



SCRUTINY COMMISSION – 6 NOVEMBER 2013

REPORT BY THE DIRECTOR OF CORPORATE RESOURCES

**2013/14 MEDIUM TERM FINANCIAL STRATEGY
MONITORING (PERIOD 6)**

Purpose of Report

1. To provide members with an update on the 2013/14 revenue budget and capital programme monitoring position.

Policy Framework and Previous Decisions

2. The 2013/14 revenue budget and the capital programme for 2013/14 to 2016/17 were approved by the County Council at its budget meeting on 20 February 2013 as part of the Medium Term Financial Strategy (MTFS). The MTFS is monitored throughout the financial year.

Background

3. The 2013/14 revenue budget and the capital programme for 2013/14 to 2016/17 were approved by the County Council at its budget meeting on 20 February 2013 as part of the Medium Term Financial Strategy (MTFS).
4. The Cabinet on 13th September 2013 approved the following uses of the potential revenue underspend:
 - Contribution of £250,000 towards Leicester Cathedral Gardens recognising the Diocese covers the county and the links with Richard III.
 - Contribution to activity in the county to support the City of Culture bid (up to £2m).
 - Contribution to Bradgate Park Trust to purchase additional land (up to £60,000).
 - The balance of any underspend at the year-end is used towards repayment of pension liabilities on the pension fund, or if this is not possible, to use the balance of any underspend to repay debt.
5. The Cabinet on 13th September 2013 approved a revised 2013/14 capital programme.
6. The monitoring information contained within this report is based on the pattern of revenue and capital expenditure and income for the first six months of this financial year.
7. The latest revenue budget monitoring exercise shows a net projected underspend of £8.2m, as summarised in **Appendix 1**. This underspend will be used to fund the

issues approved by Cabinet on 13th September 2013, set out in paragraph 4. Details of major variances are set out in **Appendix 2**.

8. The latest capital programme monitoring exercise shows a net underspend of £1.0m against the revised budget. Details of major variances and changes in funding are shown in **Appendix 3**.

REVENUE BUDGET

9. The results of the latest 2013/14 revenue budget monitoring exercise are summarised in **Appendix 1**.

Children and Young People's Service

Dedicated Schools Grant

10. A net underspend of around £3.7m is currently forecast, mainly relating to Special Educational Needs. A contingency established to ensure capacity in the SEN budget as a result of uncertainties regarding the cost of the new LA responsibility for post 16 students with learning difficulties and disabilities, the transfer to a new funding framework for SEN in April and the impact of raising the participation age will not be required. Also additional income has been received for 16+ places at mainstream special schools.
11. This net underspend will not impact on the General County Fund as under the terms and conditions of Dedicated Schools Grant any underspend must be allocated to the following year's Schools Budget. The underspend will be used in 2014/15 to support the financial impact arising from the necessity to change the pupil number count for schools and academies affected by age range changes.

Local Authority Budget

12. A net underspend of £0.4m (0.7%) is forecast, mainly due to the early identification of savings, offset by overspends, particularly regarding legal costs in children's social care.

Adults and Communities

13. The Department are experiencing some financial pressures relating to increasing demographic pressures whilst delivering the £12.4m targeted level of savings in the current year, resulting in a projected overspend in the region of £3.4m (2.6%) for 2013/14.
14. The Effective Support efficiency project reviews client needs and considers alternative sources of support for service users with substantial and critical needs was expected to deliver savings of £6.5m in 2013/14. A shortfall of £4.9m is currently projected arising from a smaller backlog of outstanding reviews than originally anticipated reducing the scope to make savings as well as lower savings achieved per person. Health funding of £2.4m has been agreed for this year to

mitigate some of the shortfall in savings, reducing the overall shortfall to £2.5m. Alternative savings opportunities are being investigated to offset the balance.

Environment and Transportation

15. The Department is forecast to underspend by a net £0.51m (0.6%). Net underspends on transport and waste budgets are partly offset by an overspend on highways maintenance budgets.

Chief Executives

16. An underspend of £0.64m (4.2%) is forecast, mainly relating to an underspend on the Local Welfare Provision.

Corporate Resources

17. An underspend of £0.82m (2.4%) is forecast, mainly due to staff vacancies and increased income.

Public Health

18. The service is currently forecast to be underspent by £0.35m (35.3%). The cost of the Public Health programme can be met from ringfenced Public Health Grant which means that a County Council contribution of £0.35m is not required in 2013/14.

Contingencies

19. The 2013/14 budget includes a £1.2m contribution for investment in Loughborough Science Park. At this stage the contribution is forecast to be made in the current year, although there is a possibility that it may slip to 2014/15, in which case the sum will be carried forward.
20. A contingency of £4.5m was made against delays in the achievement of savings. No major problems have been identified at this stage, other than on the Effective Support saving (see paragraph 14 above).
21. A provision of £3m was made for severance / invest to save issues. If the requirement is less during the year, the balance will be transferred to the Invest to Save / Severance earmarked fund to meet costs in future years.
22. A contingency of £1.2m was made for council tax collection deficits following the implementation of the Government reforms on the Localisation of Council Tax Support. The situation is being monitored on a monthly basis in liaison with the District Councils and at this relatively early stage in the year there does not appear to be any significant risks to collection fund balances. Discussions have taken place with the District Councils regarding a contract with an external company to undertake checks on Single Person Discounts and the County Council will support that work with a financial contribution of around £50,000 which could be funded from this contingency. Given the relatively early stage in the year, the contingency is forecast to be spent but the position will be monitored as the year progresses.

23. A contingency of £9.0m was made for inflation, of which £5.7m has been allocated regarding residential care charge increases, the 2013 pay award, highways maintenance, street lighting energy and winter maintenance salt inflation. Pressures are expected on insurance, passenger transport, buildings maintenance, waste management and energy budgets.
24. The inflation contingency included £3m for general pay inflation based on an assumed increase of 2%. A pay increase of 1% has been agreed (excluding Grade 18 and above), leading to an underspend of around £1.6m.

Central Items

25. Bank and other interest is forecast to be £0.35m lower than the original budget, due to balances being lower than anticipated.
26. The original budget for the financing of capital assumed that £40m of external debt would be borrowed during the year, whereupon it would begin to earn interest. However, due to continued low interest rates and the level of internal balances it is highly unlikely that this money will now be borrowed during 2013/14. As a result, an underspend of £2.5m is forecast as a consequence of not incurring interest costs on the previously expected borrowing.
27. Local Services Support Grant includes grant funding for Extended Rights to Free Travel. The Department for Education released the 2013/14 and indicative 2014/15 allocations in July 2013 (£675,400 and £494,900 respectively) and these show significant cuts from the 2012/13 level used in the original 2013/14 budget (£795,500). It is not feasible at this stage for CYPS and E&T to reduce expenditure to offset the £120,000 cut in 2013/14 but the 2014/15 budget will be adjusted to reflect the reduced level of grant in that year.
28. The County Council agreed to contribute £125,000 for additional administrative costs and £250,000 towards Discretionary Discount Funds (DDF) following changes made under the Localisation of Council Tax Support reforms. The District Councils are providing monthly monitoring information on awards made from the DDFs and at this stage only relatively minor amounts have been granted. The situation will be kept under review as the year progresses. The LCTS schemes will need to be revised for 2014/15 as all the schemes, with the exception of Harborough, were based on the one-off transitional 8.5% cap. The County Council and other Preceptors are in dialogue with the District Councils on this issue.
29. From April 2013, the Department for Works and Pensions (DWP) transferred funding to the County Council (£1.08m) which had previously been used to provide Community Care Grants and Crisis Loan schemes. This funding is to provide short term support to families under exceptional pressure and to support individuals returning to their communities from institutional care. To meet the needs of the local community the County Council established the Leicestershire Welfare Provision (LWP). It was anticipated that additional funding would need to be allocated from County Council resources in light of the historic overspends experienced by DWP, the changes to benefits announced and the challenging economic climate. A £0.2m contingency was included in the 2013/14 revenue budget to allow excess demand to

be dealt with. Based on the monitoring of the LWP, it is unlikely that the £0.2m contingency will be required and it is therefore projected to be unspent.

30. The County Council will receive £1.7m New Homes Bonus Grant (NHBG) in 2013/14, of which £0.5m will be used within the Chief Executive's budget to provide support for the provision of new homes. The balance of £1.2m funds part of the £4m revenue contribution to the funding of capital and will be allocated to extra care schemes. NHBG is forecast to increase to around £3m in later years, although the Government has consulted on proposals to top-slice 35% of the grant from 2015/16 to redistribute money to Local Economic Partnerships. An alternative proposal involves a 100% top-slice from County Councils and a 19% top-slice from Districts.
31. The 2013/14 budget includes a forecast of £5.3m for Education Services Grant. The grant is subject to the level of Academy conversions during the financial year and the latest estimate of the grant to be received by the County Council is around £5.7m.

Business Rates

32. The Government introduced the Business Rates Retention system from April 2013. The County Council is liaising with the District Councils, Leicester City Council and Rutland County Council and monthly monitoring is being undertaken to assess the position of the Leicester and Leicestershire Pool. At this early stage, the County Council's "local share" is forecast to be around £0.1m higher than the "baseline" amount reflected in the original budget.
33. The Government granted a one year extension of the temporary increase in Small Business Rate Relief and is due to provide a separate grant to local authorities to compensate for the loss of their local share income. This may be around £0.4m in the case of the County Council. More details should be available from DCLG later in the autumn.
34. The Pool is projected to generate an additional £0.15m for the sub region in 2013/14, compared with £0.7m projected in January 2013 when the Pool was formally established. The position has worsened due to a number of factors including increased estimates for rateable value appeals, empty property exemptions and academies gaining charitable status leading to reduced business rates liability.

Local Authority Mortgage Scheme - update

35. The Local Authority Mortgage Scheme (LAMS) was launched within Leicestershire in September 2012. In brief, the Authority makes a loan to Lloyds TSB for a five year period, and these loans are used to indemnify the bank against any default (down to 75% of the purchase price) on loans within the scheme to first time buyers for a five year period. The buyers must pass the normal credit checking criteria used by Lloyds TSB and provide a minimum of a 5% deposit. The maximum loan available is for £142,500.

36. Within the present mortgage market, interest rates payable decrease quite significantly as the amount of deposit provided increases. On occasions first time buyers are in effect forced to save large deposits in order to be given a mortgage rate that is affordable to them but struggle to save while they are living in rented accommodation. LAMS allows them to have a 95% mortgage at a rate that is close to that which would normally be payable on a 75% mortgage, making it possible for them to enter the housing ladder at affordable mortgage rates much earlier than would otherwise have been the case. A house sale towards the bottom of the chain often has a significant knock-on impact, thereby providing a boost to the local housing market and the local economy.
37. Since LAMS was launched £7.4m of the agreed £10m funding has been lent to Lloyds TSB, with the loans being as follows:
- £2m for 5 years @ 2.72% on 5th September 2012
 - £1.4m for 5 years @ 2.19% on 27th November 2012
 - £2m for 5 years @ 2.24% on 12th February 2013
 - £2m for 5 years @ 2.31% on 1st August 2013
38. The first three loans have been fully committed to support mortgages, and £1.16m of the fourth loan has been committed at the latest date for which figures are available. 292 mortgage applications have been approved at a total mortgage value of £32.8m and 219 of these mortgages have been completed. At the current rate of utilisation the latest tranche will have been fully used by the end of November. The scheme is considered to have been a big success so far.
39. In his budget of March 2013, the Chancellor announced a Government Scheme (Help to Buy) which appeared to offer buyers a package that was very similar to LAMS, although details were quite sketchy at the time. Help to Buy was originally due to start in April 2014, but was then brought forward to January 2014 and it was recently announced that a number of banks would be processing Help to Buy mortgages with immediate effect, but with start dates of no earlier than January.
40. Help to Buy offers many of the same advantages as LAMS but is available for a much larger mortgage amount (house price of up to £600,000), it is not limited to first time buyers and the guarantee is only down to the first 80% of mortgages. First indications are that the mortgage rates payable will be higher than under LAMS, which is to be expected given the lower level of indemnity.
41. Lloyds Banking Group will be offering Help to Buy mortgages through its subsidiary, Halifax, and has suspended any further launches of LAMS while it assesses whether Help to Buy and LAMS are sufficiently different to warrant offering simultaneously. Although the latest £2m loan will be fully utilised by Lloyds, it is currently unclear whether they will be willing to take any further loans. Likewise, the County Council will need to assess whether the relatively small risks associated with LAMS are worthwhile taking if there is a similar Government scheme in place.

Revenue Summary / Invest To Save

42. A net revenue underspend of £8.2m has been identified. The approach to underspends during the period of austerity has been to use funds to reduce liabilities (and associated future costs), fund Invest to Save projects and provide resources for one-off investment for Council priorities. The Cabinet on 13th September 2013 approved that the underspend be used to fund the following:
- Contribution of £250,000 towards Leicester Cathedral Gardens recognising the Diocese covers the county and the links with Richard III.
 - Contribution to activity in the county to support the City of Culture bid (up to £2m).
 - Contribution to Bradgate Park Trust to purchase additional land (up to £60,000).
 - The balance of any underspend at the year-end is used towards repayment of pension liabilities on the pension fund, or if this is not possible, to use the balance of any underspend to repay debt.

CAPITAL PROGRAMME

43. The table below shows a revised budget of £66.8m. At this stage a net underspend of £1.0m is reported. The major variances are detailed in Appendix 3.
44. It is projected that spending will be 99% of the revised budget. Overall the aim is that 95% of available resources should be spent in year.
45. The revised budget includes changes in funding since Cabinet approved the revised programme in September, detailed in Appendix 3.

2013/14	Budget (Cabinet September 2013) £m	Changes in Funding £m	Revised Budget £m	Forecast £m	Variance £m
CYPS*	17.4	0.3	17.7	18.0	0.3
Adults and Communities	2.4	0.0	2.4	2.3	-0.1
E&T - Transportation	37.3	0.1	37.4	37.2	-0.2
E&T - Waste Management	3.9	0.0	3.9	3.8	-0.1
Chief Executive's	0.6	0.0	0.6	0.6	0.0
Corporate Resources	3.0	0.6	3.6	2.7	-0.9
Corporate Programme	1.2	0.0	1.2	1.2	0.0
Total	65.8	1.0	66.8	65.8	-1.0

*Excludes CYPS – Devolved Formula Capital (DFC)

46. The main variances are detailed below.

Children and Young People's Service

47. The latest forecast shows a net overspend of £0.3m. This mainly relates to the earlier than planned completion of the Loughborough Ashmount replacement school. The school is planned to open on 13th January 2014, 3 months ahead of schedule, leading to the acceleration of £0.4m from the 2014/15 programme.
48. Within the CYPS programme £0.7m relating to the Early Years (£0.6m) and Short Breaks (£0.1m) programmes has been identified as no longer being required. This is due to sufficient capacity to support the entitlement to free 2 year old places and no further spend on Short Breaks after approved bids from stakeholders and payments have been released. The funding released has been transferred to the School Accommodation programme to offset the reduction to the programme due to the lower than expected DfE capital settlement awarded late in March 2013.

Adults and Communities

49. The latest forecast shows a potential underspend of £50,000 on minor works.

Environment and Transportation – Transportation Programme

50. The latest forecast shows a net underspend of £0.2m compared with the revised budget.
51. The main areas of slippage relate to Ashby Canal (£0.31m); Integrated Transport Schemes (ITS) Safety allocation (£0.15m), Loughborough Town Centre (£0.17m) and unallocated carry forwards (£0.26m). These are offset by forecast acceleration of £0.56m on ITS active and sustainable travel schemes and also £0.23m on Transport Asset Management for roads and carriageways. These are detailed in Appendix 3

Environment and Transportation – Waste Management

52. Slippage of £0.1m is forecast relating to the retention payment for Whetstone Recycling Household and Waste Site which will be due in 2014/15.

Chief Executive's

53. Slippage of £50,000 is forecast on the Kegworth Community Centre scheme, due to delays in the procurement process.

Corporate Resources

54. An underspend of £0.9m is forecast. Resources available for the purchase of agricultural land (£0.5m) are unlikely to be spent in the current financial year while suitable sites are being identified. In addition, demolition of vacant buildings (£0.33m) will slip into 2014/15 as a result of the complex nature of the work.

Capital Receipts

55. The forecast level of general capital receipts is £13.5m compared with a revised requirement of £7.9m

Recommendation

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

Background Papers

Report to County Council – 20 February 2013 – Medium Term Financial Strategy 2013/14–2016/17

Report to Cabinet – 13 September 2013 – 2013/14 Medium Term Financial Strategy Monitoring (Period 4)

Circulation under the Local Issues Alert Procedure

None.

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Appendices

Appendix 1 - Budget Monitoring Statement

Appendix 2 - Revenue Budget – forecast main variances

Appendix 3 – Capital Programme – changes in funding and main variances

Equal Opportunities Implications

No direct equal opportunities implications.

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