SCRUTINY COMMISSION – 12 JUNE 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PROVISIONAL REVENUE AND CAPITAL OUTTURN 2022/23

Purpose of the Report

1. The purpose of this report is to set out the provisional revenue and capital outturn for 2022/23.

Policy Framework and Previous Decisions

2. The County Council approved the 2022/23 to 2025/26 Medium Term Financial Strategy (MTFS) in February 2022. 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 reserves and the allocation of ongoing revenue budget and capital resources for key priorities.

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

4. The Cabinet on 26 May 2023 received a report setting out the provisional revenue and capital outturn for 2022/23. The Cabinet noted the revenue and capital outturn positions and prudential indicators and approved the use of the net revenue underspend of £6.7m to fund additional commitments. The Cabinet also approved a commercial cash flow loan of up to £4m to the East Midlands Freeport, with delegated approval to the Director of Corporate Resources, in consultation with the Deputy Leader, to agree the conditions for further drawing down of the loan up to that limit.

Overall Position

Revenue Outturn

5. A summary of the revenue outturn for 2022/23, excluding schools grant, is set out below:

	£000
Updated budget	471,716
Provisional outturn	480,070
Net overspend	8,353
Less additional income	-15,003
Net Underspend	-6,650
Additional Commitments	6,650
Net Position	0

6. Overall there has been a net underspending of £6.7m, 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.

7. The General Fund Reserve stands at £19m as at 31st March 2023, which represents 3.7% of the 2023/24 revenue budget (excluding schools' delegated budgets), in line with the County Council's reserves policy and the MTFS approved in February 2023. It is planned to increase the General Fund to £23m by the end of 2026/27 to reflect increasing uncertainty and risks over the medium term and to avoid a reduction in the percentage of the net budget covered.

8. The 2023-27 MTFS, approved in February 2023, is balanced for 2023/24 with a shortfall of £13m in 2024/25 rising to a shortfall of £88m by 2026/27. This position is after planned MTFS savings of £62m, including £25m from Dedicated Schools Grant (DSG). The County Council has a programme of savings under development (SuD's) to help close the gap.

9. The level of uncertainty in the MTFS continues to remain much higher than it was pre-Covid and the scale of the challenge faced to balance the MTFS by 2026/27 is much more significant than has been the case in the past.

10. The implementation of the Fair Funding Review and the 75% Business Rates Retention Scheme have both been postponed until at least April 2025. 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.

11. The County Council has played a leading role in the F20 Group, pressing the Government for an interim "funding floor" which would provide additional resources for the lowest funded authorities, pending the implementation of Fair Funding. Pending the outcome of discussions with the Chancellor of the Exchequer and the Department for Levelling Up, Housing and Communities (DLUHC), the MTFS does not include any provision for any "floor" funding.

<u>Capital Outturn</u>

12. A summary of the capital outturn for 2022/23, excluding schools devolved formula capital, is set out below:

	£000
Updated budget	123,578
Less provisional outturn	93,974
Net Variance	-29,604

13. Overall there has been a net variance of £29.6m compared with the updated budget. This includes net slippage of £28.5m and a net underspend of £1.1m. The net slippage will be carried forward to 2023/24 and future years to fund schemes that were not completed in 2022/23, with the net underspend added to the capital financing reserve.

14. Details of the variances and key projects delivered in 2022/23 are included in the report, and in Appendix D.

REVENUE BUDGET

15. Appendix A shows the provisional outturn position for 2022/23. 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.

16. The overall net underspend is £6.7m, which has been allocated to a number of additional commitments.

17. Appendix B gives details of significant variances by departmental revenue budgets for 2022/23.

Children and Family Services – Schools Budget

18. Overall there is an overspend of £5.9m on the Dedicated Schools Grant (DSG). This is made up of overspends of £6.7m on the High Needs Block and £1.0m on the Early Years Block, offset by an underspend on the Schools Block from schools growth (£1.8m), which will be retained for meeting the revenue costs of commissioning additional school places in future years.

19. The High Needs Block is showing an overspend on the grant received of a net £6.7m in 2022/23 which 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 and Improvement Plan are 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.

20. 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 DSG deficit now stands at £35.5m. Leicestershire has received £1m to support the transformation of the SEND system. 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 DSG 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.

21. 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.

22. 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 cost of the forecast hours paid to providers for 2022/23 is £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.

23. 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. When the historic deficit has been repaid, a contingency fund will be established to help smooth out these variances.

<u>Children and Family Services – Local Authority Budget (Other)</u>

24. The Local Authority budget is projected to overspend by a net £3.1m (3.3%), mainly relating to a projected overspend on the children's social care placement budget £1.9m, SEN service budget £0.5m, unaccompanied asylum seeker children's (UASC) budget £0.4m, and a combination of children's social care pressures £0.8m. This is partly offset by in year management and review of departmental vacancies, creating net in year savings of £0.5m.

25. Children's Social Care Placements budget – during 2022/23 the overall looked after children (LAC) numbers for Leicestershire have decreased by 2.3% to 680 as at the end of March 2023. However, in terms of the placement mix - the costliest provision types such as external residential and independent 16 plus provision have both increased slightly in numbers and average unit costs compared with the budgetted position. For example – in March 2023, the average social care external residential cost was £4,725 per week (5% increase on budgeted unit cost). Independent 16 plus external provision has also increased, with the average unit of the cohort active at March 2023 costing approximately £1,420 per week (18% increase on budgeted unit cost). Such increases in

unit cost were driven largely by a significant in year increase of complex needs placements for older children, with some requiring higher levels of care and support resulting in higher cost residential / 16 plus provision, and subsequently resulting in an overspend for the year. Current projections within the 16 plus placement budget include placements at a weekly cost of £6,000 plus, four times higher than the average cost of 16 plus placements, and a significant contributing factor to the overspend position reported.

26. 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. The Council has been successful in obtaining additional capital grant funding (match funded by the Council). In total there is planned investment in nine properties and up to 27 placements over the period of the MTFS.

27. The rapid increase in UASC in care and care leavers has required a greater resource requirement to meet their needs. The different entry routes include both the national transfer scheme as well as spontaneous arrivals, but more recently through the hotel dispersal scheme where requests to accommodate people placed in asylum dispersal hotels in Leicestershire are made. Whilst some people have been deemed adults by the Home Office they subsequently claim to be children which creates an additional pressure for the service to manage and which is not fully funded. In addition, delays in asylum claim processes means that the Council is often accommodating young people older than 18 years old; Home Office funding drops significantly at 18 but the costs do not. In terms of the Council's current demand, UASC under 18s total approximately 95 compared to 56 in April 2022 (70% increase), and UASC over 18s are at approximately 97 compared to 71 in April 2022 (37% increase).

28. The SEN service overspend of £0.5m is 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.

29. Children's Social Care fieldwork budgets overspend of £0.8m comprises pressures relating to section 17/23 (£0.4m) and social care fieldwork staffing (£0.4m). 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, Section 17 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. Increases in such needs and demands have risen post Covid-19 and more recently by the current and on-going cost of living pressures.

30. In addition, social care staffing teams within the fieldwork areas continue to remain under pressure with an overspend of £0.4m largely due to market pressures resulting in increased agency spend. Nationally there is a shortage of qualified social worker staff.

There is a 6% reduction nationally in applicants to undertake social work training. Further research is showing qualified social work staff, on average, do not remain in front line work for more than 8 years. There is also a growing number of staff moving to agency work for inflated rates of pay. All of these factors and issues are all very prevalent within Leicestershire also, 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 ensure average pay is more in line with similar posts across the region, the challenging market continues to see the supply of social workers being limited with agencies and some nearby local authorities continuing to pay more, resulting in continued pressures and challenges for social care service budgets in Leicestershire.

31. Linked to the requirement for the department to achieve departmental efficiency savings and the need to offset in-year budget pressures the department led on a review of non-statutory services. Through management and review of vacancies within the department, the output of this work has delivered some one-off in year efficiencies of £0.5m which included delaying recruitment to non-essential posts where appropriate. Further work is being undertaken to explore the feasibility of this work and its scope to deliver on-going future budget efficiencies.

Adults and Communities

32. There is a net overspend of £3.1m (1.7%) for the departmental revenue budget for 2022/23.

33. There has been a continuing financial impact on adult social care due to Covid-19 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:

34. Residential Care, £6.6m overspend comprising:

- Increased expenditure, net overspend £6.8m. This includes three elements; firstly additional service users’ costs mainly due to a high number of short-term care placements following discharge from hospital and additional needs (£5.0m), secondly service users not moving to supported living (£1.5m) and finally costs from service users transferring from children’s services (£0.3m) which are more than originally budgeted for. Some of these additional costs are funded from the ASC Discharge Grant. The average number of service users in residential care during 2022/23 was 2,417 at an average cost of £913 per week.

- Increase in income, £0.2m. As a result of Covid-19, over the last two years the number of chargeable residential service users declined (by approximately 150 since April 2022 with an average weekly reduction of £0.1m in income) and charging has been delayed due to funding placements through the discharge process. A review into the processes relating to residential income has taken place and recovery of income is underway to recover income by restating charges.

35. Homecare, £6.5m 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 (£3.7m). New intensive packages of wrap-around and night care have recently been introduced and additional payments were made to providers for staff winter retention bonuses which were funded from the ASC Discharge Grant (£2.1m) This grant income is referenced further below in the report. 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 end of March 2023 there were 2,650 (15% increase). Average hours per service user have risen over the year from 10.0 to 12.0 (20%). There has been an average of 2,490 service users per week over the year at an average weekly cost per service user of £295.

36. Better Care Fund / Other NHS Income, £1.8m 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, there is a £2.7m shortfall in this income for 2022/23. Discussions are ongoing with the NHS on how they may increase their support to adult social care and review discharge practices. 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.

37. Supported Living, £0.7m overspend. A total of 41 extra new service users have been seen over the course of the year with an average package cost of £1,325 per week. Currently averages are over 456 service users totalling £0.6m per week. Since December 2022 there has been a sharp rise in weekly costs due to 13 new high needs packages being commissioned, adding £28,000 per week to the pay run (average £2,150 per package).

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

39. Direct Payments, £2.6m underspend. A decrease in service user numbers reducing costs by £1m arising from the increasing numbers taking a managed Homecare service, and an increase in the forecast clawback of unused funds of £1.6m.

40. Discharge Grant, £2.6m 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.

41. Community Life Choices (CLC)/ Commissioned Services, net underspend of £1.4m from the closure of CLC bases following lockdown and the vacancies that are being held.

42. These costs are offset by a net £4.0m underspend from staffing and other minor variations.

43. An action plan will continue to be in place during 2023/24 which will focus on:

- reviews of all service users' packages that have commenced or changed since April 2022

- 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

44. The Department has a net underspend of £14,000 which has been transferred to the Public Health earmarked reserve.

Environment and Transport

45. A net underspend of £1.8m (2.0%) is reported.

46. Transport is reporting a net £3.0m overspend, including:

- 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 £1.5m
- Increased costs on Mainstream school transport £1.0m 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 (£0.6m). However, this is offset by a forecast increase in Social Care taxi costs £1.8m.
- Increased costs for vehicle parts for Fleet Services £0.2m
- Concessionary travel reimbursement costs lower than budget (£1.2m) 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 (£0.4m) on the LBS budget.

47. Across Highways an underspend of £2.5m is reported arising from vacancies across teams (£1.0m) and additional income relating to network data (£0.1m), section 38 and 278 fees (£0.8m) and recharges to capital (£0.6m). Winter maintenance costs were reduced due to a mild winter (£0.5m) which is partly offset by increased reactive and environmental maintenance to respond to issues on the highways £0.4m.

48. There is a net underspend of £2.3m on Waste and Departmental budgets, relating to market price rises generating increased income for recycling, scrap metal and dry recyclable materials (£2.0m); reduction in composting tonnages due to dry weather (£0.2m); reduced spend on waste initiatives (£0.1m) and vacancies across the service (£0.3m). These underspends have been slightly offset by increased costs at Recycling and Household Waste Sites due to vehicle hire whilst undertaking fleet repairs and maintenance and energy costs of £0.4m.

Chief Executive's

49. The Department is reporting a net underspend of £0.1m (0.7%). Underspends due to staffing vacancies across the department (£0.5m) and increased Registrar's income (£0.4m) are partly offset by increased costs on the Coroners Service of £0.5m, loss of planning income £0.1m and Legal Services of £0.2m due to use of locums to cover vacancies plus increased demand in social care cases.

50. The position includes costs of £0.9m in respect of the establishment of the East Midlands Freeport. These costs have been temporarily funded from Council reserves to be repaid from retained business rates generated once the Freeport becomes operational. Including spend in 2021/22 a total of £1.7m has been temporarily funded up to March 2023.

Corporate Resources

51. Overall the department has a net overspend of £1.6m (4.1%).

52. The main variance relates to continuing pressures in Commercial Services +£2.9m, which includes recovery from the pandemic and general inflationary pressures, notably within the catering service. Work is underway to increase income and reduce costs in 2023/24 and beyond.

53. The Investing in Leicestershire Programme budget has a net overspend of £0.6m, mainly relating to an increase in the provision for bad debts and the timing of private debt income.

54. These overspends are offset by underspends in other areas mainly relating to staff vacancies.

Central Items

55. MTFS Risks Contingency (£8m). The contingency has been released and shows a £8m underspend.

56. Inflation Contingency - the contingency is overspent by £7.1m. 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 estimate in the inflation contingency (based on 3%) is around £7m. Running costs have also been higher than anticipated, particularly regarding electricity contracts, where increases of around 100% have been incurred.

57. Additional revenue funding of capital of £13.3m relates to a change in treatment of the Business Rate Pool levies. These have previously been provided to the LLEP for investment in the wider sub-regional area. The treatment has been amended, with the accrued levies for 2020/21, 2021/22 and 2022/23 now being allocated on the basis of one third each to the County Council, Leicester City Council and the District Councils. The County Council will receive a sum of £13.3m which will be used towards supporting

economic priorities, including a proposed £7.5m contribution to essential capital works at Zouch Bridge.

58. Bank and other interest - £7.2m increased investment income. This is mainly due to increases in the Bank of England base rate from 0.5% in February 2022 to an average for the year of c.2.3%. Together with continued high bank balances, averaging around £400m for the year, an additional £7.2m in investment income from treasury management activities has been achieved. The base rate at the end of March 2023 was 4.25%.

59. Central expenditure (£2.3m) underspend for prior year adjustments, relating primarily to the cleansing of receipted aged purchase orders that are no longer required.

Business Rates

60. As a result of additional Business Rates a combined net income of £15m is reported.

61. An additional £13.3m relates to a change in treatment of the Business Rate Pool Levies, described earlier in the report.

62. There is net income of £1.2m on the 2022/23 business rate base line and section 31 grants. Income from the Leicestershire district councils regarding the “baseline / retained” element of business rates was £1.2m lower than budgeted for in the original MTFS, mainly due to the impact of increased Covid-related discounts in the previous year. However, this shortfall was more than offset by an increase of £1.4m in the amount of S31 grant due from the Government. In addition to the above, the end-of-year business rate forms indicate that an additional net total of £1m of section 31 grants will be due to the County Council.

63. The other £0.5m relates to an allocation from a surplus on the national levy / safety net fund, announced on 6th February 2023.

64. The provisional outturn position of the 2022/23 Leicester and Leicestershire Business Rates Pool shows a Levy total of £17.0m, with the final position subject to the completion of external audits. Initial indications of the 2023/24 Pool show that the Levy could be around £19.3m, of which the County Council’s allocation would be around £6.4m.

Overall Revenue Summary

65. After releasing the £8m Risks Contingency as an underspend, the overall net position is an underspend of £6.7m. This will be used to fund the following additional spending requirements:

- £3.5m – increase in credit loss allowance (bad debt provision) required due to aged debtor balances. Debt recovery during the covid-19 pandemic has been affected, for instance through delayed applications at the courts for probate applications, and more recently pressures from the cost of living crisis. The main areas are within adult social care. The additional provision will be added to the credit loss allowance and only used where debt collection activity has been exhausted.

- £3m - Highways Maintenance – one off additional funding to manage the continuing pressures of maintaining the highways.
- £0.15m top capital financing – balance of funding, the MTFS 2023-27 includes a borrowing requirement of £124m.

General Fund and Earmarked Reserves

66. The uncommitted General Fund balance as at 31 March 2023 stands at £19m which represents 3.7% of the 2023/24 revenue budget, in line with the County Council's earmarked reserves policy. The MTFS includes further analysis of the County Council's earmarked reserves including the reasons for holding them.

67. The total level of earmarked reserves held as at 31 March 2023 total £194m including schools and partnership funding. They can be summarised as below:

Revenue Purposes	£95m
Capital Purposes	£113m
Schools	-£30m
Partnerships	£16m
Total	£194m

68. Earmarked reserves are shown in detail in Appendix C. The main earmarked reserves are set out below.

Renewals of Vehicles and Equipment (£2.2m)

69. Departments hold earmarked reserves for the future replacement of vehicles and equipment such as ICT.

Insurance (£15.9m)

70. Earmarked reserves of £10.7m 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.

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

Children and Family Services

72. Children and Family Services Developments (£2.8m). 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

73. Adults and Communities Developments (£2.1m). This earmarked reserve is held to fund a number of investments in maintaining social care service levels and assisting the Department in achieving its transformation.

Public Health

74. Public Health (£8.4m) – to fund Public Health initiatives within Leicestershire. The reserve includes various government grants that have been carried forward to 2023/24 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

75. Commuted Sums (£2.7m). 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, for example, 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 reserve has built up over time.

76. Leicester and Leicestershire Integrated Transport Model (LLITM) (£1.3m). This earmarked reserve is income from charging other local authorities for using the model. Surplus income is added into the reserve and will be used to finance activity to refresh the model when required.

Corporate

77. Transformation Fund (£9.3m). 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.

78. Broadband (£2.1m). This earmarked reserve 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.

79. Budget Equalisation (£39.5m). 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 £35.5m at the end of 2022/23. 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.

Capital

80. Capital Financing (£137.5m). This earmarked reserve 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 2022/23. In addition, when funding actual capital expenditure, as revenue funding is less restricted than capital funding (which can only be used to fund new capital expenditure) balances from this reserve are used last. The reserve also includes the £13.3m allocation from the Business Rates Pool and £3m funding for Highways Maintenance from the revenue budget overall net underspend.

81. Pooled Property Fund(s) (-£24.3m). The Cabinet previously approved the investment of £25m of the Council's earmarked reserves 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 approximately £1m. The investment is funded from the overall balance of earmarked reserves and can be realised in the future when required.

Other / Partnerships Earmarked Reserves

82. DSG (deficit of £30.2m). 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 reserve 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 2022	8.9	-4.3	-28.9	-24.3
Changes 2022/23	1.8	-1.0	-6.7	-5.9
As at 31 March 2023	**10.7**	**-5.3**	**-35.5**	**-30.2**

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

84. Health and Social Care Outcomes (£13.1m) used in conjunction with Health partners across Leicestershire.

85. Active Together (£1.5m). The main purpose of this earmarked reserve 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 reserve also allows management of funding variations and a redundancy provision.

East Midlands Freeport (EMF)

86. The EMF has recently been granted formal government approval and is now in operation. Freeports are designated areas where tax benefits exist to encourage investment and economic growth. The key funding stream for Freeports is retained business rates. In designated areas 100% of growth in business rate revenues is retained to allow these funds to be invested in the local area rather than a share needing to be returned to central government.

87. In advance of growth, and retained business rates being available, the County Council previously agreed to provide a cash flow loan to the EMF to cover set up and operations. This loan is at commercial rates to avoid any conflict with subsidy control and ensure the County Council gets an appropriate return on investment. As the accountable body for EMF, the role includes providing support to the Freeport in delivering the objectives set by the Government.

88. As at the end of the 2022/23 financial year just under £2m had been drawn down. Given the expected timelines of when new premises will be occupied (and retained business rates funds available), it is anticipated that this will increase further over the current financial year. It is therefore recommended that Cabinet agree an upper limit on this cash flow loan of £4m, with delegation to the Director of Corporate Resources, in consultation with the Deputy Leader, to agree with the Freeport Board Chair the conditions for further drawing down of the loan up to that limit. This will allow EMF to underwrite any remaining risks as it transitions from the set-up phase through to business as usual.

89. The risk of eventual non-payment is considered to be low for the following reasons
    - Over £800m of retained business rates is expected to be generated over 25 years;
    - This is likely to exceed £10m per year from 2027/28 and continue to rise;
    - Repayment of County Council funds is the first call on retained business rates after covering operational costs;
    - Development has already commenced.

    In addition, the use of retained business rates will be available to supplement developer funding, thereby mitigating adverse impacts of development.

CAPITAL PROGRAMME

90. The updated capital programme for 2022/23 totals £124m. This follows a review of the programme undertaken and approved by the Cabinet in September 2022 and changes in funding during the year. A total of £94m has been invested during 2022/23.

91. A summary of the capital outturn for 2022/23, excluding schools devolved formula capital, is set out below:

Programme Area	Updated Budget £000	Actual Expenditure £000	Net Variance £000	%
Children and Family Services	46,635	34,224	(12,411)	73%
Adults and Communities	5,335	4,776	(559)	90%
Environment and Transport	49,473	41,873	(7,600)	85%
Chief Executive's	1,041	62	(979)	6%
Corporate Resources	6,061	3,745	(2,316)	62%
Corporate Programme	15,033	9,294	(5,739)	62%
Total	**123,578**	**93,974**	**(29,604)**	**76%**

92. 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.	(159)	159	(13,810)	1,399	(12,411)
Adults and Communities	(245)	0	(314)	0	(559)
Environment and Transport	0	79	(8,869)	1,190	(7,600)
Chief Executive's	(974)	0	(5)	0	(979)
Corporate Resources	(23)	23	(2,682)	366	(2,316)
Corporate Programme	0	0	(14,524)	8,785	(5,739)
Total	**(1,401)**	**261**	**(40,204)**	**11,740**	**(29,604)**
	Net Underspend	(1,140)	Net Slippage	(28,464)	

93. The net underspend of £1.1m has been added to the capital financing reserve to reduce the level of internal borrowing required for the new MTFS capital programme. The net slippage of £28.5m has been carried forward to the capital programme 2023-27 to fund delayed projects.

94. 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.

95. Appendix E compares the provisional prudential indicators with those set and agreed by the Council at its budget meeting in February 2022. These are all within the limits set.

96. A review of the new 2023-27 MTFS capital programme will be undertaken during the summer 2023 in light of delays to project delivery and 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 2023.

<u>**Children and Family Services**</u>

Key Projects Delivered

97. Creation of additional school places completing projects at thirteen different schools. A total of 779 new primary school places across six schools and 195 new secondary school

places across seven schools were delivered. The SEND programme saw the completion of several schemes to support the growing needs for High Needs places in Leicestershire. A new unit for pupils with social, emotional and mental health (SEMH) needs was delivered, alongside the expansion of existing Special Schools across the county.

Main Variances

98. The year-end position shows a net variance of £12.4m compared with the updated budget. The main variances are due to slippage on:

99. Provision of Additional School Places – net slippage £7.3m:

- Barrow Humphrey Perkins - acceleration of £1.0m. This is a section 106 funded passported scheme included in 2023/24. The works started earlier than anticipated to build a new two-storey 13 classroom block to replace several dilapidated temporary buildings.
- Schemes to be defined allocation - slippage of £3.1m. 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. The unallocated budget will be held to also provide an inflation contingency into 23/24.
- Melton, John Fernley - slippage of £1.4m. Resourcing issues within legal services pushed back this project timeline even further and works did not commence on site until December 2022. Practical Completion is now expected for August 2023.
- Castle Donington Secondary School - slippage of £1.3m. This is a section 106 funded passported scheme. Partly due to delays in getting legal agreements drawn up and signed, and also delays in the school evidencing spend before funding can be passported.
- Old Dalby primary school - slippage of £1.2m. Initial feasibility required work to reduce costs delaying the planned project timescales. Practical completion is now forecast for the Autumn Term.
- Barrow Hall Orchard School - slippage of £0.8m. Delays in the creation and signing of the legal agreements for this passported scheme.

100. SEND Programme – net slippage £3.3m:

- Foxfield's Special School - £0.8m slippage. Changes required to the design as the school will be taking the initial intake of students originally planned to be placed in September at the new Bowman Academy, which has been delayed.
- Forest Way School - £0.7m slippage. Results of an environmental impact assessment has resulted in a full environmental study needing to be undertaken. Certain parts of this could not be by undertaken until late March for ecological reasons.
- Ashmount School - £0.6m slippage due to poor weather conditions in January resulting in bricklaying delays. Additional works were also needed to be undertaken to re-route services within, rather than outside of the school boundary.

- Bowman Academy - £0.5m slippage due to issues with the DfE appointing contractors.

101. Strategic Capital Maintenance Programme – net slippage £0.7m. Elements of works can only be completed outside of school term time. The 2022/23 allocation was not announced until the end of March 2022 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.

102. Children's Social Care Investment Plan, - £0.8m slippage due to planning delays and the lack of suitable properties in the market.

<u>Adults and Communities</u>

Key Projects Delivered

103. Social Care Investment Plan (SCIP) – investment of £0.2m across several properties, including feasibility and preparatory works. Additional SCIP works planned to take place in 2023/24 on sites to provide Extra Care services.

104. Reconfiguration of Melton Library and construction of two purpose built adult learning classrooms completed, £0.2m. Disabled Facilities Grant £4.4m, passporting to Leicestershire district councils

Main Variances

105. The department is showing a net variance of £0.6m compared with the updated budget. This comprises of slippage £0.3m on the Adult Social Care Investment Plan (SCIP) due to delays in identifying suitable schemes and an underspend of £0.3m across other smaller schemes.

<u>Environment and Transport</u>

Key Projects Delivered

106. A total of £12.7m has been spent on the preparation and delivery of major projects in 2022/23, including:

- Melton Mowbray North Eastern Distributor Road, £6.4m invested in design and full business development. New distributor road to the north and east of Melton Mowbray to ease congestion in the town centre and facilitate growth, a full business case was successful in securing DfT funding in 2022/23.
- Melton Mowbray Southern Distributor Road, £1.2m invested in design works. Project to extend the planned North Eastern Distributor road into the south of Melton Mowbray which will ease congestion in the town centre and facilitate growth.
- A511 Major Road Network scheme, £1.5m in designing and preparing the full business case to DfT. Project 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.

- Hinckley Hub (Hawley Road) - National Productivity Investment Fund, £3.2m – several programmes to increase capacity on the network to facilitate growth and to improve cycling and walking facilities within Hinckley.
- Zouch Bridge, £0.2m – the existing bridge is at the end of its life. The bridge forms part of the A6006 which is strategically important in terms of transport infrastructure and the regional economy. The pre-procurement of the programme is planned to commence 2023/24 however initial estimates anticipate that there will be insufficient funds within the existing capital programme. As mentioned earlier in this report, additional funding is being proposed from the Council share of the local business rates pool levies.

107. A total £19.3m was invested in Highways Asset Maintenance:

- £14.2m on carriageways
- £2.0m on footways and rights of way
- £0.7m on bridge maintenance and strengthening
- £1.6m on street lighting maintenance
- £0.2m on flood alleviation
- £0.6m on traffic signal renewal

108. A total of £4.1m has been invested in Environment and Waste improvement works, including Recycling and Household Waste Sites (RHWS):

- New Waste Transfer Station (WTS) at Bardon, £0.5m. To ensure ongoing environmental compliance and efficient service provision. Site development commenced in 2021/22 and started to accept waste Spring 2022 with remedial works continuing in 2022/23 and set to continue in 2023/24 (£0.1m slippage).
- Kibworth Site Redevelopment - £3.6m. To implement best practice for recycling and household waste sites. Site reconfigured to a new split-level surface, providing 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

109. The Department is showing a net slippage of £7.6m. The main variances are:

- A511 Major Road Network, £1.1m acceleration due to increased work on completing the full business case to secure the major road network funding.
- Melton Distributor Road, Southern Section, £1.5m slippage as a result of evaluation of costings exercise. Scheme to be reprofiled.
- Highways Capital Maintenance programme – £1.0m net slippage to allow for the completion of drainage works before maintenance scheme works commences and less design works being completed.

- Advanced Design / Match Funding, £1.0m slippage due to fewer funding opportunities being available than anticipated delaying preparations works. In addition, some programmes have been reprofiled.
- Hinckley Hub (Hawley Road) - National Productivity Investment Fund, £0.9m slippage due to Department for Transport guidance review which has resulted in works being paused and reprogrammed for construction during 2023-25.
- M1 Junction 23 / A512, slippage of £0.9m due to landscaping as contractor was not procured in time for planting season and street lighting works on national highways slip roads - ongoing liaison regarding replacement costs.
- Street Lighting, £0.5m slippage due to resourcing for works and the availability to work on the network at Fosse Park.
- Vehicle replacement programme, £0.4m slippage due to delays expected in deliveries. Vehicles were ordered but not all received by the end of the year.

<u>Chief Executive's</u>

Key Projects Delivered

110. The Rural Broadband Scheme phase was completed during 2022/23. 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 was a key component in working towards this commitment.

Main Variances

111. The year end position shows an underspend of £1.0m on the Rural Broadband phase 3 programme. This was due to the impact of BT change requests which reduced the overall number of properties needing to be connected (fibre already there or delivery by another provider/method). Around 50% of the underspend may need to be returned to Building Digital UK (BDUK) who part funded the original programme.

<u>Corporate Resources</u>

Key Projects Delivered

112. During 2022/23, £3.7m was invested, including the following programmes

- ICT back up system replacement £0.9m, a programme to replace systems which were no longer fit for purpose relating to cyber security.
- Ways of Working programme £1.6m, a programme to drive efficiency and promote productivity by promoting a culture of flexible, smarter working and office optimisation enabling rental income from partners.
- Public sector decarbonisation scheme £0.6m, a programme to reduce the carbon impact of LCC properties.

Main Variances

113. The year end position shows a net variance of £2.3m compared with the updated budget. The main variance related to the Ways of Working programme, £1.5m slippage. This was due to a reprogramme of works following implementation of the future office model pilot.

Corporate Programme

Key Projects Delivered

114. During 2022/23, £9.3m was invested, including an £8.8m investment in pooled infrastructure funds, as part of the Investing in Leicestershire Programme (IILP) to generate enhanced revenue returns, and £0.5m on improvements to industrial estates and county farms.

Main Variances

115. The year-end position shows a net variance of £5.7m compared with the updated budget. The main variances relate to:

- Pooled Infrastructure Funds, £8.8m acceleration, investment in 2022/23.
- Oakham, Panniers Way Industrial Units, £5.8m. Planned purchase didn't proceed, funding returned to the IILP New Investments allocation in 2023/24.
- 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 shortly.
- Lutterworth Leaders Farm, Drive Thru Restaurants, £2.6m slippage. Scheme will be reprofiled due to planning delays, approved in March 2023.
- 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

116. The requirement for general capital receipts for 2022/23 was £2.5m. The actual receipts were £1.1m with some planned sales 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

117. 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.

118. A summary of the IILP position for 2022/23 is set out below. The detailed programme will be provided to the Cabinet in the annual performance update to be reported in September 2023.

Asset Class	Opening Capital Value	Capital Incurred 2022/23	Closing Capital valuation	Net income YTD	Budget Net Income FY	Variance to Budgeted Net Income	Actual Net Return
	£000	**£000**	**£000**	**£000**	**£000**	**%**	**%**
Direct Core and Non-Core Holdings	155,095	-196	155,095	4,653	4,856	-206	3.0%
Indirect Holdings (Diversifiers)	51,700	27,517	75,412	1,181	1,607	-418	1.8%
Total (All IILP)	**206,795**	**27,321**	**230,507**	**5,834**	**6,463**	**-624**	**2.7%**

119. The net income received for 2022/23 is £5.8m, which is £0.6m adverse to target.

120. 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.

121. The Direct holdings variance of £0.2m relates to an increase in the bad debt provision required as at year end.

122. 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. During 2022/23 two new investments were made totalling £23.7m, comprising £15m to a bank risk sharing investment and £8.7m into a pooled infrastructure fund. In addition, the two Private Debt funds held, called £3.8m, giving a total capital spend of £27.5m.

123. The closing valuations for the indirect holdings reported a net reduction of £3.8m. The four pooled property funds in aggregate fell by £5.5m in the year offset by gains of £1.7m within private debt and bank risk share investments. The reduction in pooled property funds is due to the repricing of property assets versus the risk free UK bank base rate increases since mid-2022. The Council reviews all IILP investments regularly.

124. The 2022/23 income return for indirect holdings is lower than budgeted due to private debt investments returning lower interest income than predicted by £0.5m due to the manager holding higher than normal cash levels whilst the volatility in exchange rates persisted during the second half of 2022/23. The investment is hedged to GBP and as such additional collateral would have been needed to maintain hedges during the sell off in GBP versus USD during 2022 which at one point reached 1.04 GBP to the USD post the mini budget announcement on the 23 September 2022. The closing valuations at 31

March 2023 for the private debt investments show an aggregate £1.2m capital gain over the year and as such we expect underlying performance is in line with expectations.

125. The indirect investments net income return appears suppressed given investments made to private debt and bank risk share during 22/23 which are still in the investment period and therefore yet to provide income. The new private debt investment will start to provide income from Jan 2024 and the bank risk share investment from October 2023. Only one quarter of income was due from the £8.7m pooled infrastructure investment made in January 2023.

126. It should be noted that the above table excludes end of year capital valuations for the direct portfolio which will impact the net income return percentage when that element is finalised. Capital valuations are assessed annually as part of the asset revaluation exercise and are reported in the annual IILP performance report in September each year.

Equality and Human Rights Implications

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

Circulation under the Local Issues Alert Procedure

None.

Background Papers

Report to the County Council on 23rd February 2022 - Medium Term Financial Strategy 2022-2026 - https://politics.leics.gov.uk/ieListDocuments.aspx?CId=134&MId=6481&Ver=4

Report to the Cabinet – 26th May 2023 – Provisional Revenue and Capital Outturn 2022/23 - https://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=7076&Ver=4

Officers to Contact

Declan Keegan, Director of Corporate Resources, Corporate Resources Department
☎0116 305 7668   E-mail Declan.Keegan@leics.gov.uk

Nick Wash, Head of Finance, Corporate Resources Department
☎0116 305 7146   E-mail Nick.Wash@leics.gov.uk

Appendices

Appendix A - Comparison of 2022/23 Expenditure and the Updated Revenue Budget
Appendix B - Revenue Budget 2022/23 – main variances
Appendix C - Earmarked Fund balances 31/3/23
Appendix D - Capital Programme 2022/23 – main variances
Appendix E - Prudential Indicators 2022/23