Agenda Item 9

Leicestershire County Council

SCRUTINY COMMISSION – 12TH JULY 2021

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

2020/21 PROVISIONAL REVENUE AND CAPITAL OUTTURN

Purpose of the Report

1. The purpose of this report is to set out the provisional revenue and capital outturn for 2020/21.

Policy Framework and Previous Decisions

2. The County Council approved the 2020/21 to 2023/24 Medium Term Financial Strategy (MTFS) in February 2020. The key aim of the Strategy is to ensure that the Authority has appropriate resources in place to fund key service demands over the next few years. The Strategy includes the establishment of earmarked funds and the allocation of ongoing revenue budget and capital resources for key priorities.

3. The Cabinet on 22nd June 2021 received a copy of a report setting out the provisional revenue and capital outturn for 2020/21. The Cabinet noted the revenue and capital outturn positions and prudential indicators, and approved the use of the net revenue underspend of £9.9m to fund additional commitments.

Overall Position

Revenue Outturn

4. A summary of the revenue outturn for 2020/21, excluding schools grant, is set out below:

	£000
Updated budget	389,865
Provisional outturn	415,813
Net overspending	25,948
Less additional income	-35,859
Net Underspend	-9,911
Additional Commitments	9,911
Net Position	0

5. Overall there has been a net underspending of £9.9m, which will be used to meet additional commitments detailed later in the report.

6. 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 affected the 2020/21 budget but government support and local actions have allowed the position to be managed. However 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.

7. The County Council has faced a range of uncertainties during 2020/21 that have been far higher than in a usual year, including:

   - Time until normality returns following the Covid-19 pandemic and impact of further lockdowns
   - National Living Wage annual increases
   - DfE commitment to covering SEND (Special Educational Needs and Disabilities) 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. The cost control and related measures that were introduced for the additional costs of Covid-19 have had a significant positive impact.

9. The General Fund stands at £17m as at 31st March 2021, which represents 4.3% of the 2021/22 revenue budget, in line with the County Council's earmarked funds policy and the MTFS approved in February 2021. It is planned to increase the General Fund to £21m by the end of 2024/25 to reflect increasing uncertainty and risks over the medium term and the growth in the County Council's budget.

10. In the 2021-25 MTFS the savings requirement totals £80m, of which £23m still needs to be identified. There are uncertainties in the medium term due to the continuing impacts of Covid-19 on the economy affecting income from local taxation and future central government funding, and the impact on services through changes required for Covid-19.

11. The implementation of the Fair Funding Review and the 75% Business Rates Retention Scheme have both been postponed until at least April 2022. Although it is hoped that the County Council should receive more funding as a result of the Fair Funding Review, there is no certainty of this, especially given the wider economic impact of the pandemic. Therefore the MTFS does not include any provision for any additional funding.

Capital Outturn

12. A summary of the capital outturn for 2020/21, excluding schools devolved formula capital, is set out below:

	£000
Updated budget	145,563
Less provisional outturn	105,005
Net Variance	-40,558

13. Overall there has been a net variance of £40.6m compared with the updated budget. This includes net slippage of £38.8m and a net underspend of £1.8m. The net slippage will be carried forward to 2021/22 and future years to fund schemes that were not completed in 2020/21, with the net underspend added to the capital financing earmarked fund.

14. There are indications that the costs of some existing capital schemes are likely to increase (and work is being undertaken to quantify this). Coupled with the wider national picture of increases in the price of construction materials and shortage of construction skills due to, for example, HS2, a review will need to be undertaken over the summer to understand how to deal with the affordability implications. This fits with the ongoing concern regarding the significant financial risk associated with the requirements of infrastructure growth in Leicestershire. Some of the issues being faced may be temporary, but some degree of rationing is likely.

15. Details of the variances and key projects delivered in 2020/21 are included in the report.

DETAILS - REVENUE

16. Appendix A shows the provisional outturn position for 2020/21. This compares the actual net expenditure incurred with the updated budget. The original budget has been updated for transfers between services and from central contingencies.

17. The overall net underspend is £9.9m, which has been allocated to a number of additional commitments.

18. The position has improved from a £4.1m underspend reported at period 10. The main changes relate to:

- Adult Social Care - (£1.7m) reduction in the required provision needed to cover non recovery of advance payments from providers due to Covid-19. By year end the average amounts outstanding equate to approximately 4 weeks of payments which are being repaid via instalments or reducing ongoing payments to providers.
- Environment and Transport - (£1.8m) increase in the underspend on Special Education Needs Transport, due to the difficulties in forecasting arising from the uncertainties related to the take up of travel due to Covid-19.

- Environment and Transport - (£0.9m) increased in underspend across Social Care, Fleet, and Mainstream school transport – arising from an extended period of lower usage due to the January to March Covid-19 lockdown.
- Corporate Resources - Net change of +£1m; reduction in funding drawdown from earmarked funds from the Transformation Fund £3m (general Covid-19 grant used instead), and £1.2m underspend on ICT due to lower than estimated demand for End User Devices for Covid-19 working and staffing vacancies following a restructure.
- Central Grants and Other Income (£1.1m) increased income – additional interest received on private debt investments, and prior year adjustments arising from a review of older purchase orders no longer required.

19. Appendix B gives details of significant variances by departmental revenue budgets for 2020/21.

Children and Families – Schools Budget

20. The overall school budget shows a net £7.0m overspend. This comprises an overspend of £10.4m on the High Needs block and a net underspend of £3.4m on the Schools and Early Years blocks. A separate report on this from the Director of Children and Family Services is also on the agenda for this Cabinet meeting.

21. Nationally concern over the impact of Special Educational Needs and Disability (SEND) reform on High Needs expenditure and the financial difficulties these place on local authorities continues. The position in Leicestershire reflects the national picture.
22. 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.

23. The accumulated High Needs deficit at the end of 2020/21 is £17.5m taking account of a £7.1m deficit carried forward from 2019/20.

24. 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.

25. In March 2021, five councils with DSG deficits secured deals with the Department for Education (DfE) providing them with almost £100m to cover long standing Special Educational Needs and Disability (SEND) deficits. DfE has said it will provide additional funding towards eradicating historic SEND deficits for Stoke on Trent City Council, Richmond upon Thames, Kingston Upon Thames and Hammersmith & Fulham LBCs and Bury MBC should they meet the milestones set out in DSG recovery plans, all of which are facing exceptionally high dedicated

school grant (DSG) deficits. In return, these councils have agreed to make reforms to their SEND services and meet strict savings targets.

26. Overall DSG deficits for these Councils all exceed 10%. The highest for 2020/21 is Kingston at 16.9% and 18% for 2021/22. Leicestershire is way down the table on this with a DSG deficit of 0.8% in 2020/21 and 1.8% in 2021/22. For Leicestershire to hit a 10% threshold, if indeed that was the limit, it would need a DSG deficit of £53.2m for 2020/21 and £57.8m in 2021/22.

27. The Government has yet to complete its review of the SEND system. The risk remains that the reforms could in fact exacerbate the situation.

28. 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 £3.3m underspend on this budget which will be transferred to the DSG earmarked fund to fund pupil growth in future years.

Children and Families – Local Authority Budget (Other)

29. There is a net overspend of £3.8m (4.5%). The key factors are described in the following paragraphs.

30. Operational Placements - £2.9m overspend. There has been an 8% increase in the costs relating to 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 the time of the preparation of the MTFS. For example, current average weekly external residential unit costs to social care is £4,200 per week compared with a £3,500 per week assumption built into the MTFS growth, an increase of 20%. This increase in average weekly cost exceeded the benefit of lower than budgeted LAC children than originally estimated.

31. Likewise, similar trends were seen across external 16 plus and Independent Fostering Agency (IFA) placements; 16 plus current average weekly unit costs increased to £1,550 compared with £1,000 built into MTFS assumptions, an increase of 55%. IFA current weekly average costs increased to £850 compared with £790 built into MTFS assumptions, an increase of 7.5%.

32. Changes to case law and court directives have had a significant adverse impact on the current budget situation. For example, regarding parent and child placements, the new standard is that there must be a high standard of justification shown by a local authority seeking an order for separation, requiring 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. To date there has been 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 is able to safeguard the child, keeping parent-child together and hence meeting this new court directed standard.

33. Investment in in-house provision will start to address some of the pressures outlined above. In March 2020, Cabinet approved £2.5m investment to procure 4 properties to provide additional in-house placements for parent and child and under and over 16 placements as well as an Assessment and Resource hub and this provision is currently being developed.

34. Children's Social Care Staffing - £1.7m 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 to help reduce the need for agency workers. However, the pandemic severely disrupted 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 need 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.

35. Supporting Leicestershire Families (SLF) - £1.5m 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 was removed, leaving a higher fund balance to offset the potential that TFG funding will not be extended into 2022/23.

36. Social Care legal costs - £0.9m overspend. There has been an increased volume of new court proceedings being issued, some of which have been very complex, leading to increased costs.

37. Vacancy Management - £1.4m underspend. A planned and measured vacancy management process has been in place across service areas for all non-critical and non-essential job roles for most of the financial year. This directive was in response to the financial pressures across social care and minimised the risk of incurring any non-essential spend. The measures were kept under continual review to ensure the impact on service delivery was kept to a minimum.

38. Asylum Seekers - £1m underspend. Increased Home Office funding rates for this financial year has resulted in a reduced financial pressure on this budget. In addition, the Home Office has very recently agreed to fund and backdate costs for a number of Unaccompanied Asylum-Seeking Children (UASC) for which otherwise it had been assumed no further financial support would be received. In addition, the Council has received DfE funding to reflect some of the additional

costs across this budget area due to the impact of Covid-19. It should be noted that the original budget totalled £2.4m of which £1.5m is funded by the Council and that after the net underspend of £1m, a balance of £0.5m has had to be met by the Council.

Adults and Communities

39. The Department has a net underspend of £5.9m (3.9%). The main variances are reported below.

40. There has been a significant financial impact due to Covid-19 on adult social care which includes making additional payments in the region of £29.2m to care providers to cover additional costs (£3.5m), assistance with cashflow (£11m) which is being repaid by providers, passporting the Infection Control Fund Grant (£12.6m), Rapid Testing Grant (£1.2m) and Workforce Capacity Grant (£0.9m).

41. Other additional Covid-19 expenditure of £0.8m includes supporting shielding, PPE purchases for council services, supporting the management of Covid-19, and food packages for service users being discharged from hospital.

42. These and other additional service user costs (including loss of income) are offset by income of £16.8m from the NHS to support service users being discharged from hospital and £4.5m underspend from staffing, overhead and other budgets mainly due to managing level of staffing vacancies across the department. £1.1m additional Better Care Fund grant was received for social care protection. An additional contribution was received from the NHS CCGs towards the social care costs incurred of £7.3m which enabled some underspends to be placed into an earmarked reserve to support Health Integration projects.

43. The level of demand from the service users for commissioned services is constantly changing with lower numbers for some services and increased costs. As the approach Covid-19 management changes nationally, the impact of all of these changes are being monitored and are continuing to make accurate forecasting of demand for commissioned services very challenging.

Public Health

44. The Department is on budget. There are underspends of £1.3m, mainly due to reducing numbers of health checks to a targeted provision (£0.4m) and reduced demand for sexual health services (£0.9m). The net underspend has been contributed to the Department’s earmarked fund for future Public Health programmes.

Environment and Transport

45. There is a net underspend of £6.6m (7.9%).

46. Transport budgets show a net underspend of £4.6m, including underspends of £2.6m on SEN Transport, £0.7m on Social Care Transport, £0.6m on Mainstream

School Transport and £0.6m on Fleet Transport, mainly due to the reduction of services during the Covid-19 pandemic.

47. The Highways Design and Delivery budget is underspent by £1.6m. This is related to additional recharges to capital due to additional funding received for 3 schemes, and vacant posts. Due to Covid-19 recruitment has been slowed and full recruitment for services will continue to be impacted , although any benefit is likely to be offset by additional spend relating to agency staff.

48. The Highways and Transport Network staffing and administration budget is underspent by £0.7m, due to additional fee income (£0.5m) and an underspend on staffing from removing agency staff and creating permanent posts (£0.2m).

49. Waste Management shows a net overspend of £0.4m. The impact of Covid-19 has led to overspends of £1.4m on Landfill and £0.3m on Dry Recycling. These are offset by underspends including £0.6m on Treatment Contracts, £0.4m on staffing and administration, due to staff vacancies and £0.3m on the haulage and waste transfer budget.

<u>Chief Executive's Department</u>

50. The Department has overspent by £1.7m (14.1%) which is mainly due to the Covid-19 Community Grant scheme (£1.6m).

51. There is also an overspend of £0.6m on Legal Services, due to temporary posts agreed for Covid-19 and Adults and Communities additional work, the use of locum resources to cover vacant posts and reduced income from internal recharges and earmarked funds. Savings of £0.4m have been made relating to staff vacancies elsewhere in the Department.

<u>Corporate Resources</u>

52. There is a net overspend of £6.3m (18.7%).

53. Transformation Unit - £3.3m overspend, mainly due to reductions in planned contributions from the earmarked fund as the team and some projects to be funded from the fund, have been diverted to supporting the Council in responding to the impact of Covid-19 on services. So instead these can be funded from the general Covid-19 grant. As a result the forecast shortfall on the Transformation earmarked fund will be improved to continue to fund work to achieve new savings required in the new MTFS and continue work in responding to changes required by Covid-19. Redundancy costs are also paid from the fund and following the withdrawal of the Government's cap on exit payment these will be higher than had been anticipated.

54. Commercial Services - £1.8m overspend. This is primarily related to Covid-19. Commercial Services faced significant challenges during 2019/20 resulting in a budget overspend. Difficult trading conditions continued in 2020/21 and were 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 overspend is net of £2.4m furlough income and £1.1m of Sales, Fees and Charges compensation income from MHCLG.

55. Corporate Asset Investment Fund - £1.4m overspend. Operational schemes have performed very strongly with minimal disruption to rent collection and the continued reduction in voids. However, the new developments at Airfield Farm and Loughborough University Science Park were delayed by Covid-19, affecting rental income and setting aside contributions towards a sinking fund for future improvements. The income is expected to recover in 2021/22.

56. Information and Technology - £1.1m overspend, due to £1.5m spend incurred on ICT equipment and software to support working from home during the lockdown period, offset by savings on vacant posts held pending action plans and delays to recruitment as a result of Covid-19.

57. Strategic Property - £0.4m underspend, mainly relating to staffing, arising from a delay due to Covid-19 in recruitment to vacant posts following a staffing review.

<u>Central Contingencies / Central Items</u>

58. Given the level of uncertainty around the financial risks that the Council faces, the MTFS risk contingency of £4m has been transferred to the Budget Equalisation earmarked fund.

59. A balance of £2.2m remaining on the inflation contingency and has been transferred to earmarked funds. £1.9m has been transferred to the Budget Equalisation earmarked fund to provide additional funds to offset potential increased costs from the 2021/22 local government pay negotiations, and £0.3m has been transferred to Insurance earmarked funds to provide funding for increasing premium and self-insurance costs.

60. Revenue Funding of Capital – additional costs of £5.4m. This includes an estimate of £3.4m to cover the shortfall on actual capital receipts in 2020/21 (see later in the report – these are expected to be repaid but multiple years delays), and £2m added to the capital financing fund towards additional costs of Covid-19 on the capital programme in the future.

61. Other items (including prior year adjustments) show a net underspend of £0.7m mainly due to a review of prior year open purchase orders and other liabilities that are no longer expected to be incurred.

62. The budget assumed a requirement to increase the General Fund by £11m to cover the forecast deficit in High Needs funding. That amount has been set aside in the Budget Equalisation earmarked fund.

Central Costs of Covid-19

63. Given the significant uncertainty in the current financial year, a provision of £5.5m was made. A total of £1.5m was used to fund the additional costs of the Fit for the Future project (for back office services) caused by the delay to the planned go live from April 2020. At year end the balance of £4m was set aside in the Covid-19 Budget earmarked fund for Covid related work in future years.

64. The County Council's precepts for Business Rates and Council Tax were collected in full during 2020/21. However, the actual amounts of both income streams received by the district councils during 2020/21 was affected 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 affect the income available to the County Council when setting future years' budgets. Since then the Government has 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 2020 to the end of September 2021 which reduced the estimated income loss, but detrimental impact in future years is expected. The Government scheme does not compensate for shortfalls in collection performance limiting the benefit received. This resulted 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 and the amount has been added to a new earmarked fund.

Covid-19 Grants

65. 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.

66. The County Council has continued to make claims from the Government's furlough scheme. A total of £3m has been claimed during 2020/21.

67. The Council has also accessed funding from the Government's Sales, Fees and Charges (SPC) scheme during 2020/21, which provides grant support for 75% of losses due to Covid-19. A total of £2.4m has been claimed for 2020/21 and has been credited to departmental budgets to offset the relevant losses incurred.

68. During 2020/21 the Council has also received other specific Covid-19 grants of £43m, which have been used in departments to fund specific Covid-19 initiatives and offset relevant expenditure. These include Contain Funding £18m, Infection Control £13m, Test and Trace £2.3m, and Lateral Flow Test £1.7m.

Business Rates

69. Additional Business Rates income of £1.4m has been received. Retained business rates were £0.4m higher than budgeted. Section 31 grants, to compensate for discounts awarded nationally by Government, were £0.5m higher.

Additional funding of £0.5m arising from the 2019/20 Business Rates Pilot was received and was used as additional revenue funding of capital.

70. The position on the 2020/21 Leicestershire Business Rates Pool is estimated to be £8m. The final position will be based on returns to be submitted by the billing authorities to the Government by the end of June 2021. The Cabinet will be updated on the position when details are available. The surplus is transferred to the Leicester and Leicestershire Enterprise Partnership (LLEP).

71. Due to the success of the Business Rates Pool a total of £40m will have been retained in Leicestershire, since the first year of operation in 2013/14. The funding, provided to the LLEP, is being used to support a range of infrastructure projects around the County and City. Part of this funding will be received by the County Council to help offset the costs of specific projects which would otherwise need to be funded from the Council's own funding sources.

72. Due to the position in 2020/21 the Pool has continued in 2021/22. Initial estimates suggest a similar level to the 2020/21 position, but the continuing impact of Covid-19 on business rates income and interventions made by Government make the position difficult to forecast.

Overall Revenue Summary

73. Overall, there is a net underspend of £9.9m. This will be used to fund the following additional spending requirements:

- Highway priorities £5m – enhanced highway maintenance, community speed management, and member highways fund (the subject of a separate report on the agenda for this meeting).
- Funding for SEND £2.4m – additional capital investment.
- Contribution to Transformation earmarked fund £2.2m – continue investment to achieve new savings required in the MTFS.
- Leicester Cathedral £0.35m – to conclude the reordering of the Cathedral. Leicester City Council will also contribute the same amount.

General Fund and Earmarked Funds

74. The uncommitted General Fund balance as at 31 March 2021 stands at £17m which represents 4.3% of the 2021/22 revenue budget, in line with the County Council's earmarked funds policy. The MTFS includes further analysis of the County Council's earmarked funds including the reasons for holding them.

75. The total level of earmarked funds held as at 31 March 2021 total £156m, comprising those held for revenue purposes of £91m and capital of £65m. In addition funds are held on behalf of schools (£11m deficit) and partnerships (£11m). Earmarked funds are shown in detail in Appendix C. The main earmarked funds are set out below.

Renewals of Vehicles and Equipment (£4.2m)

76. Departments hold earmarked funds for the future replacement of vehicles (the County Council has a fleet of around 350 vehicles) and equipment such as ICT.

Corporate Asset Investment Fund (£1.2m)

77. These are funds generated from the Corporate Asset investment Fund and are used for improvement works included within the Fund.

Insurance (£13.8m)

78. Earmarked funds of £8.6m are held to meet the estimated cost of future claims to enable the Council to meet excesses not covered by insurance policies and smooth fluctuations in claims between years. The levels are informed by advice from independent advisors. Excesses include:

- Property damage (including fire) £500,000
- Public / Employers' liability £375,000
- Professional indemnity £25,000
- Fidelity guarantee £100,000
- Money – completely self-insured.

79. The uninsured loss fund of £5.2m is required mainly to meet potential liabilities arising from Municipal Mutual Insurance (MMI) that is subject to a run-off of claims following liquidation in 1992. The fund also covers the period before the Council purchased insurance cover and any other uninsured losses.

Children and Family Services

80. Supporting Leicestershire Families (£1.8m). This earmarked fund is used to fund the Supporting Leicestershire Families service which is providing early help and intervention services for vulnerable families across Leicestershire. Given ongoing uncertainty around the continuation of government grant funding for this service, the planned contribution from the SLF earmarked fund for 2020/21 was removed, leaving a higher fund balance to offset the potential removal of TFG funding in 2022/23.

81. Children and Family Services Developments (£1.2m). This provides funding for a number of projects such as improving management information, information access and retention and responding to changing requirements as a result of OfSTED and legislation.

Adults and Communities

82. Adults and Communities Developments (£5.6m). This earmarked fund is held to fund a number of investments in maintaining social care service levels and assisting the Department in achieving its transformation.

Public Health

83. Public Health (£1.8m) – to fund Public Health initiatives within Leicestershire.

Environment and Transport

84. Commuted Sums (£3.2m). This funding, received from housing developers, is used to cover future revenue costs arising from developer schemes, where the specifications are over and above standard developments (e.g. block paving, bollards, or trees adjacent to the highway). These liabilities can arise many years after the funding is received and therefore the balance on this earmarked fund has built up over time.

85. Leicester and Leicestershire Integrated Transport Model (LLITM) (£2.1m). This earmarked fund is income from charging other local authorities for using the model. Surplus income is added into the fund and will be used to finance activity to refresh the model when required.

Corporate

86. Transformation Fund (£9.2m). The fund is used to invest in transformation projects to achieve efficiency savings and also to fund severance costs. To achieve the level of savings within the MTFS the Council will need to change significantly, and this will require major investment, including in some of the core 'building blocks' of transformation such as improvements to data quality, and improvements to digital services enabling more self-service.

87. Broadband (£2.4m). This fund was established to allow the development of super-fast broadband within Leicestershire. There is a significant time lag in spending County Council funds as a result of securing grant funding from Central Government and the European Regional Development Fund (ERDF) that required those funds to be spent first and within a set period.

88. Budget Equalisation (£24m) – earmarked fund to manage variations in funding across financial years. This includes the increasing pressures on the High Needs element of the Dedicated Support Grant (DSG) which is in deficit by £17m at the end of 2020/21. The Children and Family Services Department is investigating a number of actions that could over the course of the MTFS to reduce demand and therefore the overall deficit.

89. Covid-19 Council Tax and Business Rates (£5m). Earmarked fund to meet estimated income reductions due to Covid-19.

90. Covid-19 Budget (£4.5m). Funding set aside to deal with potential Covid-19 pressures in future years. This is in addition to the provision made in the MTFS for 2021/22. This funding is to allow the financial position to be managed without taking knee jerk actions. If some of the funding is not required, it can be directed towards other priorities such as the capital programme.

91. Covid-19: Tax Income Guarantee (TIG) compensation (£2.3m). The Government will meet 75% of some elements of reduced council tax and business rates income collected in 2020/21. That grant needs to be reflected in the 2020/21 accounts and set aside in an earmarked fund.

92. Pooled Property Fund(s) (-£23.6m). The Cabinet on 11 September 2015 and 11 October 2016 approved the investment of £15m and £10m respectively of the Council's earmarked funds into pooled property funds, total investment £25m. The investments are held to achieve higher returns than if the funds were invested as cash. The investment is funded from the overall balance of earmarked funds and can be realised in the future when required. The Council also holds investments in Private Debt funds, which include a cumulative unrealised gain of £1.4m, this is offset within the £25m.

Capital

93. Capital Financing (£89.2m). This fund is used to hold MTFS revenue contributions required to fund the approved capital programme in future years. The increase at year-end is due to the overall level of slippage on the capital programme in 2020/21 and proposed additional funding at year end for Highways Initiatives and SEND investment explained earlier in the report. In addition, when funding actual capital expenditure, and as revenue funding is less restricted than capital funding which can only be used to fund new capital expenditure, balances from this fund have been used last.

Other / Partnerships Earmarked Funds

94. Dedicated Schools Grant (deficit of £11.1m). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School and Early Years Finance (England) Regulations. This fund is earmarked to meet the revenue costs of commissioning places in new schools, early years and to support pressures on the high needs block. A summary is shown below:

	Schools Block	Early Years Block	High Needs Block	Total
	£m	£m	£m	£m
31-3-20	3.2	-0.2	-7.1	-4.1
Changes 2020/21	3.3	0.1	-10.4	-7.0
31-3-21	6.5	-0.1	-17.5	-11.1

95. Within the Schools block funding, future DSG allocations for schools growth will be retained and added to the earmarked fund to support the revenue costs of commissioning new schools. The deficit on the High Needs block will increase in the medium term until the savings arising from the High Needs Development Plan are delivered. In the short term the surplus on the Schools block will partially offset the high needs deficit.

96. Health and Social Care Outcomes (£8.9m) used in conjunction with Health partners across Leicestershire. The balance includes a transfer in from Health of £7.3m at year end.

97. Leicestershire and Rutland Sport (£1.4m). The main purpose of this earmarked fund is to hold partner contributions until expenditure on the agreed activities has been incurred. A significant part of the services' funding from external agencies is uncertain in nature, so the earmarked fund also allows management of funding variations and a redundancy provision.

CAPITAL PROGRAMME

98. The updated capital programme for 2020/21 totals £146m, including net slippage of £29m from 2019/20.

99. A summary of the capital outturn for 2020/21, excluding schools devolved formula capital, is set out below:

Programme Area	Updated Budget £000	Actual Expenditure £000	Net Variance £000	%
Children and Family Services	35,793	23,652	(12,141)	66%
Adults and Communities	10,183	8,870	(1,313)	87%
Environment and Transport	64,466	47,559	(16,907)	74%
Chief Executive's	890	551	(339)	62%
Corporate Resources	9,798	6,913	(2,885)	71%
Corporate Programme	24,433	17,460	(6,973)	72%
Total	**145,563**	**105,005**	**(40,558)**	**72%**

100. A summary of the net variance is shown below:

Programme Area	Underspend £000	Overspend £000	Slippage £000	Accelera-tion £000	Total £000
Children and Family Servs.	(513)	513	(12,900)	759	(12,141)
Adults and Communities	0	0	(1,559)	246	(1,313)
Environment and Transport	(80)	11	(18,787)	1,949	(16,907)
Chief Executive's	0	0	(387)	48	(339)
Corporate Resources	(1,889)	403	(2,912)	1,513	(2,885)
Corporate Programme	0	50	(7,887)	864	(6,973)
Total	**(2,482)**	**977**	**(44,432)**	**5,379**	**(40,558)**
	Net Underspend	1,505	Net Slippage	39,053	

101. The net underspend of £1.5m has been added to the capital financing earmarked fund to reduce the level of internal borrowing required for the new MTFS capital programme. The net slippage of £39.1m has been carried forward to the capital programme 2021-25 to fund delayed projects.

102. A summary of the key projects delivered and main variations are set out below. Further details of the main variations are provided in Appendix D.

103. Appendix E compares the provisional prudential indicators with those set and agreed by the Council, at its budget meeting in February 2020. These are all within the limits set.

104. A review of the 2021-25 capital programme will be undertaken during the summer 2021 in light of delays to project delivery and emerging financial pressures on large capital projects due to increasing costs of raw materials and increased demand for delivery partners with the required specialist skills for major projects given competition from large national infrastructure initiatives, especially HS2. An updated capital programme will be reported to the Cabinet in September or October.

Children and Family Services

Key Projects Delivered

105. Creation of additional school places successfully completed projects at 9 different schools. 700 new Primary school places and 160 new Secondary school places were delivered. The SEND programme saw the completion of several schemes to support the High Needs Development Plan. Six new units for pupils with either social, emotional and mental health (SEMH) needs, or communication and interaction (C&I) needs were delivered, alongside the delivery of a Post-16 Centre and two new special schools Foxfields Academy (50 place SEMH School) and Fusion Academy (80 place C&I School) completed during 2020/21.

Main Variances

106. The year-end position shows a net variance of £12.1m compared with the updated budget. The main variances are due to slippage on:

- the provision of Primary Places £8.0m due to complex schemes involving several parties, an area that is implementing age range change and the rejection of a planning application,
- SEND Programme £2m due to delays in identifying sites and a revision of a legal agreement,
- Strategic Capital Maintenance £1.1m and
- The timing of the Assessment & Residential Multi-Functional Properties £0.9m slipped by a few months into the current financial year.

107. Additional costs totalling £0.5m have occurred during the year, mainly in relation to the SEND capital programme. This is due to pressures from increasing demand, particularly for specialist equipment within the SEND programme. These have been offset by savings elsewhere across the programme.

Adults and Communities

Key Projects Delivered

108. Social Care Investment Plan (SCIP) – investment of £3m across several properties, including purchase and refurbishment works. Additional works are planned to take place in 2021/22. These sites will provide new accommodation for both transitions and supported living service users.

Main Variances

109. The outturn shows a net variance of £1.3m compared with the updated budget. The main variance is due to slippage on the Hamilton Court/Smith Crescent properties in North West Leicestershire Development of £1.1m pending a review of costs.

Environment and Transport

Key Projects Delivered

110. A total of £21.7m has been spent on the preparation and delivery of major projects in 2020/21, including:

- M1 J23/A512, £13.5m – the detailed design and construction of improvements to ease congestion and provide access to the West of Loughborough housing development commenced in 2017/18. This major scheme has continued through 2020/21 with a completion on site anticipated in June 2021.
- A46 Anstey Lane, £3.0m – the detailed design and construction of improvements to ease congestion and mitigate the Aston Green housing development commenced in 2017/18 and completed in 2020/21.
- Lutterworth East - £0.6m to design highway improvements and provide access to proposed new housing development in Lutterworth (this programme is being paused until funding can be secured).
- Melton Mowbray Eastern Distributor Road, £2.5m – the project to build the distributor road to the north and east of Melton Mowbray to ease congestion in the town centre and facilitate growth commenced in 2017/18 with anticipated on site advance works starting spring 2022.
- A511 Major Road Network scheme, £0.7m - to tackle longstanding congestion and traffic related problems on the A511 between Leicester (M1 Junction 22) and the A42 commenced 2019/20 with a completion on site anticipated in Spring 2026.
- Waste Transfer station, £0.3m – to provide greater resilience for waste disposal activities across the County and reduce reliance on landfill which have a negative environmental impact. During 2020/21 significant progress on preparatory work was made with a completion on site anticipated in spring 2022.

111. A total £21.6m was also invested in Highways Asset Maintenance,
    - £17.3m on carriageways

- £2.0m on footways and rights of way
- £1.0m on bridge maintenance and strengthening
- £0.6m on street lighting maintenance
- £0.4m on flood alleviation
- £0.1m on traffic signal renewal
- £0.2m on other activity including joint sealing.

112. A programme of works at the Recycling and Household Waste Sites (RHWS) has continued to ensure ongoing environmental compliance and efficient service provision. This included significant improvements and a range of preparatory work in readiness for further site enhancement and development in 2021/22.

Main Variances

113. The year-end position shows a net variance of £16.9m compared with the updated budget.
114. The main variances are:

- M1 Junction 23 / A512, £3.6m slippage - due to delays in the legal agreement being signed with the developers. There was also a delay in mobilisation due to issues with access to the site.
- Highways Capital Maintenance Schemes £2.7m slippage - due to challenge fund being provided mid-year and whilst all efforts were made to complete these schemes before the year-end they will not be done 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 and some slippage relating to less work design work being completed for major schemes this year but schemes are still progressing and this will be needed in the future.
- A511 Major Road Network £2.0m slippage – due to delays with surveys which delayed the planning process this then impacted on engaging with contractors and the procurement of works taking longer than anticipated.
- County Council Vehicle Programme £1.5m slippage - due to a process being reviewed with consultants under Fleet Management Review project, therefore the only spend was on replacing essential vehicles.
- Hinckley Hub (National Productivity Investment Fund) £1.3m slippage - due to Covid-19 restriction, with completing trial holes which are needed to be undertaken before construction work and finalising land purchase. In addition, there was a delay in obtaining the licence to access third party land to complete the trial holes and also due to disputes on potential contaminated materials and liability which delayed the land purchase.

Chief Executive's

Key Projects Delivered

115. Rural Broadband Scheme: the County Council has committed to seeking all available options to achieve universal superfast broadband coverage across the County. Phase 3 of the Superfast Leicestershire programme is a key component in working towards this commitment.

Corporate Resources

Key Projects Delivered

116. Investment in the ICT infrastructure of £0.7m:

- Completion of Local Area Network Edge Refresh
- Adaptive Security Appliance Firewall Replacements
- Cyber security mitigations

117. As a direct response to Covid-19 laptops were issued across the workforce to enable people to work safely and effectively from home during government restrictions. Costs of £2.5m were incurred, representing an acceleration of the existing programme whilst paving the way for a much more ambitious roll out of future Ways of Working than previously anticipated.

118. A further £3m has been spent on delivering the Snibston Masterplan, which included works to the children's play area and café on the former Snibston Discovery site. A heritage and mountain bike trail was installed at the County park, together with a cycle path leading to the town centre.

Main Variances

119. The year end position shows a net variance of £2.9m compared with the updated budget.

120. The main variances relate to cancellation of the Watermead Country Park new footbridge, £0.5m.

121. Snibston Country Park Future Strategy land remediation works will now be carried out by the end user and not form part of the scheme resulting in an underspend of £1.6m and slippage on the Workplace Strategy £0.7m due to delays in the works starting at Pennine House and Parkside as a result of COVID-19.

122. The outturn included a £0.4m overspend on development works at Melton, Sysonby farm. The original scheme included grant funding from Homes England. However, following a review of the 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.

Corporate Programme

Key Projects Delivered

123. During 2020/21 the following investments were made as part of the Corporate Asset Investment Fund:

- £11.4m land acquisition and associated costs for planning and consultancy services as part of the East of Lutterworth Strategic Development plan.

- £5.4m for the final phase of works at Loughborough University Science and Enterprise Park (part of a £22m project).

Main Variances

124. The year-end position shows a net variance of £6.9m compared with the updated budget.

125. The main variances relate to:

- Future Developments – £6.6m slippage as schemes were not suitably advanced to require funding. During 2020/21 £5.9m of the fund was used as forward funding of developer contributions towards the Environment and Transport M1 Junction 23 scheme. These will be repaid to the fund in future years.
- Airfield Farm Scheme - slippage of £0.6m.The framework tender was completed which resulted in only two contractors tendering significantly in excess of the budget and a further procurement exercise is taking place.

Capital Receipts

126. The target for new capital receipts for 2020/21 was £4.5m. The actual receipts received were £1.2m, a shortfall of £3.7m. The shortfall is primarily due to discussions with the departments for possible part usage on two sites. The shortfall in 2020/21 will be met from Revenue Funding of Capital as described earlier in the report.

Capital Summary

127. Overall £105m was invested in capital projects in Leicestershire during 2020/21.

128. Overall spend was less than budget by £40.6m. A review of the 2021-25 capital programme will be undertaken during the summer 2021 and reported to the Cabinet in September or October.

Corporate Asset Investment Fund

129. A summary of the Corporate Asset Investment Fund (CAIF) position for 2020/21 is set out below:

Asset Class	Opening Capital Valuation	Capital Incurred 2020/21	Change in Valuation	Closing Capital Valuation	Change in Capital Value	Target Net Income	Actual Net Income	Net Income Return
	£000	£000	£000	£000	%	£000	£000	%
Office	46,477	5,415	203	52,095	0.4%	2,420	1,268	2.4%
Industrial	12,419	295	-101	12,613	-0.8%	1,320	1,001	7.9%
Distribution	456	0	1	457	0.2%	-3	13	2.8%
Development(N1)	39,464	11,557	-1,265	49,756	-2.5%	0	-68	-0.1%
Rural (N2)	22,522	193	5,745	28,460	25.3%	475	131	0.5%
Other(N3)	4,413	0	275	4,688	6.2%	158	262	5.6%
Pooled Property	24,849	0	-544	24,305	-2.2%	1,000	872	3.6%
Private Debt(N4)	20,276	-3,972	336	16,640	2.1%	1,000	1,088	6.5%
TOTAL (N5)	**170,876**	**13,488**	**4,650**	**189,013**	**2.5%**	**6,370**	**4,568**	**2.5%**

(N1) Opening Valuation updated for transfer of LUSEP from Development to Office class in 20/21, £19.3m. Bardon interlink site has been revalued down by £1.3m due to change of use from industrial development to a waste transfer station.
(N2) Includes £5m uplift in valuation of a farm based on an agreed sale price post year end – change of use.
(N3) includes vehicle showroom.
(N4) principal repaid in 20/21 totalling £4.0m, investment is in distribution phase
(N5) Net income includes a £0.3m sinking fund provision and £0.3m bad debt provision

130. During the year, the fund generated net income returns of £4.6m, or 2.5%. If the development classification was excluded, the return would increase to 3.1%.

131. Overall the fund incurred a net capital valuation gain of 2.5% for 20/21 (not cash). Returns were lower than normal due to a general deterioration in rental yields in the property sector caused by Covid-19. This reflects the state of the wider property market. Some of these will return. Property is a long term investment that will incur periods of variation, but over the longer term it is expected that these will recover in value. More detailed information will be provided in the annual CAIF performance report to the Cabinet in September.

Background Papers

Report to the County Council – 19th February 2020 – Medium Term Financial Strategy 2021-25. http://politics.leics.gov.uk/documents/s151410/MTFS%202020-24.pdf

Report to the Cabinet – 22nd June 2021 – 2020/21 Provisional Revenue and Capital Outturn http://politics.leics.gov.uk/documents/s161900/20-21%20MTFS%20prov%20outturn.pdf

Circulation under the Local Issues Alert Procedure

None.

Equality and Human Rights Implications

There are no direct equality or human rights implications arising from this report.

Appendices

Appendix A - Comparison of 2020/21 Expenditure and the Updated Revenue Budget
Appendix B - Revenue Budget 2020/21 – main variances
Appendix C - Earmarked Fund balances 31/3/21
Appendix D - Variations from the updated 2020/21 capital programme
Appendix E - Prudential Indicators 2020/21

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