2015/16 OVERALL FINANCIAL POSITION, PROPERTY DISPOSALS AND ACQUISITIONS REPORT (MAY 2015)

KEY DECISION NO: FR L6

CABINET MEETING DATE	CLASSIFICATION:
20th July 2015	Open If exempt, the reason will be listed in the main body of this report.

WARD(S) AFFECTED

All Wards

CABINET MEMBER

Cllr Geoff Taylor

Finance

KEY DECISION

Yes

REASON

Spending or Savings

CORPORATE DIRECTOR

Ian Williams Corporate Director of Finance and Resources

OVERALL FINANCIAL POSITION STATEMENT

1. CABINET MEMBER'S INTRODUCTION

I present to Cabinet the Overall Financial Position report for the 2015/16 financial year which is based on detailed May monitoring data from directorates. The report is forecasting an overspend of £2,913k at year end.

In 2014/15, we maintained a firm grip on spending and I look forward to this continuing in 2015/16. I note the planned actions in the Health and Community Services (H&CS) commentary to redress the overspend in Adult Social Care and anticipate a sustained reduction in the total reported throughout the remainder of the year. Given the extremely challenging financial position we are in this year and will be in future years, it is essential that reported overspends in any service are quickly addressed and mitigated.

I commend this report to Cabinet

2. CORPORATE DIRECTOR'S INTRODUCTION

2.1. The OFP shows that the Council is forecast to have a £2,913k overspend which is equivalent to 0.3% of the total gross budget.

2.2 In a recent report, the Office of Budget Responsibility (OBR) stated that further cuts in government spending will be needed beyond this parliament in order to bring the national debt under control. In its annual report, the OBR said that without further spending cuts or tax rises, the national debt would only increase. It said a permanent £20bn cut in annual public spending will be needed by 2020. That would help bring the national debt down to 40% of Gross Domestic Product (GDP) by 2064, it said and if achieved, this means it would have taken more than half a century to bring the national debt back to the same level it was before the 2008 financial crisis. Last year, public sector net debt was £1.48tn, or 80% of economic output, compared with around £600bn, or around 42% of GDP, in 2008; and the OBR warned that even a cut of this size, equivalent to 1.1% of GDP, would not be sufficient to keep the national debt at 40% beyond 2064. And the OBR cast doubt on the government's ability to maintain a surplus, forecasting the UK public sector borrowing would still be necessary by the mid-2030s as a result of the demands of an ageing population. The OBR said the government's triple-lock on the state pension - whereby the state pension rises by whichever is the greater of inflation, average earnings, or 2.5% - had resulted in an additional £2.9bn cost to the government, seven times higher than the £0.4bn increase originally forecast in 2010.

Earlier this week, ratings agency Moody's warned that the government will find it very difficult to achieve a budget surplus by 2018-19, and is still likely to be operating a deficit of between 1% and 2% of GDP by 2020.

2.3 The Organisation of Economic Cooperation and Development (OECD) also published a report in June which showed that the UK had cut spending (measured by government spending per head) as deeply as the countries embroiled in the Eurozone crisis and by more than two of these – Italy and Portugal - between 2009 and 2013. Amongst OECD countries only Italy, Spain and Greece had cut by more than the UK. Government spending as a proportion of national income fell in the UK by twice as much as the rest of the OECD. The relative size of Government contracted by 4.2% compared to an OECD average of 2.5%. Interestingly the OECD found in 2013 that the amount of government spend destined for social protection was 37.2%, an increase of 2.3% on 2009, which were both higher than the OECD averages of 32.4% and 1.4%.

2.4 The latest position in relation to **GENERAL FUND REVENUE EXPENDITURE** is summarised in table 1 below.

TABLE 1: GENERAL FUND FORECAST OUTTURN AS AT MAY 2015

Original Budget £k	Virements £k	Revised Budgets £k	Service Unit	Change from Revised Budget £k
87,536	0	87,536	Children & Young Peoples Service	0
136,259	0	136,259	Health & Community Services	3,108
1,596	0	1,596	Housing	12
12,846	0	12,846	Chief Executive	1
4,053	0	4,053	Legal, HR& Regulatory	-185
16,213	0	16,213	Finance and Resources	-23
22,140	0	22,140	General Finance Account	0
280,643	**0**	**280,643**	**GENERAL FUND TOTAL**	**2,913**

3. RECOMMENDATIONS

3.1 To note the overall financial position for May 2015, covering the General Fund and HRA and the earmarking by the Corporate Director of Finance and Resources of the underspend to support funding of future cost pressures and the funding of the Capital Programme.

4. REASONS FOR DECISION

4.1 To facilitate financial management and control of the Council's finances.

4.2 <u>Children and Young People Service (CYPS)</u>

CYPS are forecasting a nil variance after use of reserves of £4,138k.

Corporate Parenting Overspend

As at May 2015, the service is forecasting an overspend of £2,090k in Corporate Parenting (before use of reserves). The main driver for this overspend remains the increase in the numbers coming into care which occurred during 2012 and the change of profile of foster care provision from in-house placements to a higher reliance on independent foster care agencies.

Points to note:

- The number of looked after children (LAC) for which we incur a cost decreased to below 300 towards the end of 2014/15 and has remained at that level. However the number of in-house foster placements has decreased (the most of any placement category) while the number of independent foster placements, which are more costly, have increased.

- Management has in place a strategy to recruit and retain in-house foster carers including a reward offer to Council staff who recommend a successfully approved foster carer. However it should be noted that Foster Carer recruitment is a London-wide issue which may not show significant improvement in the short to medium term.

- The forecast for over-18 placements (although forecast to overspend by £587k) is significantly lower than last year's expenditure as a result of a fall in the numbers accommodated and more effective processes for claiming Housing Benefit.

The chart below shows that over the last 12 months LAC placements have marginally reduced and as at May 2015 stand at 291. The profile of foster care placements has fluctuated throughout the previous 12 months and this month in-house fostering placements have fallen to 76, while Independent Fostering Agency (IFA) placements are at 157 after a peak of 166 in October 2014 representing a small improvement. Residential care placements (our most costly placement for children in care), have reduced to 12 resulting in a £60k underspend against the budget.

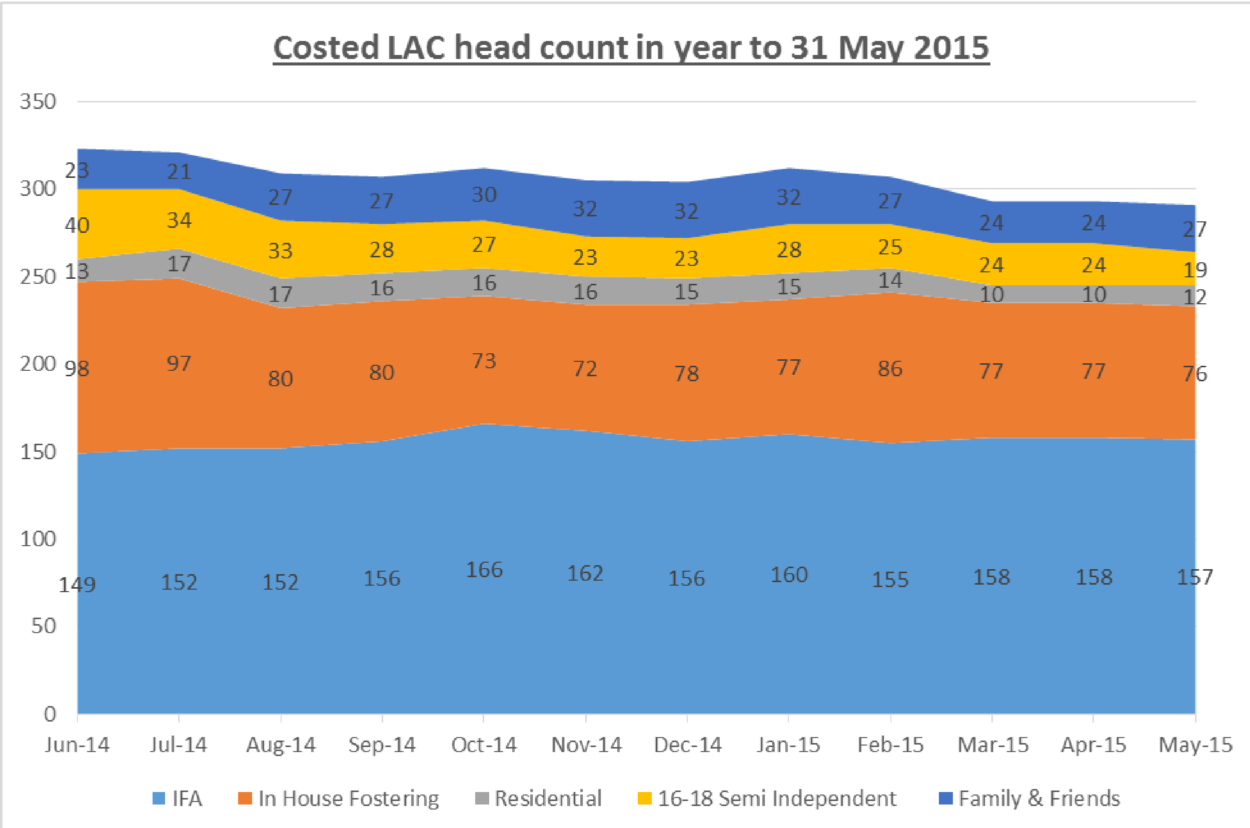
Costed LAC head count in year to 31 May 2015
350
300
250
200
150
100
50
0
Jun-14
Jul-14
Aug-14
Sep-14
Oct-14
Nov-14
Dec-14
Jan-15
Feb-15
Mar-15
Apr-15
May-15
IFA
In House Fostering
Residential
16-18 Semi Independent
Family & Friends
149 152 152 156 166 162 156 160 155 158 158 157
98 97 80 80 73 72 78 77 86 77 77 76
13 17 17 16 16 16 15 15 14 10 10 12
40 34 33 28 27 23 23 28 25 24 24 19
23 21 27 27 30 32 32 32 27 24 24 27

TABLE 2: Corporate Parenting Management Dashboard – May 2015 OFP

Key Metrics	Feb 15 OFP	May 15 OFP	Status	Comments
Overall LAC Headcount	307	291		This records the number of LAC where there is a financial commitment
IFA Placements	155	157		
Average cost of IFA Placement	£43,787	£42,725		
In house placements	86	76		Decrease in less costly placements
Average cost of in house placements	£20,154	£20,482		
Residential Placements	14	12		
Average cost of Residential Placement	£170,266	£158,332		The fall in average cost is partly due to one case ceasing in May which cost £6,250 per week.
Supporting People 18+ & 16-18	27	Awaiting Update		Supporting People is a framework agreement joined with Adult's Social Care for semi-independent units. Children and young people placed under this contract have lower unit accommodation costs, support hours are purchased in bulk and a higher rate of Housing Benefit claims for 18+. The service is seeking to maximise this type of placement where appropriate

Children in Need Overspend

Children in Need are forecast to overspend by £870k. A large part of this overspend relates to legal fees and court costs (£342k). Due to the volatility of such costs and the fact that they can arise in varying services across the Directorate, the budget is held on the Directorate Management Team (DMT) cost centre and DMT are reporting a corresponding underspend. Excluding these costs and an overspend on staffing for which provision is made elsewhere (£112k), the overspend forecast is £416k which mainly relates to S17 costs as set out below.

Section 17 costs are forecast based on 2014/15 outturn pending further analysis of the underlying position. Though management actions are in place to reduce the overspend, we expect some pressures to continue for example:

- A one-off special needs case which is jointly funded with Hackney Learning Trust (HLT) (£102k),
- Residential assessments and specialist nursing which are court directed

- One-off support to prevent family breakdown

Additionally, a significant percentage of the total section 17 spending is used to provide ongoing support to families and 16+ young people (44% of total spending). The Head of Service will be working with the consultant social workers (CSWs) to reduce the period for which this type of support is provided. The Head of Service also plans to work with the CSWs to strengthen controls on the one off spending (31% of total spending).

Directorate Underspends

Overspends in Corporate Parenting and Children in Need are offset by underspends elsewhere, significantly, in Family Support Services, the Directorate Management Team, Safeguarding and Learning Service and Young Hackney:

- Family Support Services are forecast to underspend by £495k (after £13k use of reserves) due to posts held vacant pending the implementation of the first phase of 1CYPS.

- DMT are forecasting to underspend by £679k primarily due to legal budgets held on this cost centre whilst costs are incurred elsewhere across the Directorate (as explained in relation to the Children in Need overspend above) and as a result of accounting for the early delivery of some savings from elsewhere in the Directorate on this cost centre.

- Safeguarding and Learning Services (SALS) is reporting an underspend of £128k due to a management decision to reduce commissioned services (£236k) agreed to offset overspends elsewhere

- Young Hackney (YH) is forecast to underspend by £293k (after £683k use of reserves). There are forecast staff underspends (£293k) in core units due mainly to posts held vacant in advance of the first phase of 1CYPS. There are also forecasts underspends in commissioning (£180k) following a review of the services delivered under the Connecting Young Hackney commissioning framework.

The cost of accommodating young persons in secure remand centres is likely to exceed the Youth Justice Board (YJB) grant (£235k) and core budget (£73k) allocations by £760k. This is due to increased numbers of young offenders in Secure Training Centres and Secure Children's Homes. These costs should be funded by the YJB grant for remand. However, the grant award is based on the previous three years activity to 31 March 2014, where the numbers of young persons in high cost establishments was relatively low. A reserve (£603k) was set aside in recognition of a risk in this area as expenditure is dependent on court activity and decisions.

Hackney Learning Trust

The Hackney Learning Trust (HLT) forecast is consolidated into the CYPS position. Outturn is forecast on budget. As part of the delegated arrangements for the HLT any overspend or underspend at year end will result in a contribution from or to the HLT reserve.

Early Delivery of Savings

The CYPS directorate has worked closely with Finance & Resources to identify early delivery of savings from remodelling and evolving the service and reducing overlap and duplication whilst achieving cost savings as part of the 1CYPS approach. The first tranche of these 'in-year' savings are forecast to be delivered from October 2015. These are being closely monitored by finance and are not yet included in the forecast above. However, in some service areas e.g. Family Support Services and Young Hackney, underspends are forecast as a result of posts held vacant pending full implementation of the first phase of 1CYPS.

4.3 Health and Community Services

The opening revenue forecast of 2015/16 for the Health and Community Services directorate is a £3,100k overspend.

The overspend is based solely in the Adult Social Care service and relates to non-delivery of in-year savings within Care Support Commissioning, the budget for externally commissioned packages of care.

The major variances making up the forecast overspend, using the traditional care categories, are as follows.

Adult Social Care overspend as at May 2015	£m
Learning Disabilities Commissioning	3.384
Older People Commissioning	0.757
Physical/Sensory Commissioning	0.155
Provided Services - Housing With Care	0.767
Provided Services – early delivery of Day Care saving and other under spends	(0.767)
Preventative Services underspend	(0.222)
Mental Health Section 75 services	(0.938)
Other minor variances	(0.028)
Adult Social Care overspend	**3.108**

In aggregate, care commissioning are forecast to overspend by £4,296K, this is primarily due to the non delivery of the Promoting Independence savings for 2015/16 so far at this stage of the year. The largest area of overspend is Learning Disabilities, where the forecast is showing an overspend of £3,384K. The information held by the Learning Disabilities Service (LDS) is that they have delivered savings but there is a time lag between a decision to reduce a care package and its implementation due to the vulnerability of the client group. There are also increases arising from transitions and care package increases which reduces the achievement of savings. Finance forecasting for OFP does not include a saving as achieved until the information in the financial system reflects the reduction or ceasing of a care package. This is to ensure the accuracy of the financial position as it can take some time for a saving in LDS to be realised.

There is an overspend of £757K in older people which is a reflection of the partial delivery of the Promoting Independence savings for 2015/16 at this stage of the year. This service is being impacted by the transformation of interim and intermediate care and also the Delayed Transfers of Care challenge. We expect that this will be a short term impact and that our demand management strategy will have a positive impact on the budget over the coming months.

There is also a £155k overspend within Physical/Sensory commissioning which is due to a continuation of cost pressures on this budget and broadly reflects the 2014/15 outturn position.

The overspending areas are offset by two notable underspends. There is a £938k underspend within services that come under the Mental Health Section 75 services. This consists primarily of £400k underspend on commissioned services and a £500k underspend across staffing budgets reflecting current planned staffing levels. There is also an underspend of £222k within Preventative Services which is due to reduced costs following the closure of Median Road.

In addition to the overspend in care commissioning, there is an underlying overspend within our Housing with Care Service (HWC) of £767K. Overall, Provided Services is not showing an overspend because the underlying position in HWC is being mitigated by the early delivery of Day Care transformation savings and underspends in Meals of Wheel and Transport.

The remainder of the services within the Health and Community Services directorate are forecast to budget for the May 2015/16 position.

Management Actions

Under the leadership of the Adult Social Care (ASC) Budget Board, the management team will be focusing on the following three areas to bring expenditure back within the cash limit; Learning Disabilities, Older People and Physical Disabilities and Housing with Care.

Learning Disabilities
The Assistant Director of ASC had already developed a six point plan to deliver the savings as part of ongoing planning and management. This plan has confirmed that the potential cost reduction to care packages is in excess of the current savings target and there is resource in place to take forward the actions to deliver this. This is a challenging savings plan with the aim of promoting independence amongst a vulnerable client group which will reduce over inflated care packages. A simple tracker has been developed for the Budget Board to enable effective monitoring of progress against this plan.

Older People and Physical Disabilities
The main driver for savings remains our promoting independence approach and robust application of eligibility criteria for all new packages while optimising re-ablement and intermediate in the community remains a priority.

Provision of agreed care remains below the indicative budgets which means we will recalibrate our resource allocation system again. In long term services we are in the process of reviewing our care package Review System to ensure that provision of care at the point of hospital discharge is being timely and robustly reviewed so to prevent service users dependency on long term services, as well as ensuring that we capture people at the end of their recuperation. Through the Delayed Transfer of Care (DTOC) funding from the Clinical Commissioning Group (CCG) we are recruiting a dedicated social worker that will work entirely with service users in interim care and intermediate care to ensure that people move back into the community in a timely manner. In addition we will continue ensuring that residential care is the last resort and making sure that any placements following hospital discharges are kept to a minimum. We are also exploring joint health and social care personal budgets with our health partners with the aim of achieving some contributions from Health towards people's cost of care. We are also vigilant to any continuing health needs of our service users so to enable them to access health funding.

Housing with care (HWC)
A detailed plan is in place to deliver cost reduction in this service and these include:

- A review of the management structure to deliver leaner and more effective service management.
- A focused recruitment campaign is being progressed so that we can see a reduction in agency spend. In addition we continue robust monitoring of agency staff requests which is being managed on a weekly basis.
- Transfer Service Users with high needs to residential care to achieve better "need balance" in the schemes, so to ensure the allocated provision is sufficient to meet the needs without extra resources.
- The Interim Care pilot will be reviewed in month three with an aim for this to service to be absorbed within the existing resources; which should see substantial savings within this service.
- We are extending the promoting independence training for all staff in HWC to reinforce our approach and reduce dependency.

- We will take forward initiatives to increase efficiency in the service e.g. deletion of Night Owls; electronic rostering system, consideration of ceasing or handing over to Mental Health of 24hr schemes.
- We will appoint an external commercial expert to fully review the provided services portfolio as we are confident that further efficiency savings can be identified across the portfolio and particularly in transport, which would contribute to address the financial position of Housing with Care.

The actions are being taken forward by the Assistant Director ASC and are being monitored through the budget management framework in the Directorate and through the Adult Social Care Budget Board. A more detailed plan of action to respond to this current financial position will be developed by the service and progress updates will be reported in future OFP reports to Cabinet.

The Corporate Director has advised that the Promoting Independence savings are proving challenging, particularly in Learning Disabilities (LD) as they involve reducing care packages, (albeit care packages that have historically been over inflated in terms of provision and cost). Experience in the last few years has shown that in forecasting the outturn position for ASC we invariably start the year with a large overspend and this starts to reduce as the year progresses and management action takes effect. There is also the fact that savings in care packages are not forecast as achieved until they are actually in the ASC system, therefore there will be time lag between actions to deliver savings and inclusion in the forecast. As discussed at Budget Board we have identified that the total amount of savings in LD will take time to deliver and that we will find other savings from within the directorate and/or use a surplus generated from external funding, which is likely to occur this year, to help ensure that we keep spend within our approved budget.

There are number of other issues to be taken into consideration in this forecast position. Firstly, this is the first report that we have produced since we went live with the new ICT system (Frameworki) so there is not yet 100% assurance as to the integrity of the forecast. Secondly, we are working on producing revised methods for reporting as we now have to record budgets against primary support needs (i.e. Physical Support, Mental Health, Memory and cognition) rather than by service user (i.e. older people) and we need accurate activity and financial information before we can transfer the budgets into these new codes.

Secondly, there are agreed savings in LD for this year of £3.3m. For LD savings there is a detailed six pronged plan, outlined above, that we go through at the budget board that accounts for each service user and highlights where the savings are to be made so have a grip on this. The majority of the overspend is driven by learning disabilities budgets. At the latest ASC Board meeting on 25th June 2015, the service presented a LD Savings Delivery Plan Update in which it anticipated making £2.6m of the £3.3m savings in 2015/16 (and is working on other savings to make up the shortfall). As stated above, forecasting within OFP includes savings only when the information in the financial system reflects the reduction or ceasing of a care package. We would therefore expect the forecast overspend being reported for May to reduce over the year, as this savings plan is achieved.

Thirdly, we are still trying to understand the impacts, if any, of the implementation of the Care Act and intend to provide tracking data to monitor this over the coming years. Lastly, after we have fulfilled the requirements attached to certain external grant funding streams this year, there is likely to be a surplus which can be used, if required to help smooth some of the adult social care budget pressures by using this money creatively and are already discussing, internally, how best to do this, as mentioned above.

4.4 Finance & Resources

The directorate is forecast to come in at budget despite on-going cost pressures in revenues and benefits, temporary accommodation and ICT. Overspends in ICT and property are offset by underspends elsewhere in the service, in particular in Audit and Anti-Fraud and Procurement.

4.5 Chief Executive

Overall the directorate is forecast to come in at budget. In broad terms, the overspend in Chief Executive's Office is being offset by the underspend in Performance, Policy and Delivery.

4.6 Legal, HR and Regulatory Services (LHRR)

The LHRR position as at May 2015 is a forecast underspend of £185k. Governance Services and Member Allowances is reporting a forecast £208k underspend, reflecting a £225k underspend in the ring-fenced Member Allowances budget due to the change in regulations prohibiting employers' pension contributions in respect of members. It should be noted that the Members Allowances scheme is currently under review by an external party. Additionally, Legal Services is forecast to underspend by £132k due to fewer cases being referred to external lawyers so far this year. These underspends are offset by overspends in Human Resources & Organisational Development and Planning and Regulatory Services (PRS).

Human Resources and Organisational Development is forecast to overspend by £100k. This is due to the continuation of the Head of HR and Strategic Planning post for a transitional period and a shortfall in the internal recruitment income recovered in April and May. An overspend in PRS is driven by a shortfall in Building Control (BC) income mitigated by the planned use of the Shortfall in BC Income reserve. BC operates in a competitive market in which there is a strong link between product price and the amount of business won. Since 2010, the service has been losing market share to approved inspectors in the private sector. As a response to this decline, the Delegated Powers Report (DPR) issued in August 2014 implemented a number of service improvements and included a revised charging schedule. With the proposed reduced fees only coming into effect in mid-October 2014, the first real indicator of success of the new fees is likely to be in the second quarter of 2015/16. Additionally the success in bidding for work in major projects will be a key factor in improving the financial position. Building Control has seen already seen a marked increase in contacts from developers/clients proposing to undertake large construction projects in the Hackney and wishing to use the Building Control Team. However, it is too earlier to say if this will translate into an increase in income from these areas.

4.7 General Fund Housing Services

The service is forecasting to come in at budget.

4.8 HRA

The HRA is forecast to come in on budget. There are various overspends and underspends across the service, including underspends on repairs and maintenance and on special services (primarily spend on utilities). There are overspends on supervision and management, and rents and rates. With regards to income there is unbudgeted additional income for leaseholder services

5. DETAILS OF ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

As this report is primarily an update on the Council's financial position and there are no alternative options relating to this part of the report.

6. BACKGROUND

6.1 Policy Context

This report describes the Council's financial position as at the end of May 2015. Full Council agreed the 2015/16 budget on 25th February 2015.

6.2 Equality Impact Assessment

Equality impact assessments are carried out at budget setting time and included in the relevant reports to Cabinet. Such details are not repeated in this report.

6.3 Sustainability

As above

6.4 Consultations

Relevant consultations have been carried out in respect of the forecasts contained within this report involving, the Mayor, the Member for Finance, HMT, Heads of Finance and Assistant Directors of Finance.

6.5 Risk Assessment

The risks associated with the schemes Council's financial position are detailed in this report.

7. COMMENTS OF THE CORPORATE DIRECTOR OF FINANCE AND RESOURCES

7.1 The Corporate Director of Finance and Resources' financial considerations are included throughout the report.

8. COMMENTS OF THE CORPORATE DIRECTOR OF LEGAL, HR AND REGULATORY SERVICES

8.1 The Corporate Director of Legal, HR and Regulatory Services has seen the report and has no legal comments to make on the regular budget monitoring part of the report.

BACKGROUND PAPERS
None

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