Leicester City Council

Revenue Budget Monitoring – Period 9, 2016/17

Decision to be taken by: City Mayor

Decision to be taken on: 21st April 2017

Lead director: Alison Greenhill

Useful information

- Ward(s) affected: All
- Report author: Julie Robinson
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1. Summary

This report is the third in the monitoring cycle for 2016/17, and forecasts the expected performance against the budget for the year.

Given the scale of Government funding cuts, departments are inevitably under pressure to provide services with less funding.

It is pleasing to note that, at all stages of the monitoring cycle this year, all services are forecasting that they will operate within budget for the year.

In particular, it is pleasing to see that the extra money provided for social care in the 2016/17 budget appears to have stabilised the position of the two departments concerned. Given the statutory nature of the services, however, pressures continue to be considered a risk in the 2017/18 budget.

Corporate Resources are forecasting to underspend by £0.8m, primarily through early delivery of spending review savings.

As described in the 2017/18 budget report, the Council continues to need savings, and the importance of living within budgets cannot be stressed enough.

2. Recommendations

2.1 The Executive is recommended to:

- Note the emerging picture detailed in the report.
- Approve reductions to the Delivery Communications and Political Governance Budget of £28k rising to £140k in respect of savings in Civic & Democratic Services, as detailed in Appendix B, Paragraph 4.2 (part of the spending review programme)
- Approve reductions to the City Development & Neighbourhoods departmental budget of £0.18m in 2017/18, rising to £0.34m from 2018/19, and £0.5m from 2019/20 in respect of the Investment Property spending review, as detailed in Appendix B, Paragraph 6.2

2.2 The OSC is recommended to:

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

3. Supporting information including options considered:

The General Fund budget set for the financial year 2016/17 was £263.2m.

Appendix A details the budget for 2016/17.

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

Appendix C provides detail of forecast balances on earmarked reserves for 2016/17

4. Financial, legal and other implications

4.1 Financial & Legal implications

This report is solely concerned with financial issues.
Alison Greenhill, Director of Finance, Ext 37 4001

4.2 Climate Change and Carbon Reduction implications

This report is solely concerned with financial issues.

4.3 Equality Impact Assessment

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

4.4 Other Implications

Other implications	Yes/No	Paragraph referred
Equal Opportunities	No	-
Policy	No	-
Sustainable & Environmental	No	-
Crime & Disorder	No	-
Human Rights Act	No	-
Elderly/People on low income	No	-
Corporate Parenting	No	-
Health Inequalities Impact	No	-

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

5. Background information and other papers.

Report to Council on the 24th February 2016 on the General Fund revenue budget 2016/17.

Period 6 Monitoring report and minutes of OSC Finance task group presented to OSC on 13th December 2016

6. Summary of appendices:

Appendix A – P9 Budget Monitoring Summary;

Appendix B – Divisional Narrative – Explanation of Variances;

Appendix C – Earmarked Reserves Forecast Year End Balances at Period 6

7. Is this a private report?

No

APPENDIX A

Revenue Budget Forecast Position at Period 9, 2016/17

	Current Budget for Year	Forecast Outturn to Period 09	Forecast Variance over (under) spend
	£000	**£000**	**£000**
Neighbourhood & Environmental Services	30,598.9	30,598.9	0.0
Tourism, Culture & Inward Investment	6,596.0	6,878.0	282.0
Planning,Development & Transportation	17,381.0	17,381.0	0.0
Estates & Building Services	8,966.8	8,966.8	0.0
Fleet Management & Departmental Overheads	768.8	768.8	0.0
Housing Services	4,223.7	3,941.7	(282.0)
City Development and Neighbourhoods	**68,535.2**	**68,535.2**	**0.0**
Adult Social Care	**102,456.9**	**102,456.9**	**0.0**
Health Improvement & Well-being	**23,360.8**	**23,360.8**	**0.0**
Strategic Commissioning & Business Development	651.6	651.6	0.0
Learning Quality & Performance Services	8,580.3	8,580.3	0.0
Children, Young People & Families	59,160.1	59,160.1	0.0
Departmental Resources	(10,145.8)	(10,145.8)	0.0
Education & Children's Services	**58,246.2**	**58,246.2**	**0.0**
Delivery Communications & Political Governance	5,637.8	5,448.7	(189.1)
Financial Services	11,687.2	11,297.8	(389.4)
Human Resources	4,262.8	4,012.7	(250.1)
Information Services	10,084.6	10,084.6	0.0
Legal Coronial & Registrars	2,017.1	2,017.1	0.0
Corporate Resources and Support	**33,689.5**	**32,860.9**	**(828.6)**
Housing Benefits (Client Payments)	**527.6**	**527.6**	**0.0**
Total Operational	**286,816.2**	**285,987.6**	**(828.6)**
Corporate Budgets	13,175.7	8,869.4	(4,306.3)
Capital Financing	13,300.3	12,975.9	(324.4)
Total Corporate & Capital Financing	**26,476.0**	**21,845.3**	**(4,630.7)**
Public Health Grant	(28,214.0)	(28,214.0)	0.0
Use of Reserves	(21,904.7)	(21,904.7)	0.0
TOTAL GENERAL FUND	**263,173.5**	**257,714.2**	**(5,459.3)**

APPENDIX B

Outturn Divisional Narrative – Explanation of Variances

Corporate Resources and Support

1. Finance

1.1. The Financial Services Division continues to forecast an underspend of £0.4m due to the early delivery of spending review savings.

2. Human Resources & Workforce Development

2.1. Human Resources & Workforce Development is forecasting an underspend of £0.25m due to additional income generated by the Corporate Health & Safety Team.

3. Information Services

3.1. Information Services continues to forecast staffing savings of £0.4m, due to the early delivery of spending review savings, which will be transferred to the IT Reserve. The division is implementing savings as part of the spending review programme and a further £1.2m is required by 2017/18. The division is on course to achieve this, and the £0.4m will contribute towards this saving.

4. Delivery Communications & Political Governance

4.1. The Delivery, Communications and Political Governance Division continues to forecast an underspend of £0.2m, due to work in progress on the implementation of the current spending review in Civic & Democratic Services which will be implemented in April 2017.

4.2. It is proposed to reduce the division's budget to reflect £28k of spending review savings already achieved in 2016/17 rising to £140k in 2017/18.

5. Legal, Registration & Coronial Services

5.1. The Legal, Coronial & Registrars Division continues to forecast that it will remain within its budget, although will need to draw an estimated £130k from reserves due to increased workload pressures. The previously reported pressures on the Coroners' budget due to legislative changes will be met corporately.

City Development and Neighbourhoods

6. Planning, Development and Transportation

6.1. The Division is forecasting a balanced outturn. A number of pressures are being managed, including a rating revaluation of the Victoria Park / Granville Road car park, by drawing on energy cost savings and managed vacancies.

7. Tourism, Culture & Inward Investment

7.1. The Division has identified pressures of £0.3m, largely due to reductions in income whilst the Leicester Market redevelopment works continue, and to initiatives to drive inward investment of businesses and jobs in the city. These are being partially offset by savings on other services.

8. Neighbourhood & Environmental Services

8.1. The Division is forecasting a balanced outturn. As previously reported, a potential pressure of £0.2m has arisen, due to changes in waste disposal regulations that have unexpectedly increased landfill tax costs. Mitigating actions are being explored with BIFFA. As reported previously, pressures also continue to be experienced at the Gypsum Close facility where original income projections are not being achieved; and at Gilroes Crematorium due to reduced demand following the opening of new facilities in the county. These pressures in the current year will be absorbed by the Division (and if not, then with support from the CDN strategic reserve) but they will continue into future years and will need to be addressed on a sustainable basis.

9. Estates & Building Services

9.1. The Division is forecasting a balanced outturn. The arrangements for recharges to the various capital programme schemes are being reviewed to ensure appropriate cost recovery.

10. Housing General Fund

10.1. The General Fund housing service is on course to achieve savings of £0.3m.

10.2. Vacancy management across the service is expected to result in the equivalent of 12 FTE vacancies and an underspend of £0.32m. Any significant service impact that may emerge would be mitigated by short term staffing arrangements. Supported Housing is expected to overspend by £45k. Plans to replace fifteen self-contained flats returned to general housing management last year with five shared houses, thus maintaining the same level of provision, are on hold pending the outcome of a government review of housing benefit for supported housing.

11. *Housing Revenue Account*

11.1. The Housing Revenue Account (HRA) is a ring-fenced income and expenditure account relating to the management and maintenance of the Council's housing stock.

11.2. The HRA is now expected to achieve net savings of up to £1.9m (excluding revenue used for capital spending, which is reported in the capital monitoring report). The increased underspend compared to Period 6 is largely due to greater clarity around the immediate effects of the new repairs service, following implementation in November. These savings help move the service towards the savings required as a result of government rent capping.

11.3. Rental income is forecast to be £0.5m less than budget. Right to Buy Sales are forecast to be 500 this year, twice the 240 sales assumed in the budget, resulting in an estimated £0.5m less income. However, rent losses from voids have been less than expected. An agreed transfer of shops to the general fund has not yet taken place, resulting in unbudgeted income of up to £0.3m.

11.4. Repairs and maintenance is forecast to underspend by a net £0.9m. Vacancies before and after the repairs service restructuring which took effect in November are higher than expected and will result in significant in-year savings. Restructuring costs for redundancy and protected pay are forecast to be £0.2m lower than at period 6, due mainly to lower protected pay than originally anticipated. Expenditure on materials is forecast to be £0.4m less than budget, compared to £0.2m at period 6, reflecting the reduced daily repairs as a result of the craft operative vacancies. This may however have a knock-on effect in 2017/18 as outstanding repairs are completed.

11.5. Management and Landlord Services expect to spend £0.5m less than budget, largely due to vacancy management, partially offset by restructuring costs for the new Neighbourhood Service.

Adult Social Care

12. Adult Social Care

12.1. In summary the department is forecasting to spend as per the current annual budget of £102.5m

12.2. Of the £102.5m budget the most significant item is the £94.9m expenditure on independent sector service user care package costs. The level of net growth in long term service users in the first half year was 1% (52 service users from a base at the start of the year of 5,314). This translates to an annualised rate of 1.3%, lower than the 2.6% net growth seen in 2015/16 and included in the budget.

12.3. The most significant area of cost increase is from net increases in package costs of our existing service users. This occurs when the condition of the user deteriorates, for example through increasing frailty and additional support is required on a short- or longer-term basis. The level of increase this year is higher than last. Increases by individual service user are being tracked by social work teams to be clear of the reasons why and the appropriateness of the new package being provided.

12.4. The overall impact of the growth in service users and changes in package costs results in a forecast growth of 3.3% or £3m for the year, compared with 2.9% in 2015/16.

12.5. Reviews of service users are ongoing to ensure that the most appropriate care packages are in place. These reviews have yielded cost savings of £1.1m to date.

12.6. Price increases for 2016/17 have been agreed with residential care providers to reflect the impact of the national living wage in line with the budget.

12.7. Extra Care Housing provides self-contained flats with onsite support to enable vulnerable adults to live independently in the community rather than using traditional residential care. Not only is this better for the service user but it is also more cost effective for the Council (saving up to £3,000 per user per annum). The government has announced it has deferred its plans to cap housing benefit payments for residents in Extra Care flats until 2019/20. From 2019/20 the cap will apply, but a new ring-fenced grant will be given to local authorities out of which they will in theory be able to fund the difference between the local housing allowance rate and tenants' actual rent and service charges. The government released a consultation in November although the details of the grant allocations will not be known until the Autumn of 2017. There is clearly still a significant risk that the fixed grant will be insufficient, and this therefore continues to jeopardise the financial viability of both existing and new schemes. From a financial viewpoint, this could frustrate one of our means of reducing care package costs and delivering a key policy agenda in providing independent living opportunities.

12.8. There is significant demand for this kind of accommodation across the city and two new schemes which could provide 157 flats have been put on hold by the development consortium and the Council. We are currently reviewing the scheme in the light of the recent announcements.

12.9. Staffing costs will be lower than the budget this year where reviews have been completed but not all vacant posts have been filled for the full year. This is a one-off, in-year saving.

<u>Health Improvement & Wellbeing</u>

13. Public Health & Sports Services

13.1. In summary the department is forecasting to spend £23.4m as per the current annual budget. The division now includes Sports Services.

13.2. In November 2015 the Department of Health announced a series of reductions in the Public Health Grant. £1.6m was cut in 2015/16, £0.6m in 2016/17 with estimated cuts of £0.7m each in the 2017/18-2019/20. The services provided by this division are almost entirely funded by Public Health Grant and therefore bear the brunt of the reductions.

13.3. The grant cuts in 2015/16 and 2016/17 of £2.2m in total have been addressed by reducing spend in a number of areas including weight management in pregnancy, NHS Health-checks, Healthy Tots / Healthy Nurseries programme, reductions in evaluation and intelligence, cuts to smoking and tobacco control, reductions in some alcohol programmes and a workplace health scheme. The 0-19 Healthy Child Programme contract has been re-tendered. An organisational review of the service’s staff has been completed which will save £0.3m on an annual basis out of a total staffing budget of £2.4m. Departmental earmarked reserves have been identified to meet severance costs associated with the organisational review.

13.4. There has been lower than expected activity in some elements of the sexual health service which has a budget of £3.6m. The service is funded on a tariff system and there has been an increase in appointments for more complex procedures (including complex contraception) and a reduction in the number of people seen for more routine appointments. As the routine work attracts a proportionately higher payment for the amount of time required to see people than the complex work, the overall cost of the service has fallen this year. The impact of this on key outcomes including waiting times, contraceptive uptake and rates of STIs is being monitored

13.5. All contracts with GP's for both sexual health and NHS Health checks (which have a combined budget of £1.3m) are operating below expected activity levels. It is thought that this is due to reduced capacity in general practice to provide those services. This is under discussion with the City Clinical Commissioning Group.

13.6. The extent of potential one off underspends for the two items mentioned above is still being evaluated and has not been included in this forecast. Also not included is the likelihood of further small one off savings in the Healthy Child programme and from the decommissioning of two weight management contracts.

<u>Education and Children's Services</u>

14. Education and Children's Services

14.1. In summary the department is forecasting to spend as per the current annual budget of £58.2m.

14.2. Of the £58.2m budget £24.5m relates to placement costs for looked after children (LAC). Numbers of LAC at the end of the half year were 633 compared to 639 at the end of March. The total population has remained relatively stable so far this financial year compared with the increases seen in the previous year (560 LAC at the end of March 2015). We are not forecasting to exceed the total placement budget in 2016/17.

14.3. In terms of controlling placement costs the approach is to both continually review existing LAC high cost placements for potential 'step down' opportunities to lower cost provision and to use targeted interventions to divert potential new entrants away from care. In terms of the latter, two new Multi-Systemic Therapy (MST) teams are now fully operational which (alongside the existing team) have capacity to deal with a caseload of approximately 110 per annum (dependent on family size). These teams provide an intensive family intervention programme to change the behaviour of the young person and parent. One of the new teams which deals with cases involving abuse and neglect is already fully subscribed and it is likely that this provision will be extended.

14.4. The financial impact of these teams on placement costs will be evaluated and compared against the budget assumptions. It is worth noting that we are ahead of many other local authorities in terms of the delivery of MST and have worked closely with the DfE sector advisors to set up these teams. The DfE have recently launched the Life Chances Fund which is promoting Social Impact Bonds (SIB) as a means to deliver MST programmes. The SIB is an outcome based contract where a social investor funds a provider organisation to deliver the programme with a payment by results made by the local authority to the investor.

14.5. We are currently evaluating further targeted intervention programmes including MST FiT (Family intensive Treatment) which looks to move children who are currently looked after out of the care system.

14.6. External residential placements are forecast to cost £7.3m this year compared to £6.5m in 2015/16. There has been a net increase of 3 placements in the first nine months, with 41 total placements at the end of December. The level of placements remains an area of concern and why we are looking at the possibility of using MST FiT for this cohort of looked after children.

14.7. There remains an issue with the number of internal foster carers available to take placements and we are still actively seeking to recruit new ones. Where internal foster carers are unavailable or the placement is short-term then more expensive Independent Foster Agency carers (IFAs) are used. There was a net reduction of 7 IFA placements in the first half year with a total population in this type of provision of 46 at the end of December. IFA provision cost £1.8m in 2015/16.

14.8. We currently have a total of 17 unaccompanied asylum seeker child (UASC) placements that are under 18 years old and 12 other young people (ex UASC) aged 18 plus being supported. The authority continues to receive requests for placements of UASC either from the national transfer scheme (referrals from other local authorities), or where placements with existing families (under the Dublin III scheme) have broken down. The government have announced they will no longer be taking children under the Dubs amendment.

The government provide a grant to local authorities for eligible UASC placements. However this grant does not even cover the cost of the placement alone in most cases. For every UASC there are the additional costs associated with social worker time, placement commissioning and leaving care support. The LA is also supporting and funding accommodation for the 12 ex UASC young people either whilst their appeals are being heard, where they have been given discretionary leave to remain or are awaiting removal. All of these associated costs are currently being absorbed by the department.

14.9. A new Single Assessment Team has been created by combining practitioners and managers from existing services and budgets. This team will deliver the first response to all referrals that meet the threshold for social work assessment and transfer cases at agreed points to the remaining Children in Need Service (CiN). This will be a more effective business process.

14.10. The CiN service is still supported by agency staff whilst we continue to move towards a full establishment. The impact of this has been included in the budget. At the end of September there were 17 ASYE (Assessed and Supported Year in Employment) level one trainee social workers and 30 level two ASYEs together with 40 FTE qualified social workers and 40 agency staff.

14.11. The consultation on remodelling the Early Help service and Children's centres has closed and the responses are currently being analysed.

15. Schools & Learning Services

15.1. The government has consulted on sweeping changes to the arrangements for schools' funding. This will include replacement of the local funding formula with a national funding formula, and overhaul of the arrangements for using DSG on anything other than schools' individual budgets.

15.2. In addition to these proposals, the Government will substantially reduce the amount of Education Services Grant paid to local authorities in 2017/18. The reduction will be accompanied by certain changes in LEA duties, the main one being related to School Improvement. From September 2017 local authorities will receive a new separate grant which will cover their statutory intervention functions and services being the monitoring of school performance and brokering school improvement support. The grant is less than one third of what we currently spend on statutory school improvement.

15.3. These changes will have knock-on implications for the general fund, and for the time being a provision has been made in the 2017/18 budget.

15.4. The DfE released a further consultation paper on the national school funding formula in December 2016 which includes indicative allocations for all primary and secondary schools. The figures show that that the total funding for Leicester's primary and secondary schools would increase eventually by 4.1%. However transitional arrangements apply and so in the first year of implementation the increase would be limited to 1.8%.

15.5. Whilst the total funding received by city schools increases under these consultation proposals, at an individual school level the funding varies significantly. In the first year of implementation 20 city schools would lose funding at an average rate of 1.2%, with the remaining 80 gaining by 2.6%. The variations arise because the proposed new funding formula uses different factors and unit rates compared to our current local formula in order to distribute funding to schools.

15.6. The new school funding formula arrangements provide no flexibility for local discretion particularly in making available extra funding for significant in year pupil growth which the city continues to experience. Representations will be made to the DfE as part of our consultation response to raise this issue.

15.7. It had been anticipated that the local authority would have to withdraw from school improvement activities from September 2017, with the consequent impact on our staff. It has now been confirmed that local authorities will retain responsibility for school improvement for the foreseeable future, but the funding arrangements to support this remain uncertain.

15.8. Humberstone Infants, Knighton Fields Primary, Willowbrook Primary, Uplands Junior Thurnby Lodge Primary, Braunstone Community Primary and Babington College, Merrydale Junior and Woodstock primary have converted to academies this financial year. The loss of Education Services Grant to the authority as a result of these conversions has been included in the budget.

<u>Corporate Items & Reserves</u>

16. Housing Benefit

16.1. Every year, the Council makes payments of around £150m to Housing Benefits claimants, based on their individual circumstances. This is a crucial support to enable people on low incomes to meet their housing costs.

16.2. Housing Benefit payments made by the Council to claimants are reimbursed by the Government, except where subsequently discovered to have been paid in error. In these cases, subsidy is paid at a reduced rate, but the Council is able to retain any monies recovered from claimants. Most overpayments are due to claimant error, often arising because they have not told us of changes in their circumstances.

16.3. Where the overpayment is due to claimant error, subsidy is received for 40% of the value of the overpayment; the Council must therefore recover at least 60% of the value of such overpayments (on average) if we are not to lose money. Where claimants are still receiving benefits, recovery can be made through a payment plan deducted from their ongoing benefits, although this can take a long time to fully repay the debt. Where there is no ongoing payment of benefits, recovery can inevitably be difficult.

16.4. Compounding the issue is the continued need to set aside resource for subsidy disqualified following audit. This is a constant issue arising from past audits necessitating much more testing at Leicester than at other authorities. We have asked Government to help us break this cycle, so far to no avail.

16.5. Since 2015/16, the level of overpayments uncovered has increased due to efforts by the Government to 'cleanse' data in preparation for Universal Credit. This has involved the Department for Work and Pensions cross-referencing the Council's data with other data not previously available to the Council (for example from HMRC).

This has led to increased overpayments which, by nature of their age, have often been hard to collect.

16.6. Nevertheless, the Council has invested additional resources in the collection of Housing Benefit debt and at this stage it appears that collection rates have improved.

16.7. It is expected that the cost of Housing Benefit overpayments to the Council in 2016/17 will remain within the £0.5m budget available.

17. Discretionary Housing Payments

17.1. The government provides each local authority with a ring-fenced fund to enable additional financial assistance to be provided to claimants in receipt of either Housing Benefit (HB) or Universal Credit (UC) who are facing additional financial difficulties to help them meet their housing costs. The DHP fund allocated to Leicester for the financial year 2016/17 was £780,900. LA's are permitted to use their own funds to top up their Government contribution by an additional 150%.

17.2. Historically our DHP spend has been contained within the grant allocation however for the first time the DHP grant is not now expected to be sufficient to cover expenditure in 2016/17. Since January 2017 there has been a significant increase in the weekly DHP expenditure. Current forecasts predict a potential budget shortfall of up to £100,000, based on the number of cases that are likely to seek support. This pressure arises mainly due to the implementation of the lower benefit cap since January 2017, and due to the implementation of Universal Credit and problems caused with delays of Universal Credit awards by the DWP. It is proposed to fund the expected overspend from the welfare reform reserve.

17.3. We have a duty to act fairly, reasonably and consistently. Each case must be decided on its own merits, and decision making should be consistent throughout the year and in accordance with our DHP policy. A review of discretionary funds, including DHP, is being undertaken in order to ensure that future policy is affordable and lawful.

18. Corporate Items

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

18.2. Given the difficult financial climate, the 2016/17 budget includes a general contingency of £3m to help the Council manage both anticipated and unforeseeable risks. Current indications are that this will not be required.

18.3. Since setting the budget, additional spending review savings have been approved, principally Parks & Open Spaces (£0.77m), Substance Misuse (£1m) TNS (£0.38m in 2016/17 rising to £0.59m by 2018/19), Technical Services Phase 2 (£0.64m General Fund savings rising to £5.0m by 2019/20), and Regulatory Services (£0.1m). A further £0.3m has also been recovered from the City Development and Neighbourhoods division's operating budget as reported in the 2015/16 Outturn report. Further approvals are sought in the recommendations to this report. This has contributed to the managed reserves strategy and increased amounts available to support the 2017/18 budget.

18.4. Current indications, disregarding spending review savings which are committed to the 2017/18 budget, are that corporate budgets will spend £1.1m below budget in 2016/17. This will increase if we do not require any or all of the contingencies.

18.5. Key reasons for this underspend are savings in capital financing as a result of higher investment income as a result of securing better investment rates and by holding higher cash balances (£300k), reductions in carbon reduction levy charges (£150k), savings on inflation allocations set aside (£450k) and funds allocated for any mitigating actions arising from the Equalities Impact Assessment which has not been needed. (£200k).