



SCRUTINY COMMISSION – 26 FEBRUARY 2014

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

**2013/14 MEDIUM TERM FINANCIAL STRATEGY
MONITORING (PERIOD 9)**

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 that 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 the 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 also 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 nine months of this financial year.

7. The latest revenue budget monitoring exercise shows a net projected underspend of £11.6m before carry forwards, as summarised in Appendix 1 to this briefing note. Carry forward requests identified at this stage total £0.9m although this is likely to be more at year end. The net underspend will be used to fund the issues approved by the Cabinet on 13th September 2013, set out in paragraph 4, with the exception of the City of Culture bid which was unsuccessful. Following further assessment of the options for repaying past pension liabilities this is no longer considered appropriate and instead the balance of the underspend will be used to repay debt.
8. Details of the major variances on the revenue budget are set out in Appendix 2.
9. The latest capital programme monitoring exercise shows a net underspend of £1.9m against the revised budget. Details of major variances and changes in funding are shown in Appendix 3.

REVENUE BUDGET

10. 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

11. A net underspend of around £3.95m 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.
12. 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

13. A net underspend of £0.5m (0.9%) is forecast, mainly due to the early identification of savings, offset by overspends, particularly regarding increased demands on the Placement budget.

Adults and Communities

14. The Department is experiencing 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 of £4.5m (3.4%) for 2013/14.
15. An overspend on community based services of £5.7m (7%) is forecast, mainly relating to the Effective Support efficiency project. This project involves reviewing client needs and considers alternative sources of support for service users with substantial and critical needs. The project was expected to deliver savings of £6.5m in 2013/14, however a shortfall of £4.9m is currently projected arising from a smaller backlog of outstanding reviews than originally anticipated (around two thirds) reducing the scope to make savings as well as lower savings achieved per person. Health funding of £2.4m has been agreed for 2013/14 to mitigate some of the shortfall in savings, reducing the overall shortfall to £2.5m. The ongoing transfer of health funding in this way is being considered as part of wider planning around the use of the Better Care Fund. The County Council has included growth of £2.5m in the proposed 2014/15 to 2017/18 MTFS to fund the ongoing shortfall.
16. The balance of the overspend on community based services totals £3.2m. This mainly relates to:
 - increasing demographic pressures above the levels of growth estimated for 2013/14 (£1.2m) materialising in increasing numbers of new under 65 years old service users who are most likely to take direct payments;
 - increasing home care support for older people in their home; the average hours provided per person has increased by 20mins per week to 10 hours of homecare (£0.9m);
 - cost pressures in rural areas for domiciliary care increasing the average cost per hour by 15p as providers pay higher wages to attract and retain homecare assistants (£0.3m);
 - an increase in direct payments as more people opt for personal budgets instead of the in house day service provision (£0.5m).
17. An overspend of £1m on the Residential Services budget is forecast. This mainly results from reducing levels of income from service users contributing to their own care and reduced Health contributions (overall 1.7% reduction costing £0.4m) and delays achieving joint incentivisation efficiencies with providers (£0.2m).
18. The overspends reported above are partly offset by savings of £2.3m. These include £1.1m on community based in house services, by using health funding, and £1.2m by reducing housing related support, turnover savings, and efficiencies relating to greater recycling of equipment.
19. There is a risk that the departmental overspend may increase if the pressures highlighted above continue to grow and the department are implementing a number

of actions to mitigate any further risk. The position is sensitive to relatively small percentage changes in demand given the scale of the budget.

Environment and Transport

20. The Department is forecast to underspend by a net £0.96m (1.1%). The main variances include underspends on the concessionary travel scheme due to lower demand than expected (£0.3m), Mainstream school transport from e-auctions and contract procurement (£0.3m), transport policy and strategy due to one-off growth being deferred to 2014/15 (£0.3m), reduction in recycling credits (£0.2m) and a net saving of £0.2m on waste disposal contracts after redirection of tonnages to mechanical biological treatment contracts.
21. These underspends are partly offset by a reduction in the forecast contribution from Leicestershire Highways Operations (£0.3m) and overspends on highway structural and safety maintenance budgets (£0.4m).

Chief Executive's

22. An underspend of £1.3m (9.1%) is forecast, mainly relating to an underspend on the Leicestershire Welfare Provision due to a tightening of criteria and a move to vouchers instead of cash payments (£0.4m), slippage on Extracare work funded by New Homes Bonus grant (£0.3m) and additional Trading Standards income of £0.2m.

Corporate Resources

23. An underspend of £0.97m (2.8%) is forecast, mainly due to staff vacancies and increased income from trading activities.

Public Health

24. The service is currently forecast to be underspent by £1.8m. The cost of budgets including the Public Health programme, Drug and Alcohol Action Team, Leicestershire and Rutland Sport and Teenage Pregnancy and Young Person Substance Misuse can be met from the higher than anticipated ringfenced Public Health grant which means the County Council contributions are not required. Olympic Legacy expenditure to be funded by a carry forward from 2012/13 can also be funded by the Public Health grant.

Contingencies

25. The 2013/14 budget includes a £1.2m contribution for investment in the Loughborough Science Park. The funding will be transferred to the Transformation earmarked fund as the contribution is expected to be made in 2014/15 and 2015/16.
26. 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 15 above).

27. A provision of £3m was made for severance / invest to save issues. At this stage it is forecast that this will be required during 2013/14. If the requirement is less at year end the balance will be transferred to the Transformation earmarked fund to meet costs in future years.
28. 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 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.
29. A contingency of £9.0m was made for inflation, of which £6.9m has been allocated regarding residential care charge increases, the 2013 pay award, highways maintenance, passenger transport, street lighting and other energy increases, insurance, ICT and winter maintenance salt inflation. Further pressures are expected on waste management, estimated to be around £1.1m.
30. The inflation contingency also 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. An element of this underspend is required to offset running cost inflation resulting in a net forecast underspend of £1m.

Central Items

31. Bank and other interest is forecast to be £0.25m lower than the original budget, due to balances being lower than anticipated.
32. 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.
33. Local Services Support Grant includes grant funding for Extended Rights to Free Travel. The Department for Education released 2013/14 (£0.68m) and indicative 2014/15 (£0.5m) allocations in July 2013. These are lower than the 2012/13 level used in the original 2013/14 budget (£0.8m). It is not feasible at this stage for CYPS and E&T to reduce expenditure to offset the £0.12m cut in 2013/14 but the 2014/15 budget has been adjusted to reflect the reduced level of grant in that year.
34. The County Council agreed to contribute £0.125m for additional administrative costs and £0.25m to establish a Discretionary Discount Funds (DDF) following changes made under the Localisation of Council Tax Support (LCTS) 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. It is proposed that the Districts are allowed to carry forward any DDF underspends to 2014/15 to continue to provide support where needed.

35. The LCTS schemes have been revised for 2014/15 as all the 2013/14 schemes, with the exception of Harborough, were based on the one-off transitional 8.5% cap. All Districts will implement schemes with a 15% cap, except Melton and Hinckley and Bosworth who have set a 12% cap. Modeling indicates that the increase in benefit caps will generate additional council tax of £0.65m for the County Council which would offset the loss of the one-off transitional grant of £0.54m.
36. 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.
37. 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 £3.4m in later years. The Government consulted on proposals to top-slice 35% of the grant from 2015/16 to redistribute money to Local Economic Partnerships. An alternative proposal involved a 100% top-slice from County Councils and a 19% top-slice from Districts. The Government has now decided not to implement either proposal, with the exception of London.
38. 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.
39. A forecast of £0.6m has been made for prior year adjustments, relating to the County Council's estimated share of surplus balances from Connexions Leicester Shire Services Limited's reserves following the decision to close the service.
40. Cabinet on 13th September 2013 approved the use of up to £60,000 of the potential 2013/14 revenue underspend as a contribution to the Bradgate Park Trust to purchase additional land. The arrangements have been finalised and a total contribution of £50,000 has now been made.

Business Rates

41. 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 stage in the year, the County Council's "local share" is forecast to be around £0.2m higher than the "baseline" amount reflected in the original budget.
42. The Pool is projected to generate an additional £0.2m for the sub region in 2013/14, compared with a £0.7m surplus 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 and empty property exemptions.
43. 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 in February.

Local Authority Mortgage Scheme - update

44. The Local Authority Mortgage Scheme (LAMS) was launched within Leicestershire in September 2012. In brief, the Authority makes a loan to Lloyds Bank 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.
45. 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.
46. Since LAMS was launched £8.4m 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
 - £1m for 5 years @ 3.08% on 31st December 2013

47. The first four loans have been fully committed to support mortgages, with the latest loan having been placed only very recently. At the end of December 330 mortgages had been approved, and 266 of these had been completed. Over £37m of mortgages are being supported by the scheme, which is considered to have been a big success so far.
48. 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. In the final analysis, Help to Buy does have similarities to LAMS but is not exclusively targeted at first time buyers, covers a potentially much higher mortgage amount and only provides indemnities down to 80% of the purchase price. The impact of these differences is that LAMS mortgages are available at meaningfully lower rates than Help to Buy ones, and Lloyds have agreed to continue with LAMS while they assess whether the market can support two schemes which are so similar. Help to Buy mortgages commenced on 1st January 2014, so how quickly the latest tranche of LAMS is utilised is likely to have an impact on Lloyds' willingness to offer LAMS in the future.

Revenue Summary / Invest To Save

49. A net revenue underspend of £11.6m has been identified, before potential carry forwards of £0.9m. 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 underspend will be used as detailed in paragraphs 4 and 7.

CAPITAL PROGRAMME

50. The table below shows a revised budget of £68.9m. At this stage a net underspend of £1.9m is reported. The major variances are detailed in Appendix 3.
51. It is projected that spending will be 97% of the revised budget. Overall the aim is that 95% of available resources should be spent in year.
52. The revised budget includes changes in funding since Cabinet approved the revised programme in September 2013, detailed in Appendix 3.

2013/14	Budget (Cabinet Sept.2013) £m	Changes in Funding £m	Revised Budget £m	Forecast £m	Variance £m
CYPS*	17.4	0.4	17.8	17.9	0.1
Adults and Communities	2.4	0.2	2.6	2.5	-0.1
E&T -Transportation	37.3	1.9	39.2	38.5	-0.7
E&T -WasteManagement	3.9	0.0	3.9	3.9	0.0
Chief Executive's	0.6	0.0	0.6	0.3	-0.3
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	3.1	68.9	67.0	-1.9

*Excludes schools devolved formula capital (DFC)

53. The main variances are detailed below.

Children and Young People's Service

54. The latest forecast shows a net overspend of £0.1m. This mainly relates to the earlier than planned completion of the Loughborough Ashmount replacement school. The school completed in January 2014, three months ahead of schedule, leading to the acceleration of £0.3m from the 2014/15 programme. The school opened its doors to pupils on 13th January 2014.
55. Other variations include slippage of; £0.2m for Short Breaks for Children - uncommitted grant funding that has not been required, slippage of £0.2m for Birstall Longslade (All Weather Pitch) while discussions are taking place regarding the use of Section 106 and trust funding, offset by acceleration of £0.2m on the school accommodation programme.

Adults and Communities

56. The latest forecast shows a potential underspend of £53,000 on minor works and other schemes.

Environment and Transport – Transportation Programme

57. The latest forecast shows a net underspend of £0.7m compared with the revised budget.
58. The main areas of slippage relate to; Loughborough Town Centre (£0.8m) based on the latest works profile from the main contractor and a schedule of land purchases but the completion date of October 2014 remains unaffected, Ashby Canal (£0.3m) re-appraisal of the overall project and how best to utilise the Section 106 funding to ensure value for money and Bridges (£0.1m) due to a shortage in staffing resources to carry out technical assessments. These are partly offset by forecast acceleration of £0.6m on Integrated Transport Schemes and an overspend of £0.4m on the Braunstone Asda Roundabout scheme due to additional night work, temporary service road to avoid disruption to bus services and greater than anticipated utility services costs.

Environment and Transport – Waste Management

59. Overall the net spend is forecast to be in line with the budget. Variations contained within this total include; slippage of £0.2m due to delays in establishing drainage options suitable at each Recycling & Household Waste site (RHWS) offset by an overspend of £0.2m on works at the Whetstone RHWS £0.2m overspend as a result of additional demolition costs and changes to the design in order to reduce the risk of flooding.

Chief Executive's

60. Slippage of £0.3m is forecast on the new Kegworth Community Centre. Scheme options are being reviewed ensure to assess value for money. It is therefore currently on hold and unlikely to incur any further spend in 2013/14.

Corporate Resources

61. An underspend of £0.9m is forecast. Delays to the programme to acquire agricultural land (£0.5m) while suitable sites are being identified. In addition, demolition of vacant buildings (£0.3m) will slip into 2014/15 as a result of the complex nature of the work and (£0.1m) slippage on various other schemes.

Capital Receipts

62. The forecast level of general capital receipts is £12.3m, mainly due to one large planned sale. This also includes £0.5m unapplied capital receipts brought forward from 2012/13. The amount required to fund the 2013/14 capital programme (and reprogrammed schemes to 2014 – approved by Cabinet September 2013) is £5m leaving a balance of £7.3m. It is proposed to use this balance to replace unsupported borrowing in the current capital programme (£4.5m) to avoid the need to incur borrowing. The balance of capital receipts will be carried forward to fund the 2014-18 MTFs capital programme.

Capital Summary

63. The revised capital programme totals £68.9m and is forecast to underspend by £1.9m. This mainly relates to slippage in payments and the funding will be carried forward to 2014/15. It is projected that spending will be 97% of the revised budget. Overall the aim is that 95% of available resources should be spent in year.

Recommendation

64. 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.

Appendices

Appendix 1 - Budget Monitoring Statement

Appendix 2 - Revenue Budget – forecast main variances

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

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Equal Opportunities Implications

No direct implications.

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