it could lead to a reduction in grant.

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

15. The Local Authority budget is projected to overspend by a net £12.4m (11.6%), mainly relating to projected overspends on the Children's Social Care Placements budget (£6.8m), Unaccompanied Asylum Seeking Children's budget (£4.2m), SEN Service budget (£1m), Education Psychology Service (£0.4m), Disabled Children Services

budget (£0.3m) and offset by some of the outputs of departmental financial controls currently in place (£0.3m).

16. The projected overspend on the Children's Social Care Placement budget (£6.8m) is largely due to increased unit costs of placements. For example, 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.

17. Market instability and provider choice is resulting in children with a range of complex needs being 'unattractive' to the market (needs include violence, aggression as a result of experiencing trauma) and results in the use of high cost (£10,000+ per week 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, nationally, which particularly impacts on availability of placements for older children and those with more complex needs.

18. As part of the direct 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 a number of properties, creating provision for 20 plus placements over the MTFS, of which two units are currently up and running with children placed and several other units to become operational very soon. 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 being projected.

19. The £4.2m 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. The table below shows the increase in numbers of UASC over the last two years.

	UASC - In Care (under 18's)	Annual % Increase	UASC – Care Leaver (Over 18's)	Annual % Increase
March 22	60		69	
March 23	97	62%	112	62%
February 24	143	47%	148	32%

20. The increase in UASC under 18's represents an increase of 138% since March 2022 and continue the upward trend experienced in 2021/22, an increase due to the NTS becoming mandatory and two dispersal hotels opening in Leicestershire. The increase in UASC over 18's represents almost a 115% 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.

21. The Special Educational Needs Assessment Service budget is currently forecast to overspend by £1.0m in 2023/24. During the previous financial year increased service demand and complexity resulted in the need for additional service resources 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 (EHCP) writing and tribunal work has resulted in a forecast overspend in this area. Meanwhile mediation costs remain high adding to the overall in year budget pressure.

22. The Education Psychology service is projected to overspend by £0.4m in 2023/24. Difficulties recruiting into vacancies in this area has resulted in an increased reliance on locums at a significantly higher cost. Increased demand due to an increase in the number of EHCP needs assessments has further impacted the overspend position.

23. The Disabled Children Service is also projecting a overspend position of £0.3m due to increased demand, linked to respite support at home for children with acute challenging behaviour which continues to present increased financial pressures where support is needed for children who are high needs and on the edge of care.

24. As a direct response to the projected overspends as described above, CFS's departmental management team have led a of review non statutory services, supported with the recent introduction of corporate led financial controls, and together with a robust management and review of vacancies within the department, with the output of this work projecting to deliver some one-off in year efficiencies, and budget opportunities, (£0.3m) which included 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.

25. In light of the various financial pressures across the department, further mitigating actions in place include:

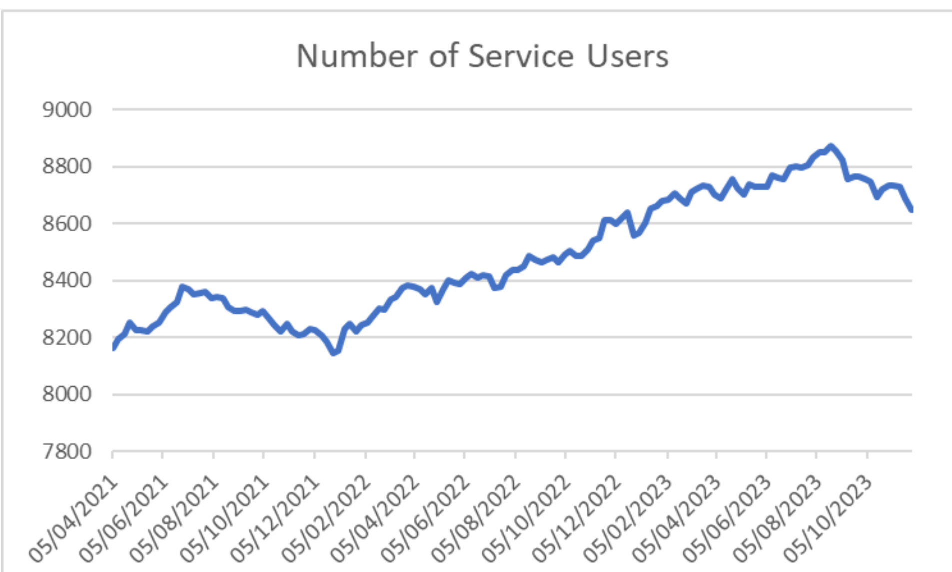
- Right service at the right time - ensuring reduced periods of care or care avoidance through family help and family support new models of working (becoming operational in February 2024); and targeted interventions through exiting care by legal orders and step-down from residential interventions; refocusing of Art and Resource Team resource entirely on edge of care high need.
- Improved oversight and sign off processes for those children with complex and escalating needs extending from Heads of Service to Assistant Director/Director level where appropriate.
- Continued business activity introduced by the Defining Children's and Family Services programme focusing on children who have been referred to the CFS commissioning service for a placement and are likely to result in residential care due to market sufficiency issues or high need. This meeting is being extended to include foster care referrals received for children age 12+ who by virtue of their age and due to market pressures, are at risk of residential care.
- Management and review of vacancies within the department, with the output of this work projecting to deliver some one-off in year efficiencies and budget opportunities which includes delaying recruitment to non-essential posts where appropriate.

Adults and Communities

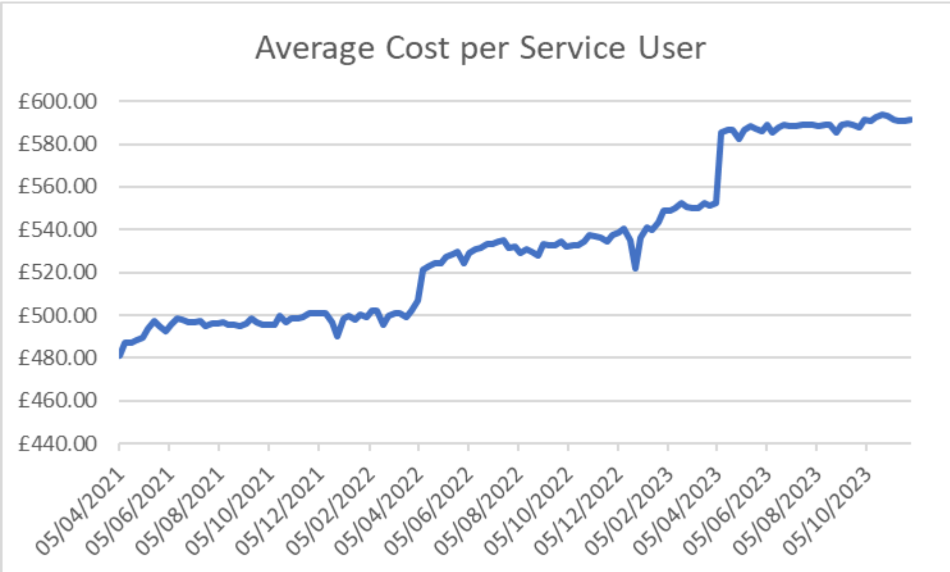
26. A net overspend of £5.2m (2.5%) is forecast for the revenue budget for 2023/24.

Overall Demand Trends

27. The chart below shows overall number of service users being supported across Residential Care, Homecare, Supported Living, Cash Payments, and Community Life Choices from April 2021 through to December 2023. Typical growth would be approximately 1% to 1.5% per annum, however current numbers of service users supported is around 2.2% per annum. The reduction in numbers from October 2023 is the beginning of the corrective action that the department is taking with the Fair Outcomes Panel which started around September 2023.



28. The average cost per service user rose over the same time period. The steep rise from April relates to the annual fee review uplift.



29. 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.

30. The main areas of variance are:

<u>Homecare - £8.1m overspend</u>

31. 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 6% higher than budgeted (excluding the fee uplift of 8.4%) at £331 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. There is ASC Discharge Grant of £0.85m and £0.15m other health funds offsetting this expenditure.

32. The department has established a wide-ranging demand management programme and a panel to review care packages.

<u>Supported Living - £4.6m overspend</u>

33. The forecast assumes a projected increase of 26 service users over the course of the financial year from 470 to 496 (+6% more than budgeted). 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 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 Target Operating Model 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 have risen since April and currently stand at £1,550 per week per service user (+7% more than budgeted). There has also been an increase in community income to offset these additional costs. The Department is looking into ways to reduce demand for new and existing one to one support within Supported Living via the review process. Also, initial work has started reviewing how specialist and complex care is procured.

Residential Care - £2.7m overspend

34. 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 2,400 service users with an average weekly rate of £1,035.

35. 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 £14.2m. This compares to the 2022/23 cost of £12.6m, and 2021/22 of £10.0m. The 2023/24 forecast is a 49% increase on the 2021/22 costs. This 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 981 in 2023/24. The value of LAAFs has increased from an average of £258 per service user per week in 2021/22 to £292 in 2023/24. The increase in LAAFs (both volume and value) is predominantly in the older adults area.

36. An increase in the residential banded rate and the implementation of a nursing rate in October is estimated to be £2.1m. These increases are funded through the Market Sustainability and Improvement Fund (part 1) grant, reported identified on a separate income line).

37. This overspend is offset by additional service user income of £4.8m which is mainly due to backdated arrears from working through a backlog of financial assessments.

38. The Department has also allocated the latest tranche of Market Sustainability and Improvement Fund (part 2) to reduce this overspend by £3.7m (identified on a separate income line).

Better Care Fund / Other NHS Income - £1.6m net loss of income

39. 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 £3.8m shortfall in this income for 2023/24 due to changes in the way hospital discharges are undertaken and funded. The overall position is offset by additional BCF income and new Discharge Grant of £2.2m.

Community Income - £3.7m additional income

40. The majority of the variance is due to health income from Supported Living service user packages which are generating an extra £1.6m. £0.4m is due to increased funding for Direct Payments clients and £0.7m relates to home care packages, mostly due to temporary health condition funding continuing at late 2022/23 levels. Community Life Choices income is lower by £0.2m, this is mostly as a result of clients moving at the end of 2022/23 onto Personal Health Budgets when the LCC day centres closed. Non-Residential Service User Income at this stage appears on track to overachieve the budget of £18.1m by £1.1m, due to increasing chargeable service users, as more service users are receiving a non-residential service such as homecare.

Other additional income £4.6m

41. There are allocations of the Market Sustainability and Improvement Fund (£3.7m) which have been allocated to offset the current additional costs particularly in residential care, increased residential and nursing fees as part of the Market Sustainability Plan, supporting staffing and reducing waiting times for care. There has also been an allocation from the ASC Discharge Grant of £0.9m to support extra homecare costs.

42. The net overspends above are offset by a net £3.5m underspend mainly from staffing vacancies and other minor variations.

43. 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

44. The Department is forecasting an underspend of £0.5m, mainly due to staffing vacancies. The underspend will be transferred to the Public Health earmarked reserve.

Environment and Transport

45. A net underspend of £2.1m (2.1%) is forecast.

46. Across Highways and Transport Operations a net £3.1m overspend is reported as a result of:

- Mainstream School Transport - £1.8m overspend. Increase in overall number of students entitled to mainstream transport and rise in the number of routes, increase in big bus operational costs resulting in higher contract costs, limited bus capacity leading to a larger number of pupils being transported by taxi. Many mainstream bus contracts were rolled forward into the 2023/24 academic year and will be in place until Easter 2024. A retendering process will then be undertaken which should achieve savings in the new financial year.

- Social Care Transport / Passenger Fleet - net overspend £1.1m. 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 inability to recruit drivers and escorts.
- SEN Transport – £0.6m overspend. Continued growth in pupil numbers. To mitigate costs an SEN network review is in progress to maximise fleet usage and reduce solo taxi contracts. The position has reduced by £1.5m since period 6 due mainly to £1.1m allocated from the inflation contingency.
- Environmental and Reactive maintenance works – £0.6m overspend. Increased highways maintenance costs required to meet policy requirements.
- Fleet Services - £0.1m overspend. Due to additional vehicle maintenance and hire costs.
- 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 £0.4m underspend. Increase in issues of Temporary Traffic Regulation Orders (TTRO) and network licenses/permits.

47. There is a net underspend of £2.5m on Environment and Waste Management services. Additional income from the sale of dry recyclable materials and electrical items (£1.0m); together with underspends arising from lower tonnages than anticipated for green waste (£0.1m); in-year vacancies (£0.2m) and net impact from the diversion of waste from Energy from Waste (EfW) and Refused-derived fuel (RDF) facilities into landfill to accommodate the disposal of Persistent Organic Pollutants (POPs) by incineration (£1.0m). This diversion is generating less haulages costs as waste is going directly into landfill causing an underspend (£0.3m). These underspends are offset by increased property related improvements in response to recent Health and Safety investigations (£0.1m).

48. The remaining balance relates to a £2.7m underspend on Development and Growth. Lower than budgeted reimbursement on concessionary travel net of overspends on Local Bus Service contracts following delays to savings implementation due to conditions attached to BSIP+ funding allocation has caused a net £0.8m underspend. This is in addition to underspends arising from vacancies across teams (£1.2m), High Speed 2 (HS2) ending (£0.1m) and additional income from section 38 and section 278 (Highways Act 1980) and fees and charges relating to highway infrastructure (£0.6m).

49. There are anticipated to be some additional costs arising from the various flooding incidents across the county this winter, potentially in the region of £1m. The works required are still being assessed and so the majority of additional costs are likely to fall in 2024/25 but will need to be considered as part of the outturn position.

Chief Executive's

50. The Department is reporting a net underspend of £0.2m (1.5%). There are underspends mainly due to increased Registrar's income (£0.3m) and staffing vacancies (£0.3m), offset by additional costs of £0.4m relating to the Coroner's Service.

Corporate Resources

51. The Department is forecasting a net underspend of £0.8m (2.0%).

52. There are underspends of £1.3m due to vacancies across several parts of the Department.

53. 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

54. Growth contingency (£1m). The contingency has been released to offset the overspends due to increased spending pressures in departments.

55. 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.

56. MTFS Risks Contingency (£10m). £2m of the contingency has been released to provide temporary support to the Commercial Services budget. At this stage it is proposed that the remaining balance, after mitigating the current forecast overspend, be used as contributions to the Transformation and Capital Financing reserves at year end. The scale of additional savings required in the 2024-28 MTFS will require significant investment in transformation and the future Capital Programme has a £93m funding gap. There are early indications that the North and East Melton Mowbray Distributor Road project may exceed current cost estimates, but risk assessments and contractor discussions are still ongoing to determine whether the current contingency will be sufficient. A further update will be given in the outturn report, due to the Cabinet in May.

57. Inflation Contingency (£41.8m original budget, £3.3m balance). The contingency is currently projected to be on budget. The pay award for Local Government staff for the current year exceeded the amount assumed in the contingency by around £1.6m. Subject to any further emerging costs before the end of the year, there is an underspend on the provision made for running costs. This leaves a net balance of £3.3m which is likely to be prioritised for flooding works, assuming that the projected net £3.2m overspend on the overall budget is covered by the MTFS risks contingency.

Central Items

58. 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.

59. Bank and other interest, £6.4m increased investment income due to continued increases in the Bank of England base rate earlier in the financial year, and higher than estimated average Council balances. The base rate is 5.25% with markets forecasting that rates have now peaked before starting to reduce during mid 2024. Average balances remain strong due to reserves, slippage on the capital programme and government grants paid in advance.

60. Central expenditure budgets are currently forecast at a net underspend of £1.1m relating to prior year adjustments, due primarily to the refund of business rates and the cleansing of receipted aged purchase orders that are no longer required.

61. Additional business rates income (£12.2m), 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

62. Additional Business Rates income of £5.3m 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.

63. The latest projection of the Leicester and Leicestershire Business Rates Pool shows levies for 2023/24, based on quarter three forecasts, to be a total of £18.4m, of which one third (£6.1m) will be allocated to the County Council under the revised treatment of levies reported to the 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.

64. The Government has announced a redistribution of £100m from the national Levy and Safety Net fund, of which the County Council has been allocated £0.5m.

65. The Government has also released details of revisions to 2023/24 Top Up and Tariff amounts, reflecting adjustments to provisional figures in the original 2023/24 Settlement. The County Council's Top Up has been reduced by £0.1m.

66. These forecast changes net to £12.2m which will be transferred to the Budget Equalisation earmarked reserve as referred to above. The growth arising from the pool will be spent on economic priorities in line with the pooling agreement. This is likely to be through investment in capital projects which support economic growth.

Overall Revenue Summary

67. At this stage there is a forecast net overspend of £3.2m which is planned to be offset from the balance on the MTFS risks contingency. This is an improvement on the overall forecast position from earlier in the year. At period 6 a forecast overspend of £10m was reported. There has been a net improvement of £3m across departments and a £3m reduction on the contingency for inflation forecast. This improvement has arisen from a combination of factors, including vacancy savings, reduced inflation and increased income. Escalated financial controls have been in place since December which may also have had an impact on recruitment and administrative efficiencies, although data is still being reviewed to determine the actual impact. There are also some additional costs relating to flooding, potentially in the region of £1m, that are likely to fall in 2024/25 but will need to be considered as part of the overall outturn position with any unallocated inflation or risks contingency prioritised towards flooding works and additional capital contributions.

68. Although it is forecast that the 2023/24 budget can be balanced, the underlying position remains very concerning, even after actions taken to reduce expenditure. There are significant overspends in the Children and Families and Adult and Communities departments and the 2023/24 £12m deficit on the High Needs Block (resulting in a forecast £48m cumulative HNB deficit) is of particular concern.

69. Many of the forecast underspends are due to staff vacancies, which by their nature are not on-going, and the significant additional income from bank and other interest is likely to be short-term too. The financial outlook for the County Council continues to be very difficult. Spending controls will need to remain in place and there will need to be a significant focus on identifying further savings across the Council.

CAPITAL PROGRAMME

70. The updated capital programme for 2023/24 totals £139m. This follows a review of the programme undertaken over the summer and approved by the Cabinet in September 2023.

71. The latest forecast on the capital programme for 2023/24 shows an overall net slippage of £19m. A summary is shown in Appendix C with details of the major variances provided in Appendix D. The main variances are reported below.

Children and Families

72. The Department is forecasting net slippage of £6.0m. The main variances relate to the Provision of School Places Programme (£4.8m).

- Shepshed Iveshead School, £2.5m slippage. The Shepshed campus has multiple different education provisions that have some degree of interaction which affects the timing dependency of building works. The project planning required additional site visits, to review project brief and competitive procurement options available delaying the start date. Enabling works are underway and are expected to complete by the end of March 2024 with commencement of the build on site in July 2024.
- Ibstock High School - slippage of £1.4m. This scheme supports housing growth in the area and transition to 11-16. The original estimates for the start of the project were slightly optimistic with the latest update now reporting construction starting in July 2024.
- Coalville Forest New Primary - slippage of £2m. The timing of the County Councils contribution to this scheme is dependent on the contractor hitting trigger points and submitting claims. The site has been impacted by unprecedented weather over the winter to date and as such it is now expected that the Councils contribution will not be required until 2024/25.
- Burbage Hastings High School - acceleration of £0.5m. Project in the 2024-28 programme to create a new sports hall and addition classrooms. The budget had been prudently profiled in the MTFS - however pre-construction works are now underway in 2023/24.
- Market Harborough New Primary School (Wellington place primary) - acceleration of £0.7m. The profiling of the budget for this scheme was undertaken prudently. The updated capital programme for 2023/24 totals £121m. The scheme is well underway, with completion expected by Aug 2024.

73. Other variations include slippage of £0.8m on the Children's SEND programme and £0.4m slippage on the Children's Social Care Improvement Programme (SCIP).

Adults and Communities

74. The Department is forecasting net slippage of £1m. The main variances are:

- SCIP schemes (Adults - Supported Living) – slippage of £1m. This budget relates to two extra care schemes, but the land transaction is no longer expected to take place in this financial year, resulting in slippage to 2024/25.

Environment and Transport

75. The Department is forecasting net slippage of £9.4m. The main variances are:

- Council Vehicle Replacement Programme, £2.2m slippage as orders have been committed however due to supplier issues this has delayed the delivery of the vehicles.
- Melton Mowbray Distributor Road NE, £1.6m slippage due to adverse weather conditions delaying works from progressing on the programme. The overall costs of the project may now exceed the original budget, leading to a call on the risk contingency. However, this is still being reviewed and a further update will be given in the outturn report to the Cabinet in May.

- Highways/ Bridge Maintenance Schemes - £0.8m slippage on design works for capital programmes, lower than anticipated costs and delays in securing environment agency permits.
- A511/A50 Major Road Network, £0.8m slippage. The sealing of compulsory purchase order (CPO) has been delayed due to design amendments. This has resulted in the legal fees and CPO public inquiry costs moving to the next financial year.
- Advanced Design - £0.8m slippage. Slippage due to delays in transport modelling and ongoing delays in work being undertaken by the strategic planning partnership.
- Zouch Bridge Replacement – Construction and enabling works, £0.7m. Tendering process to commence soon with award of contract expected early 2024.
- Waste Transfer Station Development, £0.6m slippage. Ongoing discussions with contractor regarding snagging issues has led to slippage.
- Property Flood Risk Alleviation, £0.5m slippage forecast on schemes in Breedon, Swithland, Harborough and Diseworth. Resource impacts from Storm Henk and reprofiling with the Environment Agency are key reasons for this.
- Safety Schemes – slippage of £0.4m from delays in identifying schemes and further survey work required.
- NPIF (National Productivity investment fund) schemes - £0.4m slippage
- Network performance and Reliability – slippage of £0.3m due to required surveys being delayed into 24/25.

<u>Chief Executives</u>

76. The Department is forecast to be on target to budget.

<u>Corporate Resources</u>

77. The Department is forecasting net slippage of £1.9m. The main variances are:

- Workplace Strategy - End user device programme (PC, laptops), £0.6m slippage agreed at previous WoW Programme Board to reprogramme funds over future years.
- Workplace Strategy – Office Infrastructure, £0.8m slippage due to requirements for departmental engagement and detailed design work pre-implementation. Internal resources have also impacted on delivery timescales.
- Climate Change (Energy Initiatives) - £0.2m slippage. Heat decarbonisation plan will not be completed before March 2024 which will identify projects for 2024/25.
- ICT - £0.2m slippage to accommodate wider growth during 24-28 MTFS period.

<u>Corporate</u>

78. The Department is forecasting net slippage of £0.6m. The main variances are with the general improvement programmes for County Farms Estate (£0.2m) and Industrial Properties Estate (£0.2m).

Capital Receipts

79. The requirement for general capital receipts for 2023/24 is £3.5m. The latest estimate of receipts in 2023/24 is forecast to be £6m due to earlier disposals than originally planned.

Investing in Leicestershire Programme – 2023/24 Quarter 3 Monitoring

80. A summary of the Investing in Leicestershire Programme (IiLP) position as at quarter 3 (end of December 2023) 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**	**171**	**(105)**	**(136)**	**(0.3%)**	n/a
Rural	**24,212**	**0**	**142**	**277**	**1.1%**	n/a
Office	53,103	0	2,066	2,847	5.4%	
Industrial	29,514	0	1,128	1,424	4.8%	
Distribution	454	0	6	9	0.5%	
Other	4,588	0	172	230	5.1%	
Central costs – additional sinking fund	0	0	0	(16)	n/a	
Directly Held Properties	**87,659**	**0**	**3,372**	**4,494**	**5.1%**	n/a
Pooled Property (three open ended and one closed ended fund)	22,471	0	695	825	3.7%	2.1%
Private Debt MAC 4 2017	8,739	(2,886)	659	659	9.3%	4.7%
Private Debt MAC 6 2021	19,969	(371)	656	656	3.2%	6.7%
Private Debt MAC 7 2023	0	2,380	0	0	n/a	n/a
Pooled Infrastructure Fund	8,693	0	386	386	4.4%	6%
Pooled Bank Risk Share	15,541	0	0	450	2.8%	8.5%
Indirect Holdings	**75,413**	**(877)**	**2,396**	**2,976**	**4.0%**	
Total (All IiLP)	**233,471**	**(706)**	**5,805**	**7,611**	**3.3%**	
Total excl. development and rural	**163,072**	**(877)**	**5,768**	**7,470**	**4.6%**	

81. The forecast net income for 2023/24 is £7.6m, split between direct and diversifiers as split in the table. At quarter 3 we are expecting no variance to the budget.

82. The diversifiers are indirect holdings with the purpose of reducing overall portfolio risk by investing in differing asset classes and geographies. Four separate types of investment are included, UK pooled property funds, a global infrastructure fund, three vintages of a pooled private credit strategy and a bank risk share strategy. 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.

83. 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 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 be slightly ahead of the budget of £0.8m.

84. Private debt income to the end of December 2023 has been ahead of the £1.1m budget due to timing of interest payments that were delayed in 2022/23.

85. Income from the bank risk share investment should commence quarterly commencing in quarter 4 of 2023/24. The first payment has been received at the time of writing this report. The expected returns from this investment are currently higher than the forecast at the time of making the investment. The higher interest rate environment and lack of capital during 2023 allowed the manager to complete better than expected deals which would benefit investors.

86. 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 is reported in the annual liLP performance report, after year end, in September.

Recommendation

87. 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.

Appendices

Appendix A: Revenue position as at Period 10, 2023/24
Appendix B: Revenue budget major variances
Appendix C: Capital Programme monitoring statement
Appendix D: Capital Programme – forecast main variances and changes in funding

Officers to Contact

D Keegan, Director of Corporate Resources,
Corporate Resources Department,
☎0116 305 7668 E-mail Declan.Keegan@leics.gov.uk

S Hines, Assistant Director, Finance, Strategic Property and Commissioning
Corporate Resources Department
☎0116 305 7066 E-mail Simone.Hines@leics.gov.uk

This page is intentionally left blank