Leicestershire County Council

SCRUTINY COMMISSION - 15TH MARCH 2021

2020/21 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 2020/21 revenue budget and capital programme monitoring position as at the end of period 10 (the end of January 2021).

Policy Framework and Previous Decisions

2. The 2020/21 revenue budget and the 2020/21 to 2023/24 capital programme were approved by the County Council at its budget meeting on 19th February 2020 as part of the Medium-Term Financial Strategy.

3. The four-year capital programme was reviewed in July 2020 and an updated programme approved by the Cabinet 18 September 2020

REVENUE BUDGET

4. The financial position faced by the County Council is extremely serious and challenging. The 2020-24 MTFS was balanced for 2020/21 and 2021/22, with a gap by 2023/24 of £39m. The additional pressures from Covid-19 have impacted significantly on the 2020/21 budget but government support and local actions have allowed the position to be managed. Over the medium term the position is only manageable by additional savings and increases in Council Tax. This is a particularly difficult situation for a low-funded authority such as Leicestershire as room for further savings is limited.

5. Financial monitoring in the current financial year consists of three streams:

- The direct adverse implication of the Covid crisis, which is reported to Government
- Mitigations of financial pressures

- Budget variances that arise, which do not relate to the Covid crisis.

6. The difference between these three categories is not perfectly defined and can change, as Government 'refines' its approach to capturing information.

Uncertainties

7. The County Council faces a range of uncertainties that is far higher than in a usual year, including:

   - Time until normality returns and impact of further lockdowns
   - National Living Wage annual increases
   - DfE commitment to covering SEND costs
   - Economic influences on service demand and service contributions
   - Tax income (Referendum limits and ability to pay)
   - Commercial / Corporate Asset Investment Fund income
   - Level of pent-up demand
   - Expectations of service provision changed, such as standard of infection control
   - Potential for fundamental change in the Care Home market
   - Capital cost uncertainty / Covid 19.

8. As such the estimated outturn position now being reported is being done so with less confidence than would usually be the case at period 10.

2020/21 REVENUE BUDGET MONITORING – PERIOD 10

9. Overall a net underspend of £4.1m is forecast. This estimate comprises net additional costs due to Covid-19 of £5.7m and non Covid-19 related underspends of £9.8m. However, it is not easy to separate out the impact accurately for a lot of services.

10. The cost control and related measures that have been introduced for the additional costs of Covid 19 are having a positive impact.

11. The position is summarised below and set out in more detail in Appendix A.

REVENUE BUDGET MONITORING STATEMENT

FOR THE PERIOD : APRIL 2020 TO JANUARY 2021

	Updated Budget	Projected Outturn	Difference from Updated Budget	
	£000	£000	£000	%
Schools Budget – Schools and Early Years	0	-2,300	-2,300	
Schools Budget – High Needs	0	9,730	9,730	
Net Total	0	7,430	7,430	
Children & Family Services (Other)	82,796	87,026	4,230	5.1
Adults & Communities	150,779	157,879	7,100	4.7
Public Health	-665	-665	0	0.0
Environment & Transport	83,406	79,536	-3,870	-4.6
Chief Executives	12,268	13,778	1,510	12.3
Corporate Resources	33,749	38,499	4,750	14.1
Capital Financing	43,100	48,300	5,200	12.1
Other Areas	6,672	7,572	900	13.5
Central grants/other income	-33,241	-32,741	500	-1.5
Covid-19 grant	0	-34,500	-34,500	n/a
Contribution to General Fund	11,000	11,000	0	0.0
Central Costs of Covid-19	0	5,500	5,500	n/a
Total	389,864	381,184	-8,680	-2.2
Funding	-389,864	-385,304	4,560	-1.2
Net Total	0	-4,120	-4,120	

12. This is a significant improvement on the position reported in November (period 6). The key changes are set out in the table below:

	£m's	£m's
Period 6 Overspend		7
Reduction to estimate of net impact of Covid on Council Tax and business rates income – potential underwriting of 75% of some losses. Combined with the extension of the furlough scheme, which has significantly reduced the level of LCTS required	-10	
Net changes on departmental and central budgets	-1	
Total Change		-11
Period 10 Underspend		-4

13. The details of major variances are provided in Appendix 2. The key projected variances that have been identified are set out below.

Children and Family Services – Schools Budget

14. The High Needs element of Dedicated Schools Grant (DSG) is forecast to be £9.7m overspent at the end of 2020/21. This compares with the MTFS which included an estimate of £10.5m.

15. Nationally concern over the impact of Special Educational Needs and Disability (SEND) reform on High Needs expenditure and the financial difficulties these places on local authorities continues. The position in Leicestershire reflects the national picture.

16. The SEND capital programme is developing additional specialist places with the aim of reducing the reliance on expensive independent sector provision. During 2019/20 a number of these bases welcomed their first cohort of students, with places continuing to be filled during the 2020/21 academic year. The increase in demand, however, has resulted in these places being filled with new pupils and limited the ability to offer places to pupils currently within the independent sector. Due to set-up costs the full financial benefit of the programme will not be seen until future years.

17. The estimated accumulated High Needs deficit at the end of 2020/21 is forecast to be £16.8m.

18. The Department is implementing a number of actions that could over the course of the MTFS reduce demand and therefore the overall deficit through the High Needs Development Plan.

19. Schools growth funding has been earmarked to help meet the revenue costs associated with new schools and also for meeting the costs of some funding protection for schools with falling rolls as a result of age range change in other schools. There is a £2.6m underspend on this budget which will be transferred to the DSG earmarked fund to fund pupil growth in future years.

Children & Families – Local Authority Budget (Other)

20. The budget is forecast to be £4.2m (5.1%) overspent for the financial year, compared with a forecast at Period 6 of an overspend of £3.2m (3.8%).

21. Operational Placements - £3.2m overspend. Current projections are based on an 8% increase in Looked after Children (LAC), from the March 2020 position. Whilst the growth built into the MTFS was based on a 14% increase, there has been an increase in unit costs based on the current cohort of children and new placements coming into the system in comparison to projected unit costs made at time of the preparation of the MTFS. This has resulted in the current projected overspend position. For example, current average weekly external residential unit costs to social care is £4,000 per week compared with a £3,500 per week assumption built into the MTFS growth, an increase of 14%. This increase in average weekly cost exceeds the benefit of lower than budgeted LAC children than originally estimated.

22. Likewise, similar trends can be seen across external 16 plus and Independent Fostering Agency (IFA) placements; 16 plus current average weekly unit costs £1,500, compared with £1,000 built into MTFS assumptions, an increase of 50%. IFA current weekly average costs £810 compared with £790 built into MTFS assumptions, an increase of 3%.

23. Over the last 10 months, a number of children have required residential placements as a result of their very complex needs, subsequently leading to very high cost placements, and a subsequent driver behind the increase in current weekly unit cost. Other market factors, such as the impact of Covid-19, are also a factor in the current increased unit cost, but at this stage is more difficult to quantify the exact impact of Covid-19 on placement costs. Engagement is actively being undertaken with providers to try to understand with more certainty the current impact of the different factors driving costs.

24. Changes to case law and court directives are also having a significant adverse impact on the current budget situation. For example, regarding parent and child placements, the new standard is there must be a high standard of justification that must be shown by a local authority seeking an order for separation requires it to inform the court of all available resources that might remove the need for separation. There are a higher level and increasing number of parent-baby placements entering the system. There is no available in-house provision to meet this demand and so IFA/residential searches are required. If IFAs do not offer a placement, then the court will want to know if there are residential placement offers. An offer from a residential placement will indicate that that provision feels able to safeguard the child, keeping parent-child together and hence meeting this new court directed standard.

25. If this is a continued pattern, then depending on placement sufficiency the number of new entries potentially into residential provision, will exceed the predicted number for 2020/21, potentially 10% increase in Residential numbers compared to the projected number of residential placements built into current MTFS assumptions, hence impacting adversely on forecasted spend.

26. Children’s Social Care Staffing - £1.5m overspend. The MTFS had identified growth for the number of staff roles across various service areas based on current demand and need. A number of those roles had been filled with agency workers, given the current challenges around recruitment and retention within social care. Prior to Covid-19, plans had been in place for an intense recruitment drive and to reduce the need for agency workers. However, the current pandemic caused severe disruption to those plans and also required short term reactive measures which involved having to increase workforce capacity to allow for service continuity across statutory services. This subsequently meant such increased capacity had to be met from the agency market at an increased cost. In addition, whilst there have been positive recruitment drives for social workers, a number of new recruits are newly qualified and therefore in a lot of cases have needed to be supported by more qualified social workers in the short term, and unfortunately based on the current demand for

qualified experienced social workers, this is also having to be met from the agency market.

27. Social Care legal costs - £0.5m overspend. There has been an increased volume of new court proceeding being issued, and this trend is projected to continue for the remainder of the financial year.

28. Savings of £1.4m are forecast from vacancy management across all non-essential vacant roles. There are also savings of £0.4m on the Asylum Seekers budget, due to increased Home Office Funding rates, and savings of £0.2m on the Education Quality and Inclusion budget, due to reduction in costs due to Covid-19 and the continuation of virtual learning.

29. Supporting Leicestershire Families (SLF) - £1.1m overspend. There is ongoing uncertainty around the continuation of government grant funding for this service. The Spending Review only announced the continuation of the Troubled Families grant (TFG) funding for one year only, 2021/22. To avoid the potential detrimental impact on the service and given the overall net projected underspend for 2020/21, the planned contribution from the SLF earmarked fund for 2020/21 can be removed, leaving a higher fund balance to offset the potential removal of TFG funding in 2022/23.

<u>Adults and Communities</u>

30. A net overspend of £7.1m (4.7%) is forecast for the revenue budget for 2020/21, compared with a forecast net overspend of £6m (4%) at Period 6. The change from Period 6 is mainly due to reduced forecasts on Adult Social care service user income relating to Covid 19 discharges from hospitals. It was forecast that non-chargeable service user numbers would decrease from September 2020 onwards, however this is yet to fully materialise. All service users who have been discharged from hospital are being reviewed for any ongoing needs and to restart charging where appropriate. This is a considerable amount of additional work at an extremely busy time due to Covid. Other changes include, reduced income from services funded by the NHS and loss of income in Communities and Wellbeing services, including adult learning funding.

31. There has been a significant financial impact due to Covid-19 on adult social care which includes making additional payments in the region of £29.7m to care providers to cover additional costs (£3m), assistance with cashflow (£11m) which will need to be repaid by providers, passporting the Infection Control Fund Grant (£12.8m), Rapid Testing Grant (£1.7m) and Workforce Capacity Grant (£1.2m).

32. Other additional Covid-19 expenditure of £3.2m includes supporting shielding, PPE purchases for council services, supporting the management of Covid-19 and food packages for service users being discharged from hospital.

33. These and other additional service user costs (including loss of income) are offset by income of approximately £16m from the NHS to support service users being

discharged from hospital and a £3m underspend on staffing, overhead and other budgets mainly due to managing levels of staffing vacancies across the department.

34. The level of demand from service users for commissioned services is constantly changing with lower numbers for some services and increased costs. As the approach to Covid-19 management changes nationally, the NHS is changing the current basis of arrangements for those being discharged from hospital from 1st September with only the first 6 weeks of reablement care being funded. The impact of all of these changes are being monitored and is making accurate forecasting of demand for commissioned services very challenging.

Public Health

35. The department is on budget, compared with a net underspending of £0.1m at Period 6. There are net underspends of £1.1m mainly due to reduced demand for sexual health services (£0.9m) and reducing numbers of health checks to a targeted provision (£0.4m), offset by reduction in contributions (£0.2m). The net underspend will be contributed to the Public Health earmarked fund.

Environment and Transport

36. The department is forecasting a net underspend of £3.9m (4.6%), compared with the balanced position forecast at Period 6. The main changes since Period 6 relate to Transport budgets, where Covid-19 has impacted on the levels of services required.

37. The main underspend is on the Highways Design and Delivery budget (£1.6m). This is related to additional recharges to capital due to additional monies received for 3 schemes, and to vacant posts. Due to Covid-19 recruitment has been slowed and full recruitment for services may be impacted for the whole year, offset by additional spend relating to agency staff.

38. Transport budgets show a net underspend of £1.8m, including underspends of £0.8m on SEN Transport, £0.4m on Social Care Transport, £0.3m on Mainstream School Transport and £0.3m on Fleet Transport, mainly due to the reduction of services during the Covid-19 pandemic.

39. Waste Management shows a net forecast underspend of £50,000. The impact of Covid-19 leads to forecast overspends of £1.2m on Landfill and £0.2m on Dry Recycling, but these are offset by underspends including £0.4m on Treatment Contracts, £0.3m on commissioning initiatives, £0.2m on staffing and administration, due to staff vacancies, £0.2m on the haulage and waste transfer budget and £0.2m on composting contracts.

Chief Executives

40. The department is overspending by £1.5m (12.3%), which is unchanged from the forecast at Period 6. The overspend is mainly due to the Covid-19 Community Grant (£1.7m).

Corporate Resources

41. Overall the department is forecasting a net overspend of £4.8m (14.1%), compared with a forecast overspend of £8.0m (23.6%) at Period 6. The main changes are the inclusion of additional income from the Sales, Fees and Charges compensation scheme, and an increased estimate for Furlough income following the extension to the scheme.

42. There is a forecast overspend of £2.3m on the Information and Technology budget, due to additional spending on hardware and software to support the increase in homeworking during the Covid-19 lockdown.

43. There is a net £2.2m forecast overspend on Commercial Services, primarily related to Covid-19. Commercial Services faced significant challenges during 2019/20 resulting in a £2.6m budget overspend. Difficult trading conditions continue and have been seriously compounded by the lockdown forcing the scaling back or temporary closure of a number of commercial services, primarily school food. Options are being developed to address continuing operational losses and develop an optimum portfolio of commercially sustainable services going into 2021/22. This may result in some services discontinuing. The forecast includes estimates of £2.2m furlough income and £1.6m of Sales, Fees and Charges compensation income from MHCLG.

44. There is a forecast reduction in income in 2020/21 of £1m on the Corporate Asset Investment Fund, due to new developments at Airfield Farm and Loughborough University Science Park being delayed by Covid-19, impacting on rental income. This will recover in 2021/22.

45. Forecast underspends include £0.5m on Strategic Property Staffing arising from a delay due to Covid-19 in recruitment to vacant posts following a staffing review, and £0.3m on Learning and Development, as a result of a reduction in face to face courses due to the Covid-19 lockdown.

Central Contingencies / Central Items

46. The inflation contingency of £16.2m is projected to be overspent by £1m. Transfers of £14.1m have been made to date, including £6.2m on the Adults and Communities budget which mostly relates to the Adult Social Care fee review and £5.8m for the 2020/21 pay award and an increase to the employer pension contribution rate. Other pressures still to be met from the contingency include energy, insurance, IT and other budgets.

47. Revenue Funding of Capital – additional costs of £5.4m. This includes an estimate of £4.4m to cover the shortfall on estimated capital receipts (see later in the report –

these are expected to be repaid but multiple years delays), and £1m for forecast overspends due to Covid-19 on the capital programme.

48. Central Grants and Other Income - £0.5m overspend mainly due to a £1m reduction in interest earned on cash balances offset by interest received on the maturity of the first tranche of repayments on the private debt investments. In March 2020 the Bank of England announced two emergency cuts in interest rates in response to the financial impact of the coronavirus outbreak. The base rate was cut from 0.75% to 0.25% on 11 March, and then to 0.1% on 19 March.

49. At this stage the MTFS risk contingency of £4m is forecast to be required. However, given the continued uncertainty regarding Covid, particularly Government funding this contingency will be added to the covid budget.

Central Costs of Covid 19 / EU exit

50. Given the significant uncertainty in the current financial year, provision of £5.5m has been made. This is for potential additional costs related to Covid-19 that have not all yet been incurred as the Council approaches the last quarter of the year and the impact of the current national lockdown. The provision also covers further uncertainty arising from the exit from the European Union. The primary use to date is provision will also be used for the additional costs of the fit for the future project (£1.5m) caused by the delay to the planned go live from April 2020 and Transformation Unit work supporting Covid related work which was funded from a mix of departmental spend and the transformation earmarked fund, allowing that fund to be maintained. The Transformation earmarked fund will also need to be supplemented to reflect the delay in savings programmers and the additional requirements covered in the MTFS

51. The County Council's precepts for Business Rates and Council Tax are due to be collected in full during 2020/21. However, it is anticipated that the actual amounts of both income streams that will be received by the district councils during 2020/21 will be impacted by Covid-19 from a rise in unemployment, reduced numbers of new properties and businesses unable to pay business rates. An initial estimated loss of £15m had been calculated at period 6 based on an overall reduction of 5% which will impact on the income available to the County Council when setting future years' budgets. Since then the government have announced that Councils will be compensated for up to 75% of council tax and business rates income lost as a result of the pandemic. In addition, the government has extended the furlough scheme from the original end date of 31st October to the end of April 2021 which reduces the estimated income loss, but detrimental impact in future years is expected. This results in an updated estimated provision of around £5m. As this relates to 2020/21, it is prudent to set aside this funding in this year to offset the anticipated future impact.

Covid-19 Grants

52. The County Council has received four tranches of Covid-19 general grant from the Government, totaling £34.5m (or on average 0.75%) out of a national total of £4.6bn.

53. The County Council has continued to make claims from the Government's furlough scheme. An estimated benefit of £3m has been included in the latest monitoring. The position will not be confirmed until the scheme ends in April due to the timing of service opening and HMRC's retrospective auditing of the scheme.

Business Rates

54. The provisional outturn position of the 2019/20 Leicester and Leicestershire Business Rates Pool is for a levy surplus of £10.6m and the 75% Business Rates Pilot is projected to show a net gain of £17.1m, of which £8.5m relates to the County Council. The final position on both issues is subject to the completion of the external audits on each billing authority's Business Rates returns to MHCLG. The audit process has been significantly impacted by Covid-19 and the majority of returns are still to be signed off.

55. Monitoring of the 2020/21 Pool is underway. Initial indications are that the Pool levy surplus will continue but is likely to be significantly reduced, due largely to the impacts of Covid-19.

Overall Revenue Summary

56. There is a forecast net underspend of £4.1m, but there remain a number of uncertainties in trying to fully assess the ongoing impact of the pandemic.

57. At this stage it is anticipated that the underspend will be used to reduce the amount of borrowing required for the 2021-25 capital programme, £143m included in the new MTFS. The approach will be kept under review for uncertainties arising from Covid that may require additional funding, the increase in demand for capital funding on the future developments programme and investment in transformation activity to support delivery of MTFS savings

CAPITAL PROGRAMME

58. The updated capital programme for 2020/21 totals £152m. This follows a review of the programme undertaken in July 2020 and approved by the Cabinet in September 2020.

	Revised Capital Programme £000	Changes in Funding 2020/21 £000	Updated Budget 2020/21 £000	Forecast Spend 2020/21 £000	Updated Budget v Forecast Variance £000

Children & Family Services*	35,177	476	35,653	24,251	-11,402
Adults and Communities	9,626	0	9,626	9,977	351
Environment & Transport	62,766	573	63,339	53,199	-10,140
Chief Executive's	890	0	890	544	-346
Corporate Resources	12,381	0	12,381	5,521	-6,860
Corporate Programme	30,388	0	30,388	24,386	-6,002
Total	**151,228**	**1,049**	**152,277**	**117,878**	**-34,399**

*Excludes Schools Devolved Formula Capital

59. The latest position at period 10 reports net slippage of £34m. Details of the variances are provided in Appendix C. The main variances are reported below:

60. Children and Family Services, overall net variance of £11.4m:

- Provision of Additional School Places - £8.0m slippage due to:
  - Shepshed School Places - Slippage of £2.7m - complex scheme involving several parties and sub-projects including the refurbishment of the former Hind Leys and Shepshed High School buildings to create a single high school building and a separate primary provision.
  - Fleckney Primary School - Slippage of £1.5m as a Multi Academy Trust that already has a number of primary schools in the area has applied to the DfE to open a primary Free School in the area.
  - Ashby Secondary Places - Slippage of £1.2m. Delay to scheme due to Secondary schools in the Ashby area are currently implementing age range change - the last area of Leicestershire to do so. This transition time adds a further level of complexity over where and when additional secondary places are required.
  - The 20/21 programme included £1.1m of S106 developer contributions for the creation of secondary places in the Coalville area. It was initially agreed that this would be used towards a new building at Newbridge High School part of the Apollo Multi-Academy Trust. However Apollo decided to enter into a lease with the developer, instead of purchasing the building outright. S106 contributions cannot be used to fund lease payments.
  - Rothley Primary School - Slippage of £1.0m as Charnwood Borough Council has refused the planning application, citing issues with the settlement boundary, the lack of demonstration of a housing need, and being contrary to the Charnwood Local Plan.

- SEND Programme - £1.4m slippage due to:
  - Short Stay South - Slippage of £0.7m the existing short stay provision was split into a North and South provision at two separate locations in the county. A number of sites are under consideration.

- Hinckley Area SEMH Unit - Slippage of £0.3m. A number of potential sites have been explored for this unit. Further discussions are now underway with Heathfields academy.

- Strategic Capital Maintenance - £1,0m slippage. In the summer the government announced further funding of £1.1m. This funding will be used towards much needed capital maintenance works to existing buildings on the Iveshead site at Shepshed. However, the timeline of works is very much dependent on the timeline of the 'Shepshed Masterplan'.
- Assessment & Residential Multi-functional properties - £0.9m slippage due to delays in finding and/or acquiring suitable properties for conversion.

61. Adults and Communities, overall net variance of £0.4m.
    - Brookfields Supported Living Scheme (Refurbishment) - £0.2m additional costs incurred due to meeting the physical needs of a specific service user and to facilitate the independent living environment in a safe and secure way.
    - Loughborough, Ashby Court, Social Care Investment Plan (SCIP), refurbishment incurred additional costs of £0.2m to complete the scheme.
    - The additional costs to be funded from the balance of the SCIP allocation in the 2021/22 capital programme.

62. Environment and Transport, overall net variance of £10.1m:
    - Transport Asset Management – Highways Maintenance Schemes - £2.6m Slippage due to challenge fund grant being provided mid-year and whilst all efforts were made to complete these schemes before the year end. It is now likely completion will not be until early 2021/22 in addition due to traffic concerns at the East Midlands Airport from the effects of Brexit a programme near this area had to be postponed.
    - A511 / A50 Major Road Network - £1.7m slippage due to a number of activities which were expected earlier this year, having to be delayed due to Covid-19. This affected getting the contractors on board for programme.
    - County Council Vehicle Replacement Programme - £1.4m slippage due to a process being reviewed with consultants under Fleet Management Review project, therefore the only plans this year is to replace essential vehicles.
    - Advanced Design - £0.7m slippage due to reprioritisation of works and when monies will be spent, this has meant that some of the works will now not be required this year.
    - Waste Transfer Station Development - £0.6m slippage due to construction not starting until 2021/22 so that detailed pre-construction works can be completed in 2020/21.
    - Kibworth Site Redevelopment - £0.5m slippage due to construction not starting until 2021/22 so that detailed pre-construction works can be completed in 2020/21.
    - Hinckley Hub (Hawley Road) - £0.5m slippage due to delays with Covid 19 restrictions, with completing trial holes which are needed to be undertaken before construction work and finalising the land purchase.
    - M1 Junction 20A - Advanced Design - £0.5m. Slippage relates to the works with District Council taking longer than anticipated.

- Melton Mowbray Distributor Road - North and East Section, £0.4m. Slippage due to design works not progressing as quickly as anticipated and survey works being slowed due to adverse weather conditions.
- A46 Anstey Lane - £0.3m slippage. Works completed in July 2020. Slippage due to remedial works that will need completing over the next 12 months.
- Zouch Bridge Replacement - £0.3m. Slippage due to revaluation of the best outcomes for the programme and best value for money options which will lead to a tender process.

63. M1 Junction 23 / A512 Improvement Scheme is forecast to overspend in 2021/22. The current overall budget provision is £25.6m, the latest estimate of overall cost is £27.9m. The main reasons for the increase relate to:
    - Compensation Events: improvements to slip road increasing cost due in part to Highways England request for high specification materials to address accident concerns above original allocation;
    - Extension of Time to original programme resulting in additional costs associated with a longer programme. This arose from delays in reaching necessary legal agreements for land access and the ‘knock on’ impacts amended drainage designs and new permanent electrical connection
    - Additional design fees; complex legal negotiations requiring higher than average commitment of staff time and delays to the scheme increasing programme length, and additional scope such as work at Charley crossroads to manage safety for diverting vehicles, additional works at Biffa, redesign costs for events such as the Severn Trent works and changes in programme and working practices associated with Covid.

64. The scheme is currently scheduled for completion in May 2021. The principle of the Council’s delivery of the scheme was based on the forward funding of developer contributions to reduce the impact on local communities and support planned development. Through the Charnwood Core Strategy and supporting evidence it was identified that levels of developments in Loughborough and Shepshed either side of the M1 J23 were dependent on the scheme to ensure sustainable development. Therefore, contributions from relevant developments will continue to be sought through the planning process to fund the elements of the scheme being forward funded by the County Council.

65. It is proposed that the additional forward funding requirement would be met by a reallocation of the capital programme in 2021/22 until such time developer contributions can be secured. This would be met by the reallocation of up £1.6m Advanced Design, and £0.7m, Maintenance element of the Transport Asset Management programme, because improvements as a result of the scheme (2km of carriageway and footway/cycleway, traffic signals, signs, lines and barrier replacement) have reduced annual maintenance demand along the corridor in the shorter term. The position will be included in the MTFS outturn report to the Cabinet.

66. Chief Executive’s, overall net variance of £0.3m. Rural Broadband Scheme Phase 3. There has been a 4 month delay in the programme, mainly due to the impact of

Covid-19. The contractor is now progressing with the delivery of the contract milestones, some of which will be delivered in 2021/22.

67. Corporate Resources, overall net slippage of £6.9m:
- Snibston Future Strategy - Remedial works for the area of the site earmarked for housing and the related covenant, slippage of £2.6m. There has been a speculative interest in acquiring this site and the decision has been made to remarket the site for sale on the open market.
- Melton, Sysonby Farm Development - site preparation and infrastructure works, £1.5m slippage. The programme includes Homes England grant funding of £1.9m. Following a review of the Homes England grant conditions which imposed a requirement to pay Homes England a larger proportion of future receipts from the sale of the site than what could be achieved if the Council funded the works and sold it itself, it was agreed not to accept the grant offer. The grant funding has now been removed and replaced with an increased estimate of future capital receipts. Developer to complete enabling works at their cost.
- Workplace Strategy, slippage of £0.6m. Works at Pennine House and the Library at Loughborough have slipped to 2021/22 subject to board approval of the contract.
- Energy Strategy, slippage of £0.9m. Projects have been put on hold while waiting for outcome regarding Government funding before using County Council money. Also planned works put on hold to await the outcome of the Ways of Working strategy and changes to the County Council estate due to Covid-19 site closures.
- Watermead Park Footbridge and Cycleway, slippage of £0.5m. Joint project with Leicester City Council requiring agreement with a third-party landowner. The scheme has been put on hold pending further discussions.

68. Corporate Programme, overall net slippage of £6.0m.
- Future Developments – slippage of £6.5m. Projects not sufficiently advanced to require funding in this financial year.
- CAIF – Airfield Business Park Phase 1/2. Forecast slippage of £0.4m. Tender completed which resulted in only two contractors tendering significantly in excess of the budget and a further procurement exercise will need to take place.
- CAIF – Loughborough University Science and Enterprise Park, development of an office block plus car parking spaces. Forecast overspend of £0.3m relating to additional costs incurred by the contractor due to Covid-19 working guidelines. Site completed and handed over to tenant in November 2020.

<u>Capital Receipts</u>

69. The requirement for capital receipts for 2020/21 is £6.4m. The latest forecast of receipts is £2m, a shortfall of £4.4m. The shortfall is mainly due to a delay with one large planned sale (Snibston) and £1.9m from the future sale of Melton Sysonby Farm mentioned above. These receipts are still expected to be received but will be

delayed over multiple years. A contribution from the revenue budget will be made in 2020/21 to cover the shortfall.

Corporate Asset Investment Fund

70. A summary of the Corporate Asset Investment Fund (CAIF) position as at quarter 3 for 2020/21 is set out in the table below. Overall the fund is forecasting to achieve a 2.8% net income return for 2020/21. If the development classification was excluded, the return would increase to 4.6%. Due to the delays in the completion of some schemes in the programme and forecast reductions in income on pooled property and private debt for 2020/21 (expected to recover in 2021/22) this will leave a shortfall of around £1m compared with original plans. This will be assessed at year end to see if it can be replenished.

71. The directly managed property portfolio is so far holding up against the impact of Covid-19. In the Office class, increases in rental income, as large voids are taken up, will be partially offset as Covid-19 affects the office market, especially demand for smaller office spaces. Current projections show that the majority of industrial occupiers will emerge from Covid-19 in a stronger position than anticipated; arrears and defaults have been minimal in the first quarter of the year.

Asset Class	Opening Capital Value	Capital Incurred 2020/21	Net Income YTD	Forecast Net Income FY	Forecast Net Inc. Return FY
	£000	£000	£000	£000	%
Office	27,160	0	1,294	1,828	6.7%
Industrial	12,419	54	450	1,032	8.3%
Distribution	456	0	5	23	5.0%
Development	58,780	16,440	-5	-68	-0.1%
Rural	22,522	150	318	475	2.1%
Other	4,413	0	129	219	5.0%
Pooled Property	24,849	0	570	750	3.0%
Private Debt	20,276	-2,191	376	750	3.9%
TOTAL	**170,875**	**16,643**	**3,137**	**5,008**	**2.8%**

72. The Council's exposure to the distribution sector is relatively low risk due to the type of assets held. As such, performance is expected to remain in line with previous years. The rural sector is largely unaffected by Covid-19, with other economic factors taking time to impact returns. Rental growth will be slower this year due to the review cycle. The diverse range of assets held in the Other asset class offsets the potential risk from Covid-19; the Citroen Garage continues to offer solid returns.

73. Pooled property income is lower than expected due to the effects of Covid-19 on underlying businesses to make rental payments. The County Council has assumed a similar run rate for the full year forecast. Private Debt distributions have been

delayed, to support the underlying businesses. The fund is invested in a product that is primarily composed of senior secured debt and is highly diversified. This offers considerable downside protection to the capital invested.

74. A total of £2.2m in private debt principal has been repaid in 2020/21 in line with the original 5 year repayment terms. The investment is accounted for as a Treasury Management activity and will increase overall cash balances.

75. It should be noted that the above table excludes in year capital growth which is assessed annually as part of the asset revaluation exercise and reported in the annual CAIF performance report.

Recommendation

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

Background Papers

Report to County Council -19 February 2020 – Medium Term Financial Strategy 2020/21 to 2023/24
http://politics.leics.gov.uk/documents/s151485/MTFS%202020-24%20-%20Cab%207-2-20%20v6.pdf

Report to Cabinet – 18 September 2020 – Medium Term Financial Strategy Latest Position
http://politics.leics.gov.uk/documents/s155524/MTFS%20Latest%20Position%20FINAL.pdf

Circulation under the Local Issues Alert Procedure

None.

Equality and Human Rights Implications

There are no direct implications arising from this report.

Appendices

Appendix A: Revenue Position as at Period 6
Appendix B: Revenue Budget Major Variances
Appendix C: Capital Programme Major Variances and Funding Changes

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