



Revenue Budget Monitoring – Period 6, 2015/16

Executive meeting date: 19th November 2015
Overview Select Committee date: 3rd December 2015
Lead director: Alison Greenhill

Useful information

- Ward(s) affected: All
- Report author: Simon Walton
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1. Summary

This report is the second in the monitoring cycle for 2015/16, which highlights the pressures being faced by the current year's budget.

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

As was the case at period 4, the key issues to date are:

- a) Service pressures in Adult Social Care. The position remains as reported at period 4;
- b) Pressures arising from growth in the number of children's placements, and difficulties in recruiting social workers. These pressures can be contained within the departmental budget for 2015/16, but are being reviewed as part of the budget preparation for 2016/17. The pressures are currently growing;
- c) In-year cuts to public health grant, which were announced in the chancellor's July budget. A cut of £1.6m has now been imposed by the Department of Health.

Looking beyond 2015/16, towards the 2016/17 budget strategy, whilst the managed reserves strategy previously adopted means that the Council will be able to balance the budget in that year, the medium term outlook looks increasingly difficult. The pressures being experienced in 2015/16 illustrate how government funding cuts are starting to bite, reducing flexibility to deal with emerging problems. Making spending cuts, then living within reduced budgets, will become increasingly difficult over the next four years, and there will be a strong emphasis on ensuring we have appropriate systems of control; together with the ability to take rapid action to bring spending within budget when new problems emerge.

2. Recommendations

2.1 The Executive is recommended to:

- Note the emerging picture detailed in the report.

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 2015/16 was £274.8m.

Appendix A details the performance of General Fund services against the current budget.

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

Appendix C provides information on the forecast year end balances of the Council's earmarked reserves.

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 25th February 2015 on the General Fund revenue budget 2015/16.

Period 4 Monitoring report and minutes of OSC Finance Task Group presented to OSC on 15th October 2015.

6. Summary of appendices:

Appendix A – P6 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

**GENERAL FUND REVENUE BUDGET
BUDGET MONITORING SUMMARY 2015/16 - PERIOD 6**

	Current Budget for Year	Forecast Outturn at Period 06	Forecast Variance over (under) spend
	£000	£000	£000
Local Services and Enforcement	26,164.4	26,163.6	(0.8)
Culture & Neighbourhood Services	15,848.2	15,849.1	0.9
Planning, Transportation & Economic Development	18,030.4	18,030.4	0.0
City Centre	554.5	554.5	0.0
Property Services	9,787.7	9,787.7	0.0
Departmental Overheads	789.7	789.6	(0.1)
Housing Services	4,916.8	4,616.7	(286.9)
City Development and Neighbourhoods	76,091.7	75,791.6	(300.1)
Adult Social Care	88,219.6	92,361.2	4,141.6
Health Improvement & Wellbeing	16,207.0	16,207.0	0.0
Strategic Commissioning & Business Development	838.5	838.5	0.0
Learning Quality & Performance Services	8,537.1	8,537.1	0.0
Children, Young People & Families	49,081.3	49,081.3	0.0
Departmental Resources	(4,340.0)	(4,340.0)	0.0
Education & Children's Services	54,116.9	54,116.9	0.0
Delivery Communications & Political Governance	6,571.0	6,571.0	0.0
Financial Services	12,532.5	12,422.9	(109.6)
Human Resources	3,873.9	3,873.9	0.0
Information Services	10,196.4	9,746.4	(450.0)
Legal Coronial & Registrars	2,173.3	2,152.8	(20.5)
Corporate Resources and Support	35,347.1	34,767.0	(580.1)
Housing Benefits (Client Payments)	527.6	527.6	0.0
Total Operational	270,509.9	273,771.3	3,261.4
Corporate Budgets	7,935.4	5,635.4	(2,300.0)
Capital Financing	14,055.2	14,055.2	0.0
Total Corporate & Capital Financing	21,990.6	19,690.6	(2,300.0)
Public Health Grant	(24,600.0)	(24,600.0)	0.0
Contribution Reserves	6,906.8	6,906.8	0.0
TOTAL GENERAL FUND	274,807.3	275,768.7	961.4

Outturn Divisional Narrative – Explanation of Variances

Corporate Resources and Support

1. Finance

- 1.1. The Financial Services Division is forecasting an underspend of £109k, due to vacancies in the Accounting Teams ahead of an organisational review, and this will go in to the divisional earmarked reserve in order to meet future transformation costs.

2. Human Resources & Workforce Development

- 2.1. Human Resources & Workforce Development is forecasting a balanced budget at present, although some spending review savings required for 2016/17 may be delivered early which could lead to an underspend being reported later in the year.

3. Information Services

- 3.1. Information Services are forecasting an underspend of £450k, due to vacancies over and above achieving savings of £600k required by the IT Services review. This will go into earmarked reserves to meet the cost of future infrastructure renewal. Total savings of £2.4m are required from this review in due course.

4. Delivery Communications & Political Governance

- 4.1. The Delivery, Communications and Political Governance Division is forecasting a balanced budget after finding spending review savings of £500k. Further spending review savings required for 2016/17 may be delivered early which could lead to an underspend being reported later in the year.

5. Legal, Registration & Coronial Services

- 5.1. The Legal, Coronial & Registrars Division is forecasting a net underspend of £21k.
- 5.2. Legal Services is forecasting an underspend of £209k. £116k relates to managed vacancies, £74k relates to additional Land Charges income due to a continued upturn in the housing market and £19k relates to income generated by Information Governance by selling their services to an external client.
- 5.3. Coronial & Registrars are forecasting an overspend of £188k due to an increased workload, primarily from Deprivation of Liberty Safeguarding (DoLS) orders.

City Development and Neighbourhoods

6. Planning, Transportation and Economic Development

- 6.1. The Division is forecasting a balanced outturn on a net budget of £18m.

7. Culture and Neighbourhood Services

- 7.1. The Culture and Neighbourhood Services Division is forecasting a balanced outturn on a net budget of £15.8m.
- 7.2. A balanced outturn is currently forecast within Sports Services; however this remains particularly sensitive to income generation, which continues to be under pressure against the £5.3m budget, and also to responsive maintenance costs.

8. Local Services and Enforcement

- 8.1. The Division is forecasting a balanced outturn on a net budget of £26.1m. There are pressures amounting to over £200k; the main reasons for this are that the income at the new household waste recycling centre at Gypsum Close is less than budgeted due to lower initial take up, together with the impact of an increase in landfill tax rates upon waste disposal. The Bereavement Services' income budget of £3.2m may prove to be under pressure as the year progresses, due to the opening of new crematoria in the County. The Service is also absorbing additional expenditure with respect to tree work. The Division is reviewing all costs to seek to contain these pressures but if this is not fully possible, then funding is available in the departmental reserve.

9. Property Services

- 9.1. The Division is forecasting a balanced outturn on a net budget of £9.8m.

10. City Centre

- 10.1. The City Centre Director is forecasting to remain within the budget of £555k.

11. Housing Services

- 11.1. The General Fund Housing service is forecasting an underspend of £287k. The movement of £13k since Period 4 is attributable to an increase in hostel rent income.
- 11.2. Vacancies across the service awaiting recruitment will result in in-year savings of £80k. Occupancy rates in the Council's homelessness service accommodation are

higher than budget, hence Housing Benefit income of £3.0m is forecast compared to the budget of £2.8m.

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.
- 12.2. At period 6, the forecast for the HRA is an underspend of £0.35m (disregarding revenue used for capital spending, which is described in the capital monitoring report). Vacancies in the first part of the year which have not been filled have resulted in an underspend of £0.1m. The other £0.2m is as a result of ongoing efficiencies which will be reflected in the phase 2 spending review.

Adult Social Care

13. Adult Social Care

- 13.1. The financial pressures on Adult Social Care budgets continue in 2015/16. The growth in the population of our city and the increasing needs of our service users as they live longer has meant a significant increase in the number of Council funded care packages over a period of time. This is a pattern which has been experienced across the country.
- 13.2. The service has continued to find savings through a variety of measures: for example increased preventative work, promoting independence through more use of Independent Living and Extra Care instead of residential care and increased use of Enablement and Reablement.
- 13.3. The unit costs of care provided by Adult Social Care in Leicester compare favourably with similar local authorities and so too does the mix of provision.
- 13.4. The Council forecasts growth in the number of care packages each year when it sets the budget, based on population estimates. An additional sum to represent demographic growth has been added to the budget every year. Nonetheless, actual numbers are volatile, and increasing demand over a number of years has resulted in a shortfall between the annual cost of all current care packages and the available budget. The gap currently stands at £6m, which is 7% of the available budget. One-off departmental funds have been used in previous years to address budget shortfalls, and this will also be the case in 2015/16. This will reduce the expected shortfall to £4m. The General Fund budget for 2015/16 includes a contingency for general pressures of £3m: on current forecasts, this contingency will be exhausted. The impact in future years will be addressed as part of budget planning for 2016/17.

- 13.5. We now have in place more sophisticated means of tracking service user numbers and package costs throughout the year than has previously been the case. This will allow us to monitor growth in service users and changes to packages, both planned and unplanned. As a result we will be able to evaluate the progress of our savings initiatives and our assumptions on growth from increased need and rising population.
- 13.6. This monitoring will be done in aggregate but also, more importantly, at a locality level so that Care Management Team Leaders are better able to understand expenditure pressures and therefore better able to control budgets in their local area.
- 13.7. The Chancellor's announcement regarding the National Living Wage (£7.20 per hour in 2016/17, rising to an estimated £9.35 by 2020 for people aged 25 and over) will have a significant impact on the care sector. Most care workers are paid the minimum wage, which is currently £6.50 rising to £6.70 from 1 October. Care providers have written to the Chancellor to warn that they will need additional funding as they cannot absorb the increased costs of the new Living Wage rates from 1 April 2016. Equally local authorities are not in a position to pay higher fees to care providers to compensate them without additional funding. The Government has said it will make a statement in November regarding this issue, as part of the Spending Review announcements.
- 13.8. The Government has also announced that the policy of capping care costs for self-funders and changing the means testing thresholds will be deferred until 2020. The Government has not confirmed whether it will claw back grant funding allocated to local authorities for set up costs associated with these funding reforms.

Health Improvement & Wellbeing

14. Health Improvement and Wellbeing

- 14.1. The Department of Health announced in June that there would be an in year reduction in Public Health Grant, and they have now carried out a consultation on the method by which the cuts would be implemented. The services provided by this division are almost entirely funded by public health grant, and will therefore bear the brunt of reductions nationally. Nationally, key services at risk include smoking initiatives, obesity and sexual health.
- 14.2. The Department of Health has announced it will impose a reduction of £1.6m (6.2%) in our grant (which has been reflected in Appendix A). The Service has an earmarked reserve of £0.6m, which will be used to offset the funding cut. This means that further in-year savings of £1m are required in order to breakeven for the year across a range of contracts and these have now been identified.

Education and Children's Services

15. Education and Children's Services

- 15.1. The Department is forecasting an outturn in line with the budget.
- 15.2. The two main financial issues for the Department remain the numbers of looked after children (LAC) and the continued use of agency social work staff.
- 15.3. There are currently 608 LAC compared with 545 at the beginning of the financial year. A significant number of the children requiring placements are very vulnerable and some have very complex behaviours including self-harm. As a result there has continued to be an increase in the number of very expensive external residential placements which now stands at 37, compared to 33 at the start of the year and 25 in 2014. Not only has there been an increase in the overall numbers but the service has also had to move particularly difficult cases to even more specialist and therefore expensive provision.
- 15.4. The service has also seen an increase in agency foster care placements because of the difficulty in finding in-house carers for the age group coming into care. Currently we have 58 placements compared to 44 at the start of the year.
- 15.5. It is not clear why we have seen this level of increase in LAC numbers particularly in those where behaviours are complex and therefore expensive to place. The nature of these cases means that there is less likelihood of moving the child to lower cost provision. Discussions with the local judiciary regarding the applications for care orders being presented at the Family Court confirm that care thresholds are being applied appropriately and have not been reduced.
- 15.6. Based on current LAC numbers the overall placement budget will be overspent by £2.9m. If the current rate of new placement continues unabated and we are unable to 'step down' any current cases to less expensive provision, we will incur an additional £1.5m resulting in a total overspend on placements of £4.4m.
- 15.7. The other major issue relates to the difficulty in recruiting fully qualified social workers and the resulting continued reliance on more expensive agency staff. Due to the shortage in the market for fully qualified staff the service has recruited newly qualified social workers instead. We are using our existing ASYE (Assessed and Supported Year in Employment) framework in order to develop our own fully experienced social work staff.
- 15.8. This will necessitate the continued use of agency staff into 2016/17 as newly qualified social workers have restricted caseloads and can only deal with children in need cases. This is a medium term solution. The additional level of agency staff in

2015/16 is forecast to cost an additional £1.9m more than the existing staffing budget.

- 15.9. Both of these issues totalling £6.3m together with other one off post Ofsted improvement work, will be funded this year using one off reserves and other funds and as a result the Department is forecasting to break-even. The increased looked after children costs, the workforce issue and other ongoing Ofsted improvement related costs are being looked at as part of the budget setting process for 2016/17.

16. Schools

- 16.1. The main financial issue for schools relates to the increasing number of in-year applications for school places, and this has both capital and revenue implications. The revenue implications arise where we have to provide additional funding to schools from money set aside from the Dedicated Schools Grant to compensate them for additional costs. We have maximised the number of new places on roll at October 2015 (when the pupil census takes place), but we do not receive DfE funding where new places are taken up later in the year.

Revenues & Benefits and Corporate Items

17. Housing Benefits (Client Payments)

- 17.1. Whilst the cost of Housing Benefits is almost entirely met by government grant, the expenditure can be volatile with a number of uncertainties and risks associated with this. Uncertainties include the level of grant clawback by the DWP as prior years' claims are audited, and the Council's success in recovering overpayments made (to the extent that these exceed the available budget). Most overpayments are made as a result of delays in the Council being informed of changes in circumstances.
- 17.2. The service is currently forecasting to remain within budget.

18. Council Tax

- 18.1. The collection fund is a statutory account which the Council is required to maintain to manage Council tax and Non-Domestic Rates (NDR). This account contains all the transactions of the Council in relation to its role as Billing Authority, including collection of Non-Domestic Rates and Council Tax, and the distribution of the income received to the Government, the Police Authority, the Fire Authority and the authority's own General Fund.
- 18.2. The Council, as part of budget setting, estimates the amount of any surplus or deficit for the year. The estimate for this year is £4.8m, of which our share is £4.0m. This will be offset against our budget requirement for next year. The surplus has arisen

due to growth in the number of properties and the reduction in certain council tax discounts.

19. Business Rates

- 19.1. Mid-year estimates show us to be within our budgeted (£50.5m) share of rates income. There still, however, remains the uncertainty over potential losses from appeals made by ratepayers against their rateable value. These are made to, and resolved by, the Valuation Office Agency (not the Council). The Council has set aside an overall amount of £9.6m against such losses but at this stage it is difficult to predict the final position at year end.

20. Corporate Items

- 20.1. The corporate budgets cover the Council's capital financing costs, items such as audit fees, bank charges and levies.
- 20.2. Given the difficult financial climate, recent budgets continue to include a general contingency of £3m to help the Council manage both anticipated and unforeseeable risks. It is anticipated that this sum will be fully required to support the position within Adult Social Care outlined above.
- 20.3. Since setting the budget, additional spending review savings have been approved, principally Corporate Resources, Technical Services and IT. In addition to ongoing savings, these reviews made savings in 2015/16 budgets amounting to 2.3m. These sums will be available to offset pressures in corporate budgets.

Earmarked Reserves

1. Forecast use of earmarked reserves in 2015/16 – commentary

- 1.1. A forecast for the use of earmarked reserves has taken place as at period 6. These forecasts are shown in the table below.
- 1.2. It is important to note that several of these reserves have restrictions on their use or are supporting existing commitments, and sums which could be used for different purposes are limited.
- 1.3. The forecast £44m of ring-fenced reserves in the table below represent amounts that are restricted for schools' use under statute and amounts which are governed by agreements signed between the Council and NHS partners.
- 1.4. The Corporate reserves (with a year-end forecast of £98m) are committed as follows:
 - 1.4.1. The Capital Reserve balance is committed to fund the approved capital programme. The final balance will depend upon year-end financing decisions, and whether expenditure is financed by the reserve or capital grant.
 - 1.4.2. The Building Schools for the Future reserve (BSF) is made up of the Financing element, which is held to fund the BSF programme and is contractually committed, and the Lifecycle Costs element, which represents amounts committed to schools to support the BSF programme.
 - 1.4.3. The Severance reserve exists to meet the redundancy and other severance costs arising as the Council adapts to the planned reductions in government funding over future financial years
 - 1.4.4. The Insurance Reserve supports the Council's self-insurance arrangements
- 1.5. The remaining forecast £16m are reserves held by departments for specific purposes approved by members at the time of their creation.

2. Forecast use of earmarked reserves in 2015/16 – figures

	Year end balance 31st March 2015 £'000	Net Change in 2015-16 £000s	Forecast balance 31st March 2016 £'000
<u>Ring-fenced Reserves</u>			
DSG not delegated to schools	19,803	-	19,803
Schools' Balances	18,518	(3,820)	14,698
NHS Joint Working Projects	5,802	(606)	5,196
School Capital Fund	3,632	(750)	2,882
Schools Buy Back	1,014	379	1,393
Total ring-fenced	48,769	(4,797)	43,972
<u>Corporate reserves</u>			
Budget Strategy - Managed Reserves	34,029	6,907	40,936
Building Schools for the Future	24,316	(5,000)	19,316
Capital Reserve	15,792	(5,792)	10,000
Severance	10,495	(1,000)	9,495
Insurance Fund	8,813	-	8,813
Service Transformation Fund	7,086	(4,314)	2,772
Welfare Reform Reserve	5,027	-	5,027
Energy Reduction Reserve	2,862	(1,200)	1,662
Total corporate	108,420	(10,399)	98,021
<u>Other</u>			
Childrens Services Funds	3,873	(3,424)	449
Financial Services divisional reserve	2,891	(1,120)	1,771
Adult Social Care Budget Pressures	2,000	(2,000)	-
Channel Shift Reserve	2,000	-	2,000
City Development & Neighbourhoods	1,855	(1,455)	400
Looked After Children Placements Reserve	1,525	(1,525)	-
IT Reserves	1,521	288	1,809
Strategic Initiatives	1,043	-	1,043
Surplus Property Disposal Reserve	1,000	-	1,000
Preventing Homelessness	899	(74)	825
Housing divisional reserve	790	-	790
Social Care Replacement IT System	747	(300)	447
Economic Action Plan	736	(19)	717
Outdoor Gyms Reserve	727	(5)	722
HR divisional reserve	689	(65)	624
Individual Electoral Registration	637	(18)	619
Improvements to Health & Wellbeing Reserve	610	(568)	42
Markets Reserve	500	(300)	200
Legal Services Divisional Reserve	480	(134)	346
Highways Maintenance	418	(50)	368
City Council Elections	400	(300)	100
Delivery Communications & Political Governance	338	(234)	104
Housing-related Support Reserve	331	-	331
Other - Miscellaneous reserves	2,872	(1,623)	1,249
Total other	28,882	(12,926)	15,956
TOTAL EARMARKED RESERVES	186,071	(28,122)	157,949