



CABINET

14th February 2017

DIRECTOR OF FINANCE: DAMON LAWRENSON

CABINET MEMBER WITH RESPONSIBILITY FOR FINANCE: COUNCILLOR ROBIN BROWN

Subject:	Monthly Financial Report as at the end of December for the financial year ending 31 March 2017 including review of Budget Delivery Proposals.
Recommendations:	Cabinet is requested to note ; I. the Council's financial position II. note the recommendation to Full Council to approve the additional flexible use of capital receipts within the Final Budget Papers (section 7.1.3)

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 December 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 regular 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 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.
- 5.5 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 has taken place and is included within the Medium Term plan for 2017-18 where necessary. The Draft Budget Report was presented to Cabinet in December 2016.
- 5.6 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.
- 5.7 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 Forecast Variance	Previously Reported Variance	Movement
	£k	£k	£k	£k	£k	£k
Chief Executive Services	19,831	(14,147)	5,684	(25,778)	(20,444)	(5,334)
Place Services	130,842	(44,367)	86,475	(2,300)	(1,500)	(800)
People Services	417,381	(136,638)	280,743	37,392	31,898	5,494
Total Net Expenditure	568,054	(195,154)	372,902	9,314	9,954	(640)

LGSS	34,919	(23,960)	10,959
Schools (DSG) Note 1	265,785	(233,178)	32,607
Total Expenditure	868,758	(452,290)	416,468

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 a current forecast variance of £9.3m across services which will be managed to ensure the 2016-17 budget is delivered. The current forecast pressure equates to 2.2% of the net budget or 1% of the gross expenditure budget. Further detail on these pressures is provided within Appendix A. Mitigating actions are continuing to be developed and reviewed 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 December 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 £25.8m, with a forecast underspend of £5.3m identified this month.
- 7.1.2 Chief Executive Services are reporting a current pressure of £2.1m for this financial year. This is a £100k reduction from last month as a result of savings due to vacancy management and a planned reduction of costs in the Business Intelligence and Performance service. 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 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 of this next year.
- 7.1.3 Corporate Services are reporting an underspend of £28m, a movement of £5.2m compared with last month which is due to further review of progress in relation to land and property disposals and further review of Reserves and Provisions to contribute towards the corporate position. The inclusion of an additional £4m as part of the flexible use of capital receipts will be included within the Final Budget Report recommendations for approval at Full Council.
- 7.1.4 LGSS Managed Services are currently forecasting an overspend of £0.085m. This is due to the overlap of line lease contracts within the IT Managed service.
- 7.1.5 It also 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. This has included a review of asbestos in local authority schools which has given rise to survey and remedial financial pressures which are planned to be recovered from the schools in question.
- 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. However, opportunities for further savings have continued to be explored. The result of this investigation is that an increased £0.6m one-off saving in Waste has been identified by continuing with rigorous management of the overall budget and reprioritising of activities.

7.2.3 In addition to the above, Place are also exploring a revised work programme across the Directorate to re-profile expenditure on a range of service areas with a view to making further one-off savings in the order of £0.5m, though not at the expense of essential services. This will also involve a concerted highway maintenance initiative during March to offset any winter damage to the road network and prevent more costly future repair works.

7.2.4 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. As part of this work more rigour has been applied to the management of S106 funding including charging of fees to achieve a £0.2m saving.

7.3 People services

Children's Services

7.3.1 Children's Services are reporting a forecast overspend of £18.1m 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 now total £16.9m this month 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 998 up to the end of November with this number increasing significantly over the previous two months, reaching a record high of 1,038 at the end of November. Throughout December this number has reduced by 14 to 1,024, remaining above the year to date average due to a surge in sibling groups coming into care.

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 (looked after children provision), less cost effective supply of placements available due to the significant 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 £5.2m. A panel process is in place to provide additional assurance that new placements will be commissioned in the most cost effective way. 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 shortly however regular review work of

the entire cohort will continue in order to offset any further in year demographic growth pressures and ensure our current high cost care packages offer value for money whilst achieving placement outcomes for children.

- High cost joint packages of care costs recharged from Health in respect of disabled children with highly complex needs total £1.5m. Focussed reviews of individual package costs for the agreed social care elements are being carried out by Social Care Professionals following changes to Health Continuing Care criteria where there is now a higher threshold. Alongside this there is a review being conducted of all income due from health to support the funding of joint placement costs.
- Other children's social care statutory requirements including section 17 payments for essential items for children in need, 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 £2.5m. 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 continue to review staffing establishments, caseloads and use of agency workers to reduce the number of agency workers employed, which has mitigated some of this pressure.
- 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 offsetting this in part.
- Increases in eligible Unaccompanied Asylum Seeking Children (UASC). Whilst the Government provides funding to support these cases, on average this funding only equates to 64% of the child's actual costs. There were 15 new arrivals at the start of the current financial year, 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. These pressures total £1.5m more than the budgeted NCC contribution of £1.8m, bringing the total forecast NCC contribution to £3.3m.
- Social Care and Home to School transport pressures total £1.4m as a result of additional demand in transport arrangements. The Home to School transport pressure makes up £0.9m of this and relates to transport provision for children with Special Educational Needs where there is a statutory duty to provide this demand led function. This pressure has been mitigated by £0.75m by offsetting contract re-profiling from the Council's Transport provider. Budget mitigation options for future years are currently being developed which will include a review of journeys against policy, and the identification of new contracting efficiencies are being sought to ensure value for money is achieved on all journeys.
- 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, however there is a risk that the Legal pressure could rise based on current trend.

- Commissioning income shortfall totalling £0.15m.
- Complaints compensation forecast pressure based on latest information totalling £0.08m.
- An increase in bad debt provision, informed by the latest profile of aged debt totalling £0.06m.
- Revised forecasts due to reductions in general expenditure and vacancy freezes across CFE offset in year pressures by a total of £2.3m.

7.3.4 The mitigation in respect of a review of commissioned contracts to enable cost reductions through ceasing a range of less effective contractual arrangements has been reduced by £0.1m this month. The revised deliverable forecast now stands at £0.3m this financial year with further savings expected next financial year.

7.3.5 In summary, management mitigations that have been implemented now totalling £10.5m reduce the anticipated pressure for undeliverable 2016-17 Budget Proposals and in year demand led pressures totalling £28.6m this month, bringing the overall Children's Service anticipated overspend to £18.1m, which is in line with what was reported to Cabinet in January. The in month forecast changes are set out in Appendix A.

7.3.6 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

7.3.7 Adults are reporting an overall outturn position of £22.4m overspend. This is an increase of £5.5m from the level reported previously. The main driver of this increase is a further reduction in the impact of mitigating actions planned within Independent care packages. This is across Residential and Nursing and Community care packages where the service are experiencing an increase in more complex cases and cost pressure from providers. Out of the £22.4m overspend for 16-17, £12m is Health related that is within Financial Controls, income and debt as outlined below (7.3.8)

7.3.8 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 pressure of £7.3m that includes non-delivery of 2016-17 budget proposals and in year demand pressures after recovery proposals of £2.5m have been applied.

Purchasing and placements

- Olympus Care Contract budget forecast a pressure of £1.6m due to base budget gap from prior years after accounting for recovery proposals in 2016-17.
- Forecast reserves of £1m from Olympus Care.
- 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 underspend of £0.01m has been identified across care management budgets. This has been driven by a high level of vacancies within care management that is offset by pressure within Younger Adults teams due to the difficulty of recruiting to permanent posts and the requirement to resource a DOLS team (Deprivation of Liberty Safeguards). This includes management action to review all staffing across the service as part of the move to the new federated model.
- Other Staffing Variances across Adults services totalling £0.4m underspend that mainly relates to underspends within central support under Quality and Contracts budget and Health Partnerships Management

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 £2.4m pressure –This includes a pressure of £1.1m for 2015-16 as the Risk share liability was £2.9m 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 £1.5m 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.

7.3.9 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 £16m 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.

7.3.10 It needs to be noted that the area of savings targeted around the Brokerage remains 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. It has been agreed to maximise the impact of savings in this financial year, all new cases are going through Brokerage

as of January 2017. Progress will be reported alongside any changes in savings and impact on the overall Adults Social Care forecast pressure.

Wellbeing and Prevention

- 7.3.11 Wellbeing and Prevention are reporting a £3.1m under spend position. Within the reported position 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.
- 7.3.12 The decision to close the Nourish service at the end of the current academic year was taken after the budget was set. This together with schools leaving the service before the summer term has led to a shortfall in the anticipated income of £0.5m. The closure project is closely monitoring the financial implications to minimise the risk.

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 £10.6m has been identified and released to offset pressure elsewhere, with a favourable movement of £0.9m in this period as detailed above within Chief Executive Services. (Section 7.1).

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 Where 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.

11. Financial Implications

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"> An inability to deliver its 2016-17 plan and outcomes. Reducing resources available for future pressures. 	<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