

Leicester  
City Council

**WARDS AFFECTED**  
**All**

**FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:**

**Cabinet**

**21<sup>st</sup> July 2003**

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**Social Care and Health Budget Management 2003/04**

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**Report of the Corporate Director of Social Care and Health and Chief Finance Officer**

**1. Purpose of Report**

- 1.1 In approving the Directorate's Revenue Strategy in February 2003, the Cabinet was keen to know how the additional resources allocated would be used to best effect to minimise the risks of continuing overspends in key areas. This report provides an overview of the emerging issues in the Directorate's 2003/04 revenue budget, together with a proposed approach on how the Social Care and Health Directorate budget will be managed. It is submitted in response to Cabinet concerns about the immediate and significant pressures on the Social Care and Health budget for 2003/04.

**2. Summary**

- 2.1 As indicated in the report to the Social Services and Personal Health Scrutiny Committee on 25<sup>th</sup> February 2003, the 2003/04 budget strategy proved to be the most complex since Leicester City Council became a unitary authority.
- 2.2 All councils with social services responsibilities share this view. The budget pressures experienced by the Directorate are by no means unique to Leicester. It is evident from the LGA/ADSS survey that councils in England spent over £1 billion above Standard Spending Assessment on social services in 2002/03 to meet growing demand.
- 2.3 The budget had to tackle growing demand on services, the formula changes in the overall Council settlement from the Government, and the transfers out of the budget to reflect recent legislation. In addition, the whole framework of specific grants from the Government changed. Some grants have been added to the mainstream Government funding, and some re-badged with new conditions.
- 2.4 In March, the Council approved a budget for the Social Care and Health Directorate that included on-going growth monies of £4m per annum (£3.5m p.a. over and above previous indications) and as requested by officers being the minimum required to

provide a viable budget. In the 2003/04 budget report to Council on 5<sup>th</sup> March, it was recognised that the budget for Social Care and Health would continue to require careful management because of the volatility of service demand locally and nationally.

2.5 The extra resources allocated by the Council have eased the pressures experienced in the last four years, but tight management constraints on activity will need to remain in place if the budget is to be managed successfully. However, it has been possible to allocate more realistic budgets to service and cost centre managers this year and to concentrate on developing and monitoring finance and activity profiles. This is in contrast to previous years' blanket spending restrictions which do not recognise or reward good management in the less volatile areas.

2.6 This report describes how we have set out to improve our financial management in the last two years and the work we will be undertaking in 2003/04. The key elements are:

- Unfunded commitments and anticipated pressures were analysed and included in the DRS process, either as budget increases, inclusion in the risk analysis, or as spending to be funded if additional savings could be found;
- reviewing income projections and taking steps to make the best use of targeted grants;
- developing commissioning strategies with clearer purchasing intentions;
- building up Divisional budgets from first principles with Service Directors and exposing as many risks as possible from the outset and agreeing how these will be managed;
- devolving budgets to decision makers;
- setting financial and activity targets and improving commitment recording and how they are monitored by Service Directors;
- specific project work to address hot spots:
  - domiciliary care
  - commissioning, care management and care pathways in adults and older people services
  - children's placements;
  - community care placements
  - transport: eligibility and delivery.

2.7 Although the financial year is at an early stage and spending and activity trends will become clearer over time, some potential areas of overspend are now already becoming more definite. It is vital that action is taken early to benefit from the full year effect of any changes and to inhibit additional pressures being added to the work which will need to be done to set a balanced budget in 2004/05. The key ones are addressed in more detail in paragraph 4.6 of the Supporting Information.

2.8 It would be prudent to assume that between £1m and £2m of the combined effect of these potential areas of overspend may not be achievable by Divisions unless additional actions, over and above those planned, are approved. Proposals under development are:

- (a) Reduce the subsidy for the laundry services from £3 to nearer the actual unit cost;

- (b) Increase the hourly rate for Home Care services from £4.40 with effect from 1<sup>st</sup> November, pending a review for the next financial year of the new charging system under the Fairer Charging framework. Each service user's ability to pay is financially assessed and an individual maximum charge up to £175 per week is set. At least half of all service users receive services free of charge. Such an increase in the hourly rate would result in the remaining service users paying closer to their maximum charge but it would not affect those who already pay the maximum. A costed proposal will be brought forward for consideration by Cabinet in September;
- (c) Raise the eligibility criteria for Home Care services with the aim of reducing activity by 5% to partially offset the unfunded element of the service. It would act as a pre-cursor to the longer-term project explained later in this report;
- (d) Reduce further residential placement targets such that only people with the highest level of need are admitted to residential care.

### Comments of Scrutiny Committee

2.9 At its meeting on 25<sup>th</sup> June, the Scrutiny Committee resolved as follows:

- (1) The report and its implications be noted.
- (2) The Scrutiny Committee noted with concern the reduction in slippage available from the Neighbourhood Renewal Funding and the serious impact this would have on services. The Committee asked that Cabinet replace the shortfall in funding arising from the reduced slippage from Neighbourhood Renewal Funding.
- (3) The Committee asked that regular reports on the budget be brought before them, so that progress could be monitored.

## **3. Recommendations**

3.1 Cabinet is recommended to:

- (a) endorse the plans of the Social Care and Health Directorate to manage demand and activity to balance the budget;
- (b) commission a further report from the Corporate Director on the additional steps required to manage the budget this year set out in paragraph 2.8, including a review of charges for non-residential services; and
- (c) ask the Cabinet Link and Social Services & Personal Health Scrutiny Committee to monitor progress and bring matters of concern to the Cabinet.

## **4. Headline Financial and Legal Implications**

4.1 This report is exclusively concerned with financial issues.

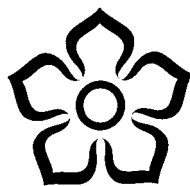
- 2.1 The Department is allowed to set its eligibility criteria to take account of the resources available to it and these are defined by the definitions of children in need from the Children Act 1989 and the Council’s recently adopted approach to Fair Access to Care. Once service users have been assessed as meeting these needs-based criteria, the Council must respond, although it has discretion in how those needs are met, the most cost-effective way of meeting them, and the charges that are levied for them. It can also prioritise cases and use waiting lists, providing they are fair and reasonable in their approach.
- 4.3 There are no direct legal implications arising from this report (Guy Goodman, Assistant Head of Legal Services – extension 7054).

**5. Report Author/Officer to contact:**

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**DECISION STATUS**

<b>Key Decision</b>	<b>No</b>
<b>Reason</b>	<b>n/a</b>
<b>Appeared in Forward Plan</b>	<b>No</b>
<b>Executive or Council Decision</b>	<b>Executive (Cabinet)</b>



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### **Social Care and Health Budget Management 2003/04**

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**Report of the Corporate Director of Social Care and Health and Chief Finance Officer**

## **SUPPORTING INFORMATION**

### **1. Purpose of Report**

- 1.1 In approving the Directorate's Revenue Strategy in February 2003, the Cabinet was keen to know how the additional resources allocated would be used to best effect to minimise the issues of continuing overspends in key areas. This report provides an overview of the emerging risks in the Directorate's 2003/04 revenue, together with information on how the budget will be managed. Cabinet is asked to comment on proposals for reducing spending and increasing income for confirmation in September.

### **2. Background**

- 2.1 At its meeting on 24<sup>th</sup> February 2003, the Cabinet agreed a revised Social Care and Health Directorate Revenue Strategy for 2003/04, which was confirmed by Council on 5<sup>th</sup> March. It provided for £4 million on-going growth and £1.1 million one-off funding to address the gap of around £5 million I had identified between the revised planning figure for the Directorate and the essential growth recommended. This enabled a number of savings and additional income proposals in the first draft to be removed or scaled down and a number of the long-term shortfalls in the budget to be addressed.
- 2.2 The growth monies agreed by Cabinet and Council were £3.5m on a recurring basis, over and above previous indications.
- 2.3 This investment means that the Directorate has a more workable and achievable budget. Nonetheless, the financial situation remains tight, as the additional funding largely meets existing shortfalls, discontinued targeted Government grants and new legislative responsibilities, rather than providing for significant service growth. Indeed, setting aside new funding through targeted grants, the "uncommitted growth element" of the budget was established at around £200,000 on a gross budget in excess of £100 million at the time the budget was set.

2.4 The Cabinet accepted that the Director would need to put into place a number of additional measures and procedures to ensure robust management of services within the approved budget and asked for this report describing them.

### **3. Further Factors for the Budget Strategy**

3.1 Four factors were unclear at the time the budget was agreed. These were:

- the amount and conditions of Specific Grants (Government funding that must be used for a particular purpose);
- the timetable and status of Reimbursements to the NHS for Delayed Discharges legislation, together with the associated specific grant;
- the impact of Leicestershire's Job Evaluation Scheme on retention and recruitment of managers/supervisors;
- the extent of overspend in 2002/03.

3.2 Specific grants allocations and conditions were much as expected, with the significant exception of the Access and Systems Capacity Grant. It had been expected that this grant would be able to be used in such a way as to contribute towards the revenue budget. However, the final conditions were not issued by the Department of Health until April 2003, and were more restrictive than anticipated.

3.3 Conditions of all grants are more tightly monitored for one (such as Leicester) and no star authorities than for those with greater degrees of "earned autonomy". Service Directors have reviewed the use of grants and how they can be used to address core activities and priorities, while staying within grant conditions for audit purposes. However, this is often difficult to achieve.

3.4 The DRS had assumed that the Reimbursement legislation would have completed its passage through Parliament By April and that the anticipated grant of around £650,000 would be paid in full. It would have been used to fund assessment and services required to prevent delayed discharges and hence avoid fines. However, the legislation was delayed and only £295,000 will be received in 2003/04, with liability for fines coming in from January 2004. The Director has decided to use the previously agreed one-off allocation of £300,000 this year from the Neighbourhood Renewal Fund (NRF) to replace most of the grant reduction. As the funding was assumed in the DRS, any additional investment needed will have to be found from existing budgets.

3.5 The Cabinet will be aware that Leicestershire County Council implemented its Job Evaluation Scheme last year. The Director was concerned about its impact on the local social care employment market and the consequences for our retention and recruitment. It is now evident from recent recruitment exercises that the County Council is paying managers and supervisors between £3,000 and £5,000 a year more than the City Council on top of other perks such as free parking close to work. It is also the case that a pattern is beginning to emerge where we are failing to attract suitable candidates for vacancies that have been advertised externally. It is, therefore, becoming increasingly clear that we will need to respond to this situation ahead of the City Council's own exercise if the Department is to be able to retain and recruit staff to work

in what is rightly perceived to be the more challenging City context. The Director is considering a range of possible measures, including the application of market increments. Such steps would, however, inevitably introduce further demands on the budget.

- 3.6 The DRS assumed that the Directorate would overspend by around £1.6 million in 2002/03, offset by a contribution from the Neighbourhood Renewal Fund (NRF) slippage of around £500,000. Financial Procedures require overspends to be carried forward to the following year, and the 2003/04 budget includes one-off funding of £1.1 million towards this overspend. The final 2002/03 outturn appears to be broadly in line with the DRS assumptions before NRF support. Whilst the extent of NRF slippage from 2002/03 has not been finally confirmed, it appears unlikely that it will reach the assumed £500,000. This reduction will require further savings of up to £300,000 to be identified from the 2003/04 budget.
- 3.6 It is possible that the Social Services Inspectorate's inspection of Children's Services in May and the audit of practice following the Victoria Climbié Inquiry will identify areas that require further attention or investment in the next twelve months, beyond the £200,000 set aside in the budget.

#### **4. The Key Elements to Improve Financial Management in 2003/04**

- 4.1 Financial management in all social services departments is hampered by five key factors:
- demand control is complicated by legal responsibilities and factors outside the Directorate's direct control (e.g. courts, NHS, individual's actions, public and political expectations);
  - demand costs more than available resources;
  - difficulties in linking finance and activity data, and providing it fast enough to spot and react to trends;
  - Government specific grants are targeted and short-term
  - Limited flexibility in budget management and the ability to make strategic shifts of resources due to the up-front investment or double running costs.
- 4.2 In Leicester this was exacerbated by the requirement to build in a substantial level of savings (rising to over £3 million in 2002/03) from the start of each financial year to meet known commitments as well as volatile in-year demands. This meant that the basic disciplines of allocating reasonable budgets to cost centre managers and allowing them the flexibility to work within them could not be followed. We were effectively managing the budget at Directorate level and it was impossible to encourage or reward effective cost centre management practice in the Department.
- 4.3 Our approach in 2003/04 follows the basic principle of allocating a reasonable budget to decision makers (largely Service Directors and Service Managers) in a position to manage activity and cost and giving them all the flexibilities possible to achieve this, within financial regulations and any grant conditions. To help us achieve this we have spent much of the past year trying to understand the areas under pressure, building in additional funding and longer-term strategies to improve the position, and developing

better cost and activity information to support them. This work is grouped in the following areas.

(a) Analysing all the unfunded commitments and anticipated pressures and building them into the DRS process

4.4 This process was more detailed and thorough than in previous years and was fully summarized in the DRS. Some £7.5 million of historical and emerging budget shortfalls and pressures were funded, using the extra funding from the Council and money released from savings generated by the Department.

4.5 A range of remaining risks was identified, which the DRS showed could create uncertainty. Some of these are inherent in the very nature of social care; others are more specific to Leicester at the present time. These remaining risks have been carefully prioritised, dividing those to be held at Directorate level (e.g. unexpected costs associated with People from Abroad) and those that Divisions are expected to control.

4.6 These risks have been thoroughly reviewed at an early stage since the budget was set, because of the recognised volatility, and a number of them should now be viewed as areas of risk, which are likely to materialise to varying degrees.

- Use of Government specific grants, where the DRS assumes that £1 million of grants could be used to support mainstream activity, which may now be difficult to achieve in full, as explained in paragraphs 3.2 and 3.3.
- Adults and Older People's residential and non-residential services. This continues to be a volatile area of pressure, which all Authorities face;
- Although still at an early stage, it is estimated that the Fairer Charging framework for charging for non-residential services is likely to result in a loss of income of up to £200,000, for which there is no provision in the budget;
- New tendered contracts for Home Care from the independent sector will take effect in October 2003. These have increased by an average of 10%, which will cost around £125,000 this year and £250,000 in a full year from 2004/05 in excess of the budget (this is in line with national trends for such contracts);
- Intermediate care developments at Butterwick House and Brookside Court will result in some "double running" costs whilst capital investment is made in the buildings for the new service;
- Delays in the delayed discharge reimbursement scheme, as explained in paragraph 3.4 above. There is a deficit of £55,000 compared to the DRS assumptions, even after the Neighbourhood Renewal Fund is played in;
- Impact of Leicestershire County Council's Job Evaluation Process; and
- Unfunded elements of the 2002/03 overspend carried forward, estimated at up to £300,000, as set out in paragraph 3.6 above.



4.7 In addition to the above, the Directorate's budget is affected by the review of Service User Transport, which has not delivered savings as quickly as was anticipated. Eligibility criteria has been revised, reviews of individual cases have been undertaken, a Transport Brokerage has been established (through which all transport requests are made and statistical and financial projections are gathered), and negotiations are almost concluded with Environment, Regeneration and Development around a Trading Agreement for the provision of transport. A number of discrete projects are now being established around individual service areas to manage eligibility for transport and new models of delivering the transport. This will have the effect of reducing expenditure and increasing efficiency. This work will now be progressed as a matter of urgency.

4.8 Some of these pressures will be able to be absorbed by Divisions as part of their usual budget management processes and by stringent management action. However, it would be prudent to assume that between £1m and £2m may not be achievable by Divisions, unless additional actions over and above those already planned are approved and these are set out in paragraph 2.8 of the covering report. Sections (b) to (f) below explain management processes and measures that have been and are being taken to manage the budget. Section (g) describes specific project work this year to address these budget hotspots in the longer term.

(b) Reviewing income projections and taking steps to make the best use of targeted grants

4.9 The Directorate's revenue budget has three elements:

- the controllable total, funded by the Council (£73.206 million);
- Government Specific Grants (£12.6 million); and
- income (approximately £20 million)
  - which is collected through reclaiming costs from Government (e.g. around £1 million for asylum seekers)
  - from external sources e.g. NHS and Education for shared costs; NRF and Invest to Save for projects; and
  - means-tested contributions from service users collected against national rules (residential or nursing care) or discretionary Council set charges (meals, home care, transport etc.).

4.10 While there is always scope for identifying new sources of income from Government programmes, it tends to be ring-fenced for specific purposes. The key variable is the amount of income collected from service users, which offsets the costs of services provided or commissioned on their behalf. Efforts this year will include helping eligible service users to claim more benefits as this has a three way benefit: service users are still better off; it helps us recover more of the costs of services; and benefit claims have a direct impact on the level of the Council's future Formula Spending Share (FSS), hence increased Government funding.

(c) Developing commissioning strategies with clearer purchasing intentions

4.10 The Directorate has a number of strategic priorities:

*For children:* maintain children at home; where they must be looked after to do it well and preferably locally, using substitute family care and promoting adoption where possible; and where residential care is appropriate make sure it is good quality.

*For adults and older people:* to support people at home wherever feasible, offering direct payments; to increase the use of intensive home care; reduce unnecessary admissions to hospital or residential/nursing care.

4.12 We will develop our Community Care Commissioning Strategy to be clearer about our planned activity levels and purchasing plans. We are moving to a greater use of volume (rather than spot) contracts for home care this year in order to help secure supply and improve quality with independent sector partners. We will also do further work with the independent sector on a fair rate for care. This will help us better understand and manage the cost of activity we commission.

(d) Building up Divisional budgets from first principles with Service Directors and exposing as many risks as possible from the outset and agreeing how these will be managed

4.13 We have built up budgets based on a combination of those allocated for 2002/03, adjusted for inflation and for growth allocations from the DRS. The most volatile budgets (children's placements and community care commissioning) have been rebuilt to reflect known commitments and anticipated headroom for in-year changes (discharges and deaths) which allow for some replacement placements within the budget. Service Directors are required to set robust activity targets and build in any necessary managed staff vacancy factor.

4.14 Allocated Divisional budget targets must not be overspent. Although budgets are reasonable and manageable, Divisional Management Teams have been asked to agree adjustments to achieve robust budgets, keep them under review and refine them during the year. To this end, they are building in contingency arrangements proportionate to their anticipated risks.

(e) Devolving budgets to decision makers

4.15 Central to this process is the shifting of decisions to commit expenditure to those who confirm that the purchase, activity or staffing arrangement is required. The Directorate has set the overall context, but believes that good financial management practice should link the commitment and the decision. In general this responsibility is held at Service Director or Service Manager level. To assist this we have revised the Directorate's scheme of delegation.

(f) Setting financial and activity targets and improving commitment recording and how they are monitored by Service Directors

4.16 There are already a number of examples of good practice in monitoring activity and cost in the Directorate. The Social Services Inspectorate's national report on its inspections of the Management and Use of Information in Social Care singled out as an example of Good Practice nationally our arrangements for accessing external children's placements, and our hospital discharge monitoring arrangements.

4.17 We intend to build on this by introducing better arrangements to *challenge and confirm* expenditure in the hot spots of transport, home care and community care placements. This will seek to establish the eligibility of the service user; whether the proposed option is appropriate in type and level; whether it is cost-effective; and that it is affordable at that time (against budget/activity targets) or should be re-prioritised against other demands and placed on a waiting list.

(g) Specific project work to address hot spots

4.18 In addition to the routine disciplines described in this report, we have initiated five pieces of work that will deliver both short-term gains and longer-term benefits:

- Domiciliary care: *developing a single system to manage and track both in-house and commissioned care based on clearer weekly targets; focusing in-house services on first contact work and niche areas that require special attention; developing seven or eight volume contracts with independent sector providers based on clearer partnership in quality, reliability and development of staff.*
- Commissioning, care management and care pathways in adults and older people services: *developing better systems for linking assessment, care planning, monitoring and review and establishing clear budgetary responsibility at each stage.*
- Children's placements; *continuing work to reduce use and costs of external placements, reinvest in family support, fostering and adoption, and in-house services.*
- Community care placements: *develop clearer challenge and confirm arrangements and simple commitment systems to better set and monitor activity targets within the budget.*
- Transport: eligibility and delivery: *build in challenge and confirm arrangements to ensure service is required; promote reviews of existing service users' needs; ensure transports needs are met in the most cost-effective way by looking at the current way transport is arranged and provided, particularly the use of contracted taxis. This is a project that may take two years before the full benefits in reducing demand and costs are evident.*

## 5. Proposals for this Year

- 5.1 While these new arrangements bed in, Divisions are maintaining the existing controls on expenditure that have held and reduced the overspend in 2002/03. However, it is clear that some additional measures will be necessary if there is to be reasonable certainty of avoiding an overspend in 2003/04. A number of actions are being considered as set out in the covering report.
- 5.2 There will be a thorough review of progress to date in August and I propose to report on this to the Scrutiny Committee in September.

## 6. Financial, Legal and other Implications

<b>OTHER IMPLICATIONS</b>	<b>YES/NO</b>	<b>Paragraph Within Supporting information</b>	<b>References</b>
<b>Equal Opportunities</b>	<b>No</b>	None directly	
<b>Policy</b>	<b>Yes</b>	Throughout the report	
<b>Sustainable and Environmental</b>	<b>No</b>		
<b>Crime and Disorder</b>	<b>No</b>		
<b>Human Rights Act</b>	<b>No</b>		
<b>Elderly/People on Low Income</b>	<b>Yes</b>	Throughout the report	

## 7. Background Papers – Local Government Act 1972

Departmental Revenue Strategy 2003/04 to 2005/06: March 2003

## 8. Consultations

Chief Finance Officer  
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## 9. Report Authors

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