Leicestershire County Council

SCRUTINY COMMISSION – 6 NOVEMBER 2024

2024/25 MEDIUM TERM FINANCIAL STRATEGY MONITORING (PERIOD 6)

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 2024/25 revenue budget and capital programme monitoring position as at the end of Period 6 (the end of September 2024).

Policy Framework and Previous Decisions

2. The 2024/25 revenue budget and the 2024/25 to 2027/28 capital programme were approved by the County Council at its budget meeting on 21 February 2024 as part of the Medium Term Financial Strategy (MTFS).

3. The four-year capital programme was reviewed over the summer and an updated programme was approved by the Cabinet on 13 September 2024.

4. The Cabinet on 13th September 2024 approved the use of the Period 4 forecast net revenue budget underspend of £6.4m to fund an increase in the capital programme risk contingency.

Background

5. The Period 6 revenue budget monitoring exercise shows a net projected underspend of £4.1m.

6. The Period 6 capital programme monitoring exercise shows net projected acceleration of £0.3m.

7. The monitoring information contained within this report is based on the pattern of expenditure to the end of September 2024.

2024/25 REVENUE BUDGET MONITORING – PERIOD 6

8. The Period 6 revenue budget monitoring exercise shows a net projected underspend of £4.1m. 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 2024 TO SEPTEMBER 2024

	Updated Budget £000	Projected Outturn £000	Difference from Updated Budget £000	%
Schools Budget – Schools and Early Years	0	-3,300	-3,300	
Schools Budget – High Needs	0	22,930	22,930	
Net Total	0	19,630	19,630	
Children & Family Services (Other)	120,971	129,891	8,920	7.4
Adults & Communities	239,041	224,891	-14,150	-5.9
Public Health	-2,606	-2,606	0	0.0
Environment & Transport	108,747	108,667	-80	-0.1
Chief Executives	16,283	16,093	-190	-1.2
Corporate Resources	39,994	39,574	-420	-1.1
Capital Financing	17,400	16,800	-600	-3.4
Contingency for Inflation	23,952	17,552	-6,400	-26.7
Other Areas	-4,798	-12,698	-7,900	n/a
Contributions to earmarked reserves	15,000	21,260	6,260	41.7
Additional commitments (capital programme risk contingency)	0	6,363	6,363	n/a
Contribution from budget equalisation reserve to balance 2024/25 revenue budget	-6,377	0	6,377	-100.0
Total	567,607	565,787	-1,820	-0.3
Funding	-567,607	-569,907	-2,300	0.4
Net Total	0	-4,120	-4,120	

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

<u>Children and Family Services – Schools Budget</u>

10. Overall, a net overspend of £19.6m is forecast on the Dedicated Schools Grant (DSG). This comprises an overspend of £22.9m on the High Needs Block, offset by a forecast underspend of £2.7m on the Early Years Block, and an underspend of £0.6m on the Schools Block from schools' growth, which will be retained for meeting the costs of commissioning school places in future years.

11. The High Needs Block projected overspend of £22.9m in 2024/25 is £5.9m more than the £17.0m forecast included within the original MTFS due to a higher than budgeted number of High Needs students in both independent schools and mainstream schools.

- Overall there is a forecast overspend in the placement budgets of £5m as a result of an increase of 681 (11%) in the number of funded places. The significant increases are within mainstream schools which are forecast to be 23.2% above budget, and Post-16 by 15%. The Department is undertaking further analysis to understand the reasons for the increase in numbers. Costs per place appear stable in most provision types. The department are investigating the utilisation of places in the Councils own specialist units, currently c.85%, to reduce the need for placements in the more costly Independent sector. An overspend on specialist teaching services and the Secondary Education Inclusion partnerships of £0.8m is also forecast.

- Additionally, the latest figures published by the Department for Education (DfE) forecast a £0.2m reduction in 2024/25 High Needs DSG income. This is due to an increase in students placed in provisions outside of Leicestershire as at Spring census date than the same point the previous year.

12. Nationally, concern over the impact of 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 be implemented and none appear to address the funding issues.

13. Leicestershire is actively engaged within the DfE's Delivering Better Value (DBV) in SEND programme as a result of the DSG deficit. At the end of 2023/24 the accumulated High Needs deficit stood at £41.2m and this will rise to around £64m at the end of 24/25, based on current projections. The Transforming SEND in Leicestershire (TSIL) programme 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.

14. Without new interventions the High Needs block deficit is expected to continue to increase over the MTFS period and is not financially sustainable. This creates a significant and unresolved financial risk to the Council.

15. The Early Years budget is showing an underspend of £2.7m. The budget is based on the number of hours used to calculate the original 2024/25 Early Years DSG income in December 2023. The forecast hours paid to providers for 2024/25 are £11.8m more than the budget. £1.2m of this is due to there being 39 paid weeks in the financial year April to March, a period covering two academic years. The funding is based on 38 weeks. This will balance out in a future year. Payments forecasted are also expected to increase by £10.6m due to an increased number of children compared to the budget. This is due to a higher number of 2-year-olds with working parents than originally forecasted by the DfE and a higher number of under-2s now being forecasted by the DfE.

16. The DSG grant has been increased to allow for the difference between the Spring 2024 census and the Spring 2023 census. There will be additional DSG income to fund the increase of 2-year-olds with working parents and the additional forecast for under 2-year-olds. The estimated increase to DSG Grant is £5.2m for the 2-year-olds with working parents, £0.55m for Spring 2024 census, £6.9m for under 2's and £0.37m relating to a prior year adjustment which is being received this year. This gives a total increase of £13.0m for the DSG Grant.

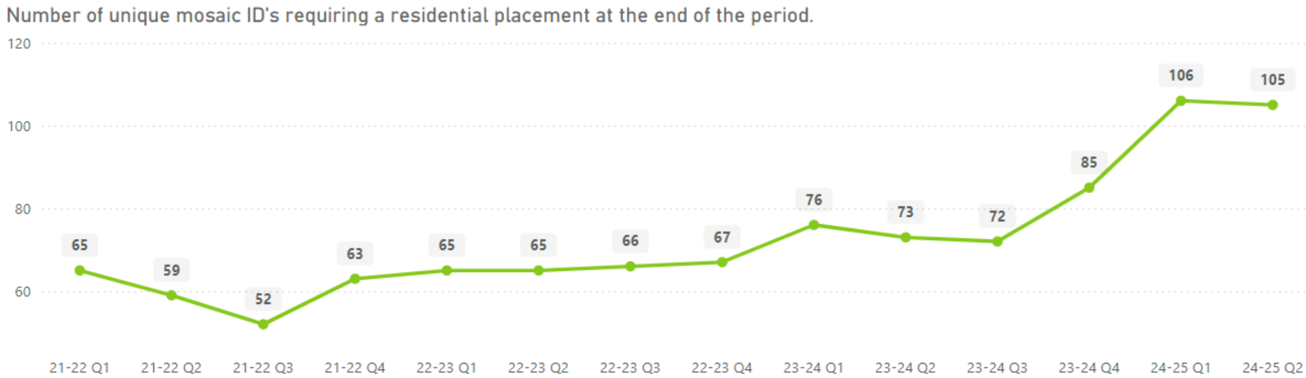
17. There is also a planned underspend of £1.1m as part of the payback of previous years' Early Years deficits, and centrally managed budgets are forecast to underspend by £0.5m. The Early Years DSG deficit as at 31 March 2024 was £3.1m. The plan is to clear this deficit over 4 years. The DfE will recalculate the 2024/25 Early Years DSG income to allow for the Summer and Autumn Censuses which will count the additional 2-year-olds and under 2s, entitled to funding as part of the Early Years expansion.

Children and Family Services – Local Authority Budget (Other)

18. The Local Authority budget is projected to overspend by a net £8.9m (7.4%), mainly relating to projected overspends on the Children's Social Care Placements budget (£4.2m), Unaccompanied Asylum-Seeking Children's budget (£2.1m), Education Psychology Service (£1.0m), SEN Service budget (£0.7m), Social Care Children in Need (£0.7m) and Front-line Social Care Service budgets (£0.5m).

19. The projected overspend on the Children's Social Care Placement budget (£4.2m) is largely due to change in demand / numbers in relation to children in residential provision, in comparison to budgeted assumptions. The MTFS for this financial year assumes budgeted residential numbers by March 2025 to be at 86 children (this includes parent and child placements). Trend and demand analysis at the time of budget setting, based on numbers between April 2021 to January 2024, indicated that the budgeted assumption of net demand of residential numbers growing to 86 by March 2025 to be reasonable and reflective of data-driven demand analysis. However, between the period of January 2024 and Period 4, residential numbers increased rapidly to over 100 children. Current projections, based on current trajectory plans of children, suggest children in residential provision could reach 108 by end of March 2025 (26% increase vs budgeted MTFS projection). Despite a reduced projected overspend position since the last reporting exercise due to the ending and stepping down of the service's most costly placement, the financial impact overall on this budget due to the change in demand is very significant.

20. The graph below shows a visual illustration of how demand in residential provision has changed over time, and the increase in demand from 2023/24 quarter 3.



21. The table below shows the difference in both projected numbers and weekly unit cost for some of the costliest placement types, comparing MTFS budgeted position to the current projected position / cohort of children at March 25.

Placement Type	24/25 MTFS budgeted Assumptions by March 25		24/25 Current Projected Position by March 25		Change	
	Numbers	Weekly Cost £	Numbers	Weekly Cost £	Numbers	Weekly Cost £
Residential Provision (Including Parent and Child)	86	6,181	108	5,880	22	-301
Independent Fostering Provision	150	926	142	975	-8	49
16plus Supported Accommodation (Non UASC)	77	1,666	80	1,930	3	264

22. The financial pressure is further compounded by market instability and provider choice which is resulting in children with a range of complex needs being ‘unattractive’ to the market (needs include violence and aggression as a result of experiencing trauma) and results in the use of high cost, £12,000+ 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. There are approximately 16 children who have been waiting long periods for family-based placement, an increase of six from the position 12 months ago - with continued searches and work with providers to try to identify suitable provision. This is not helped by a low recruitment pipeline for mainstream carers nationally which particularly impacts on availability of placements for older children and those with more complex needs.

23. 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 the Authority) 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 by the end of this financial year.

24. The £2.1m projected overspend position in relation to the Unaccompanied Asylum-Seeking Children (UASC) budget is largely due to the continued increase in UASC in care and care leavers, which has required a greater resource requirement to meet their needs. The impact of the development of dispersal hotels and the National Transfer Scheme (NTS) protocol development has resulted in an increase in the number of children who are UASC being accommodated by Leicestershire. Local authorities are mandated to receive UASC through the NTS if they are below their 0.1% threshold, which is calculated from the number of UASC funding claims (for under-18s) made by that local authority, and the latest ONS estimate of that local authority's total child population at that time. In Leicestershire's case, the 0.1% threshold currently equates to 140 Looked After Children UASC aged under 18. No consideration is given to the number of UASC care leavers aged 18+, which means the Council continues to have more demand for care leaver services and the current funding for care leavers decreases, but the demand grows. The Council is working with the East Midlands Council's Strategic Migration Partnership which continues to challenge the situation with the Home Office.

25. The number of UASC care leavers is projected to grow to over 200 plus by the end of the financial year, which includes a number of UASC Looked After Children who will have turned 18 in the next six months. In addition to the UASC care leaver numbers growing, the Council will also receive more referrals from the NTS as it is likely to fall below the 0.1% threshold level of 140 Looked after Children numbers. Overall this is a significant demand and financial pressure. The table below shows the change in demand over the last three financial years, and with demand likely to increase further over the period of the MTFS.

	UASC In Care (Under 18's)	Annual % Increase	UASC – Care Leaver (Over 18's)	Annual % Increase
Mar-22	60		69	
Mar-23	97	62%	112	62%
Mar-24	132	36%	163	46%
Sept-24	95	-28%	198	21%

26. The Education Psychology service is projected to overspend by £1.0m in 2024/25. Difficulties recruiting into vacancies in this area have 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.

27. The Special Educational Needs Assessment Service budget is currently forecast to overspend by £0.7m in 2024/25. Increased service demand and complexity has resulted in the need for additional service resources to ensure demand can be managed in the most efficient and effective manner. Although some growth funding was approved for 2024/25 this was insufficient to meet statutory responsibilities. A heavy reliance on agency workers to undertake Education, Health and Care Plan (EHCP) writing and tribunal work has resulted in a significant forecast overspend in this area. Meanwhile mediation costs remain high, adding to the forecast.

28. There is also an increased demand for social care children in need of financial support (Section 17/23 of Children's Act 1989), which supports children with challenging behaviour, as well as children with high needs 'on the edge of care' and therefore such preventative spend is seen as a more cost effective solution, avoiding the high costs of supporting children in the actual care system. The projected overspend on this budget for this financial year is projected to be £0.7m.

29. There are further projected budget pressures (£0.5m) linked to frontline social care service budgets – mainly within Family Safeguarding and First Response due to some recent challenges with caseload management linked to incoming service demand. Firstly, key staff in First Response have been absent and, due to demand, additional agency staff were agreed for a period of time. This has enabled a review of longer-term need in staffing for the service. In respect of Family Safeguarding, continued struggles to recruit experienced social workers have led to recruiting more newly qualified social workers needing agency staff working alongside them for the first 12 months. This will enable the service in 12 months' time to have a suitably experienced and skilled permanent workforce. The reliance on agency will reduce after 6 months with a significant reduction in 12 months. Agency usage and appropriateness is reviewed on a monthly basis as part of business-as-usual practice.

30. As a direct response to the projected overspends as described above, the departmental management team continue to lead on a review of non-statutory services supported by the introduction of corporate led financial controls. Taken together and with continued robust management and review of vacancies within the department the output of this work is projecting to deliver some net one-off in year efficiencies, and budget opportunities of £0.3m at this stage, 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.

31. In light of the various financial pressures across the department, further mitigating actions (acting as key enablers in supporting both current and/or future MTFS savings / demand management) in place include:

a) Right service at the right time - ensuring reduced periods of care or care avoidance through family help and family support new models of working; and targeted interventions through exiting care by legal orders and step-down from residential interventions; refocusing resource on edge of care high need.

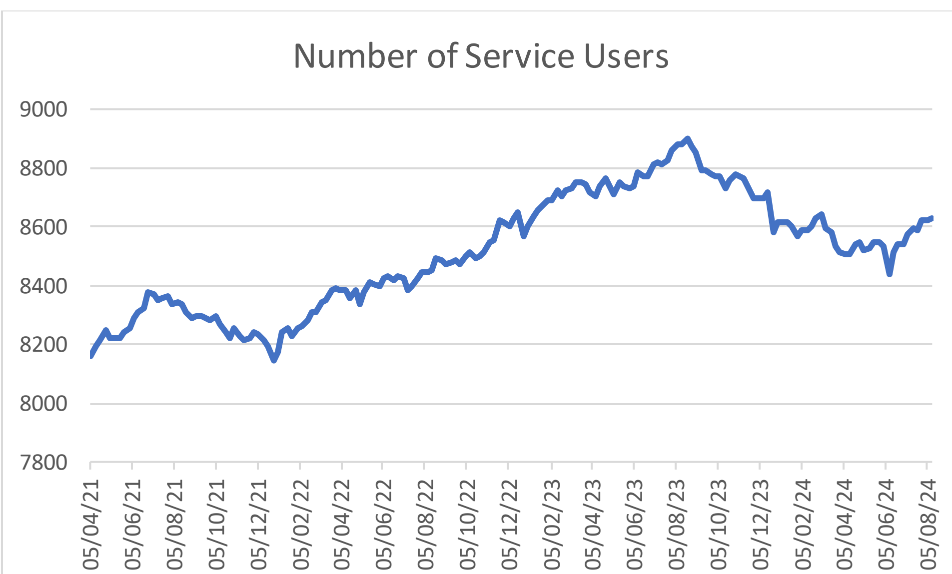
b) Improved oversight and sign off processes for those children with complex and escalating needs extending from Heads of Service to Assistant Director/Director level where appropriate.
c) Continued business activity introduced by the Defining Children's and Family Services programme focusing on children who have been referred to the Children and Family Services 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.
d) Continued focussed 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

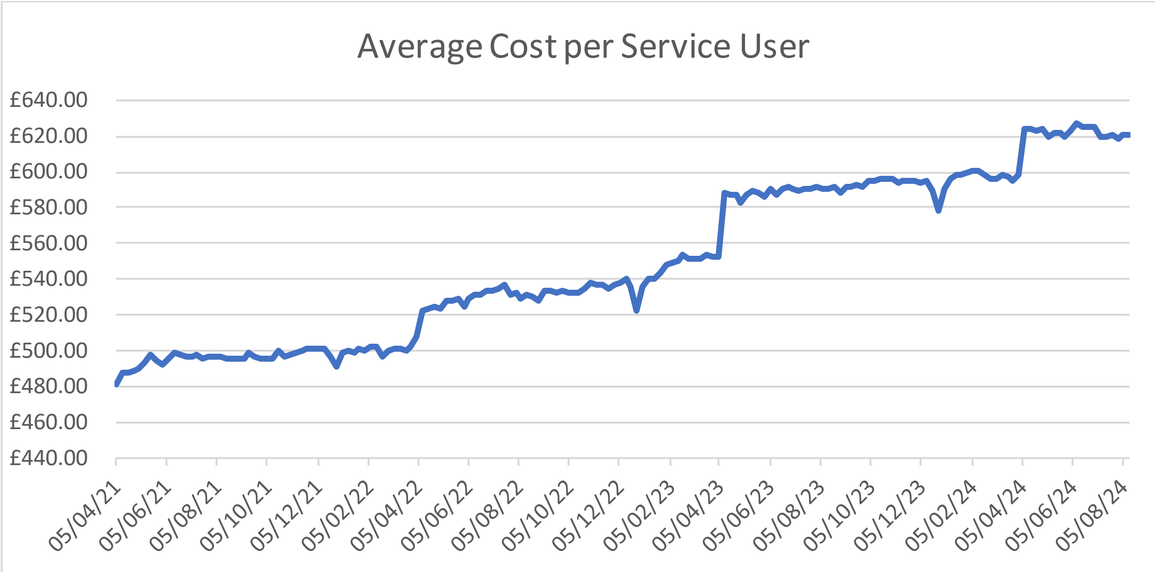
32. A net underspend of £14.2m (5.9%) is forecast for the revenue budget for 2024/25.

Overall Demand Trends

33. The chart below shows the overall number of service users being supported across Residential Care, Homecare, Supported Living, Direct Cash Payments and Community Life Choices from April 2021 through to August 2024. Typical growth would be approximately 1-1.5% per annum. During this period annualised growth to September 2023 was approximately 3.5%. Current numbers of service users supported have now decreased to an annualised rate of 1.6% per annum since 2021. The department has worked to be more efficient with commissioning resulting in a decrease in the number of service users of 2% since April 2023. However, the overall number of service users is starting to increase again particularly in residential and homecare with the department focussing actions on these areas.



34. The average cost per service user rose over the same time period. The rise from April 2024 relates to the annual fee review uplift. Uplifts occur in April each year (except an additional one in October 2023 for residential care), and shows from May onwards.



35. The department has established a wide-ranging demand management programme and a panel to review care packages since September 2023 which has started to have an impact on all commissioned services. It is still early in the financial year to be confident that these trends will continue.

36. The main areas of budget variance forecast in 2024/25 are:

Residential Care - £3.4m underspend

37. There is a significant increase in residential service user income which is mainly due to clearing a backlog of financial assessments which has generated an additional (£1.7m) one off income and there is an additional amount of heath income (£1.1m) due to increasing numbers of service users (SUs) receiving funding. There is a relatively small underspend forecast for residential care (£0.2m). The forecast is based on 2,453 SU per week costing an average of £1,073 per week.

Homecare - £2.7m underspend

38. The number of home care SUs and average hours has been falling since the introduction of the Fair Outcomes Panel in September 2023. The budget is based on an average of 2,690 SUs per week. The latest forecast has an average 2,630 SUs per week with an average cost per SU of £338 per week. Arrears from 2023/24 have been estimated to be £0.9m which is in line with previous years.

Direct Cash Payments - £2.2m underspend

39. The forecast underspend is mainly due to an 11% reduction in service users offset by a 14% increase in SU package cost. SU numbers have decreased since budget setting and levels of new SUs have halved, which is likely due to the effects of the Fair Outcomes Panel. The forecast is based on an average of 1,735 SUs with an average cost of £478 per week and Carers averaging at 1,254 SUs with an average cost of £52 per week. Market Sustainability and Improvement Fund (MSIF) grant has been received towards new SUs with increased personal assistant rates. This was implemented in August 2023 but has had a slow start with costs assumed to increase over the year.

Supported Living - £1.8m underspend

40. The forecast is lower than budget as there are fewer referrals being received, partly due to the level of vacancies within the Care Pathway but also alternative ways to commission are being pursued from the Fair Outcomes Panel and in group supervisory meetings. It is estimated that there will be an increase of approximately 30 SUs over the course of the financial year, which is less than anticipated. Two schemes are coming online with places of 16 and 15 respectively which should be allocated by the end of October.

Discharge Fund - £0.8m underspend

41. Additional income from health for discharges from hospital.

Community Life Choices (Day Services) - £0.7m underspend

42. The number of SUs peaked in October 2023 and since then numbers have been decreasing rather than increasing which has been the historical trend.

Community Client Income - £0.6m underspend

43. Additional SU income, which is mainly due to clearing a backlog of financial assessments and increased number of SUs (£0.8m), offset by a reduction in income from health relating to lower numbers of supported living SUs (£0.2m).

44. The net underspends above are increased by a net £2.0m underspend mainly from staffing vacancies, grant income and other minor variations.

45. A robust demand management plan will continue to be in place during 2024/25 which will focus on managing demand particularly for homecare, including:

- 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
- ensuring financial and funding assessments are undertaken
- reviewing internal processes.

Public Health

46. The department is forecasting to be on budget.

Environment and Transport

47. A net underspend of £0.1m (0.1%) is forecast.

48. Across Highways and Transport operations a net £1.3m overspend is forecasted as a result of:

- Mainstream School Transport - £1.4m overspend. Increase in overall number of students entitled to mainstream school transport (6.7% since 2021/22) and a rise in the number of routes. Bus operational costs have also increased resulting in higher contract costs which, combined with limited bus capacity, has resulted in a greater number of pupils being transported by taxi. Furthermore, with effect from September 2024, additional costs arising from DfE statutory changes to Mainstream home to school transport policy.
- Environmental and Reactive Maintenance – net overspend £1m in response to increasing demand for reactive repairs on a deteriorating road network. This is a statutory duty with works being undertaken in line with service policy.
- SEN Transport – £0.9m overspend. Impact of additional growth in service users over and above original growth forecasts.
- Passenger Fleet - net underspend £0.7m. due to vacant driver and escort posts, net of additional vehicle hire and maintenance costs.
- Network Management - £0.4m underspend arising from additional Temporary Traffic Regulation Order applications.
- Engineering Services - £0.9m underspend due to an increased recharge to the Capital Programme for staff time incurred on capital works.

49. Development and Growth services are forecasting a net spend to budget with underspends arising from vacancies across teams (£0.2m) offset by a shortfall in developer income (£0.1m) and various minor changes (totalling £0.1m).

50. There is a net underspend of £1.2m forecast on Environment and Waste Management services. Additional income from the sale of dry recyclable materials (£0.9m), together with underspends arising from staffing vacancies (£0.2m) and net underspends arising from changes to Waste treatment including diverting waste away from landfill (£0.2m) are offset by overspends on property and plant-related costs across the Waste Transfer Stations (£0.1m).

51. The remaining balance relates to £0.1m forecast underspends on department and business management due to staffing vacancies and reduced spend on software licenses.

Chief Executive's

52. The Department is reporting a net underspend of £0.2m. This is due to staff vacancies (£0.35m), partly offset by reduced levels of planning income (£0.16m).

Corporate Resources

53. There is a projected net underspend of £0.4m (1.1%) due to a combination of vacancies across several parts of the Department and reduced commissioning spend. This is largely because of the introduction of tighter corporate led financial controls, together with existing robust management and review of vacancies within the Department delivering a number of in-year efficiencies. This is offset by a contribution to the Investing in Leicestershire Programme (IiLP) earmarked reserve (sinking fund) of £0.5m. This will help offset a forecast loss of £1.8m that will be funded from the sinking fund relating to the divestment of certain pooled property investments, explained in more detail within the IiLP section later in this report.

Central Contingencies

54. MTFS Risks Contingency (£10m original budget, £9.0m balance). £1m of the contingency has been released to provide temporary support to the Commercial Services budget. No further release of the contingency has been assumed in the projection. Monies that are not required to offset issues elsewhere in the 2024/25 budget will be transferred to corporate earmarked reserves to assist with addressing the projected budget gaps in future years. The MTFS shows a gap of 33m in 2025/26 and £60m in 2026/27. As the Council works through the MTFS refresh, and further information around funding emerges the level of the financial challenge will become clearer. But to mitigate the impact it is important that wherever possible, funding is set aside to meet those future years' challenges.

55. Inflation Contingency (£36.1m original budget, £24.0m balance). The contingency is currently projected to be underspent by around £6.4m in the current year. This mainly relates to lower costs on the Adult Social Care Fee review than anticipated in the MTFS. The pay settlement for Local Government staff for the current year is lower than the assumption in the MTFS. 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 still uncertainty in this estimate.

56. Service Investment Fund (£0.2m original budget). This budget has been transferred for 2024/25 purposes to the Environment and Transport budget, to be used for flood investigation and scheme development work to address flooding as well as bidding for funding for project delivery. It will also provide capacity to administer Government flood-related grant funding.

Central Items

57. The Financing of Capital budget is forecast to be £0.6m underspent, due to a reduction in interest payments following the early repayment of £10m of external debt principal in April 2024. Following high periods of inflation in the UK there had been an increase in the

discounts available for the premature repayment of debt. At the start of the year the Council was £18m overborrowed against the capital financing requirement (the level of historic capital expenditure required to be funded).

58. Bank and other interest, £6.0m increased investment income. This is due to the Bank of England base rate levels being higher, and for longer than forecast, and higher than estimated average Council balances. The Bank of England base rate stands at 5.0% with market forecasts of future reductions now being later in the year. Average balances remain strong due to increases in earmarked reserves, the latest phasing of spend on the capital programme and government grants received in advance.

59. Central expenditure budgets are currently forecast to underspend by £1.9m. This comprises £1.5m relating to the cleansing of receipted aged purchase orders that are no longer required, £0.2m regarding a reduction to prior year business rates relating to Beaumanor Hall and other properties, and £0.2m relating to higher than forecast income from a share of the surplus for ESPO in 2023/24.

60. Additional contributions to corporate earmarked reserves of £6.3m. This relates to £3.0m to provide cover for the increase in the High Needs Block deficit, £2.3m from increased business rates income, as set out below, to be used to offset the anticipated gap in the MTFS projection in 2025/26, and a £1m contribution to the Transformation reserve, which is forecast to require additional funding over the MTFS period.

61. The Cabinet on 13th September 2024 approved the use of the Period 4 forecast net underspend of £6.4m to fund an increase in the capital programme risk contingency.

62. The approved MTFS projected a net gap in 2024/25 of £6.4m which was planned to be covered by a contribution from the budget equalisation reserve. Given the current forecast position, that contribution is now forecast not to be required in the current year but is likely to be needed in future years.

Business Rates

63. Additional Business Rates income of £1.3m is forecast in 2024/25, based on the latest information from district councils 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 section 31 grants.

64. Additional Business Rates Pool levy income of £1.0m is forecast for 2024/25. The current forecasts based on data in the NNDR1 forms and monitoring exercises shows a total of £22.4m, of which one third (£7.5m) will be allocated to the County Council under the revised treatment of Levies reported to the Cabinet in June 2023, compared with the forecast of £6.5m included in the 2024/25 budget. Monitoring of the 2024/25 business rates pool is being undertaken and updates will be provided in future monitoring reports.

Overall Revenue Summary

65. At this stage the revenue budget is projected to underspend by a net £4.1m.

66. There are increasing pressures on the capital programme, through increasing construction costs and risks to future capital grants. The Cabinet on 13 September 2024 approved the allocation of £6.4m from the Period 4 forecast revenue outturn to increase the capital programme risk contingency.

67. Also, the projected funding gaps for the 2025/26 and 2026/27 budgets are still very concerning. As such, there is a need to ensure any surplus funds in the current year are set aside to mitigate against the impact of these gaps. It is therefore assumed that the additional net £4.1m underspend forecasted at Period 6 wour

68. ill be used to contribute to the budget equalisation reserve.

CAPITAL PROGRAMME

69. The updated capital programme for 2024/25 totals £167m. This follows a review of the programme undertaken over the summer and approved by the Cabinet in September 2024.

70. The latest forecast on the capital programme for 2024/25 shows overall net acceleration of £0.3m. A summary is shown in Appendix C with details of the variances provided in Appendix D.

71. The main variances are reported below.

Children and Families

72. The forecast spend is mainly in line with the updated budget.

Adults and Communities

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

Environment and Transport

74. The Department is forecasting acceleration of £4.4m. The main variances are described below.

75. Restorative / Preventative Maintenance, £2.9m forecast acceleration on road patching/dressing due to the need to keep the network safe following deterioration of highway assets. There was an expectation of significant sums of new Network North funding in future years to allow additional investment in the highway, but as reported at period 4 this is now much less likely. The position will be reviewed following the Government’s October Budget statement and as part of updating the capital programme/MTFS for 2025-29

76. Melton Distributor Road, £2.5m acceleration due to the contractor programming more works to be completed this year than previously estimated. The scheme is expected to complete in early 2026.

77. Other schemes:
    - A511/A50 Major Road Network, £0.3m slippage due to delays in contractor procurement.
    - Property flood risk alleviation, £0.2m slippage due to latest project profiles.

78. There are some variances on Environmental schemes:
    - RHWS lighting, £0.2m underspend due to testing, materials and staffing costs being less than expected
    - LEV Infrastructure, £0.1m slippage due to delays in programme delivery
    - Ashby Canal Reed Bed, £0.1m underspend following a procurement exercise and overall risk mitigation costs being below initial provision

Corporate Resources

79. The Department is forecasting net slippage of £0.5m. The main variance is in the Workplace Strategy - end user device programme refresh (PC/laptops). A rephased programme was approved by the Ways of Working programme board to ensure refresh funds are available beyond the existing MTFS period.

Corporate

80. The programme is forecasting net slippage of £3.5m. The main variance relates to the Lutterworth East planning and Pre highway construction works programme, £3.2m slippage. This follows a review of the scheme, reported to the Cabinet in June 2024. The revised profile shows the majority of spend being incurred in 2025/26 and 2026/27.

Capital Receipts

81. The latest estimate of general capital receipts in 2024/25 is £13.6m, in line with the budget. The estimate includes £3m of new land and building disposals, £5.7m from the sale of pooled property funds and £4.9m from unapplied capital receipts brought forward from 2023/24.

Investing in Leicestershire Programme – Quarter 2, 2024/25 update

82. The Investing in Leicestershire Programme (IiLP) is an integral part of the MTFS. Investments in property and other indirect holdings generate income that supports the Council's MTFS whilst contributing to the wider strategic objectives of the Council and the economic wellbeing of the area. The IiLP Strategy is approved annually as part of the MTFS.

83. A summary of the IiLP position at quarter two for 2024/25 is included within Appendix E and shows total forecast income for the year of £8.5m. The budgeted net income for 2024/25 is £8.5m, split between direct core holdings and diversifier investments as

shown in the appendix. This budget includes a contribution to the sinking fund of £1.5m in 2024/25 which at the end of last year (2023/24) totalled £2.6m. The current plan is to increase the amount held in the sinking fund to £6.7m by the end of 2027/28 assuming no large utilisation is needed. At present any in year outperformance to the budget will be used to accelerate building of the sinking fund.

84. The overall in year forecast net return for the IiLP is 4.6% for 2024/25 when excluding the development assets still in construction and rural portfolio. Including these two asset classes reduced the forecast net income return to 3.0% for the year.

85. County Hall rents are included from 2024/25; the forecast net income of £0.8m is likely to be £70,000 lower than budgeted owing to delayed commencement of a lease. A valuation of £8.9m has been allocated to the areas of County Hall let to third parties.

86. The Quorn solar project has now been withdrawn and as such forecast income from 26/27 has been removed and will be replaced by other in-flight projects. The site has now been marketed for sale or lease with the planning permission to build a solar farm to a purchaser. The decision to sell or lease the site to a prospective buyer is primarily based on the technical knowledge and experience required to build a solar farm in the timescale as determined by the grid connection the County Council has procured. Bids have now been assessed and a preferred bidder has been identified. The legal process has now commenced.

87. 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 (debt) credit strategy and a bank risk share strategy. The aim is to provide diversified income from a variety of differing sources.

88. One of the four pooled property funds within the diversifier's portfolio is in the process of being liquidated after large investors requested redemptions. The liquidation comes at a time when property prices have fallen as interest rates rose through 2022 and 2023. The IiLP programme invested £7.5m in this fund in December 2015 and as at 31 March 2024 had a net asset value of £5.7m, a £1.8m capital loss if all the assets could be sold at the property managers' valuation. The IiLP fund has had £1.9m in income over the time of the investment and will continue to earn income, albeit at lower levels, as assets are sold.

89. The IiLP is on target to achieve the budget for 2024/25 with the bank risk share investment within diversifiers having received income in excess of the full year target. It is expected that additional income will be received through the year for this investment and will use excess income to accelerate the building up of the sinking fund as previously mentioned.

90. No new diversifiers were committed to last year although Partners' MAC 7 (private debt) has called capital totalling £5.6m through 2023/24 and has uncalled commitments which are likely to be called through 2024/25. The diversifiers' forecast net income for this year is £5m which is £2.2m ahead of the budget. There is a combination of variances with pooled property lower than budget due to faster redemption of capital which is offset by

higher than budgeted income from the bank risk share investment and private debt and infrastructure investments. These forecasts are based on current conditions which could change as the year progresses.

91. An independent review of the Fund was undertaken by Hymans Robertson in December 2023. The report recognizes the challenges faced by the property market resulting from higher interest rates and inflation over the past two years and acknowledged the challenges facing the market and the IiLP. The report made a number of recommendations including setting ranges / limits on exposure to individual assets, tenants, property sectors and asset classes in order to guide the development of the portfolio. It also recommended the IiLP explore opportunities to dispose of selected properties, partly to adjust property sector allocations but also to recycle funds into developments.

Recommendation

92. 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 County Council -21 February 2024 – Medium Term Financial Strategy 2024/25 to 2027/28
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=134&MId=7305&Ver=4

Report to the Cabinet – 13 September 2024– Medium Term Financial Strategy – Budget Monitoring and MTFS Refresh
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=7509&Ver=4

Appendices

Appendix A: Revenue Budget monitoring statement (Period 6)
Appendix B: Revenue budget major variances
Appendix C: Capital Programme monitoring statement (Period 6)
Appendix D: Capital Programme – forecast main variances and changes in funding
Appendix E: Investing in Leicestershire Programme – 2024/25 Quarter 2 update

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