



CABINET

11th SEPTEMBER 2018

DIRECTOR OF FINANCE: MARK McLAUGHLIN

**CABINET MEMBER WITH RESPONSIBILITY FOR FINANCE: COUNCILLOR
MALCOM LONGLEY**

Subject:	Monthly revenue monitoring report for the financial year ending 31 st March 2019, as at 31 st July 2018 (period 4).
Recommendations:	<p>Cabinet instructs the Chief Executive Officer, who has specified formal responsibilities including for the operation of the organisation to;</p> <ol style="list-style-type: none"> 1. Continue to ensure that the savings agreed by the Council on 28th February 2018 are delivered, and if there is slippage ensure that this is reported to the Cabinet along with alternative options for delivering the 2018/19 budget. 2. Implement all the actions agreed by Council on 9th August 2018 in response to the Section 114 report and those set out in paragraph 4.5. 3. Identify additional in-year savings to reduce the projected deficit in 2018-19 <p>Cabinet is requested to note the Council's:</p> <ol style="list-style-type: none"> 1. Statutory duty to balance the 2018-19 budget 2. The forecast outturn position for 2018-19, and associated risks. 3. The risk assessment of 2018-19 saving proposals in Appendix A.

1 Purpose of Report

1.1 This report provides a summary of the forecast outturn position for the 2018-19 financial year, based on income and expenditure up to the end of July 2018. It also includes an update on the 2017-18 audit of accounts which has an impact on the Council's outturn for 2018-19 as it includes a brought forward deficit.

2 How this Decision Contributes to the Council Plan

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

The Council's financial performance will affect its ability to meet all of its corporate plan objectives.

- 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 gives access to jobs, training and skills development.
- Communities thrive in a pleasant and resilient environment, with robust transport and communications infrastructure.

3 Background

3.1 On 24th July 2018 the Council's Director of Finance issued a Section 114 notice. This estimated a forecast deficit of between £60m to £70m in 2018-19, after taking account of the brought forward deficit from 2017-18, significantly more than previous reported forecasts. This report sets out the variances since this notice.

3.2 The Council has a statutory duty to deliver a balanced budget. This is set out in both the 1988 and 1992 Local Government Finance Acts.

4 Estimated Outturn

4.1 The Council's forecast in year outturn for 2018-19, based on spending to the end of July is an overspend of £24.3m. This is an improvement of £5.9m on the position reported in the July 2018 s114 notice and is a positive start to balancing the 2018-19 budget.

4.2 The overall deficit, including the brought forward deficit of £35.3m from 2017/18 is £59.6m, a £4.6m improvement on the July 2018 s114 notice.

4.3 The table below shows:

- The net budget approved by the Council for the year
- The forecast net spend for the year based on spend to end of July
- The difference between the two, the forecast variance at year end
- The estimated variance when the s114 notice was issued on 24th July
- The final column shows the change or movement in the forecast year-end position since the s114 notice was issued

4.4 The brought forward deficit is higher than originally estimated but this has been mitigated by a higher level of savings now being delivered. There is confidence that the headline overspend will reduce as the extended expenditure controls and the Taskforce make an impact.

4.5 Commissioners have requested that in-year savings are identified by Directors to ensure that as a minimum each Directorate delivers a balanced budget.

Forecast Outturn 2018-19 by Directorate	Net Budget	Forecast Net Spend at 31/03/19	Forecast Variance at 31/03/19	Estimated variance in s114 Notice	Movement since s114 notice was issued
	£000	£000	£000	£000	£000
Chief Executive Services	4,317	4,406	89	1,445	(1,356)
Children First Northamptonshire	138,560	139,342	782	1,873	(1,091)
LGSS	17,297	17,616	319	514	(195)
Northamptonshire Adult Social Services (NASS)	186,601	187,231	630	5,820	(5,190)
Place Services	84,515	85,304	789	1,120	(331)
Wellbeing and Prevention	7,416	7,637	221	671	(450)
Schools	260	260	0	0	0
Corporate costs: Treasury, Insurance and Technical Services	2,307	(5,435)	(7,742)	(10,977)	3,235
Shortfall on budgeted transformational expenditure 18-19	0	29,700	29,700	29,700	0
Total budgeted expenditure	441,273	466,061	24,788	30,166	(5,378)
Less funding	(441,273)	(441,773)	(500)	0	(500)
Net Position 2018-19	0	24,288	24,288	30,166	(5,878)
Unfunded deficit brought forward from 17-18	0	35,304	35,304	34,027	1,277
Net including 17-18 deficit	0	59,592	59,592	64,193	(4,601)

4.6 **Chief Executive Services** is reporting an overspend of £89k.

4.7 **Children First Northamptonshire (CFN)** is reporting an overspend of £782k, comprised as follows:

	£000
• First Point of Contact. Saving no longer viable	500
• Targeted Early Help. Proposal partly undeliverable	300
• Risk provision on amber rated savings	1,321
• International Social Worker Recruitment. Over-achievement.	(500)
• Staffing budgets / turnover management	(350)
• One off non-ringfenced grants offered up	(200)
• Training deferred to next year	(170)
• Other minor variances	<u>(119)</u>
	<u>782</u>

4.8 **LGSS** is forecasting an overspend of £319k, comprised as follows:

	£000
• LGSS operational savings no longer taking place	150
• Other minor variance	63
• Risk provision on amber rated savings	187
• Underspend on councillor allowances and training budget	<u>(81)</u>
	<u>319</u>

4.9 **Northamptonshire Adult Social Services (NASS)** is forecasting an overspend of £630k. This comprises an overspend of £4,500k on independent care budgets, project expenditure of £454k, less mitigations of £4,324k.

	£000
• Independent care budgets	4,500
• Project expenditure	454
• Staffing budgets / turnover management	(1,000)
• Residential care block contract	(1,200)
• Client Contributions	(1,600)
• Intermediate care contract	(269)
• Other variances	<u>(255)</u>
	<u>630</u>

4.10 The £4,500k demand pressure on independent care budgets is driven by an increase in the average cost of packages since setting the budget in February and an increase in the number of hours of domiciliary care being provided across the county since the commencement of the new domiciliary care contract in April.

4.11 The **Place** Directorate is reporting a forecast overspend of £789k. This is comprised as follows:

	£000
• Under-delivery of 18-19 savings proposals	790
• Managing Agent delivery model (Engagement of a private sector partner to participate in joint venture to provide up front funding for infrastructure for a long-term return on investment along with ongoing revenue efficiencies and income generation opportunities). Procurement paused pending review of future operating models	1,000
• Schools PFI scheme savings approved in previous years that will not be delivered	1,100
• Property Services – unavoidable delays in exiting buildings, offset by savings on stationery and income from car parking	355
• Commercial income pressure	500
• Risk provision on amber rated savings	124
• Waste Management underspend based upon activity to date in 18-19 and withdrawal of premium paid on recycling credits for kitchen food waste	(1,400)
• Environment, Planning and Transport – capitalisation of consultancy costs, and turnover management	(408)
• Archives and Heritage underspend due to salary capitalisation and turnover management	(294)
• Directorate action plan to address overspend	(643)
• Other mitigations	<u>(335)</u>
	<u>789</u>

4.12 **Corporate costs - Treasury, Insurance and Technical Services** are reporting a £7,742k underspend for 2018-19.

	£000
• Under-delivery of car mileage proposal	400
• Apprentice Levy efficiency proposal with no agreed plan for delivery in 2018-19	666
• Shortfall on Insurance budget compared to forecast activity	893
• Social Impact Bonds – income proposal from 2017-18 which is unlikely to be realised in 2018-19	1,250
• Risk provision on amber rated savings	630
• Benefit of change to Minimum Revenue Provision policy	(10,501)
• Additional forecast of interest receivable due to increased cash position following OAS sale	(300)
• Release of corporately held growth proposals to support transformation costs and performance management growth requirements	<u>(780)</u>
	<u>(7,742)</u>

4.13 **Wellbeing and Prevention** is reporting a forecast overspend of £221k. As part of the Public Health Grant assurance review of historic spend, some elements of the Social Wellbeing contract were deemed non-compliant with the conditions of the grant. Whilst notice has been served on these elements, there will be approximately £241k residual costs in 2018-19 that cannot be funded through the Public Health Grant.

	£000
• Coroner’s service – forecast based upon activity levels	114
• Public Health Grant assurance review	241
• Other variances in PH and Wellbeing management team	<u>(134)</u>
	<u>221</u>

4.14 **2017-18 Statement of Accounts, and unfunded deficit**

4.15 Adjustments agreed with the Auditor of £40.0m mean that after applying the remaining usable reserves, a deficit of £35.3m will be brought forward to be recovered in 2018-19. These are set out in the table below. This is £1.3m more than had been anticipated in the s114 Notice due to a higher amount of non-qualifying transformation expenditure than previously forecast and a higher level of reserves that cannot be used.

Estimated unfunded deficit brought forward from 2017-18	£000
Capitalised transformation expenditure	16,998
Use of Section 106 receipts for revenue purposes	13,500
Use of Section 38 receipts for revenue purposes	2,900
Public Health provision	8,000
Less Reduced MRP charge relating to PFI assets	(1,355)
Total Adjustments	40,043
Less Use of remaining usable reserves	(4,739)
Unfunded Deficit Carried Forward to 2018-19	35,304

4.16 The closing position for 2017-18 cannot be fully confirmed until the audit of the 2017-18 accounts has been concluded, which is estimated to be at the end of September, but the majority of the potential adjustments are included in the above amount.

4.17 **Funding**

4.18 The net cost of council services are funded from three areas: council tax, business rates, and government grants, as set out in the table below.

4.19

Funding	Net Budget	Forecast Net Spend at 31/03/19	Forecast Variance at 31/03/19	Estimated variance in s114 Notice	Movement since s114 notice was issued
	£000	£000	£000	£000	£000
Council Tax income	(302,336)	(302,336)	0	0	0
Business Rates income	(92,680)	(93,180)	(500)	0	(500)
Revenue Support Grant and other Central Government Grants	(46,257)	(46,257)	0	0	0
Total NCC Funding	(441,273)	(441,773)	(500)	0	(500)

4.20 Forecast council tax income is based upon the budgeted council tax precept amount, and tax base and collection rate information provided by district and borough councils who collect council tax. Any variance in the budgeted amount of council tax income will be treated as surplus/deficit on the collection fund in the accounts and will form part of the 2019-20 budget.

4.21 The Council is a member of Northamptonshire's business rates pool. Based upon the first quarter's pool returns, there is an anticipated increase in business rates income above the budgeted amount in 2018-19 of £0.5m.

4.22 Central Government Grants includes the Revenue Support Grant (£22.5m) and Better Care Fund (£15.3m). All central grant income is regularly monitored and is currently forecast to be in line with the budget.

4.23 Available Capital Receipts

	£000
Unused capital receipts brought forward from 2017-18	16,998
Useable capital receipt from sale of One Angel Square, April 2018	42,000
Estimated receipts from other sales 2018-19 (Risk-adjusted forecast).	16,461
Forecast of Total Available Capital Receipts	75,459
Flexible capital receipts utilised to fund qualifying budgeted transformation expenditure	(1,225)
Flexible capital receipts utilised to fund qualifying supplementary transformation expenditure	(1,020)
Forecast of remaining available Capital Receipts	73,214

4.24 Available capital receipts have increased significantly compared to what was assumed when setting the budget. This is because expenditure that had been capitalised using the transformational capital receipts dispensation in 2016-17 and 2017-18 was reversed.

4.25 The Council will be preparing a transformation strategy over the next few months that will include an amount of capital receipts that could be utilised to deliver ongoing savings. The remainder, if not needed for this purpose will be considered as part of the Council's Treasury Management Strategy.

4.26 Reserves

4.27 As set out above, the Council has a brought forward deficit of £35.3m after using all of its usable reserves.

4.28 When the Council sets its budget each year it must have regards to Section 25 of the Local Government Act 2003. This means the Council's Section 151 Officer (Chief Finance Officer) must give his professional opinion on the adequacy of reserves. Currently the reserves are not adequate and are unlikely to be adequate when it sets its 2019-20 budget. As it would need to clear the deficit and build adequate reserves over too short a period.

4.29 As a comparison other counties on average have earmarked and general reserves of approximately 25% of net expenditure, some as high as 60%. For Northamptonshire to achieve an average level it would need reserves of approximately £110m. Even a minimum level would be 5% of net revenue expenditure, or £20m that is not likely to be attainable by 31/03/19.

4.30 On top of this the Council would be expected to have an insurance reserve of £2.8m recommended by its actuaries, based on the level of uninsured risks. It is not in a position at the moment to set this amount aside and must hold it as an additional revenue risk.

4.31 The table below sets out:

- The forecast year end position when the 2017-18 budget was approved on 28th February 2018 which was not accurate,
- The draft Statement of Accounts that were reported to Audit Committee in June 2018
- The forecast position in the Statement of Accounts subject to the conclusion of the audit, likely to be reported at the end of October 2018.

	Reserve balances forecast as per Budget Report (MTFP) 31/03/18 Positive/(negative) £000	Draft Accounts 31/03/18 Positive/(negative) £000	Forecast Re-Styled Accounts 31/03/18 Positive/(negative) £000
General Fund Balance / (Deficit)	12,021	0	(35,304)
Earmarked Reserves	26,943	7,982	3,243
Total	38,964	7,982	(32,061)

5 2018-19 Savings Delivery Performance

5.1 The Council has a savings requirement of £35.4m within its 2018-19 budget. The deliverability of these proposals is being monitored by each accountable service

lead, budget manager and senior officers. Corporate oversight is through monthly review by NCC Management Team as part of the sign-off process of the financial monitoring position, quarterly performance boards and the Cabinet.

5.2 The latest assessment on the deliverability of these proposals is set out in the table below by Directorate. Further detail on non-deliverable or part-deliverable proposals and corresponding mitigating actions is set out in Appendix A.

5.3 Savings rated as red, non-deliverable and a risk adjusted proportion of amber rated savings have been reflected in directorate forecasts.

RAG analysis by Directorate	Saving Target	Green	Amber	Red	Mitigated in year	Forecast to be deliverable	Forecast of Amber to be non-deliverable. Held as central contingency	Non-deliverable. Included in Directorate outturn position
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Chief Executive Services	1,569	1,004	490	75	0	1,320	175	75
Children First Northamptonshire	6,732	4,725*	1,707	800	0	5,111	1,321	800
Treasury, Insurance & Technical Services	4,800	3,200	1,200	400	0	3,770	630	400
Wellbeing and Prevention	792	250	0	542	0	250	0	542
LGSS	2,207	1727	262	218	0	1,802	187	218
Northamptonshire Adult Social Services (NASS)	12,798	3,648*	9,150	248	0	8,138	4,660	248
Place	6,462	5,422	250	790	(335)	5,547	125	790
Total	35,360	19,976	13,059	3,073	(335)	25,938	7,097	3,073

*Note: Includes forecast over-delivery of £500k and £248k on proposals 17-002-10 and 16-001-04b respectively.

Key: Green = Deliverable.
Amber = Deliverable, with risks.
Red = Unlikely to be delivered

5.4 Amber Rated Proposals

5.5 The table above sets out the Director's latest assessment of the deliverability of the saving proposals within the 2018-19 budget. A full breakdown is given in Appendix A.

5.6 Out of the £35.4m proposals, £13.1m are assessed as being amber rated. This means that they are deemed to be deliverable in 2018-19, but there are risks associated with them. Directors have assessed a confidence level against the deliverability of these proposals.

- 5.7 The confidence levels prescribe a percentage against each proposal, assessing its forecast level of deliverability. Applying these percentages against the total value of the £13.1m of amber rated proposals gives a risk-weighted pressure of £7.1m that are included in Directorate forecasts.
- 5.8 NASS has been developing a range of initiatives and plans to provide assurance and mitigations that the service can deliver all of their savings and a balanced budget. These include:
- Provider contract and inflation review.
 - The application of strict controls on health and social care funding splits and claw back of any monies due.
 - Review of specialist services.
 - Variations to existing service provision within the block contracts.
 - Therapy and strengths based reviews of all community referrals and initial reviews within 4 weeks of care being put in place.
 - Mandated use of assistive technology and assisted living (or extra care) before longer term care is considered.
 - Improved internal asset usage to reduce high cost market placements.
 - Aged debt reduction impacts.

6 Risks

- 6.1 The Ministry of Housing, Communities and Local Government (MHCLG) has suspended elements of the Troubled Families grant across the East Midlands. The risk to NCC is assessed at up to £1.4m in 2018-19 (a reduction of £0.35m from last month following the receipt of transformation grant funding). The service has prepared a project plan to deal with the issues raised by the sponsoring body. The recovery plan is currently on track with 2017-18 targets already met which has been recognised by MHCLG. It is expected that this will provide the department with the assurance ministers will need to release the funding allocated to Northamptonshire in 2018-19, thus mitigating this risk.
- 6.2 Delayed Transfer of Care (DTC) – The recorded DTCs have reduced from 102 in August 2017 to 32 in June 2018, however admissions in the over 65s are high and the average number of people staying over 21 days is twice the national average at 12%. There is national pressure to reduce this and Department of Health sponsored reviews have led to further actions to reduce long stays and has conversely increased DTCs. This creates continued risk of the service being charged “disbursement fees” or fines by the Acute Hospital at £155 a day for every day that a person is prevented from leaving hospital.
- 6.3 Hospital Demand - Continued demand for Adult Social Care to reduce delays in the transfer of care from hospitals and move people on to the next step on their care pathway. 95% of those admitted are over 65 years old and the majority of complex discharge cases are over 75 years old. Long stays and delays in discharge led to an increase in admissions to care home and particularly nursing homes where a shortage of spaces is driving up costs. The number of over 65s

care home admissions per 100,000 population rose in 2017-18 from 470 to 550 as a direct result. Continued pressure or a similar winter could lead to further pressure in 2018-19.

- 6.4 Sleep-ins – The 2018-19 budget includes £6m of growth to cover the cost of backdating uplifts for sleep-in allowances to July 2017 as indicated by guidance from HMRC. Following the Court of Appeal outcome in July, there is no additional risk to providers requesting backdated payments going back six years as the judgement stated that National Minimum wage does not apply to sleep-in shifts unless the worker is awake for the purposes of working. The service is currently assessing the sleep-in uplifts already distributed to providers and the remaining budget set aside.
- 6.5 The Library Service savings approved in the budget will not be achieved as intended following the decision to pause the proposed decommissioning of 21 libraries and the outcome of the Judicial Review. The Library service is implementing alternative savings to mitigate this impact by pausing spending on new book purchases and daily newspapers.

7 Medium Term Financial Plan

- 7.1 The Council's Medium Term Financial Plan (MTFP) will be refreshed to take account of the changes agreed as part of the action plan, and delivery of core services. This is currently forecast to require additional savings of £54m plus any deficit not cleared in 2018-19.
- 7.2 The draft budget and MTFP for 2019-20 will be presented to Cabinet at the meeting scheduled for 11th December 2018. This will incorporate the work currently being undertaken to recover the in-year financial position, and any additional savings proposals and actions that will be required.
- 7.3 Following the issuing of the draft budget in December, a statutory period of consultation will be undertaken. Consultation responses will be considered prior to the final budget and MTFP for 2019-20 being presented to Cabinet and then to Full Council in February 2019 for approval.

8 Consultation and Scrutiny

- 8.1 All 2018-19 Budget proposals were consulted on prior to the budget being approved by Full Council in February 2018.
- 8.2 Any management interventions required to ensure the Council does not overspend its Budget that require a policy change, will be subject to a consultation before any decision is taken.
- 8.3 Where full consultation is necessary, full details will be presented to Cabinet separately. Cabinet can only make a decision after taking careful account of the results of such consultation in order to reach an informed decision.

9 Equality Screening

- 9.1 Where material mitigating actions may have an impact upon customers with regard to their protected characteristics, they will have an equality impact assessment carried out prior to being implemented to ensure that the implications are fully understood.

Appendices

Appendix A – 2018-19 Savings Proposals tracker

Author:	Name: Iain Jenkins Team: LGSS Finance
Contact details:	Tel: 01604 364664 Email: IJenkins@northamptonshire.gov.uk
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 Michael Clarke
Has the relevant scrutiny committee been consulted?	Finance and Resources Scrutiny Committee can review if required in their work programme
Has the report been cleared by Legal Services?	YES Name of solicitor: Shahin Ishmail
Have any communications issues been cleared by Communications and Marketing?	YES Name of officer: Simon Deacon
Have any property Issues been cleared by Property and Asset Management?	NO
Procurement/ Contractual Implications: <ul style="list-style-type: none"> • Have you evidenced compliance with the Council's Contract Procedures Rules? • Have you identified where you are seeking Cabinet to approve an exemption from the Contract Procedure Rules and detailed the risks and mitigations? 	NO

<ul style="list-style-type: none"> • Have you identified any EU or UK legislative risks associated with the exemption process such as non-compliance with the Public Contract Regulations Act 2015, transparency and open competition? • Have you identified the procurement or contractual risks associated with a contract? • Has the contract/procurement been subjected to the Council's Commercial Board? 	
Are there any community safety implications?	NO
Are there any environmental implications:	NO
Are there any Health and Safety Implications:	NO
Are there any Human Resources Implications:	NO
Are there any human rights implications:	NO
Constituency Interest:	All