HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	19 September 2016
Title:	Revenue Budget Monitoring 2016/17
Reference:	7794
Report From:	Director of Corporate Resources

Contact name: Rob Carr – Head of Finance

Tel: 01962 847508 **Email:** Rob.Carr@hants.gov.uk

1. Executive Summary

1.1. The purpose of this report is to provide Cabinet with an early view of the revenue budget monitoring position for 2016/17 at the end of Period 4. It also examines the impact of this latest forecast on the position for 2017/18 and how this will be managed to ensure the County Council can move forward confident that the authority's financial position continues to have a firm foundation.

1.2. The report also takes advantage of the opportunity to seek several approvals in respect of the new Enterprise Zone (EZ) within the Enterprise M3 LEP boundaries.

1.3. In 2015/16 the Corporate Management Team (CMT) received monthly 'financial resilience' reporting that not only looked at the regular financial reporting carried out in previous years but also focussed on potential pressures in the system and the continued monitoring of the implementation and delivery of the Transformation to 2015 (Tt2015) Programme.

1.4. 2016/17 is in effect a 'steady state' position following the decision to use one off resources to allow time for savings to be delivered over two years through the Transformation to 2017 (Tt2017) Programme. As a result, the potential risks might be seen to be lower than in 2015/16 but as we continue to face pressures within social care along with most other authorities providing these services enhanced financial resilience monitoring has continued into 2016/17.

1.5. This reporting has been updated to reflect the end of the Tt2015 Programme and the fact that delivery of the Tt2017 Programme itself is being monitored separately and is receiving focused attention to ensure savings are on track, with the latest update being presented to Cabinet elsewhere on this Agenda in the Transformation to 2017: Report No. 8.

1.6. Early delivery of Tt2017 savings is currently forecast to be £34.4m in cash terms in 2016/17. Pressures are currently forecast to total £20.7m in 2016/17 and, as in previous years, are within Children's Services and Adults' Health and Care.

1.7. Pressures within Children's Services set out in Section 3 total £12.3m, of which £6.0m is currently expected to continue into 2017/18. This initial forecast, which requires further analysis and challenge, along with a potential shortfall of £1.7m in cash delivery of Tt2017 savings in 2017/18, means that the department is forecasting that it may not be able to contain the position within its overall cash limit in either 2016/17 or 2017/18.

1.8. The forecast pressures within Adults' Health and Care, which relate to a number of service areas, as described in more detail in Section 3, total £8.4m and increase to £17.9m in 2017/18. The position is further impacted by a shortfall of £11.9m in the cash to be delivered from the Tt2017 savings in 2017/18 and highlights that the department will not be able to contain the position within the overall cash limit in that year. Based on the current forecasts the predicted shortfall in 2017/18 is £13.7m.

1.9. The value of monitoring early in the year is, as always limited. However, what this does provide is an early indication and areas for key focus for the coming months. This report starkly highlights a trend that we have seen in recent years in terms of the divide between the social care Departments and the rest of the County Council.

1.10. Given the challenge facing the social care Departments in particular and most notably Adults' Health and Care, it is possible that the forecast position may deteriorate, even though every effort will be made to avoid this eventuality through active management and where necessary through the pursuit of other savings areas. The need for continued close monitoring is vital and consequently, a further revenue monitoring update will be provided to Cabinet later in the year in line with reporting on the delivery of the Tt2017 Programme.

1.11. Although the position for 2017/18 in particular is not definitive at this stage, a solution is proposed to manage the potential shortfall in the period up to 2018/19 to maintain the firm foundation that underpins the County Council's financial position, by which point the position is expected to regularise.

2. Contextual Information

2.1. The County Council's success in delivering its savings plans to date has been consistently demonstrated by the fact that it has been able to contain expenditure within budget and has achieved under spends in each of the years since 2010/11, despite taking significant sums of money out of the budget. These under spends have been proportionate given the scale of the Council's finances, and have not been to the detriment of services, but they have provided an invaluable capacity to our successful change programmes.

2.2. 2015/16 represented a further milestone in this journey, given that a further £102.5m was removed from budgets, taking the total to £242m since the grant reductions began.

2.3. This further level of reduction obviously increased the risk within the budget, in recognition of which monthly ‘financial resilience’ reporting presented to the Corporate Management Team (CMT) was amended to look not only at the regular financial reporting carried out in previous years but also to focus on potential pressures in the system and the continued monitoring of the implementation and delivery of the Transformation to 2015 (Tt2015) Programme.

2.4. The outturn position for 2015/16 presented to Cabinet in June 2016 showed an overall under spend across Departments. This position is probably the best measure we have for demonstrating that the £102.5m removed from the budget following the Tt2015 Programme was successfully delivered and that the focus on strong financial management throughout the year was effective.

2.5. 2016/17 is in effect a ‘steady state’ position following the decision to use one off resources to allow time for savings to be delivered over two years through the Transformation to 2017 (Tt2017) Programme. The potential risks might therefore be judged as lower than in 2015/16 but we continue to face pressures within social care along with most other authorities providing these services.

2.6. To ensure that the monitoring is appropriately targeted the content has been updated to reflect the end of the Tt2015 Programme and the fact that delivery of the Tt2017 Programme itself is being monitored separately and is receiving focused attention to ensure savings are on track, with the latest update being presented to Cabinet elsewhere on this Agenda.

3. Summary of Forecast Position for 2016/17

3.1. It is worth reminding Cabinet that at this point in the year, the forecasts themselves are not fully tested and tend to concentrate on the more significant negative items without considering in depth other areas of potential under spend that could be used to offset them. Early year monitoring therefore tends to the side of prudence. This position will obviously evolve as we move through the year, but the picture painted from the emerging forecasts in this report is one that we must take note of and respond to.

3.2. The table below summarises the latest forecast position in 2016/17 for each Department and shows the contrast between the different Departments:

	Early Delivery of Tt2017 Savings £'000	Pressures £'000	Other Savings(*) £'000	Contrib. to Cost of Change £'000	One-Off Support Required £'000
Adults' Health and Care	(14,000)	8,436		5,564	
Children's Services	(6,706)	12,310	(1,183)		4,421
ETE	(4,858)		(2,890)	7,748	
CCBS	(3,257)		(1,955)	5,212	
Corporate Services	(5,569)			5,569	
Departmental Total	**(34,390)**	**20,746**	**(6,028)**	**24,093**	**4,421**

(* Including departmental under spends)

3.3. The table above shows the net position in 2016/17 for the potential one off support required before considering the use by Departments of their cost of change (and other) reserves.

3.4. For the purposes of the financial forecast it should be noted that the delivery of the transformation programme is judged in terms of cash released in the financial year. As such there will be differences between this and the assessment presented in the Tt2017 Programme update reports which focus on achievement of milestones and the successful completion of the work required to deliver the savings proposals. From a cash perspective, delivery may begin part way through the year and as such the impact on the financial position that Departments need to manage may vary.

3.5. In 2016/17 it is currently anticipated that with the exception of Children's Services one-off funding will not be required and in fact Departments will once again be able to make a significant contribution to their cost of change reserves. When other funding is included then the position is as shown below, with the table presented to highlight the stark differences between the social care and other Departments:

	ETE, CCBS & Corp Services £'000	Adults' Health and Care £'000	Children's Services £'000
Early delivery of Tt2017 Savings	(13,684)	(14,000)	(6,706)
Pressures		8,436	12,310
Other Savings(*)	(4,845)		(1,183)
Subtotal	**(18,529)**	**(5,564)**	**4,421**
To Be Met From:			
Departmental Contingency (Ongoing)		(4,342)	
Departmental Cost of Change Support (One-Off)		(2,402)	(1,059)
Other Departmental Reserves (One-Off)		(700)	
Contribution to Cost of Change	18,529	13,008	
Total	**0**	**0**	**3,362**

(* Including departmental under spends)

3.6. For Children's Services the support from the cost of change reserve is the remaining balance that is available after other commitments have been taken into account. Based on this forecast position the Department would at this point have no cost of change (or other) reserves to call on in future years.

Pressures

3.7. Previously identified pressures within the Adults' Health and Care Department continue to be closely monitored, with social care pressures continuing to increase, particularly in relation to the provision of purchased care for both Older People and clients with a disability. Use of one-off funds, departmental contingencies and cost of change reserves are supporting the position in 2016/17. However, if the forecast demographic pressures continue and the current profile of savings does not change, the Department is unlikely to remain within its cash limit for 2017/18. At this early stage the current 2017/18 pressure is forecast to be in the region of £17.5m.

3.8. Period 4 monitoring for Children's Services has highlighted a number of continuing growth pressure areas including supported lodgings and accommodation costs for post 16 young people, a recent upturn in the numbers of children needing to be taken into care by the local authority, home to school transport due to increased pupil numbers (particularly relating to children with special education needs) and the cost of agency staff covering essential social worker posts.

3.9. These pressure areas are being closely monitored by the Department with plans in place or being developed to address these issues. As a consequence, the pressure going into 2017/18 is lower than that currently forecast for 2016/17 (£6m currently forecast to continue into 2017/18 compared to £12.3m in 2016/17), although it is recognised that the longer term forecast requires further analysis and challenge.

3.10. The position for Adults' is monitored regularly by the Director of Corporate Resources in meetings with the Director of Adults', Health and Care and longer term there is an overall plan to balance the budget (prior to considering the Tt2019 savings) albeit that this is based on a wide range of assumptions and predictions. The position in this report reflects the outcome of the detailed assessment of the delivery of the Tt2017 savings plan and the impact that this has on the bottom line position for 2016/17 and 2017/18, although further detailed work is still required to update the future forecasts for complexity and demography in light of the outturn position for 2015/16.

3.11. For Children's Services at this stage we do not have an equivalent mechanism to support the longer term financial planning view. In light of the position presented in this report similar monitoring meetings will start to take place between the Director of Corporate Resources and Director of Children's Services, with a view to developing a more robust longer term financial plan for the Department that gives better focus on these additional pressure points.

4. Summary of Forecast Position for 2017/18

4.1. Based on current projections, if pressures across Adults' Health and Care and Children's Services continue as forecast into 2017/18 and there is a shortfall in Tt2017 savings cash delivery as predicted, there will be a budget pressure across these two Departments in the region of £21.4m, which is not directly factored into any medium term forecasts at this stage.

4.2. The overall position for 2017/18 is summarised below and again has been presented to highlight the stark differences between the social care and other Departments:

	ETE, CCBS & Corp Services £'000	Adults' Health and Care £'000	Children's Services £'000
Tt2017 Savings Cash Shortfall	1,864	11,866	1,734
Pressures		17,492	6,000
Other Savings(*)	(283)		
Subtotal	**1,581**	**29,808**	**7,734**
To Be Met From:			
Departmental Contingency (Ongoing)		(3,442)	
Departmental Cost of Change Support (One-Off)	(2,794)	(12,665)	
Contribution to / (from) Cost of Change	1,213		
Total	**0**	**13,701**	**7,734**

(* Including departmental under spends)

4.3. The level and use of cost of change (and other) reserves for Adults', Children's and the other departments is shown in the following table:

	ETE, CCBS & Corp Services £'000	Adults' Health & Care £'000	Children's Services £'000
Opening Balance 01/04/2016	**28,178**	**9,706**	**5,707**
Planned Use:			
EVR			(965)
Other	(10,310)	(6,604)	(3,683)
To Balance Overall Position 2016/17	0	(3,102)	(1,059)
Contribution to Cost of Change	18,529	13,008	
Forecast Balance 01/04/2017	**36,397**	**13,008**	**0**
Planned Use:			
Other	(6,117)	(343)	0
To Balance Overall Position 2017/18	(2,794)	(12,665)	0
Contribution to Cost of Change	1,213	0	0
Forecast Balance 01/04/2018	**28,699**	**0**	**0**

5. Forward Financial Planning

5.1. Strong financial management has ensured that to date all Departments have remained within their cash limits, containing new pressures and delivering approved savings programmes.

5.2. This forecast indicates that the cumulative impact of numerous savings programmes, together with sustained pressure on social care spending in particular, is producing a different picture for 2016/17 and 2017/18 with some Departments unlikely to remain within their cash limited expenditure positions over these two years.

5.3. The information in Sections 3 and 4 indicates that we could be facing deficits within the Children’s Services budget of approaching £3.4m in 2016/17 and £21.4 in total in 2017/18 for Adults’ Health and Care and Children’s Services combined.

5.4. It is highly likely that the deficit in 2016/17 can be managed through a combination of positive management action in the pressure areas, under spends elsewhere in the Children’s Services Department and the use of corporate contingencies as appropriate.

5.5. It was recognised last year that social care pressures within Adults’ would require an expected recurring base budget adjustment in 2018/19, anticipated to be in the order of £21m followed by annual increases of around £10m a year thereafter. Allowance was made for social care pressures in the Medium Term Financial Strategy (MTFS) in October 2015 and it was noted that this provision would be reviewed in line with future updates of the strategy.

5.6. For 2017/18 we had already factored into the updated MTFS, the potential for £10m of the Adult’s 2018/19 ‘base adjustment’ to be bought forward into 2017/18 to help cash flow the late delivery of savings as part of the risk assessment of the level of contingencies. This built on the assessment made when setting the budget for 2016/17 that, given the projected pressures and the risk and volatility associated with adults’ social care, further provision would be made corporately for £5.7m to be held centrally within contingencies and drawn down during the year if needed.

5.7. This together with contingencies set aside for potential growth in Children Looked After (CLA) numbers (although this pressure has now in effect switched to other areas such as care leavers) would provide one off funding of £12m to set off against the forecast £21.4m deficit, leaving an unmet balance of £9.4m to address.

Social Care Pressures

5.8. The particular pressures that are faced by social care Departments in managing increasing and volatile demand against reducing cash limits are well recognised nationally. Previous monitoring reports have highlighted a growing number of demand pressures across various social care categories:

- The population of older people is increasing rapidly. Census data from 2011 showed a 15.3% rise in the over 65 population and a 30.3% rise in the over 85 population, within Hampshire, over the previous decade and this trend is expected to continue to grow.
- The complexity (and cost) of care needs for older people continues to increase, as a larger proportion of the population lives to a much greater age.
- Children and adults with disabilities are living much longer due to advances in medical science and they require substantial packages of care to meet their needs.
- The population of children within the County also continues to grow as highlighted by the increase in new school places for primary and now secondary schools. A general increase in child numbers will lead to a proportionate increase in the number of children in care.
- Children in care have increased significantly over recent years in line with national trends, and although numbers have begun to level out they remain at a core level which is much higher than historical trends, although at a rate of 46 per 10,000 children Hampshire remains well below the national average (which is 60 per 10,000) and in line with statistical neighbours.
- The number of safeguarding referrals and children with a Child Protection Plan continues to increase putting pressure not only on the eventual numbers of children taken into care but also the social worker caseloads that support the whole system.
- The market for both Childrens and Adults social care placements in Hampshire is a difficult one. In particular, independent sector capacity and attendant sector cost inflation (as a consequence of factors such as the National Living Wage and other employment opportunities for care staff) continues to have an impact upon the availability of and sustainability of aspects of the wider market which ultimately are feeding through to impact on costs.

5.9. Whilst significant effort is put in by both the Children's Services and Adults' Departments in managing demand, the simple statistics show that a high level of growth in numbers and therefore costs is inevitable.

5.10. Additional funding has been set aside within the MTFS to address the anticipated growth, but in reality this is difficult to predict and may be subject to peaks and troughs throughout a financial year which impacts on the final outturn position.

5.11. The outturn for 2015/16 showed a balanced position for both Adults' and Children's which was only achieved through the use of a combination of contingencies and cost of change (and other) reserves. The Adults' position was complicated but the Department did actually add some funding to their cost of change in the year in the knowledge that large draws would be needed to cash-flow savings delivery in the future. For the other Departments a net contribution to cost of change reserves in the order of £21.6m was made in the year as a result of the early delivery of savings and under spends.

5.12. The monitoring position in this report tells a similar story. The table in paragraph 3.2 shows a potential over spend position for Children's Services of £4.4m compared to a forecast under spend / early delivery of savings of £18.5m for the non-social care Departments. Moving forward cost of change (and other) reserves for social care Departments will be fully utilised by 2017/18 whereas for the others they continue to grow with an estimated figure of nearly £28.7m by the end of 2017/18.

5.13. Inevitably, this position has arisen because social care Departments need to use their cost of change reserves to support their bottom line budget position and it takes longer to generate cash savings in these areas meaning there is less scope to add additional resources to the cost of change reserves.

5.14. This is not to downplay the difficulties that all Departments have in achieving savings, but it does highlight the differences that we have between Departments in the County Council.

5.15. Moving forward, we accept that delivery of savings in social care areas takes longer to achieve and requires more resources to release the savings and yet the Departments concerned will have no cost of change left in order to affect these changes.

5.16. This presents two major challenges moving forward:

- How we deal with potential unfunded pressure (after use of corporate contingencies) of £9.4m in 2017/18.
- How we provide the resources to social care Departments in the future to enable them to implement their savings programmes.

5.17. As a back stop measure, we would normally look to savings in corporate budgets or use of corporate reserves to help in these circumstances. However, much of this potential spare funding has already been taken into account in the MTFS in order to generate the £70m required to bridge the budget deficit in 2018/19.

5.18. Whilst it is still early days in the new financial year and we recognise that these projections are based on a wide range of variables and assumptions, CMT were asked to consider the possibility of a cross-departmental underwriting of the remaining deficit position, possibly through a formulaic approach. This change in approach would still incentivise Departments to continue to drive out early savings, but at the same time provide resources that might be needed to help balance the budget at the end of the year or provide social care Departments with the transformation funding to support the achievement of their savings programmes.

5.19. The extent of the challenge presented by the Tt2017 Programme, especially in the social care areas, is recognised and robust management attention and the closest monitoring is required and will continue throughout 2016 and beyond to help ensure that the different individual projects are delivered as projected and to time. It is imperative that all departments continue to drive hard to maximise the delivery of savings and at the same time continue to give a strong focus to business as usual to minimise the level of underwriting that may be needed.

5.20. It is acknowledged that Adults' Health and Care remains the Council's biggest risk area in relation to delivery of savings for the Tt2017 Programme and to that end a further review of the programme will be undertaken before the end of the calendar year so that any necessary action can be taken to help ensure the programme remains on track to deliver. Cabinet will continue to be updated on the status and issues with the Adults' programme in future reports on the delivery of the Tt2017 Programme and a further revenue monitoring update will be provided to Cabinet later in the year in line with this.

5.21. Underwriting should be seen as a solution, only if required, to ensure we can move forward knowing that the County Council's financial position continues to have a firm foundation. It is also an approach which further evidences that the County Council's essential discipline of a "straight line" proportionate distribution of savings targets is actually backed by highly responsive and flexible redistributive approaches as and when required.

5.22. This will enable the authority to manage the potential temporary shortfall in the period to 2018/19 by which point the position is expected to have regularised once further work has been completed to refine the longer term financial planning view for Children's Services and the associated financial plan for the Department has been developed.

5.23. Dealing with the potential financial pressures in this way also ensures that there is no impact on the level of corporate reserves which are a key part of the financial strategy to 2019/20.

6. Enterprise M3 LEP - Enterprise Zone

6.1. The Enterprise M3 LEP together with 3 District Council partners and support from Hampshire and Surrey County Councils successfully bid for an Enterprise Zone during the last Government bidding round.

6.2. Somewhat uniquely, the single EZ is split across three sites which are in the separate District Councils of Runnymede Borough Council (in Surrey) and Basingstoke and Deane and East Hants (in Hampshire).

6.3. Following the initial approval from the Government, an interim Programme Steering Group (PSG) has been established to agree the necessary documentation, funding and governance arrangements for the EZ prior to a formal submission to Government later this year. Two representatives from Hampshire sit on the PSG, one representing the accountable body role and the other from an economic development perspective.

6.4. As part of the initial planning phase the LEP must develop and submit a 5 year investment plan and EZ partners have been asked to share the cost of appointing consultants and a Programme Director to progress this work and complete the necessary documentation for submission to Government.

6.5. The costs will initially be shared 7 ways (2 County Councils, 3 District Councils, the LEP and Crest Nicholson - who are a major land owner at one of the sites) with the possibility that the Homes and Communities Agency may also be able to contribute to the costs. For a 2 year Programme Director plus consultancy costs a total of around £235,000 is required giving a partner contribution of £33,600, albeit that this is expected to be repaid from business rate income generated within the EZ.

6.6. This report seeks approval for the contribution outlined above and also seeks delegated authority for the Director of Corporate Resources in consultation with the Chief Executive and the Leader of the Council to approve further match funding up to a maximum £100,000 together with the authority to agree all necessary documentation for submission to the Government.

7. Recommendation(s)

It is recommended that Cabinet:

7.1. Note the forecast financial position outlined in this report which shows exceptionally that possible deficit positions are predicted for some Departments over the next two years.

7.2. Note the potential for a cross departmental underwriting of the budget position going forward and how this will operate in order to ensure continued corporate financial stability and resilience.

7.3. Agree a total contribution of £33,600 to part fund the costs of external consultant support and an Enterprise Zone Programme Director over the next two years.

7.4. Delegate authority to the Director of Corporate Resources in consultation with the Chief Executive and the Leader of the Council to approve further match funding if required up to a maximum of £100,000 to be met from general contingencies.

7.5. Delegate authority to the Director of Corporate Resources to approve all necessary documentation in respect of the Enterprise Zone for submission to the Government.

CORPORATE OR LEGAL INFORMATION:

Links to the Corporate Strategy

Hampshire safer and more secure for all:	Yes
Maximising well-being:	Yes
Enhancing our quality of place:	Yes

Other Significant Links

Links to previous Member decisions:		
<u>Title</u>	<u>Reference</u>	<u>Date</u>
Revenue Budget and Precept 2016/17 and Capital Programme 2016/17 - 2018/19	7342	18 Feb 2016
Direct links to specific legislation or Government Directives		
<u>Title</u>		<u>Date</u>

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

<u>Document</u>	<u>Location</u>
None	

IMPACT ASSESSMENTS:

1. Equality Duty

1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Due regard in this context involves having due regard in particular to:

a) The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;

b) Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;

c) Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionally low.

1.2. **Equalities Impact Assessment:**

This report does not contain any proposals which may have an equalities impact

2. Impact on Crime and Disorder:

2.1. The County Council has a legal obligation under Section 17 of the Crime and Disorder Act 1998 to consider the impact of all the decisions it makes on the prevention of crime.

2.2. The proposals in this report are not considered to adversely affect the prevention of crime.

3. Climate Change:

a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific proposals impacting on our carbon footprint / energy consumption are being proposed.

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific proposals affecting adaptation to climate change are being proposed.