Executive Decision- Revenue Budget Monitoring

April-September 2023/24

Decision to be taken by: City Mayor

Decision to be taken on: 14th December 2023

Lead director/ officer: Amy Oliver, Director of Finance

Useful information

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

1. Summary

This report is the second in the monitoring cycle for 2023/24 and provides an update on the financial pressures faced by the Council and the worsening picture on this and next years' budgets.

The overall position shows a net overspend to £10.2m. There has been an increase in cost pressures to £20.7m, partially offset by £7.0m of underspends, additional income, and use of corporate contingency of £3.5m for overspends in temporary accommodation and children's services.

The £20.7m of cost pressures are:

- £12.2m in Education and Children's Services, of which £11.3m relates to increased costs of children looked after, where placement costs remain high.
- £6.2m in City Development and Neighbourhoods, of which £5.0m is additional costs of temporary accommodation for homeless households and £0.7m is the higher costs of waste management.
- £2.2m additional costs of the local government pay award over and above the budget provision, based on the current pay offer.
- £0.1m other cost pressures in Sports Services

The £7m of lower than budgeted costs and additional income are:

- A £2.2m underspend on capital financing costs, due to higher interest rates and cash balances than previously forecast;
- Additional income of £0.5m in Sports Services due to continued growth and retention in health and fitness memberships, this is expected to continue and the budget can be reduced;
- An expected £3m lower cost of energy, compared to the budget provision;
- Underspends of £1.3m in corporate budgets.

Departmental reserves are being used to meet overspends where possible, and £13.6m has been identified. Combined with the projected underspends mentioned above, this leaves a small remaining unfunded overspend of £0.1m.

However, it should be noted that departmental reserves are one-off resources and will not be available in future years - while the underlying cost pressures will continue into future years unless action is taken. It remains imperative that significant savings are identified as soon as possible to safeguard the Council's longer-term financial position.

Plans to realise budget savings are continuing. Savings totalling £5.0m were approved in an Executive decision dated 23rd November 2023; there is a savings decision to be approved in this report.

In total, savings identified since the budget was set have reduced expected spend by £3.5m in the current year. This will allow the call on managed reserves this year to be reduced from the budgeted amount, originally £34.1m.

2. Recommended actions/decision

2.1 The Executive is recommended to:

- Note the emerging picture detailed in the report.
- Approve the budget reduction of £0.5m from increased income in Sports Services as detailed in Para 14.2

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 was £382.7m, before the use of managed reserves. Following savings identified since the budget was set, including the savings identified in a report to OSC on 9th November, this has been updated to £379.2m.

Appendix A summarises the original budget, current budget and anticipated spending in 2023/24.

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

Under the Equality Act 2010, public authorities have statutory duties, including the Public Sector Equality Duty (PSED) which means that, in carrying out their functions they have to pay due regard to the need to eliminate unlawful discrimination, harassment and victimisation, to advance equality of opportunity between people who share a protected characteristic and those who don't and to foster good relations between people who share a protected characteristic and those who don't. It is important to note that currently no policy changes have been proposed but the possibility remains that the Council may need to consider changes to existing services going forward. If this is the case, the Council's equality impact process should be used to evaluate the potential equalities impact of any proposed changes. Protected characteristics under the Equality Act 2010 are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation. 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. However, where proposals are brought forward in order to make additional savings required, any climate emergency implications should be considered and addressed while proposals are being developed, and should be identified in the appropriate decision reports at the time. The Sustainability Team may be able to help departments with assessing implications as part of the evaluation of proposals ahead of report preparation. Where any necessary capital funding can be identified or secured, the potential role of invest-to-save energy efficiency and renewable energy projects in helping to address revenue budget pressures while also reducing carbon emissions is also worth noting. Aidan Davis (Climate Emergency). 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 22nd February 2023 on the General Fund Revenue budget 2023/24.
Period 3 Monitoring report presented to OSC on 20th September 2023
Report to OSC on 9th November 2023 on the Budget Savings

8. Summary of appendices:

Appendix A – Period 6 (April-September) 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?

Yes – recurrent savings in excess of £0.5m.

APPENDIX A

Revenue Budget at Period 6 (April – September), 2023-24

Table A

2023-24	Original Budget £000's	Current Budget £000's	Forecast £000's	Variance £000's
Financial Services	12,702.5	12,505.0	12,505.0	0.0
Information Services	10,791.9	10,734.2	11,295.3	561.1
Human Resources & Delivery, Communications & Political Governance	9,737.4	9,239.5	8,678.4	(561.1)
Legal Services	3,752.8	3,751.2	3,751.2	0.0
Corporate Resources & Support	**36,984.6**	**36,229.9**	**36,229.9**	**(0.0)**
Planning, Development & Transportation	14,294.7	13,954.6	14,213.7	259.1
Tourism Culture & Inward Investment	4,558.2	3,357.1	3,385.3	28.2
Neighbourhood & Environmental Services	36,214.9	37,422.9	38,147.2	724.3
Estates & Building Services	4,927.2	4,860.5	5,086.4	225.9
Departmental Overheads	575.8	575.4	575.4	0.0
Housing Services	4,634.9	4,449.0	9,429.0	4,980.0
City Development & Neighbourhoods	**65,205.7**	**64,619.5**	**70,837.0**	**6,217.5**
Adult Social Care & Safeguarding	170,181.8	170,149.6	171,259.9	1,110.3
Adult Social Care & Commissioning	(18,061.4)	(18,608.6)	(19,718.9)	(1,110.3)
Sub-Total Adult Social Care	**152,120.4**	**151,541.0**	**151,541.0**	**0.0**
Strategic Commissioning & Business Support	2,385.5	2,239.3	2,107.0	(132.3)
Learning Services	19,596.5	19,585.8	20,686.0	1,100.2
Children, Young People & Families	71,231.0	71,615.3	82,841.1	11,225.8
Departmental Resources	1,976.3	1,537.3	1,547.6	10.3
Sub-Total Education & Children's Services	**95,189.3**	**94,977.7**	**107,181.7**	**12,204.0**
Total Social Care & Education	**247,309.7**	**246,518.7**	**258,722.7**	**12,204.0**
Public Health & Sports Services	**23,940.6**	**24,696.3**	**24,412.9**	**(283.4)**
Total Operational	**373,440.6**	**372,064.4**	**390,202.5**	**18,138.1**
Corporate Budgets	35,429.8	33,930.7	28,325.4	(5,605.3)
Capital Financing	2,292.1	2,292.1	106.0	(2,186.1)
Total Corporate & Capital Financing	**37,721.9**	**36,222.8**	**28,431.4**	**(7,791.4)**
Public Health Grant	(28,448.1)	(29,064.8)	(29,169.5)	(104.7)
TOTAL GENERAL FUND	**382,714.4**	**379,222.4**	**389,464.4**	**10,242.0**

1.1 Changes since the original budget are summarised in the table below:

	Total General Fund £000's
Original budget	**382,714**
Savings approved - Period 9 monitoring 22/23	**(1,113)**
Savings approved - Outturn 22/23	**(1,216)**
Savings approved - Period 3 monitoring 23/24	**(480)**
Savings approved - Savings Report OSC 09/11/23	**(683)**
Latest budget	**379,222**

1.2 The original budgets split between employees, running costs and income are available at https://www.leicester.gov.uk/media/50bbavjj/budget-summary-2023-2024.pdf

Divisional Narrative – Explanation of Variances

Corporate Resources and Support

Corporate Resources Department is forecasting to spend £36.3m. The position after the planned use of reserves is a breakeven position:

1. Finance

1.1. The Financial Services Division is forecasting to break even.

2. Information Services (IS), Human Resources (HR), Delivery Communications & Political Governance (DCPG) and Legal, Registration & Coronial Services

2.1. Taken together IS, HR, DCPG and Legal, Registration & Coronial Service are forecasting to spend to budget after the planned use of reserves.

2.2. The HR service is forecasting a £561k underspend, resulting from vacancies across various areas together with additional traded income. This will support Information Services to reduce the call on reserves for new IT equipment.

2.3. The forecast takes account of the planned use of reserves for Information Services (to fund new equipment) and Electoral Services following the council and mayoral election in May 2023.

2.4. Coronial and registrar services are forecasting to spend £0.6m as per the budget, after support from corporate budgets of £0.4m, as in previous years.

3. City Catering

3.1. New charging arrangements for schools have been put in place by City Catering from August this year. Some internal re-organisation of staffing will also take place this year. Both of these actions are being undertaken to deal with the financial deficit the service incurred in 2022/23. The forecast deficit this year is £0.87m and this will be funded from the school catering reserve.

City Development and Neighbourhoods

The department is forecasting an overspend of £6.2m on a net budget of £64.7m. It is proposed that £2.7m of departmental reserves be used towards increased homelessness costs, reducing the overspend to £3.5m.

4. Planning, Development & Transportation

4.1. The division is forecasting an overspend of £0.3m. This represents a significant improvement on the £0.8m overspend forecast at Period 3 and is a reflection of further review and analysis of the division's finances, as well as having additional income data available for areas such as parking. The continued, albeit declining, impacts of Covid 19 remain evident and are reflected in the forecasts.

4.2. An adverse variance of £0.3m is expected across parking services, compared with £0.9m at period 3. This arises from a combination of income shortfalls in both on and off-street parking, alongside penalty charge notices, and is partially offset by a higher than expected level of income from utilities works.

4.3. There is a £1.6m forecast overspend on bus services, including supported bus services and park & ride, compounded by a shortfall in income through bus lane enforcement. The overspend on parking and bus services are expected to be more than offset by a £2.3m underspend on concessionary fares.

4.4. In a continuation of recent pressures, linked to wider economic factors, a reduction in the number of major planning applications being submitted is expected to lead to an income shortfall of £0.7m.

4.5. Further detailed monitoring and analysis of costs and income streams and opportunities to make in-year savings will be carried out in the coming months, with the aim of achieving a balanced budget.

5. Tourism, Culture & Inward Investment

5.1. The division is forecasting a breakeven position for the year. Income levels across the service continue to be adversely affected by cost of living pressures, but costs are being managed in order to deliver a balanced outturn position.

6. Neighbourhood & Environmental Services

6.1. The division is forecasting an overspend of £0.7m, compared with the £1.2m overspend forecast at Period 3.

6.2. Waste management costs continue to exceed the budget by £0.5m, due to legislative changes in the treatment and haulage of contaminated waste, alongside smaller pressures in the service. This has reduced from previous forecasts as HMRC have agreed not to impose a technical change on the calculation of landfill tax for certain types of waste, which has avoided an estimated £0.9m of costs.

6.3. Since Period 3, pressures have emerged of £0.1m within Regulatory Services, in particular due to increased staffing costs and income shortfalls within Building Control. A further £0.1m overspend within Parks & Open Spaces has developed, largely as a result of extensive boiler repairs at Gilroes Crematorium.

6.4. The service continues to endeavour to deliver savings and manage costs to offset these pressures but the challenge of overcoming such a deficit is substantial.

7. Estates & Building Services

7.1. The division is forecasting an overspend of £0.2m, an adverse movement from the breakeven position forecast at Period 3. Whilst savings on vacant posts continue to offset the majority of the pressures being experienced by the division, slippage in the capital programme means that the income to the Capital Projects Team will now be lower than was forecast at Period 3. The division is exploring ways to deliver a balanced position by the end of the financial year.

8. Departmental Overheads

8.1. This area holds budgets for added years' pension costs and departmental salaries and is forecast to break even.

9. Housing General Fund

9.1. The number of homelessness presentations continues to add to the cost of temporary accommodation. Not only have costs increased, but this trajectory is forecast to continue throughout the remainder of the year. This is expected to cost £6.5m above budget, before the use of £1.5m of grants and £2.8m of reserves which will partially offset the pressure this year; work continues to find longer-term resolutions to this nationally recognised issue. Work is also underway to assess the scale of the impact of the government fast-tracking cases of asylum seekers being housed in hotels across the city.

10. Housing Revenue Account

10.1. 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 break even. Revenue is also used for capital spending, which is reported separately within the capital monitoring report.

10.2. Income from core rent and service charges is expected to be on target for the year, other than for district heating, which is reported below.

10.3. The Repairs and Maintenance service is forecast to overspend by £1.7m. Whilst there are vacant posts generating underspends of £0.5m, these will be more than offset by the use of contractors, costing £0.9m. Materials and running costs are expected to add a further £1m, particularly in voids where there is a continued focus on turning properties around; this focus also results in a reduction in income from capital charges of £0.3m.

10.4. Management and Landlord Services are expected to underspend by £1.9m. A £2.3m net underspend is expected in the District Heating scheme as a result of reductions to the price of gas. The extent of this has been offset by properties being subsidised for a longer period of time during the year. A reduction in the forecast number of property sales through Right to Buy will reduce income to fund the administration cost by £150k. Separately, the Council Tax payable on void properties is likely to be £250k higher than budgeted.

10.5. 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 £0.2m more than the budget due to inflationary increases for these services.

Adult Social Care

11. Adult Social Care

11.1. Adult social care is forecasting to spend £151.6m as per the budget.

11.2. There has been a 3.2% net increase in the number of people receiving adult social care by the end of September compared to April taking actual numbers from 5,413 to 5,529. The increase in working age adults was 4.1% and older people 0.6%. The budget assumes an overall growth in numbers of 4% for the year (2% for older people and 7% for working age) and the forecast at period 6 remains as per the budget.

11.3. Of those receiving care at the start of the year, 29% have had their care package cost increased on average by 16% year to date. Whilst the proportion of people with care package changes at the same time last year was exactly the same, the care package increase of 16% is lower than the 20% as at September last year. Whilst this is encouraging, the budget for 2023/24 assumes a lower level of growth in existing care package costs than has been experienced in previous years. Based on the current trajectory the probability of achieving this budget reduction looks low, which results in additional forecast costs of £2.4m.

11.4. As discussed in the period 3 monitoring report, the Council and the Integrated Care Board (ICB) have received funds to support discharge from hospitals into social care and the Council has also received an additional market sustainability grant. These two funding streams are helping to alleviate the additional discharge costs and provider cost pressures that are currently being faced by the department. This means that cost pressures can be contained within the department's overall budget.

Education and Children's Services

12. Education and Children's Services

12.1. The department is forecasting to overspend by £12.2m, £2.3m more than reported at period 3. £10.9m of this overspend will be funded from social care and education earmarked reserves on a one-off basis, leaving a net overspend of £1.3m. As outlined in the period 3 report the overspend is mainly due to the cost of children looked after and other placements.

12.2. The period 3 report provided the background to what was at that time a forecast £9.2m budget shortfall for children looked after and other placements for 2023/24. In summary, the service was experiencing a greater proportion of new high-cost placements than was anticipated, coupled with cost escalation through placement breakdowns and pressure from providers regarding fees, with limited placement availability. The average new external placement cost (excluding in-house residential homes) was £51k in the first quarter of this year, which was £10k pa, more than last year and £10k more than the budget for 23/24.

12.3. There has, however, continued to be a disproportionately high proportion (compared to previous years) of high-cost placements in the second quarter. Average new placement costs (excluding the in-house residential homes) in the first half year are now running at £60k pa. Whilst new placement costs may not continue at this level in the second half of the year, this forecast takes a more prudent approach for the remainder of 2023/24 and assumes that the £60k pa average entrance cost will be sustained. Additional costs from placement breakdowns were included in the period 3 forecast and these have been realised in the second quarter. Further significant cost escalations have not been included in the forecast for the second half of the year. The internal residential service is also incurring additional staffing costs due to the increasing needs of the children and young people, together with higher than normal sickness absence. This has increased the unit cost of the in-house homes compared to the budget.

12.4. As a result of the above, the revised total placement cost is now forecast to be £11.3m more than the budget and £2.1m more than at period 3.

12.5. The net growth in placement numbers this year to date is 13, taking the total placements excluding special guardianships to 681 at the end of September. 9 of the 13 net entrants are Unaccompanied Asylum-Seeking Children (UASC). Of the 681 placements there are 47 UASC at the end of September and 18 18+ ex UASC. This forecast assumes net growth is in line with that seen in the first half year.

12.6. The consultancy firm Impower were commissioned to undertake an analysis of placements and the match between costs and assessed needs. This helpful analysis of a large cohort of children in higher cost placements (182, 20% of the overall population), has identified several cohorts of placements that will be the subject of targeted activity to address mismatches in cost versus level of need to generate significant savings. This work will take place alongside an extensive review of our internal resources (fostering and children's homes) to ensure that the capacity and resilience of these are maximised. Business cases will also be put forward for capital investment to expand our internal children's home resources over the next 5 years. A review of council resources deployed to prevent entry into care will also be completed with a view to refocusing/retargeting resources to have greater impact for those children and young people at greater risk of becoming looked after. A strengthening of the role of commissioning in sourcing placements will also take place and a tighter focus on contract management and capping cost inflation will be deployed to limit the impact of demands by providers for uplifts.

12.7. In addition to the £11.3m overspend from placement costs, a number of other over and under-spend items are expected as outlined below.

12.8. A £1m overspend is forecast from the continuing pressure on SEN home to school transport, with taxi journey price inflation driving up costs with journeys now costing an average of £13.7k p.a. per child. There are other pressures including on the home to school and contact taxi transport budget for children looked after (£0.8m), an increased demand for disabled children's respite service (£0.3m) and more demand for legal and translation services for social care (£0.6m). New statutory guidance for local authorities effective from September this year means that the Education Welfare Service can no longer charge schools for the majority of its existing casework which whilst currently traded, will become a Council statutory duty. This will cost an estimated £0.35m pa, for which no new burdens funding is being provided. These other non-placement cost pressures total some £3.3m.

12.9. These overspends are partially offset by underspends of £2.4m as a result of a number of staffing vacancies across early help (in advance of reviews), in social care (27 agency social workers are being employed to cover vacancies) and in administration which continues to struggle with high staff turnover and difficulties in recruitment.

12.10. The pressure on the high needs block (HNB) of the dedicated schools grant (DSG) continues, with the annual number of agreed education, health and care (EHC) plans at around 750, double the level pre-pandemic.

12.11. The DfE has increased the HNB allocation by £7.5m in 2023/24 to £79m. Forecast expenditure for the HNB in 2023/24 is based on a recently refreshed forecast of EHC plans and probable placement type taking into account the current capacity constraints within the system. Total placements are now expected to grow by 6.2% compared to 2022/23, resulting in total HNB expenditure of £84.7m and an in year deficit of £5.7m. This would take the cumulative DSG deficit to £11.7m at the end of 2023/24.

12.12. The council has been in discussion with the DfE through the ESFA (Education and Skills Funding Agency) about our draft deficit recovery management plan. The DfE recognised our issues with regards to increasing demand and acknowledged our approach to reducing this demand including through increasing inclusivity in mainstream schools and early intervention. We are currently awaiting formal feedback.

Public Health and Sports Services

13. Public Health

13.1. Public Health is forecasting to spend £22.2m, £0.1m more than the budget. The forecast overspend of £0.1m is offset by additional grant income, shown on the separate budget line for Public Health Grant in Appendix A. This is due to the impact of the (belated) 2022/23 NHS pay award on externally contracted services.

13.2. The 2023/24 NHS pay settlement affecting external public health contracts has been finalised at 5%. This will be funded by the ICB as a one-off in 2023/24, so has no net impact on costs this year. The on-going cost will be funded by a permanent additional allocation to the main public health grant, which will be addressed when setting the 2024/25 budget.

14. Sports Services

14.1. Sports Services are forecasting an underspend of £0.4m reducing the net cost to the Council to £2.2m.

14.2. Income from leisure centres is forecast to be £0.5m more than the budget of £6.7m, and approval is sought to take as a budget reduction. The increased income is a result of more members and a fee increase of 12% from May this year. There are now 12,532 health and fitness members, up 1,232 compared to the same time last year and 8,402 learn to swim members, an increase of 938 since September 2022.

14.3. There have been in-year vacancies and difficulties in recruiting casual staff with supervisors and general managers having to cover some shifts. This has resulted in an underspend on pay of £0.1m. This is offset by additional running costs of £0.2m including continued price pressure on consumables including chemical water treatments, building repair works and locker replacements.

Corporate Items & Reserves

15. Corporate Items

15.1. The corporate budgets cover the Council's capital financing costs, items such as audit fees, bank charges, contingencies and levies. This budget is currently forecasting an underspend of £5.6m.

15.2. The local government pay award was finalised on 1st November at a flat rate of £1,925 per FTE on all pay points, from 1 April 2023. The initial modelling estimates that this will cost approximately £11.2m, some £2.2m more than budgeted. The budget for pay awards was held centrally until finalised and will now be transferred to spending departments.

15.3. This overspend has been offset by a forecast saving of £3m in energy costs. Provision for additional energy costs was made centrally in the approved budget.

15.4. There are further underspends of £1.0m, mainly from additional recharges to the HRA and business rates revaluations.

15.5. Out of the corporate contingency of £3.6m, £3.5m has be used to offset overspends in homelessness and children's services.

15.6. Capital Financing costs are forecast to be just over £2m below budget. This is because interest rates on investments are higher than forecast, and although cash balances have reduced, they have not reduced quite as quickly as predicted. The situation around investment returns remains extremely volatile, particularly in regard to the level of cash balances: for example, a 10% change in cash balance levels can equate to a variance of around £1.2m on this budget. High investment income returns are unlikely to continue in future years as cash balances decline.