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| Agenda Item | 5b |
| Report No | JMC/08/23 |

Committee: Joint Monitoring Committee

Date: 29 March 2023

Report Title: Integrated Children's services Finance Report 2022/23

Report By: Head of Finance, Highland Council

1. Purpose/Executive Summary

- 1.1 This report sets out for members of the Joint Monitoring Committee (JMC), an update on the Council's overall financial position for 2022/23, as well as the financial position for Integrated Children's Services functions delivered by the Council through the Lead Agency arrangement.
- 1.2 The in-year monitoring position incorporated within this report reflects Quarter 3, with the Council's financial reporting being on a quarterly cycle. Members will recall that the additional JMC meeting of 24 February included a finance update which due to timing also included the Quarter 3 position. This report includes an update on any relevant matters and changes since the Quarter 3 reporting and the last JMC.
- 1.3 The report also makes reference to the forthcoming 2023/24 financial year, given since the last JMC the Council can confirm the revenue budget is now agreed for that year, that being agreed by Highland Council on 2nd March.
- 1.4 The financial context set out within this report, the financial risks and challenges, and wider economic impacts including pay and inflation pressures, will be familiar to JMC members having been referenced in reports to the Committee over the past year. This report references the ongoing financial sustainability of the Council, per the report to 2nd March Council, highlighting the significant reliance on non-recurring measures to balance the 2023/24 revenue budget, and the significant risks and challenges faced by the Council and a medium-term outlook which is not financially sustainable.

2. Recommendations

- 2.1 Members are asked to:
 - i. Note the contents of the report and the outlook for 2022/23 and 2023/24.

3. Implications

- 3.1 **Resource (Budget and Staffing)** - the report and appendix provides the current forecast of the 2022/23 financial position and updates relating to 2023/24. As noted below in the risk section, there remains ongoing uncertainty and challenge in financial forecasting as a result of current economic factors.
- 3.2 **Legal** - no particular implications to highlight.
- 3.3 **Community (Equality, Poverty and Rural)** - the Service continues to respond to service need across our communities, within the resources available.
- 3.4 **Climate Change / Carbon Clever** – no particular implications to highlight.
- 3.5 **Risk** – this report and appendix reflects best available information and assessment of expected service impacts. Looking ahead to 2023/24 the most significant risks relate to the annual staff pay award and other inflationary factors.
- 3.6 **Gaelic** - no particular implications to highlight.

4. 2022/23 Monitoring Position – Highland Council

- 4.1 The overall monitoring position for the Council as a whole, at Quarter 3 was for a deficit (or net overspend) of £3.3m. This represented a lower level of deficit than had been forecast earlier in the year, due in part to cost and recruitment controls to mitigate the then deficit forecast.
- 4.2 A significant element of this residual forecast overspend relates to the increased cost of the staff pay award, in excess of the budgeted level of 2%. Other significant overspends relate to the increase in school transport contracts, continued increases in fuel and utility prices, rising inflationary costs seen across service budgets and income shortfalls in specific service areas.
- 4.3 The forecast year end overspend of £3.3m will require to be funded from the Council's general fund non earmarked reserve. At 2022/23 year-end after funding the forecast overspend this reserve is forecast to sit at £11.913m. A reserve at this level is around 1.75% of the Council's annual revenue budget and below the medium-term target level for this reserve of 3% of the annual revenue budget.

5. 2022/23 Monitoring Position – Children's Services

- 5.1 As was reported to the additional JMC in February, the Quarter 3 forecast position for Children's Services, was an underspend of £2.246m against a budget of £44.747m.
- 5.2 The statement at **Appendix 1** reflects those elements of the structure of the Council's Health and Social Care service which include activity in this area. Where budget lines relate to both children's and adult service areas no attempt has been made to split the costs between the two functions.
- 5.3 The main factor in the overall underspend relates to the Covid-19 Response budget

heading. In the Council's March 2021 budget, the Council agreed to the provision of £2.6m of funding into the Service budget in recognition of the following expected Covid-19 pressures. These expected pressures included: an increase in numbers of out of authority placements as increasing numbers of children go into these placement and delays in returning children to alternative local settings due to the lockdowns; and increased demand for foster placements. This funding was intended to be short term to address Covid-19 pressures and in the March 2022 budget it was continued for 2022/23 only, but at the reduced level of £1.9m.

5.4 Very positive trends are being shown in Looked After Children, with the forecast number of children in out of authority residential provision approaching the lowest level it has been for some years. As a result, the call on the Covid-19 pressure budget heading is much reduced. However, it is also worth noting that this funding is being used to support refurbishments to residential accommodation which did not take place during Covid and hence can be attributed to this line.

5.5 As previously reported, the following narrative relates to other key variances in the Quarter 3 position and service developments.

- Family Teams – past reports have highlighted a legacy underspend against this budget heading, as well as the actions being taken to (a) address some of the local and national challenges around recruitment, (b) redesign of the service and (c) re-alignment of the budget. Underspends exist in terms of staff vacancies in professional social work posts and the ongoing work in relation to the family team redesign has had an impact in terms of Quarter 3.
- Fostering, Kinship and Adoption – as noted in section 6 below, the 2023/24 revenue budget made funding commitments in relation to increased allowances. There is an acknowledgement that allowances have not increased for many years and as a result, this has had negative impacts on recruiting and retaining foster carers in particular. However, we remain committed to reducing the use of external fostering provision by increasing Highland Council provision. At this time, external fostering is significant and contributes to an overspend in this area.
- Looked After Children – ‘The Promise’ is at the heart of practice within Highland Council. Consequently, we have been focussed on shifting the balance of care so that children and young people remain at home – when safe to do so. We are building on and developing our practice to work intensively with families with children on the cusp of care as well as ensuring our community resources are targeting needs and improving outcomes. Key to that and the family first policy is the need to deliver care locally – and where kinship options are not available it is helpful to reference again the need for fostering options to also be local to support a child's sense of belonging to their community.

6. 2023/24 Revenue Budget

6.1 In relation to 2023/24, on 2nd March the Council agreed its revenue budget for the forthcoming financial year. The report to that meeting is available from the following link. https://www.highland.gov.uk/download/meetings/id/81258/item_3_revenue_and_capital_budgets_202324_and_medium-term_financial_outlook

6.2 Within the agreed revenue budget, the investment strategy includes the following funded commitments towards:

Investing in vulnerable young people and families £2.306million

- “The Council recognises the vital role undertaken by foster carers, kinship carers and adoptive parents and will invest £1.306m in increasing allowances and enhancing support and training to increase the number of Highland-based carers and provide greater support to existing carers. This is in addition to the increased fees agreed a number of years ago.”
- “The Investment Strategy will protect the £1m investment in the Families First approach to develop approaches that aim to safely maintain as many children and young people at home within their families and their local Highland communities.”

6.3 In addition, the Scottish Government has responded to ‘The Promise’ by committing to invest a £500m Whole Family Wellbeing Funding (WFWF) over the lifetime of the current Parliament. WFWF will support the whole system transformational change required to reduce the need for crisis intervention, and to shift investment towards prevention and early intervention. In Highland £1.4m has been received in 2022/23 with a similar amount expected in 2023/24.

6.4 The report to the 2nd March Council meeting, reflected an adjusted budget gap for the Council as a whole of £54.2m, up from the £40.9m that had been forecast earlier in the year and reflected in past reports to JMC. That increase in budget gap was as a result of a number of factors including revised pay, inflation and pressure assumptions, re-profiling of debt repayments, and adjustments to the Scottish Government grant settlement.

6.5 As required by legislation, a balanced budget to close that £54.2m gap was agreed on 2nd March. The main component elements of the funding package to balance that budget were as summarised below.

Recurring items:

- Increased Council Tax income £5.4m
- New budget savings proposals £22.2m

Non-recurring items:

- Repurposing of Council tax income from second homes and long-term empty properties £3.4m
- Use of reserves £23.2m

6.6 Of particular note is the significant reliance on non-recurring measures to close the budget gap. These non-recurring measures are not a sustainable solution, i.e. they will close the gap for one year only but the gap will recur the following year requiring additional income or expenditure savings will need to be found. The report to Council on 2nd March noted in stark terms that *“In its current structure and model of service delivery the Council is not considered to be financially sustainable over the medium to long term and will not be able to offer the same breadth and level of service provision as currently. Meeting a budget gap of this size will require substantial transformative activity. The use of a substantial portion of the Council’s reserves is likely to be required to bridge annual budget gaps as a path to long term sustainability is delivered.”*

6.7 The Council intends a mid-year budget report to be considered by Council during 2023 in light of the financial outlook and currently unsustainable financial position.

- 6.8 With regard to residual risks and issues relating to 2023/24, there remains risk and uncertainty relating to pay awards for 2023/24, as well as the ongoing implications of inflation, cost of living and interest rate rises.
- 6.9 As has happened in previous years it is anticipated that NHS Highland will provide an uplift in the quantum of funding provided for the commissioned elements of the Integrated Children's service in line with the change in the overall NHS Highland funding settlement from the Scottish Government.
- 6.10 As previously reported to JMC, the package of proposals considered by Council on 2nd March included the following related to Children's Services. £3.7m of revenue savings, as part of the overall package of savings agreed, and to support the balanced budget position and investment strategy.

Designation: Head of Finance

Date: 22 March 2023

Author: Brian Porter

Background Papers:

HEALTH, WELLBEING AND SOCIAL CARE SERVICE

| 2022/2023 | GROSS EXPENDITURE | | | GROSS INCOME | | | NET TOTAL | | | VARIANCE ANALYSIS | | | |
|--|---------------------------|------------------------|-------------------------------|---------------------------|------------------------|-------------------------------|---------------------------|------------------------|-------------------------------|-------------------------------|----------------------------------|-----------------------------|----------------------------|
| | £'000 Annual Budget | £'000 Actual YTD | £'000 Year End Variance | £'000 Annual Budget | £'000 Actual YTD | £'000 Year End Variance | £'000 Annual Budget | £'000 Actual YTD | £'000 Projected Outturn | £'000 Staffing Variance | £'000 Other Spend Variance | £'000 Income Variance | £'000 Total Variance |
| Quarter Three - April to December | | | | | | | | | | | | | |
| BY ACTIVITY | | | | | | | | | | | | | |
| Service Management and Support | | | | | | | | | | | | | |
| Management Team | 781 | 658 | -3 | -7 | 0 | 7 | 774 | 658 | 778 | 0 | -3 | 7 | 4 |
| Business Support | 970 | 584 | -65 | 0 | 0 | 0 | 970 | 584 | 905 | -66 | 1 | 0 | -65 |
| COVID-19 Response | 1,900 | 1 | -1,650 | 0 | -109 | 0 | 1,900 | -108 | 250 | 0 | -1,650 | 0 | -1,650 |
| Looked After Children | | | | | | | | | | | | | |
| Fostering & Adoption | 5,616 | 4,525 | 444 | 0 | -1 | -1 | 5,616 | 4,524 | 6,059 | -125 | 569 | -1 | 443 |
| Looked After Children (Residential) In house | 3,034 | 2,323 | -96 | 0 | -57 | 0 | 3,034 | 2,266 | 2,938 | -166 | 70 | 0 | -96 |
| Looked After Children (Respite) In house | 1,633 | 1,194 | -32 | 0 | 0 | 0 | 1,633 | 1,194 | 1,601 | -43 | 11 | 0 | -32 |
| Looked After Children (Residential) Independent / 3rd Sector | 8,008 | 6,604 | 1,670 | 0 | 0 | 0 | 8,008 | 6,604 | 9,678 | 0 | 1,670 | 0 | 1,670 |
| Looked After Children (Through care & aftercare) | 1,994 | 990 | -598 | -31 | -28 | 0 | 1,963 | 962 | 1,365 | 1 | -599 | 0 | -598 |
| Looked After Children (Alternatives to OOA) | 5,251 | 3,431 | -206 | -292 | -353 | 0 | 4,959 | 3,078 | 4,753 | -244 | 38 | 0 | -206 |
| Looked After Children Management and Support | 446 | 313 | -23 | 0 | 0 | 0 | 446 | 313 | 423 | -23 | 0 | 0 | -23 |
| Family Teams | | | | | | | | | | | | | |
| Family Teams - North | 2,932 | 2,062 | -310 | 0 | -2 | -1 | 2,932 | 2,060 | 2,621 | -290 | -20 | -1 | -311 |
| Family Teams - Mid | 3,398 | 2,667 | -5 | 0 | -4 | 0 | 3,398 | 2,663 | 3,393 | -1 | -4 | 0 | -5 |
| Family Teams - West | 2,988 | 2,173 | -165 | 0 | -3 | -3 | 2,988 | 2,170 | 2,820 | -138 | -27 | -3 | -168 |
| Family Teams - South | 8,170 | 5,680 | -552 | -15 | -27 | -3 | 8,155 | 5,653 | 7,600 | -527 | -25 | -3 | -555 |
| Self Directed Support (Direct Payments) | 399 | 183 | -58 | 0 | 0 | 0 | 399 | 183 | 341 | 0 | -58 | 0 | -58 |
| Other Services for Children | | | | | | | | | | | | | |
| Child Protection | 728 | 511 | -155 | -31 | -184 | 0 | 697 | 327 | 542 | -155 | 0 | 0 | -155 |
| Health and Health Improvement | 1,442 | 845 | -60 | -603 | -198 | 0 | 839 | 647 | 779 | -63 | 3 | 0 | -60 |
| Allied Health Professionals | 3,459 | 2,509 | -27 | -30 | -177 | 0 | 3,429 | 2,332 | 3,402 | -28 | 1 | 0 | -27 |
| Primary Mental Health Workers | 503 | 316 | -44 | 0 | 0 | 0 | 503 | 316 | 459 | -36 | -8 | 0 | -44 |
| Specialist Services | 395 | 305 | 7 | 0 | 0 | 0 | 395 | 305 | 402 | 0 | 7 | 0 | 7 |
| Youth Action Services | 1,650 | 983 | -227 | 0 | -10 | 0 | 1,650 | 973 | 1,423 | -194 | -33 | 0 | -227 |
| Other Services for Children | 983 | 696 | -71 | -7 | -66 | 4 | 976 | 630 | 909 | -15 | -56 | 4 | -67 |
| Staff Training | 179 | 113 | -23 | 0 | -8 | 0 | 179 | 105 | 156 | -23 | 0 | 0 | -23 |
| Independent Funds | 0 | -16 | 0 | 0 | 0 | 0 | 0 | -16 | 0 | 0 | 0 | 0 | 0 |
| Unallocated Savings | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Commissioned Children's Services income from NHS | 0 | 0 | 0 | -11,096 | -117 | 0 | -11,096 | -117 | -11,096 | 0 | 0 | 0 | 0 |
| TOTAL | 56,859 | 39,650 | -2,249 | -12,112 | -1,344 | 3 | 44,747 | 38,306 | 42,501 | -2,136 | -113 | 3 | -2,246 |