Executive Decision- Revenue Budget Monitoring

April - December 2021/22

To be considered by OSC on: 24th March 2022

Decision to be taken by: City Mayor

Date of decision: tbc

Lead director: Colin Sharpe, Deputy Director of Finance

Useful information

- Ward(s) affected: All
- Report author: Amy Oliver
- Author contact details: amy.oliver@leicester.gov.uk
- Report version number: 1

1. Summary

This report is the third in the monitoring cycle for 2021/22 and forecasts the expected performance against the budget for the year. An overspend of £8m is currently forecast for 2021/22. The overspend mainly relates to one off costs arising from the pandemic and continued losses of income, particularly in City Developments and Neighbourhoods. These can be accommodated within the one-off sums the Council has available to support the impact of the pandemic.

In 2020/21, the Government provided significant support to councils to assist with meeting the costs associated with the pandemic. The level of financial support from Government has reduced this year, although Government is continuing to provide specific grants for certain activities and services, for example the Contain Outbreak Management Fund. The Council set aside money at the end of 2020/21 to fund the ongoing impact of the pandemic and to assist with recovery.

Some of the longer-term financial impacts of the pandemic are difficult to predict, especially income levels, which includes leisure centres and parking income. We continue to monitor our main income streams closely to see how they recover and to identify any potential long-term impacts on our budgets. In the 2022/23 budget one-off funding has been set aside to support areas while income levels recover. Income from council tax and rates is recovering towards pre-pandemic levels.

Both adults' and children's social care services have been affected by the pandemic. The cost of adult social care mostly comprises the cost of packages of care for individuals. Each year, the cost increases due to increasing numbers of people receiving services and changes in the needs of those already in receipt of packages. The Council has a model for projecting these costs which has proved robust over a number of years, but the pandemic has given rise to underspends as people have shown increased reluctance to access services (direct pandemic related costs being met by the Government or the CCG). This was the case in 2020/21 and has continued into 2021/22. The cost of children's social care services, conversely, was expected to increase during 2020/21 but in practice numbers of looked after children did not increase until the second half of the year. In 2021/22, cost pressures have been compounded by a significant number of new high-cost placements. Combined with pressures on transport, the Education and Children's Services Department is expected to overspend – this overspend can be funded from the underspend in Adult Social Care.

Like other authorities, the cost of our high needs' education provision continues to rise inexorably, and despite increased government funding the Dedicated Schools Grant reserve is expected to be in deficit to the tune of £13m by the end of 2022/23. Legally, this sits outside the Council's main general fund.

2. Recommended actions/decision

2.1 The Executive is recommended to:

- Note the emerging picture detailed in the report.

2.2 The OSC is recommended to:

- Consider the overall position presented within this report and make any observations it sees fit

3. Scrutiny / stakeholder engagement

N/A

4. Background and options with supporting evidence

The General Fund budget set for the financial year 2021/22 was £288.1m.

Appendix A - Period 9 (April - December) Budget Monitoring summary.

Appendix B provides more detailed commentary on the forecast position for each area of the Council's operations.

5. Detailed report
See appendices

6. Financial, legal, equalities, climate emergency and other implications

6.1 Financial implications

This report is solely concerned with financial issues.

6.2 Legal implications

This report is solely concerned with financial issues.

6.3 Equalities implications

No Equality Impact Assessment (EIA) has been carried out as this is not applicable to a budget monitoring report.

6.4 Climate Emergency implications

This report is solely concerned with financial issues.

6.5 Other implications (You will need to have considered other implications in preparing this report. Please indicate which ones apply?)

No other implications are noted as this is a budget monitoring report, and therefore no policy changes are proposed.

7. Background information and other papers:

Report to Council on the 17th February 2021 on the General Fund Revenue budget 2021/2022.
Period 3 Monitoring report presented to OSC on 16th September 2021.
Period 6 Monitoring report presented to OSC on 16 December 2021.

8. Summary of appendices:

Appendix A – Period 9 (April-December) Budget Monitoring Summary

Appendix B – Divisional Narrative – Explanation of Variances

9. Is this a private report (If so, please indicate the reasons and state why it is not in the public interest to be dealt with publicly)?

No

10. Is this a “key decision”? If so, why?

No

APPENDIX A

Revenue Budget at Period 9 (April – December), 2021-22

2021-22	Current Budget	Forecast	Variance
	£000's	£000's	£000's
Financial Services	11,218.4	10,860.2	(358.2)
Information Services	9,124.4	10,898.3	1,773.9
Human Resources & Delivery, Communications & Political Governance	10,934.1	9,518.4	(1,415.7)
Legal Services	3,361.4	3,361.4	0.0
Corporate Resources & Support	**34,638.3**	**34,638.3**	**0.0**
Planning, Development & Transportation	13,828.3	17,975.7	4,147.4
Tourism Culture & Inward Investment	4,598.2	5,723.5	1,125.3
Neighbourhood & Environmental Services	31,855.7	31,855.7	0.0
Estates & Building Services	5,761.7	5,916.7	155.0
Departmental Overheads	818.3	758.6	(59.7)
Housing Services	3,341.8	4,134.5	792.7
City Development & Neighbourhoods	**60,204.0**	**66,364.8**	**6,160.8**
Adult Social Care & Safeguarding	136,162.3	129,162.4	(6,999.9)
Adult Social Care & Commissioning	(16,859.3)	(16,985.5)	(126.2)
Sub-Total Adult Social Care	**119,303.0**	**112,176.9**	**(7,126.1)**
Strategic Commissioning & Business Support	1,884.5	2,175.3	290.8
Learning Services	13,899.2	15,940.4	2,041.2
Children, Young People & Families	65,595.0	66,262.4	667.4
Departmental Resources	1,541.8	984.9	(556.9)
Sub-Total Education & Children's Services	**82,920.5**	**85,363.0**	**2,442.5**
Total Social Care & Education	**202,223.5**	**197,539.9**	**(4,683.6)**
Public Health & Sports Services	**23,498.4**	**26,143.9**	**2,645.5**
Housing Benefits (Client Payments)	500.0	500.0	0.0
Total Operational	**321,064.2**	**325,186.9**	**4,122.7**
Corporate Budgets	4,787.6	6,645.9	1,858.3
Additional COVID-19 related costs	0.0	4,086.0	4,086.0
Capital Financing	6,786.0	5,158.0	(1,628.0)
Total Corporate & Capital Financing	**11,573.6**	**15,889.9**	**4,316.3**
Public Health Grant	(27,202.2)	(27,202.2)	0.0
Managed Reserves Strategy	(17,300.9)	(17,300.9)	0.0
TOTAL GENERAL FUND	**288,134.7**	**296,573.7**	**8,439.0**

APPENDIX B

Divisional Narrative – Explanation of Variances

Corporate Resources and Support

Corporate Resources Department is forecasting to spend £34.6m as per the budget.

1. Finance

1.1 The Financial Services Division is forecasting an underspend of £0.4m, largely due to vacancies.

2. Information Services

2.1. Information Services is forecasting a net overspend of £1.8m. This is due to spending on development projects and new ways of working. This will be covered by the underspend elsewhere in the division, rather than using the earmarked reserves set aside for this purpose.

3. Human Resources, Delivery Communications & Political Governance (DCPG)

3.1. The division is forecasting a net underspend of £1.4m. This is due to vacancies across both areas and newly appointed staff not yet at the top of the grade, together with additional income generation from traded activity by HR Operations and Health & Safety. This will be used to fund expenditure in Information Services.

4. Legal, Registration & Coronial Services

4.1. The Legal Services Division is forecasting a breakeven position although this includes the ongoing use of reserves to address cost pressures around use of locums to address workload pressures and difficulties in recruiting permanently.

4.2. Coroners and registrars are forecasting an overspend of £0.3m due to increased mortuary costs and increased workload due to COVID-19, continuing the pattern of recent times. The overspend will be funded from Corporate Budgets in line with normal policy.

City Development and Neighbourhoods

The department is forecasting an overspend of £6.1m on a net budget of £60.2m. The position for each division is as follows:

5. Planning, Development & Transportation

5.1. The division is forecasting an overspend of £4.1m due to a shortfall in income arising from COVID-19, including car parking, bus lane enforcement and planning fees. Fee income projections for car parks have improved by £0.5m since period 6.

6. Tourism, Culture & Inward Investment

6.1. The division is forecasting an overspend against budget of £1.1m, an improved position compared with that forecast at period 6. The division continues to suffer from income shortfalls at De Montfort Hall, markets and museums as a result of COVID-19. These income shortfalls will be only partially offset by savings on running costs.

7. Neighbourhood & Environmental Services

7.1. The division is forecasting a breakeven position against budget. COVID-19 related shortfalls in income in Regulatory Services, City Warden enforcement activity and libraries are offset by savings from staffing vacancies and delayed recruitment.

8. Estates & Building Services

8.1. The division is currently forecasting an overspend of £0.2m. A shortfall in income against budget for the Corporate Estate will be largely offset by underspends on facilities management, including security.

9. Departmental Overheads

9.1. This holds the departmental budgets for added years' pension costs and departmental salaries. A small underspend is being forecast against pensions.

10. Housing General Fund

10.1. The Housing General Fund is forecast to overspend by £0.8m. An overspend of £1m is anticipated on temporary accommodation expenditure linked to COVID-19, to be funded from COMF. Partially offsetting this, delays in the vehicle replacement programme resulting from supply shortages of steel and electronic components will lead to prudential borrowing charges being lower than anticipated.

11. Housing Revenue Account

11.1. The Housing Revenue Account (HRA) is a ring-fenced income and expenditure account relating to the management and maintenance of the Council's housing stock. The HRA is forecasting to underspend by £0.1m, excluding revenue used for capital spending (which is reported in the capital monitoring report).

11.2. Rental income is forecast to be £0.3m above the budget, largely due to a greater number of acquired properties being held within the HRA.

11.3. The Repairs and Maintenance service is forecast to overspend by £0.8m, a significant movement from the breakeven position reported at period 6. Half of this is due to additional costs incurred on District Heating, with further spend being incurred on structural works and increased material costs.

11.4. Management and Landlord services are forecast to underspend by £0.2m. Whilst the cost of council tax on void properties will exceed the budget by £0.4m, this will be more than offset by staffing vacancies and savings on the premises costs of buildings that have remained closed during lockdown.

11.5. The cost of paying interest on debt is expected to be £0.4m lower than budget, largely due to reductions in the rate of interest being charged.

Adult Social Care

12. Adult Social Care

12.1. The department is forecasting to spend £7.1m less than the budget of £119.3m as at quarter 3. Members will recall that the budget includes growth of £12.3m. The under spend is the result of a range of factors including the pandemic. The average cost of people receiving care at the start of 2021/22 was lower than forecast due to the ongoing covid impacts; the level of increase in assessed need for our existing people is also forecast to be lower than the pre-pandemic trend and take up of some services by those receiving direct payments has continued at a lower rate than expected in this year. In addition, staffing vacancies in social work and directly provided services have resulted in underspends during the year.

12.2. The DHSC extended the Infection Control Fund and Testing Fund to 31 March 2022 with total funding of £6.7m which has been distributed to providers. Additionally, funds totalling £3.4m have been received to cover workforce retention and support for the impact of Omicron and these are in the process of being distributed to providers.

12.3. The NHS has continued to provide a national discharge fund to temporarily cover the additional costs of care until 31 March 2022 for those people discharged from hospital (in other words these temporary costs incurred by ASC are recovered from the NHS via the CCG and people do not have to make any financial contribution themselves). For the period April to June 2021 the funded care could last up to six weeks and for the period July to March 2022 up to four weeks. The level of funded care required has dropped very significantly from what we saw in 2020/21 as the number of hospital discharges requiring care has reduced (£3.2m was recharged in 2020/21 and only approximately £300k in the first nine months of 2021/22).

12.4. The overall cost of care for those 5,128 people in receipt of care at the start of the year was lower than the budget, which was set in Autumn 2020, at which time it was unclear how the pandemic would develop during the remaining months of 2020/21. The reduction in the number of older people in care homes in 2020/21 and the lower than trend rate of increasing need for older people in 2020/21 (probably reflecting a reluctance to access services) has meant that those 5,128 people, at the start of 2021/22 cost £1.9m less than was assumed in the budget.

12.5. The rate of increase in need of those people already receiving care at the start of the year has been discussed many times in these reports and recently as part of the Adult Social Care Commission working group. The trend in the rate has been a continual increase since measurement began in 2015/16 - however 2020/21 saw a reduction to 5% compared to 5.9% in 2019/20 and this was believed to be due to lower levels of interaction by people with the service during lock-downs. At the half year there were indications that the increase had not returned to pre-pandemic trends, and this will also have been affected by a back-log of reviews. Nevertheless, at this point in the year it is reasonably certain that the final increase will be lower than the budget and comparable to 2020/21 at 5%.

12.6. In terms of new people entering the care system (and who are still receiving care at the end of the quarter), there has been a net inflow of 225 people (4.4% increase) by the end of December, 99 (3.4% increase) of which are older people and 126 (5.8% increase) of working age. Net growth in 2020/21 was only 0.9% (46 people), but this was because of abnormally high numbers of older people leaving the care system during the pandemic and not a reduction in numbers entering the care system. Whilst the number of older people leaving care has reduced significantly in 2021 to date compared with last year, numbers entering the system remain at similar levels. The overall financial impact of the net change in numbers of people receiving care remains comparable to the budget in this forecast.

12.7. The degree to which those people with direct payments have been able/willing to access services, in particular day care, has continued to be reduced in the first part of 2021/22 and therefore people have not been fully spending their direct payments. Therefore, funding that would have been allocated to people for this activity has been retained.

12.8. Recruitment to posts within ASC remains a challenge, with many posts being on the national ‘shortlist’ for hard to fill roles. This includes qualified social workers, Occupational Therapists, Best Interest Assessors and Approved Mental Health Professionals. As a consequence, many of these posts have remained unfilled despite attempts to recruit, resulting in an underspend on staffing budgets. A similar issue is noted in care roles within directly provided reablement and crisis services. As all of these roles are critical to the delivery of social care, recruitment remains a priority and underspends are therefore not intended to be ongoing into future years.

12.9. The reduction in the base cost of people receiving care, the reduction in the increase in need, the lower uptake of direct payment services, difficulties recruiting and unbudgeted additional NHS hospital discharge related income means that overall ASC is forecasting an underspend of £7.1m for 2021/22 as at quarter three.

Education and Children’s Services

13. Education and Children’s Services

13.1. The department is forecasting to spend £85.4m, £2.4m more than the budget. As outlined in previous monitoring reports, the over-spends are due to cost pressures in SEN home to school transport, the special education service and placement costs for looked after children. There is also an emerging pressure from increasing referrals by parents for support for their disabled children.

13.2. Savings of £1m in SEN home to school taxi costs were assumed in the budget for 2021/22, in anticipation of a new framework contract being in place which fixed taxi charge rates at a unit rate which was fair and equitable to both providers and the Council. Providers bid to be placed on the new framework contract following a comprehensive engagement process explaining the basis of the new contract and the unit rates. Sufficient providers were awarded a place on the new framework. Unfortunately, in December 2020, prior to the contract going live in January 2021, taxi providers refused to take on the individual contracts awarded at the new framework rate. The Council was left with no alternative other than to extend the previous contract arrangements and abandon the new framework and the associated savings.

13.3. In addition to the loss of savings, unit costs have also increased significantly in 2021/22 compared to last year. Journeys procured for the new academic year are 26% higher than in 2020.

13.4. There has been further progress in the use of personal transport budgets (lower cost than taxi provision) with a greater proportion of new referrals taking this route. A revised SEN home to school transport policy has been consulted upon. The new policy more clearly defines the council's SEN transport related responsibilities and emphasises further the options that are available for the parent in respect of personal transport budgets. Greater emphasis is also being placed on promoting independence through travel training.

13.5. The number of looked after children and other placements at the start of the year (656) was higher than that assumed when the budget was set in the Autumn of 2020 (598). This followed an increase in the rate of numbers entering care in the second half of 2020/21 and the impact of delays in the courts processing adoption orders delaying numbers leaving care.

13.6. In the first nine months of the year there has been a net reduction of 8 in the numbers of LAC and other placements. The reduction in average cost of those entering care seen in the second quarter has been reversed in the third quarter, following a significant number of new high-cost placements. Moreover, this increase in average cost reverses the downwards trend seen in 2020/21. The average cost of entrants into care year to date is now £47k p.a. compared to the budget of £40k. Breakdowns of existing placements and transfers to higher cost provision has also added to costs.

13.7. The average cost of those leaving care in the year to date has been £22k, with the majority having been in lower cost foster care or placed with parents. The shift in the mix of placements towards those with higher costs means that the carrying cost of the current 648 placements population has increased. The extent to which this situation remains at the year-end will determine the knock-on impact on the adequacy of next year's budget.

13.8. In the calendar year 2021 the special education service has experienced a 38% increase compared to 2020 in the numbers of referral requests for Education, Health and Care (EHC) plans and 23% increase compared to the pre-pandemic year 2019. Other LAs have experienced similarly unusually high request rates and this may be a post pandemic effect. The capacity of the service has been increased to deal with this high level of referrals to prevent an unacceptably high backlog of assessments developing. The situation in terms of referral rates is being monitored constantly.

13.9. Although to a lesser extent, there has also been an increase in the number of open cases in the disabled children's service resulting in an increase in ongoing support costs. This issue is being reviewed currently to determine whether this is likely to be sustained going forward.

13.10. Whilst there are some staffing underspends across the services, taken together, the impact of SEN home to school transport, the anticipated level of LAC and other placements, the increase in EHC plan requests and requests for support from the disabled children's service results in a forecast overall overspend for Education and Children's services of £2.4m, comparable to the forecast at quarter two.

13.11. As outlined in previous reports, demand for SEN places and other SEN support costs funded from the High Needs Block (HNB) of the Dedicated Schools Grant (DSG) exceeds the available funding. The number of EHC plans has increased at an average rate of 12.9% over the last five years, but the funding allocation is not based on numbers of EHC plans. The overspend in 2021/22 is now forecast to be £8.1m. The 2022/23 DSG HNB allocation has increased by £6.1m and there is also an additional supplementary grant of £2.5m to cover '*additional costs including the health and social care levy*'. Unlike the similar supplementary grant for mainstream schools, the DfE have not explicitly stated whether the HNB supplementary grant will be continued in future years. However, given that it is intended in part to cover the additional costs of the Health and Social Care Levy, it would be difficult for the DfE to withdraw it in a year's time. The additional funding is not ring-fenced and will be added to the overall HNB funding available, giving an £8.6m increase in total.

13.12. Nevertheless, after allowing for the increase in demand for places in 2022/23 and an allowance for pay, pension and other inflation, the HNB will remain in deficit in 2022/23 by £5.7m despite this additional funding.

13.13. The DSG reserve balance is forecast to be in deficit at the end of March 2022 by £7.2m. This will be carried forward into the following financial year and not offset against DSG block allocations from the DfE. This deficit will rise by the forecast 2022/23 overspend from the HNB of £5.7m, i.e., a forecast cumulative reserve deficit of £12.9m by the end of March 2023.

13.14. The Council continues working on managing the HNB expenditure. Capital works are proceeding to provide the necessary placement capacity, in particular our dedicated specialist provision; special school funding rates have been reviewed; a consultation has just completed regarding funding support for SEN within mainstream settings; and we are reviewing our independent/non maintained sector provision.

13.15. Whilst the actions outlined above will improve the financial sustainability of the existing provision, the long-term demand forecasts for placements indicates a further net increase of well over 800 placements in the next ten years.

13.16. The current HNB DfE funding formula will not adequately compensate the Council for this forecast level of growth. The funding increase in 2022/23 by the DfE was part of a 3-year commitment to increase school funding and high needs funding. There is no information about funding beyond 2022/23, although the DfE are committed to reviewing how the high needs national funding formula can be improved. However, the DfE have stated that '*Numbers of EHC plans are not to be used as a robust indicator of underlying need because the way they are used varies considerably across local areas, and the number of plans is therefore not necessarily directly associated with the local authority's need to spend*.' It seems unlikely therefore that the DfE will change their funding formula significantly to reflect actual demand and put measures in place to ensure the consistent quality of the EHC plans. The timing of any consultation on changes to the high needs national funding formula is unknown and therefore, there is no clarity on what future allocation methods for the HNB are likely to be adopted by the DfE or what overall budget will be set aside. The demand for SEN will remain a significant cost pressure for both the DSG and the general fund (in terms of taxi costs and assessment costs).

Public Health

14. Public Health

14.1 Public Health is forecast to spend £22.6m, £0.9m more than the core budget of £21.7m. The forecast includes £1.3m of spend on the test & trace Covid-19 programme which will ultimately be funded from the COMF (Contain Outbreak Management Fund) grant. Excluding the test and trace expenditure, core public health spend is forecast to be £0.4m less than the budget.

14.2 The pandemic is still having an impact on services nine months into the financial year. The sexual health service, normally paid for based on activity, has been paid at a fixed amount in the year to date because of lower numbers of patients, to ensure the financial viability of the provider. This temporary arrangement was reviewed again in December and a decision taken to continue with this arrangement until the end of the financial year.

14.3 A backlog of sexual health and contraception related cases has built up over the past 18 months and the service is keen to address this where possible by commissioning additional activity using departmental reserves where necessary.

14.4 Similarly, the NHS health checks service provided by GPs also has a backlog of work and incentives may be required to increase numbers going forward. However, GPs will not be able to undertake/deliver the full demand of the service during this financial year and £0.2m underspend is expected at outturn.

14.5 The service is expecting a high demand for mental health services as we come out of lockdown and this budget may come under pressure. Lifestyle services have suffered a loss of income from Sports Services because of a lack of referrals for gym classes to date for those people with weight issues and for smokers.

14.6 There have been vacancies in the main public health team and lifestyle services resulting in a further underspend of £0.2m.

<u>Sports Services</u>

15. Sports Services

15.1 Sports Services is forecast to spend £3.5m, £1.7m more than the budget of £1.8m. Only 3 gyms were open in the first quarter of the year, operating at a reduced capacity and with advance booking required. The wider leisure centre estate opened at the end of June with 6 centres opening but operating at 70% of capacity. The forecast is that income will be at an average of 70% of the budget throughout the remaining months of the financial year. There will be some savings from staffing and running costs.

<u>Corporate Items</u>

16. Corporate Items

16.1 The corporate budgets cover the Council's capital financing costs, items such as audit fees, bank charge and levies.

16.2 At period 9 an overspend of £1.9m is forecast to due to an anticipated pay award shortfall of £0.7m, reduced support from the Government of £0.9m in respect of uncollected council tax and business rates compared to what we expected, and £0.3m pressure in Coroners described above.

16.3 Capital financing is forecasting savings of £1.6m. The Council's debt servicing costs are fixed, and savings arise from interest on cash balances. Cash balances have been higher than expected, partly due to grants received and held prior to being spent. Savings have also been achieved due to locking into higher interest rates than those prevailing for most of the year.

16.4 A corporate cost centre has continued to be used for significant costs directly attributable to the pandemic, other than those which cannot be distinguished from normal departmental activity (such as income shortfalls). The forecast spend is £4.1m, this will be funded from one-off monies available to support COVID expenditure.

16.5 The Council has one off revenue monies of £21m to manage the impact of the pandemic and has submitted a claim for a further £3m for loss of fees and charges income under the Government's scheme for such losses. These monies are required to meet the costs of any pandemic related costs or income shortfalls in 2021/22 or later years, together with any recovery programmes that we initiate. At present, there is no indication that sums we have set aside will be insufficient and we are assuming that no income shortfalls will turn out to be permanent. Additionally, departmental budgets include ringfenced grant income for costs such as infection control in care homes and some government funded schemes fall outside of departmental budgets such as the holiday activities fund, various food support programmes and business support grants. At present there is no indication that any of these programmes will overspend.