

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

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| <b>Decision Maker:</b> | Cabinet  |
| <b>Date:</b>           | 21 July 2014   |
| <b>Title:</b>          | Medium Term Financial Strategy Update                |
| <b>Reference:</b>      | 5881   |
| <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 the budget development process for 2015/16 and to consider the medium term prospects for the County Council's finances to 2017/18. Given the timing of the report, it also looks at the early revenue monitoring position for 2014/15.
- 1.2. The County Council's early action in tackling its forecast budget deficit over the current Comprehensive Spending Review period and providing funding in anticipation of the tougher times to come, placed it in a very strong position to produce a 'steady state' budget for 2014/15 and give itself the time and capacity to develop and implement the next phase of savings by 2015/16.
- 1.3. The budget for 2014/15 that was approved in February this year included savings plans for the 2015/16 financial year in order that these could be implemented during the current financial year in order to ensure that savings wherever possible were fully in place by April 2015. The 2014/15 budget itself was balanced through the use of the Grant Equalisation Reserve, in line with the previous Medium Term Financial Strategy (MTFS) approved by County Council.
- 1.4. The outturn position for 2013/14 was reported to Cabinet in June and showed an overall underspend across Departments, despite additional expenditure incurred by Economy, Transport and Environment as a result of the severe weather and flooding earlier in the year. This position is probably the best measure we have for demonstrating that the £140m taken from the budget over the last four years has been successfully achieved.
- 1.5. This position extends into 2014/15 with early indications that spending is in line with budgets and this is underpinned by the early delivery of savings as part of the *Transforming the Council to 2015* programme, which can be retained by Departments to help with future costs of change. This report provides Cabinet with an update of the 1<sup>st</sup> quarter monitoring position and highlights that the area of greatest concern (as anticipated and highlighted over the last year's budget

monitoring and in the budget strategy) is the growth in the area of Children in Care, which is also discussed further in this report.

- 1.6. This strong financial position is testament to the County Council's ability to plan and ensure that it is appropriately placed to deal with the future challenges that lie ahead. This approach has served the County Council well and will continue to be applied as we start to move towards preparing for Transformation to 2017/18.
- 1.7. Whilst the County Council remains in a very strong financial position, this report also outlines that, with further grant reductions, ongoing social care and inflationary pressures, and the national pressure to avoid council tax increases, the financial outlook for 2016/17 and 2017/18 remains challenging and considers the financial strategy that may be developed to tackle this.

## **2. Contextual information**

- 2.1. It is normal practice, at this time of the year, to provide Cabinet with an update on the Medium Term Financial Strategy (MTFS) in order to inform and direct work on detailed budget setting that will take place over the summer.
- 2.2. The budget setting process for 2015/16 will be different to previous years in that the majority of the decisions in respect of major changes to the budget were taken as part of the 2014/15 budget setting process in February this year. Other factors will still affect the budget, such as council tax decisions and social care pressures as outlined later in this report, but these will not be as significant as the savings programme that has already been put in place.
- 2.3. The report also takes the opportunity to look at early high level revenue monitoring information from 2014/15 to consider any potential risks in the system albeit that 2014/15 was in effect a 'steady state' position following the decision to roll up all of the savings into the Transformation to 2015 programme.
- 2.4. The focus of this report is therefore in four main sections :
  - A summary of the monitoring position for the first quarter of 2014/15 and potential knock on impacts to future years
  - Consideration of social care pressures in Adults' and Children's Services, their impact on the budget position and the strategy for dealing with them in the future
  - A revised forecast budget position for 2015/16 together with a review of the extent to which the Transformation to 2015 programme will meet the anticipated gap.
  - Consideration of the medium term position to 2017/18 and the proposed strategy and timetable for dealing with the predicted gap.

## **3. 1<sup>st</sup> Quarter Monitoring**

- 3.1. Traditionally, revenue monitoring for the 1<sup>st</sup> quarter of the year is not reported to Cabinet until September, reflecting the fact that even with a condensed timescale for the provision and review of monitoring information, it is not possible to get all of the information ready in time for papers to be included in the July Cabinet. No Cabinet meeting is held in August meaning that the first available time to formally report the 1<sup>st</sup> quarter position is in September.

- 3.2. In general terms, it is recognised that the value of revenue monitoring so early in the financial year is limited. The opportunity has therefore been taken in this report to review, at a high level, the monitoring position for the 1<sup>st</sup> quarter, allowing a more timely position to be reported for this financial year.
- 3.3. A high level review of monitoring information for all Departments has been undertaken centrally by the Finance Department and given the progress on early savings in Corporate Services, CCBS and ETE and the absence of any demand pressures, these areas are considered to be very low risk at this stage.
- 3.4. Adult Services have introduced a separate more robust monitoring regime in respect of client care costs and this has been reviewed by the Director of Adult Services and the Director of Corporate Resources for the first quarter. It shows continued pressures in the areas of care at home for older people and learning disability costs, but it is anticipated that the full year impact of the mitigation measures put in place at the end of 2013/14 will contain the majority of this pressure, assuming that growth does not rise above what has been predicted for the remainder of the year. Early delivery of some Adult Services savings will also help to manage the bottom line position for the year.
- 3.5. Children's Services, as previously predicted, is possibly the main area of concern at this stage given a number of factors:-
  - The budget for Children's Services for 2014/15 included a savings requirement of £6.3m due to the loss of the Early Intervention Grant from 2013/14, for which the Department was given a year to implement mitigating savings to offset this loss. This means that early delivery of savings to this level are required before the Department can benefit from any further savings in the current year.
  - The number of Children in Care continues to grow at a much greater rate than originally predicted. Increases at the end of 2013/14 were running as high as 17.5% at one point and reflects increased activity across the whole spectrum of children's social care.
  - The budget for 2014/15 was set on the basis that Children's Services would put plans in place to meet the previous level of predicted growth on a one-off basis and that a recurring base budget adjustment would be made from 2015/16 onwards to meet the cumulative impact of the increasing numbers of children in care.
- 3.6. The background to this significant growth in numbers is explored in the next section, but in terms of the current financial year, the expectation is that Children's Services will contain costs to the level agreed in the budget but that any further costs will attract support from central contingencies set aside for circumstances such as these.
- 3.7. However, in overall terms the pressure in Children's Services is not seen as significant in the context of the overall budget position and the strong financial position that the County Council finds itself in. Therefore it is still anticipated that spend will be contained within the overall bottom line budget for the year.

#### **4. Social Care Pressures**

- 4.1. Social care pressures across the country have been a significant feature in local authority budgets for many years now. Although Adults' and Children's

Services budgets both contain social care costs, they are very different in nature.

- 4.2. Adult Services is on a much larger scale and the key issues are around a growing older population who are living longer and as such, need ever more complex care interventions. The picture is also heavily influenced by the variable and ever-changing care needs of individuals and the complex interaction with a national health service which itself is under considerable pressure in terms of demand and financial stability.
- 4.3. Historically, since 2011/12, at least £10m has been added to the Adult Services cash limit each year to allow for complexity and demography pressures and has been one of the many underlying reasons for the overall level of County Council revenue savings that have been required over the last four years.
- 4.4. Children's social care is dealing with smaller numbers but operates in a high risk environment in terms of balancing safeguarding issues with the absolute numbers of children taken into care. Whilst demographic factors are an issue, the underlying safeguarding activity and actual numbers of children in care is heavily influenced by economic factors and often as a result of reactions to high profile public cases that impact on the environment and decision making of social workers and other related agencies.
- 4.5. The budget strategy and the Cabinet report on 3<sup>rd</sup> quarter monitoring highlighted the fact that a base budget adjustment would be required for Children's social services in 2015/16 to reflect the increasing numbers of children in care. Since that time, the growth in numbers of children in care has increased dramatically, mainly as a result of a significant increase in referrals and activity across the whole of the social care system
- 4.6. Average growth throughout 2013/14 was around 11.5% and it is anticipated that continued growth during 2014/15 at this level would lead to a further pressure of around £8.5m in the year, of which £6.3m was already assumed would be absorbed by Children's Services, with the balance being met from corporate contingencies.
- 4.7. The rate of growth and the impact on costs within Children's Services is difficult to predict particularly as some periods of growth can be traced back to high profile incidents such as 'Baby P' and more recently, the Daniel Pelka case, which has significantly increased referral levels through to the service and led to a growth in the number of children being taken into care.
- 4.8. Therefore it is not possible to predict what growth levels might be like for the remainder of 2014/15 let alone 2015/16, until the impact of the Daniel Pelka case begins to work its way through the system. Therefore it is proposed at this stage that a base budget adjustment for 2015/16 is made on the basis of an 11.5% growth in 2014/15 followed by average growth of 6.5% during 2015/16. This would require a base budget adjustment of £12.5m for Children's Services in 2015/16.
- 4.9. It will also be necessary to make adequate contingency provision within the budget for 2015/16 that allows for growth above this amount, but will only be released to Children's Services based on evidence of the growth and after exploring what other mitigating measures might be put in place to reduce the rate of growth across the years.

- 4.10. Although this growth highlights a worrying trend, the recent Ofsted inspection concluded that Hampshire “had the right children in care” which re-confirms a long held view that the County Council’s gate keeping continues to be effective in what is a complex and ever-changing environment.
- 4.11. The figures highlighted in this report, do not undermine the County Council’s position in respect of the overall budget position for 2015/16 and do not impact on the Transformation to 2015 programme that is in place to achieve the required savings.

## **5. Impact on Future Forecasts**

- 5.1. Given the long-standing pressures within Adult Social Care and the recent growth in numbers of children in care in the context of the overall budget, consideration needs to be given to revising the approach to social care pressures as part of this MTF5.
- 5.2. The original forecast for 2015/16 already contained a further £11.5m for social care pressures, which when taken with the further Children’s Services pressures outlined in Section 4 and £19.2m of normal inflationary pressures is almost double the level of grant reduction that we are expecting in that year. This picture continues as the forecast extends to 2016/17 and beyond and would mean on the current trajectory that social care pressures become the major factor in future budget setting processes.
- 5.3. In reality, this already means that the current process for distributing savings targets equally across Departments includes a resource redistribution impact from non-social care Departments to Adults and Children’s Services. The level of this redistribution will become more pronounced as the amount of grant reductions fall in relative terms.
- 5.4. It is therefore recommended as part of this report (and has been assumed within the financial projections that follow) that:
  - A base budget adjustment for Children’s Services of £12.5m is made in 2015/16 subject to evidence of the continuing growth in numbers throughout the current year;
  - No further base budget increases are made in the Children’s Services budget for social care costs from 2016/17 onwards; and
  - No further base budget increases will be made within the Adult Social Care budget from 2015/16 onwards.
- 5.5. This will mean that alternative strategies to live within the cash limits that are set will be required by both Departments, which will require a fundamental review of the operating models currently in place and closer more integrated working with Health and other agencies to maximise the total resources in the system in order to achieve joint objectives and release revenue savings.

## **6. 2015/16 Budget**

- 6.1. Previous Cabinet reports have outlined the fact that although savings targets of £93.2m were set early on for the Transformation to 2015 programme, recent forecasts of the budget deficit for 2015/16 were more in the region of £100m based on the assumption of no council tax increase and taking into account the higher grant reductions published as part of the spending review in 2013.

- 6.2. In setting the budget for 2014/15, savings were required from Children's Services (to meet the loss of Early Intervention Grant) and in Adult Services (representing slipped savings from previous years). For simplicity, these savings totalling £9.3m were added to the total savings proposals presented for 2015/16, giving a revised savings target figure of £102.5m which is the total that has been reported as part of the Chief Executive's monitoring reports for the Transformation to 2015 Programme.
- 6.3. From a presentational point of view, this £9.3m adjustment also needs to be reflected in the total gap figure, together with knock on impact arising from the final 2014/15 budget setting process. This latter issue adds a further £3.055m to the gap, mainly as a result of the drop out of a much larger council tax surplus featured in the 2014/15 budget. Taking all of these factors into account gives a revised deficit projection in 2015/16 of £112.2m.
- 6.4. The previous sections outlined a rationale that removes social care pressures from future financial forecasts (£11.5m), but included a base budget adjustment of £12.5m in 2015/16 for the cumulative impact of significant increases in children in care. This has the net impact of increasing the gap by a further £1m to £113.2m as shown below:

|  | <b>£M</b>          |
|--|--------------------|
| Original Forecast Gap                    | 99.8               |
| Children's and Adults savings (para 6.2) | 9.3                |
| Impact of 2014/15 budget setting         | 3.1                |
| Deduct social care base budget increases | (11.5)             |
| Add Looked After Children Increase       | <u>12.5</u>        |
| <b>Total Gap</b>                         | <b>113.2</b>       |
| Current TtC 2015 Savings Programme       | <u>(102.5)</u>     |
| <b>Net Gap</b>                           | <b><u>10.7</u></b> |

- 6.5. The table shows that assuming all of the Transformation to 2015 savings are achieved (or are supplemented by Departments cost of change reserves on a one off basis), this would leave a funding gap of £10.7m in 2015/16. As part of the housekeeping review, it was reported that further savings could be achieved by diversifying the investment portfolio into longer term products and through a further year of inflation management savings. The additional savings of £5.1m would bring the net gap down to £5.6m which, in the absence of further savings proposals or a council tax increase, would need to be met from the Grant Equalisation Reserve.
- 6.6. This underlines the point made in section 5, that despite continued changes in funding, new pressures and a challenging savings programme, the Council is still on track to achieve a balanced budget position for 2015/16, and has the capacity to deliver against this in overall budget terms, even if the September review of progress against the savings should reveal an element of slippage within the programme.

## **7. Transformation to 2017/18**

- 7.1. A high level medium term forecast to 2017/18 has been produced with the following key assumptions:-
- No council tax increases for the period to 2017/18;
  - Decreases of 10% per annum in all forms of Government grants;
  - Annual inflation of around £19m per annum;
  - Full compensation for past CTFG's built into the baseline grant figures from 2016/17 (equivalent to around £28m);
  - No allowance for social care growth other than the Children's base budget adjustment in 2015/16 outlined in paragraph 5.5;
  - No allowance for the potential additional cost of the Care Act; and
  - A £6m increase in national insurance contributions as a result of proposed changes to national pension arrangements in respect of public sector employers who opt out of SERPS.
- 7.2. Taking all of these factors into account and assuming that the Council delivers on the savings plans for Transformation to 2015, the net gap by the 2017/18 financial year is £98m. As in previous years, these savings will be targeted through Corporate Workstreams and Departmental Budgets. This would equate to further cash limit reductions of around 14% in Departmental budgets over the two years.
- 7.3. Whilst this is considered to be a realistic forecast overall, there are significant risks around Government funding. In particular, the assumption that all previous freeze grant amounts will be built into the base grant levels and the extent to which social care costs can be capped during the period, given that the budget allows for no additional growth apart from the base budget adjustment in 2015/16 for children in care and does not take into account any potential impact of the Care Act.
- 7.4. Balancing this, there are no assumptions around council tax increases within the forecast and final decisions on Council Tax will obviously be made in each of the relevant years and will be dependant on a number of other factors.
- 7.5. Given this position, it would be prudent at this stage to proceed on the basis that a further £98m of savings is required across the County Council by 2017/18, this is predicated on the Council's ability to meet on a one-off basis a very significant gap in funding in 2016/17 in order to give the longer lead in time for delivery. Even over a two year period, this is clearly a very challenging prospect given the value of savings that have already been taken out of the system and the additional effort and levels of transformation activity that are required to achieve further phases of savings.
- 7.6. In the past, the County Council has tackled the savings programmes by:
- Planning early and ensuring that everyone understands and is focused on what needs to be achieved;
  - Giving itself the time and capacity to achieve the changes in services and structures required;
  - Supplementing capacity and driving out savings through Corporate Workstream Programmes; and

- Providing investment for change by allowing Departments to keep underspends and providing other targeted funding where appropriate.
- 7.7. This strategy has served the County Council well throughout the period of austerity and there is no overriding argument to change the formula at this stage, other than to recognise that the time, capacity and investment required to achieve the next phase of transformation may be greater than before.
- 7.8. Some elements of the Transformation to 2015 programme are already planned to 'ramp up' as we approach 2017/18 and in addition, there are already other elements of work in train that will start to contribute to closing the gap in 2017/18, namely, the work on the Digital Strategy that will help transform the way all services operate within the County Council, the on going work on the Business Development Strategy and opportunities in respect of better and innovative use of assets, for which feasibility funding is sought as part of the Capital Programme report presented elsewhere on this agenda.
- 7.9. However, whilst these pieces of work are progressing well at this stage, it is important that we do not divert our focus onto the next Transformation Programme before we have the confidence that the majority of the implementation work has been completed to achieve the 2015/16 savings programme.
- 7.10. The Chief Executive's report on Transforming the Council to 2015 – Report No. 4 to Cabinet in June explored this issue in more detail and recommended that a further review be undertaken in September with a view to reporting to Cabinet in October on the status of the 2015/16 savings and assuming this provides sufficient confidence to then start to map out in more detail what the Transformation to 2017/18 Programme may contain.
- 7.11. On the basis that the programme is formally launched in October it would seem reasonable to give workstreams and Departments a period of around 6 months to develop proposals that can be tested and challenged in time for formal decision making by Cabinet and Council before the summer 2015.
- 7.12. Whilst this sits outside of the normal budget setting timetable, it is considered that February 2015 would be too soon to have properly formulated and challenged the proposals, and February 2016 would be too late in terms of providing sufficient lead in time to undertake the next phase of transformational activity, that will arguably be more challenging than the current 2015 programme.
- 7.13. The County Council's workstream, cost reduction, efficiency and transformation programmes will all be reviewed to identify future opportunities. The selection of a new private sector partner and the restructuring of internal transformation capacity will be factored into these workstreams. The emphasis will once again be on efficiency and cost reduction aligned with new Digital Capacity. Increasing partnerships, trading and commercial opportunities will be evaluated at the same time to ensure continued focus on maximising value from every pound spent on high value services, focussed on maintaining the broad offer that the County Council provides. The Chief Executive will report further to Cabinet in October.

## **8. Recommendations**

It is recommended that Cabinet:

- 8.1. Note the high level quarter one monitoring position and the continued growth in the numbers of children in care.
- 8.2. Approves a provisional base budget increase in Children's Services of £12.5m in 2015/16 subject to monitoring of growth levels during the year and the formal budget setting process in February 2015.
- 8.3. Approves the revised strategy in respect of growth in social care costs set out in section 5.
- 8.4. Notes the revised position for 2015/16 and the anticipated use of £5.6m of the Grant Equalisation Reserve to balance the budget
- 8.5. Notes the intention to review the Transformation to 2015 programme again in September with a view to reporting back to Cabinet in October on the position and the proposed content of the 2017/18 Transformation programme.
- 8.6. Notes the potential for formal decision making on the Transformation to 2017/18 programme being made before summer 2015.

**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.)**

DocumentLocation

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 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 contains 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.