Appendix 2 – Quarter 2 Finance Report

Introduction

Revenue Forecast

1. The latest revenue forecast outturn (as provided in appendix 4) shows a forecast saving of £1.992m (0.4%). This is compared to the previous forecast of a saving of £8.119m (1.5%) at quarter 1.

2. Since 2020/21, Covid 19 has been a global pandemic requiring a combined response from public sector services, which is also having a severe impact on the economy. In 2021/22 Central Government has issued general grant to local authorities, totalling £16.2m, in order to support the additional pressures of continuing to provide vital services during the pandemic while protecting both workforce and local residents.

3. The table below sets out the current forecast of additional costs relating to the pandemic, plus lost income and delayed savings caused by the crisis.

	£m
Additional Costs	4.237
Lost income	1.936
Delayed savings	9.046
Grant funding	(16.204)
Remaining Grant / (Shortfall)	0.985

All grants received by Staffordshire County Council in 2021/22 for Covid 19 related activities are listed below. The General Covid Grant can fund activity in all service areas, the remaining grants are specific and go directly to services. All grants allocated for Covid-related activities will be utilised in full, over the medium term, in order to fund the additional expenditure caused by the pandemic.

	£m
General Covid Grant Funding	16.204
Adult Social Care Lateral Flow Testing	3.713
Adult Social Care Infection Control	5.346
Clinically Extremely Vulnerable	1.477
Local Support Grant	0.523
Practical Support Framework	0.681

Covid Winter Grant	0.678
Contain Outbreak Management	4.182
Total	**32.804**

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

5. **Health and Care** **Covid impact - £4.367m**
Normal service forecast – £1.012m saving

6. Adults Social Care & Safeguarding *Covid impact - £0.240m*
Normal service forecast – £0.102m saving

7. Overall, the service is forecast to save £0.102m. Covid related costs are forecast to be £0.240m.

8. There are currently a number of vacancies in the Adult Learning Disability Team (ALDT) which have proven difficult to fill. This has led to a forecast saving of £0.521m. A review of the ratio of qualified to unqualified staff is planned which could lead to higher costs in the future. Agency staff may also be required to maintain service delivery during the year.

9. Section 75 agreements for both Mental Health North and South are now in place and it is forecast that the costs will be in line with the budget. It is also forecast that the £0.154m MTFS saving for Mental Health North will be delivered in full.

10. There is a forecast saving of £0.560m in the Learning Disability In-house Residential services due to staff vacancies in the first half of the year. There is also a forecast saving of £0.125m for the Specialised Day Opportunity Service due to some transport savings and some additional cross boundary income. Reviews of these services are taking place which may lead to changes to the way they operate and will have a financial impact in the future.

11. Cabinet have previously agreed capital investment in Douglas Road and Hawthorn House sites, with the financial analysis demonstrating a positive benefit for the council. Unfortunately, building costs are increasing as a result of a global shortage of materials due to the Coronavirus pandemic. It is therefore

proposed to allocate £2m to the capital cost of these schemes. This will also minimise future borrowing costs for the council.

12. There is a forecast overspend of £1.130m for care systems. This is because the service has repaid in full all future years' borrowing repayments for the care system, which will save £0.539m in future years.

13. There are other small variances totalling a forecast saving of £26,000.

14. Care Commissioning — *Covid impact - £4.127m*
Normal service forecast – £0.910m saving

15. Overall the service has a forecast saving of £0.910m, and Covid related costs are forecast to be £4.127m. There is an assumption that any additional costs related to the pandemic will be met from the Covid-19 funding allocations received by the Council.

16. The Older Peoples placement budget is now forecast to save £14.951m compared to the £5m reported at quarter 1.

17. The number of people in residential and nursing placement is significantly lower than had been budgeted for in the MTFS as a direct result of the Coronavirus pandemic. This is despite increases during the first quarter as the final reviews have been completed for those clients discharged from hospital under pathway 3. However, the overall number of service packages resulting from pathway 3 haven't materialised, thereby compounding the reduction in overall placement numbers. This has resulted in a total of 290 fewer placements than in the budget as at the end of July 2021 and a forecast saving of £11.042m. The Older Peoples placement budget includes £7m additional budget that was provided in the MTFS to mitigate risks in the care market. Given current numbers and future forecasts on the number of starters and levers, it appears as though this will not be required in 2021/22.

18. The reduced number of placements has resulted in a forecast £2.829m income shortfall from residential and nursing client contributions compared to the budget. This means that it is most unlikely that the service will achieve the additional growth in income that we had budgeted in year.

19. There is a forecast saving of £0.923m on Older Peoples Home Care budget. Analysis of the dynamic home care data shows that the number of hours provided has remained relatively stable recently, however there is a forecast of increased demand, so it is possible that this saving may reduce as we move through the financial year.

20. There is a forecast saving of £0.186m on the Older Peoples Direct Payments budget, which was adjusted to reflect the ongoing reduction of people in receipt of a direct payment since April 2019.

21. The Older People's Day Care budget is forecast to save £0.413m because of lower activity due to the pandemic.

22. The Older People's In-House Residential budget is forecast to save £0.216m, but future demand is still uncertain so this position may change later in the year.

23. There is a forecast saving of £0.469m on the Older People's Short Stay Respite budget, again due to lower activity due to the pandemic.

24. The Mental Health budget was increased this year in recognition of the growth in placement costs during 2020/21. The service is forecast to overspend by £0.263m largely due to a forecast overspend on the placement budget of £0.339m because of an increased costs of direct payments and homecare. This has been partially offset by a small forecast saving on Mental Health contracts of £76,000. It is forecast that the £0.2m Mental Health contract MTFS saving will be delivered in full. There remains a risk of further increases in Mental Health referrals due to the impact of the pandemic.

25. The Learning Disability placement budget is forecast to save £2.882m. This saving is due to reductions in the number of people with learning disabilities being cared for in nursing homes as well as savings on homecare, direct payments and replacement residential care (respite care). Residential and supported living costs are slightly above budget. We are seeing the full benefit of increases in health income negotiated in recent years. There is a continued risk that the Community Offer and Reviews Programme MTFS savings will not be delivered in full. This forecast is based on the assumption that other smaller MTFS savings will be achieved in full. It is also assumed that any additional unplanned care costs resulting from the pandemic will be met from additional

grant funding. There remains a risk that demographic growth and care price increases could exceed the budget forecasts, but these will be monitored as we move through the year.

26. The council will continue to work with the local Clinical Commissioning Groups (CCGs) to support the discharge of people with learning disabilities or autism from specialist hospitals to community-based setting under the Transforming Care Partnership (TCP). Because the National Health Service England (NHSE) reduced the amount of funding that accompanied each individual, there has been a substantial cost pressure for the Staffordshire Health and Care economy. It is expected that there will be a further grant allocation from the government to support future discharges, but this has not yet been confirmed. There remains a risk of further cost pressures in 2021/22 as a result of this programme. The latest forecast is that the county council could incur an overspend of over £4m this year. The council is working with its health partners to try and agree a new cost allocation model. However, there still remains a risk of further costs pressures for the remainder of the MTFS period.

27. The new Carers service went live in April 2021 following a delay caused by the pandemic. It is forecast that there will be a small saving of £15,000 in year. There is also a saving forecast on the Advocacy contract of £77,000 and it is expected that the £0.150m contract saving will be delivered in full.

28. Following the resolution of a contract dispute on the Section 75 Contract with the Midlands Partnership NHS Foundation Trust (MPFT) there is now a small forecast saving on the Reablement contract of £80,000. However, the final inflation uplifts on the MPFT Section 75 have not yet been agreed. There is therefore a risk that these uplifts could exceed the assumptions built into the budget.

29. There is a forecast saving of £0.116m for the Learning Disability and Mental Health Commissioning Team due to staff vacancies held in the first half of the year.

30. Prisoners related care activities are forecast to save £0.263m due to staffing savings and lower care costs.

31. The Physical Disabilities Placement budget is forecast to save £0.649m, mainly as a result of fewer people in residential and nursing placements. There are also savings on homecare, direct payments and supported housing. These savings have been offset by some small overspends and a forecast shortfall in income.

32. Other variances total a forecast saving of £0.140m.

33. Forecasting future numbers and price pressures under current circumstances is extremely difficult, so we will continue to monitor the position closely throughout the remainder of the financial year. In addition, we are currently seeing unprecedented demand for assessments. There is a significant risk that this will translate into higher numbers of people in care through 2021/22 and it is therefore possible that the current forecast saving will reduce. Furthermore, there are significant recruitment and retention issues in the care market as the sector competes with other areas of the economy that have now reopened, such as retail and hospitality, to fill vacancies. This can ultimately have a knock-on effect to the council as providers are not able to take on new packages due to staff shortages. This scarcity will most likely result in prices being driven up. To mitigate this risk, it is proposed that a £7m contribution is made to the care risk reserve.

34. Staffordshire County Council wants to improve its internal systems and the wider digital offer to its residents and partners. This can enhance the working environment for colleagues, improve internal processes, reduce costs, and provide new data insights. In addition, technology and new data insights can be used to develop relationships with our communities, enabling and encouraging more residents to help themselves and each other. It is therefore proposed that a £7m contribution is made to the IT reserve to enable this digital transformation.

35. There is a risk that the council will not be able to recover outstanding debt through courts due to the backlog arising from the pandemic. In addition, the Legal Team are working through some historic, complex cases and it is possible that the council will not recover all outstanding sums. It is therefore proposed that the Health & Care bad debt provision is increased by £2m.

36. The council has been allocated a further £3.903m in 2021/22 for Adult Social Care Infection Control and Testing Fund ring fenced grant. The guidance

identified a proportion of the funding be passported directly to care homes, drug and alcohol settings and community providers with the remainder to be allocated at the council's discretion. A report was submitted to SLT setting out proposals to allocate and spend the funding in line with the grant conditions. Funding needs to be passported to providers or spent by 30 September 2021, with any unspent allocation to be returned to the Department of Health and Social Care.

37. The additional Covid related costs of £4.367m consists of; £2.646m unachievable savings that have been reprofiled to future years, £0.530m additional staffing costs that have been incurred to support the ongoing response to the pandemic and ensure continuity of services, £0.6m additional expenditure to support the provider market such as providing a care home loan scheme, and £0.591m of other exception costs.

38. **Families & Communities** **Covid impact - £8.410m**
Normal service forecast - £1.225m overspend

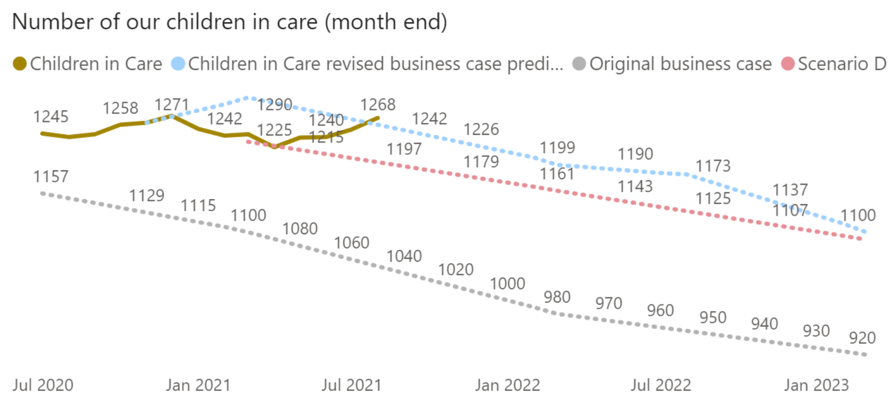
39. Children's Services *Covid impact - £7.766m*
Normal service forecast - £1.657m overspend

40. The forecast overspend of £1.657m is £2.6m higher than the forecast saving reported at quarter 1 and reflects the rises in the number of Children in our Care and the need for placements.

41. The forecast overspend includes £1.4m within Children in our Care, including £2.4m in the placement budget partially offset by additional grant for Unaccompanied Asylum Seeking Children and staff vacancies, as well and a forecast overspend in the Independent Conference Chair service of £0.3m due to additional staffing levels.

42. This surge in demand is reflected across the region – and similarly across the country – and has put inevitable pressure on supply. This has been exacerbated by carers and workers needing to self-isolate. Alongside the increased numbers, there has also been an increase in the unit costs, partly due to some complex children being placed and partly due to limited capacity.

43. The recent rise in demand is a concern and, with numbers now exceeding the revised business case assumptions, could put at risk the delivery of planned MTFS savings.



44. Short term, we are monitoring closely children entering care and those which are leaving and due to leave. This should aid more accurate predictions. A medium term action plan has been developed to unblock hurdles in the leaving care process by speaking directly with front line practitioners, national benchmarking as well as understanding the uptake of Family Group Conferencing.

45. Due to Covid 19, planned transformation works and savings of £6.4m impacting across Children's Services have seen delays, and have been reprofiled within the MTFS accordingly.

46. <u>Transformation</u>

47. The Families and Communities Directorate is currently working through the final stages of its transformation programme in readiness for a targeted implementation date of 25 October 2021.

48. The redesign, which is informed by best practice, seeks to change both the practice and culture across the children's system and it has impacted upon just over 2,000 staff. It will enable a whole system approach, bringing together children's social care, SEND and Inclusion, the Place Based Approach and commissioning. It is essential for the delivery of revised practices / cultures that underpin the necessary MTFS savings and stabilisation of SEND.

49. Significantly, and whilst some redundancies were anticipated, the number and cost was difficult to assess when the business case was initially approved.

50. As a result of these processes, the latest expectation is that 31 staff will be made redundant at a cost of c £2.8m. To reduce and mitigate the impact of redundancy, the restructuring of roles and people to align to the new operating model the process has been managed in accordance with the Council's 'Staffing Protocol' policies.

51. This reflects the latest position only and remains fluid while the recruitment process continues throughout September/October. Based on the latest position, a further 14 staff are currently 'going through the process' and remain at risk over and above those staff identified above and – in a worst case scenario – this could see the total number of staff redundancies increase to 45 and a cost of c £3.2m. The proposal is that this additional cost of redundancy is recognised and funded from the Exit and Transition Fund.

52. Education Services — *Covid impact - £0.417m*
Normal service forecast - £0.264m saving

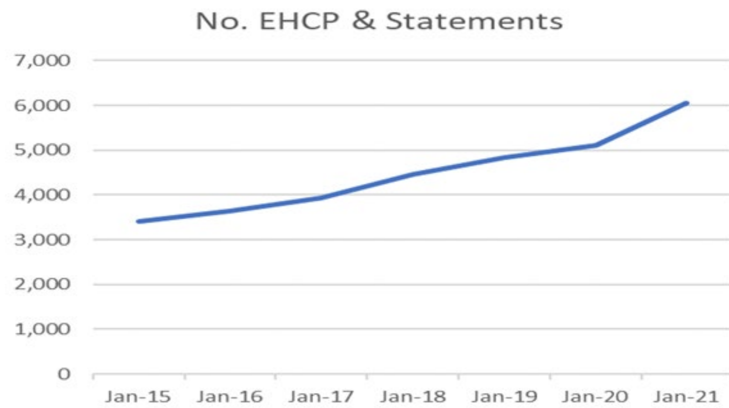
53. The forecast saving is a result of budget savings in historical pension liabilities an additional income in areas such as schools' admissions.

54. SEND transport is currently forecast to be breakeven due to additional resource that was allocated to the service this year. However there remains a risk that contract retendering due later in the year that could lead to further pressures in this area.

55. There are Covid costs relating to SEN transport cleaning.

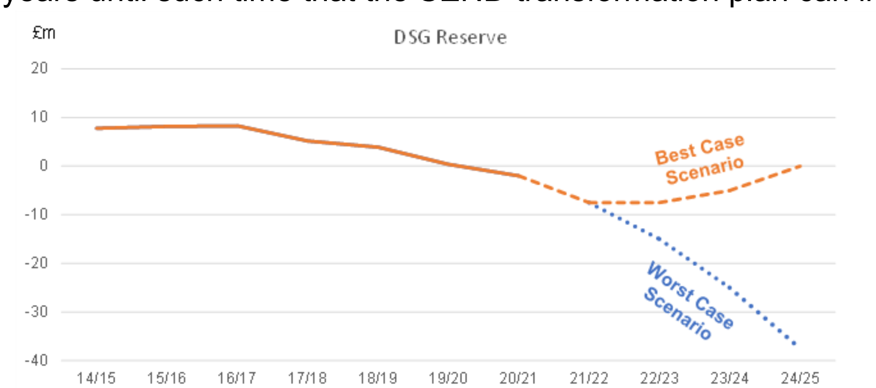
56. SEND High Needs Block

57. The High Needs Block is currently forecast to overspend by £7.5m and reflects continuing growing demand for SEND support. This overspend will be charged against the DSG reserve which, at the end of 2020/21 was already £2m in deficit. Staffordshire County Council is not alone in this difficult financial predicament, in fact it is a position shared by the majority of councils across the sector.



58. It is forecast that the SEND transformation programme, with the full roll out of the district hub model, will provide a more inclusive system that enables the necessary early support and intervention to manage demand within overall resources. However, this will take time and will not generate the immediate savings required to address the current shortfall.

59. Given the latest forecast overspend, the deficit is likely to increase this year and in future years until such time that the SEND transformation plan can impact:



60. Schools Forum, at is meeting in October 2020, approved a deficit management plan utilising surplus Growth Fund money that will be transferred to the DSG reserve. It is estimated that, for 2021/22, this will be around £1m - £1.5m, but given the worsening financial position outline above further action will be required.

61. The council has currently outline in consultation with all maintained and academy schools' proposals for a 0.5% funding switch in 2022/23 – equivalent to £3m – from the school's block to support high needs as permitted within DfE guidance. This will be considered by Schools Forum at its meeting in October 2021.

62. *Culture & Communities* *Covid impact - £0.135m*
Normal service forecast - £21,000 saving

63. This forecast saving is largely due to reduced transports costs. Covid 19 has led to reduced income for the service from reduced trading activity.

64. *Rural County* *Covid impact - £92,000*
Normal service forecast - £92,000 saving

65. The forecast saving largely due to one off staffing vacancies of £0.3m held pending the re-organisation of the service, to be carried out in the final quarter of the financial year, partially offset by increased costs of £0.2m for Rights of Way and Carpark repairs due to increased usage.

66. The pandemic has led to loss of income for the service from reduced trading activity, parking and penalty fines.

67. *Community Safety* *Covid impact – nil*
Normal service forecast - £55,000 saving

68. The forecast saving is due to service contract savings which have resulted from the impact of Covid 19 are likely to return to normal levels for the remainder of the financial year.

69. **Economy, Infrastructure & Skills** **Covid impact - £2.033m**
Normal service forecast - £0.367m saving

70. *Business & Enterprise* *Covid impact - nil*
Normal service forecast – breakeven

71. The service is forecast to breakeven, however there are forecast overspends against the Magistrates Court holding costs and planning application fee income. These overspends are off set by additional grant income from Growth Hub activities, forecast surpluses on Enterprise Centres, and a vacancy within the Economic Growth team.

72. Infrastructure & Highways *Covid impact - £0.310m*
Normal service forecast – breakeven

73. The forecast for the service is breakeven, which is no change from quarter 1.

74. There are various forecast overspends in a number of areas including Sustainable Development and Highways Maintenance, but these are being managed by forecast savings within the Community Infrastructure and then Network Management areas. These variances will be continually reviewed as we move through the financial year. The forecast position also includes transferring £0.590m of additional permit income to reserves as the estimated over recovery for this year.

75. The expected impact of the pandemic is forecast to be £0.310m, which is largely a continued loss of income for street parking and bus enforcement in the Regulation and Governance area, and a small number of increased costs for Safe Operating Procedures such as PPE.

76. Transport, Connectivity & Waste *Covid impact - £1.723m*
Normal service forecast - £0.277m saving

77. The Transport and Connectivity area is forecast overspend by £0.154m, this includes savings within the operational Transport budgets which are offset by making a provision of £0.6m for the remaining three years of the Local Transport Assessment Works.

78. Extra Covid 19 costs include providing additional cleaning on home to school transport until the end of July and additional transport capacity to avoid full and standing buses at peak times.

79. The Sustainability and Waste area is forecast to save £0.430m, which assumes the MTFS Green Waste recycling credits saving of £0.5m will be achieved. This forecast saving also includes a provision for likely additional costs relating to the Household Waste Recycling Centre mobilisation project of £0.2m and consultants working on the Hanford incinerator project of £0.2m. It should be noted that waste budgets are demand led and will need continued close monitoring throughout the year to track tonnages and cost as social restrictions are eased and any 'new normal' is established. The outturn position for the HWRC budget is also being closely monitored as there is an emerging risk of

higher than anticipated costs in this area. If required this will be reflected in the next quarterly reporting.

80. There is a forecast of £1.160m for the impact of Covid 19 on Waste. This is an increase of £0.630m from quarter 1, and is due to the cost of additional tonnages which have been seen since March 2020 as a result of the change in working habits but also the loss of third party income to the Energy from Waste sites as a result of this increased tonnage. This forecast is going to be reviewed in depth ahead of quarter 3 as there is still uncertainty around the impact of Covid 19 within these budget areas, and there is a risk that this may be a longer-term issue which would put the wider Waste budget and current MTFS under more pressure.

81. *Skills* — *Covid impact – nil*
Normal service forecast - £90,000 saving

82. The service is forecast to save £90,000 which is due to vacancies within the team, there is also a small forecast saving on Community Learning Groups.

83. **Corporate Services** — **Covid impact - £0.486m**
Normal service forecast - £0.9m saving

84. The service is forecast to save £0.9m, this includes a forecast savings within Assets, Business Support and Strategy due to staff vacancies, and additional income within Registrars due to the higher number of weddings now being booked as social restrictions are lifted. These savings are partially offset by a forecast overspend within HR which is the non-delivery of MTFS savings.

85. There are forecast to be £0.486m Covid 19 related costs, which includes costs of temporary mortuary facilities extension and the closures of the first annual leave purchase scheme window.

86. **Centrally Controlled**

87. The business as usual saving of £0.150m is within Pooled Buildings and relates to savings on energy and electricity costs.

88. The Covid 19 related costs include forecast loss of rental income and potential additional costs to modify the office space in SP1 post Covid 19.

89. The Insurance budget is £3.633m and this covers all types of insurance required such as Property and Liability. The type of insurance with the largest cost is the liability insurance which covers both public and employer liability, officials and professional indemnity insurance. This policy is going out to tender shortly, in order to obtain an insurer for a policy start date of 1st May 2022. Therefore there is a risk that the cost of insurance increases.

90. The pay award for 2021/22 is currently under negotiation but has not yet been agreed. The MTFS for the current year assumed 0% increase for pay, following the Spending Review in November 2020 which announced a pay freeze for the public sector. Any pay award for the current year would therefore need to be funded from the Contingency budget.

91. When the MTFS was produced, it assumed 1% for non-pay inflation would be incurred during 2021/22. Current rates of inflation are higher than this and in addition, further monies are required to replenish the Exit and Transition Fund which is being used this year to fund the Children's Transformation programme. In light of this, it would be prudent to use any underspend in this current year to increase the Exit and Transition Fund.

92. **Capital Forecast**

93. Appendix 5 compares the latest capital forecast outturn of £129.5m, an increase from the quarter 1 position of £126.7m. The key reasons for this increase of £2.7m are set out in the following paragraphs.

94. **Health and Care** **Forecast spend £1.343m**

95. There has been a decrease of £5.780m since the quarter 1 report. This is due to the ongoing impact of the Coronavirus pandemic which has resulted in uncertainty over demand and capacity requirements moving forward, therefore current plans are on hold for new build nursing homes at Histon Hill and Rowley Hall with complete budgets rephased to 2022/23 and 2023/24.

96. **Families and Communities** **Forecast spend £45.122m**

97. *Maintained Schools* *Forecast Spend £44.307m*

98. There has been an increase of £4.155m since quarter 1 due to two new schools builds being introduced into the programme – Parks Farm of £2.7m and Fradley Park Primary of £2.2m. These schemes are primary funded from developer contributions and additional basic needs. These increases are offset by various budget refinements across the rest of the programme of £0.725m.

99. There has been a £6.410m increase due to a number of new smaller schemes being added to the programme, funded from a mix of school contributions, Third Party contributions and additional government School Condition Allocation grant that will be used to further address condition priorities in schools.

100. **Economy, Infrastructure and Skills** **Forecast spend £70.825m**

101. *Economic Planning & Future Prosperity* *Forecast spend £11.198m*

102. There has been a decrease of £0.571m since quarter one, this is due to reduction in i54 Western Extension as we approach the end of the project and risk and contingency budgets are reduced by £0.668m, this is partially offset by minor budget refinements including Redhill, Eastgate Regeneration and others totalling £97,000.

103. It if forecast that £0.3m will be spent from the Farms Investment Fund. This includes a pilot County Farm Small Grant Scheme of up to £0.1m and an investment of £0.120m to make improvements at one of the holdings on the Woodhouse Estate, providing a modernised Starter Dairy Farm.

104. *Highways Schemes* *Forecast spend £57.818m*

105. There has been a reduction of £1.199m since the quarter 1 report, this is due to changes across a number of projects within the programme, most notable being the refinement of Stafford Western Access Route as the project nears completion and risk allowances have been reduced by £0.257m.

106. **Finance and Resources & ICT** **Forecast spend £0.689m**

107. There has been a reduction of £65,000 since quarter 1 due to the refining of the Data Centre refresh budgets.

108. **Financial Health**

109. Appendix 6 provides a forecast outturn performance against the key Financial Health Indicators approved as part of the 2021/22 budget setting process.

110. There have been 98.0% of invoices paid within 30 days of receiving them at the end of August, exceeding the financial health indicator target. This position also reflects early payments to suppliers to help them with cashflow during the pandemic.

111. The estimated level of outstanding sundry debt over 6 months old is £19.827m, this is over the target of £14.7m by £5.127m. This is a decrease of £86,000 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. It should be noted that a return to full debt recovery services, including legal action was only possible from September 2020 due to Covid 19.

112. The level of CCG health debt over 6 months old is £1.2m below the target figure. This is a decrease of £0.220m since the quarter 1 report.

113. Client debt now stands at £9.496m and could potentially increase as a consequence of the on-going pandemic. A working group has been established to look at why clients are not paying debts and to implement ways to avoid clients getting into debt in the first instance, this includes an initiative to encourage and assist clients with setting up direct debit instructions.

Debtor Type	2021/22 Target	30/06/2021	30/09/2021 Est	Increase / (Decrease)

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	£m	£m	£m	£m
Health Bodies & CCGs	3.900	2.969	2.749	**(0.220)**
Other Govt. and Public Bodies	2.000	3.247	3.233	**(0.014)**
Other General Debtors (Individuals & Commercial)	4.700	4.015	4.349	**0.334**
Health & Care Client Debt	4.100	9.682	9.496	**(0.186)**
TOTAL	**14.700**	**19.913**	**19.827**	**(0.086)**