

**REVIEW OF 2019-20 BUDGET - RESPONDING TO DEMANDS AND DEVELOPMENTS  
SINCE BUDGET SETTING**

**To:** General Purposes Committee

**Meeting Date:** 16 July 2019

**From:** Chief Finance Officer \ Deputy Chief Executive

**Electoral division(s):** All

**Forward Plan ref:** 2019/010 **Key decision:** Yes

**Purpose:** For the Committee to consider the operation of the Council's financial strategy in-year during 2019-20; to receive and respond to new budgetary pressures, developments and mitigations; to approve redeployment of resources

**Recommendation:** The Committee is invited to

- a) Note the contents of this item as a companion to the 31 May 2019 Integrated Resources & Performance Report.
- b) Agree an increase in the income budget for 2019-20 (funding items) of £1.91m resulting from prior year surpluses across local taxation in four districts.
- c) Agree that the following budgets are therefore available for allocation in 2019/20 (as per section 4.3):

Funding items surplus	-£1.91m
Demography budget	-£0.32m
Laptop replacement	-£0.25m
<b>Subtotal</b>	<b>-£2.48m</b>

- d) Agree deployment of the available budget in 2019/20 to:

CYP: Exceptional secure accommodation (2.5)	£0.35m
CYP: SEND Investment (as per section 3)	£0.36m
CYP: Loss of grant (as per section 2.3.2)	£0.30m
ADULT: Partial impact price pressures (2.2)	£1.35m
C&I: Partial impact of income delays (2.7)	£0.12m
<b>Subtotal</b>	<b>£2.48m</b>

- e) Note that ongoing pressures and mitigations will be taken into account for Committees' consideration as part of Business Planning 2020-25.

<b><i>Officer contact:</i></b>		<b><i>Member contacts:</i></b>	
Name:	Tom Kelly	Names:	Cllr S Count and Cllr R Hickford
Post:	Head of Finance	Post:	Chair / Vice-Chair
Email:	Tom.Kelly@cambridgeshire.gov.uk	Email:	<a href="mailto:Steve.Count@cambridgeshire.gov.uk">Steve.Count@cambridgeshire.gov.uk</a> <a href="mailto:Roger.Hickford@cambridgeshire.gov.uk">Roger.Hickford@cambridgeshire.gov.uk</a>
Tel:	01223 715333	Tel:	01223 706398

## 1. FINANCIAL STRATEGY

1.1 The County Council's Medium Term Financial Strategy (MTFS) sets out how the Council is ensuring effective financial management of:

- **Expenditure:** investing in transformation and reform to ensure service provision is cost effective, remaining amongst the lowest cost per capita compared to statistical neighbour Councils
- **Income:** increasing locally generated income streams: both from new commercial sources and taxation
- **Reserves:** sustaining its general reserve at the 3% level to provide protection against a financial shock

1.2 General Purposes Committee has a strong track record in delivering the MTFS, making dynamic and difficult budgetary decisions. Since 2017 this has included:

- Reviewing budget flexibilities each summer and deploying additional available resources to demand pressures that have emerged since the budget was set the previous spring
- Promoting accurate forecasting: across gross expenditure of £640m, outturn forecasts have consistently varied within a tight £1m range (adjusting for short-notice additional grants) for each of the last 23 months
- Delivering final outturn results at 1% or less of the net year-end revenue budget
- Replenishing the general fund reserve to not less than 3% of net spending each year

1.3 The MTFS, available at <https://www.cambridgeshire.gov.uk/council/finance-and-budget/business-plans>) positions the organisation to respond to three linked external issues:

- declining central government funding with an uncertain reform horizon
- rapid rises in demand for upper tier local government services, which are particularly pronounced in Cambridgeshire, the fastest growing county in England
- insufficient supply of services nationally and regionally to meet that demand (including rising labour costs), causing price escalation

1.4 This report focuses on the first full financial forecasts for 2019-20, drawing attention to areas where there are significant pressures, exceptions or possible mitigations compared to the budget set by Full Council in February.

1.5 The budget agreed in February is the result of analysis and incremental Committee agreement taking place over the preceding months and relies on a series of departmental planning assumptions. These largely remain static after submission and recommendation through Service Committees in November. The nature of the demand-led services that the Council provides, the extent of national cost pressures on local government, as well as Cambridgeshire specific circumstances, set out in the following sections, lead to the need to return to budget setting more regularly than on an annual basis.

1.6 As with the previous two financial years, it will be sensible for effective budgetary management in-year to agree some redeployment of resources at the July GPC meeting. The intention is that as with previous years, those updated budgetary estimates should then largely hold for the Council, within a tight forecasting range overall, until the end of the year.

## 2. UPDATED FORECAST BUDGETARY PRESSURES

2.1 The overall forecast outturn as reported in the Integrated Resources and Performance report is an overspend of £0.77m (0.2%) however this includes a series of pressures and offsetting mitigations. This section lists the pressures, which exceed £7.5m. The material pressures include:

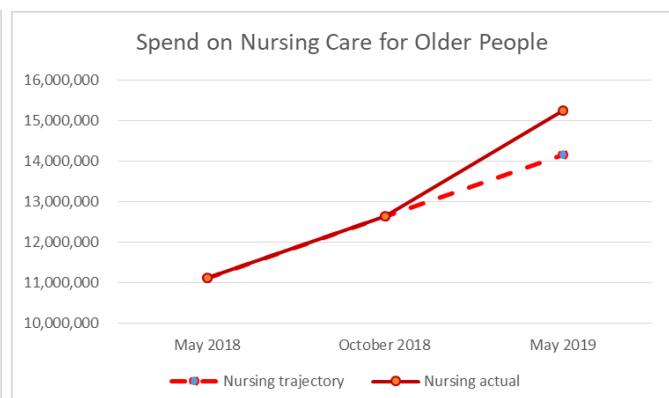
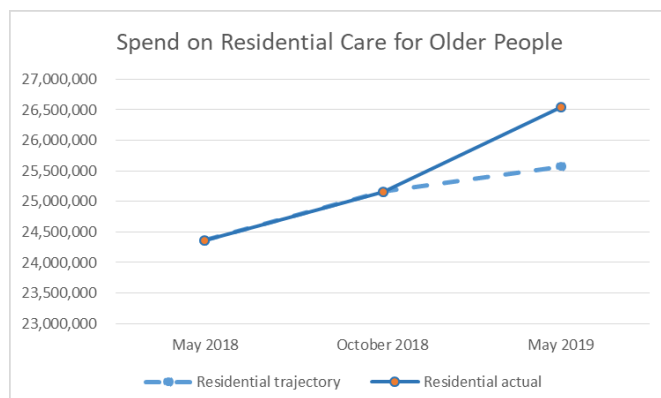
### 2.2 Adults Committee – Care Prices - Older People and Physical Disability: +£4.9m

2.2.1 The context of this pressure is set against unit costs for Adults Services in Cambridgeshire which are 'very low' compared to our statistical neighbours (a low baseline of spending has been held for several years) and a local health system reporting significant financial distress and relative underfunding compared to neighbouring areas of the NHS.

2.2.2 Further to risks signalled to the Adults Committee during 2018-19 and following a detailed review of care budgets for 2019/20 increases in unit cost have been confirmed.

Budget requirements for each year are broadly based on projections of year-end expenditure made over the Autumn of the previous year as the business planning process is undertaken by committees. Within Older People's services, the unit cost of residential and nursing care increased at a much greater rate in the last third of the year than expected – this had some impact on the position in 2018/19, but the annual effect into 2019/20 is greater:

	Numbers				Unit costs				Total impact
	Projected May 2019 Numbers	Actual May 2019 Numbers	Difference	Annual impact	Projected May 2019 Unit Cost	Actual May 2019 Unit Cost	Difference	Annual impact	
Residential	852	865	13	£399,006	£577	£590	£13	£585,068	£984,074
Nursing	416	418	2	£72,883	£654	£701	£46	£1,008,634	£1,081,517
				£471,889				£1,593,702	£2,065,591



*These graphs highlight the trajectory for expenditure on care homes when budget allocations for 2019/20 were being calculated in the Autumn, compared to the level of expenditure that actually resulted.*

2.2.3 The increase in unit costs of care has had the biggest impact, particularly in nursing care, with the main causes being:

- Increased demand for care resulting from high winter pressures (recognised by the Winter Pressures Grant), improving delayed discharge performance and increasingly complex levels of need
- Increasing competition for beds from people paying for their own care, and from the NHS who also commissioning nursing care
- Constrained supply in the market, partly as a result of increasing numbers of people in care homes commissioned by local authorities and the NHS, as well as paying for it themselves.

2.2.4 The higher than expected number of people in residential care is due to:

- Successful work, such as through the Adults Positive Challenge Programme (APCP) and establishment of Adult Early Help and other services intended to support people to live independently at home and reduce the number of people deteriorating from residential into nursing care
- An increase in referrals from acute hospitals to social care of patients with higher levels of need, complexity and multiple morbidity

2.2.5 As a result of the increasing unit costs of care, we have revised our in-year projections of prices upwards, resulting in an additional pressure. These projections are for the whole year, and are based on the levels of past increases, so work to manage price increases would reduce the forecast pressure. This is a continuation of the trajectories seen in the diagrams on the previous page, and, together with an anticipated contribution from grants mitigating the net position (see paragraph 4.3) explain a forecast of close to £5m compared to an opening position which is £2m worse than expected.

Projections around numbers of people in residential and nursing care have not been revised as we anticipate demand management work embodied in the Adults Positive Challenge programme will keep numbers within the expected number overall.

2.2.6 **Agreeing recommendation (d) would partially mitigate this pressure**, in recognition that work will also continue to manage the care spending position overall.

## 2.3 Children & Young People Committee – Grant related spending deficits: +£0.6m

2.3.1 Variances within two areas accountable to the Children's & Young People Committee are the result of unforeseen government funding decisions.

2.3.2 The *Special Educational Needs Reform Grant* has provided around £300k in funding annually for a number of years. This has funded additional capacity within Special Educational Needs and Disability (SEND) teams, especially supporting the statutory assessment process. At relatively short notice, the grant has not continued in 2019-20 however workload volumes in this area remain high (and indeed there is a request to actually increase funding below in section 3). The additional capacity has become part of the establishment and operationally it would not be possible to withdraw the capacity funded by the grant without significant disruption. **Agreeing recommendation (d) would fund this pressure in full in 2019/20.**

2.3.3 Although the government has announced additional funds for *unaccompanied asylum seeking children (UASC)*, the national review of funding levels for young people who were formally UASC but are now 18 or over and requiring support is ongoing. The

Council hopes that the pressure in this area could be abated if the additional costs are recognised nationally by a funding increase, in a similar way to under 18s.

## **2.4 Children & Young People Committee – Special Educational Needs & Disability: +£0.3m in addition to the DSG Deficit, see also section 3)**

- 2.4.1 During 2018-19 there was an 11% increase in the number of pupils attending special schools or other alternative settings as a result of an Education, Health and Care plan (EHCP). This is a higher level of growth than in previous years and has meant an increase in transport costs associated with higher volumes. The impacts of this trend lead to increase in transport costs as a result of transport:
- More pupils of all ages
  - Older young people, with training entitlements extended to 25
  - Longer distances to reach provision as places fill
  - Pupils with more complex need, requiring greater support to travel

While only statutory provision made in this area, and charging is in line with our statistical neighbours, if growth continues at the same rate as in 2018/19 then it is likely that the overspend will increase from this position. This will be clearer in September or October once routes have been finalised for the 19/20 academic year.

- 2.4.2 These underlying levels of demand on SEND are reflected in the County Council ending 2018/19 with a deficit of £7.1m in the high needs block of the dedicated schools grant (DSG). The services funded by the high needs block are overwhelmingly schools facing or delivered directly by schools; deficits are increasingly common across England. While CCC is accounting for the deficit within the dedicated schools grant ring-fence, and are accordingly not covered in depth in this paper, the position is particularly serious for Cambridgeshire relative to high needs block spending and the balance within general reserves. The Council has responded to a request from the Department for Education to set out a 3-year deficit recovery plan for this area: a combination of local actions overseen by Schools Forum to reduce expenditure as well as a revised approach to the funding of high needs nationally will be needed to improve the deficit position.

## **2.5 Children's Committee – Secure accommodation, exceptional events: +£0.35m**

- 2.5.1 The implications of our service of increasing incidents involving knife crime and drugs (County Lines) have been reported to recent Children and Young People's Committee. In May The All Party Parliamentary Group considered a growing incidence of reported knife crime in Cambridgeshire as a whole

Whereas in previous years the Committee has focused on a systemic increases in demand for Looked After Children's Services, there is a much smaller budget pressure reported this year, but an increase has occurred related to the need to provide secure accommodation following gang related crime. This was not foreseeable at budget setting but does cause a material budget variance: **recommendation (d) would fund this pressure in full.**

## **2.6 GPC/ Communities & Partnerships Committee – Shared Services Savings: +£0.9m**

- 2.6.1 *Sharing services with Peterborough City Council –*

Work with Peterborough City Council has improved the council's management capacity and added resilience to a number of specialist teams, enabling the sharing of good practice and reductions in external spend. Although some direct workforce savings have been achieved in corporate services we have identified some unforeseen deficits, which we are working to resolve however only partial delivery of the anticipated savings in 2019/20 are now expected.

- 2.6.2 *LGSS savings delivery risks* – as a result of the ongoing reviews of the LGSS operating model and the dependencies on partners, it had been foreseen that there was risk to savings and income delivery targets within LGSS. As a result the £582k pressure reported by LGSS is offset by a balancing amount allocated by the Council in budgeting, held by the CCC Deputy Chief Executive. As a result no budget transfer is proposed.

## **2.7 Commercial & Investment Committee – This Land (£0.4m)**

- 2.7.1 The Council has had substantial success over recent months in establishing new income streams.
- interest received from This Land on loans advanced for property purchased from the Council, enabling the delivery of new homes (such as at Milton Road Library).
  - reinvestment of those capital receipts received from This Land in new rental yielding assets.
- 2.7.2 Within 12 months these two funding streams are on course to exceed £10m.

During 2019/20 we expect a delayed delivery of new income from This Land loan interest, although on a much reduced scale compared to 2018/19.

Although £4m in income is secure and a further £1m is likely, the Council has had confirmation from This Land that loans yielding £0.5m in interest will no longer be advanced according to the original schedule principally as a result of planning outcomes, which impact land values via overage, and readiness to take out loans for commencing construction at sites.

**Recommendation (d) would partially fund this pressure**, in recognition of the ongoing work across a number of workstreams to maximise commercial income.

## **3. NEW INVESTMENT REQUEST: SPECIAL EDUCATIONAL NEEDS AND DISABILITY SERVICES**

- 3.1 The Strategic Management Team has agreed to support a case to General Purposes Committee for an ongoing additional investment of £500k into SEND Services (part year impact £360k in 2019/20). The ongoing rise in demand on SEND Services 0-25, outlined in section 2.4, means that the service requires urgent additional investment in order to comply with statutory duties and manage demand on the system.
- 3.2 In contrast to an overspending position on the DSG high needs block in total, CCC's expenditure of its general unringfenced resources on its local authority functions in this area (SEN administration, assessment and co-ordination) is amongst the lowest in the statistical neighbour group. As numbers of Education Health and Care Plans (EHCPs) have increased, compliance with statutory timescales for completion of casework has

declined and has required short-term injections of temporary staff. The service needs to move to a more sustainable funding position in order to improve service levels to students, schools and parents. Presently 50% of complaints received by CCC are registered with the SEND service.

- 3.3 The funding to permanently increase the establishment would :
- Improve compliance with statutory duties and positioning for an Ofsted inspection
  - Increase parental satisfaction and reduce outcomes that are contestable at tribunal
  - Improve data collection and analysis
  - Support transition of children and young people towards mainstream settings, and in preparation for adulthood.

- 3.4 There is a significant risk that where there are shortcomings in undertaking SEN administration, assessment and co-ordination functions these lead to ever rising pressures on the high needs block. The investment would increase capacity in the statutory assessment casework function in particular, and would lead to an increase in the employee establishment in this area. The service is confident that suitable recruitments can be made to fill these positions rapidly, following the agreement of funding.

#### **4 CONTINUOUS MONITORING AND REPLANNING: IDENTIFICATION OF MITIGATIONS**

- 4.1 As with previous years, Strategic Management Team has been tasked with identifying mitigating actions in order to manage the outturn back within the overall budget available.

Strategically the Council has positioned itself to invest in savings and transformation and utilise and acquire assets for a financial return (rather than selling off and weakening the balance sheet).

This ensures that we have a comprehensive view of the recurring costs of services, rather than masking these with one-offs such as capital receipts.

- 4.2 While there is no year-to-year reliance on one-off means, within year there is a track record of ensuring tight operational effectiveness to tactically manage vacancies, bring forward future savings initiatives and utilise one-off funds to enable more medium term re-planning
- 4.3 Departments have made a strong start in reporting mitigating measures and underspends to improve the Council's financial position in this way. The mitigating actions put forward by departments total £6,689k at this early stage of the financial year are:

P&C	Utilisation of grant: Social Care Support Grants	£2,475k	Planned deployment of additional grant to partially offset the pressures listed in paragraph 2.2
P&E	Bus Lane Enforcement	£650k	Income is in excess of planned level for 2019-20
P&E	Development Management	£500k	Income is in excess of planned level for 2019-20
Corp	LGSS Risks Offset	£582k	Use of planned budget to offset risks to LGSS savings delivery, see paragraph 2.6.2



Corp	Council Tax and NNDR surpluses*	-£1,910k	Amounts confirmed by District Councils as collected through local taxation in excess of budgetary estimates prior to Apr 2019
Corp	Demography reserve*	-£322k	Amount unallocated by GPC following deployment and baselining in previous years
Corp	Laptops replacement*	-£250k	Underspend in revenue due to slower than anticipated use of remaining capital allocation
<b>Total</b>		<b>-£6,689k</b>	

***\*Amounts where it is considered sensible to re-allocate between departments, leading to recommendation c, are starred above.***

## **5. FUTURE YEAR IMPLICATIONS**

5.1 As with previous years it will be essential for the Council to incorporate the recurring impact of these new pressures and mitigations into the business planning process for 2020-25. Whereas around £3.3m of the mitigations are likely to be recurrent (or are assumed to be rolled-over if there are delays to fairer funding, see below), in the region of £7m of the new pressures will continue into 2020-21, meaning that the budget planning “gap” will widen significantly, requiring further savings. Section 4 is focused on the tactical approach to managing the overall budget in 2019-20, however implications across the MTFS period will be assessed and brought forward for consideration by Committees in agreeing the business plan for future years during the Autumn.

5.2 An additional uncertainty is any implications of a delay to, or shortening, of the comprehensive spending review and the knock on impact on local government funding reform. There is growing speculation in the sector that a single year spending review is now likely with some form of rollover of current funding levels continuing next year. Even within this scenario there is considerable uncertainty about which grants announced as one-off continue, which are indexed linked and/or redistributed.

Cambridgeshire has been calling for a fairer funding deal to urgently address funding inequities across the country and to ensure resources are prioritised to Councils with the fastest growth in demand-led services.

## **6. ALIGNMENT WITH CORPORATE PRIORITIES**

### **6.1 A good quality of life for everyone**

The Council considers its corporate priorities in its resource allocation decision-making

### **6.2 Thriving places for people to live**

The Council considers its corporate priorities in its resource allocation decision-making

### **6.3 The best start for Cambridgeshire’s children**

The Council considers its corporate priorities in its resource allocation decision-making

## **7. SIGNIFICANT IMPLICATIONS**

### **7.1 Resource Implications**

Resource deployment implications, and the financial impact and response to demand-led and service pressures are set out throughout this report.

**7.2 Procurement/Contractual/Council Contract Procedure Rules Implications**

No significant implications

**7.3 Statutory, Legal and Risk Implications**

No significant implications

**7.4 Equality and Diversity Implications**

No significant implications

**7.5 Engagement and Communications Implications**

No significant implications

**7.6 Localism and Local Member Involvement**

No significant implications

**7.7 Public Health Implications**

No significant implications

<b>Implications</b>	<b>Officer Clearance</b>
<b>Have the resource implications been cleared by Finance?</b>	T Kelly & C Malyon
<b>Have the procurement/contractual/ Council Contract Procedure Rules implications been cleared by the LGSS Head of Procurement?</b>	Not applicable
<b>Has the impact on statutory, legal and risk implications been cleared by the Council's Monitoring Officer or LGSS Law?</b>	Not applicable
<b>Have the equality and diversity implications been cleared by your Service Contact?</b>	Not applicable
<b>Have any engagement and communication implications been cleared by Communications?</b>	Not applicable
<b>Have any localism and Local Member involvement issues been cleared by your Service Contact?</b>	Not applicable
<b>Have any Public Health implications been cleared by Public Health</b>	Not applicable

<b>Source Documents</b>	<b>Location</b>
Integrated Finance & Performance Report	General Purposes Committee Agenda, July 2019
Business Plan and Medium Term Financial Strategy	<a href="https://www.cambridgeshire.gov.uk/council/finance-and-budget/business-plans/">https://www.cambridgeshire.gov.uk/council/finance-and-budget/business-plans/</a>