Report for:	Overview & Scrutiny 17th October 2016
Item number:	**10**
Title:	2016/17 Quarter 1 (to June 2016) Financial Report
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1. Describe the issue under consideration

1.1. This report sets out the 2016/17 Quarter 1 financial position; including Revenue, Capital, Housing Revenue Account (HRA) and Dedicated Schools Grant (DSG).

2. Cabinet Member Introduction

2.1. This report provides an update on the projected financial position of the Council for 2016/17 as at Quarter 1 (April-June 2016). It covers significant operating and capital revenue variances and has been compiled on a forecast full-year basis.

2.2. Overall, at Quarter 1 the Council is projecting a **full-year deficit/overspend** of c£28m for 2016/17.

2.3. Of this c£28m overspend, a significant proportion (£25.7m) resides in the areas which continue to face significant demand pressures: Adults (£12.2m), Children's (£6.1m) and Temporary Accommodation (£7.4m).

2.4. The significant increase in demand and therefore the cost for the Council's acute services is outstripping actions being taken to manage costs down and income up. Managing to reduce budget levels is essential to produce a balanced financial position at the end of the year and prevent a worsening position for next year. This position has been aggravated by legislative changes in the welfare and housing and reductions in the healthcare funding across Local Authorities and the NHS. The worsening of the budget forecast through the first months of the financial year continues to be an increasing risk and concerted action is being taken to manage this.

2.5. We anticipated that we would have significant financial pressures over the period of the corporate plan and have put into place in-year mechanisms to manage the risks arising. We have also built a reserves position that will allow us to cushion the impact of these risks over the next financial period.

2.6. In order to manage the in year risks, targeted action is being taken to address the overspend. This includes a number of spend reduction mechanisms which are being overseen by The Leader, myself as cabinet member for Finance, the Chief Executive and the Chief Operating Officer (COO).

2.7. It is important to ensure that our planned programmes of transformation approved as part of the Corporate Plan in 2015-2018 continue to be implemented so that we are able to deliver on the ambitious outcomes for our residents. Without these, the increases in demand that we are seeing will require further budget reductions. The Council has built solid reserves and these will need to be promptly applied to see us through a challenging year.

3. Recommendations

That the Committee note the:

3.1. Report and the Council's 2016/17 Quarter 1 financial position in respect of revenue and capital expenditure;

3.2. Risks and mitigating actions identified in this report in the context of the Council's on-going budget management responsibilities;

3.3. Measures in place to reduce the overspend in service areas; and

3.4. Virements over £250k in Table 1 - Appendix 1 and note other virements; and

4. Reasons for decision

4.1. A strong financial management framework, including oversight by Members and senior management, is an essential part of delivering the Council's priorities and statutory duties.

5. Alternative options considered

5.1. This is the 2016/17 Quarter 1 Financial Report as such there are no alternative options.

6. Background information

6.1. This is the first Financial Report to the Committee for the 2016/17 financial year covering both Revenue and Capital. This is a quarterly report covering the period April to June 2016.

2016/2017 Quarter 1 - Key Messages

6.2. Overall, at Quarter 1 the Council is projecting a full-year deficit/overspend of c£28m for 2016/17 in its revenue position. This presents a significant risk to the Council's financial position.

6.3. Of this c£28m overspend, £25.7m resides in demand-led areas including; Adults (£12.2m), Children's (£6.1m) and Temporary Accommodation (£7.4m). These areas represent the Council's most acute services and where demand for these services is outstripping the Council's ability reduce spend or increase income at a fast enough pace to deliver a balanced budget. The risk of significant overspend at the end of the year places additional pressures on our reducing budget in the next two financial years and impacts on our ability to cover future pressures from reserves.

6.4 Work to manage costs in the demand-led areas continues to progress at pace. These focus on the acceleration of transformation activities which will help manage demand and reduce costs in an attempt to shrink the overspend along with a number of in year cost reduction mechanisms which includes;
- Increased pace on restructures
- Enforced agency and interim staff leave
- Not filling vacant posts
- Further reduction of agency and interim staff
- Blocking purchasing categories on the system to prevent purchases of items
- Asst Directors signing off purchases

6.5 At Quarter 1, the Capital programme is forecasting an underspend of £24m, against a budget of £191m. There was a technical budget adjustment in Quarter 1 to reduce the approved budget of £198 to £191m as a result of scheme re-profiling.

The profile adjustments of £7.3m to the 2016/17 programme reflect the approved programme expenditure that is now expected to take place in future years. The adjustments made are; aids and adaptations budget £1.3m; enabling budgets for Business Improvement and ICT investment £4m; and High Road West leaseholder budget £2m.

Refer to Appendix 1 for virements table showing movements to approved budgets.

Table 1 below identifies the Quarter 1 (to June 2016) revenue financial position and variance to budget. This is supported by detailed variance analysis and mitigating actions.

Table 1: Forecast Outturn Variance as at Quarter 1 (June 2016)

	2016/17 Revised Budget	Forecast Outturn at Quarter 1	Forecast Variance Quarter 1
	£'000	£'000	£'000
Leader and Chief Executive	**2,835**	**2,835**	**0**
Deputy Chief Executive			
Adult Social Services	73,267	85,441	12,174
Children and Young People	47,039	53,123	6,084
Public Health, Commissioning & Other	18,578	18,667	89
Deputy Chief Executive Total	**138,885**	**157,232**	**18,347**
Chief Operating Officer			
Housing General Fund	5,251	12,644	7,393
Commercial & Operation Services	36,569	37,534	965
Other (SSC, Customer Services etc)	13,555	13,922	367
Chief Operating Officer Total	**55,376**	**64,101**	**8,725**
Regeneration, Planning & Development	**18,280**	**18,107**	**(173)**
Total for Service Areas	**215,376**	**242,275**	**26,899**
Non Service Revenue	**18,973**	**18,973**	**0**
Contract Procurement Savings		**1,060**	**1,060**
TOTAL	**234,349**	**262,308**	**27,959**

6.6 Analysis of Pressures

6.6.1 Corporate actions to mitigate financial risks

The significant increases in demand have outstripped our ability to make savings fast enough across the organisation to manage the financial position without taking actions to reduce spending in year. To this effect therefore, a number of spend reduction mechanisms have been introduced across the organisation which are;

- Increased pace on restructures
- Enforced agency and interim staff leave
- Not filling vacant posts
- Further reduction of agency and interim staff
- Blocking purchasing categories on the system to prevent purchases of items
- Asst Directors signing off purchases

The implementation and impact of these mechanisms are being managed through Budget Sub Groups aligned to Priority Boards. The output from these Groups is being overseen by a regular meeting of the Leader, Member for Finance and Health, The Chief Executive and the Chief Operating Officer.

6.6.2 Leader and Chief Executive (balanced budget)

Whilst these budgets are balanced, the in year spend reduction mechanisms are being applied.

6.6.3 Deputy Chief Executive (c£18m overspend)
Adults (£12.2m overspend)

Overall, the Adults Social Care budget is projecting an overspend position of £12.2m.

This is an area of corporate focus and there are a number of pieces of corporately focused work being delivered to help manage spend in this area notwithstanding the implementation of corporate spend reduction mechanisms. Adults is currently prioritising transformation work which will focus on reducing demand at the front door, working more effectively with Health and accelerating reviews of existing clients. At present most of the savings measures in place, while being at a level consistent with MTFS savings targets, are offsetting continued demand in the service, which is why the service is continuing to show such an overspend. Work is on-going however to identify further areas of cost reduction. The service has engaged external support to accelerate the transformation changes will seek further areas for transformation.

The analysis for each area is;-

- **Care Purchasing (£10.5m overspend)** – The care purchasing spend is based on actual open cases at 1st April 2016, forecast new cases during the year at 2015/16 levels of activity, less the natural rate of closed packages during 2015/16. The forecast cost of this has taken into account the expected impact of all the transformation projects in 2016/17 to produce a variance of £10.5m.

These forecasts already factor in a fair assessment of the likely impact of savings measures, including the contribution that 100% reviews of all packages can provide.

- **Learning Disabilities (£1.3m overspend) -** There has been slippage in delivering savings in the reconfiguration of Day Opportunities for Learning Disabilities clients. These have been complex projects involving closures of establishments, redesign of remaining services and case-by-case consideration of how the needs of clients will be met within the new service. The new arrangements are now planned to be in place by the final quarter of 2016/17.

- **Osbourne Grove (£0.4m overspend)** - There is slippage of £0.2m from 2016/17 to 2017/18, in addition to budget pressures of £0.2m on this service, which is on a worsening trajectory.

Children and Young People (£6.1m overspend)

Overall, the Children's Services budget is projecting an overspend of £6.1m at Quarter 1. This area continues to implement its programme of transformation and is engaging in the Council's spend reduction mechanisms which is being overseen by the Priority Board and the Budget Sub Group. This £6.1m overspend is accounted for as follows:

- **Social Care Placements (£2.2m overspend).** Savings targets set for this budget have not been met with spending running at £1.2m higher than the budget. The social care placements model has reflected a further worsening by £0.9m in the forecast position because of the continuing increases in new Looked After Children and their cost profile. While the placements model is working on the basis of an average of 13.5 new LAC per month, the average in first quarter of 2016/17 has been 18.3 and overall numbers of LAC have risen from their low of 406 on 1st April 2016 to 424 on 1st July 2016.

- **Social Care Workforce (£2.1m overspend).** Savings of £2m have been allocated so far, with a further £1.6m savings to be allocated in 2017/18. Plans for workforce restructuring have slipped from 2015/16 and they are £0.2m behind schedule, with a new structure expected to be in place by Autumn 2016. Efforts are being channelled currently into managing the immediate workforce restructuring, and consideration is being given to reducing case numbers and delivering further savings in this area.

- **Social Care - Other non-staffing (£0.4m overspend).** For No Recourse to Public Funding (NRPF), numbers of families being supported have recently reached 50. Work continues with the dedicated Home Office support worker to review cases and progress to a conclusion in order to manage this number down.

- **SEND (£0.5m overspend).** The Special Educational Needs (SEN) transport budget is showing an overspend of £0.2m and respite services for disabled children are predicted to overspend by £0.3m. Management action is being developed to address both of these issues.

- **Other Children and Young People Service (£0.9m overspend).** There is a technical overspend on the DSG budget as it is held in SAP which has been an issue for a number of years and has remained unresolved as the impact is a hit on the General Fund of £0.9m.

Further Action

Children's have a number of demand management and spend reduction activities in place to manage the deficit position. Many involve a focus on quick wins which can be delivered in 2016/17 with greater benefits in 2017/18.

6.6.4 Chief Operating Officer (£8.7m overspend)
Housing General Fund (£7.4m overspend)

The Housing General Fund budget is projecting an overspend of £7.4m.This is the result of pressures on the Temporary Accommodation (TA) budget and the supply of suitable and affordable accommodation with an increased reliance on emergency accommodation although demand has also increased. Both demand for TA and the cost of provision are expected to continue rise in 2016/17. The housing market conditions in London make mitigating actions particularly difficult however a number of mitigating actions have been identified and are being implemented through the delivery of a recovery action plan from Homes for Haringey which is being monitored by the Priority 5 Board.

Commercial and Operations (c£1m overspend)

The Commercial and Operations budget is forecasting c£1m overspend, largely due to the non-achievement of planned savings relating to the disposal of corporate property. There are savings of £0.7m in Traffic Management relating to new ways of delivering Parking Enforcement, and Street Lighting LED will also not be achieved. It is expected, however that in year mitigations will be found to offset this overspend and that this forecast will reduce in the next period.

Other (Total c£0.3m overspend -Customer Services)
Customer Services is projecting a £0.3m overspend to year-end due to slippages in the restructure from an estimated start date of April 2016 to November 2016. There are options to mitigate this overspend being considered by the COO.

6.6.5 Director of Regeneration and Planning (£0.2m underspend)

This Service is currently forecasting a £0.2m underspend mainly in the Planning Service exceeding it's income profile for 2016/17.

6.6.6 Contract Procurement Savings (£1.1.M under-achievement)

Within the Medium-Term Financial Strategy there is an expected c£1.9m savings in contract costs over 2015/16 and 2016/17. Projections at Quarter 1 show savings of £0.84m being achieved and therefore a forecast position at year-end of £1.1m. However, it is expected that the savings will ramp up in 2017/18 as the benefits of the implementation of the Dynamic Purchasing System (DPS) are felt. There is also an opportunity to trade the DPS tool/service to other boroughs, which have not yet been costed or forecast, but we are currently speaking to other authorities to gain interest.

The main contributing factors to the achievement of the £0.84m are:

- Good progress towards the implementation of the DPS for Adults Social Care and Temporary Accommodation of £0.6m; and

- Progress on the implementation of the new operating model for temporary and permanent recruitment, £0.2m.

6.6.7 Housing Revenue Account (HRA)

At present the HRA is forecast to breakeven at Quarter 1.

6.6.8 Dedicated Schools Grant (DSG)

Table 2 below, sets out the overview of the net expenditure and DSG plans and forecasts for 2016/17, as at Quarter 1. There is a variance of £0.9m arising from overspends in the budget. Beyond that, the DSG budgets for Children and Young People with Additional Needs is showing a projected overspend of £1.4m in the areas related to children with high needs. Much of the action necessary to identify compensating under-spends is being pursued through a sub-group of the Schools Forum. In the medium to long term alternative provision will be developed which will result in a phased transition to cheaper, better, and more local provision.

Table 2: Statement of DSG Income and Expenditure Quarter 1, 2016/17

	Budget			Forecast			Variance		
	Net Expenditure (excluding DSG)	**DSG Income**	**Net**	**Net Expenditure (excluding DSG)**	**DSG Income**	**Net**	**Net Expenditure (excluding DSG)**	**DSG Income**	**Net**
Service	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Schools and Learning	152,514	-152,514	0	152,514	-152,514	0	0	0	0
Children Services	24,679	-25,558	-878	26,060	-26,060	0	1,381	-502	878
Commissioning	10,279	-10,279	0	10,279	-10,279	0	0	0	0
Total	187,473	-188,351	-878	188,854	-188,853	0	1,381	-502	878

6.7 Quarter 1 Capital Expenditure Position

6.7.1 At Quarter 1, the capital programme is forecasting an underspend of £24m, shown in Table 3 below.

Table 3: Capital Expenditure Projection – June 2016 (Quarter 1)

Priority	Revised Budget £'000	Forecast as at Quarter 1 £'000	Projected Variance £'000
Priority 1 - Childrens	15,132	11,889	(3,243)
Priority 2 - Adults	3,784	3,784	0
Priority 3 - Safe & Sustainable Places	15,949	17,189	1,239
Priority 4 - Growth & Employment	63,464	47,943	(15,521)
Priority 5 - Homes & Communities	26,673	24,493	(2,180)
Priority 6 - Enabling	6,914	2,697	(4,217)
Total General Fund	**131,917**	**107,995**	(23,922)
HRA	59,549	59,549	0
Total Capital Programme	**191,466**	**167,544**	**(23,922)**

6.7.2 At Quarter 1, there was a budget adjustment of £7.3m against the approved budget bringing the total budget to £191m in 2016/17.

The risk assessed Quarter 1 challenge has identified a number of schemes where the full budget for 2016/17 is unlikely to be required because programmes are still at an early stage of development and the exact profile of expenditure has not been agreed. This initial challenge has therefore been used to adjust budgets where significant in year underspends were already showing. These profile adjustments reflect approved programme expenditure that is now expected to take place in future years and constitute £7.3m of the 2016/17 programme. The main adjustments that have been made are: aids and adaptations budget £1.3m, enabling budgets for Business Improvement and ICT investment £4m and High Road West leaseholder budget £2m

6.7.3 Other major variances within each Priority are as follows:

- **Priority 1** – The Schools Capital Programme is currently projecting an underspend of £3.2m. A budget set aside to fund emergency temporary expansions is not likely to be required in the current year as sufficient primary school places currently exist within Haringey.

- **Priority 3 -** - TfL funded schemes are currently over budget by £3.3m, once TfL grant allocations have been confirmed, expenditure is expected to be on budget. CCTV Control room refurbishment, £2.1m underspend which is unlikely to be required until 2017/18, because of delays in the delivery of the depot relocation to Marsh Lane.

- **Priority 4** – Overall underspend is c£15m. The Wards Corner compulsory purchase order is expected later than anticipated. Most of the acquisitions are now likely to take place in 2017/18 (£8m). White Hart Lane public realm, main works expected to commence 2017/18 (£1.9m), Ashley Road/Marsh Lane Depot relocation, £5.1m underspend due to slippage of 9 months on the programme.

- **Priority 5 –** CPO's underspend £0.5m as there are unlikely to be any this financial year. Housing In Fill £1.7m underspend as scheme is scheduled to be completed in 2017/18.

- **Priority 6 –** An overall underspend of £4.2m, comprising IT (£1.2m) pending the approval of new projects at Resources Board, Customer Services (£0.7m) due to reduced team and hardware/software costs, IT Infrastructure Programme (£0.6m) as projects are currently being scoped and BIP (£1.7m).

6.8 Five-Year MTFS and Budget Setting Process

The impact of Public Sector Reform on the financial stability of the Council will be considerable. The Council, as predicted, is already seeing the strain of increased demand impacting on overall budget positions and the implementation of business rates devolution will impact further. It is vital therefore that the Council reviews its financial forecasting over the next five years taking into consideration demand trends but also predictions on expected growth.

To this end, work has begun to analyse all inputs into the five year MTFS process for both the income and expenditure side, including modelling of demand/growth pressures and income including business rates and council tax through the month of August.

It is expected that a 2017- 2022 MTFS will be presented for approval to Cabinet and consultation in December with a final MTFS being presented to Council in February 2017.

7. Contribution to strategic outcomes

Adherence to strong and effective financial management will enable the Council to deliver all of its stated objectives and priorities.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance

8.1 The whole report concerns the Council's financial position.

There is a significant risk of overspend that has been identified in this report and the COO, as part of the Leadership Team, has implemented a number of processes to reduce the organisational expenditure. The cost reduction measures will be monitored to ensure that they are reducing expenditure. It is important also to ensure that the impact of the cost reductions on service delivery are minimised which is also being monitored through the Priority Boards.

Legal

8.2 Section 28 of the Local Government Act 2003 imposes a statutory duty on the Council to monitor during the financial year its expenditure and income against the budget calculations. If the monitoring establishes that the budgetary situation has deteriorated, the Council must take such action as it considers necessary to deal with the situation. This could include, as set out in the report, action to reduce spending in the rest of the year.

The Council must act reasonably and in accordance with its statutory duties and responsibilities when taking the necessary action to reduce the overspend.

Equalities

8.3 The Council has a public sector equality duty under the Equalities Act (2010) to have due regard to:

- Tackle discrimination and victimisation of persons that share the characteristics protected under S4 of the Act. These include the characteristics of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex (formerly gender) and sexual orientation;

- Advance equality of opportunity between people who share those protected characteristics and people who do not;

- Foster good relations between people who share those characteristics and people who do not.

8.4 This report provides an update on the current position in relation to planned MTFS savings and mitigating actions to address current overspends. Given the impact on services of savings targets, all MTFS savings were subject to equalities impact assessment as reported to Full Council on 23rd February 2015.

8.5 Any planned mitigating actions that may have an impact beyond that identified within the MTFS impact assessment process will be subject to new equalities impact assessment.

9 Use of Appendices

Appendix 1 – Virements Tables

10 Local Government (Access to Information) Act 1985

The following background papers were used in the preparation of this report:

- Periods 1-3 Monthly Financial Report

For access to the background papers or any further information please contact Anna D'Alessandro – Lead Finance Officer.