

CABINET - 17TH SEPTEMBER 2021**MEDIUM TERM FINANCIAL STRATEGY - LATEST POSITION****REPORT OF THE DIRECTOR OF CORPORATE RESOURCES****PART A****Purpose of the Report**

1. The purpose of this report is to provide members with an update on the 2021/22 revenue budget and capital programme monitoring position as at the end of period 4 (the end of July), to obtain approval to changes to the previously agreed 2021-25 capital programme and agree the approach to updating the Medium Term Financial Strategy (MTFS) for 2022 to 2026.

Recommendation

2. It is recommended that:
 - a) the latest position regarding the 2021/22 revenue budget and capital programme as at the end of July 2021, period 4, be noted;
 - b) the revised capital programme 2021/22 to 2024/25 as set out in Appendix C to the report be approved;
 - c) the Director of Corporate Resources following consultation with the Cabinet Lead Member for Corporate Resources be authorised to agree the use of funding from the portfolio risk allocation to specific projects within the Environment and Transport Capital programme;
 - d) the approach outlined in the report to updating the Medium Term Financial Strategy be noted.

Reasons for Recommendation

3. To inform members of the intended approach to the development of plans to address the latest financial position.

4. To seek agreement to the revised capital programme for 2021-25 which has required amendment as a result of the latest forecast financial position and known pressures on a number of schemes and to the delegation to the Director of Corporate Resources following consultation with the Cabinet Lead Member for Corporate Resources, of the authorisation of the use of the portfolio risk contingency (£10.6m) for Environment and Transport schemes in order to address issues arising with major schemes without delay.

Timetable for Decision (including Scrutiny)

5. The Scrutiny Commission will consider this report on 8th September 2021 and its comments will be reported to the Cabinet.
6. The Cabinet will be asked to approve the draft MTFS 2022 to 2026 for consultation in December 2021. All Overview and Scrutiny Committees and the Scrutiny Commission will consider the draft MTFS in late January 2022 and the Cabinet will then make a final recommendation to the County Council in February 2022.

Policy Framework and Previous Decisions

7. The Medium Term Financial Strategy for 2021/22 to 2024/25 was approved by the County Council on 17th February 2021. Over the autumn and winter of 2021 the MTFS will be reviewed and updated.
8. Regular reports have been provided to the Cabinet on the overall financial position.

Resource Implications

9. The financial position faced by the County Council is extremely serious and challenging. The current MTFS anticipated a funding gap of £23m by 2024/25 but the additional pressures from Covid-19 will increase that gap significantly and the level of uncertainty. This is a particularly difficult situation for a low-funded authority such as Leicestershire as room for further savings is limited.
10. Covid-19 continues to have a heavy influence on the current year's financial position, and also increases the level of uncertainty. The year-end position will again depend very much on the level of interventions and other support from Government, as well as other bodies such as NHS bodies. So year-end estimates made in this report, based on information to the end of period 4, need to be treated with some caution. But furthermore, that uncertainty becomes more problematic when trying to assess the medium term financial position.
11. Based on current information, it is very likely that the County Council, when it rolls forward the MTFS into 2025/26, will continue to have a funding gap in the later years. This is compounded by the increased demands from the capital programme which, whilst manageable in the short term increases the pressure on the Council's cash balances and could, depending on the wider financial position pans out, lead to a position where external borrowing is required, adding further to the burden on the revenue budget.

12. To balance the budget without a significant impact on services will require a major efficiency initiative. The County Council continues to press the Government to address the imbalance on relative funding levels between local authorities. Furthermore the financial situation also requires the Government to deal with the structural national issues around funding for those services, such as social care and Special Educational Needs and Disabilities (SEND), which are experiencing a relentless growth in demand.
13. The Director of Law and Governance has been consulted on the content of this report.

Circulation under the Local Issues Alert Procedure

None.

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PART B

2020/21 REVENUE BUDGET MONITORING – PERIOD 4

14. The period 4 revenue budget monitoring exercise shows a net projected overspend of £12m. In the current financial year this can be managed through the Covid budget. However, this was a one-off provision and additional pressures will lead to an increased requirement for savings if they cannot be contained. The Covid budget simply allows time to resolve the financial issues.
15. In the 2021-25 MTFS the savings requirement totals £80m, of which £23m still needs to be identified. Even with the declared overspend 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.
16. 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.

17. The overall position includes the estimated impact of Coronavirus (Covid-19) where it can be reasonably estimated at this stage. There is a high level of uncertainty in the estimates when forecasting for the full year. This certainty will improve in future monitoring exercises during the year.
18. A summary of the position is shown below and set out in more detail in Appendix A.

REVENUE BUDGET MONITORING STATEMENT
FOR THE PERIOD: APRIL 2021 TO JULY 2021

| | Updated Budget | Projected Outturn | Difference from Updated Budget | |
|--|-------------------|----------------------|--------------------------------------|------------|
| | £000 | £000 | £000 | % |
| Schools Budget – Schools and Early Years | 0 | -1,910 | -1,910 | |
| Schools Budget – High Needs | 0 | 9,330 | 9,330 | |
| Net Total | 0 | 7,420 | 7,420 | |
| Children & Family Services (Other) | 89,087 | 88,857 | -230 | -0.3 |
| Adults & Communities | 156,525 | 170,005 | 13,480 | 8.6 |
| Public Health | -1,323 | -1,323 | 0 | 0.0 |
| Environment & Transport | 81,355 | 79,945 | -1,410 | -1.7 |
| Chief Executives | 12,458 | 12,438 | -20 | -0.2 |
| Corporate Resources | 34,089 | 35,019 | 930 | 2.7 |
| Capital Financing | 21,500 | 22,550 | 1,050 | 4.9 |
| Other Areas | 15,870 | 15,720 | -150 | -0.9 |
| Central grants/other income | -43,508 | -44,508 | -1,000 | 2.3 |
| Covid-19 budget | 28,300 | 28,300 | 0 | 0.0 |
| Contribution to budget equalisation earmarked fund | 4,000 | 7,700 | 3,700 | 92.5 |
| Contribution to General Fund | 1,000 | 1,000 | 0 | 0.0 |
| Total | 399,353 | 415,703 | 16,350 | 4.1 |
| Funding | -399,353 | -403,753 | -4,400 | 1.1 |
| Net Total | 0 | 11,950 | 11,950 | |

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

Children and Family Services – Schools Budget

20. The schools budget is forecast to overspend the grant received by a net £7.4m at the end of 2021/22, mainly relating to the High Needs block (£9.4m) offset by an underspend on the Schools Block from schools growth (£2.2m) which will be retained for meeting the costs of commissioning school places in future years.
21. Nationally, concern over the impact of Special Educational Needs and Disabilities (SEND) reform on High Needs expenditure and the financial difficulties this places on

local authorities continues. The position in Leicestershire reflects the national picture. The MTFs included £5.7m as the estimated in year overspend on the High Needs Block of Dedicated Schools Grant (DSG). The current forecast shows that this has increased to £9.4m, an increase of £3.7m as a result of increased number of Independent School and Post-16 places at an additional cost of £1.9m and non-achievement of savings of £1.7m. The Cabinet received a report regarding the High Needs Position at its meeting on 22 June.

22. The SEND Capital Programme is developing new resource bases with the aim of reducing the reliance on expensive independent sector places. During 2019/20 and 2020/21 a number of these bases welcomed their first cohort of students, with more places to be filled during the 2021/22 academic year. The increase in demand however has resulted in these places being filled with new pupils as opposed to having the desired impact on reducing numbers in independent settings. Due to set-up costs the full effect of the programme will not be seen until future years. Additionally, the numbers of pupils in mainstream settings that receive top-up funding is rising rapidly.
23. By the end of 2021/22 the estimated accumulated High Needs deficit is forecast to be £26.9m. The Department is investigating a number of actions that could over the course of the MTFs reduce demand and therefore the overall deficit. The high needs deficit continues to increase over the MTFs period and is not financially sustainable, this creates a significant and unresolved financial risk to the Council.

Children and Family Services – Local Authority Budget (Other)

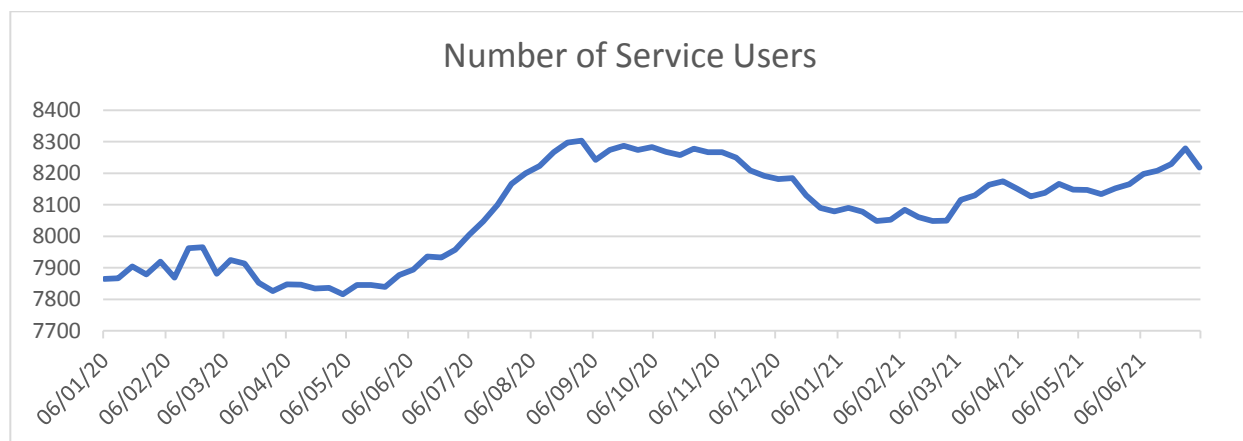
24. The Local Authority budget is forecast to underspend by a net £0.2m (0.3%), mainly relating to a projected underspend on the Children’s Social Care Placement budget (£1.2m) based on current demand and activity, offset by an overspend due to pressures within the social care workforce (£1.0m).
25. Looked after Children in Care (LAC) numbers increased by 8% last financial year to 705 as at 1st April 2021. The budget for 2021/22 had assumed a further 8% increase in LAC numbers. However, currently LAC numbers for Leicestershire stand at 677. The subsequent impact has seen current placements numbers across various provision types at a lower level than budgeted for.
26. Further work is required over the coming months to establish how sustainable current patterns and trends within Leicestershire’s LAC cohort are, and its subsequent financial impact both in year and in future years. Current referrals into both Early Help and First Response service areas have doubled, a scenario which was largely expected post Covid-19. It is, however, uncertain at this stage how this demand will impact Leicestershire’s LAC numbers but will be kept under continual review.
27. The Defining Children and Family Services for the Future programme has a number of workstreams to reduce the requirement for residential placements; reduce durations and increase internal fostering capacity. Early signs show this is starting to make a positive impact and can be seen in the departments projected spend levels for this financial year. The Social Care Investment programme working in partnership with Barnardo’s will also

have an impact through the creation of additional capacity for under 16's, over 16's and parent and children, which should be in place by Autumn 2021. With increasing demands projected and a market shortage, there is a strong case for more investment and a proposal is currently being worked up.

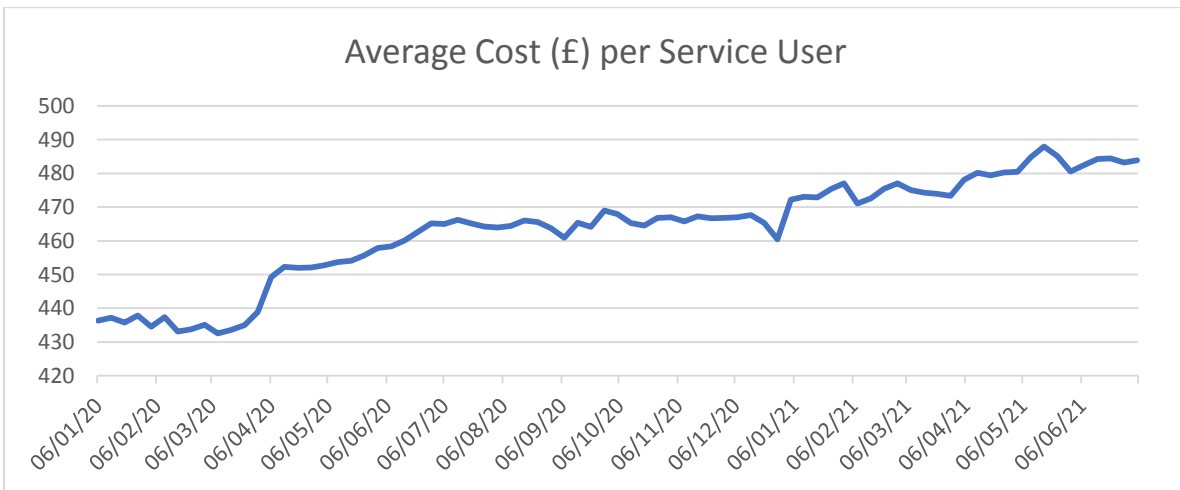
28. In relation to Children's Social Care Staffing budgets, whilst good progress has been made with various recruitment and retention activities across the Department, there are currently still isolated issues within certain social care localities. For example, currently within the Wigston locality it has become increasingly difficult to recruit and retain experienced social workers, senior practitioners, and team managers. The prolonged period of instability in this particular locality has led to higher caseloads and increased use of agency staff; this has further impacted on retention of experienced staff. Within the Defining Children's programme, Newton Europe are currently working with service managers to re-balance workloads, review roles and improve productivity where possible.

Adults and Communities

29. A net overspend of £13.5m (8.6%) is forecast.
30. There is a continuing significant financial impact due to Covid-19 on adult social care which includes additional cost for commissioned services and loss of service user income.
31. The overall number of service users being supported across Residential Care, Homecare, Supported Living, Cash Payments and Community Life Choices from January 2020 through to July 2021 have significantly increased. Typical growth in a year would be approximately 1.5% per annum, however, current number of service users supported is an increase of 3.8%.

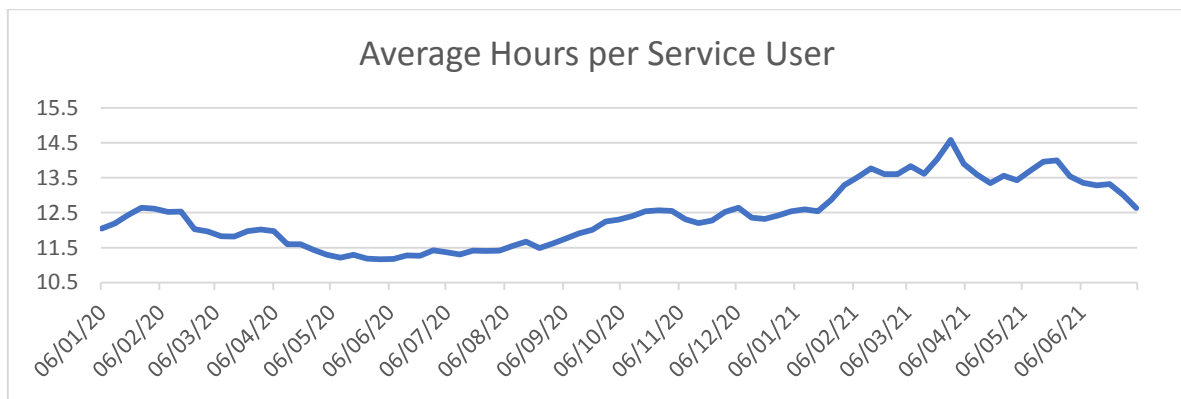


32. Over the same time period the average cost per service user has also increased (the rises in April relates to the annual fee review uplifts).



33. The main areas of additional spend are:

- Homecare – an overspend of £11.3m is forecast which reflects that both average package costs and client numbers are significantly higher than budgeted. At the time of preparing the budget, the hospital discharge to assess scheme was expected to end on 31 March 2021. The scheme is now due to end on 30 September 2021, although arrangements beyond this date are uncertain. Some of these costs are offset by hospital discharge income in the region of £0.8m.
- The discharge to assess scheme, along with placing less clients into residential care services during the early stages of the pandemic, has been the main factor behind the increase in the numbers of people receiving home care and the average number of hours commissioned per client since March 2020. The discharge to assess scheme for Covid-19 has meant a focus on lowering patient numbers in hospital, which has reduced the involvement of social care prior to discharge. Further work is needed alongside Health in reviewing these practices. There was an increase in the average weekly client numbers from 1,880 per week in 2019/20 to 2,140 in 2020/21. As at end of July 2021, there were on average 2,400 home care clients with an average package of £260 per week.
- The average cost per Service User has also risen due to increased hours being commissioned, rather than any significant change in pricing. Home care rates are fixed for the year by location and average rates have been stable over the recent 18 months other than at the times of the inflationary uplift. Since the pandemic the average weekly hours have risen from 12.0 per service user to around 13.5.



- Supported Living (£4.6m) - high cost complex packages relating to a small number of Transforming Care service users being discharged from hospital settings in the community are expected to cost £3.5m. Along with increased hours being commissioned over the Covid-19 period for the remaining service users.
 - Residential Care (£3.0m) - additional average cost of care packages including transitions from Children's services (£0.9m) and Covid-19/price costs (£5.3m). Over the last 12 months there has been a significant increase in the number of placements requiring a Supplementary Needs Allowance and price increases in addition to basic fee rates which has increased the average cost of care. It is likely that these costs will be an ongoing issue and work is being undertaken to understand the basis for these which could include reduced occupancy. These are offset by NHS discharge income of £3.2m.
 - Residential Care Income (£1.9m) - as a result of Covid-19 the chargeable number of residential service users has declined. In addition to this there is an ongoing trend of lower residential service users from the Target Operating Model (TOM) project is moving them into Homecare.
34. There has been additional Community Income of £3.7m as a result of the shift of service users into Non-Residential Services following Covid-19, the volume of chargeable service users has increased compared to previous years. In addition, the review of NHS Covid-19 funded service users has increased the number of chargeable service users on the charging run. The income surplus is forecast to be £1.5m at this stage. Health income is also forecast to overachieve by £2.2m overall. New Supported Living clients have increased income by £2.2m, largely offsetting the additional expenditure incurred for these clients.
35. An action plan to manage the overspend is in place which is overseen by the departmental management team and includes:
- Reviewing all service user's packages that have commenced or changed since April 2020 commencing with Homecare.
 - Increasing the capacity of the reablement service leading to more service users receiving this service upon hospital discharge, in turn leading to better and more cost-effective longer-term outcomes.

- Reviewing residential care packages over and above the standard residential banded rates which currently equates to £5m of additional annual expenditure.
- Reviewing high cost packages to see whether health funding towards the package applies. To date £0.4m has been realised.
- Working with NHS partners to help improve the discharge pathway including reviewing funding arrangements.
- Ensuring financial and funding assessments are undertaken to close the current gap of service user income of £0.2m (residential client income has a shortfall of £1.7m but this is offset by an additional £1.5m of non-residential client income)
- Reviewing internal processes and improving management controls to avoid high cost commissioning.

36. As the approach to Covid-19 changes nationally, such as the Discharge to Assess scheme, which is expected to end in September, there may be further adverse impacts on the department and demand led commissioning should the funding end. The Department is currently discussing funding pressures with NHS partners and how Covid-19 related costs can be relieved.
37. These costs are offset by a £3.5m underspend from staffing, overhead and other budgets. This includes an additional Better Care Fund contribution agreed for the year of £1m.
38. The Infection Control and Rapid Test Grant (£6.6m) continues in 2021/22 and provides support to residential, homecare and other providers that meet the strict grant conditions.
39. Whilst there is significant activity taking place to reduce the current forecasted overspend the results of these actions are not likely to be immediate. As a result, it is not expected that overspend position will only be partially reduced within the current financial year.

Public Health

40. The department is forecasting to be on budget. There are minor net underspends of £20,000 which will be transferred to Public Health earmarked fund.

Environment and Transport

41. A net underspend of £1.4m (1.7%) is forecast.
42. The main reasons for the underspend are reduced demand for Adult Social Care and SEN transport in Passenger Fleet (£0.6m), additional developer funding as they begin to increase the rate of mobilisation now that lockdown is easing (£0.5m), additional savings arising from a review of bus and taxi contracts during the summer (£0.2m) delays in the announcement of the Hybrid Bill stalling HS2 delivery (£0.2m).
43. These underspends are partially offset by a net overspend of £0.1m on Waste budgets arising from increased waste being sent directly to landfill (£1.1m) net of additional material income from dry recyclables (£0.2m) and savings on Haulage and Waste Transfers (£0.3m) and Waste Treatment (£0.5m).

Chief Executive's

44. The Department is forecasting a slight net underspend of £20,000 which is mainly due to staffing vacancies in Democratic Services (£108,000) offset by additional expenditure on Coroners (£84,000).

Corporate Resources

45. Overall the Department is forecasting a net overspend of £0.9m (2.7%).
46. There is a £1.6m forecast overspend on Commercial Services, primarily related to the continuation of difficult trading conditions and losses of income due to continuing Covid-19 restrictions. Key examples are the continued delays to opening Beaumanor Hall (£0.4m), lower volumes in the School Food Service and reduced scope for development activity. Mitigating action has been taken in the form of furloughing staff and accessing the governments sales, fees and charges grant funding scheme but both are available to a much lesser extent this year.
47. There is a forecast underspend of £0.5m on Information and Technology, mainly relating to vacant posts and reduced printing expenditure.

Central Items

48. Capital Financing - £1.1m increased contribution to the capital programme. This relates to the use of additional proceeds from the 2019/20 (75%) Business Rates Pilot becoming available in 2021/22 (see below). The additional funds will be used to support the capital programme and reduce the overall funding required.
49. Bank and other interest - £1m underspend. Additional interest income is forecast from the returns of the £20m the Council invested in Private Debt, through the Corporate Asset Investment Programme. These investments have started to be repaid resulting in the investment and interest returns having been received.
50. Contribution to the budget equalisation earmarked fund, has been increased by £3.7m to match the forecast increase in the DSG High Needs deficit mentioned earlier in the report. This is needed due to the cashflow impact of the additional expenditure.
51. Inflation Contingency (£12.2m, unallocated balance £7.1m). The contingency is currently projected to be required in full. The position on a number of key requirements, such as the annual pay award and energy price increases should become clearer as the year progresses. The latest offer from the Local Government Employers would exceed the MTFS assumption by £2.2m.
52. Covid-19 Budget (£28.3m). At this stage no release of this one-off budget has been projected.

53. MTFS Risks Contingency (£8m). At this stage no release of the contingency has been assumed in the projection.

Business Rates

54. Additional Business Rates income of £2.4m is forecast in 2021/22, based on the latest information from NNDR1 forms and forecast section 31 grants. Of this £1.1m relates to the balance arising from the 2019/20 (75%) Business Rates Pilot, which will be used to provide additional funds for the capital programme.
55. The provisional outturn position of the 2020/21 Leicester and Leicestershire Business Rates Pool shows a total Levy of £9.5m; the final position is expected to be reported in November, after the completion of the external audits. Similarly, monitoring of the 2021/22 Pool is being undertaken, with the first exercise for quarter one showing a projected Levy of around £11.5m.

Council Tax

56. The 2021/22 revenue budget included a provision of £9m for the potential impact of Covid-19 on levels of council tax (and business rates) funding. At present it is not possible to accurately assess the levels of reductions in the funding streams, particularly as Government funding for furlough does not end until 30 September and similarly some sectors will receive business rates relief until 31 March 2022. The full impacts of unemployment and business closures are likely to be seen over the remaining months of this financial year and in 2022/23. However, £2m of the provision has been released at this stage as it looks unlikely that the full provision will be required.
57. As referred to above regarding business rates, the District Councils are also providing data on council tax and a clearer picture should emerge over the coming months and the provision will be re-assessed accordingly.

Overall Revenue Summary

58. At this relatively early stage there is a forecast net overspend of £12.0m but this is uncertain due to not being able to fully assess the ongoing impact of the pandemic. This position will be updated as more information is known during the financial year.
59. The 2021/22 outturn position is planned to be closed by the use of the Covid Budget.

CAPITAL PROGRAMME

60. The current four year capital programme totals £503m. Discretionary funding is £232m, including £143m of internal borrowing through temporary use of cash balances, repayment cost £6m per annum.
61. Due to specific and significant changes to a number of schemes, the four year capital programme has been reviewed and updated for the latest known position in respect of

costs, spend profiles and changes in grant funding. However, it is likely that further pressures, relating to global and local supply chains, will emerge, especially as the MTFS is refreshed over the coming months and extended to cover the 2025/26 financial year.

62. The revised 4-year programme is summarised below and shown in detail in Appendix C.

| Capital Programme Expenditure 2021-25 | Original MTFS 2021-25 Programme £000 | Outturn adjustments (from 20/21) £000 | Updated MTFS 2021-25 Programme £000 | Revised MTFS 2021-25 Programme £000 | Overall Change £000 |
|--|---|--|--|--|------------------------|
| Children & Family Services | 84,421 | 17,779 | 102,200 | 105,882 | 3,682 |
| Adults and Communities | 24,889 | 963 | 25,852 | 27,960 | 2,108 |
| Environment & Transport | 212,927 | 15,542 | 228,469 | 258,690 | 30,221 |
| Chief Executive's | 2,250 | 339 | 2,589 | 2,589 | - |
| Corporate Resources | 11,290 | 4,962 | 16,252 | 14,052 | -2,200 |
| Corporate Programme | 120,990 | 7,074 | 128,064 | 129,626 | 1,562 |
| Total | 456,767 | 46,659 | 503,426 | 538,799 | 35,373 |

| Capital Programme Resources 2021-25 | | | | | |
|---|----------------|---------------|----------------|----------------|---------------|
| Grant Funding/ Specific Contributions | 250,271 | 21,301 | 271,572 | 274,762 | 3,190 |
| Discretionary Funding (including borrowing) | 206,496 | 25,358 | 231,854 | 264,037 | 32,183 |
| Total | 456,767 | 46,659 | 503,426 | 538,799 | 35,373 |

63. Overall, the net funding required for the programme has increased by £32m. This comprises an increase in programmed expenditure of £35m offset by an increase in grant funding of £3m.
64. Taking into account the benefit of additional expected capital receipts of £9m, the revised position will increase the overall funding shortfall of the capital programme to £166m (from £143m) which will be funded from further borrowing. Due to the overall levels of cash balances it is expected to be possible in the medium term to fund the increase through internal borrowing rather than raising external loans. There will, however, still be a cost of around £1m p.a. in Minimum Revenue Provision and interest lost on investments that will need to be added to the MTFS to fund the additional borrowing. The greater the level of the shortfall on the capital programme, the greater the exposure to the risk of interest rate rises in the future as the availability of cash balances is not entirely within the Council's control. Whilst in the short term interest rate rises are unlikely, when looking at increased borrowing, the impact is potentially over many

decades. If external borrowing was required to fund the entire £166m gap, the cost, based on current interest rates would be about £9m per annum.

65. The key changes are described below.

Children and Families

66. The programme has increase by £3.7m. £2m relates to the addition of a children's social care investment plan (C-SCIP) scheme to develop an additional 12 residential care places over 4 properties. This is subject to business case justification, including successful confirmation of grant funding to cover half of the costs. The remaining increase relates to an increased allocation for school places, funded by basic needs grant.
67. The proposed contribution of £2.4m to purchase a property for additional Special Educational Needs and Disability (SEND) provision that was proposed in a report to the June Cabinet has been removed given that the development is no longer proceeding.
68. Further SCIP schemes are likely to be proposed. These will be subject to business case and funding availability, as such will be further reviewed as part of the 2022-26 MTFS process.
69. The only element that impacts on discretionary funding relates to the £1m cost of the residential care places not covered by grant.

Adults and Communities

70. Overall there is an increase of £2m on the departmental programme. This all relates to increased expectations of the level of disabled facilities grant available. It therefore has no impact on the discretionary funding requirement for the Authority.

Environment and Transport

71. The programme has an overall increased requirement of £30m. All this will be required to be funded from the Council's discretionary funding.
72. The increase relates to an upwards reassessment of the cost of delivering the Melton distributor road schemes. Significant work has been undertaken reviewing these schemes, including the use of independent external consultants (Atkins, Faithful & Gould) to do a detailed assessment of the way schemes are costed, including the treatment of risk and uncertainty. The key factors in driving the significant cost increase from original estimates are:
- a. insufficient contingency for inflationary increases (materials, contractors etc) especially given the most recent indicative price rises for e.g. steel and shortage of civil engineering skills given other competing priorities nationally such as HS2
 - b. under provision for risks/uncertainty which have grown as the quantified risk register has been developed

- c. under provision for optimism bias (not permitted to be included in original business case assessments)
 - d. expansions in scope compared to initial scheme.
73. The consultants advocate 'three-point estimates' for schemes which reflect a best case, most likely and worst case position, rather than using a single point estimate (budget). This is due to the significant uncertainty of delivering large infrastructure schemes, especially in advance of a target price being received and a contract issued.
74. It is difficult to plan a capital programme with a significant range estimate on schemes; a recommended approach is to provide an allocation for 'portfolio risk' within the programme. The portfolio risk allocation would cover a proportion of potential adverse impacts that would affect all schemes such as excess inflation due to shortage of materials or a shortage of available contractors/scheme delivers due to the wider demands on the market. This approach works best when it is applied to several schemes, so that there is an overall balance between schemes under and over spending their portfolio risk assessment. The existence of portfolio risks does not eliminate the risk of cost escalations over and above the budget and may not cover all potential issues that may arise. However, over enough schemes and given enough time for it to establish, it should provide a way help to mitigate the uncertainty. The overall effect is less schemes in the programme but it provides a better approach for managing the programme to reduce the risk of unexpected cost pressures for those schemes where significant uncertainty and long lead times mean that cost forecasting is very challenging.
75. Through the budget monitoring process, risks would be identified which would point to the need to utilise a proportion of the portfolio risk allocation. This would be to cover those issues such as those referenced in the previous paragraph and would need to be based on clear evidence that such a scenario has arisen. This would necessitate a review of the portfolio risk allocation to ensure that it remained sufficient for the scheme risks present at the time. It is recommended that decisions on when money from the portfolio risk allocation is transferred to a specific project are taken by the Director of Corporate Resources following consultation with the Cabinet Lead Member for Resources.
76. The schemes for which a portfolio risk allocation is needed are those which are highly complex and difficult to predict costs or external funding and are likely to span many years between initially appearing in the capital programme and actually being delivered. In addition to the Melton schemes, other potentials are the A511/A50 Major Road Network, Lutterworth East and Zouch Bridge. The delivery approach for these schemes is not sufficiently developed to assess the portfolio risk. They will be reviewed in the coming months and will feed into the overall MTFs refresh. It might also apply to a number of the schemes within the Corporate Asset Investment Fund (CAIF) but as the CAIF has a general capital programme provision quantified to take the overall Fund's value up to £260m, this removes the immediate need to have a separate portfolio risk allocation for the CAIF. Therefore the intention is to only apply it to Highways schemes at this stage.

77. The overall level of portfolio risk for Highways schemes will need to be reviewed regularly to reflect how quantified risks change through the projects' lifecycle. This will be done through the financial monitoring process.
78. As a result of the work with consultants revised estimates (of the most likely) position have been made for the Melton schemes. For Melton North and East this revised estimate is £90.3m (including portfolio risk of £5m), For the Melton South the revised estimate is £43.1m (including portfolio risk of £5.6m – a higher proportional amount compared to the North and East scheme reflecting the scheme is at an earlier stage).
79. Overall this combined cost of £133.4m is £35m in excess of the £98.4m budget in the existing programme. The expectation was that after allowing from grant (DfT and Homes England) and S106 contributions from developers (albeit which would be received further down the line and would need to be cash flowed by the Authority) £11m would fall on the Authority's discretionary funding. So other things being equal this would increase the overall impact on discretionary funding to £46m. However, an additional £4m of LLEP funding has since been secured towards the cost of the North/East scheme. And also current estimates are an additional £7m of developer funding is available for the Southern scheme compared to initial estimates.
80. Therefore the updated assessment of what will fall upon council discretionary funding is around £35m, £24m more than allowed for within the previous budget. Furthermore, the level of risk (dependency on forward funding in advance of developer monies becoming available where agreements have not been put in place) has increased due to the assumption of a £7m expected increase in developer monies.
81. It is proposed that the portfolio risk element of the scheme costs are shown on a separate line to the scheme allocations. As it is only being applied to schemes in Environment and Transport for now, it sits as a line within the departmental programme. But as the concept evolves it might be that it is repositioned within the corporate programme. As mentioned above, subject to approval, this pot could only be reallocated to schemes by the Director of Resources following consultation with the Cabinet portfolio holder for resources under delegated responsibility.
82. Further work is now being undertaken with Newton Europe to review the wider approach to the management of large capital projects through the life cycle of the scheme. This work is currently being finalised and recommendations will be made and implemented in due course.
83. There is also a £4m reduction on the overall transport asset management programme due to a reassessment downwards of the expected grant funding that will be available over the MTFS period which will increase pressure on managing the overall road network and preventing further decline.

Chief Executives

84. No changes.

Corporate Resources

85. Overall the departmental programme has reduced by £2.2m. This is mainly due to the removal from the programme of the Sysonby Farm development. The scheme was in the programme with expenditure of £2.5m, matched by a grant from the Local Authority Accelerated Construction scheme. However, following review the more beneficial approach is for the site to be sold with minimal (£0.3m) site preparation costs which will be funded from the Council's discretionary resources. The sale which is dependent on the Melton North/East distributor road proceeding, will contribute to the Council's capital receipts. These will be used to reduce the overall funding gap on the Council's capital programme.

Corporate

86. The changes to the corporate programme are:

- The inclusion in the programme of £9.5m for the phase 3-4 developments at Airfield Farm, as approved by the Cabinet at the meeting on 23rd March 2021. £0.6m of funding has been transferred from the original requirement from phase 2 reducing the overall increase to £8.9m.
- The removal from the program of £7.4m for the industrial units proposed for Barrow Road Quorn, due to likely difficulty in receiving planning permission from Charnwood Borough Council
- The net £1.5m increase from the 2 schemes above has been taken from the Corporate Asset Investment Fund's 'asset acquisition/new provision' pot. Hence the position on the discretionary funding requirement is neutral

Slipped schemes

87. An updated has been provided around some of the key schemes within the capital programme which have been subject to slippage, to understand the reasons, the impact and where lessons can be learnt in the Council's approach to scheme management going forward.

88. This information is presented in Appendix D.

Summary and outlook

89. The recent review of the capital programme has led to an increase in the four-year programme of expenditure by £35m. The change includes an increase in discretionary funding required of £32m (the remaining £3m arising from additional grant) which will increase the need to use internal cash balances, adding around £1.3m per annum to the revenue budget.

90. The Government continues to indicate that it intends to invest in infrastructure to support economic recovery and build out of recession. Furthermore, there is some indication of a move away from the use of competitive bid processes to secure such funding which can lead to potentially wasted investment in advanced design and related activity. The

creation of County Deals, and an agreement of funding arrangements to cover a number of years, would be a major positive development in this direction. However, funding uncertainty and competitive bidding approaches will not be completely removed, and going forwards there are still likely to be difficult decision to be made about which capital schemes are progressed given the wider financial pressures

91. The emerging infrastructure requirements from District Councils' local plans are going to present an increased demand on the County Council's resources if infrastructure needs to be funded in advance and at risk of funding being received from developers. Furthermore there are a number of infrastructure requirements being identified which are required to kick start the East Midlands Freeport. Again there will be pressure on local authorities to fund up front in advance of retained business rates resources becoming available. Approximately £0.5m is required to get to the end of the business case stage. This will be repaid through future business rates. However, as the Freeport is not designated this funding risk rests with the County Council. Further demands around local infrastructure and site set up may lead to further forward funding requirements.

Corporate Asset Investment Fund

92. A summary of the Corporate Asset Investment Fund (CAIF) position as at quarter 1 for 2021/22 is set out below:

| Asset Class | Opening Capital Value | Capital Incurred 2021/22 | Net Income YTD | Forecast Net Income FY | Forecast Net Inc. Return FY |
|---------------------------|------------------------------|---------------------------------|-----------------------|-------------------------------|------------------------------------|
| | £000 | £000 | £000 | £000 | % |
| Office | 52,411 | 0 | 862 | 2,962 | 5.7% |
| Industrial | 24,244 | 0 | 113 | 1,370 | 5.7% |
| Distribution | 457 | 0 | 8 | 17 | 3.6% |
| Rural | 28,584 | 0 | 104 | 416 | 1.5% |
| Other | 4,688 | 0 | 41 | 263 | 5.6% |
| Development | 36,035 | 34 | -29 | -55 | -0.1% |
| Pooled Property | 24,305 | 0 | 205 | 820 | 3.3% |
| Private Debt ¹ | 16,640 | -1,425 | 712 | 750 | 4.8% |
| TOTAL | 187,364 | -1,391 | 2,016 | 6,543 | 3.5% |

1. Delayed distributions last year but expecting an increase this year so income likely to be understated

93. Overall the fund is forecasting to achieve a 3.5% net income return for 2021/22. The direct property portfolio (excluding developments, pooled property and private debt) has a forecast net income return of 4.6%
94. The directly managed property portfolio is expected to perform in line with expectation over 2021/22. The office asset class now holds the LUSEP development alongside five other assets and is expected to return 5.7% or around £1m in net income.
95. The Council's exposure to the distribution sector is low risk due to the type of assets held. As such, performance is expected to remain in line with last year. The rural sector is

largely unaffected by Covid-19 and is currently expected to return around £400,000 net income - about 1.5% based on the capital value of the rural portfolio. The diverse assets held in the other asset class offered from protection from Covid-19 last year. Similar returns are expected this year with a forecast net income return of 5.6%. The Citroën Garage within this class is the largest holding and contributes the majority of the forecast net income.

96. Pooled property income is similar to last year and is forecast to return 3.3% from a diverse portfolio comprising of four institutional property manager funds. Private Debt repayment of capital has totalled £1.4m in the first quarter alongside £0.7m in interest payments. Interest payments will reduce over time as capital is returned (loans repaid). The private debt investment 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.
97. 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.

MTFS Refresh 2022-2026

98. The MTFS will be refreshed over the autumn, with a similar approach taken to that followed in previous years, namely continued investment in organisational change, planning and robust delivery of savings and a realistic allowance for growth. However, as mentioned previously this will be done in the context of greater uncertainty than in previous years. The potential longer term adverse impact of the Covid-19 pandemic on local businesses are likely to have an upward impact on service demand at the same time as reducing the Council's core income levels.
99. In addition to the usual MTFS planning process, the continuing difficult financial position in the current year also requires the Council to keep in place measures to control levels of expenditure introduced last year. The controls incorporate greater departmental and corporate oversight in order to:
- Support consistent implementation
 - Identify opportunities across services/departments
 - Ensure shared understanding of implications.
100. However, this oversight was not intended to replace the financial responsibilities that people have in their roles. For the spend controls to be successful, continued ownership by everyone who has a part in spending or generating income is vital.
101. As a reminder the controls measures cover:
- Targeted recruitment controls to restrict non-essential hiring including a focus on agency, consultants and specialist advisors

- Procurement controls to ensure greater commissioning support unit input into contract renewal/extension, use of frameworks and exceptions
- Greater scrutiny of external expenditure
- Limited approval of new projects to essential schemes only
- Controls on grants to ensure that wherever possible they are used to cover existing spend pressures rather than for new service initiatives.

102. These controls were put in place until the following conditions are met:

- Any reduction to the general fund balance required to cover this year's financial pressures is repaid
- The MTFS gap is at an acceptable level
 - First 2 years balanced
 - Final 2 years at a manageable level
- Good certainty of savings delivery, especially for the next 2 years
- Local government outlook becomes clearer – linked to the Autumn Comprehensive Spending Review (CSR).

103. It should be noted that the implementation of spend controls is not service cuts, although it should influence how services are delivered. The long-lasting impact of the Covid-19 crisis (e.g. reduced Council Tax) inevitably means that new savings will be required leading to some permanent reductions in non-essential spend. Although future savings will not be prioritised based on where spend was reduced through the controls, managers will need to consider the potential to make permanent changes to their services.

104. The gap in the existing MTFS is expected to have increased significantly as a result of the pandemic. As the Council rolls forward the MTFS to include 2025/26 it is very likely that there will a further significant increase in the gap in that year as well. The MTFS refresh exercise over the autumn and winter, including the outcome of the Government's CSR, will enable a better understanding on the scale of this gap.

National Position

105. Latest economic forecasts suggest that the UK economy will recover more quickly than previous estimates. Growth of 7.2% in GDP is expected in 2021 and 5.5% forecast for 2022 and expected to have returned to its pre-pandemic level by early 2022.

106. The imminent withdrawal of the Coronavirus job retention scheme means that unemployment is expected to peak at the end of 2021 at 6.1%. There are expected to be further upward pressures on inflation but, whilst it might exceed the Bank of England's 2% target periodically, on average it will still be contained within the 2% envelope.

107. The office for budget responsibility estimated that during the 2020/21 financial year around 17% of GDP was spent on support for businesses and households and wider measures to manage the impact of the pandemic. Gross public debt is expected to peak at nearly 150% of GDP in the current year. So the impact of this will be felt for many years to come. Tax increases have been signaled by the Government from 2022 in terms of personal taxation (freezing of income tax brackets) and increases in corporation tax from 2023.

108. Given that the tax rises will be needed to manage the impact the Coronavirus pandemic has had on the economy, prospects for increased levels of funding for local government seem remote. In July, the Chancellor warned ministers that the 2021 comprehensive spending review would be a 'tough spending round'.
109. Furthermore some of those key reviews required to resolve underlying structural issues in the way certain services are funded, especially social care and special education and disability needs where significant increases in demand are putting pressures on local authority budgets across the country are unlikely to reach a conclusion, and measures put in place to address the issues, any time soon.
110. All the indications are that this will be the twelfth austerity budget in a row. The Council has already made savings of £232m (excluding DSG), to the end of 2021/22. Therefore, the identification of new savings will be very challenging and is likely to require much more radical service transformation.

Leicestershire Position

111. There will need to be a continued focus on performance and productivity across the Council's services to improve the way it is measured and understood. This is likely to require some investment to ensure meaningful and reliable management information is available.
112. It is important that the savings that are already under consideration are progressed and delivered on as soon as possible. Furthermore there will be a need to add in further savings as part of the MTFs refresh in the autumn.
113. Crucial in progressing this is the need to push on crystalising the Savings under Development. The latest position on these is included in Appendix E.
114. The existing MTFs has a gap of £10m in 2023/24 rising to £23m in 2024/25. This is likely to grow by between £10m and £20m by the time of the full MTFs refresh in the autumn due to the ever increasing growth pressures on key services such a social care and SEND coupled with continued concerns over the levels of the taxbase for council tax and business rates in the medium term compared to previous estimates. Also the growing pressures on the financial programme and the associated increased borrowing (with a growing likelihood that some of this will need to be external, will add to the gap on the revenue budget).
115. The main objective for refreshing the MTFs will be to re-establish the Council's strong financial position. And until the position is clearer on funding reforms and funding of legislation, changes will need to be based on prudent financial assumptions.

Planning Framework

116. The next three key Government announcements will be;

- Comprehensive Spending Review – autumn 2021.
- Autumn Budget Statement anticipated in November.
- Local Government Finance Settlement expected mid/late December.

117. The broad MTFS timetable is:

- September to November 2021 – refresh growth, savings and capital including consideration by Lead Members.
- December 2021 – the Cabinet is requested to approve the draft MTFS for consultation.
- December 2021 – receipt of the Local Government Finance Settlement
- January 2022 – consultation on the draft MTFS, including Overview and Scrutiny Committees and the Scrutiny Commission.
- February 2022 – the Cabinet is requested to approve the final draft MTFS for submission to the County Council.
- February 2022 – County Council is requested to approve the MTFS for 2022/23 to 2025/26.

Equality and Human Rights Implications

118. Public authorities are required by law to have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation;
- Advance equality of opportunity between people who share protected characteristics and those who do not; and
- Foster good relations between people who share protected characteristics and those who do not.

119. Many aspects of the County Council's MTFS may affect service users who have a protected characteristic under equalities legislation. An assessment of the impact of the proposals on the protected groups must be undertaken at a formative stage prior to any final decisions being made. Such assessments will be undertaken in light of the potential impact of proposals and the timing of any proposed changes. Those assessments will be revised as the proposals are developed to ensure that decision-makers have information to understand the effect of any service change, policy or practice on people who have a protected characteristic.

120. Proposals in relation to savings arising out of a reduction in posts will be subject to the County Council's Organisational Change policy which requires an Equality Impact Assessment to be undertaken as part of the Action Plan.

Crime and Disorder Implications

121. Some aspects of the County Council's MTFS are directed towards providing services which will support the reduction of crime and disorder.

Environmental Implications

122. The MTFS includes schemes to support the Council's response to climate change and to make environmental improvements.

Partnership Working and Associated Issues

123. As part of the efficiency programme and improvements to services, working with partners and service users will be considered along with any impact issues, and they will be consulted on any proposals which affect them.

Risk Assessments

124. As this report states, risks and uncertainties surrounding the financial outlook are significant. The risks are included in the Corporate Risk Register which is regularly updated and reported to the Corporate Governance Committee.

Background Papers

Report to the Cabinet – 22 June 2020 – 2020/21 Provisional Revenue and Capital Outturn
<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=6444&Ver=4>

Report to County Council -17 February 2021 – Medium Term Financial Strategy 2021/22 to 2024/25

<http://politics.leics.gov.uk/documents/s159779/Revised%20Cabinet%20Report%20MTFS%202021-25.pdf>

Appendices

Appendix A: Revenue Position as at Period 4, 2021/22

Appendix B: Revenue budget major variances

Appendix C: Revised Capital Programme 2021-25

Appendix D: Slipped Capital Schemes

Appendix E: Savings Under Development