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# ***Revenue Budget Monitoring – Period 9, 2015/16***

Decision to be taken by: City Mayor

Executive meeting date: 3<sup>rd</sup> March 2016

Overview Select Committee date: 24<sup>th</sup> March 2016

Lead director: Alison Greenhill

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## Useful information

- Ward(s) affected: All
- Report author: Alistair Cullen
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### 1. Summary

This report is the third in the monitoring cycle for 2015/16, and 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 6, the key issues to date are:

- a) Service pressures in Adult Social Care. The position remains broadly as reported at Period 6 and the new system for monitoring appears to be operating successfully so far.
- 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 have been reviewed as part of the budget preparation for 2016/17.
- c) The Department of Health has confirmed cuts to the Public Health grant. Unusually, the cut takes effect straight away, as opposed to the more usual policy of coming into effect in the next financial year. The cut for 2015/16 was set at £1.6m, which was forecast in the Period 6 report.

The budget for 2016/17 has been approved by the Council and the medium-term outlook is extremely difficult. Managing spending pressures will be crucial to ensuring we can live within our means.

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 financial position detailed in the report
- Approve the reduction of the Health & Well-being budget by £1.0m in response to the Government's in-year reduction of the Public Health Grant, made up of reductions to the specific budget ceilings outlined in Appendix B, section 13
- Approve the transfer of £5m from the Children's Services Capital Policy Provision to support the 2015/16 revenue budget, as outlined in Appendix B, Para 14.8
- Approve the savings from the Transforming Neighbourhood Services spending review outlined in Appendix B, para 7.3 and consequently remove budget from the service amounting to £375k in 2016/17, rising to £455k in 2017/18 and the full impact of £586k in 2018/19 and thereafter
- Approve the reduction in the 2016/17 and future revenue budgets made possible by the achievement of savings on the re-tendered contract for provision of services for substance misuse, outlined in Appendix B, paras 13.6-13.7. This will total £1m in 2016/17 and future years, and completes delivery of the current Substance Misuse Spending Review

### **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.

## **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

| <b>Other implications</b>    | <b>Yes/No</b> | <b>Paragraph referred</b> |
|------------------------------|---------------|---------------------------|
| 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 25<sup>th</sup> February 2015 on the General Fund revenue budget 2015/16.

Period 6 Monitoring report and minutes of OSC Finance Task Group presented to OSC on 3<sup>rd</sup> December 2015.

### **6. Summary of appendices:**

Appendix A – P9 Budget Monitoring Summary;

Appendix B – Divisional Narrative – Explanation of Variances;

### **7. Is this a private report?**

No

**GENERAL FUND REVENUE BUDGET**  
**BUDGET MONITORING SUMMARY 2015/16 - PERIOD 9**

|   | Current Budget<br>for Year | Forecast Outturn<br>at Period 09 | Forecast<br>Variance over<br>(under) spend |
|---|----------------------------|----------------------------------|--|
|   | £000                       | £000                             | £000                                       |
| Local Services and Enforcement                  | 24,931.6                   | 24,931.7                         | 0.1  |
| Culture & Neighbourhood Services                | 16,036.7                   | 16,036.9                         | 0.2  |
| Planning, Transportation & Economic Development | 18,009.5                   | 18,009.5                         | 0.0  |
| City Centre                                     | 318.5                      | 318.4                            | (0.1)                                      |
| Property Services                               | 9,141.3                    | 9,141.2                          | (0.1)                                      |
| Departmental Overheads                          | 1,487.1                    | 1,487.0                          | (0.1)                                      |
| Housing Services                                | 4,906.2                    | 4,751.2                          | (155.0)                                    |
| <b>City Development and Neighbourhoods</b>      | <b>74,830.9</b>            | <b>74,675.9</b>                  | <b>(155.0)</b>                             |
| <b>Adult Social Care</b>                        | <b>88,229.3</b>            | <b>92,291.6</b>                  | <b>4,062.3</b>                             |
| <b>Health Improvement &amp; Wellbeing*</b>      | <b>17,807.0</b>            | <b>16,182.6</b>                  | <b>(1,624.4)</b>                           |
| Strategic Commissioning & Business Development  | 836.6                      | 836.6                            | 0.0  |
| Learning Quality & Performance Services         | 8,552.7                    | 8,552.7                          | 0.0  |
| Children, Young People & Families               | 48,908.4                   | 48,908.4                         | 0.0  |
| Departmental Resources                          | (4,344.4)                  | (4,344.4)                        | 0.0  |
| <b>Education &amp; Children's Services</b>      | <b>53,953.3</b>            | <b>53,953.3</b>                  | <b>0.0</b>                                 |
| Delivery Communications & Political Governance  | 6,160.3                    | 5,960.3                          | (200.0)                                    |
| Financial Services                              | 12,469.5                   | 12,346.7                         | (122.8)                                    |
| Human Resources                                 | 4,137.0                    | 4,137.0                          | 0.0  |
| Information Services                            | 10,526.3                   | 10,137.3                         | (389.0)                                    |
| Legal Coronial & Registrars                     | 2,169.1                    | 1,913.3                          | (255.8)                                    |
| <b>Corporate Resources and Support</b>          | <b>35,462.2</b>            | <b>34,494.6</b>                  | <b>(967.6)</b>                             |
| <b>Housing Benefits (Client Payments)</b>       | <b>527.6</b>               | <b>531.0</b>                     | <b>3.4</b>                                 |
| <b>Total Operational</b>                        | <b>270,810.3</b>           | <b>272,129.0</b>                 | <b>1,318.7</b>                             |
| Corporate Budgets                               | 9,235.0                    | 6,576.4                          | (2,658.6)                                  |
| Capital Financing                               | 14,055.2                   | 13,563.6                         | (491.6)                                    |
| <b>Total Corporate &amp; Capital Financing</b>  | <b>23,290.2</b>            | <b>20,140.0</b>                  | <b>(3,150.2)</b>                           |
| Public Health Grant                             | (26,200.0)                 | (24,575.6)                       | 1,624.4                                    |
| Contribution Reserves                           | 6,906.8                    | 6,906.8                          | 0.0  |
| <b>TOTAL GENERAL FUND</b>                       | <b>274,807.3</b>           | <b>274,600.2</b>                 | <b>(207.1)</b>                             |

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**Outturn Divisional Narrative – Explanation of Variances**

**Corporate Resources and Support**

**1. Finance**

- 1.1. The Financial Services Division is forecasting an underspend of £123k, due to vacancies in the Accounting Teams ahead of the organisational review. It is anticipated that a request will be made at outturn to transfer the underspend into 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 £389k, due to vacancies over and above achieving savings of £600k required by the IT Services review (total savings of £2.4m are required from this review in due course). It is anticipated that a request will be made at outturn to transfer the underspend into earmarked reserves to meet the cost of future infrastructure renewal, and this was noted in the report proposing the 2016/17 Capital Programme.

**4. Delivery Communications & Political Governance**

- 4.1. The Delivery, Communications and Political Governance Division is forecasting an underspend of £200k due to early delivery of savings required for 2016/17. It is anticipated that a request will be made at outturn to use the underspend to increase the Election Fund reserve.

**5. Legal, Registration & Coronial Services**

- 5.1. The Legal, Coronial & Registrars Division is forecasting an underspend of £256k.
- 5.2. Legal Services is forecasting an underspend of £256k. £140k relates to managed vacancies, £97k 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. It is anticipated that a request will be made at outturn to add the underspend to departmental reserves to cover future transformation costs.

- 5.3. Coronial & Registrars are facing pressures amounting to £214k due to an increased workload, primarily from Deprivation of Liberty Safeguarding (DoLS) orders. This pressure is outside the control of the department, but corporate funding is available for these costs.

### **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 £16m.
- 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. A number of initiatives are being taken to sustain and increase income.
- 7.3. As part of the Council's Transforming Neighbourhood Services spending review process, the division has identified savings from the integration and co-location of library and other neighbourhood services. The savings come from staffing costs and it is anticipated that the changes will deliver savings whilst retaining focus on service outcomes. Consequently, a sum of £375k can be removed from the division's budget in 2016/17, rising to £455k in 2017/18 and £586k in 2017/18. The full savings take time to come into effect because of the pay protection given to employees who accept lower-graded roles as a result of organisational reviews.

#### **8. Local Services and Enforcement**

- 8.1. The Division is forecasting a balanced outturn on a net budget of £24.9m. 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.
- 8.2. The Bereavement Services' income budget of £3.2m is coming 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.

## **9. Property Services**

- 9.1. The Division is forecasting a balanced outturn on a net budget of £9.2m.

## **10. Housing Services**

- 10.1. The forecast for the Housing General Fund is an underspend of £155k.
- 10.2. Housing benefit income is £50k more than the budget as current occupancy rates are higher than the 85% assumed in the budget. Vacancy management of hostel and supported housing staff has result in an in year saving of £130k; the majority of these vacancies have now been filled.

## **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. At period 9, the forecast for the HRA is an underspend of £1.3m (including revenue used for capital spending, which is described in the capital monitoring report), compared to an underspend of £0.35m reported at period 6. The key reasons for the increased underspend are:
- 11.2.1. Vacancies arising since the beginning the year have not been filled, and the number of vacancies continues to increase due to staff turnover. Over 500 staff, mainly craft, are currently under review and some of this salary underspend will become a permanent saving. The falling number of repairs, and the impact of other changes in the service offer to tenants, have become more apparent as the year has progressed. The 10-year boiler warranties are also contributing to savings.
  - 11.2.2. The more recent falls in the cost of fuel and a reduction of 8 vehicles in the housing fleet arising from on-going work to drive efficiencies in fleet management.
  - 11.2.3. Capacity has been made available to use in-house staff to carry out capital works in place of external contractors, thus making savings.
  - 11.2.4. Lack of contractor capacity to deliver the planned one-off increase in the on-going painting programme. An additional contractor is being procured and work is expected to be completed by the summer.

## **Adult Social Care**

### **12. Adult Social Care**

- 12.1. 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.
- 12.2. 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.
- 12.3. 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.
- 12.4. 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.
- 12.5. 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 and, based on current forecasts, this contingency will be entirely allocated to support Adult Social Care. The impact in future years has been addressed through the 2016/17 budget which has recently been approved.
- 12.6. 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 is allowing us to monitor growth in service users and changes to packages, both planned and unplanned. As a result we are able to evaluate the progress of our savings initiatives and our assumptions on growth from increased need and rising population.
- 12.7. 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.

- 12.8. 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. The potential impact of increased care provider charges has been addressed in the 2016/17 budget.

## **Health Improvement & Wellbeing**

### **13. Health Improvement and Wellbeing**

- 13.1. The Department of Health announced in June that there would be an in year reduction in the Public Health Grant. This was confirmed in November. The services provided by this division are almost entirely funded by Public Health Grant, and therefore bear the brunt of reductions.
- 13.2. The Department of Health has announced that it will impose a reduction of £1.6m (6.2%) in our grant of £26.2m. 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 break-even for the year across a range of contracts.
- 13.3. These savings can be made through a combination of holding back funds that have not yet been formally committed to projects and reductions in capacity in other services where this can be achieved through focusing only on higher-risk or higher-needs cases. Some savings from the general operation of contracts have also been identified.
- 13.4. The City Mayor is asked to reduce the budget ceilings for 2015/16 to reflect this cut, the impact of which is as follows:

| <b>Budget Line</b>  | <b>Previous ceiling</b> | <b>Reduction</b>  | <b>Resultant ceiling</b> |
|---------------------|-------------------------|-------------------|--------------------------|
| NHS Health Checks   | £960,000                | £420,000          | £540,000                 |
| Children (0 – 19)   | £5,980,500              | £85,000           | £5,895,500               |
| Smoking & Tobacco   | £1,197,000              | £75,000           | £1,122,000               |
| Physical Activity   | £1,338,200              | £21,600           | £1,316,600               |
| Other Public Health | £3,497,700              | £412,500          | £3,085,200               |
| <b>TOTAL</b>        | <b>£12,973,400</b>      | <b>£1,014,100</b> | <b>£11,959,300</b>       |

- 13.5. Savings to NHS Health Checks have been achieved through delaying the introduction of new NICE guidance. It is currently proposed that this would be re-introduced in future years through savings in other services. Savings to Children's 0-19 services result from lower management costs following the transfer of responsibility from the NHS to local government for some of these services in 2015. Savings to smoking and tobacco have been achieved as a result of a decrease in people using quit smoking services, partly due to the rise in popularity of e-cigarettes. Other savings within the

division have been achieved by an in-year vacancy freeze, reductions in spend on research and intelligence and delaying planned investment in a number of smaller programmes including a Healthy Nurseries scheme.

- 13.6. The Substance Misuse Spending Review has completed following the successful re-procurement of the service. By developing and procuring the service model in partnership with other bodies (including Leicestershire County Council and the Office of the Police & Crime Commissioner), significant savings have been achieved.
- 13.7. The new contract will save £1.3m in 2016/17, rising to £1.4m per annum in 2017/18 and thereafter. It is proposed to reallocate £0.3m of this saving (rising to £0.4m in 2017/18 and future years) within the Health Improvement & Wellbeing service to somewhat mitigate the impact of the cuts in grant funding outlined above. It is proposed to use the remaining £1m to deliver the Substance Misuse Spending Review, and the recommendations in this report include budget reductions to reflect this.

### **Education and Children's Services**

#### ***14. Education & Children's Services***

- 14.1. 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.
- 14.2. There are currently 629 LAC compared with 545 at the beginning of the financial year. A significant number of the children requiring placements were at risk of sexual exploitation and some have very complex behaviours including self-harm.
- 14.3. As a result there has been an increase in the number of very expensive external residential placements which now stands at 35, 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. We have 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.
- 14.4. 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.

- 14.5. Based on current LAC numbers and with an allowance for further growth in the 3 months to March, the overall placement budget is forecast to be overspent by £3.7m and the impact of this has been included in the budget for 2016/7.
- 14.6. 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 will use our existing ASYE (Assessed and Supported Year in Employment) framework in order to develop our own fully experienced social work staff.
- 14.7. 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.
- 14.8. To address the ongoing budget pressures of high LAC numbers and social worker workforce plan in 2016/17, the department will need to use its remaining reserves as outlined in the 2016/17 budget report. To facilitate this it is proposed that the Executive grant approval to transfer £5m of unspent education capital monies in 2015/16 to the revenue budget. This will reduce the amount of departmental reserves required to balance the budget pressures the department is experiencing in 2015/16, thus enabling these reserves to support the budget more effectively across both years.

## **15. Schools**

- 15.1. The main financial issue for schools relates to the ongoing number of new arrivals into the city who require school places, and this has both capital and revenue implications.
- 15.2. 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. Where new arrivals are not in place in schools at the October 2015 pupil census then we do not receive funding from the DfE until April 2017. In the 2014/15 academic year there were 2,546 in-year applications for places. The equivalent figures in 2013/14 and 2013/13 were 1,900 and 1,364 respectively.
- 15.3. There have been 1,500 new arrivals to date in the 2015/16 academic year which is comparable with the same period in 2014/15. The 2016/17 Schools Budget has sufficient contingencies to deal with this issue.

## **Revenues & Benefits and Corporate Items**

### ***16. Housing Benefits (Client Payments)***

- 16.1. 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).
- 16.2. On account of previous years' audits, the Council is caught in a vicious circle of being required to carry out ever more testing which in turn leads to further qualifications. Despite representations made to Government about the iniquity of this, it appears that the issue will not be resolved until the implementation of Universal Credit.
- 16.3. Audit work for the years up to and including 2013/14 has now completed. This has resulted in a savings of £0.9m when compared to the amount previously set aside for clawback. This amount will be retained to help offset the impact of any clawback arising from the 2015/16 audit.
- 16.4. Overpayments also represent a challenge. Most overpayments arise from claimant error (for example, a delay in informing the Council of a change in circumstances). Grant is only payable to the Council to match up to 40% of the value of such overpayments – this means that the Council needs to recoup up to 60% of the value of overpayments directly from the claimants to avoid being out of pocket.
- 16.5. In the run up to the introduction of Universal Credit, the Department for Work & Pensions (DWP) is carrying out exercises to review HB data and compare it with other records that they hold (records to which the Council has not previously had access).
- 16.6. This is inevitably leading to significant growth in identified overpayments and extra resources have been approved within the Revenues & Benefits service to pursue repayments. Nevertheless, it is anticipated that a significant extra provision for bad debt will be required when the 2015/16 accounts are prepared. This will exceed the £0.5m budget for Housing Benefit, although the extent is not yet known.
- 16.7. This issue is also understood by DWP, and is affecting a number of authorities. We are making our concerns known, particularly given that some overpayments identified are historic with little chance of recouping them at this date. We are also speaking to the LGA.

### ***17. Corporate Items***

- 17.1. The corporate budgets cover the Council's capital financing costs, items such as audit fees, bank charges and levies.
- 17.2. 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.
- 17.3. 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 such as the Housing Benefit overpayments described above.