Executive Decision-Revenue Budget Monitoring April-September 2022/23

Decision to be taken by: City Mayor

Decision to be taken on: 4 January 2023

Lead director/ officer: Amy Oliver, Director of Finance

Useful information

- Ward(s) affected: All
- Report author: Ben Matthews
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- Report version number: 1

1. Summary

This report is the second in the monitoring cycle for 2022/23 and presents a picture very similar to that presented at period 3.

The report shows an overall overspend of £14.5m, slightly higher than the £12.7m forecast at period 3. The forecast overspend is mainly due to the much higher levels of cost (including significantly increased energy costs) and pay inflation being experienced since the budget was prepared, together with continuing pandemic related income shortfalls. The inflationary cost pressures detailed in this report were not known at the time of setting the budget and are consistent with other councils' experiences. Income shortfalls from residual pandemic effects were however anticipated, and reserves were set aside. In contrast to the cost pressures, the changing economic backdrop and rising interest rates have meant that our investment income has increased considerably since the budget was set.

The income shortfalls due to the pandemic will be funded from one-off funding set aside in the 2022/23 budget. Cost pressures in children's placements will be met from a departmental reserve, with the remaining overspend being funded from the managed reserves strategy reducing the one-off funding available to support future years' budgets.

Children's Services continue to experience pressure in the budget for children's placements, due to the number of children receiving care and the level of support required. Significant cost pressures continue to be experienced in procuring home to school transport for children with special educational needs.

City Development and Neighbourhoods Department is reporting a significant overspend, mainly relating to additional energy and waste costs and continued income shortfalls which are a direct consequence of the pandemic. The cost increases have arisen primarily because of recent higher inflation, but also due to increasing levels of household waste to be disposed of.

As members are aware, the future financial outlook for the council is bleak, in a climate of rising costs and pressures whilst facing real terms cuts in government funding. Savings are being identified and implemented during the course of 2022/23 and the latest tranche is reported to you as Appendix C to this report.

2. Recommended actions/decision

2.1 The Executive is recommended to:

- Note the emerging picture detailed in the report.
- Approve the reductions to budgets described at Appendix C and for the in-year underspend to be transferred to the Managed Reserve Strategy, and delegate authority to the Director of Finance to determine the specific budget ceilings affected.

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 2022/23 was £307.8m.

Appendix A summarises the current budget and anticipated spending in 2022/23.

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

Appendix C shows the latest tranche of in-year budget savings.

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

There are no direct equality implications arising out of this budget monitoring report. Equalities Officer, Surinder Singh, Ext 37 4148

6.4 Climate Emergency implications

There are no climate emergency implications directly associated with this report, as it is a budget monitoring report and is solely concerned with financial issues. Aidan Davis, Sustainability Officer, Ext 37 2284

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 23rd February 2022 on the General Fund Revenue budget 2022/2023.
Period 3 Monitoring report presented to OSC on 27th September 2022.

8. Summary of appendices:

Appendix A – Period 6 (April-September) Budget Monitoring Summary;

Appendix B – Divisional Narrative – Explanation of Variances

Appendix C – Budget savings – Proposals for budget adjustments

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?

Yes – recurrent savings in excess of £0.5m

APPENDIX A

Revenue Budget at Period 6 (April – September), 2022-23

2022-23	Current Budget	Forecast	Variance
	£000's	£000's	£000's
Financial Services	11,564.8	11,564.8	0.0
Information Services	10,260.4	10,260.4	0.0
Human Resources & Delivery, Communications & Political Governance	9,668.6	9,430.0	(238.6)
Legal Services	3,470.7	3,470.7	0.0
Corporate Resources & Support	**34,964.5**	**34,725.9**	**(238.6)**
Planning, Development & Transportation	13,753.4	16,748.6	2,995.2
Tourism Culture & Inward Investment	4,405.8	4,954.2	548.4
Neighbourhood & Environmental Services	31,899.4	35,786.1	3,886.7
Estates & Building Services	5,744.9	6,864.1	1,119.2
Departmental Overheads	829.0	829.0	0.0
Housing Services	3,329.3	4,224.6	895.3
City Development & Neighbourhoods	**59,961.8**	**69,406.6**	**9,444.8**
Adult Social Care & Safeguarding	146,984.0	146,399.5	(584.5)
Adult Social Care & Commissioning	(18,163.9)	(18,683.7)	(519.8)
Sub-Total Adult Social Care	**128,820.1**	**127,715.8**	**(1,104.3)**
Strategic Commissioning & Business Support	1,961.1	1,585.2	(375.9)
Learning Services	17,698.3	19,327.3	1,629.0
Children, Young People & Families	67,508.5	70,076.7	2,568.2
Departmental Resources	1,456.8	1,151.1	(305.7)
Sub-Total Education & Children's Services	**88,624.7**	**92,140.3**	**3,515.6**
Total Social Care & Education	**217,444.8**	**219,856.1**	**2,411.3**
Health & Wellbeing & Sports Services	**23,500.5**	**24,313.3**	**812.8**
Total Operational	**335,871.6**	**348,301.9**	**12,430.3**
Corporate Budgets	7,140.9	12,220.3	5,079.4
Capital Financing	6,450.0	3,806.8	(2,643.2)
Total Corporate & Capital Financing	**13,590.9**	**16,027.1**	**2,436.2**
Public Health Grant	(27,884.2)	(28,248.1)	(363.9)
TOTAL GENERAL FUND SPEND	**321,578.3**	**336,080.9**	**14,502.6**

APPENDIX B

Divisional Narrative – Explanation of Variances

Corporate Resources and Support

Corporate Resources Department is forecasting to spend £34.7m, £0.2m less than the budget.

1. Finance

1.1. The Financial Services Division is forecasting to spend £11.6m as per the budget. Both the Business Service Centre and Revenues and Customer Services teams continue to experience a number of staffing vacancies as they did last year. The cost savings from this are offset by the additional operating costs of externally processing a backlog of local taxation work.

2. Information Services

2.1. Information Services are forecasting to spend £10.3m as per the budget. The service continues to use an earmarked reserve to fund new equipment, particularly to support agile ways of working, and other development costs over and above “business-as-usual” including costs relating to cyber security and network resilience.

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

3.1. Human Resources and DCPG is forecasting to spend £9.4m, £0.2m less than the budget as a result of generating additional traded income.

4. Legal, Registration & Coronial Services

4.1. Legal Services are forecasting to spend £3.5m as per the budget after using £0.2m of reserves. The service has had difficulty in recruiting permanent staff and is using locums instead which are more expensive.

4.2. Coronial Services are forecasting to spend £0.9m which means, as in previous years, support from corporate budgets of £0.4m will be required and this is assumed in the forecast. Unlike previous years, there is no available contingency to fund this (having been required for the extra costs of the pay award).

5. City Catering

5.1. City Catering is budgeted to trade at break-even (i.e. without a subsidy) but is facing significant pressures this year with increasing food costs and pay inflation, together with lower levels of meal uptake. Meal price increases have previously been kept to a minimum, but pay and food inflation now mean that the cost of production is on average more than the prices charged to schools. This issue is being reviewed, but this year the service will need to draw on an earmarked reserve in order to break-even.

City Development and Neighbourhoods

The department is forecasting an overspend of £9.4m on a net budget of £60m. This is a deterioration from the £7.9m forecast overspend reported at Period 3. The position for each division is as follows:

6. Planning, Development & Transportation

6.1. The division is forecasting an overspend of £3m. The same service areas continue to face budgetary pressures, but the amounts have increased from the £2.1m overspend forecast at period 3.

6.2. Income into the division is still being affected, to an extent, by the pandemic with income from both on-street and off-street car parking expected to be £1.3m lower than budget, with a further £0.3m shortfall in income from bus lane enforcement. These income shortfalls will be funded by the one-off COVID monies set aside as part of the 2022/23 budget report.

6.3. Partially offsetting this income shortfall, reduced numbers of concessionary fare passengers on buses is predicted to lead to an underspend of £0.9m. However, as previously reported, the Government has written to councils about maintaining bus services and additional national support for the sector is planned. This predicted underspend will therefore be kept under review.

6.4. An increase in energy costs across street lighting, traffic signals and signs add £0.8m of budget pressures. Energy and other running cost pressures in car parks is expected to add a further £0.5m.

6.5. As reported at period 3, market conditions are resulting in a reduction in the number of major planning applications being submitted, leading to a forecast income shortfall of £0.5m.

7. Tourism, Culture & Inward Investment

7.1. The division is forecasting a £0.5m overspend. As reported at Period 3, the number of market traders operating is much lower than before the pandemic, with the division forecasting an under-recovery on income as a result.

8. Neighbourhood & Environmental Services

8.1. The division is forecasting an overspend of £3.9m. The PFI contract for domestic waste includes an annual inflationary increase in contract payments, resulting in an overspend of £1.8m as inflation rose sharply after the budget was prepared. Separately, the volume of waste going to landfill rose during 2021/22 such that landfill tax payable by the Council is now higher by £2m. A further £200k pressure is forecast in Neighbourhood Services primarily due to the increased cost of utilities. The waste PFI contract reaches its end in 2028, and re-procurement is a significant (and costly) exercise. £2m will be set aside in managed reserves, with a view to topping up this sum from future budgets.

9. Estates & Building Services

9.1. The division is forecasting an overspend of £1.1m. This is largely attributable to additional staff to tackle a backlog in corporate estate rent and service charge reviews and from the anticipated increased income being generated later than expected. This is an improvement of £0.2m on the forecast position at period 3. Work is ongoing to reduce this overspend.

10. Departmental Overheads

10.1. Departmental budgets held for added years' pension costs, postage and departmental salaries are forecast to break even.

11. Housing General Fund

11.1. As reported at period 3, an increase in the number of homeless families is expected to lead to an overspend of £0.8m, after the use of reserves and a one-off grant. The impact of increased fuel prices during the year will lead to a further £0.1m overspend on the council-wide vehicle fleet.

12. Housing Revenue Account

12.1. 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 forecast to overspend by £6.2m, excluding revenue used for capital spending (which is reported in the capital monitoring report). At period 3 the forecast overspend was £5.5m.

12.2. Income from rents and service charges is expected to fall short of the budget by £0.3m, largely due to the loss of rent on void properties being higher than budgeted.

12.3. The Repairs and Maintenance service is forecast to overspend by £1.9m. There will be savings on vacant posts of £1.3m but this will be offset by spend on contractors of £0.8m to deal with the staffing shortage and address the backlog of void properties, and £0.9m increased spend on materials and equipment hire. As a result of staffing vacancies and the focus on turning around void properties, less capital work is being undertaken resulting in an income shortfall of £0.7m. Compensation claims and associated costs arising from an increase in disrepair claims driven by law firms before the introduction of fixed recoverable costs, along with the cost of repairing properties damaged by fires will add a further £0.6m. The fleet of vehicles used by the HRA will cost £0.2m more than the budget.

12.4. Management and Landlord Services are expected to overspend by £2.9m. The cost of supplying tenants and leaseholders with heat and hot water through the district heating network is forecast to exceed the budget by £2.4m; gas costs are expected to be 86% higher this year than last given rising wholesale prices. The charges to tenants and leaseholders were set before the rapid rise in costs were fully known about. Further costs of £0.3m will be incurred on utilities across communal areas as gas and electricity prices increase. An overspend of £0.1m is anticipated on pest control, and a further £0.1m on temporary accommodation.

12.5. The HRA makes contributions towards general fund activities as well as being charged for a fair proportion of the Council's overheads. These are expected to be £0.3m more than the budget.

12.6. The HRA pays interest on its share of borrowing and receives interest on cash balances it holds. The net of these two is projected to lead to an underspend of at least £0.2m due, in part, to rising interest rates.

12.7. The local government pay award will result in additional costs of £1m. This is higher than the estimate reported at period 3.

12.8. The forecast overspend of £6.2m is clearly significant and as noted above was largely unforeseeable when the budget was set. HRA reserves will be used to address the overspend position, alongside actions to reduce the scale of the in-year pressure.

Adult Social Care

13. Adult Social Care

The service is forecasting to spend £127.7m, £1.1m less than the budget.

13.1. Gross package costs and income budgets were revised in period 3 and the forecasts for both of these items at period 6 remains as per the revised budget. Rates of in year growth in existing care packages to date support this forecast, although there is still a substantial number of outstanding reviews which may have an impact in the second half of the year.

13.2. Numbers of people in care at the end of the half year are 5,448, a growth of 2.8% year to date.

13.3. The forecast underspend of £1.1m is substantially attributable to the ongoing difficulties in recruiting to posts, with many of these 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. There is also a shortage of other staff including reablement officers and care management officers. As a consequence, many of these posts continue to remain unfilled despite attempts to recruit, resulting in underspends on staffing budgets. 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.

13.4. The department has been preparing for care reforms, which have now been deferred as a consequence of the Autumn Statement. We remain to see if we have any residual responsibilities that need to be funded.

Education and Children's Services

14. Education and Children's Services

The department is forecasting to spend £92.1m, £3.5m more than the budget. The overspend has worsened significantly since the quarter one forecast of £0.9m. This is mainly a result of increased placement costs for children looked after and increased home to school transport costs for SEN pupils.

14.1. The overall number of children looked after and other placements has only grown by 2 in the first half of the year. Nevertheless, we started the year with 22 more such placements than was budgeted for and this, together with the low cost of those children leaving care in the first half of the year (many being placed for adoption or placed with parents), results in forecast placement costs exceeding the budget by £3.4m.

14.2. The forecast for the rest of the year assumes a return to more usual (higher) unit costs for both those entering and those leaving care and continues with the budget assumption of a net growth in placements of 10.

14.3. Due to the uncertainty regarding the longer-term impact of the pandemic on placement numbers, it was decided to maintain the budget at 2021/22 levels in order to have longer to assess this impact. It was estimated that £1m would be required from the earmarked social care placement reserve in 2022/23 to address short term spends in excess of this budget.

14.4. The 2022/23 forecast for total placement costs is £37.8m. The current forecast placement costs would require £3.4m from the earmarked reserve to remain in budget, £2.4m more than estimated.

14.5. There continue to be difficulties in recruiting qualified social workers, with a reliance on agency staff as well as our own trainee staff. This has resulted in staffing underspends in social care. Similarly, there are significant vacancies in the administration service across the department as a result of staffing churn and recruitment difficulties. Including these items there are total savings across the department of £1.4m.

14.6. Around 1,500 SEN pupils are currently supported with transport either through personal transport budgets, taxis or in-house buses. Taxi rates were increased by 10% from April due to fuel cost increases which was not foreseen in the budget; and moreover the recent re-procurement of journeys for the autumn term has seen further rate increases of 5%.

14.7. The new transport policy is in place and its application should help to slow the increase in costs for pupils with education, health and care plans requiring transport support, particularly in the form of taxi provision. A significant shift away from taxi provision is required, the rising costs of which are unsustainable. Overall, SEN home to school transport support is forecast to cost £14m in 2022/23, £1.5m more than the budget.

14.8. The dedicated schools grant reserve balance was in deficit by £3.6m at 1 April 2022 and is expected to rise further this year by £6.2m to £9.8m at 31 March 2023 as a result of the deficit arising from the high needs block. The forecast includes the impact of the pay rises for teaching and non-teaching staff. The DfE has made initial contact to discuss our cumulative deficit. We will be providing the DfE later in the year with a ‘management recovery plan’ which includes, a detailed projection of our future demand and costs together with the mitigating actions being deployed. The DfE requests this from all councils with DSG deficits.

Health & Wellbeing and Sports Services

15. Health & Wellbeing

Health and Wellbeing is forecasting to spend £21.9m, £0.4m more than the budget of £21.5m.

15.1. The overspend is due to additional pay pressures from the impact of the NHS pay settlements. The funding for this is provided by an additional allocation of public health grant of £0.4m.

15.2. Demand for sexual health services is returning to pre-pandemic levels. Nevertheless, the legacy of the pandemic continues to have an impact on how the service is delivered following the success of an online testing service provided during lockdown. Moreover, the demand for contraceptive services has increased post pandemic. As in 2021/22 the provider is being paid at a fixed amount rather than on activity levels, until such time as activity returns to normal and changes to delivery models are made permanent in order to ensure the financial viability of the provider.

16. Sports Services

The forecast subsidy for sports services is £2.4m, £0.4m more than the budget.

16.1. The forecast overspend arises from utility cost increases with gas rising by 86% compared to last year and electricity rising by 52%. The sports and leisure sector are significantly impacted by energy prices.

16.2. The service is forecasting to achieve 97% of budgeted income leaving a shortfall of £0.2m. The forecast does compare favourably with the 63% of income achieved in 2021/22 as the service gradually reopened. This shortfall in income is substantially offset by savings from staffing costs.

16.3. Membership numbers are increasing, and numbers should be further boosted as refurbishments at Braunstone, Spence Street and Aylestone centres are completed. Non-membership casual patronage has not recovered to pre-pandemic levels. There have also been issues in recruiting swim teachers and gymnastic coaches with a consequent impact on income. New prices for a range of membership types applied from August and the impact is reflected in the forecast.

16.4. Income levels may however be susceptible to wider cost of living pressures as the year progresses.

Corporate Items & Reserves

17. Corporate Items

17.1. Corporate items cover the Council's capital financing costs and items such as audit fees, bank charges, contingencies and levies. These budgets are currently forecasting to be £2.4m overspent.

17.2. Capital financing budgets forecast an underspend of £2.6m. The rise of interest rates has been greater and faster than originally anticipated at period 3, generating additional income from investments.

17.3. The 2022 pay award is confirmed as a flat rate of £1,925 per FTE on all pay points, backdated to April 2022. Initial modelling estimates that this will cost approximately £11.6m, £7.3m more than is budgeted for in 2022/23. The budget for the pay awards is held centrally until they are agreed, therefore the overspend is currently being shown here. Members will be aware that the pay award is significantly higher than could have been reasonably foreseen when the budget was prepared, being driven by the significant recent cost of living increases.

17.4. This overspend has partially been offset by the use of the £2m contingency.

18. Budget Savings

18.1. As members are aware, the funding outlook for 2023/24 and beyond is bleak. Directors have been working to identify and make savings during the course of the year, which help reduce the scale of expected future deficits. Savings have already been reported at last year's outturn and in the monitoring report at period 3. Additionally, savings have been achieved when the Executive approved a report on “Ways of Working” which reflect new hybrid working arrangements.

18.2. Where savings are made as part of a service review, decisions will be taken in the normal manner through a decision report. Where savings are incidental or can be made through management action, it is proposed to continue our previous practice of seeking approval to budget adjustments through routine budget monitoring reports. This is the third report in which we have included such adjustments. In-year savings help boost our managed reserves which then become available for future budget strategies.

18.3. Approval is sought to make the budget adjustments in Appendix C.

APPENDIX C

Budget Savings – Proposals for budget adjustments

	2022/23	2023/24	2024/25	2025/26
	£000's	*£000's*	*£000's*	*£000's*
City Development and Neighbourhood savings				
Additional income in Estates and Building servives	20	160	160	160
Greater use of self-service for property maintenance helpdesk	15	15	15	15
Deletion of vacant posts in central service functions in Estates and building services	79	228	288	288
Deletion of vacant posts in Housing and incidental savings	-	97	97	97
Additional income in Neighbourhood and evironmental services	6	53	53	53
Cessation of legal requirement to pay for medical referees in Burials & Cremation	-	17	35	35
Closure of storage depot at Freeman's Common and minor savings in Standards and Development	-	59	59	59
Additional income in Highways & Transport	-	45	90	90
Staffing changes in Highways & Transport, including deletion of vacant post.	-	85	85	85
Measured reductions in highways maintenance budgets	-	110	125	125
Cessation of Smart Cities Programme	-	256	256	256
Reduction in grant to arts organisations	-	95	116	116
Additional income in Tourism, Culture & Inward Investment		-	30	30
De Montfort Hall - move towards self-sufficiency	60	100	100	100
Savings in running costs & additional income - Arts & Museums	-	47	47	47
Total City Development & Neighbourhood savings	**180**	**1,367**	**1,556**	**1,556**
Adult Social Care savings				
Additional income from NHS	-	22	22	22
Vacant posts not required (non-front line)	-	107	107	107
Reduction in running costs across the department, including equipment, stationery, IT and furniture	-	210	210	210
Total Adult Social Care savings	**-**	**339**	**339**	**339**
Education & Children's services savings				
Service expenditure to be met from grant or other income in place of mainstream funding	158	219	219	219
Streamlining the "Celebrating Success" event to make efficiency savings	-	15	15	15
Deletion of vacant administration posts	-	80	80	80
Reduction in agency budget for social care staff following a review of staffing structure	-	400	400	400
Reduction in budgets for stationery, equipment, room hire, postage and printing across the department.	-	122	122	122
Total Education & Children's services savings	**158**	**836**	**836**	**836**
Health & Wellbeing & Sports service savings				
Reduction in unutilised budgets - accommodation and social isolation	35	135	135	135
Amalgamation of programmes to improve efficiency	-	55	55	55
More efficient use of contracted bed space, supplemented by additional purchasing where necessary	-	50	50	50
Total Health & Wellbeing & Sports service savings	**35**	**240**	**240**	**240**
Corporate resources & Support savings				
Savings relating to the rationalisation of printers, print controls and shift from post to use of hybrid mail	18	70	70	70
Reductions in non-staffing budgets across the department	80	101	101	101
Deletion of vacant posts in DCPG and Finance.	227	428	428	428
Total Corporate resources & Support savings	**325**	**599**	**599**	**599**
TOTAL PROPOSED SAVINGS	**698**	**3,381**	**3,570**	**3,570**