Appendix 2 – Quarter 2 Finance Report

Introduction

Revenue Forecast

1. The latest revenue forecast outturn (as provided in appendix 4) shows a forecast overspend of £4.268m (0.9%), compared to the forecast overspend of £0.651m (0.1%) at quarter 1.

2. The following paragraphs consider the key financial issues in each of the council's portfolios.

3. **Health and Care** **Forecast – Breakeven**

4. The forecast outturn for the Health and Care Directorate is an overspend of £0.478m, however this will be offset through a funding contribution of £0.478m from the Exit and Transition Fund resulting in a breakeven position.

5. There are a range of high risk MTFS savings within this position and the directorate is using one off funding streams as well as committing to seek alternative savings options where necessary.

6. Public Health and Prevention Forecast – Breakeven

7. Following recent announcements on the spending review the Public Health ring-fenced grant is expected to be increased next year but funding uncertainty remains for the following years.

8. The current breakeven position includes an assumption that the service will deliver a £0.250m saving through vacancy management and restructuring.

9. *Adults Social Care and Safeguarding* *Forecast saving £0.320m (0.8%)*

10. Overall, the service is forecast to save £0.320m before the use of £0.173m from the Exit and Transition Fund. The main reasons for the forecast saving are detailed below.

11. The restructure of the Adults Learning Disability Team (ALDT) is progressing towards achieving MTFS savings with the new structure due to be implemented in November. The service is continuing to hold vacant posts towards the

restructure and delivering a wider service vacancy factor in Disability In-house services. The forecast saving on staffing of £0.175m.

12. A review of the Mental Health North team that transferred back to the council last year has been completed. There is a small forecast saving £78,000 associated with that review.

13. There is a forecast saving of £0.235m due to staff turnover and holding vacant posts within Care Systems, Adult Safeguarding and Appointeeships.

14. The number of Deprivation of Liberty Safeguards assessments has risen resulting in a forecast overspend of £54,000. Performance at the end of quarter 1 showed the number of assessments was 1,036, an increase of 26% compared to last year whilst the number of High Priority assessments received during the first quarter was 386, an increase of 63% compared to last year.

15. Other variances amount to a saving of £59,000.

16. There remains an outstanding element of £0.1m of a prior year MTFS saving (£0.296m for Welfare Benefits team transfer). Steps are being taken to identify how the remaining £0.1m will be delivered following the introduction of the financial assessment's pathway and the wider ACFS transformation project.

17. *Care Commissioning* *Forecast overspend £0.798m (0.5%)*

18. The service is forecast to overspend by £0.798m, however this will be partially offset through a funding contribution of £0.305m from the Exit and Transition Fund. The main reasons for the forecast overspend are detailed below.

19. At quarter 1 it was assumed that demand for Older People residential and nursing care was flat. However, there now appears to be growth in demand as well as the rate of fee increases. This is being explored to establish the extent to which it is real and whether it is due to an increase in admissions or a decrease in discharges. The forecast additional cost to the Council is now £14.812m in 2019/20. This forecast overspend is partially reduced through a £1m transfer of budget from Physical Disability placements, thereby leaving a gross pressure of £13.812m (previously reported at quarter 1 as £9.7m). This position is net down by forecast additional client income of £3.489m resulting in a net overspend of £10.323m. The overspend has then been partially

mitigated by one-off revenue carry-forward of £2.1m and other one-off funding streams of £5.5m, taking the overall forecast to a net overspend of £2.723m compared to breakeven at quarter 1. However, given the unpredictability of these price rises this continues to be an area of high risk for the Council.

20. Work is continuing to mitigate the recurrent cost pressure including: robust application of the council's Cost Effective Care and Support guidance; support for struggling care homes to avoid loss of capacity from the market; block booking beds at a lower cost per bed; and development of additional Council owned capacity. However, managing the price rises and developing cost effective alternative to the market quickly remains extremely difficult.

21. During quarter 2 there has been an increase in the numbers of Physical Disability home care packages. In addition to this, the average number of hours being provided is also increasing. This has resulted in a forecast overspend of £0.933m on the Physical Disability Domiciliary Care budget. This has been offset in the main by additional one-off funding streams of £0.750m, by £0.167m of additional income from clients and health partners and by £0.129m other savings within the Physical Disabilities budget. Thereby resulting in a net forecast saving of £0.113m on the Physical Disabilities Care budget.

22. CCGs have now confirmed the 2019/20 BCF £20m cash transfer to SCC. The BCF plan is due to be submitted to NHS England on 27th September.

23. The Mental Health budget is now forecast to overspend by £0.412m. This is largely due to growth in the numbers being placed in Supported Living accommodation in the last six months. The NHS income forecast has also been reduced to reflect the initial outcome of work with Staffordshire CCGs to review jointly funded care packages. The forecast assumes that MTFS savings will be delivered in full and that demographic budget pressures will be contained within the budget allocation.

24. Learning Disability Placement budget is forecast to save £1.532m. This saving is partly due to reductions in the number of people with Learning Disabilities being cared for in Nursing Homes as well as savings on our Supported Living contracts following a negotiation with our NHS partners. In addition, we have a saving following the ending of a long-standing agreement with Stoke CCG for Learning Disability housing related expenditure. We are also experiencing the

full benefit of increases in NHS income negotiated in the second half of last year. There remains a risk that demographic growth and potential price increases, particularly in the Supported Living market, will reduce the saving as we move through the year and these will continue to be closely monitored.

25. There are some forecast contract savings for Advocacy and Advice and Information which total £0.609m.

26. The council continues to work with the local Clinical Commissioning Groups (CCGs) to support the discharge of people from specialist hospitals to community-based settings under the Transforming Care Partnership (TCP). Because the National Health Service England (NHSE) reduced the amount of funding that will accompany each individual, there is now a substantial cost pressure for the Staffordshire Health and Care economy. Current indications show the potential pressure for the County Council is £1.4m. This pressure is partially mitigated by the ending of an agreement whereby the council transferred £1.250m per annum for Learning Disability clients. We will continue to seek further options to mitigate cost pressures from future discharges however this remains a risk in the future.

27. Prisoners related care activities are forecast to save £0.205m due to staffing savings and lower care costs.

28. Other variances amount to an underspend of £87,000.

29. **Families and Communities** **Forecast overspend £5.113m (3.6%)**

30. The forecast overspend has increased by £5.009m since quarter 1. The reasons for this are outlined below.

31. *Children's Services* *Forecast overspend £5.987m (4.9%)*

32. The forecast overspend is £5.987m. This is an increase of £4.132m since quarter 1.

33. The forecast overspend is mainly due to higher expenditure on Looked After Children (LAC) in independent sector placements and also children with Special Guardianship Orders (SGO). The forecast overspend on these areas is £10.916m, based on a standstill position. The service is intending to put in

actions to avoid further growth and manage price. The total number of LAC at the 23rd August is now 1,248, including Unaccompanied Asylum-Seeking Children, which is a net increase of 24 children over the past 10 weeks. At this date the number of children in residential placements, including those with disabilities is 140, with those in foster placements totalling 863. The total LAC figure is 143 higher than the same period last year.

34. Restructuring of business units is underway including recruitment of social workers in a permanent capacity, which should help address the current high level of vacancies across the service. This has also resulted in an overspend on staffing budgets within Early Help and Safeguarding of £0.281m primarily through use of agency staff. Delays in implementing restructures are forecast at £0.5m, however this has been met from the Exit and Transition Fund.

35. Partnership and development MTFS savings partially undelivered in 2019/20 by £0.482m are at risk due to delays in the restructuring process. This overspend will be met from the Exit and Transition Fund.

36. Other general forecast savings and overspends result in a net forecast saving of £0.141m.

37. The £6.051m un-ringfenced grant for Adults' and Children's social care has been allocated in its entirety to Children's Services to reduce the forecast overspend down from £12.038m to £5.987m.

38. Education Services *Forecast breakeven*

39. Services within Education Services are all forecasting to break even at this stage except for the Pensions budget which is currently forecasting a £0.1m saving.

40. For schools licenced deficits for continue to be a risk for 2019/20. Any school which has a deficit on sponsored conversion will create a liability for the County Council. These costs are currently met from the DSG reserve which is forecast to be in deficit from 2020/21.

41. The reported position for SEND transport remains breakeven, however there is a risk of an overspend of £0.4m, which will continue to be monitored.

42. MTFS savings of £0.5m relating to the SEND assessment team are high risk pending wider SEND transformation activities. Autism services and support MTFS savings £0.338m will not be achieved and instead these services will continue to be met from the High Needs Block DSG.

43. The breakeven position assumes that risks are managed within Education Services.

44. High Needs is currently forecast to overspend by £2.540m. This does not include spending on transformational activities, including the district model roll out for a graduated response as these are still being assessed. The underlying forecast overspend of £6.4m for SEND is reduced by additional funding in 2019/20 of £1.8m from central government and a 0.5% funding switch from schools of £2.4m approved by the Secretary of State. Further work is underway to identify other options to reduce costs and manage demand. The overspend is currently met from the DSG reserve which is forecast to be in deficit from 2020/21, thereby resulting in a future liability for the Council.

45. Culture & Communities — Forecast overspend £0.115m (2.1%)

46. The forecast overspend has decreased by £0.160m since quarter 1.

47. There is a £0.115m forecast overspend due to delays in delivering MTFS savings within Archives of £0.246m. It is hoped that the bid for Staffordshire History Centre Lottery funding will be successful and that these savings will be delivered in future years.

48. This is a £0.160m improvement from the quarter 1 forecast overspend of £0.275m. This reduction is due to vacant posts continuing to be held across Libraries, Archives and Heritage and various minor miscellaneous forecasted savings across each area of the service.

49. The overspend of £0.115m is expected to be met from the Exit and Transition Fund.

50. Rural County — Forecast overspend £21,000 (1.0%)

51. The quarter 2 position for the services is a small overspend due to delays in delivering MTFS savings of £0.194m This is currently expected to be met from the Exit and Transition Fund.

52. Community Safety *Forecast – Breakeven*

53. Delays in implementing restructures to deliver MTFS savings in Trading Standards have resulted in a forecast overspend of £0.187m, however, this will be met from the Exit and Transition Fund.

54. There is a forecast overspend on the Coroners Service of £92,000 due to contractual obligations, however this is offset by various savings across Community Safety.

55. Economy, Infrastructure and Skills **Forecast saving £1.974m (2.8%)**

56. Infrastructure and Highways *Forecast overspend £0.246m (1.0%)*

57. There is a forecast overspend on Developments and Improvements of £0.5m due to the additional buy in of resources to meet demand, which is currently being partially offset by one off vacancies and additional income within the wider service. Work is on-going to try and mitigate and reduce this overspend. There is also a potential risk of up to £0.4m within the I+ revenue indirect costs and work is on-going to refine the forecast and to understand and examine how any overspend might be managed, which currently is reported at breakeven.

58. There is a forecast overspend of £0.850m due to the non-delivery of an MTFS saving in respect of urban grass cutting, weed control and parking enforcement, however these have been mitigated through use of unallocated budgets on schools crossing patrols of £0.195m, street lighting investment and additional savings of £0.231m, reduced maintenance activity of £0.4m, and additional income on network management, in accordance with the pound in pound out principle.

59. Transport, Connectivity and Waste *Forecast saving £2.038m (5.2%)*

60. The forecast saving has increased by £0.5m from quarter 1. Based on high level forecasts of costs, tonnages and income it is forecast that there will be a £1.5m saving on waste management and £0.4m on concessionary fares in year. This represents an early delivery of future MTFS commitments and robust contract management of the existing waste contracts. It is important to note that the waste management spend is demand led and variations should be expected in year.

61. Corporate Services **Forecast saving £86,000 (0.3%)**

62. The forecast saving position, a minor reduction from quarter 1, is predominately due to both the timing of a number of Corporate Services restructures and a delay in implementation of a service restructure for Human Resources, with the cost of these delays being met from the Exit and Transition Fund of £0.930m. In addition, the Annual Leave Purchase Scheme saving of £0.184m is also not expected to be delivered in year, although this position may change when the details of the recent launch of the scheme are known. The forecast includes an investment of £0.155m in Legal Services for additional legal support for Children's Services.

63. County Farms Investment Programme

64. As part of the MTFS, the disposal of approximately 20% of the farm's estate was agreed in order to generate capital receipts estimated at £20m+, to support the overall SCC budget through a transitional period.

65. It was also agreed that an investment programme be put in place to modernise the estate and generate additional revenue to mitigate the impact of lost annual rental income, estimated at £0.250m p.a., as a result of the disposals. The investment programme will, through a number of activities and initiative's: -

   a. Invest in the residual Farms Estate to maximise profitability and economic outcomes

   b. Explore opportunities for 'Agri-tech' on our core farms Estate

   c. Consider acquiring future potential core farms to create a generational rolling programme

66. It is proposed that a business plan for each individual investment will be prepared, with approval of schemes up to £50,000 being undertaken under delegated powers by the Director of Economy, Infrastructure and Skills (up to a cumulative investment of £0.5m), and those over £50,000 being considered and agreed by the Commercial Investment Panel (again, up to a cumulative

investments of £0.5m). Overall governance of the programme will be through the existing Cabinet arrangements.

67. A set of agreed criteria will be set out to justify any investment, including that the investment is suitable and appropriate for the asset, produces an appropriate annual return and enhances the value of the asset, is set within the context of any future likely disposal, and produces climate change benefits.

68. Farms Service Investments

69. Examples of investments could be more concentration of activity on fewer farms, together with diversification, which could generate direct benefits, and greater supply chain activities and employment opportunities. Each investment opportunity will be developed in partnership with the farmer, or by the farms team if the farm is vacant, and are likely to include:-

a. Modernised agricultural buildings (including liability removal (asbestos) and replacement)

b. Agricultural facilities enhancing productivity (e.g. larger milk tanks, storage lagoons), helping to support increased localised food production and reduce food miles with resultant fossil fuel and carbon emission benefits

c. Other agricultural fixed equipment (e.g. drainage) enabling greater use of land

d. Service enhancement (including upgrading electrical supplies, more efficient systems and digital connectivity) and the application of agricultural technologies (Agri-tech)

e. Residential improvements (e.g. central heating)

f. Renewable energy (e.g. solar power, electricity storage) to support SCC climate change agenda

g. Non-agricultural rural enterprise facilities to generate our own power

70. *Commercial Investment Opportunities*

71. The programme will also consider how the County Farms estate can contribute to the climate change agenda using knowledge and experience from elsewhere in the UK. With the developing agenda on reducing carbon emissions it is appropriate that consideration is given to see how the farm estate can contribute to the aim of the UK becoming carbon neural by 2050. It is proposed that business cases be developed to deliver climate change propositions including to consider whether an ‘at scale’ Staffordshire low carbon energy project is economically viable. It is suggested that the expertise available via the Midlands Energy Hub is used to develop an initial OBC. Delivering a reduction in carbon emissions is challenging, but our farms, through land, present the opportunity for example, of energy solutions (solar plus battery storage) to provide the entire County Council property portfolio with sustainable energy.

72. Where possible the investments will also consider the application of agricultural technology (Agri-tech) in the planning, design and subsequent implementation of any investment. Agricultural technology is recognised as a priority sector in the Strategic Economic Plan (SEP) of the Stoke-on-Trent and Staffordshire Local Enterprise Partnership (SSLEP) and local commitment has been demonstrated through recent investment in facilities such as the AgriSTEM academy at the Rodbaston campus of South Staffordshire College. There are also significant opportunities to embrace the knowledge and innovation potential of other nearby education assets such as Rease Heath College and Harper Adams University.

73. It is also proposed as part of this investment programme, to undertake a Rural Enterprise Feasibility Study at an estimated cost of £0.050m. Rural areas add significant value to the UK economy. Staffordshire County is a predominantly rural area and the County Council may wish to consider the opportunity of further supporting directly the growth of rural businesses through a Rural Enterprise Centre or other type of support. It is also widely recognised that rural businesses struggle with facilities and opportunities to become established and to grow. The objective of the proposed feasibility study is to consider how Staffordshire can play an enhanced role in not only promoting rural enterprise, but also the needs of rural communities.

74. Centrally Controlled

75. There is a forecast overspend of £1.214m for centrally controlled budgets, this is due to the delay in the rental of Staffordshire Place 2 and reduction in savings identified for property rationalisation.

76. Capital Forecast

77. Appendix 5 compares the latest capital forecast outturn of £126.1m, a decrease from the quarter 1 position of £148.7m. The key reasons for this decrease of £22.6m are set out in the following paragraphs.

78. Health and Care Forecast spend £2.369m

79. The increase in forecast spend of £0.851m is due to the introduction of Hillfield House refurbishment project of £0.839m, and a slight increase in the Changing Places budget of £12,000.

80. Families and Communities Forecast spend £26.393m

81. Maintained Schools Forecast Spend £24.826m

82. There has been a reduction in forecast spend of £17.184m. This large shift is due to £15m of Basic Needs unallocated funding being rephased into the next three years (2020-2023). Needs some explanation as to why we have needed to do this. There is also £1.6m of Basic Needs funding reallocated into future years specifically for King Edwards VI Lichfield.

83. There has also been rephasing of £3.2m of developer contributions for Netherstow High school into 2020/21 and the introduction of a number of smaller schemes funded by developer contributions.

84. Economy, Infrastructure and Skills Forecast spend £86.995m

85. Economic Planning & Future Prosperity Forecast spend £12.789m

86. There has been a reduction to the forecast spend from quarter 1 of £9.8m which is due to the re-profiling of spend on the i54 western extension to future years. There have also been minor variations across other projects.

87. Highways Schemes — Forecast spend £74.081m

88. The increase of £3.283m in forecast spend since quarter 1 is largely due to external third-party funding (Developer Contributions), now included in the programme for schemes such as Mill Lane, Cannock, which has been partially offset by re-profiling some SWAR spend into 2020/21.

89. Finance and Resources & ICT — Forecast spend £1.874m

90. There has been an increase in forecast spend of £0.335m, this is due to the introduction of the new Data Centre Infrastructure refresh project of £0.514m, which is offset by the refresh of costings across other existing projects.

91. Property — Forecast spend £6.693m

92. There has been a reduction in forecast spend of £0.717m due to rephasing of the rationalisation programme into 2020/21 following the decision to re-scope the delivery within Tamworth.

93. County Fleet Care — Forecast spend £1.700m

94. There has been an increase in the forecast spend of £0.165m due to additional van acquisition for Highways.

95. Financial Health

96. Appendix 6 provides a forecast outturn performance against the key Financial Health Indicators approved as part of the 2019/20 budget setting process.

97. There have been 99.99% of invoices paid within 30 days of receiving them at the end of quarter 2, exceeding the financial health indicator target.

98. The estimated level of outstanding sundry debt over 6 months old is £17.190m, this is over the target of £14.7m by £2.490m. This is also an increase of £4.150m since the quarter 1 report. The debt recovery process involves chasing by a range of methods with the eventual escalation to the external collection agent or to Legal for the possibility of a court decision to recover the debt.

Debtor Type	30/06/2019 £m	30/09/2019 £m	Inc. / (Dec) £m
Health Bodies & CCGs	2.937	6.097	3.160
Other Govt. and Public Bodies	1.566	1.390	(0.176)
Other General Debtors (Individuals & Commercial)	4.009	3.327	(0.682)
Health & Care Client Debt	4.528	6.376	1.848
TOTAL	13.040	17.190	4.150

99. There has been an increase in sundry debts with Clinical Commissioning Groups (CCG's) and specific work is underway with them to resolve this position, the results of which will be reported in the next performance report to Cabinet.

100. The Health & Care Client Debt has seen a large increase that is attributable to an ongoing review of property debt. Debts previously classified as "Sale of Property" are deemed not yet collectible. A review of these debts is ongoing to ensure that current arrangements are still appropriate. In the meantime, this has been included for the first time in the client debt category pending the results of the review. As and when it is confirmed that debts are properly secured, they will be re-classified as "Sale of Property" and excluded from the Financial Health Indicator figure.