Leicestershire County Council

CABINET – 27 MAY 2022

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PROVISIONAL REVENUE AND CAPITAL OUTTURN 2021/22

PART A

Purpose of the Report

1. The purpose of this report is to set out the provisional revenue and capital outturn for 2021/22.

Recommendations

2. It is recommended that:

    (a) The 2021/22 provisional revenue and capital outturn be noted

    (b) The prudential indicators for 2021/22 as shown in Appendix E to this report be noted

    (c) The net underspend is used for the additional commitments as specified in the report.

Reasons for Recommendations

3. To inform the Cabinet of the provisional revenue and capital outturn for 2021/22.

Timetable for Decisions (including Scrutiny)

4. A report on the provisional revenue and capital outturn will be considered by the Scrutiny Commission on 8th June 2022.

Policy Framework and Previous Decisions

5. The County Council approved the 2021/22 to 2024/25 Medium Term Financial Strategy (MTFS) in February 2021. 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.

Resource Implications

Revenue Outturn

6. A summary of the revenue outturn for 2021/22, excluding schools grant, is set out below:

	£000
Updated budget	399,353
Provisional outturn	399,061
Net underspending	-292
Less additional income	-7,632
Net Underspend	-7,924
Additional Commitments	7,924
Net Position	0

7. Overall there has been a net underspending of £7.9m, which will be used to meet additional commitments detailed later in the report. Details of the variances are included in the report and in Appendix A and Appendix B.

8. The General Fund Reserve stands at £18m as at 31st March 2022, which represents 3.8% of the 2022/23 revenue budget, in line with the County Council's earmarked funds policy and the MTFS approved in February 2022. It is planned to increase the General Fund to £22m by the end of 2025/26 to reflect increasing uncertainty and risks over the medium term and the growth in the County Council's budget.

9. The 2022-26 MTFS, approved in February 2022, is balanced for 2022/23 with a shortfall of £7.8m in 2023/24 rising to a shortfall of £40m by 2025/26. This position is after planned MTFS savings of £54m, including £14m from Dedicated Schools Grant (DSG). The County Council has a programme of Savings Under Development (SuD's) to help close the gap.

10. There are significant uncertainties to the County Council in the medium term due to the continuing impacts of Covid-19 and rising inflation. Latest estimates of the impact of inflation show a potential increase of £3m required for 2022/23 rising to £31m by 2025/26. This would increase the MTFS shortfall in 2025/26 to £71m.

11. The implementation of the Fair Funding Review and the 75% Business Rates Retention Scheme have both been postponed until at least April 2023. 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 pressures. Therefore the MTFS does not include any provision for any additional funding.

Capital Outturn

12. A summary of the capital outturn for 2021/22, excluding schools devolved formula capital, is set out below:

	£000
Updated budget	118,581
Less provisional outturn	82,137
Net Variance	-36,444

13. Overall there has been a net variance of £36.4m compared with the updated budget. This includes net slippage of £36.3m and a net underspend of £0.1m. The net slippage will be carried forward to 2022/23 and future years to fund schemes that were not completed in 2021/22, 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 as a result of the increases in inflation and commodities. A review of the capital programme will be undertaken over the summer to understand any affordability implications and to update deliverability spend profiles.

15. Details of the variances and key projects delivered in 2021/22 are included in the report, and in Appendix D.

Circulation under the Local Issues Alert Procedure

16. None.

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PART B

Overall Position - Revenue

17. Appendix A shows the provisional outturn position for 2021/22. 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.

18. The overall net underspend is £7.9m, which has been allocated to a number of additional commitments.

19. Appendix B gives details of significant variances by departmental revenue budgets for 2021/22.

Children and Family Services – Schools Budget

20. The Schools budget overspent the grant received by a net £13m at the end of 2021/22, mainly relating to the High Needs block (£11.2m) and Early Years block (£4.2m) offset by an underspend on the other Schools block from schools growth (£2.4m).

21. Nationally, concern over the impact of Special Educational Needs and Disabilities (SEND) reform on High Needs expenditure, and the financial difficulties this exposes local authorities to, 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 outturn position shows that this has increased to £11.2m, an increase of £5.5m. The increase largely relates to an increased number of placements, and the non-achievement of planned savings of £1.9m.

22. At the end of 2021/22 the accumulated High Needs deficit is £28.7m. A refresh of the High Needs Development Plan is underway and the Department is investigating a number of actions that could reduce demand to slow the increase in deficit with the ultimate aim of reducing it. Without new interventions the high needs deficit is forecast to continue to increase over the MTFS period and is not financially sustainable. This creates a significant and unresolved financial risk to the Council.

23. In respect of the underspend on the Schools block of £2.4m, this is funding which has been earmarked to help meet the revenue costs associated with new schools and also for meeting the costs of some funding protections for schools with falling rolls as a result of age range change in other schools. The underspend will be transferred to the DSG earmarked fund to fund pupil growth in future years.

24. The overspend position on the Early Years block (£4.2m) relates to additional payments made to providers to help keep them solvent during Covid-19, and a census return to the Department for Education (DfE) which understated the number of hours being undertaken by children in early years providers which caused a consequent shortfall in grant received by the County Council. Work is ongoing to assess how best the additional Covid-19 payments can be recovered from providers over a period of

years, and the DfE has been asked if it is possible to revise the census information. No agreement has been reached at this stage.

Children and Family Services – Local Authority Budget (Other)

25. The Local Authority budget is underspent by a net £3.7m (4%), mainly relating to an underspend on the Children's Social Care Placement budget (£3.2m), due to lower demand than expected.

26. The number of looked after children (LAC) in care increased by 8% in 2020/21 to 705 as of 1st April 2021. The budget for 2021/22 had assumed a further 8% increase in LAC numbers. However, numbers during 2021/22 actually decreased by 2% to 695 on 31st March 2022. One of the key drivers behind this current positive position is the active work and outcomes being achieved through the Defining Children and Family Services Programme, which have allowed the Department to over-achieve in regard to its MTFS savings targets for 2021/22. Such outcomes include reducing the number of LAC starts per year and more specifically reducing the number of residential starts per month where it was seen the current level of need of children in residential provision could be managed in alternative provision types and sustained through SMARTER planning. The subsequent impact has seen current placement numbers across various provision types at a lower level than budgeted for, both within external fostering and residential provision types.

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. As per the underspend position across social care placements, early signs show this is starting to make a positive impact. The Social Care Investment Programme (SCIP) 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 places, which should be in place during 2022/23. With increasing demands projected and a market shortage, further investments are planned subject to the individual business cases and availability of suitable property and staff.

28. 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 increased sharply, a scenario which was largely expected post Covid-19. It is, however, uncertain at this stage how this demand will affect Leicestershire's LAC numbers but this will be kept under ongoing review

29. Social care staffing teams continue to remain under pressure with a net overspend of £0.6m for the current year. Nationally there is a shortage of qualified social worker staff which has recently been acknowledged through further work indicating a 6% reduction nationally in applicants applying to undertake social work training. Further research is showing qualified social work staff do not remain in front line work on average for more than 8 years. There is also a growing number of staff moving to agency work or neighbouring local authorities for inflated rates of pay. All of these factors and issues are all very prevalent within Leicestershire and despite positive

recruitment and retention activities, such as increasing the number of staff undertaking the apprenticeship social worker course and Leicestershire paying market premia payments to try to ensure average pay is more in line for similar posts across the region, the challenging market still continues to see supply of social workers being limited. Agencies and some nearby local authorities continuing to pay more have resulted in continued pressures and challenges for social care service budgets in Leicestershire.

30. Other notable underspent budget areas contributing to the final year end position are due to reduced demand compared to budgeted and pre-Covid levels are; the social care legal budget (underspend of £0.1m), the disabled children service (underspend of £0.4m), premature retirement costs (£0.2m) and vacancy control management controls across the Department for non-essential posts (£0.2m).

<u>Adults and Communities</u>

31. There is a net overspend of £2.4m (1.5%) on the revenue budget for 2021/22.

32. There is continuing significant financial impact due to Covid-19 on adult social care which includes additional costs for commissioned services and loss of service user income. 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 March 2022 have significantly increased. Typical growth in a year would be approximately 1.5% per annum. However, current numbers of service users supported is an increase of 3.5% per annum. There are early indications that overall numbers are now starting to decrease. Over the same time period, the average cost per service user has also increased, although these also now seem to be stabilising.

33. The main variances are:

- Residential Care and Nursing overspend £11.7m. This comprises:

  - Residential Care expenditure £10.4m. Additional average cost of care packages including transitions from Children's services (£1.4m) and Covid/price costs (£9m). Over the last 12 months there has been a significant increase in the number of placements requiring a Supplementary Needs Allowance, short term bed placements 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 these as part of Market Sustainability for Adult Social Care Reform. These are offset by NHS discharge income of £6.4m during 2021/22.

  - Residential Care Income reduction £1.3m. 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.

- Homecare - overspend of £8.7m. This position 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 31 March 2022, although arrangements beyond this date are uncertain. Some of these costs are offset by hospital discharge income in the region of £1.6m. The discharge to assess scheme, along with placing less clients into residential care services during the early stages of the pandemic, have been the main factors 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 continues alongside Health in reviewing these practices. As at the end of March 2021, there were on average 2,220 home care clients with an average package of £260 per week.

- Supported Living overspend £5.7m. 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 £2.2m. There is additional health funding in the region of £2.6m to support these costs.

- Community Income additional £5.2m - 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.

- An additional one off grant of £5m has been received from the NHS to help support the additional Covid costs, and £7.9m income has been received from the NHS Discharge Scheme.

34. An action plan has been in place during 2021/22 which has:

    - Undertaken reviews of all service users’ packages that have commenced or changed since April 2020 commencing with Homecare which has reduced the overspend by around £4m.
    - Worked with NHS partners to help improve the discharge pathway including reviewing funding arrangements.
    - Ensured financial and funding assessments are undertaken which has reduced the potential loss of income by around £3m.
    - Reviewed internal processes.

35. However, the ongoing impact of Covid-19 on demand led commissioned service is being validated and reviews of high-cost packages will continue to be undertaken.

36. These costs are offset by a £4.5m underspend from staffing, overhead and other budgets, plus an additional Better Care Fund contribution agreed for the year of £1m.

37. An additional £6m was made available from the NHS winter pressure monies to support providers with recruitment and retention through the winter period.

38. The following government grants relating to Covid-19 have been allocated in 2021/22:

- Infection Control and Rapid Test Fund (£10.6m) provides support to residential, homecare and other providers that meet the strict grant conditions.
- Workforce Recruitment and Retention Fund (£4.7m) providing support to residential, homecare and other providers that meet the strict grant conditions.
- Omicron Support Fund (£0.6m) additional funds to support providers during the outbreak.

Public Health

39. The Department had a net underspend of £0.6m which will be transferred to the Public Health earmarked reserve to offset uncertainties on future grants.

Environment and Transport

40. A net underspend of £3.7m (4.4%) is reported.

41. There are underspends on Transport budgets of £2.3m. This comprises SEN transport (£1.5m) and Mainstream School Transport (£0.3m) due to reduced service demand and contract suspensions as a result of Covid-19; savings arising from service reviews; and delays to implementing some SEN transport at the start of the 2021/22 academic year. In addition, underspends have arisen from the decision to make Concessionary travel reimbursement at actual service levels as per DfT guidance (£0.6m). There is also an overspend on Fleet Services (£0.1m) relating to the under-recovery of vehicle costs from operational areas.

42. Across Highways an underspend of £2.4m is reported. Underspending on HS2 due to Central Government delays (£0.2m) and increases in developer contributions from Section 38 and Section 184 infrastructure funding (£0.6m). Further underspends have arisen as a result of increased operations on the network generating income from permitting and fines (£0.4m), an increase in sign-shop income (£0.1m) and increased income from recharges to the capital programme as a result of the £2m contribution to the capital programme (£0.4m), see below. A mild winter has reduced costs for maintenance (£0.5m) with the balance of underspend (£0.6m) relating to vacancies being carried across the service and minor variances. These underspends are offset by increased reactive and environmental maintenance works to prevent network deterioration (£0.4m).

43. There is an underspend of £1.0m on Waste budgets. This relates mainly to continuing market price rises generating increased income for recycling, scrap metal and dry recyclable materials (£1.2m). Additional underspends resulting from lower composting tonnages (£0.3m); vacancies across the service (£0.1m) and minor variances (totalling £0.2m) are also reported. These underspends are partially offset by additional waste tonnages going to landfill (net £0.4m) and a contribution to reserves to provide for anticipated costs associated with Market Premia (£0.4m).

44. During 2021/22 due to the improved overall net revenue position £2m of the net Departmental underspend was redirected toward roads maintenance funding.

Chief Executive's

45. The Department has an overspend of £0.1m which is mainly due to additional costs of the Coroners Service £0.6m and loss of income £0.2m in legal services. These costs are offset by staffing vacancies across the department of £0.6m and a £65,000 saving on the Local Government Association (LGA) subscription.

46. The overall position includes initial expenditure of £716,000 on the establishment of a Freeport as reported previously to the Cabinet. As the accountable body the Freeport costs will initially be funded from County Council reserves (cash flowed), to be repaid in the future by retained business rates generated once the Freeport goes live. In total the Council is proposing to lend £2.5m to the Freeport. This cash flow funding is at risk if designation does not actually happen but currently this risk looks low.

Corporate Resources

47. Overall the Department has a net overspend of £1.1m (3.2%).

48. There is a £2.2m 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 (£0.5m), 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 Government's sales, fees and charges grant funding scheme but both were available to a much lesser extent during 2021/22.

49. There is an underspend of £0.8m on Information and Technology, mainly relating to not fully utilising all of the funds allocated for Microsoft Teams licensing and the Contact Centre, and also from vacant posts and reduced printing expenditure.

50. The Corporate Asset Investment Fund (CAIF) has a net £0.5m additional costs due to Environmental damage relating to illegal waste disposal at a County Council tenanted farm, Firs Farm, Husbands Bosworth. The Tenant has since absconded and it has become apparent that criminal activity relating to illegal waste disposal was occurring on the farm. Due to legal complications relating to the status of the Tenant, the Council was unable to regain possession of the farm until May 2020. A remediation strategy for the farm is now agreed with the Environment Agency. The Council will shortly be undertaking a tendering exercise for the removal and proper disposal of the waste on the farm and reinstatement of the farmland with a view to undertaking the work in summer 2022. The latest estimate of costs is £2.4m which has been set aside in an accounting Provision in 2021/22 to recognise the liability. The available balance in the CAIF reserve of £1.9m has been withdrawn to fund the Provision with the balance of £0.5m needing to be funded by the departmental budget.

Central Items

51. 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.

52. Central Expenditure/ Grants - £1.9m underspend. This is mainly relating to additional interest income from the financial returns of the £20m the Council invested in Private Debt, through the CAIF programme. These investments have started to be repaid resulting in the investment and interest returns having been received. In addition, recent increases in the Bank of England interest rate has resulted in higher investment returns on balances invested than previously forecast.

53. Other items (including prior year adjustments) show a net underspend of £1.5m mainly due to a review of prior year open purchase orders and other liabilities that are no longer expected to be incurred.

54. Contribution to the budget equalisation earmarked reserve has resulted in a £5.6m overspend. The forecast contribution has been increased by £5.6m 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. The overspend continues to be accounted for against the grant with the expectation that it will ultimately be repaid.

55. The inflation contingency has overspent by £0.4m. The main reason for this is that the 2021/22 pay award exceeded the original MTFS assumption.

Increasing Inflation Pressures

56. Since the 2022-26 MTFS was agreed back in February 2022, world events have meant that the provision included for inflation looks to be understated.

57. Front and foremost is the impact of the war on Ukraine, especially with it coming on the back of the global pandemic. The war, which is expected to be protracted, and the resulting sanctions against Russia have caused commodity prices to increase significantly.

58. This has resulted in economic commentators revising their opinion from initially expecting a sharp spike in inflation that would fall back quickly to more manageable levels, there is now more of a growing feeling that the magnitude of the increase will be greater than previously forecast. Furthermore, and perhaps more worryingly, that it will be more widely felt (across more economies and more commodities) and also is likely to persist for longer with parallels being drawn to the 1970s. Key factors in this are the continuing pressure on labour supply in many ‘contact intensive’ industries following Covid-19 as well as greater and longer than expected disruption to supply chains.

59. As a result, economic growth around the world is expected to be hit significantly, and the International Monetary Fund is suggesting the UK economy will be hit harder than most. Latest estimates suggest growth of 3.7% this year, down 1% on January forecasts. It is widely expected that most major economies are likely to experience a recession in the next 18 months.

60. In order to try to supress inflation, central banks around the world are raising interest rates which, as well as supressing spending, also increases the cost of repaying the significant debts incurred by many nations to manage the impact of the pandemic.

61. This will affect household budgets as the interest rate rises will directly hit through increased mortgage payments; this is on top of the well documented impact from escalating energy/fuel and food prices. Higher living costs will lead to upward pressure on wage inflation, which will hit local authorities both directly through future pay awards for their own staff and indirectly through contractual renewals as service providers, already suffering with recruitment and retention problems for key services, will inevitably have to raise prices significantly in order to continue to be viable. This will be compounded by the impact of the potential National Living Wage (NLW) increases, which are now being forecast to be greater than expected when the budget was set.

62. Significant funding was set aside in the MTFS but this is now not expected to be sufficient. Key assumptions made at the time the MTFS was set and what is now being expected are shown in the table below. Due to contract renewals, inflation typically hits the Council's budgets in arrears and so it might not be until 2023/24 that the significant upward projections for 2022 impact.

	MTFS	Updated
Pay awards	2.5% per year (plus 0.5% bottom loading)	3% per year (plus 0.5% bottom loading)
NLW/ASC fee review	5% each year	An average of 6.5%
Running costs	6% in 22/23 and 3% in later years	6% in 22/23, 9% in 23/24, 5% in 24/25 and 3% in 25/26

63. The overall impact of the changed assumptions on the required inflation contingency are shown in the table below. It shows that the impact in 2022/23 is £3m, but with no mitigating actions this will rise significantly to £16m in 2023/24 and will add £31m to the MTFS gap by 2025/26.

	22/23 £m	**23/24 £m**	**24/25 £m**	**25/26 £m**	**Total £m**
MTFS	29	15	14	14	72
Updated	32	31	22	18	103
Increase	+3	+16	+8	+4	+31

64. There is clearly a huge amount of uncertainty in these figures and they are also sensitive to key assumptions. For example, national living wage (NLW) range projections by the Low Pay Commission (LPC) suggest it could increase to between £10.95 and £11.33 by April 2024. The updated assumptions above assume the mid-point of this range but the table below shows how the requirement would change if it transpired at the bottom of the range and at the top of the range. Essentially, it would make over £6m difference either way if the highest or lowest projections for NLW by April 2024 resulted.

	23/24 £m	**24/25 £m**	**25/26* £m**	**Total £m**
Bottom of range	-3	-3	-0.3	-6.3
Top of range	+3	+3	+0.3	+6.3

* No forecasts by LPC for this year – 5% increase assumed

65. Other uncertainties exist around the pay award for Council staff, both in absolute terms and its interaction with the NLW increases which require a contraction of the low end pay scales to maintain headroom from the minimum wage.

66. There is also significant uncertainty arising from the potential impact of the Adult Social Care reforms. This could also mean the assumptions around the impact of the fee review, and more widely in terms of service demand and levels of service user income (in terms of the gap between self-funders and council funded service users will look like when inflation stabilises to more reasonable levels) prove to be inaccurate.

67. The nature of and restrictions on the Council's key income sources to fund gross revenue costs gives limited ability to respond to inflationary pressures. A breakdown of the key income streams is included in the table below.

Income source	**Expected £m**	**% of total**	**Prospects for increasing**
General income:			
Council tax	355	44	Limited by Government cap – possibility may be restricted to help cost of living pressure
Business rates	74	9	Index linked
General grants	44	5	Determined by Government
Specific grants/user income:			
Adults and Communities	123	15	On service user income, partial link to cost increases, but debt levels increase, and people require County Council support sooner Previously around half of the income has come from health. Traditionally this has increased with inflation but there are no guarantees.
Children and Families	134	16	Mostly grant – determined by Government. High Needs already under significant pressure
Public Health	28	3	Mostly grant – determined by Government
Corporate Resources	36	4	Mostly income from commercial services and investments - likely to be heavily impacted by wider economic environment
Environment and Transport	15	2	Range of smaller income streams (e.g. bus income, charges to external bodies, recycling)– likely to be impacted by wider economic climate
Other	6	1	Range of smaller income streams (e.g. registrars, planning, treasury management) – likely to be impacted by wider economic climate

68. Much of the Council's income is dependent on allocations from Government, or in the case of Council Tax, what Government permits. Other income sources are dependent on the state of the wider economy. Corporate Asset Investment income could also be under threat if smaller business, located at council owned business units begin to struggle to maintain viability. Also, commercial services income is likely to be affected as individuals need to manage the impact of cost-of-living increases. This will also impact on the ability of services to make charges to service users where service users' personal financial circumstances become increasingly challenging.

69. Inflationary pressures will also impact significantly on delivery of the capital programme. Delivery of an estimated £129m of capital schemes and initiatives is anticipated in 2022/23 (£514m over the four-year programme) funded between external grants/contributions and discretionary funding set aside for capital investment.

70. The biggest capital risk area is around the major transport schemes where pressures already exist in terms of delivery cost escalation. This is linked in part to inflation, but also shortages of appropriate skills as well as issues such as planning delays and reaching agreement with developers. Whilst mitigations are being put in place to improve how schemes are managed, delivered and monitored and financial contingency is provided through wider portfolio risk provision, it is unlikely to be sufficient given that the current economic outlook is going to exacerbate these existing underlying issues.

71. There is already evidence of significant cost escalation in the delivery of new schools and related education infrastructure. This will in turn lead to additional requests for funding from developers with the potential implications of stalled development and new housing needs not being met. This is expected to be managed in the short term by a larger than expected schools grant, but sustained inflation will not be covered.

72. The capital programme currently has an identified £143m funding shortfall, with the intention to fund from internal cash balances. Whilst interest rate rises will help to generate better returns on cash balances and other related investments, these increased returns will be lower than the additional cost burdens arising from higher inflation levels and so the net position will be detrimental.

73. There are a number of things the Government can do to help mitigate the financial pressures on local government, as have already been mentioned, including ensuring council tax caps are not held at too low a level, given it is the main income source and the only one over which local authorities have any significant control.

74. Restricting National Living Wage increases to the lower end of the range will help to reduce demands on council budgets, but will be unpopular in the face of soaring cost of living pressures. Similarly, a more generous settlement for general and specific grants will help but this needs to be coupled with a degree of certainty over the medium term rather than one-off allocations that make longer term financial planning even more challenging than it already is.

75. However, the Government's hands are clearly tied by the wider economic pressures facing the country. Therefore, there is a continued need to find additional savings and

deliver other initiatives that will help close the financial gap. The existing MTFS already had a gap of £8m in 2023/24 rising to £40m by 2025/26. The revised assessment of inflationary pressures set out above will mean this grows to £27m in 2023/24 and £71m by 2025/26.

Business Rates

76. Additional Business Rates income of £2.6m has been received in 2021/22. 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.

77. The provisional outturn position of the 2020/21 Leicester and Leicestershire Business Rates Pool shows a total retention of £9.5m. The final position was expected to be reported in December 2021, after the completion of the external audits. However, the audit process has been prolonged and is still to be complete at some of the Districts. In addition, the Department for Levelling Up, Housing and Communities (DLUHC) has issued a “Calculator”, but there appears to be an error within it. A response from DLUHC is awaited. The latest forecast of the 2021/22 position shows a projected retention of around £10.5m. Provisional calculations will be possible when the end of year NNDR3 returns from the Districts are available in July 2022.

Council Tax

78. 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. The position has improved compared to the original forecasts, but it is not possible to assess accurately the levels of reductions in the funding streams, particularly as Government funding for furlough only ended on 30 September 2021 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 in 2022/23. £4m has been set aside in an earmarked fund for future uncertainties with the balance of £5m being released as it looks unlikely that the full provision will be required for this purpose.

Overall Revenue Summary

79. Overall, there is a net underspend of £7.9m. This will be used to fund the following additional spending requirements:

- £3.6m set aside in the budget equalisation reserve for additional risks to the Council, for instance the Children and Family Services Early Years DSG additional spending which is subject to further actions to enable recovery.
- £1.1m contribution to the Transformation earmarked fund.
- £3.2m additional funding for increased risk of inflation, added to the budget equalisation reserve.

General Fund and Earmarked Funds

80. The uncommitted General Fund balance as at 31 March 2022 stands at £18m which represents 3.8% of the 2022/23 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.

81. The total level of earmarked funds held as at 31 March 2022 total £196m including schools and partnership funding. They can be summarised as below:

Revenue Purposes	£105m
Capital Purposes	£98m
Schools	-£24m
Partnerships	£17m
Total	£196m

82. Earmarked funds are shown in detail in Appendix C. The main earmarked funds are set out below.

Renewals of Vehicles and Equipment (£4.0m)

83. 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.

Insurance (£15.7m)

84. Earmarked funds of £10.3m 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.

85. The uninsured loss fund of £5.4m 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

86. Supporting Leicestershire Families (£0.7m). 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. This is required to augment insufficient government grant funding. A review needs to be undertaken regarding the future levels of service compared with the funding available.

87. Children and Family Services Developments (£2.1m). 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

88. Adults and Communities Developments (£2.3m). 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

89. Public Health (£11.3m) – to fund Public Health initiatives within Leicestershire. The fund has increased as at year end for various government grants that have been carried forward to 2022/23 or where the grant conditions have already been met, and for the Departmental underspend at year end as mentioned earlier in the report. The Department has a detailed plan of public health initiatives, including those relating to Covid-19, to be implemented over the next two to three years.

Environment and Transport

90. Commuted Sums (£3.3m). 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.

91. Leicester and Leicestershire Integrated Transport Model (LLITM) (£1.6m). 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

92. Transformation Fund (£7.5m). 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.

93. 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.

94. Budget Equalisation (£36.5m). This manages variations in funding across financial years. This includes the increasing pressures on the High Needs element of the DSG which is in deficit by £28.6mm at the end of 2021/22. The Children and Family Services Department is investigating a number of actions that could over the course of the MTFS reduce demand and therefore the overall deficit.

95. Voluntary Minimum Revenue Provision (MRP) – at year end £12m of the balance held with the Budget Equalisation fund has been redirected as voluntary minimum revenue provision (MRP). This has the effect of potentially reducing the amount of revenue funding that needs to be set aside to fund the historic borrowing costs of loans taken out to fund the capital programme. The Council can decide at a later date if it wishes to utilise this voluntary 'overpayment' in lieu of future statutory MRP in order to make a revenue saving in the future. The level of external borrowing as at 31 March 2022 was £262.6m.

96. Covid-19 Council Tax and Business Rates (£4.5m). Earmarked fund to meet estimated income reductions due to Covid-19.

97. Pooled Property Fund(s) (-£24.5m). The Cabinet previously approved the investment of £25m of the Council's earmarked funds into pooled property funds. The investments are held to achieve higher returns than if the funds were invested as cash and return an annual contribution of c. £1m. 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 £0.5m, this is offset within the £25m.

Capital

98. Capital Financing (£122.7m). 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 2021/22. 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 are used last.

Other / Partnerships Earmarked Funds

99. DSG (deficit of £24.1m). 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**
As at 31 March 2021	6.5	-0.1	-17.5	-11.1
Changes 2021/22	2.4	-4.2	-11.2	-13.0
As at 31 March 2022	**8.9**	**-4.3**	**-28.7**	**-24.1**

100. 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. The deficit on the Early Years block will be offset by any additional grant that may be received from DfE from a revised 2021/22 census, and the recovery of

Covid-19 payments to providers. In the short term the surplus on the Schools block will partially offset the high needs and early years deficits.

101. Health and Social Care Outcomes (£14.9m) used in conjunction with Health partners across Leicestershire. This includes £7m transferred to the County Council by Health partners during 2021/22.

102. 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

103. The updated capital programme for 2021/22 totals £119m. This follows a review of the programme undertaken in July 2021 and approved by the Cabinet in September 2021.

104. A summary of the capital outturn for 2021/22, excluding schools devolved formula capital, is set out below:

Programme Area	Updated Budget £000	Actual Expenditure £000	Net Variance £000	%
Children and Family Services	38,826	26,535	(12,291)	68%
Adults and Communities	5,194	5,023	(171)	97%
Environment and Transport	61,401	41,120	(20,281)	67%
Chief Executive's	2,293	1,290	(1,003)	56%
Corporate Resources	8,438	6,996	(1,442)	83%
Corporate Programme	2,429	1,173	(1,256)	48%
Total	**118,581**	**82,137**	**(36,444)**	**69%**

105. 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.	(44)	44	(13,095)	804	(12,291)
Adults and Communities	(400)	179	(99)	149	(171)
Environment and Transport	(455)	396	(21,119)	897	(20,281)
Chief Executive's	0	0	(1,003)	0	(1,003)
Corporate Resources	(148)	267	(2,276)	715	(1,442)
Corporate Programme	0	20	(1,449)	173	(1,256)
Total	**(1,047)**	**906**	**(39,041)**	**2,738**	**(36,444)**
	Net Underspend	141	Net Slippage	36,303	

106. The net underspend of £0.1m 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 £36.3m has been carried forward to the capital programme 2022-26 to fund delayed projects.

107. 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.

108. Appendix E compares the provisional prudential indicators with those set and agreed by the Council at its budget meeting in February 2021. These are all within the limits set, except for the actual financing costs as a percentage of net revenue stream due to the inclusion of the £12m voluntary MRP contribution made at year end, mentioned earlier in the report. Without this additional contribution the indicator is 3.52%, which is within the target set. The actual capital financing requirement (the balance required to fund historic borrowing for the capital programme) has been reduced to £214m as a result of the voluntary MRP contribution.

109. A review of the 2022-26 capital programme will be undertaken during the summer 2022 in light of delays to project delivery and emerging financial pressures on large capital projects due to increasing costs of raw materials and inflation. An updated capital programme will be reported to the Cabinet in September 2022.

Children and Family Services

Key Projects Delivered

110. Creation of additional school places completing projects at nine different schools. A total of 916 new primary school places and 150 new secondary school places were delivered. The SEND programme saw the completion of several schemes to support the High Needs Development Plan. Three new units for pupils with either social, emotional and mental health (SEMH) needs, or communication and interaction (C&I) needs were delivered, alongside the expansion of existing SEND provisions in the specialist Early Years, Primary and Secondary sectors.

Main Variances

111. The year-end position shows a net variance of £12.3m compared with the updated budget. The main variances are due to slippage on:

- the provision of Primary Places - £8.4m due to complex schemes involving several parties, an area that is implementing age range change issues with legal agreements and the rejection of a planning application.
- SEND Programme - £2.3m due to delays in identifying sites and drawing up legal agreements.
- Strategic Capital Maintenance - £0.7m, elements of works can only be completed outside of school term time. The 2021/22 allocation was not announced until the end of April and was a significant increase on the expected level of grant. This delay resulted in issues securing contractors for the Summer half-term and closure periods.
- Assessment and Residential Multi-Functional Properties - £0.6m slippage due to the lack of suitable properties in the market.

Adults and Communities

Key Projects Delivered

112. Social Care Investment Plan (SCIP) – investment of £0.5m across several properties, including purchase and refurbishment works. Additional works planned to take place in 2022/23. These sites will provide new accommodation for both transitions and supported living service users.

113. Other - £4.4m passporting of government Disabled Facilities Grant to Leicestershire district councils, and £30,000 investment in Changing Places – a new facility was built and is ready for use in Whitwick and Coalville Leisure Centre.

Main Variances

114. The outturn shows a net variance of £0.2m compared with the updated budget. The main variance is due to underspend on the Hamilton Court/Smith Crescent Scheme following Cabinet approval that a short breaks facility was no longer required on this site.

Environment and Transport

Key Projects Delivered

115. A total of £9m has been spent on the preparation and delivery of major projects in 2021/22, including:

- M1 J23/A512, £4.3m – 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 2021/22 with only remedial and landscaping works still to complete in 2022.
- Melton Mowbray Eastern Distributor Road, £2.6m – 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, a full business case is expected to be submitted to the DfT later in 2022.
- A511 Major Road Network scheme, £0.9m - 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 2026.

116. A total £19m was also invested in Highways Asset Maintenance, including:

- £15.6m on carriageways
- £1.1m on footways and rights of way
- £0.4m on bridge maintenance and strengthening
- £1.6m on street lighting maintenance
- £0.3m on flood alleviation
- £0.2m on traffic signal renewal

117. A total of £9m has been invested in Environment and Waste improvement works, including Recycling and Household Waste Sites (RHWS):

- New Waste Transfer Station (WTS) at Bardon - £7m. To ensure ongoing environmental compliance and efficient service provision. Site development in 2021/22 and started to accept waste Spring 2022.
- Kibworth Site Redevelopment - £1.8m. To implement best practice for recycling and household waste sites. It is being reconfigured to a new split-level surface, provide more recycling facilities and ease of use and better traffic flow for safer access for site users through improved segregation of HGV and pedestrian traffic. In addition, there will be substantial improvements to site drainage.

Main Variances

118. The Department's outturn is a net overall net slippage of £20.3m. The main variances are:
    - Melton Mowbray Distributor Road, North and East Sections - £6.4m. Slippage arising from a reduction in pre-works and a lower than anticipated rate of spend.
    - Hinckley Hub (Hawley Road) – National Productivity Investment Fund (NPIF), £3.2m slippage due to delays in the evaluation of tenders and a subsequent pause in the programme over the Christmas period to avoid traffic flow concerns.
    - Melton Mowbray Distributor Road, Southern Section - £1.9m slippage due to signing of legal agreement of terms for funding from Homes England taking longer than expected resulting in a delay to works.
    - Safety Schemes, £1.4m slippage due to impacts from Covid-19 delaying the programme, delays caused by a reprioritising works, resourcing issues, and redesigning of programmes. In addition, Parish Councils have been slower than expected to claim grants offered by the County Council.
    - Kibworth Site Redevelopment, £1.4m slippage due to a more accurate estimation of value of works completed during the 2021/22 financial year.
    - M1 Junction 23, £1.1m slippage due to delays on site relating to landscaping and maintenance works which are now expected to complete in the summer of 2022.
    - Vehicle Replacement Programme, £1.0m slippage due to the lead in time for purchase of vehicles, delays due to procurement procedures and ongoing work relating to a business case for green vehicles.
    - Transport Asset Management – Capital Maintenance Schemes, £1.0m slippage due to design fees on major projects being less than anticipated and delays to footway projects.
    - Waste Transfer Station - £0.6m slippage due to snagging issues relating to construction work and delays in delivery of equipment.
    - Recycling House Waste Sites - General Improvements, £0.6m slippage relating to lead in times on mobile plant.
    - A511 Major Road Network, £0.5m acceleration due to additional design and planning work being completed to ensure revised timelines are achieved.

<u>Chief Executive's</u>

Key Projects Delivered

119. The Rural Broadband Scheme phase 3 saw £1.2m invested during 2021/22. 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.

Main Variances

120. The year end position is a £1m variance due to slippage on the rural Broadband phase 3 programme.

Corporate Resources

Key Projects Delivered

121. Investment in the ICT infrastructure of £0.6m, including replacement of internal firewalls, and Cisco core network switch replacement.

122. As part of the Workplace Strategy / Ways of Working programme (a £12.8m scheme to deliver ongoing revenue savings in the region of £1.4m annually) the Council invested £2.2m during 2021/22 which includes new end user devices and improvements to the property infrastructure.

123. A total of £0.7m has been spent on works at Sysonby Farm, Watermead Country Park and 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 were installed at the Country Park together with a cycle path leading to the town centre.

124. The County Council has also invested £3.7m on de-carbonisation schemes to reduce its carbon footprint. This includes solar panels and LED lighting at County Hall and Embankment House, air source heat pumps at Beaumanor Hall, and an extension to the biomass boiler network at County Hall to include Anstey Frith House and the sports pavilion.

Main Variances

125. The year end position shows a net variance of £1.4m compared with the updated budget. The main variances relate to:

- Climate Change – Energy Strategy Schemes, slippage of £1.1m due to consideration of leases for the Score + Schools programme, tender process taking longer than anticipated delays relating to the planning permission and reworking costing estimates. Also due to a lack of staffing resource.
- Watermead Country Park, footbridge, slippage of £0.4m due to play equipment there not being transferred to the County Council's ownership by year end.
- Workplace Strategy Property – Office Infrastructure, slippage of £0.4m due to delays in the implementation of the future office model pilot.
- Workplace Strategy ICT – End User Devices (PC, Laptop), acceleration of £0.8m due to a more ambitious plan due to Covid-19.

Corporate Programme

Key Projects Delivered

126. During 2021/22, £1.2m was spent on improvements to industrial estates, county farms and completion of Airfield Business Park phase 2.

Main Variances

127. The year-end position shows a net variance of £1.3m compared with the updated budget. The main variances relate to:

- CAIF - Lutterworth East, planning and pre-highway construction works, £0.7m slippage due to delay in obtaining planning permission.
- CAIF - Industrial Properties Estate, general improvements, £0.3m slippage as projects not come forward due to lower than expected lease turnover, resulting in fewer refurbishment/upgrade projects.

Capital Receipts

128. The target for new capital receipts for 2021/22 was £2.8m. The actual receipts received for 2021/22 total £7.1m. This includes £6m from the sale of land beside Snibston country park which was budgeted for in 2022/23. As a result, the net surplus of £4.3m will be carried forward to 2022/23 to give a revised 2022/23 target of £1.7m for new capital receipts in that year. The latest estimates for new capital receipts forecast that this is achievable.

Capital Summary

129. Overall £82m was invested in capital projects in Leicestershire during 2021/22.

130. Overall spend was less than budget by £36.4m. A review of the 2022-26 capital programme will be undertaken during the summer 2022 and reported to the Cabinet in September 2022.

Corporate Asset Investment Fund

131. A summary of the Corporate Asset Investment Fund (CAIF) position for 2021/22 is set out below:

Asset Class	Opening Capital Value £000	Capital Incurred 2021/22 £000	Net Income £000	Budget Net Income £000	Actual Net Inc. Return %
Office	52,411	18	2,811	2,735	5.4%
Industrial	24,244	262	1,368	979	5.6%
Distribution	457	0	-10	-2	-2.2%
Rural	28,584	183	-2,041	373	-7.1%
Other	4,688	0	147	167	3.1%
Development	36,035	664	-457	-46	-1.2%
Funding released from CAIF reserve			1,864		
Subtotal Direct Property	**146,419**	**1,127**	**3,682**	**4,206**	**2.5%**

Pooled Property	24,305	0	878	900	3.6%
Private Debt	16,640	8,173	1,648	754	6.6%
TOTAL	**187,364**	**9,300**	**6,208**	**5,860**	**3.2%**

132. Overall CAIF income (including pooled property and private debt) is £6.2m. This is £0.3m in excess of the budget. Major variances are shown below and are split between direct property and indirect holdings, namely the pooled property and private debt holdings.

133. The direct property outturn of £3.7m is adverse to budget by £0.5m. This is wholly due to a charge taken in the last quarter regarding the remediation works required at Firs Farm. The expected costs for remediation are estimated at £2.4m. The CAIF reserve, built up over previous years from surplus CAIF income and held to fund major expenditure items, has been released to fund a provision for the estimated costs (£1.9m). However, an additional £0.5m was also required to be made at year end, from the Corporate Resources department budget, to bring the total value of the provision to £2.4m.

134. The indirect income portion of the CAIF consists of pooled property investments and private debt investments. Pooled property returned £0.9m of income and private debt returned £1.6m during the year. The original 2017 private debt investment is now also returning capital from loans made being repaid and as such a follow on commitment was made in 2021 to maintain an allocation to this asset class. The income from the 2017 private debt investment will reduce over 22/23 whilst the capital is repaid.

135. It should be noted that the year end valuations for the underlying direct property portfolio are yet to be finalised. At present capital incurred year to date is included within the closing capital valuation only. Pooled property and private debt are valued as at 31st March 2022. Final valuations will be reported in the annual CAIF performance report to the Cabinet in September 2022.

Equality and Human Rights Implications

136. There are no direct equality or human rights implications arising from the recommendations in this report.

Appendices

Appendix A - Comparison of 2021/22 Expenditure and the Updated Revenue Budget
Appendix B - Revenue Budget 2021/22 – main variances
Appendix C - Earmarked Fund balances 31/3/22
Appendix D - Variations from the updated 2021/22 capital programme
Appendix E - Prudential Indicators 2021/22

Background Papers

Report to the County Council on 17th February 2021 - Medium Term Financial Strategy 2021-2025 - https://politics.leics.gov.uk/ieListDocuments.aspx?CId=134&MId=6476