

**HAMPSHIRE COUNTY COUNCIL****Decision Report**

<b>Decision Maker:</b>	Cabinet
<b>Date:</b>	9 December 2013
<b>Title:</b>	Financial Update
<b>Reference:</b>	5428
<b>Report From:</b>	Director of Corporate Resources – Corporate Services

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## **1. Executive Summary**

- 1.1. The purpose of this report is to update Cabinet on a number of financial issues in respect of the current financial year, in particular the continuing pressures in Children's and Adults social care services.
- 1.2. It also sets out the process and framework for the development of the 2014/15 budget albeit that the focus will be on delivery of savings as part of the Transformation to 2015 Programme.
- 1.3. The County Council's early response to the reductions in Government grant over the Comprehensive Spending Review (CSR) 2010 period has placed it in a very strong position for the 2014/15 budget, which will be balanced without the need for additional savings targets using the Grant Equalisation Reserve in line with the agreed policy. At this stage a planning assumption of a further freeze in council tax for 2014/15 has been used in the forward forecasts.
- 1.4. This will give the County Council the time and capacity it needs to produce savings for the 2015/16 financial year, although the expectation is that a large proportion of these will have a beneficial impact during 2014/15, which can be used by Departments to fund the next phase of transformational and efficiency savings.
- 1.5. This strong position is testament to the County Council's ability to plan ahead and ensure that it is appropriately placed to deal with the future challenges that lie ahead, at a time when most other authorities in the country will be concentrating on balancing their budget for the next financial year.

## **2. Contextual information**

- 2.1. Previous financial updates around this time of the year have been heavily influenced by the timetable of release of information from the Government either around Comprehensive Spending Review figures or specific grant figures for the next financial year.
- 2.2. For 2014/15, the County Council has already been given its grant figures under the new local government finance regime implemented in 2013/14 and these figures are not expected to change significantly when the local government finance settlement is announced in December.
- 2.3. It would also be usual to look in more detail at the budget prospects for the next financial year, but given the early implementation of savings in previous years and the fact that the County Council is focussing its current efforts on achieving transformational savings for 2015/16, there are limited budget issues to consider for 2014/15.
- 2.4. It is however necessary to set out the framework for the detailed budget preparation process for next year and to take account of issues in the current financial year which could have an impact on forward projections.

## **3. Quarter 2 Financial Monitoring**

- 3.1. The forecast outturn position for the overall revenue account is shown in Appendix 1 and measures the forecast position at the end of the year against the current working budget that has been adjusted for changes during the year. Net Departmental spending is expected to be £2.9M underspent by the end of the year, however, £1.8M of this relates to the School's budget and overall, this position does mask continued cost pressures within Adults and Children's social care services, which are discussed in more detail in the next section.
- 3.2. Adults and Children's Services have plans in place to meet the additional pressures arising from increasing social care costs, to ensure that they come within their bottom line budgets for the current year, hence the 'no variation' position reflected in the Appendix. The majority of the anticipated underspend is within Corporate Services and is part of a deliberate policy to reduce spend in line with the savings programmes that have been put in place and as a result of the decision to freeze recruitment in advance of the next phase of transformational savings.
- 3.3. Savings generated by Departments are retained by them to help fund the cost of future redundancies and other costs of change associated with the implementation of savings programmes.
- 3.4. Spend on Public Health is expected to be in line with the budget, but since this is met entirely from ring fenced Government grant any underspends must be used for Public Health purposes in future years. During the year work has continued on reviewing contracts and commitments transferred from the PCT and as a result of this, an additional existing financial commitment of £204,900 required to deliver a mandated Public Health

service for Alternative Primary Medical Care Services has been identified. Cabinet is therefore requested to approve a further transfer from the unallocated element of the Public Health budget to meet this additional commitment.

- 3.5. Most other non-Departmental items are not expected to vary significantly from the current working budget, with the exception of two areas in respect of capital financing costs and investment income.
- 3.6. As in previous years, the County Council continues to budget prudently around capital financing costs and interest earned on investments. The unprecedented period of flat interest rates, means that the County Council is avoiding taking out any significant new long term borrowing due to the 'cost of carry' which compares short term to long term interest rates. This combination of limited new borrowing costs and cheap short term money means that savings continue to be made on capital financing costs.
- 3.7. In addition, the assumption within the budget for investment income has always been kept artificially low to reflect the fact that protection of capital is the highest priority in investment decisions. Current performance is well above this budgeted amount and this can now be reflected in the expected year end position. Overall these two items together improve the forecast budget position by £5.5M, which would be taken into earmarked reserves at the end of the financial year.

#### **4. Social Care Demand**

##### **Adult Services**

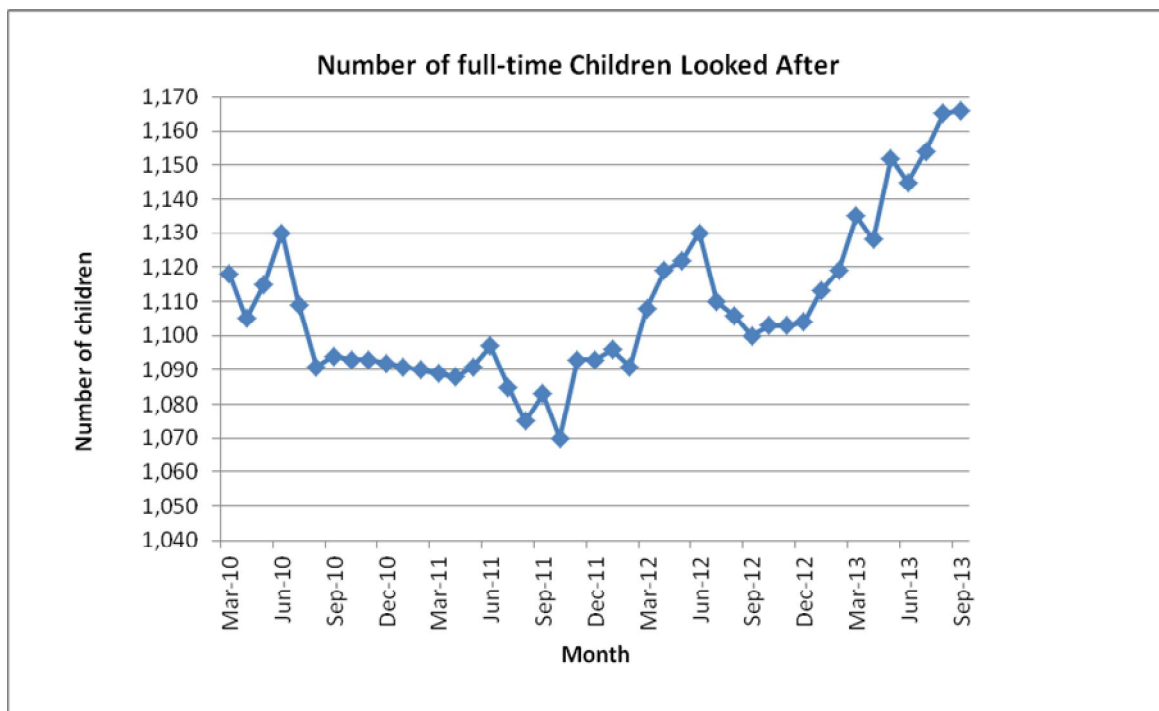
- 4.1. The operating model for Adult Services is influenced by a small number of significant factors: volumes of demand, complexity of needs, early discharges from hospital being the main influencers in terms of fluctuations in demand. This therefore results in fluctuations in expenditure linked to those demand changes coupled with prevailing market influences. Recognising 'spikes' and 'trends' are fundamental to understanding the factors which impact upon the financial pressures in the system. The approach to budget monitoring will, each year, see the need to adjust the expenditure levels in response to those factors in order to ensure that the operating model delivers services within the cash limit.
- 4.2. There is a robust operating model in place in order to actively manage the service and therefore the resultant financial implications. In any one year it is anticipated that the key variables will fluctuate and therefore the County Council identifies 'corporate contingency' in order to smoothly manage this situation. It is clear that this volatility in the operating model is mirrored across the country and is not localised to Hampshire. It is also clear that there are intrinsic links with the volatility of demand coupled with the prevailing funding position across the Health Sector which also comes into play.

- 4.3. A significant piece of work was undertaken in early 2011 to further strengthen the understanding of the key cost drivers and this data formed the strong basis on which the 'corporate contingency' approach was agreed by the County Council.
- 4.4. A business case was completed in September 2011 showing that the complexity and demographic pressures for the medium term would be in the region of £10m additional year on year which has been included within the medium term financial plan. This pressure on demand (and in particular average costs) increased further during 2012/13 and it was uncertain whether it was an exception or a new trend. It was agreed that if this was a trend the impact would be significant and would need to be accounted for within the budget setting process. If an exception, a period of time would be required in order to bring the budget into balance at the revised level. The two key elements of this pressure are client numbers and average costs which result in the projected financial position. Adult services cash limit therefore includes an additional recurring £10 million each year with an expectation that services will be managed within this limit.
- 4.5. Budget monitoring for 2013/14 indicates that there are still challenges within the system, in particular related to the increasing costs of individual care packages. There is evidence of increasing complexity of packages for both existing and new clients.
- 4.6. The current commitments, that is, clients in the system have been used to project forward the potential year end expenditure, adjusted to then take account of assumptions based upon historical evidence related to client reductions (transfers out of care, to nursing homes, attrition rates) client increases (new clients meeting criteria) and data identifying movement and changes in care packages.
- 4.7. There are a number of factors that are driving these trends. There is additional demand around the hospital discharge process resulting in high complexity cases. The average age of hospital discharges supported by Adult Services is 81 years old, compared to an average age of older clients of 71 years old. As an illustration, in the month of July 21% (189) patients discharged from hospital went on to receive a long term package of care from Adult Services, as their social care needs were too complex to benefit from re-ablement. The increase in costs for existing clients was £49 a week (a 20% increase) which equates to an annual impact of £4.6m.
- 4.8. Since April 2012 the number of OP clients receiving domiciliary care has increased by 2%. In this time the number of clients receiving more than 20 hours of domiciliary care a week has increased by 14% and the number of clients receiving double up care has increased by 15%. The impact of these changes in delivery means that the number of commissioned hours has actually increased by 5%. The annual cost of this increase is approximately £1.7m.
- 4.9. Management actions are in place in order to continue to provide appropriate services to clients whilst ensuring that the resultant financial implications are contained within the allocated cash limit. Specific agreed actions are

targeted to be completed by 1st April 2014 in order that there is a sustainable service model for Adult Services which can be contained within the approved cash limit, that will also help to further suppress growth in costs into 2014/15. The overall position agreed with the Director of Adult Services is a balanced position at the end of March 2014, utilising the relevant corporate contingencies.

### **Children's Services**

- 4.10. The continuing upward trend on Children Looked After (CLA), shows a similar trend to that of Adults, both in terms of increase in numbers and increase in unit costs, and whilst the number of cases and turnover is not as great as Adult Services some of the factors that influence the numbers and costs are just as complex. The increasing position is the result of an intensification of the pressures outlined in the 2013/14 budget setting process, which added £4.5M to the base budget in 2013/14 and allowed for growth of £1.5M thereafter. The pressures have derived from :
- The increase in birth rate generally
  - The Southwark ruling relating to homeless 16/17 year olds
  - Increased survival rate of children with complex disabilities
  - The Baby Peter factor
  - The recession, and
  - Better systems for recognising signs of neglect and abuse
- 4.11. More families are struggling as a result of benefits cuts, more violence in families and less tolerance of teenagers. It is possible that recent highly public Serious Case Reviews may have had an impact on public vigilance re safeguarding. Most notably the recent Daniel Pelka case may have had an impact in a similar way to that following the Baby Peter case.
- 4.12. The rate of increase is growing faster than anticipated in the business case presented for the 2013/14 budget process. This is also evident in safeguarding activity. Recently the customer reception team had their busiest day ever. Equally, over the summer there is usually a decline in activity but this did not happen this year. No authorisations have been changed and there have been no significant changes in managers. So it is still the same managers applying the same standards - no child comes into care without District Manager authorisation and no child is placed in a non HCC placement without Area Director authorisation.
- 4.13. Despite the significant increasing case workload, the figures show that comparatively (nationally and with comparator authorities) the numbers and the financial impact are being well contained.
- 4.14. The number of children looked after at 30 September 2013 was 1,166, an increase of about 2.7% since March 2013. The following graph shows the number of children looked after over recent years:



- 4.15. Other indicative factors are the number of Child Protection plans which have increased by 50% over the last two and a half years, while the number of open cases remains high at 7,319, an increase of 479 since March this year.
- 4.16. The 2013/14 business case was predicated on an assumed 1.5% growth in overall CLA numbers (an average of the previous four years) and with the same pattern of demand as in 2012/13. However, the seasonal fluctuations have not materialised and numbers have continued to increase, with an estimated overall 4% increase. The picture is similar on a national scale.
- 4.17. National demographic forecasts suggest continued growth in numbers of about 2% per annum, although the impact of other issues referred to above will undoubtedly continue to bring demand pressures. Whilst management actions continue to contain demand as much as possible, and further actions will also help, for planning purposes an estimated 3% growth in CLA numbers is used for the next two years.
- 4.18. This would give an underlying annual pressure above the amounts contained in the MTFs of between £2.2M and £2.5M before any management action is taken and whilst Children's Services are confident that the pressures can be contained within cash limits in the current year and in 2014/15, there are likely to be pressures in 2015/16 which need to be considered alongside other issues for that financial year, given that the trend is not matched by a central contingency.
- 4.19. Close monitoring will continue to be undertaken in conjunction with both Departments during the current year and an update will be provided on the overall position as part of the Quarter 3 monitoring report to Cabinet.

## **5. 2014/15 Budget Forecast**

- 5.1. The Medium Term Financial Strategy update presented to Cabinet in July assumed that there would be a deficit in 2014/15 of around £27.4M, based on no increase in council tax and after taking into account savings in Children's Services of £6.3M to offset the loss of Early Intervention Grant and £3M of slipped savings from Adult Services.
- 5.2. The expectation was that this would be met from the early generation of Housekeeping savings and a contribution from the delivery of early Transformation to 2015 Departmental savings, with the balance being met from the Grant Equalisation Reserve (GER).
- 5.3. The forecast deficit has now increased by a further £4.8M reflecting the fact that the Government released a consultation paper that could mean that all New Homes Bonus (NHB) funding is removed from County Councils. Whilst this was one of two options (the other being a flat reduction across all tiers of 35%) it is considered prudent to remove this source of funding from future forecasts at this stage.
- 5.4. In meeting the revised bottom line deficit of £32.2M, it was also felt that the assumption around harvesting some of the early Departmental savings goes against the previously established principle that Departments would retain their underspends to meet their future costs of change and therefore this element has been removed.
- 5.5. In some respects this change is purely presentational as it means that there will be less draws on corporate reserves in the future as Departments will be expected to meet all of their costs of change, together with any potential 'cash flow' shortfalls in their savings targets for 2015/16.
- 5.6. These changes, plus an assumed £1.8M increase in the early savings generated through the Housekeeping workstream mean that a draw of around £25.4M will be required from the GER to balance the budget in 2014/15 based on a planning assumption of no increase in council tax for that year. Whilst the final decision on council tax will be taken by full County Council in February 2014, Cabinet is asked to confirm this as a planning assumption for the purposes of the forecasts in this report.

## **6. Provisional Cash Limits**

- 6.1. Provisional cash limits are set for Departments each year to enable them to prepare their detailed budgets for the next financial year. No savings targets have been set for 2014/15, but as explained in paragraph 5.1, the forecast assumes the delivery of £6.3M of savings in Children's Services to offset the loss of Early Intervention Grant and £3M of slipped savings from Adult Services.
- 6.2. Inflation allowances are given each year and the figures in Appendix 2 take account of the impact of the pay award granted for 2013/14, although provision for any potential award in 2014/15 will be held centrally.
- 6.3. Other changes in respect of base adjustments for transfers between Departments, demographic pressures (for social care as outlined in

paragraph 4.4) have also been taken into account in setting the provisional guidelines shown in Appendix 2. The figure for Children's Services also includes the full year impact of the additional money approved as part of the 2013/14 budget for additional early help and safeguarding services.

- 6.4. The figure for Schools will be updated once the provisional settlement is known, but for now, the 2013/14 position has been updated taking into account budget transfers to Academies and increases in respect of the pupil premium and other grant related changes.
- 6.5. Executive Members are asked to develop their budgets within the guidelines that have been set so that the Leader and Cabinet can make the final budget recommendations for 2014/15 at the meeting in February.

## 7. Capital Investment

- 7.1. The County Council's capital programme has been maintained and expanded over recent years, continuing the trend of ensuring that we invest wisely in maintaining our existing assets and delivering a programme of new ones. The priority for the current and next financial year is to concentrate on the delivery of the approved capital programme which totals over £500m over the next three years
- 7.2. The timeframe for capital planning moves on each year and for the 2014/15 budget process, the programme will be extended into 2016/17. The table below shows the provisional capital guidelines that are being allocated to each Department and reflect additions made to the programme over recent years with 2016/17 dropping back to the 'base' level of funding.

	2014/15	2015/16	2016/17
	£'000	£'000	£'000
Adult Services	6,081	14,481	481
Children Services	7,997	11,275	190
ETE	13,276	12,580	11,134
Policy and Resources	18,316	9,666	8,566
	<b>45,670</b>	<b>48,002</b>	<b>20,371</b>

- 7.3. Indications from Government are that they will seek to move resources away from revenue and into capital investment and it is therefore important that the County Council is in a strong position to respond to any opportunities that may arise as a result of these changes. Officers in Departments will therefore continue to work closely with Government Department colleagues to ensure that the County Council is aware of any potential shift in emphasis that might influence capital resource allocation in the future.

**8. Recommendations**

It is recommended that Cabinet :

- 8.1. Notes the forecast outturn position for 2013/14 as detailed in Appendix 1
- 8.2. Approves the commitment of a further £204,900 from the unallocated part of the Public Health budget for an existing commitment for a mandated service
- 8.3. Approves the provisional cash limits for 2014/15 set out in Appendix 2.
- 8.4. Confirms that the 2014/15 budget should initially be prepared on the basis of no council tax increase and acceptance of the Council Tax Freeze Grant.
- 8.5. Approves the capital guideline amounts for the next three years as set out in paragraph 7.2.

**REVENUE BUDGET SUMMARY 2013/14 – QUARTER 2**

	<b>Original Budget 2013/14</b>	<b>Adjustment</b>	<b>Current Budget 2013/14</b>	<b>Outturn Forecast</b>	<b>Forecast Variance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b><u>Departmental Expenditure</u></b>					
Adults	313,732	5,740	319,472	319,472	0
Children's - Schools	706,338	5,199	711,537	709,750	(1,787)
Children's - Non schools	160,916	2,748	163,664	163,664	0
Economy, Transport and Environment	109,946	1,860	111,806	111,806	0
Policy and Resources (exc. Public Health)	96,088	3,063	99,151	98,054	(1,097)
<b>DEPARTMENTAL TOTAL</b>	<b>1,387,020</b>	<b>18,610</b>	<b>1,405,630</b>	<b>1,402,746</b>	<b>(2,884)</b>
Public Health	36,753	0	36,753	36,753	0
<b><u>Capital Financing Costs</u></b>					
Interest on Balances	(750)	0	(750)	(750)	0
Capital Financing Costs	67,876	0	67,876	62,376	(5,500)
RCCO	23,618	(807)	22,811	22,811	0
	<b>90,744</b>	<b>(807)</b>	<b>89,937</b>	<b>84,437</b>	<b>(5,500)</b>
<b><u>Pension and IAS 19 Costs</u></b>					
Pensions & IAS 19 Costs	40,663	0	40,663	40,663	0
Contribution from Pension Reserve	(27,321)	0	(27,321)	(27,321)	0
	<b>13,342</b>	<b>0</b>	<b>13,342</b>	<b>13,342</b>	<b>0</b>
<b><u>Other Costs and Income</u></b>					
Business Units	553	(308)	245	245	0
Contingency	30,254	(5,267)	24,987	24,987	0
Dedicated Schools Grant	(695,538)	3,532	(692,006)	(692,006)	0
Specific Grants	(97,549)	(13,925)	(111,474)	(111,474)	0
Flood Protection Levy	572	0	572	572	0
Coroners	1,320	11	1,331	1,331	0
	<b>(760,388)</b>	<b>(15,957)</b>	<b>(776,345)</b>	<b>(776,345)</b>	<b>0</b>
Draw (from) / to Earmarked Reserves	(831)	(2,154)	(2,985)	5,399	8,384
Draw from Trading Unit Reserves	(444)	308	(136)	(136)	0
Draw for RCCO	(3,314)	0	(3,314)	(3,314)	0
	<b>(4,589)</b>	<b>(1,846)</b>	<b>(6,435)</b>	<b>1,949</b>	<b>8,384</b>
<b>Total Net Spending</b>	<b>762,882</b>	<b>0</b>	<b>762,882</b>	<b>762,882</b>	<b>0</b>
Contribution to/(from) General Balances	(7,100)	0	(7,100)	(7,100)	0
<b>BUDGET REQUIREMENT</b>	<b>755,782</b>	<b>0</b>	<b>755,782</b>	<b>755,782</b>	<b>0</b>

**PROVISIONAL CASH LIMITS – 2014/15**

	<b>2013/14 Original £'000</b>	<b>Base Changes £'000</b>	<b>Inflation £'000</b>	<b>Demog. &amp; Complexity £'000</b>	<b>2014/15 Cash Limit £'000</b>
Adults	313,732	697	7,705	10,000	332,134
Childrens - Schools	706,338	11,578			717,916
Childrens - Non Schools	160,916	(3,016)	2,466	1,500	161,866
ETE	109,946	2,476	1,372		113,794
P&R (excluding Public Health)	96,088	38	1,516		97,642
Public Health	36,753	3,675			40,428
<b>Total</b>	<b>1,423,773</b>	<b>15,448</b>	<b>13,059</b>	<b>11,500</b>	<b>1,463,780</b>

**CORPORATE OR LEGAL INFORMATION:**

**Links to the Corporate Strategy**

<b>Hampshire safer and more secure for all:</b>	yes
Corporate Improvement plan link number (if appropriate):	
<b>Maximising well-being:</b>	yes
Corporate Improvement plan link number (if appropriate):	
<b>Enhancing our quality of place:</b>	yes
Corporate Improvement plan link number (if appropriate):	

**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.)**

Document

Location

None

## **IMPACT ASSESSMENTS:**

### **1. Equalities Impact Assessment:**

- 1.1. Equality objectives are not considered to be adversely affected by the proposals in this report but the Council's budget and the services that it provides are delivered in a way that ensures that any impact on equalities issues are fully taken into account.

### **2. Impact on Crime and Disorder:**

- 2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime, but the County Council through the services that it provides through the revenue budget and capital programme ensures that prevention of crime and disorder is a key factor in shaping the delivery of a service / project.

### **3. Climate Change:**

- 3.1. How does what is being proposed impact on our carbon footprint / energy consumption?

The revenue budget and capital programme contain measures that will assist in reducing our carbon footprint and changes to services are designed in such a way to also achieve this objective.

- 3.2. How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts

The County Council in designing and transforming its services will ensure that climate change issues are taken into account.