Appendix 3 – Quarter 2 Finance Report

Introduction

Revenue Forecast

64. The latest revenue forecast outturn (as provided in appendix 5) shows a forecast overspend of £10.908m (1.9%), prior to additional funding for inflationary pressures being taken into account. Once this one-off funding is included and an allocation from the Inflation Reserve is assumed, the overspend reduces to £6.408m (1.1%). This is compared to an overspend of £3.643m reported at quarter 1.

65. The one-off funding allocated from the inflation reserve amounts to £4.5m. There is £4m remaining in the Contingency budget and it would be prudent to retain this against the anticipated cost of the pay award for the current year. The current forecast of inflationary pressures for the current and future years is between £50m and £70m. These are being monitored closely and will be updated in future quarterly reports, however the need for one-off resources to fund these pressures remains.

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

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

68. *Public Health and Prevention* *Forecast – Breakeven*

69. There appears to be renewed interest in the Public Health ringfenced grant, and we will review expenditure to ensure it is consistent with grant conditions. We are holding a contingency against the risk that Public Health ringfenced grant is reduced in future years.

70. Adults Social Care & Safeguarding *Forecast - Breakeven*

71. There are a number of vacancies in the Adults Learning Disability Team (ALDT) which has led to a forecast saving of £0.699m. The vacancies will be filled during the year to ensure adequate capacity to complete assessments and reviews in a timely way. There is a forecast overspend of £0.155m for the Section 75 contract with the Midlands Partnership NHS Foundation Trust (MPFT) due to the in-year NHS pay award being slightly higher than budgeted.

Other variances amount to a forecast saving of £0.267m. It is proposed that the overall saving of £0.811m is transferred to reserves as identified below.

72. The Learning Disability In-House Services are forecast to save £0.599m. This is largely due to vacancies being held in the residential services during the restructure. There is also a forecast underspend of £1.321m for the new Enhanced Homecare Service as this will take time to build up to full capacity. It is proposed that the total forecast saving of £1.920m is transferred to the reserves as identified below.

73. Care Commissioning *Forecast - Breakeven*

74. The Older Peoples service is now forecast to underspend by £5.897m compared to the breakeven position previously reported. This is in part due to ongoing careful management of demand and prices.

75. Residential and nursing placements have increased during the first months of the year, but demand has not increased by the levels budgeted for in the MTFS. Further growth in placements has been assumed for the remainder of the year, but despite this, there is a forecast underspend of £3.461m for placements. The Block Booked Beds saving is unlikely to be delivered in full this financial year. However, additional block booked beds are being commissioned and existing capacity is monitored carefully in order to ensure effective utilisation.

76. Additional growth was built into the budget from 2022/23 for homecare for older people, recognising an increasing level of demand. However, challenges with recruitment and retention have limited provider capacity. This has resulted in a forecast underspend of £4.130m. Efforts to increase capacity continue and the backlog of home care is reducing, but there remains £1.506m worth of homecare unprovided and this is budgeted for in future MTFS years.

77. The lower than planned demand from older people and care types has resulted in a shortfall of £1.291m in income for client contributions. Other variances in the Older People's expenditure result in a forecast pressure of £0.403m.

78. The Physical Disabilities service is forecasting an overspend of £0.766m. This is mainly due to rising costs and numbers of long term residential and nursing

placements. The pressure has been partially offset by additional income from client contributions.

79. The Learning Disability service is forecast to save £0.978m. There is a risk that the Reviews Programme MTFS savings will not be delivered in full, and that NHS income could reduce. There also remains a risk that the demographic growth and care price increases could exceed the budget, and these will be monitored as we move through the year.

80. The Mental Health service is forecast to overspend by £0.518m due to a growth in nursing and residential placements as well as an increase in the number of people receiving a direct payment. The placement budget was increase in recognition of the growth in placement cost over the last two years, but there remains a risk of further increases in referrals following the Covid 19 pandemic.

81. The Carers service is forecast to save £0.434m, the Advocacy service £0.188m and the Prisoners service by £0.279m, all due to lower than assumed activity. These are partially offset by additional temporary commissioning costs of £0.110m.

82. Other variances amount to a forecast saving of £1.384m. It is proposed that the total net saving of £7.756m is transferred to reserves as identified below.

83. Estimating the future demand for care is even more difficult than usual due to the impact of Covid. The frailty of the older population has increased, and more people appear to have mental health problems. Demand for assessments is up by 20% of pre-pandemic levels and despite strong demand management some of this will inevitably translate into increased numbers of people receiving care.

84. In addition, inflation has significantly increased care providers' costs and these are increasingly reflected in the prices offered to the Council. There has also been an increase in their recurrent costs because of the Covid 19 pandemic. Given these pressures, it is recommended that £5m be added to the Corporate Inflation Reserve.

85. **Adult Social Care Reform**

86. Work is ongoing to understand the estimated financial impact on the Council. The reforms pose significant financial risks to the Council and would have a

huge impact on other internal services, which would in turn, impact the NHS. The sector is continuing lobbying efforts to request that the Government either fully funds the reforms or delays implementation whilst learning from the trailblazers is shared and the implications fully understood.

87. Furthermore, the sector faces a huge challenge to recruit the staffing required to implement the reforms within the timeframes set out in the guidance. In an effort to mitigate the risk, it is recommended that the Council commences recruitment for the additional post immediately, rather than wait for confirmation of the additional Central Government funding, which is expected in December 2022. Recruiting at this stage (ahead of the funding announcement) poses a financial risk if the reforms are delayed and / or the funding is insufficient to meet the additional costs. The Council will mitigate this through the use of temporary staffing (where suitable) and through balancing staffing needs across the Directorate.

88. To mitigate the financial risk posed by the reforms, it is proposed that the Health & Care Risk Reserve is increased by £9.987m created by the various savings above and by using COMF to contribute to Covid related costs set out below. A significant amount of funding has been used to contribute to the 2022/23 fee uplift, recognising that the Council awarded a higher than usual uplift to support care providers with Covid related costs. The provision of reserves to lessen the risks around Adult Social Care Reform is a short term, non-recurrent measure and does not address the underlying and ongoing impact. The Council, along with other stakeholders, will continue to lobby the Government to requires that the reforms are fully funded.

89. Covid Funding

90. Contain Outbreak Management Fund (COMF) of £19.169m has been brought forward to 2022/23, and plans have been developed to utilise the funding throughout the remainder of the financial year. Grant conditions require that this must be spent on Covid related activities and there is currently no mechanism to carry forward funds into future years.

91. Proposals for expenditure are:

- A total of £7.077m to support care providers with recurrent cost pressures arising from the pandemic. This includes personal protective equipment, testing, enhanced cleaning regimes, waste disposal, increased staffing costs, higher insurance premiums, and agency staffing to cover sickness and staff who are unable to work due to Covid infection.

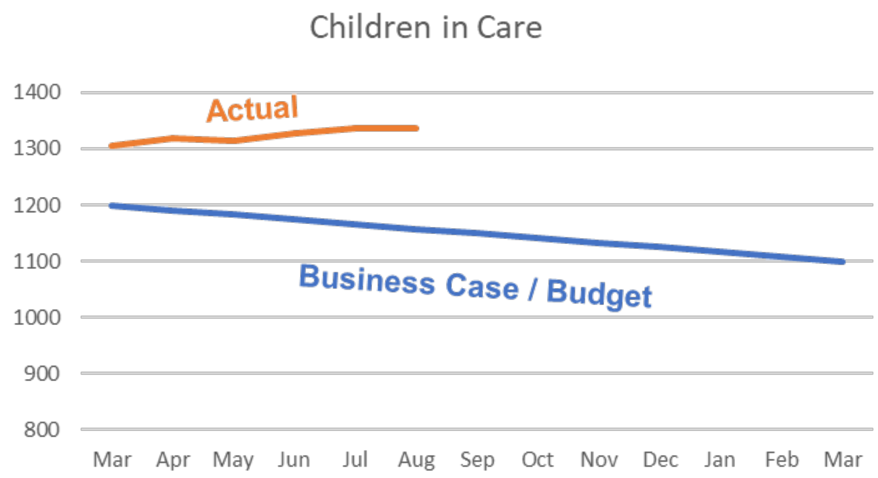
- Up to £2m to support the Covid and flu vaccination programmes in Staffordshire, especially to reach those groups for whom access to routine NHS services is more difficult.
- Up to £4m of funding to refurbish and redevelop the Learning Disability In-House estates in order to improve infection prevention and control and support modernisation of services
- Funding for other on-going costs estimated at £5.993m being incurred to deal with the ongoing impact of the pandemic including:
    - i. Staffing costs of £2.502m
    - ii. Public Health initiatives totalling £1.784m
    - iii. Testing costs of £1.154m
    - iv. Other services totalling £0.553m

92. Cabinet is asked to note the use of the COMF in line with the grant conditions as outlined above.

93. **Children & Families** **Forecast - £5.8m overspend**

94. *Children's Services* *Forecast - £5.8m overspend*

95. The forecast position is an overspend of £5.8m across Children's Services, £2.3m higher than the position at quarter 1. The number of Children in Care (CiC) has increased from the start of the year (and from the levels assumed previously at quarter 1) and – as at mid September – currently stand at 1,337. This is significantly removed from the approved business case and underlying assumptions that make up the existing budget in the MTFS:



96. This is a highly complex and volatile service with costs dependant significantly on the type of placements provided; however, based on existing levels – and assuming a similar level of demand for the rest of the year – it is forecast that the CiC Placements budget and Section 17 support, exacerbated by rising costs of inflation will be £15.3m overspent. This includes allowance for some children – currently on the edge of care or where existing placements are at risk of breaking down – coming into the residential care system if no better alternative can be identified.

97. The service is taking mitigating actions to address as far as possible pressures through a CiC action plan, including, for example:
    - Additional income from partners
    - Greater challenge of the number of entering and leaving children in care
    - Introduced a new ‘contract framework’ to reduce costs and improve value for money
    - Enhanced internal residential provision to further disrupt the market.
    - Review of the existing ‘short breaks’ provision and capacity

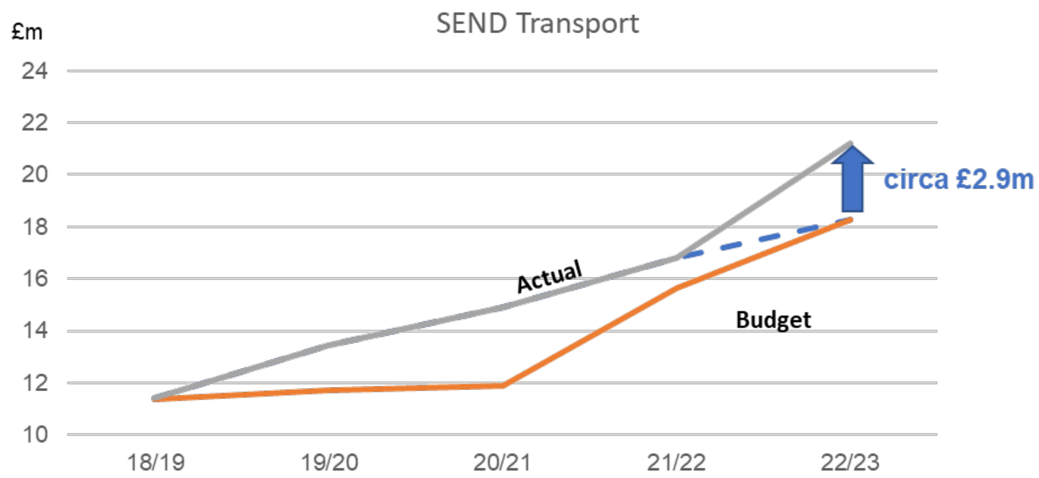
98. However, even with the above mitigations (forecast to save £2.5m), the overall forecast is for an overspend this year in Children’s Services of £12.8m. There is a risk that this position will worsen given the current economic climate, or if anticipated mitigations do not come to fruition.

99. As previously reported an allocation of £6m has been provided from the Corporate contingency budget and further £1m earmarked from other one off Corporate resources towards the rising cost of inflation, reducing the net overall forecast overspend to £5.8m.

100. *Education Services* *Forecast - breakeven*

101. There is a forecast overspend of £2.9m for SEND transport which in recent years has seen a significant increase in demand as a result of the rise in Education, Health and Care plans (EHCPs). Whilst this has been reflected in the MTFS with an uplift in the budget over the last two years (see below), unprecedented rises in inflation, in particular fuel, have placed additional pressures on the budget this year.

102. Given the current circumstances, a paper was brought forward earlier in the year by the Transport Commissioners Service and approved proposing an 'exceptional' in year increase to transport contracts (backdated to March 2022) of 8.5%, equivalent to £1.4m, to help mitigate the immediate pressure arising.



103. Whilst a contribution from corporate reserves in 2022/23 has been agreed for £1.4m to fund the 'exceptional' policy outlined above, this still leaves a forecast overspend of £1.5m and funding has been earmarked from other one off Corporate resources to bring this service to a breakeven position. Depending on how inflation levels develop going forward, and how transport demand changes going into the next Academic year, there is a risk that costs could increase further.

104. A review of SEND transport is being implemented to identify any actions that may be taken to mitigate the existing demand and costs as far as possible. However, this is a complex service and will take significant time and resources and is unlikely to have an impact in the current year.

105. SEND High Needs Block

106. The High Needs Block is currently anticipated to overspend by £6m and reflects continuing growing demand for SEND support. This overspend will be charged against the DSG reserve which at the end of 2021/22 was already £8.6m in deficit. Staffordshire County Council is not alone in this difficult financial predicament – this is a position shared by the majority of Councils across the sector.

107. Going forward, it is anticipated that the SEND transformation programme – with the full roll out of the district hub model – will provide for 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 and further action must be taken to mitigate the existing overspend in this area. A deficit management plan is currently being worked on and will be shared with Schools Forum at its meeting in November 2022.

108. Partnerships & Wellbeing *Forecast - breakeven*

109. Forecast savings totalling £0.1m against Child and Adolescent Mental Health Services (CAMHS) Tier 4 contact, along with a reduction in the take up of short breaks provision, have been offset by an unbudgeted pressure against direct lettings.

110. **Economy, Infrastructure & Skills** **Forecast - £61,000 saving**

111. Business & Enterprise *Forecast – £36,000 saving*

112. The service is forecast to have a small saving of £36,000. Surpluses are expected in the Planning Team, Business Support and Regeneration areas which offset a forecast pressure related to the Shire Hall Enterprise Centre, which will have a reduced income in its first year of opening. These in year surpluses will also fund the forecast road adoption costs of £0.1m at the Kingswood Lakeside Development.

113. Infrastructure & Highways *Forecast - Breakeven*

114. The forecast for the service is a break-even position, although there are various overspend and savings within the overall service area.

115. A £0.2m saving on vacancies in the Community Infrastructure area is offset by an income budget pressure in the Highways Lab as well as a pressure on the land charges budget within Sustainable Development. The quarter 2 position also assumed that any savings against the tree maintenance budget can be used to make a provision for tree maintenance in future years.

116. The situation around rising inflation and material supplies still remains challenging for the Highways service. Current pressures are still forecast to be in the region of £2m on the Highways revenue budget (largely on reactive maintenance) and £10m on the Highways capital programme. The effect of inflation will continue to be monitored through the usual budget monitoring process with updates in the next quarter.

117. Transport, Connectivity & Waste *Forecast - Breakeven*

118. The Transport and Connectivity area is forecast to save £0.433m. Despite the current forecast of the inflationary pressure (along with the rising fuel costs) being funding from contingency budgets, there are additional costs in this service where terminated contracts have had to be renewed at short notice. Some of these contract renewals are coming in at one and a half times the costs of previous years. It is important to recognise that despite managing the inflationary pressure in this service the situation remains uncertain and inflation could continue to increase along with rising fuel prices which will increase the pressure on this budget.

119. It is currently forecast that this overspend will be offset by savings in the Concessionary Fares service. In October we are due to change to paying at actual patronage levels rather than pre-pandemic levels. However, forecasting for this service is still uncertain and any savings arising could be ringfenced. Future government directives could change, and the impact of the DfT Toolkit is unclear, but both will be monitored as part of the normal forecasting processes.

120. For Sustainability and Waste, the forecast is for a saving of £0.166m. This assumes that the £0.6m MTFS saving for Green Waste recycling credits will be achieved.

121. There is a small overspend in the Woodfuels budget area. This business unit has been impacted by increased delivery costs due to the diesel price increase and also an increase in raw material costs due to global availability of resources impacted by the war in Ukraine. This is offset by a £0.490m saving on the recycling credits budget due to a reduction in green waste tonnage following the warm summer.

122. The overall position also assumes a provision towards the required Waste to Resources (W2R) plant cost which is in response to changes in emissions legislations. This is currently expected to be in the region of £1.3m but negotiations are ongoing.

123. *Culture, Rural & Communities* *Forecast - £0.161m overspend*

124. The quarter 2 position for EI&S now includes the Culture, Rural and Communities budgets that have temporarily moved from the Families & Communities directorate. This area is currently forecast to overspend by £0.161m.

125. There is a £42,000 forecast saving for Culture and Communities due to savings in staffing structures and savings against the resources budget offset by the under-recovery of income post Covid.

126. Within the Rural service, there is a forecast overspend of £0.145m due to tribunal and legal costs, post structure set up costs and an underachievement of income, offset slightly by staffing savings.

127. The Safer Communities service forecasts an overspend of £58,000 which is partly due to increase costs within the Joint Coroners service.

128. *EI&S Business Support* *Forecast – £0.147m saving*

129. The service is forecast to save £0.147m due to savings on legacy pensions contribution and training budgets.

130. **Corporate Services** **Forecast – £0.181m Saving**

131. The service is forecast to have a small saving of £0.181m. It is likely that there will be some additional income in Registrars due to the higher number of weddings that are being booked now all Covid restrictions are lifted. This along with other savings around vacancies, have been used to offset a pressure on the annual leave purchase scheme and to make provision for continued specialist resources in People Services as well as a movement to the ICT reserve for changing software from the data centre to the Cloud. This position assumed the delivery of the £0.460m Property rationalisation MTFS saving.

132. **Centrally Controlled**

133. The forecast for centrally controlled services is an overspend of £0.850m within Pooled Buildings. This is on the gas energy budget as prices have continued to rise as a result of global events. It assumes that for the last six months of the year we are able to utilise a price cap similar to the domestic price cap of 10.3p/pWh which central government have just announced. This will be monitored closely through the year as more detail from central government around the price cap for public sector organisation and other businesses comes forward. The possibility of funding this overspend from one-off resources will be considered and brought before Cabinet if required. There is also a £0.480m overspend on the electricity budget as prices continued to rise in this area as well. This is being funded from the remaining pooled buildings contingency budget in 2022/23. Finance are working closely with the service to try and forecast what might happen with energy prices into 2023/24 and future years, as they are extremely volatile, and this will continue throughout this financial year. There is a breakeven position forecast on Landlords Repairs and Maintenance and Insurances.

134. **Nexxus Trading Services Ltd**

135. Nexxus, like many Adult Social Care providers, continues to face difficult trading conditions, particularly around recruitment and retention of staff. This has affected the company's ability to deliver the full volume of contracted care services and slightly impacted profitability. Work is on-going to improve the position in the second half on 2022/23.

136. **Capital Forecast**

137. Appendix 6 compares the latest capital forecast outturn of £128.8m, a decrease from the quarter 1 position of £133.2m. The key reasons for this decrease of £4.4m are set out in the following paragraphs.

138. **Health and Care** **Forecast spend £2.262m**

139. There has been no change in the forecast spend since the quarter 1 report. Work on market position statements and demand analysis nursing care continues. The Hawthorne House redevelopment / refurbishment has been reprofiled across 2023/24 and 2025/26 in line with the latest spend forecasts.

140. **Children and Families** **Forecast spend £37.315m**

141. Maintained Schools *Forecast Spend £36.355m*

142. There has been a decrease of £7.613m since the quarter 1 report, which is the result of rephasing of Basic Need budgets of £1.114m in line with anticipated timelines of potential projects, as well as the decision to utilise Section 106 funding of £12m. In addition, there have been new developer contributions of £2.349m, Decarbonisation grant of £0.8m, and £1.184m of unallocated budgets which is being used to fund several projects.

143. There has also been the introduction of Carbon Reduction Projects at various sites totalling £0.914m which is funded by a combination of Schools Capital Allocation and School contributions, and budget refinements within Special Programmes and Maintenance and Replacements of £0.253m.

144. Inflationary pressures on building materials are expected to increase costs on the programme, and these will be monitored closely in the next quarter.

145. **Economy, Infrastructure and Skills** **Forecast spend £82.985m**

146. Economic Planning & Future Prosperity *Forecast spend £5.257m*

147. There has been a reduction of £1.741m since the quarter 1 report, which is due to refinements on a number of projects totalling £67,000, removal of Pye Green

Part 1 claim of £0.3m, reduction of the risk and contingency budgets for i54 Western Extension of £0.470m and rephasing of Chatterley Valley into 2023/24 totalling £1.350m.

148. There have been increases in forecast spend for Kingswood Lakes of £77,000, i54 Employment site of £0.255m and the introduction of the new Knutton Enterprise Centre project of £90,000.

149. *Highways Schemes* *Forecast spend £72.484m*

150. There has been an increase of £4.840m since the quarter 1 report. There have been budget refinements for the SWAR project of £0.828m, Bridges of £0.274m, Carriageway Maintenance of £0.649m, and Integrated Transport of £0.438m. Minor Capital Maintenance now includes provision for inflationary pressures of £2.651m.

151. **Property, Finance and Resources & ICT** **Forecast spend £6.236m**

152. There has been a small increase of £0.142m since the quarter 1 report due to additional One Public Estate funding to support various property works across the County.

153. **Financial Health**

154. Appendix 7 provides a forecast outturn performance against the key Financial Health Indicators approved as part of the 2022/23 budget setting process.

155. There have been 97.8% of invoices paid within 30 days of receiving them at the end of July, exceeding the financial health indicator target. This position also reflects early payments to suppliers to help them with cashflow during the pandemic.

156. The estimated level of outstanding sundry debt over 6 months old is £17.214m, this is over the target of £14.7m by £2.514m. This is a decrease of £1.270m 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.

157. The level of CCG health debt over 6 months old is now £1.1m, £2.8m below the target figure.

158. Client debt now stands at £10.239m and could potentially increase as a consequence of the 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	2022/23 Target	30/06/2022	30/09/2022 Est	Increase / (Decrease)
	£m	£m	£m	£m
Health Bodies & CCGs	3.900	2.080	1.100	**(0.980)**
Other Govt. and Public Bodies	2.000	1.592	1.590	**(0.002)**
Other General Debtors (Individuals & Commercial)	4.700	4.974	4.285	**(0.689)**
Health & Care Client Debt	4.100	9.838	10.239	**0.401**
TOTAL	**14.700**	**18.484**	**17.214**	**(1.270)**

159. The working group has made progress on reducing debt under 12 months old and this is now also progressing on debt aged between 1 and 2 years. The number of clients waiting more than 12 months for a review has now reduced significantly from the peak, however the net to gross initiative has resulted in over 1,140 more accounts being created.

160. **Prudential Indicators**

161. Appendix 8 provides a forecast outturn performance against the Prudential Indicators approved as part of the 2022/23 budget setting process.

162. The County Council operated within the limits and Prudential Indicators for Treasury Management as set out in the County Council's Treasury Management practices, except for the indicator relating to variable interest rates. This indicator is calculated based on the highest expected cash balance in year, but this was surpassed towards the end of last financial year when forward funding was received.

163. Given the current volatile economic situation, these indicators are being monitored even more closely than usual. At the time of writing it is considered that the Treasury Management Strategy does not need amending but this will be subject to regular monitoring and any changes will be reported to Cabinet as part of the Half Year Treasury Management report.