Report for: Cabinet 18th October 2016

Item number: **12**

Title: 2016/17 Period 5 (to August 2016) Financial Report

Report Authorised by: Tracie Evans – Chief Operating Officer

Lead Officer: Anna D'Alessandro, Interim Deputy CFO

1. Describe the issue under consideration

1.1. This report sets out the 2016/17 Period 5 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 Period 5 (August 2016). It covers significant operating and capital revenue variances on a full-year basis.

2.2. Overall, at Period 5 the Council is projecting a **full-year deficit/overspend of £22.8m** for 2016/17. This is an **improvement of £5.2m** from the Quarter 1 position reported to Cabinet in September 2016. There are positive movements in most of the Council's budgets which is a valid sign that the spending restrictions and focus on value for money across the Council is having a positive impact.

2.3. Of the overspend, a significant proportion resides in the areas which continue to face increasing demand pressures: Adults (£11.8m), Children's (£5.4m) and Temporary Accommodation (£7.4m). The significant overspend in these areas is offset by releasing out under spent budgets in the Non Service Revenue budgets.

2.4. The increase in demand and therefore the cost for the Council's acute services is outstripping actions being taken to manage costs down and generate income. This is required to produce a balanced financial position at year-end and prevent any further deterioration.

2.5. Direct action is being taken to manage the financial position over the coming months. At Quarter 1 we indicated to Cabinet that we have put in place in-year mechanisms to manage the risks arising and these seem to be having a positive effect. We have also previously built a reserves position that will allow us to cushion the impact of these challenging financial times.

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). This is supported by our planned programmes of transformation being driven at pace.

3. Recommendations

That Cabinet:-

3.1. Consider the report and the Council's 2016/17 Period 5 financial position in respect of revenue and capital expenditure;

3.2. Note the risks and mitigating actions, including spend controls identified in this report in the context of the Council's on-going budget management responsibilities; and

3.3. Approve £580k for the Hornsey Town Hall capital budget. There are sufficient funds in Capital programme to cover this cost

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 Period 5 Financial Report. As such, there are no alternative options.

6. Background information

6.1. This is the Financial Report to Cabinet for the 2016/17 financial year covering both Revenue and Capital as at August 2016.

2016/2017 Period 5 - Key Messages

6.2. Overall, at Period 5 the Council is projecting a **full-year deficit of £22.8m** for 2016/17 in its revenue position, an **improvement of £5.2m from Q1**. Although a reduction from the previous report, this presents a significant risk to the Council's financial position.

6.3. Of this £5.2m improvement, £1.2m of this is within Service Areas and £4m in Non-Service Revenue (NSR) due to lower than forecast Treasury costs and a release of some corporate contingency to proactively manage some of the Council's emerging risks.

6.3. Of the overspend, £24.6m (a £1.1m reduction across Adults and Children's from Q1), resides in demand-led areas including; Adults (£11.8m), Children's (£5.4m) 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 to reduce spend or increase income at a pace to manage risks and deliver a balanced budget.

6.4 As identified at Q1, a number of mechanisms have been put in place to manage cost/demand-led pressures. These focus on the acceleration of transformation activities supported by a number of in year cost reduction mechanisms which included, greater momentum on restructures, active management and reduction of agency/interim staff and category spend blockages.

Table 1 below identifies the Period 5 position and variance to budget. This is supported by detailed variance analysis and mitigating actions.

Table 1: Forecast Revenue Outturn as at Period 5 (August 2016)

	2016/17 Revised Budget	Forecast Outturn at Period 5	Forecast Variance Period 5	Forecast Variance Quarter 1 (P3)	Forecast Variance Movement
	£'000	£'000	£'000	£'000	£'000
Leader and Chief Executive	**2,887**	**3,007**	**120**	**0**	**120**
Deputy Chief Executive					
Adult Social Services	73,062	84,901	11,839	12,174	(335)
Children and Young People	47,167	52,603	5,436	6,084	(648)
Public Health, Commissioning & Other	40,133	40,105	(28)	89	(117)
Deputy Chief Executive Total	**160,362**	**177,609**	**17,247**	**18,347**	**(1,100)**
Chief Operating Officer					
Housing General Fund	5,251	12,644	7,393	7,393	0
Commercial & Operation Services	36,654	37,346	692	965	(273)
Other (SSC, Customer Services etc)	16,518	16,998	480	367	113
Chief Operating Officer Total	**58,423**	**66,988**	**8,564**	**8,725**	**(161)**
Regeneration, Planning & Development	**18,280**	**18,107**	**(173)**	**(173)**	**0**
Total for Service Areas	**239,952**	**265,711**	**25,759**	**26,899**	**(1,140)**
Non Service Revenue	**15,674**	**11,618**	**(4,056)**	**0**	**(4,056)**
Contract Procurement Savings	**0**	**1,060**	**1,060**	**1,060**	**0**
TOTAL	**255,627**	**278,389**	**22,762**	**27,959**	**(5,196)**

6.5 The Capital expenditure position has not been re-profiled/re-forecasted for Period 5. A detailed challenge process is being undertaken on all significant capital programmes and the outcome of this will be reported to Cabinet as part of Quarter 2 in November.

At Quarter 1 (June 2016), the Capital programme was forecasting an underspend of £24m, against a budget of £191m. There was a technical budget adjustment to reduce the approved budget of £198m to £191m as a result of scheme re-profiling. 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.

6.6 Analysis of Revenue Variances

6.6.1 Corporate actions to mitigate financial risks

The increases in demand have been so significant that they have outstripped our ability to make comparable savings. To manage the financial position a number of spend reduction mechanisms have been introduced across the organisation;

- Increased pace on restructures
- Enforced agency and interim staff leave
- Further reduction of agency and interim staff
- Not filling vacant posts
- Blocking spend categories to prevent purchases of non business critical items
- Asst Directors signing off all purchases

- A further round of Voluntary Redundancies during October

The implementation and impact of these mechanisms are being managed through a Savings Steering Group chaired by the Leader, with the Cabinet Member for Finance, Chief Executive and Chief Operating Officer.

6.6.2 Leader and Chief Executive (£0.1m overspend)

The budget pressures identified relate to costs of the Referendum and by-elections this year.

6.6.3 Deputy Chief Executive (c£17m overspend)

Adults (£11.8m overspend)

Overall, the Adults Social Care budget is projecting an overspend position of £11.8m, an **improvement of £0.4m** on Quarter 1.

This is an area of corporate focus and there are a number of pieces of 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 being offset by continued demand, which is why the service is continuing to show such an overspend. Work is on-going to identify further areas of cost reduction. The service has engaged external support to accelerate the transformation changes and is currently identifying further areas for transformation.

The analysis for each area is;-

- **Care Purchasing (£10.4m 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, reflecting actual changes in activity levels as the year progresses, to produce a variance of £10.4m.

  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.
- **Other Adults Social Care (£0.3m underspend)** – This includes some staffing underspends in assessment and social work teams.

Children and Young People (£5.4m overspend)

Overall, the Children's Services budget is projecting an overspend of £5.4m at Period 5, an **improvement of £0.7m**. 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 £5.4m overspend is accounted for as follows:

- **Social Care Placements (£2m overspend).** Savings targets set for this budget have not been met with spending running at £1.0m higher than the budget. The social care placements model has reflected an improvement of -£0.2m in the forecast position, taking account of the changing circumstances of existing cases, plus the expected cost and number of new ones. 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 426 on 1st September 2016.
- **Social Care Workforce (£1.7m 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. A new structure is now out to consultation with staff and the detailed in-year costs are lower than previously estimated by -£0.4m. 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 (£0.4m 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 £0.2m. 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 – Adults & Children’s

Both Adults and 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. Given the improved position in both areas since Q1 it appears that these activities are starting to deliver benefits.

6.6.4 Chief Operating Officer (c£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 actions have been identified and are being implemented through the delivery of a recovery action plan from Homes for Haringey..

Commercial and Operations (£0.7m overspend)

The Commercial and Operations budget is forecasting £0.7m 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. As expected, in year mitigations have been found to offset the previously reported overspend of c£1m and this has improved by £0.3m.

Other (Total c£0.5m overspend)

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 which are largely around the proactive management of agency staff. Elsewhere in Transformation and Resources and the Shared Service Centre the reconfiguration of teams is contributing £0.2m to budget pressures.

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

This service is currently forecasting a £0.2m underspend predominantly as a result of an increase in planning income. However, line-by-line forecasting scrutiny is being undertaken and any changes arising will be reflected in the Period 6 Financial Report.

6.6.6 Contract Procurement Savings (£1.1m 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 Period 5 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 TA of £0.6m; and 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 Period 5 although there is a pressure arising in the managed budgets in respect of garage income and in the Home for Haringey management fee. Homes for Haringey are currently working on a management actions to mitigate the pressure on the management fee and these will be detailed in the quarter 2 reporting.

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 Period 5. 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 £0.9m in the areas related to children with high needs. In Schools and Learning, the variance of £0.2m is attributable to the Tuition Centre. 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 Period 5, 2016/17

	Budget			Forecast			Variance		
Service	Net Expenditure (excluding DSG)	DSG Income	Net	Net Expenditure (excluding DSG)	DSG Income	Net	Net Expenditure (excluding DSG)	DSG Income	Net
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Schools and Learning	152,514	-152,514	0	152,713	-152,713	0	199	-199	0
Children Services	24,679	-25,558	-878	25,556	-25,556	0	877	2	878
Commissioning	10,279	-10,279	0	10,279	-10,279	0	0	0	0
Total	**187,473**	**-188,351**	**-878**	**188,549**	**-188,549**	**0**	**1,076**	**-198**	**878**

6.7 Capital Expenditure Position

6.7.1 At Period 5 we are reflecting the same position as Quarter1, an underspend of c£24m, as shown in **Table 3** below. Currently a quarterly process to challenge capital programmes is being undertaken and this will be reported to Cabinet as part of the Q2 report in November. A number of budget adjustments will be required to increase the capital budget of the total approved programme and these will be detailed and reflected in the Q2 report.

6.7.2 it has however been identified that the total approved funds of £1.468m for the Hornsey Town Hall (HTH) project have not been appropriately reflected in the budgets (predominantly because the roll forward request was not sufficient) and a shortfall of £0.580m has been identified. Approval is now sought to increase the HTH budget from the approved £0.280m for 2016/17 to £0.860m to rectify this position. There are sufficient funds in the Capital programme to cover this. HTH is currently being shown in Priority 4 – Growth and Employment.

Table 3: Capital Expenditure Projection Period 5 (as per Q1)

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)**

7. Five-Year MTFS and Budget Setting Process

The impact of budget reductions and legislative 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.. Early indications are that the spending controls the Council has put in place are having a positive impact and will continue to do so in future years.

Work is progressing in earnest to analyse all inputs into the five-year MTFS for both the income and expenditure, including detailed modelling of demand/growth pressures and income including business rates and council tax.

The five-year MTFS will be presented for approval to Cabinet, consultation in December with a final MTFS being presented to Council in February 2017.

8. Contribution to strategic outcomes

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

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

Finance

9.1 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

9.2 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.

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

Equalities

9.4 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.

9.5 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.

9.6 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.

10 Use of Appendices

None

11 Local Government (Access to Information) Act 1985

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

- Periods 1-4 Monthly Financial Report

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