SCRUTINY COMMISSION – 15TH MARCH 2023

2022/23 MEDIUM TERM FINANCIAL STRATEGY MONITORING (PERIOD 10)

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of the Report

1. To provide members with an update on the 2022/23 revenue budget and capital programme monitoring position as at the end of period 10 (the end of January).

Policy Framework and Previous Decisions

2. The 2022/23 revenue budget and the 2022/23 to 2025/26 capital programme were approved by the County Council at its budget meeting on 23rd February 2022 as part of the Medium-Term Financial Strategy.

3. The four-year capital programme was reviewed in August 2022 and an updated programme approved by the Cabinet 16th September 2022.

Background

4. The period 10 revenue budget monitoring exercise shows a net projected overspend of £2.5m.

5. The period 10 capital programme monitoring exercise shows a projected net slippage/underspend of £22.2m compared with the updated 2022/23 budget.

6. The four-year capital programme was reviewed in August 2022 and an updated programme approved by the Cabinet 16 September 2022.

7. The monitoring information contained within this report is based on the pattern of revenue and capital expenditure to the end of January 2023.

2022/23 REVENUE BUDGET MONITORING – PERIOD 10

8. The period 10 revenue budget monitoring exercise shows a net projected overspend of £2.5m. A summary of the position on the revenue budget is shown below and set out in more detail in Appendix A.

REVENUE BUDGET MONITORING STATEMENT
FOR THE PERIOD : APRIL 2022 TO JANUARY 2023

	Updated Budget	Projected Outturn	Difference from Updated Budget	
	£000	£000	£000	%
Schools Budget – Schools and Early Years	0	-750	-750	
Schools Budget – High Needs	0	7,800	7,800	
Net Total	0	7,050	7,050	
Children & Family Services (Other)	94,026	96,476	2,450	2.6
Adults & Communities	186,382	187,812	1,430	0.8
Public Health	-1,457	-1,457	0	0.0
Environment & Transport	91,954	91,074	-880	-1.0
Chief Executives	15,872	15,672	-200	-1.3
Corporate Resources	39,455	40,435	980	2.5
Capital Financing	22,000	21,700	-300	-1.4
Contingency for Inflation	-6,499	1,001	7,500	-115.4
Other Areas	6,693	-1,037	-7,730	-115.5
Contribution to budget equalisation reserve	22,290	22,290	0	0.0
Contribution to General Fund	1,000	1,000	0	0.0
Total	471,716	474,966	3,250	0.7
Funding	-471,716	-472,476	-760	0.2
Net Total	0	2,490	2,490	

9. 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

10. Overall an overspend of £7.1m is forecast on the Dedicated Schools Grant (DSG). This is made up mainly of overspends of £7.8m on the High Needs Block and £1.0m on the Early Years Block, offset by an underspend on the Schools Block from schools growth (£1.7m) which will be retained for meeting the costs of commissioning school places in future years.

11. The High Needs Block is projected to overspend the grant received by a net £7.8m in 2022/23 and is below the £8.9m forecast included within the original MTFS. 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, is

growing. Whilst the recently released Green Paper is set to result in systemic changes to the national SEND system, such changes may take a number of years to deliver and none appear to address the funding issues.

12. Leicestershire has been invited into the Department of Education's (DfE) Delivering Better Value (DBV) in SEND programme as a result of the deficit. At the end of 2022/23 the accumulated High Needs deficit is forecast at £36.4m. Leicestershire has been invited by the DfE to apply for grant funding of £1m to support the transformation of the SEND system with the application to be submitted shortly. The Transforming SEND in Leicestershire (TSIL) programme is mobilised and is supported by colleagues across the Authority and by an external strategic partner, Newton Europe, (independent consultants appointed by the Council); this programme and the DBV programme will be closely aligned. Discussions have taken place with the DfE regarding the strategic partner and funding. Whilst the cost of the strategic partner cannot be charged to DSG the investment in TSIL is recognised as a key step in reducing the deficit and as such would be taken into consideration if there was a call on the County Council to contribute to the deficit reduction, as has been the case for authorities with even more serious deficits.

13. Without new interventions the high needs block 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.

14. The Early Years budget is showing an overspend of £1m. The initial budget was based on the number of hours used by the DfE to calculate the original 2022/23 Early Years grant income in December 2021. The 2022/23 Early Years grant income was increased in July 2022 by £1.4m to allow for the Spring Term 2022 census. The forecast hours paid to providers for 2022/23 are £2.4m more than the budget, leading to a net £1m overspend. However, the 2022/23 Early Years grant income will be retrospectively adjusted in 2023/24 to allow for the Spring 2023 census. It is anticipated that this adjustment will partially clear the £1m deficit accounted for in 2022/23 by retrospectively increasing the grant by £0.6m, but there could still be a net deficit of £0.4m. This is the standard process used nationally by the Government to fund Early Years education. Local Authorities are funded based on a January census of Early Years Providers, but pay Providers based on Autumn, Spring and Summer data. Numbers are lower in Autumn and higher in Summer, so the January (Spring) data is used as a proxy to fund the entire year. This means that the grant received will never match precisely the payments made, and may be higher or lower than the payments from one year to the next.

Children and Family Services – Local Authority Budget (Other)

15. The Local Authority budget is projected to overspend by a net £2.5m (2.6%), mainly relating to a projected overspend on the children's social care placement budget (£1.0m), SEN service budget (£0.7m), and children's social care (£0.8m).

16. Whilst overall looked after children (LAC) numbers for Leicestershire for 2022/23 appear to be in line with budgeted numbers, reflective of LAC increases of 5% and subsequent projection of 730 LAC at the end of financial year compared with 695 LAC at the

beginning of the financial year, the placement mix is projected to be different compared with the budgeted position causing the £1m forecast overspend. This is driven largely by a significant increase in the last quarter of 2021/22 of complex needs placements for older children, with some requiring high levels of care and support resulting in higher than the average cost for some placement provision. For example, current projections within the 16plus placement budget include placements at a weekly cost of £6,000 plus, four times higher than the average cost of 16plus placements, and a significant contributing factor for the current projected overspend position.

17. Related to residential care budget pressures and current challenges is the sustained high demand for parent-baby assessment placements with the increased focus and legal requirement to keep babies with their parents whilst assessments take place. The Council is now mandated by the courts to meet this legal expectation. The higher rate of parent-baby placements has been sustained over the last six months and is a further contributing factor in the projected overspend.

18. As part of the actions being taken to mitigate against these financial pressures, the Defining Children and Family Services for the Future programme has several workstreams to enable MTFS benefits to be achieved, alongside the Social Care Investment Programme (SCIP) working in partnership with Barnardo's. This will have a positive impact through the creation of additional capacity for under 16's, over 16's and parent and children places, which are due to go live in the next few months. LCC have been successful in obtaining additional capital grant funding (match funded by LCC) so in total there is planned investment in 9 properties and up to 27 placements over the MTFS.

19. The SEN service is projecting to overspend in the region of £0.7m as a result of increased service demand and complexity which has resulted in the need for additional service resource, some of which is having to be met from the agency market, to ensure demand can be managed effectively.

20. Children's Social Care budgets forecast overspend of £0.8m, comprising section 17/23 £0.5m and social care staffing £0.3m. Section 17 of the Children Act 1989 imposes a general duty on local authorities to safeguard and promote the welfare of "children in need" in their area. To fulfil this duty, Section17 gives local authorities the power to provide support, including accommodation and financial subsistence to families with "children in need". Such support is seen to be a preventative measure to prevent further escalation of support and costs. Increase in such needs and demands have risen post Covid-19 and more recently by the current and on-going cost of living pressures. In addition, Social care staffing teams continue to remain under pressure with a net projected overspend of £0.3m largely due to market pressures resulting in increased agency spend.

<u>Adults and Communities</u>

21. A net overspend of £1.4m (0.8%) is forecast for the revenue budget for 2022/23.

22. There is a continuing financial impact due to Covid-19 on adult social care which includes additional costs for commissioned services and loss of service user income. However, these now appear to be subsiding. The main areas of variance are:

23. Residential Care, £5.8m overspend comprising:

- Increased expenditure, net overspend £4.1m. This includes four elements; firstly additional service users' costs mainly due to a high number of short-term care placements following discharge from hospital and additional needs (£2.0m), secondly service users not moving to supported living (£1.3m) partially offset by an underspend on the (separate) supported living budget heading, thirdly additional payments from prior years (£0.5m) and finally costs from service users transferring from children's services (£0.3m) which are more than originally budgeted for.

- Reduction in income, £1.7m. As a result of Covid-19 over the last two years the number of chargeable residential service users has declined (by approximately 150 since April 2022 with an average weekly reduction of £100k in income) and charging has been delayed due to funding placements through the discharge process. A review into the processes relating to residential income is taking place to accelerate recovery of income by restating charges.

24. Homecare, £4.8m overspend. Additional arrears payments from 2021/22 (£0.7m) and an increase in the number of service users and hours of care compared to the budget (£4.1m). New intensive packages of wrap-around and night care have recently been introduced which are funded from the ASC Discharge Grant and these have added £0.6m to the forecast this month (grant income is shown separately). The service user numbers and average hours per service user have been on an upward trend since the start of the year. In April 2022 there were 2,300 service users and at the beginning of December there were 2,400 (4% increase). Average hours per service user have risen over the year from 10.1 to 10.8 (7%). The forecast has an average of 2,460 service users over the year at an average weekly cost per service user of £290. An action plan as stated below is in place to assist with managing the increasing costs.

25. Better Care Fund / Other NHS Income, £1.4m loss of income. A total of £6m income was budgeted for from the NHS for additional costs relating to Covid-19 mainly due to hospital discharges. However, current indications are that there will be a £2.3m shortfall in this income for 2022/23. Discussions are continuing with the NHS on how they may increase their support to adult social care and review discharge practices. The 2021/22 funded discharge process ended in March 2022. Reviews of service user packages from the discharge arrangements are ongoing, see actions below. The overall position is offset by additional BCF income of £0.9m.

26. Community Income £3.0m additional health income for contributions to support learning disability service and from service users.

27. Direct Payments, £2.0m underspend. A decrease in service user numbers (£0.8m) from the increasing numbers taking a managed Homecare service, and an increase in the forecast clawback of unused funds of (£1.2m).

28. Community Life Choices (CLC)/ Commissioned Services, net underspend of £1.9m from the closure of CLC bases following lockdown and the vacancies that are being held.

29. Supported Living, £0.7m underspend. Due to a slowdown in new service users from residential care. This underspend partly offsets the overspend in residential care as a consequence of this delay.

30. Discharge Grant, £0.6m new income. A grant announced by the government in November 2022 to support earlier discharge from hospital during the winter period, currently funding additional homecare packages

31. These costs are offset by a net £2.4m underspend from staffing and other minor variations.

32. An action plan will continue to be in place during 2022/23 which will focus on:

- reviews of all service users' packages that have commenced or changed since April 2021
- working with NHS partners to help improve the discharge pathway including reviewing funding arrangements
- ensure financial and funding assessments are undertaken
- reviewing internal processes.

Public Health

33. The Department is forecasting a net underspend of £0.1m which will be transferred to the Public Health earmarked fund.

Environment and Transport

34. A net underspend of £0.9m (1%) is reported.

35. Transport is reporting a net £3.1m overspend.

- Delay in delivery of the SEN transport lean review £0.7m;
- A significant number of contract hand-backs (at contract break points) on SEN transport as operators are unable to continue contracts at agreed prices £1.6m
- Increased costs on Mainstream school transport £1.1m due to service substitutions following bus operators' inability to recruit drivers.
- Fewer operational routes for Social Care transport within Fleet Services due to driver and escort vacancies have resulted in an underspend (£0.7m). However, this is offset by a forecast increase in Social Care taxi costs (£1.7m).
- Concessionary travel reimbursement costs are forecast to be lower than budget (£1.0m) following the decision to make payments based on actual service levels as per DfT guidance and reduction in bus services by operators.
- Local Bus Service (LBS) costs (including Park and Ride) remain high due to increased contract costs and lower fare revenues as bus patronage levels have not

fully recovered following the pandemic. These costs have been offset by one-off funding of £1.3m from DfT in 2022/23, resulting in a net forecast underspend of £0.3m on the LBS budget.

36. Across Highways an underspend of £1.4m is reported arising from vacancies in various teams (£0.6m) and additional income from section 38 and 278 fees (£0.4m), recharges to capital (£0.3m) and section 74 income (£0.7m). This is partly offset by increased reactive and environmental maintenance to respond to issues on the highways (£0.6m).

37. There is a net underspend of £2.6m on Waste budgets, relating to continuing market price rises generating increased income for recycling, scrap metal and dry recyclable materials (£1.8m); reduction in composting tonnages due to dry weather (£0.4m); reduced spend on waste initiatives (£0.2m) and vacancies across the service (£0.3m). This is offset in part by an increase in Energy from Waste tonnages (£0.1m).

<u>Chief Executive's</u>

38. The Department is reporting a net underspend of £0.2m (1.3%). Underspends due to staffing vacancies across the department (£0.5m) and increased Registrar's income (£0.3m) are partly offset by increased costs on the Coroners Service of £0.2m, loss of planning income £0.1m and Legal Services of £0.3m due to use of locums to cover vacancies plus increased demand in social care cases.

39. The position includes forecast costs of £1.2m in respect of the establishment of the East Midlands Freeport. These costs will be temporarily funded from County Council reserves to be repaid from retained business rates generated once the Freeport goes live.

<u>Corporate Resources</u>

40. Overall the Department is forecasting a net overspend of £1.0m (2.5%).

41. The main variance relates to continuing pressures in Commercial Services +£2.3m, which includes recovery from the pandemic and general inflationary pressures, notably within the catering service. Work is underway to increase income and reduce costs. Whilst this is expected to deliver improvements in 2023/24 and beyond, the immediate benefits are likely to be limited and still result in an adverse variance for 2022/23. These costs are offset by a net £1.3m underspend from staffing and other minor variations.

<u>Central Items</u>

42. Bank and other interest - £7.0m increased investment income. This is mainly due to increases in the Bank of England base rate from 0.5% in February 2022 to a forecast average for the year of over 2%. Together with continued high bank balances, averaging around £390m for the year, an additional £7.0m in investment income from treasury management activities is forecast. The base rate is currently 4%.

43. Inflation Contingency - the contingency is currently projected to be overspent by £7.5m. The majority of the overspend is related to the pay award for 2022/23 of £1,925 on each

scale point, equating to an average increase of 6.4%. The cost in excess of the provision in the inflation contingency (based on 3%) is around £7m. Running costs are forecast to be higher than anticipated, particularly regarding electricity contracts, where increases of around 100% have been incurred.

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

45. Central expenditure (0.7m) underspend for prior year adjustments is forecast, relating primarily to the cleansing of receipted aged purchase orders that are no longer required. The amount is likely to increase as work is completed for year end.

Business Rates

46. Additional Business Rates net income of £0.7m is forecast in 2022/23. £0.2m of this is based on the information from districts on their Business Rates (National Non-Domestic Rates - NNDR1) forms and forecast section 31 grants. The other £0.5m relates to an allocation from a surplus on the national Levy / Safety Net fund, announced on 6th February 2023.

47. The provisional outturn position of the 2021/22 Leicester and Leicestershire Business Rates Pool shows a Levy total of £13.3m, with the final position subject to the completion of external audits. Monitoring of the 2022/23 Pool is being undertaken and shows a forecast Levy total of around £14.5m. Initial indications of the 2023/24 Pool show that the Levy could be in excess of £19m.

Overall Revenue Summary

48. At this stage of the year there is a forecast net overspend of £2.5m. It is likely that this position will reduce as estimates are firmed up closer to year end.

49. The resulting net overspend for 2022/23 is planned to be closed by using the MTFS risks contingency, £8m, leaving an unspent balance of £5.5m.

50. Options to utilise the balance will be considered at year end. This includes potential additional investment for highways maintenance, the transformation reserve and reducing the shortfall on the capital programme (£124m included in the new MTFS 2023-27).

CAPITAL PROGRAMME

51. The updated capital programme for 2022/23 totals £124m. This follows a review of the programme undertaken in August 2022 and approved by the Cabinet in September 2022.

52. The latest forecast on the capital programme for 2022/23 shows overall net slippage of £22.2m. A summary is shown in Appendix C with details of the major variances provided in Appendix D. The main variances are reported below.

Children and Families

53. The Department is forecasting net slippage of £5.0m. The main variances are:

54. Provision of Additional School Places – net slippage £2.4m:

- Barrow Humphreys Perkins - acceleration of £1.0m. This is a section 106 funded passported scheme included in 2023/24 as timing was not known. The works started earlier than anticipated to build a new two-storey 13 classroom block to replace several dilapidated temporary buildings.
- Hinckley Primary School - acceleration of £0.7m. Timing of budgets had been phased prudently, allowing for potential delays within the scheme. However, these delays have not transpired.
- Schemes to be defined - slippage of £2.0m. Some agreements with schools were signed prior to the current economic situation. Gaps between indexation and inflation rates are likely to continue to impact the delivery of schemes within budgets. For this reason this unallocated budget will be held as a contingency into 2023/24.
- Old Dalby primary school - slippage of £1m. Delays while updating the specification required, previous feasibility report was out of date. Works have now been agreed and value engineering undertaken to be within budget. Practical completion is forecast for the autumn term.
- Melton, John Fernley - slippage of £0.8m. Design changes, which along with procurement framework issues have resulted in delays. Works commenced on site in December 2022.

55. SEND Programme – net slippage 1.5m:

- Foxfield’s Special School - £0.8m slippage as detailed design and surveys are being undertaken to determine exact requirements. Planning permission is expected to be submitted shortly. It is unlikely that significant costs will be incurred in 22/23.
- Forest Way School - £0.7m slippage as the findings of an environmental impact assessment has resulted in a full environmental study needing to be undertaken. Certain parts of this cannot by undertaken until late March for ecological reasons.

56. Children’s Social Care Investment Plan, slippage of £0.8m. Match funding bids submitted to the DfE have recently been announced as being successful. However, the delay in being advised of this outcome means that it is unlikely that any significant expenditure will be incurred in 2022/23.

Adults and Communities

57. The department is forecasting a net overall variance of £0.6m comprising slippage of £0.3m on the Adult Social Care Investment Plan (SCIP), delays identifying suitable property, and an underspend of £0.3m across smaller schemes.

Environment and Transport

58. The Department is forecasting net slippage of £0.5m. The main variances are:

- Melton Mowbray, North and East Distributor Road, £1.4m acceleration due to a better understanding of the deliverability on the programme by construction contractor.
- A511 Major Road Network, £1.4m acceleration due to increased work on completing the full business case to secure the major road network funding.
- Highways Capital Maintenance programme – £1.0m net slippage, comprising . The slippage on capital schemes and design £0.5m, street lighting £0.3m, bridges £0.3m, and network performance & reliability £0.2m, offset by acceleration of £0.3m on Preventative Maintenance.
- Hinckley Hub (Hawley Road) - National Productivity Investment Fund, £0.8m slippage due to Department for Transport guidance review which has resulted in works being paused and reprogrammed for construction during 2023/24 and 2024/25. Recommendations from the review plus updated financial forecast and programme will follow.
- Advanced Design / Match Funding, £0.6m slippage due to fewer opportunities to bid for external funding.

Chief Executive’s

59. The Department is forecasting an underspend of £0.4m. The main variance relates to an underspend on the Rural Broadband Scheme Phase 3.

Corporate Resources

60. The Department is forecasting overall net slippage of £1.7m. The main variances are:

- Workplace Strategy - Office Infrastructure, £1.0m slippage as the scheme has been reprofiled based on timescales for implementation and lead times.
- Climate Change - Environmental Improvements £0.4m slippage due to internal resourcing issues and decision awaited on a scheme.

Corporate

61. The programme is forecasting net slippage of £14.1m. The main variances are within the Investing In Leicestershire Programme (IILP):

- Oakham, Panniers Way Industrial Units, £5.8m. The Council is no longer proceeding with the proposed purchase.
- Quorn Solar Farm, £3.5m slippage due to delays in completing archaeological surveys on the proposed site. These have now been received and the design is due to be completed.
- Lutterworth Leaders Farm, Drive Thru Restaurants, £2.6m slippage. Scheme will be reprofiled due to planning delays.

- East of Lutterworth Strategic Development Area, planning and preparatory works, £1.1m slippage. Scheme will be reprofiled due to delays caused by a judicial review.
- M69 Junction 2 – SDA, £0.7m slippage because of continued delays in the local plan process resulting in the ongoing consultancy work being done over an extended period.

Capital Receipts

62. The requirement for general capital receipts for 2022/23 is £2.5m. The latest estimates are £1.8m with one planned sale now expected in 2023/24. The shortfall can be managed due to the overall level of slippage on the capital programme.

Investing In Leicestershire Programme (IILP) – 2022/23 Monitoring

63. The IILP is an integral part of the MTFS. Investments in property and other indirect holdings generate income that supports the Councils MTFS whilst contributing to the wider strategic objectives of the Council and the economic wellbeing of the area. The IILP Strategy is approved annually as part of the MTFS.

64. A summary of the IILP position as at quarter 3 for 2022/23 is set out below:

Asset Class	**Opening Capital Value**	**Capital Incurred / (Returned) 2022/23**	**Net income YTD**	**Forecast Net Income FY**	**In year forecast net income return %**	**Since Inception IRR / Target ***
	£000	**£000**	**£000**	**£000**	**%**	%
Development	**36,478**	**(196)**	**141**	**(99)**	**(0.3%)**	n/a
Rural	**28,575**	**0**	**-34**	**130**	**0.5%**	n/a
Office	57,494	0	3,038	3,400	5.9%	
Industrial	27,209	0	1,461	1,600	5.9%	
Distribution	454	0	(4)	17	3.7%	
Other	4,885	0	157	254	5.2%	
Directly Held Properties	**90,042**	**0**	**4,652**	**5,271**	**5.9%**	n/a
Pooled Property (three open ended and one closed ended fund)	28,016	0	666	850	3.4%	2.3%
Private Debt MAC 4 2017	10,421	(1,655)	216	287	3.0%	4.8%
Private Debt MAC 6 2021	13,263	5,828	0	0	0	2.4%
Pooled Infrastructure Fund	0	0	0	0	0.0%	8% *
Pooled Bank Risk Share	0	10,000	0	0	0.0%	8.5% *
Indirect Holdings	**51,700**	**14,173**	**882**	**1,137**	**2.0%**	
Total (All IILP)	**206,795**	**13,977**	**5,641**	**6,439**	**3.0%**	
Total excl. development and rural	**141,742**	**14,173**	**5,534**	**6,408**	**4.4%**	

#since inception IRR, not applicable to development, rural and direct holdings

65. The development portfolio consists of a number of schemes which are in planning or construction phases and are not producing income yet. Projects such as future phases of Airfield Farm and Lutterworth East are included within here. Once developed and operational they move into one of the four main asset classes.

66. The rural portfolio has a dual purpose; it is held to help small farmers and occasionally provides the IILP with capital receipts. It's revenue income is expected to be lower than most other classes of investment. The rural portfolio as a result is expected to return c2% yield each year, however in 2022/23 an additional £0.4m has been set aside to reinstate a farm following an environmental incident has resulted in a lower net return forecast.

67. Directly held properties is comprised of offices including LUSEP and Embankment House, 17 industrial property sites, and a car showroom within the other asset class. This is the core aim of the IILP, delivering both reliable income and to support other strategic objectives for the Council such as investment in green infrastructure and renewable energy solutions. The net income forecast for 22/23 for the direct core holdings is in line with expectations at £5.3m or 5.9% yield.

68. The diversifiers are indirect holdings with the purpose of reducing overall portfolio risk by investing in differing asset classes and geographies. The aim is to provide diversified income from a variety of differing sources. A since inception internal rate or return (IRR) has been included for these investments which includes capital value changes given they are provided each quarter by the relevant investment manager. Further details are provided below.

- Pooled property funds - net income is expected to be similar to last year and is forecast to return around 3% income p.a. from a diverse portfolio comprising of four institutional property manager funds. Pooled property funds are valued at each quarter end. The increase in risk free rates (Bank of England interest rates increases) through 2022 has resulted in re pricing of underlying property assets within pooled property funds. The final quarter of 2022 marked a particularly high downward adjustment, net asset value (NAV) decline in last quarter of 2022 of £4.9m, or -17.6% compared with the previous quarters NAV, which reduced the IRR significantly.
  LaSalle (a property manager) reported quarter 4 2022 to be the worst performing MSCI UK property quarter, worse than during the global financial crisis. As interest rates peak, property values should stabilise all other things being equal. Consequently property asset values should recover. If half of the last quarters downward adjustment was recovered this would add 1.6% to the since inception IRR improving the return to 3.9%.

- Pooled infrastructure funds - the IILP committed to this fund following Cabinet approval in June 2022. This commitment, £8.7m, was called in January 2023. The expected income is £0.3m, p.a., excluding capital growth, income will be paid quarterly with assets spread across the world which will provide added geographical and sector diversification.

- Private debt funds are invested in a product that is primarily composed of senior secured debt and is highly diversified by providing credit to multiple borrowers. Income is forecast to be lower this year owing to repayments of underlying loans last year from an earlier MAC 4 investment. Whilst new money has been committed (MAC 6) to this asset class the income will be below levels seen in previous years until underlying interest payments become payable to the Council once the MAC 6 products investment period ends in December 2023. In 2022/23 no income has been received from the most recent investment given it is still in the investment period; interest received from loans are reinvested. As a result the investment has benefited from an increase in value.

69. Returns for the indirect portfolio will improve as investments made to private debt and bank risk share start to provide income.

70. It should be noted that the above table excludes in year capital growth for the direct portfolio, which is assessed annually as part of the asset revaluation exercise. Together with the indirect portfolio year end valuations these are reported in the annual IILP performance report in September each year.

Recommendation

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

Appendices

Appendix A: Revenue Position as at Period 10, 2022/23
Appendix B: Revenue budget major variances
Appendix C: Capital Programme Monitoring Statement
Appendix D: Capital Programme – Forecast Main Variances and Changes in Funding

Circulation under the Local Issues Alert Procedure

None.

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