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

Decision to be taken by: City Mayor

Decision to be taken on: 20th March 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 third in the monitoring cycle for 2022/23 and presents a picture very similar to that presented at period 6.

The report shows an overall overspend of £10.3m, slightly lower than the £14.5m forecast at period 6. In the current economic climate there have been continued difficulties in recruiting to vacancies, which is the main reason for the slightly lower forecast overspend. However, the forecast overspend is still high due to the increased 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 other budgets, rising interest rates have meant that our investment income has increased considerably since the budget was set.

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 higher inflation, but also due to increasing levels of household waste to be disposed of.

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.

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 have been identified and implemented during the course of 2022/23 and the latest tranche is reported to you as Appendix C to this report.

Though not part of the General Fund, the Housing Revenue Account has had an exceedingly difficult year, and is forecasting an overspend of £7.3m. The biggest elements of this are the knock-on effect of staff vacancies which have resulted in extra use of contractors to carry out essential work, and the effects of inflation on energy costs and

materials. The focus on reducing voids has resulted in reduced capacity for capital work, with a saving on the capital budget.

The special education “high needs block” continues to run a significant deficit, in common with authorities everywhere. The Government has recognised this problem, which is due to Government reforms giving rise to unexpectedly high demand: the Government has extended a temporary accounting device that means we can continue to address the problem without having to make immediate compensating savings.

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.

Period 6 Monitoring report presented to OSC on 15th December 2022.

8. Summary of appendices:

Appendix A – Period 9 (April-December) 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 9 (April – December), 2022-23

2022-23	Current Budget	Forecast	Variance
	£000's	£000's	£000's
Financial Services	12,494.1	12,031.3	(462.8)
Information Services	10,866.1	10,866.1	0.0
Human Resources & Delivery, Communications & Political Governance	9,847.5	9,142.9	(704.6)
Legal Services	3,774.3	3,773.5	(0.8)
Corporate Resources & Support	**36,982.0**	**35,813.9**	**(1,168.2)**
Planning, Development & Transportation	14,698.8	17,749.5	3,050.7
Tourism Culture & Inward Investment	4,798.1	5,153.7	355.6
Neighbourhood & Environmental Services	33,489.5	37,164.9	3,675.4
Estates & Building Services	6,002.7	6,506.6	503.9
Departmental Overheads	833.8	605.0	(228.8)
Housing Services	3,834.7	5,065.9	1,231.2
City Development & Neighbourhoods	**63,657.6**	**72,245.7**	**8,588.1**
Adult Social Care & Safeguarding	147,924.0	147,202.0	(722.0)
Adult Social Care & Commissioning	(17,667.3)	(18,478.1)	(810.8)
Sub-Total Adult Social Care	**130,256.7**	**128,723.9**	**(1,532.8)**
Strategic Commissioning & Business Support	2,510.0	2,033.1	(476.9)
Learning Services	18,012.1	18,911.9	899.8
Children, Young People & Families	69,134.3	71,600.9	2,466.6
Departmental Resources	1,691.4	1,624.5	(66.9)
Sub-Total Education & Children's Services	**91,347.8**	**94,170.4**	**2,822.6**
Total Social Care & Education	**221,604.5**	**222,894.3**	**1,289.8**
Health & Wellbeing & Sports Services	**24,110.5**	**24,795.2**	**684.7**
Total Operational	**346,354.6**	**355,748.9**	**9,394.3**
Corporate Budgets	(4,039.6)	(329.5)	3,710.1
Capital Financing	6,450.0	3,973.5	(2,476.5)
Total Corporate & Capital Financing	**2,410.4**	**3,644.0**	**1,233.6**
Public Health Grant	(27,884.2)	(28,248.1)	(363.9)
TOTAL GENERAL FUND SPEND	**320,880.8**	**331,144.9**	**10,264.1**

APPENDIX B

Divisional Narrative – Explanation of Variances

Corporate Resources and Support

Corporate Resources Department is forecasting to spend £35.8m, £1.2m less than the budget.

1. Finance

1.1. The Financial Services Division is forecasting to spend £12m, £0.5m less than the budget. This is because the Business Service Centre and Customer Services teams continue to experience a number of staffing vacancies, as they did last year.

2. Information Services

2.1. Information Services are forecasting to spend £10.9m 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 £9.1m, £0.7m less than the budget as a result of carrying staffing vacancies across a number of areas and generating additional traded income.

4. Legal, Registration & Coronial Services

4.1. Legal Services are forecasting to spend £3.2m as per the budget after using £0.1m 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 £0.3m 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 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 £8.6m on a net budget of £63.7m. This is a slight improvement on the £9.4m forecast overspend reported at period 6. The position for each division is as follows:

6. Planning, Development & Transportation

6.1. The division is forecasting an overspend of £3m. The pressures still relate to the same service areas as reported throughout the year.

6.2. Income into the division is still suppressed, in part due to the effects of the pandemic, with income from parking and bus lane enforcement being £1.6m lower than budgeted. These income shortfalls will be funded by the one-off COVID monies set aside as part of the 2022/23 budget report.

6.3. An increase in energy costs across street lighting, traffic signals and signs add £0.7m of budget pressures. Cost pressures in the provision and enforcement of both on and off-street parking are expected to add a further £1m.

6.4. As reported previously, market conditions are resulting in a reduction in the number of major planning applications being submitted, leading to a forecast income shortfall of £0.7m, along with expenditure pressures of £0.2m.

6.5. A reduction in the number of concessionary fare passengers on buses is predicted to lead to an underspend of £1m, partially offsetting the overspend identified above.

6.6. Other underspends across the division amount to £0.2m and are also partially offsetting the overspends identified above.

7. Tourism, Culture & Inward Investment

7.1. The division is forecasting a £0.4m overspend. As reported throughout the year, the number of market traders operating is much lower than before the pandemic, with the division forecasting an under-recovery of income as a result. However, the director is taking actions to reduce the overspend.

8. Neighbourhood & Environmental Services

8.1. The division is forecasting an overspend of £3.7m. 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 £1.7m. There are £0.2m of pressures elsewhere in the division largely relating to the increased cost of fuel and utilities across parks and neighbourhood services.

9. Estates & Building Services

9.1. The division is forecasting an overspend of £0.5m, a significant improvement from the £1.1m overspend projected at period 6. The improved position has been achieved through vacant posts and increased income generation into the division (although this is still below budget). The remaining overspend is largely attributable to additional staff being taken on to tackle a backlog in corporate estate rent and service charge reviews.

10. Departmental Overheads

10.1. A £0.2m underspend will be achieved from the early delivery of savings on the Smart Cities programme. Other 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 6, an increase in the number of homeless families is expected to lead to an overspend of £1.2m after the use of reserves and a one-off grant. This is an increase of £0.3m from the position reported at period 6. Whilst work is underway to address the issue, the pressure is expected to continue into 2023/24. 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 £7.3m, excluding revenue used for capital spending (which is reported in the capital monitoring report). At period 6 the forecast overspend was £6.2m.

12.2. Income from rents and service charges is expected to fall short of the budget by £0.2m, 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 £2.9m compared with the £1.9m which was forecast at period 6. The increased overspend is due to the same pressures having worsened. There will be savings on vacant posts of £1.3m, but this will be offset by spend on contractors of £1.1m to deal with the staffing shortage and address the backlog of void properties, and £1.2m 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 £0.8m. 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 £0.9m. 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 £3.1m. The cost of supplying tenants and leaseholders with heat and hot water through the district heating network is forecast to exceed the budget by £2.3m; 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. £0.3m of unbudgeted costs will be incurred to pay for Council Tax on void properties, in particular those properties within the acquisition programme. An overspend of £0.2m is forecast due to an increase in hostel security costs.

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 has resulted in additional costs of £1m above that which was budgeted.

12.8. The forecast overspend of £7.3m 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 £128.7m, £1.5m less than the budget and £0.4m less than the forecast at the half year.

13.1. The numbers of people in care at the end of December is 5,410, a growth of 2.1% year to date. The forecasted growth for the year is 2.8% compared to a budget of 3.9%.

13.2. The growth in need of people who have existing care packages is currently slightly higher than the budget as is the average weekly package cost for those newly entering the care system. Whilst this may lead to a pressure on the gross package budget at the year end, because of the uncertainty and the potential upside for joint funded and other package income, the net package cost forecast remains as per the budget.

13.3. The forecast underspend of £1.5m is attributable to the ongoing difficulties in recruiting to posts, with some of the 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, care management officers, commissioning, contracts and administration staff. 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. Agency staff are being deployed as far as possible to bridge capacity gaps.

13.4. In November's autumn statement the government announced that the care reforms due to be implemented in October 2023 would be delayed for 2 years. The fair cost of care exercise (with the intention to equalise rates paid by local authorities and those paid by individuals who pay for their own care) will continue.

Education and Children's Services

14. Education and Children's Services

The department is forecasting to spend £94.2m, £2.8m more than the budget. The overspend has reduced since the quarter two forecast of £3.5m. The revised forecast includes a worsening position with regards to the placement costs for children looked after and a broadly similar position with regards SEN home to school transport costs, compared to quarter two. This is countered by growing underspends across a range of service areas which are operating below budgeted staffing capacity.

14.1. The overall number of children looked after and other placements has grown by 20 up to period 9 and within the overall number there are 21 unaccompanied asylum seekers (UASC). UASC funding currently covers the direct cost of such placements, but this does depend upon the mix of placement type. We started the year with 22 more placements overall than were budgeted for and this, together with the continued low cost of those children leaving care in the first 9 months of the year and a forecast net growth now of 25 placements, results in placement costs forecast to exceed the budget by £4.2m.

14.2. 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. The draw on the social care placement reserve would now be £4.2m, however as explained below underspends across the department reduce the reserve required to balance the department's overall budget to £2.8m.

14.3. 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 services across the department as a result of staffing churn and recruitment difficulties. As a result, there are savings of £2.6m across the department.

14.4. 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 2022 due to fuel cost increases which was not foreseen in the budget and moreover the re-procurement of journeys for the autumn term resulted in further rate increases of 5%.

14.5. The new transport policy is in place and its application is helping to slow the increase in costs of an ever-rising population of pupils with education, health and care plans requiring transport support, particularly in the form of taxi provision. A significant shift away from taxi provision remains the service's objective, the rising costs of which are unsustainable. Overall SEN home to school transport support is currently forecast to cost £13.6m in 2022/23, £1.2m more than the budget and a slight improvement on the quarter two forecast.

14.6. 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 £6.6m to £10.2m 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 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.

14.7. The statutory override to prevent LAs having to fund DSG deficits on a permanent basis from their own reserves was due to end on 31 March 2023. This override has been extended by a further 3 years to 31 March 2026. The DfE have indicated that ‘*it is crucial during this extension, we all play our part. Alongside the soon to be published SEND improvement plan, the DfE will support all LAs look at what positive action can be taken now to bring high needs costs under control, to bring down DSG deficits and to prepare for wider SEND system reform… which would address the unintended consequences of the 2014 reforms.’*

<u>Health & Wellbeing and Sports Services</u>

15. Health & Wellbeing

Health and Wellbeing is forecasting to spend £22.1m, £0.4m more than the budget of £21.7m.

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. The current contract ends in March 2024 and the re-procurement process for the new contract has started. 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 £2.7m, £0.3m more than the budget (but £0.1m better than the forecast at period 6).

16.1. The forecast overspend arises from utility cost increases with gas rising by 86% compared to last year and electricity rising by 55%. The sports and leisure sector is significantly impacted by energy prices.

16.2. The service is forecasting to achieve 96% of budgeted income, leaving a shortfall of £0.3m. There remains a degree of uncertainty with this forecast. The forecast does compare favourably with the 63% of income achieved in 2021/22 as the service gradually re-opened.

16.3. Membership numbers are increasing, and numbers have and will be further boosted as refurbishments at Braunstone, Spence Street and Aylestone centres complete. Non-membership casual patronage has remained flat and 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.

16.4. Whilst income is forecast to be lower than budget this year, this has been offset from savings in staffing costs, in particular at New Parks and Leicester Leys which have been affected by the shortage of swimming instructors. There have also been savings from vacancies in the management team during the year.

<u>Corporate Items & Reserves</u>

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.

17.2. Capital financing budgets forecast an underspend of £2.5m. As reported previously, the rise of interest rates has generated additional income from investments.

17.3. Other corporate budgets are expected to overspend by £3.7m. This is chiefly due to the cost of the pay award, which is £7.3m more than budgeted. At the start of the year, the provision for pay awards was set at 2.5% of pay budgets. Much more has now been transferred to departments' budgets. 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 recent inflation. This overspend has partially been offset by the use of the £2m contingency and £0.4m resulting from the National Insurance increase reversal announced in September.

17.4. The Government collects "levies" from some authorities that have high rates growth (generally district councils) and makes safety net payments to authorities who have suffered significant reductions in their rates. Generally, they collect more in levies than they pay out, and every few years the Government distributes the balance to local authorities. On 6th February, the Government announced that it would pay us £850,000 in 2022/23. This will support our budget strategy in 24/25.

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 periods 3 and 6. 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 fourth 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				
Savings following completed transfer of Barleycroft Community Centre to school	-	15	15	15
Deletion of vacant posts in parks development service.	-	100	100	100
Rationalisation of parks buildings.	-	30	30	30
Rushey Fields bowling green - savings on decommissioning	-	12	12	12
Savings in NES technical services	-	90	90	90
Reduction in communications budget - Waste Services	-	20	20	20
Savings from completed review of parking charges	-	32	332	332
More proactive fraud reduction in respect of concessionary fares.	-	50	150	150
Use of alternative and new sources of income across the department (UKSPF, s.106 and rates pool)	339	450	544	544
Total City Development & Neighbourhood savings	**339**	**799**	**1,293**	**1,293**
Education & Children's services savings				
Madrassah Project - support now ceased following successful completion of the project.	-	17	35	35
Total Education & Children's services savings	**-**	**17**	**35**	**35**
Corporate resources & Support savings				
Deletion of vacancies and consolidation of roles in DCPG	-	214	248	248
Delete uncommitted budget in City Mayor's Office	75	75	75	75
End controlled events incident management system contract and storafile rationalisation	-	8	15	15
Total Corporate resources & Support savings	**75**	**297**	**338**	**338**
TOTAL PROPOSED SAVINGS	**414**	**1,113**	**1,666**	**1,666**