



**CABINET**

**13<sup>th</sup> December 2016**

**DIRECTOR OF FINANCE: DAMON LAWRENSON**

**CABINET MEMBER WITH RESPONSIBILITY FOR FINANCE: COUNCILLOR ROBIN BROWN**

<b>Subject:</b>	<b>Monthly Financial Report as at the end of October for the financial year ending 31 March 2017 including review of Budget Delivery Proposals.</b>
<b>Recommendations:</b>	<b>Cabinet is requested to note ;</b> <b>I. the Council's financial position</b>

**1. Purpose of Report**

- 1.1 This report provides the forecasted financial pressures of the Council against the budget based on financial information available as at the end of October 2016. The report also integrates relevant performance information to provide added context to the financial position. By reporting this information on a monthly basis, it is possible to identify risks and issues at an early stage and therefore take appropriate management actions to mitigate the risks and give an update on the interventions required to mitigate the in year forecast pressure.

**2. How this decision contributes to the Council Plan**

- 2.1 The Council's vision is to make Northamptonshire a great place to live and work. This is achieved through increasing the wellbeing of our county's communities and/or safeguarding the county's communities.

This initiative specifically delivers increased wellbeing and/or safeguarding by:

- People of all ages are safe, protected from harm and able to live happy, healthy and independent lives in our communities.
- People have the information and support they need to make healthy choices and achieve wellbeing.
- People achieve economic prosperity, in a healthy, low carbon economy which give access to jobs, training and skills development.
- Communities thrive in a pleasant and resilient environment, with robust transport and communications infrastructure.
- **Resources are utilised effectively and efficiently, in coordination with partners and providers**

### 3. Background

- 3.1 As with all local authorities, the impact of reduced government funding, radical change within public services and the continued implementation of the Localisation Agenda has presented the County Council with significant challenges over the last four years following the 2013 spending review. It is more important than ever that resources are targeted appropriately as the Authority works towards achieving our outcomes. The change to business rate retention and the referendum vote in favour of the UK leaving the European Union also add significant uncertainty and risk into our financial position as we move forward.
- 3.2 In addition, there has been increased growth and rising demand for Services which has required the County Council to be innovative in the delivery of those services within the resources available. This sustainable self financing agenda is one of the key drivers behind the Council's innovative 'Next Generation Model' and Northamptonshire's Sustainability and Transformation Plan (STP) for the health and joint care system with our NHS partners.
- 3.3 For 2016-17 in particular, the delivery of this year's significant savings requirement, along with absorbing any in year pressures, are essential to put the County Council onto a sustainable footing moving forward and will provide the necessary financial baseline for the transformation programme to the 'Next Generation Council' over the medium term.
- 3.4 Consequently, the budget management and leadership focus on delivering is very intense and the requirement for immediate alternatives in the event of any budget delivery slippage or additional in year pressure means that, along with the normal monthly format, this report also includes potential additional actions that have been taken to ensure that Northamptonshire County Council (NCC) will deliver within budget as we have done in previous years. The County Council is not allowed to run a deficit budget and therefore cannot overspend, hence the requirement for tight financial control.

### 4. Consultation and Scrutiny

- 4.1 The appropriate consultation process will take place concerning any new proposals before any decision is taken. Cabinet can only make a decision in such circumstances after taking careful account of the results of such consultation in

order to reach an informed decision. Where full consultation is necessary, full details will be presented to Cabinet separately.

## **5. Progress on Delivery of 2016-17 Financial Position and In Year Savings**

- 5.1 The Council continues to face significant challenges between demand for and funding for services as set out previously.
- 5.2 The key areas of focus include the delivery of a programme of savings totalling £65m in 2016-17 as set out in the Medium Term Financial Plan (MTFP) alongside the need to manage the continued demand pressures for both Adults and Children's Social Care Services.
- 5.3 Due to the level of savings the Council needs to deliver, a Budget Delivery Programme has been established with NCC Group Management Board taking a fortnightly review of the 2016-17 budget delivery progress with the Directors of the federated vehicles and services. The Board monitors and challenges the delivery of individual savings proposals, alongside the monthly financial position.
- 5.4 The total savings of £65m to be delivered for 2016-17 are risk assessed (RAG rated) with 50 of the total 84 proposals put forward assessed as being green which reflects 46% of the total value of savings required at this stage in the year.
- 5.5 In addition, there are also focus groups created for both Adults and Children's Services to assist Directors in the scoping, development and implementation of actions to mitigate current pressures as explained further in later sections of the report.
- 5.6 As previously reported, the impact of additional service pressures from the increased demand and implementation of transformation has required services to review the delivery of the original 2016-17 savings proposals and provide recurrent alternatives where necessary. As part of the budget setting process, a full review of current and future savings will take place and included within the Medium Term plan for 2017-18 where necessary. The Draft Budget Report is to be taken to Cabinet in December 2016.
- 5.7 Over the coming months a review of revenue implications related to the capital expenditure programme will also be completed along with a review of the capital receipts and efficiency programmes.
- 5.8 In the following sections, an overview of the budget delivery challenges and pressures are set out before the position is consolidated in Section 6 of the report.

## 6. Current Financial Position

Service	Gross Expenditure Budget	Income Budget	Net Budget	Current Pressures	Previously Reported	Movement
	£k	£k	£k	£k	£k	£k
Chief Executive Services	20,798	(14,147)	<b>6,651</b>	(14,979)	(14,859)	(120)
Place Services	133,080	(43,765)	<b>89,315</b>	(1,000)	(1,000)	0
People Services	410,367	(134,204)	<b>276,163</b>	28,093	27,869	224
<b>Total Net Expenditure</b>	<b>564,245</b>	<b>(192,116)</b>	<b>372,129</b>	<b>12,114</b>	<b>12,010</b>	<b>104</b>

LGSS	35,692	(23,960)	<b>11,732</b>
Schools (DSG) Note 1	265,739	(233,132)	<b>32,607</b>
<b>Total Expenditure</b>	<b>865,677</b>	<b>(449,208)</b>	<b>416,468</b>

Note 1: A total of £310m is recouped in respect of Academies see section 6.2

Table 1 – Financial Summary by Service

6.1 Table 1 above shows that within the reported position NCC Group is experiencing current pressures of £12.1m across services which will be managed to ensure the 2016-17 budget is delivered. Further detail on these pressures is provided within Appendix A. Mitigating actions are being developed and reviewed on a continuous basis by NCC Group Management Board with the key themes of focus for the Management Team as follows;

- Further review of savings programmes, ensuring delivery of 2016-17 plans and identifying opportunities where delivery could be accelerated from future years' MTFP proposals.
- Implementation of further controls to manage costs, focussing on effective procurement and increased restrictions on discretionary spends.
- Further review of resourcing, ensuring staffing structures are working effectively as we transition to Next Generation Council.
- Maximising income generation, ensuring all new and existing opportunities are explored.
- Identification of areas where the Council will need to consider stopping services.
- Review of all reserves and balance sheet items.

6.2 The Schools budget figure within Table 1 includes the draw down from 2015-16 into 2016-17 of Dedicated Schools Grant (DSG) balances and has been adjusted for the recoupment of the DSG by the Education Funding Agency (EFA) in respect of Northamptonshire academies. The DSG recoupment value at the end of October is £310m.

## **7. NCC Group Finance and Performance update**

### **7.1 Chief Executive Services**

- 7.1.1 Chief Executive Services including Corporate and LGSS Managed Services are reporting an overall underspend position of £15m, with a forecast underspend of £0.1m identified this month.
- 7.1.3 Chief Executive Services are reporting a current pressure of £2.2m for this financial year. Within this position, £0.8m of pressure primarily relates to challenges faced in the delivery of Northamptonshire County Council county-wide budget savings proposals linked to efficiencies generated from integrated working with other public sector bodies which have now been identified as non-deliverable, predominately due to timing. These will be revisited for delivery later in the MTP. In addition to this there are £1.4m of savings relating to the ongoing transformation of the Council which are now not likely to be fully achieved until 2017-18, which includes a further pressure of £0.7m in Chief Executive services relating to the centralisation of customer services. Plans and consultations are in place to ensure full delivery next year.
- 7.1.4 Corporate Services are reporting an underspend of £17.3m, a movement of £0.8m compared with last month which is due to an underspend within Treasury interest payable budget of £0.4m obtained by raising short term loans at lower than budgeted rates of interest. In addition to this and through the continuous balance sheet review a further £0.4m has been released to mitigate pressures elsewhere.
- 7.1.5 However, it needs to be noted that there is a potential further risk to savings relating to the move to the new Angel Square premises which will be offset by anticipated compensation. The financial impact of these savings is currently being assessed and if a pressure is identified it will be reported in future months.

### **7.2 Place Services**

- 7.2.1 The implementation of the new Place Directorate is nearing completion. Budgets have been aligned to the new functions and the newly inherited resources are now being monitored with a view to ensure the targeted efficiency savings for them in year are achieved. There is confidence that the inherited budget pressures from Property Asset Management will be fully mitigated. All aspects of the new services are being reviewed and improvements are being implemented.
- 7.2.2 As a response to further pressures elsewhere in the Council, the Place Directorate was tasked to find additional savings of £1m in year. A review of the Waste Management service was undertaken in order to identify possible interventions to enable this significant target to be achieved. These interventions carry associated risks which have been clearly stated within the delivery plan. The impact is across all four divisions within Waste Management, i.e. domestic and trade waste, environmental protection, household waste recycling centres and waste management and minimisation. The efficiency savings will essentially be driven out through reduced costs following negotiations with contractors, deferred activity on closed landfill sites, further rigorous contract management and minimisation of staffing and operational costs, including vacancy management.
- 7.2.3 The services within the Directorate are heavily influenced by unplanned day to day events that generate temporary fluctuations and adverse impacts, and these are managed across the whole Directorate within the budget envelope. Such events include damage to roads and buildings caused by severe weather conditions of all

types, floods, accidents and fire. Even changes in economic prosperity can also impact directly upon services, e.g. as income increases, the volume of waste generated increases commensurately. There is no specific budget to cover these events, but they are mitigated through re-programming and re-prioritising of works and projects, vacancy management across the Directorate and additional one-off income. Technically these are pressures but they are managed by the bottom line given that it is impossible to quantify the financial magnitude in advance.

- 7.2.4 In addition to this every part of the Directorate is actively engaged in developing new and innovative opportunities designed to deliver significant and sustainable efficiency savings and benefits through a wide programme of potential new ways of delivering services.

## 7.3 People services

### *Children's Services*

- 7.3.1 Children's Services are reporting a forecast overspend of £16.1m as a result of the following;

- Undeliverable 2016-17 budget proposals totalling £11.7m which remains unchanged from the prior month's reported position. This comprises of £7.3m relating to the Northamptonshire Children's Trust proposal (15-002-19), £4m for the Managing the Market proposal (15-002-26) and £0.4m Smarter Commissioning proposal (15-002-24).
- The in year demand led pressures total £15.3m as a result of the significant increases and case complexity of the county's looked after children cohort.

- 7.3.2 The total number of looked after children has remained consistently high throughout the financial year, averaging 988. However this number increased significantly throughout October with the County's looked after children totalling 1,020 at the end of October 2016. This is an increase of 27 from the previous month and is the first time that this number has exceeded 1,000.

- 7.3.3 There have also been historic and ongoing increases to the cost of children's social care provision as a result of children subject to child protection plans, complex case loads, recent changes to S20 guidance, less cost effective supply of placements available due to the 46% increase in unaccompanied asylum seeking children aged between 16 and 17, and generally higher framework contract costs in the main, due to the introduction of the living wage. These significant factors have contributed to the following in year pressures;

- Increased demand, complexity and cost of looked after children agency placements totalling £4.8m. A task and finish group is currently reviewing all high cost placements for 18+ year olds to ensure these placements provide value for money. The focussed review work is due to conclude at the end of November however regular review work of the entire cohort will continue in order to offset any further in year demographic growth pressures.
- Other children's social care statutory requirements including S17 payments, support for looked after children, no recourse to public funds and court orders (including mother and baby assessments) for which there is minimal budget available to fund, are anticipated to continue into the new year, totalling £2.4m.

Managers are currently reviewing this area on a transactional basis to look for opportunities to reduce future costs.

- Social Care staffing establishment pressures totalling £2.7m with recruitment and retention issues and agency premium. Managers are currently reviewing staffing establishments, caseloads and use of agency workers to reduce the number of agency workers employed, in order to mitigate this pressure in full.
- Increasing costs within the Fostering Service relating to Residence and Special Guardianship Orders totalling £1.2m, a review of fostering and adoption discretionary spend is currently underway, with mitigations being developed.
- Increases in eligible Unaccompanied Asylum Seeking Children (UASC). There were 15 new arrivals in March and April 2016 and the Council is also experiencing a general reduction in the age of the local UASC cohort which places further long-term pressure on existing Council resources, totalling £1.3m. Whilst the Government provides funding to support these cases, on average this funding equates to 64% of the child's actual costs. The total NCC contribution is therefore forecast to be £3.1m.
- Social Care and Home to School transport pressures total £0.7m as a result of additional demand in transport arrangements.
- Increases in legal proceedings due to new care placement and adoption proceedings; special guardianship and child arrangement orders under the Children Act 1989 and wardship and inherent jurisdiction proceedings totalling £2.9m. There is a management review in progress to identify options to reduce the Council's exposure to these costs in the future.
- Commissioning income shortfall totalling £0.15m.
- Complaints compensation forecast pressure based on latest information totalling £0.08m.
- Bad debt provision due to the current profile of aged debt totalling £0.06m.
- £0.7m of vacancies being held and cost reductions within the Schools Improvement programme.
- Revised forecasts due to reductions in general expenditure across CFE offset in year pressures by a total of £0.3m.

7.3.4 The mitigation previously reported to Cabinet in September has been reviewed further by the Children's Services Management Team with targeted review work on 18+ year old placements concluding at the end of November. Whilst cost reductions have been delivered, the full originally anticipated benefits will not be achieved this financial year. The impact of this reduces the previously reported mitigations totalling £12m by £1.1m.

7.3.5 In summary, the total anticipated pressure for undeliverable 2016-17 Budget Proposals and in year demand led pressures is £27.0m this month which will be reduced by £10.9m as a result of management mitigations that have been implemented, bringing the overall Children's Service anticipated overspend to £16.1m, which is an increased overspend of £1.6m from what was reported to Cabinet in November. The in month forecast changes are set out in Appendix A.

7.3.6 There is a risk of additional Home to School and Social Care Transport overspends against budget with the statutory duty to provide these demand led functions. Further analysis is being carried out to understand the key drivers of the increased spend.

Budget mitigations are currently being worked up to offset this pressure which include a review of journeys against policy and contracting efficiencies being sought through a value for money review of all journeys.

- 7.3.7 Social care staffing establishment pressures with recruitment and retention issues and agency premium are on-going. Senior Managers are continuing to review establishments and use of agency workers to reduce this pressure in year against any risk this would pose against service delivery.
- 7.3.8 The Children's Services Management Team continue to work through a list of detailed recovery actions. The associated cost savings will be reported to Cabinet throughout the year and existing mitigations tracked to ensure delivery.

### **Adults Services**

- 7.3.9 Adults are reporting an overall outturn position of £15.1m overspend that is a £0.2m increase in the overspend reported in the prior month. Responsibility for the pressures and positive variances is split across commissioning and the service but can be summarised as follows;

#### Prevention and eligibility

- Independent Care Budgets forecast underspend of £0.7m that includes non-delivery of 2016-17 budget proposals and in year demand pressures after recovery proposals of £10m have been applied.

#### Purchasing and placements

- Olympus Care Contract budget forecast a pressure of £1.7m due to base budget gap from prior years after accounting for recovery proposals in 2016-17.
- Potential undeliverable in year saving on independent sector spend as a result of better utilisation of the block contracts paid for under the PFI arrangements £3.3m.
- An emerging forecast pressure on Mental Health pool due to increasing costs of supported accommodation packages £0.2m

#### Staffing and structures

- Staffing pressure of £0.5m has been identified across care management budgets. There is a considerable pressure within Younger Adults teams due to the difficulty of recruiting to permanent posts. This includes management action to review all staffing across the service as part of the move to the new federated model.
- A forecast underspend within Mental Health staffing totalling £0.5m mainly due to management action in freezing vacant posts.
- Other Variances across Adults services totalling £0.68m underspend that mainly relates to underspends within central support under Quality and Contracts budget and Prevention contracts.

#### Financial controls, income and debt

- BCF Social care protection income pressure of £5.4m as the funding will not be forthcoming in 2016-17 following national escalation.

- BCF Risk Share £2.5m pressure –This includes a pressure of £1.2m for 2015-16 as the Risk share liability was £3m against a £1.8m provision and £1.3m pressure following the over optimistic forecast of the 2016-17 risk share negotiations via national escalation.
- Undeliverable 2016-17 BCF Budget savings proposals £1.3m due to demand pressures from hospitals.
- Forecast Pressure as a result of the potential non recovery of some Block Contract costs assumed to be a health liability totalling £2.176m as a worse case forecast. This is still subject to final negotiations.
- A forecast favourable variance against Community Equipment of £2.2m.
- Forecast pressure on aged debt provision of £1.3m mainly driven by outstanding client contributions over 360 days old.
- Additional forecast overspends against Legal and transport budgets under the Centralised Care budget line of £0.8m.

7.3.10 To ensure pace and grip the Adult Services Management Team have weekly delivery board meetings, which include the Lead Member and the S151 Officer in attendance to offer challenge and support and ensure existing and new mitigations deliver. To date using this method we have delivered and banked £14m savings and £6m cost avoidance. We have widened the membership to bring in colleagues who oversee debt recovery, we have recently seconded a member of social care staff to work with the team. This is helping to improve processes.

7.3.11 It needs to be noted that the area of savings targeted around the Brokerage and direct payments is high risk as the team has only just been formed. Plans are underway to deliver as much as possible with a full review on a weekly basis. Agreement reached to increase staffing by early January 2017 to 25fte through transferring of staff from service, this will allow for greater case load to be handled. Progress will be reported alongside any changes in savings and impact on the overall Adults Social Care forecast pressure.

### ***Wellbeing and Prevention***

7.3.12 A favourable forecast variance of £3.6m has been identified against the contract with First for Wellbeing. This mainly relates to lower than anticipated operating costs, including staff vacancies, during the first seven months of the operation and projections to the financial year end. Therefore it is a one off benefit in the current year.

7.3.13 Detailed monthly analysis continues to take place over the forecast outturn position of the contract with First for Wellbeing CIC. As a new business start-up there is a level of risk associated with the assumptions and projections applied and therefore risks remain on the delivery of £1.8m. Currently, there is a significant risk which totals £400k and further detailed work is taking place over the coming month to verify the position. However, it should be noted that this will be subject to further review with any changes to be confirmed in future months.

## **8. Balance Sheet and Reserves Review**

- 8.1.1 As part of the agreed intervention programme both balance sheet accounts and reserves will be subject to continuous review, to date a total of £3.9m has been identified and released to offset pressure elsewhere, with an additional provision release of £0.4m in this period as detailed above within Chief Executive Services. (Section 6.1)

## **9. Alternative Options Considered**

- 9.1 It is considered best practice to brief members and report the latest budgetary position to Cabinet on a regular monthly basis, rather than less frequently (for example, quarterly). It also demonstrates the Financial Regulation requirements to ensure the provision of financial information and monitoring compliance with financial management standards.
- 9.2 In order to identify the preferred actions detailed within this report, Portfolio Holders and Senior Officers will have considered alternative options as part of the scheduled Budget Delivery Programme meetings and focused Service Management meetings. Consequently, mitigation actions are continually explored as part of this process.

## **10. Equality Screening**

- 10.1 A separate Cabinet report to this meeting sets out the consultation that has been carried out on ceasing the day services contract with OCS for provision of day services at the Drayton Centre and Stephenson Court, and this in-year proposal also has its own Equality Impact Assessment, which can be found at [http://www3.northamptonshire.gov.uk/councilservices/adult-social-care/policies/Pages/EqlAs.aspx#\\_ga=1.156709179.1218670778.1446474453](http://www3.northamptonshire.gov.uk/councilservices/adult-social-care/policies/Pages/EqlAs.aspx#_ga=1.156709179.1218670778.1446474453)
- 10.2 There are a number of new in-year mitigation actions that have been proposed in Appendix A in relation to Adult Social Care, particularly with regard to reviewing packages. Due to their nature i.e. relating to the care packages for older people and people with disabilities, these have had equality impact assessments carried out to explore the implications and identify any potential risks. These are available on the Council's website via this link: [http://www3.northamptonshire.gov.uk/councilservices/adult-social-care/policies/Pages/EqlAs.aspx#\\_ga=1.156709179.1218670778.1446474453](http://www3.northamptonshire.gov.uk/councilservices/adult-social-care/policies/Pages/EqlAs.aspx#_ga=1.156709179.1218670778.1446474453)

## **11. Financial Implications**

- 11.1 The financial implications of this report are set out in Section 6 and in more detail within Appendix A.

## 12. Risk and Business Continuity Management

12.1 A risk to NCC is that to carry out the activities to meet its objectives, the Council spends beyond its budget. There are internal control processes in place to ensure that the Council does not spend beyond the resources available. Risk will be managed and monitored throughout the organisation during the delivery of the Council's budget plans.

a) Risk(s) associated with the proposal

Risk	Mitigation	Residual Risk
<p>The Council overspends its budget resulting in:</p> <ul style="list-style-type: none"> <li>An inability to deliver its 2016-17 plan and outcomes.</li> <li>Reducing resources available for future pressures.</li> </ul>	<p>Robust financial management processes culminating in regularly reporting on the financial position to Cabinet. The financial management process provides officers with the data to enable the formulation of plans to mitigate pressures and take further steps as required to ensure the delivery of a balanced budget at year end.</p> <p>Given the size of the financial challenge more regular and higher profile approach has been taken including the Cabinet Leadership Team, where necessary, to discuss and agree any recovery plans.</p>	Amber
<p>Proposals to correct budget variances are delayed as a result of not following correct governance steps.</p>	<p>Full consultation and equality impact and risk assessments will be carried out prior to the implementation of specific cost reduction proposals.</p>	Amber

### List of Appendices

Appendix A – NCC Group Finance and Performance Detailed Summary

Appendix B – NCC Budget Summary by Service Line

Author:	Name: Ruth Barnett Team: LGSS Finance
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Background Papers:	
Does the report propose a key decision is taken?	YES
If yes, is the decision in the Forward Plan?	N/A
Will further decisions be required? If so, please outline the timetable here	Yes, future Cabinet Meetings.
Does the report include delegated decisions? If so, please outline the timetable here	N/A
Is this report proposing an amendment to the budget and/or policy framework?	NO
Have the financial implications been cleared by the Strategic Finance Manager (SFM)? Have any capital spend implications been cleared by the Capital Investment Board (CIB)	YES Name of SFM: All  N/A
Has the report been cleared by the relevant Director?	YES Name of Director: All
Has the relevant Cabinet Member been consulted?	YES Cabinet Member: Cllr R. Brown
Has the relevant scrutiny committee been consulted?	SCHEDULED Scrutiny Committee: Finance improvement and performance working group
Has the report been cleared by Legal Services?	YES Name of solicitor: L. Gould
	Solicitor's comments:
Have any communications issues been cleared by Communications and Marketing?	YES Name of officer: S. Deacon
Have any property issues been cleared by Property and Asset Management?	NO Name of officer:
Are there any community safety implications?	NO
Are there any environmental implications:	NO
Are there any Health & Safety Implications:	NO
Are there any Human Resources Implications:	NO
Are there any human rights implications:	NO
Constituency Interest:	ALL