

CABINET

MONDAY 23 JULY 2018
10.00 AM

Council Chamber - Town Hall
Contact – Philippa Turvey@peterborough.gov.uk, 01733 452268

AGENDA

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<i>Exclusion of Press and Public</i> <i>In accordance with Standing Orders, Members are asked to determine whether the exempt annex relating to item 4, Approval of Future Arrangements for the Existing Enterprise Managed Services Contract, which contains exempt information as defined by Paragraph 3 of Schedule 12A, Part 1, Local Government Act 1972, should be exempt and the press and public excluded from the meeting should this annex be discussed, or whether the public interest in disclosing this information outweighs the public interest in maintaining the exemption.</i>	
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*Any agenda item highlighted in bold and marked with an * is a 'key decision' involving the Council making expenditure or savings of over £500,000 or having a significant effect on two or more wards in Peterborough. These items have been advertised previously on the Council's Forward Plan (except where the issue is urgent in accordance with Section 15 of the Council's Access to Information rules).*

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CABINET	AGENDA ITEM No. 4
23 JULY 2018	PUBLIC REPORT

Report of:	Annette Joyce, Service Director of Environment & Economy	
Cabinet Member(s) responsible:	Councillor John Holdich, Leader of Peterborough City Council Councillor Marco Cereste Cabinet Member for Waste and Street Scene	
Contact Officer(s):	Annette Joyce, Service Director of Environment & Economy	Tel. 01733 452280

ESTABLISHING A LOCAL AUTHORITY TRADING COMPANY WITH SUPPORTING BUSINESS CASE

R E C O M M E N D A T I O N S	
FROM: Annette Joyce, Service Director of Environment & Economy	Deadline date:
<p>It is recommended that Cabinet:</p> <ol style="list-style-type: none"> 1. Authorise officers to create a Local Authority Trading Company (Company), noting the Business case prepared in support of this decision. 2. Authorise officers to provide through that Company all services currently performed under the 2011 EMS/Amey contract and any other services considered as part of the Business Plan. 3. Authorise an extension to the current contract with EMS/Amey from the current contract termination date of 31 August 2018 to 1 February 2019 at an additional cost of £810,000. 4. Authorise a loan facility from Peterborough City Council of up to £1.75million (at state aid compliant interest rates and market terms) to the Company to provide working capital and cover start-up costs: <ul style="list-style-type: none"> ● Vehicles and plant (if required) - £1m ● Acquisition of ICT equipment & software - £100k ● Consultancy to prepare for go-live - £75k ● Stationery, marketing, website & contingency - £75k ● Running costs (if required) - £500k. 5. Delegate authority to the Chief Executive, in consultation with statutory officers as necessary, any decision relating to: <ul style="list-style-type: none"> ● Appointment and transfer of staff to the Company; ● Budget and financial matters necessary to support the business but with annual budget approval sought through the normal budget process. 6. Delegate authority to the Director of Governance in consultation with the Director of Resources and relevant Service Director authority to make decisions and enter into legal agreements necessary to effect the set up and future operation of the Company including: 	

- Appointment of Officers to the Company Board of Directors from incorporation;
- The agreement between Company and Council for discharging responsibilities and monitoring of performance;
- Appointment of Independent or Member representation to the Interim Board;
- Agreement of Articles of Association and shareholder agreement;
- Services and Asset Purchase Agreements;
- Leases and other property documentation;
- Secondment arrangements, pension provision and other employment matters.

7. That the Leader of the Council in consultation with the Cabinet Member for Waste & Street Scene and Service Director for Environment and Economy approve the Company name.

1. ORIGIN OF REPORT

- 1.1. The Medium Term Financial Strategy (MTFS) 2017/18 – 2026/27 presented to Council on 8 March 2017 included a proposal for the Council’s current contract for services with Enterprise Managed Services Limited (EMS) to terminate by mutual agreement and for the Council to consider alternative ways of providing those services.
- 1.2. Cabinet decision DEC17/CAB/76 authorised the entering into a Deed of Termination relating to the Council’s contract for services with EMS.

2. PURPOSE AND REASON FOR REPORT

- 2.1. The purpose of this report is to seek approval from Cabinet to formally create the Company to operate all services currently performed under the EMS/Amey contract.
- 2.2. Approval is also sought to extend the contract with EMS/Amey by five months at a cost of £810,000 to facilitate such a transfer of services.
- 2.3. This report is for Cabinet to consider under its Terms of Reference No. 3.2.1, ‘To take collective responsibility for the delivery of all strategic Executive functions within the Council’s Major Policy and Budget Framework and lead the Council’s overall improvement programmes to deliver excellent services.’
- 2.4. There is an exempt annex attached to this report that is NOT FOR PUBLICATION by reason of paragraph 3 of Schedule 12A of Part 1 of the Local Government Act 1972 because it contains commercial information. The public interest test has been applied to the information contained within this exempt annex and it is considered that the need to retain the information as exempt outweighs the public interest in disclosing it.

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	YES	If yes, date for Cabinet meeting	23 July 2018
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4. BACKGROUND

- 4.1. The current contract with Enterprise Managed Services (EMS) was awarded after an OJEU compliant procurement process in 2011 and was to run for 23 years.

- 4.2. The services provided include Street Cleansing, Refuse Collections, Grounds and Tree Maintenance, Parks and Open Spaces, Building Maintenance, Building Cleaning and Home to School Transport Services.
- 4.3. In 2013 EMS were taken over by Amey Environmental Services (Amey) and they have been operating the service ever since.
- 4.4. During 2016 and 2017 the EMS contract had seen several operational challenges and it was recognised by both the Council and Amey that the contract was no longer fit for purpose. Amey had stated that they were making a substantial loss from operating this contract and would wish to renegotiate or end it. PCC had concerns over certain quality and performance issues such as recycling rates which were not as high as promised.
- 4.5. An agreement was therefore made to end the contract 16 years early with a termination date of 31 August 2018 and this was approved by Cabinet in December 2017.
- 4.6. At the same meeting a number of options were presented to the Cabinet as a way forward for the functions within the Amey contract. An option to bring services back in-house was brought forward but the option of a Local Authority Trading Company was not brought forward.
- 4.7. The reasons for discounting both of these options was that it was felt that breaking the contract into smaller Lots and seeking interest from those with the relevant skill set in those areas was the best way forward.
- 4.8. The final recommendation was *“to approve the award of replacement contracts or arrangement of alternative provisions for all services currently provided under the Enterprise Managed Services contract (such steps to include matters relating to contracts, leases and other relevant legal documentation and pensions arrangements).”*
- 4.9. In line with the Cabinet decision and recommendation, a plan was created to break down the existing contract into the following 4 lots:
 - Lot 1 – Procurement Process - Waste and Recycling Collection, Street Cleansing and Fleet Management;
 - Lot 2 – Procurement Process - Parks, Trees and Open Spaces;
 - Lot 3 – Joint Venture with Norfolk Property Services – Peterborough - Property Maintenance and Building Cleaning);
 - Lot 4 – Bring In-House then review - Community Link and Home to School Transport.
- 4.10. Work had commenced on each of the Lots, in accordance with the plan, however a progress review carried out in March 2018 established that the proposed arrangements would not deliver best value and would not adequately address Members concerns over quality & control provided under outsourced arrangements. In particular it was noted:
 - That a number of the potential bidders had made representations that the timescales allowed within the waste procurement were too tight. It was clear that this could potentially deter bids or adversely affect the value of any bids that were made.
 - Management fees and profit elements would still need paying to contractors with no certainty that performance would be improved given our limited control over contractor performance;

- There would be significantly less control and ability to deliver savings from adjusting service levels, under the contractor arrangement;
- There would be ties to contractors for long periods with no scope of gaining commercial advantages from these services by otherwise providing joint services or realising commercial trading opportunities with third parties.

4.11. Having considered the outcome of the review the Council decided to stop the waste procurement (Lot 1) and consider a different approach looking at a Local Authority Trading Company (Company). This is a business model that has been successfully adopted by a number of Local Authorities. This is a wholly owned company owned and governed by the Local Authority.

4.12. This proposal to consider a Company was announced by the Leader at Annual Council on 21 May 2018, where in his speech he set out the reasons why a rethink of the arrangements for the provision of all of the services had taken place.

4.13. In essence he explained that the services concerned were important to the residents of the city and that greater control over the quality and performance of those services was required. He also reflected his desire to see every penny spent devoted to providing high quality waste and cleansing services.

4.14. These factors, plus the ability for the Company to trade to a higher degree and earn income for the Council to support its services, led the Leader to conclude that such a company arrangement should be considered for the provision of all services currently performed under the EMS/Amey contract.

4.15. In addition to the above, the Company model is becoming more prevalent in local government and would allow us to adopt a more commercial culture and compete for external commercial work on a more level playing field with commercial operators. This is classed as a Teckal compliant company explored further in clauses 5.8 – 5.10 below. The advantages can be described as:

- The ability to trade in the wider market (up to 20% of its turnover);
- Savings from not having to undertake future procurement processes;
- Generation of economies of scale and greater efficiency;
- Returning revenue to the Council through profitability;
- Creation of a more commercial culture;
- Retaining people knowledge inside the Company;
- Retaining more control and a greater public sector ethos;
- Safeguarding jobs via diversifying work and contracts.

4.16. A proposal was presented and noted at Cabinet in June 2018 that an investigation into the establishment of a Company for the remaining services included within the Amey contract as well as the waste and cleansing services already announced, would be undertaken.

4.17. Cabinet also noted that the plans in place for these services would be paused whilst the investigation takes place and a business case be developed and brought back to Cabinet in July.

4.18. Paragraphs 5 and 6 set out the Business Case summary and detail, which is seeking the approval to set up the Company. Paragraph 7 sets out that if approved, a Business Plan will be developed to set out how the Company will operate and deliver services.

5. BUSINESS CASE (TO SET UP THE COMPANY) – SUMMARY

- 5.1. In considering the Business Case the Council has followed best practice Government guidelines and prepared it's Business Case to consider the proposal for establishing a Company. *“The purpose of a business case is to weigh up the costs and benefits of the suggested course of action and thereby present the argument for a new way of delivering services.”*
- 5.2. A business case provides the opportunity to undertake a comprehensive analysis of the preferred option identified as a result of the options appraisal stage.
- 5.3. The level of detail required within a business case may vary depending on how it is being used. For example, a business case that is being used to justify further exploration of a particular delivery model option might contain fairly high-level information around the likely costs and benefits of any new model.
- 5.4. However, a business case being used for the decision to proceed with a new model will need to:
 - contain well-developed costings;
 - contain clear estimates of timescales involved;
 - identify the benefits that will be delivered by the new model;
 - consider the most suitable procurement route.
- 5.5. If the business case is approved the Company will need to produce a three to five year business plan setting out how it intends to operate the Services and the budgets it will require to deliver them.
- 5.6. The Business Case (attached at Appendix A) has been prepared to fully examine the cost, benefits, disadvantages and risks of a Company operation for Lots 1 - 4 against the formerly proposed alternative options.
- 5.7. In respect of all Lots, Company operation has been established as the most efficient operating model, providing the best balance of cost and control to the Council. This report includes a summary of key points which are detailed in the Business Case
- 5.8. In order to prepare the Business Case, like for like service levels have been used to allow meaningful comparisons of the operating models available to the Council. Should the creation of the Company be approved based on these comparisons, future budgets will need to take account of:
 - Repayment of start-up capital;
 - Changes to service levels and specification that Members would like to change;
 - Contingency on the understanding that all savings and budget underspends will returned to / belong to the Council;
 - Commercial income from external trading opportunities.
- 5.9. If the establishment of the Company is approved, a detailed Business Plan will be prepared detailing how the services will be developed over the next five years and how commercial trading opportunities will provide income to the Council to help offset the cost of these services, support other services and protect jobs.
- 5.10. It would not be practical or possible to fully develop a Business Plan and expand the business prior to approval of the Company, prior to trading and prior to meeting and transferring staff who work in these services areas.

- 5.11. That said, the business ethos of our own Company will very much be focused on providing service excellence and increasing commercial opportunities and income that supports these and other services.
- 5.12. There are also a number of other Council services that could be operated through the Company. These could provide further efficiencies and economies of scale. They are out of scope for this business case but will form part of a wider review to be undertaken if the Company is set up.
- 5.13. The structure of the proposed Company is a wholly owned “Teckal” company. The “Teckal” part relates to legislation allowing Local Authorities to establish a company and deliver Local Authority functions from it without the need for external procurement. This clearly brings significant advantages in terms of cost and time.
- 5.14. Whilst there are many examples of Local Authority “Teckal” companies the Council must undertake its own legal due diligence and has therefore taken advice from external solicitors Bevan Britten. The advice is set out in detail within the business plan, it considers two key elements, which are the powers to establish a company and the Teckal compliance as set out below:

Powers to Establish the Company

- The Local Government Act 2003 enabled councils to trade in activities related to their functions on a commercial basis with a view to profit through a company.
- The Localism Act 2011 introduced a new General Power of Competence (GPC), which explicitly gives councils the power to do anything that an individual can do which is not expressly prohibited by other legislation. This activity can include charging (under section 3) if undertaken for a commercial purpose, then under section 4 it must be undertaken through a company, like under the 2003 Act referred to above.

Teckal Compliance

- “Teckal” refers to a legal case which has since been codified within Article 12 (1-6) of the EU Directive 2014/24 and Public Contract Regulations 2015. To gain Teckal exemption the council and the Local Authority Company must ensure that the company is within the Teckal parameters:
 - The local authority must exercise over the Company a control which is similar to that which it exercises over its own departments;
 - The company must be “inwardly and not outwardly focused”;
 - At least 80% of the activity of the Teckal company must be for its public sector owners;
 - The ability to trade in the wider market (up to 20% of its turnover).
- 5.15. The advice therefore establishes that the Council has the power to set up a Company and the Teckal advice provides clear parameters for the Council and Company to operate within.
- 5.16. Having considered the all of the information set out within the Business Case there are four key reasons for the recommendation to proceed with a Company:
- **Control of the Service** - The Company would be a wholly owned company of PCC meaning that the control and influence over the strategies, policies and the way the

Company delivers services would be with the Council. This has been much more difficult to exert through the outsourced arrangement.

- **Financial Sustainability** – The Company is the most cost effective option in the short term for the delivery of all of the services. In the medium term the retention of control will allow the Council to “cut its cloth” developing and driving an affordable and effective group of direct services, but most importantly having the flexibility to quickly deliver changes on the ground where policy or strategy changes are required.
- **Service Improvement** - The Company presents an opportunity to address more quickly and cost effectively areas where the service may not be as efficient as the Council expect.
- **Earning Commercial Income that supports services** – The Company would be able to compete to undertake external work on a level playing field with commercial operators without trading limits otherwise imposed on the Local Authority. Externally earned income can be used to support these and other Council services.

6. BUSINESS CASE (TO SET UP THE COMPANY) - DETAIL

6.1. The following paragraphs set out the detailed case for the Company:

Current Baseline Position

6.2. AMEY employ 402 employees (359 FTE's) across the services with the 4 Lots. Current costs of operating these services are:

Waste and Recycling	£2,968,789
Street Cleansing	£2,313,901
Parks, Trees and Open Spaces	£1,951,837
Building Maintenance & Cleaning	£1,650,498
Home to School	£ 727,961
Total	£9,612,985

Strategic Case

6.3. There are a number of ways that the Company can provide better control for and enable the Council to be more flexible in delivering services. These include:

- Members wishes to control quality & performance over these vital services which is not always possible through procured services or joint ventures;
- To reduce costs by avoiding management fees and bottom line profits charged by third party contractors or joint venture companies;
- Drive efficiencies through adoption of a commercial culture ability to compete in a competitive market;
- Provide savings and surpluses back to the Council particularly through less restricted commercial trading than is allowed under traditional direct Local Authority management;
- Facilitate a more flexible approach to changing circumstances than is possible when tied to long term contracts with commercial operators and joint venture companies.

Economic & Financial Case

6.4. A detailed option appraisal has been undertaken and is set out in the Business Case (paragraphs 10 and 11). A summary of each individual Lot is set out below along with the overall medium term financial implications compared to the budget.

Lot 1 – Refuse Collection, Recycling and Street Cleaning

- 6.5. A new procurement of this contract would result in significantly higher costs than budgeted. The level of costs necessary for the contract extension (equivalent to £1.9million pa) gives some idea of the likely cost the market would deliver. Whilst competitive bids could be lower, they are very unlikely to be as cost efficient as operating via our own Company.
- 6.6. It is worth noting that this decision has an influence on all of the remaining options. Lot 1 accounts for around 55% of the total cost of the current contract. If the Company is the preferred option then there are significant economies of scale benefits to be drawn from maximising the number of services operated from it.

Lot 2 – Parks, Trees and open Spaces

- 6.7. The conclusion of the procurement process for Lot 2 resulted in a single contractors bid. The bid has been evaluated as part of the procurement process and then further compared against the information produced for the Company.
- 6.8. The detailed evaluation is set out in the Business Case and shows the cost of the Company operation is significantly lower than the contractor.

Lot 3 – Building Maintenance and Cleaning

- 6.9. NPS (Norfolk Property Services) had been identified as a potential joint venture partner to deliver this service. NPS are a subsidiary of the NORSE Group, the corporate arm of Norfolk County Council.
- 6.10. Whilst using another Local Authority's Trading Company may have been a reasonable option, in the absence of our own Company, it is not an obvious option if we do have one.

Lot 4 - Home to School Transport & Community Link

- 6.11. These services are operated as part of the fleet management function operated across all of the other Lots. Separating it by bringing it back in-house would be more expensive as you would lose economies of scale on fuel and vehicle maintenance.

Financial Comparison against Current Budget

- 6.12. A significant amount of work has been undertaken to establish as accurately as possible the likely costs of operating the services through the Company. This has been achieved using data provided by Amey for staffing, vehicles and other direct costs, supplemented with information on likely support costs for HR, Payroll, Finance and ICT.
- 6.13. Whilst the majority of the costs have been finalised for the business case they will be subject to change between now and the proposed start date of 1 February 2019. The greatest volatility will be in the two largest cost areas of staff and vehicles and we are relying on TUPE and vehicle data provided to the Council by the current contractor.
- 6.14. The financial negotiations with Amey have now been concluded regarding the costs of extending the contract to 1 February 2019. The additional estimated costs to the 1st February is £810,000 these are set out in detail in the business case at paragraph 12.1.
- 6.15. The table below sets out the high level medium term comparison between the current PCC MTFs including the additional Amey extension costs and the proposed Company forecast based upon the 19/20 budget.

PCC MTFS 19/20 - 23/24	2019/20 £	2020/21 £	2021/22 £	2022/23 £	2023/24 £
PCC Budget	11,556,119	11,786,195	12,089,346	12,392,237	12,694,863
LATC Budget	9,999,023	10,163,036	10,330,329	10,500,968	10,675,020
Variance	(1,557,096)	(1,623,159)	(1,759,017)	(1,891,269)	(2,019,843)

6.16. The table shows clearly that the estimated costs of operating the services through a Company are significantly lower over the medium term.

The Commercial Case

6.17. Under Local Authority direct management Peterborough City Council cannot make a profit from any work it undertakes on a commercial basis. If it does so through a Company this restriction is removed since a Company can compete for more external work to ultimately provide more income back to the Council.

6.18. Under the Company, operation staff can be transferred from Amey on current pay and similar pension provisions which will enable the company to be competitive in the market place.

6.19. A full Business Plan will explore these commercial opportunities further but they could include:

- Increasing the amount of commercial waste collections;
- Providing services beyond the City boundary;
- Providing surveying, maintenance and cleaning services to residential and commercial users on a fee paying basis;
- Providing commercial / charged transport;
- Carrying out parks and ground maintenance to businesses and other agencies;
- The Company provides an exciting opportunity for the Council to trade on an equal footing to commercial partners without having to pay management fees or contribute towards third parties overheads or bottom line profits.

Analysis of Risks

6.20. A full risk analysis with mitigations has been undertaken and included within the Business Case (paragraph 14). There are no risks identified that would prohibit the Company being formed. The risks will be considered and managed through the development of the Business Plan. The major risks identified are set out below:

- Service continuity fails at the start;
- Vehicles, plant and equipment are not to the standard required;
- Not managing health and safety adequately;
- Licences to operate are not in place at the start;
- ICT systems are not in place.

7. BUSINESS PLAN – (TO SET OUT HOW THE COMPANY WILL OPERATE)

7.1. The preceding paragraphs and attached Business Case have set out the services should be operated through a wholly owned Teckal compliant Company. If approved the Company will follow Government best practice by preparing a Medium Term Business Plan.

- 7.2. The Business Plan will show how the Company plans to operate the services from 1 February 2019 and will include a budget and funding requirements for the next 5 years. The Business Plan will be presented to Cabinet for approval and will form the basis of the budgets for the Company and Council.
- 7.3. There are a number of issues, which will need to be considered prior to the completion of the Business Plan and they are set out below.

Financial Issues

- 7.4. The Council will need to consider the start-up costs of the Company and choose whether these should be funded by the Council or the Company. It will do so in the most advantageous way.
- 7.5. The Company will require working capital to enable it to cover start-up costs and establish a positive cash flow position prior to the transfer of services on 1 February 2019. The amount of the loan required is dependent upon negotiations with the contractor regarding their vehicles and plant. The maximum loan requirement (£1.25m) set out below assumes that all the owned vehicles and plant are acquired by the Company:
- Vehicles and plant (if required) - £1m
 - Acquisition of ICT equipment & software - £100k
 - Consultancy to prepare for go-live - £75k
 - Stationery, marketing, website & contingency - £75k
- 7.6. The loan interest charges by the Council to the Company must comply with State Aid requirements. The State Aid regulations are relatively complex and the Council is in the process of taking legal and financial advice to ensure that the loan is established within the State Aid rules.
- 7.7. The Company will also need to consider how it maintains a positive cash flow position once the services are transferred i.e. paying payroll costs etc. This could be through a working capital loan (of up to £500k) or by the Council making its payments in advance. This will also be done in the most advantageous way for the group and will form part of the financial advice taken to support the Companies Business Planning process.

Company and Board Membership

- 7.8. It is proposed that the structure of the Company and board membership will be considered as part of the Business Plan to be reported back later in the year.
- 7.9. There is however a need for an Interim Board to support the set-up of the Company. It is proposed this be established under the delegation of Director of Governance and that the Cabinet Member for Waste and Street Scene, Service Director for Environment and Economy and the Finance Manager for the Company be Interim Board members.

Shareholder Arrangements

- 7.10. The Council will need arrangements in place for both the strategic and performance management of the Company. This will only need to function from the point which the Company is operating (i.e. 1 February 2019).

Governance

- 7.11. Arrangements that will need to be put in place upon incorporation and prior to trading include:
- Governance and reporting arrangements including clarity over client arrangements for each service;
 - Production of financial procedures;
 - Creation of health & safety procedures;

- Staff TUPE arrangements;
- ICT including accounting and payroll software as required;
- Leases, licenses and ICT;
- Contractual arrangements;
- Banking, auditing and insurance.

8. CONSULTATION

8.1. The Council has undertaken consultation with relevant stakeholders including:

- Trade unions;
- Amey staff;
- Cabinet members;
- Corporate Management Team.

9. ANTICIPATED OUTCOMES OR IMPACT

9.1. The anticipated outcome is one that allows a smooth transfer of services upon termination of the EMS/Amey contract which would provide better value and control than previously considered.

10. REASON FOR THE RECOMMENDATION

10.1. This report seeks approval to transfer all services currently performed by Amey under the EMS/Amey contract to our own Local Authority Company.

11. ALTERNATIVE OPTIONS CONSIDERED

11.1. These have previously been considered by Cabinet as described in section 4.3 of this report.

12. IMPLICATIONS

Financial Implications

12.1. These are covered in the Business Case.

Legal Implications

12.2. A Local Authority Company can be created under section 95 Local Government Act 2003 or the General Power of Competence introduced by the Localism Act 2011 which explicitly gives councils the power to do anything that an individual can do which is not expressly prohibited by other legislation. This activity can include charging (under section 3 or it can be undertaken for a commercial purpose, under section 4 in which case it must be undertaken through a company. Where the purpose is the Council's service delivery then the company could be formed as a Teckal company pursuant to section 111 Local Government Act 1972 (the incidental power) and section 1 Localism Act.

12.3. For the Company to undertake services and works for PCC, the Company would need to be "Teckal" compliant to gain "Teckal" exemption from needing to compete with other companies under procurement legislation. "Teckal" refers to originating legal case which has since been codified within Article 12 (1-6) of the EU Directive 2014/24 and Public Contract Regulations 2015. A Teckal company is operated as an extension of the Council and is likely to be a contracting

authority meaning that it should procure under EU rules. A commercial trading company would generally be able to operate outside that framework, not being a contracting authority (and so for example would not have to follow EU rules in its procurement of works and services etc).

- 12.4. Ongoing internal and external legal advice as necessary in relation to the business case supporting the creation of such a wholly owned Company and to ensure that the Company remains state aid and procurement compliant.

HR Implications

- 12.5. A total of 402 employees (359 FTE's) are currently employed by EMS and will be affected by any decision to create a Company. Subject to approval, these employees will transfer to the Company in accordance with Transfer of Undertaking (Protection of Employment) Regulations 2006 (TUPE). Detailed consideration will need to be given to the staffing and pension implications of any proposal going forward.
- 12.6. The arrangements and consultation process for transferring staff will be undertaken as part of the detailed Business Plan as well as preparing a full staffing structure.

Equalities Implications

- 12.7. The equalities implications are addressed in the Equalities Impact Assessment (Appendix B).

Youth and Young People Implications

- 12.8. The Company will also seek to support local young people by promoting work experience and apprenticeships wherever it is practicable.

13. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (access to information) act 1985.

Cabinet Report 18 December 2017

Cabinet Report 18 June 2018

14. APPENDICES

- A. Business Case (Exempt)
- B. Equality Impact Assessment

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

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Equality Impact Assessment: Establishing a Wholly Owned Company for Delivering Direct Services

Initial assessment

What are the proposed outcomes of the policy?

To put the Waste and Recycling, Street Cleansing, Parks, Trees and Open Spaces, Building Maintenance and Cleaning and Passenger Transport into a wholly owned Teckal company.

Which individuals or groups are most likely to be affected?

Staff currently employed by Amey
Some PCC staff
Customers

Now consider whether any of the following groups will be disproportionately affected:

Equality Group	Note any positive or negative effects
Particular age groups	None
Disabled people	None
Married couples or those entered into a civil partnership	None
Pregnant women or women on maternity leave	None
Particular ethnic groups	None
Those of a particular religion or who hold a particular belief	None
Male/Female	None
Those proposing to undergo, currently undergoing or who have undergone gender	None

reassignment	
Sexual orientation	None

What information is available to help you understand the effect this will have on the groups identified above?

Who will be the beneficiaries of the policy?

All customers should benefit from service improvement over the medium term

Has the policy been explained to those it might affect directly or indirectly?

Yes

Can any differences be justified as appropriate or necessary?

N/A

Are any remedial actions required?

N/A

Once implemented, how will you monitor the actual impact?

Equality will form part of the Performance Management regime prepared by the Company and monitored by the Council.

Policy review date	1st December 2018
Assessment completed by	Paul Sutton - Interim Consultant
Date Initial EqIA completed	13th July 2018
Signed by Head of Service	Annette Joyce

CABINET	AGENDA ITEM No. 5
23 JULY 2018	PUBLIC REPORT

Report of:	Pete Carpenter Acting Director of Resources	
Cabinet Member(s) responsible:	Councillor David Seaton Cabinet Member for Resources	
Contact Officer(s):	Pete Carpenter – Service Director Financial Services	Tel. 452520

IT Improvement Plan

R E C O M M E N D A T I O N S	
FROM: Councillor David Seaton, Cabinet Member for Resources	Deadline date: N/A
<p>It is recommended that Cabinet:</p> <ol style="list-style-type: none"> 1. Approve the proposed IT Improvement Plan and the potential path being taken of convergence with Cambridgeshire County Council, especially in People and Communities; 2. Approve the inclusion in Tranche 2 of the Budget Proposals a series of short term decisions, dependent on robust business cases, in order to improve the service. This will incur additional expenditure/ investment of up to £1.120m 	

1. ORIGIN OF REPORT

1.1 This report is submitted to Cabinet following a referral from Cabinet on 20 November 2017.

2. PURPOSE AND REASON FOR REPORT

2.1 The purpose of this report is for Cabinet to:

- (a) Approve the proposed IT Improvement Plan and the potential path being taken of convergence with Cambridgeshire County Council, especially in People and Communities;
- (b) Approve the inclusion in Tranche 2 of the Budget Proposals a series of short term decisions, dependent on robust business cases, in order to improve the service. This will incur additional expenditure/ investment of up to £1.120m

2.2 This report is for Cabinet to consider under its Terms of Reference No. 3.2.4

‘to promote the Council’s corporate and key strategies and Peterborough’s Community Strategy and approve strategies and cross-cutting programmes not included within the Council’s major policy and budget framework

3. **TIMESCALES**

Is this a Major Policy Item/Statutory Plan?	NO	If yes, date for Cabinet meeting	
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4. **BACKGROUND AND KEY ISSUES**

4.1 **Introduction**

Further to the decision of Cabinet on 20 November 2017 for the Chief Executive to explore shared services with other local authorities to support front line services, officers have been working with Cambridgeshire County Council (CCC) IT client side in order to explore the potential for a joined up IT service.

Since the previous technology strategy was introduced in 2014 the operating context for the Council has changed considerably.

The move to Sand Martin House has required investment in a new IT network. Due to evolution of the hardware and networking techniques Peterborough City Council (PCC) will be adopting a different model of networking. This change will result in reduced time and cost for PCC in respect to the management of its networking infrastructure. This new approach will also allow PCC, CCC, and other Partners networks to work together more effectively leading to more seamless joint working across front-line teams.

The largest Directorate, People & Communities is shared across PCC and CCC. This presents an ideal opportunity to investigate how IT systems and infrastructure can be shared. This would facilitate the development of shared practice as well as the potential for reducing costs in these high pressure, demand led services by diverting resource from managing systems and processes to supporting people.

A number of officers across the People & Communities Directorate work out of both Peterborough and Cambridgeshire offices. At present, PCC and CCC use different office productivity systems to access emails and calendars. The future arrangements for office productivity systems in each Authority is being investigated. A shared approach to such systems would enable officers to work more effectively across these organisational boundaries. This will help with realising savings and providing a better service to our citizens.

Building on the success of the shared senior leadership positions we want to explore other opportunities to reduce costs, to build resilience across the IT teams and to increase knowledge, expertise and resilience across both organisations.

4.2 **The Initial Review**

The Council has identified that it requires to update its IT strategy in order to become sustainable in the long term

Since October, with the help of CCC IT staff it has started this process by:

- Rationalising its data storage solution;
- Facilitating the move to Sand Martin House by ensuring there is a robust IT solution in place;
- Reviewing the “Front Door” solution to assess future direction;
- Starting the work required to underpin the new IT Strategy.

With the commitment of PCC and CCC to work together more closely, building on the

current shared service model, the recommendation is that a shared set of the strategic principles are set out for in an IT and Digital Strategy for both Peterborough and Cambridgeshire. This would provide a firm basis for both organisations to move forward together.

In order to move forward from this initial work and ensure that the Council is in a better place to integrate with its Customers and Partners, there is the requirement for the following investment and work to be carried out. This will facilitate the delivery of a new IT and Digital strategy and improve service delivery to users.

4.3 **Short Term Tactical Decisions**

There is the requirement for the Council to ensure the Council is in a better place to integrate with its customers and partners. These decisions are listed below and described in more detail in the next section of this report. The estimated total costs of these decisions are set out in the table below with further analysis set out in the appendices.

Proposed Decisions	Estimated Total Cost £m	Reference
Decision 1 Carry out a full systems review and create an IT Route-map to facilitate a new IT strategy and prepare for convergence for agreement by both PCC and CCC e.g. Liquid Logic, Capita1, Frameworki/Mosaic, CRM, Agresso and website.	0.500	Para 4.4
Decision 2 As part of the Route-map move from a partially implemented Google office productivity solution (G-Suite) to Microsoft Office 365. The estimated cost of implementing the change in 2018/19 is £0.250m	0.250	Para 4.5 Appendix 1
Decision 3 Consolidated IT support services within PCC to build an improved IT support service	0.170	Para 4.6 Appendix 2
Decision 4 Implement Service Level Agreements with Serco to support key line of business systems.	0.200	Para 4.7
Total additional expenditure	1.120	

Short Terms Decisions

4.4 **Decision 1: PCC systems review and creation of an ICT Route-map for convergence for agreement by PCC and CCC**

The majority of the Council's Line of Business systems are well established software platforms that are considered by the market to be in the top five in their respective disciplines. Each of these systems are supported by vendors who provide periodic updates including updates that support statutory changes. These systems are, by their nature, operated in silos and inevitably this leads to multiple databases holding different parts of the corporate information repository.

In November 2017, Cabinet authorised the Chief Executive to explore shared services with other local authorities to support frontline services.

As part of this, work has been undertaken to start to produce a combined PCC/CCC roadmap for Line of Business systems across both organisations, in order to develop and agree a plan for system and operational process alignment. This will require convergence of the business processes and systems across service areas within scope of the review.

There is the requirement for Executive approval to move this from being exploratory to an agreed stabilisation strategy take this work forward.

The resource requirements are still being scoped out fully but the initial estimate of expenditure required will be £0.5m during 2018/19.in order to undertake a review as a matter of urgency.

As the IT Strategy changes from the original 2014 vision to different solutions, existing expenditure will need to be written off in the delivery of the new solutions.

A further paper will be produced once the new IT and Digital Strategy has been formulated. This paper will include those costs that will need to be/have been written off.

4.5 **Decision 2: As part of the Route-map move from a partially implemented Google office productivity solution (G-Suite) to Microsoft Office 365.**

As at June 2018 the Council has a partial implementation of Google G-suite for Office applications, with most people using Google for mail and calendar and some also using Google Docs. Most documents and spreadsheets however, are currently created and maintained in Microsoft Office.

When the decision was taken to move to Google software the financial case showed that it would be a cheaper option than remaining with Microsoft Office software. Further investigation has identified that this is not the case. Moving back to Microsoft will have the advantage to staff and the Council of:

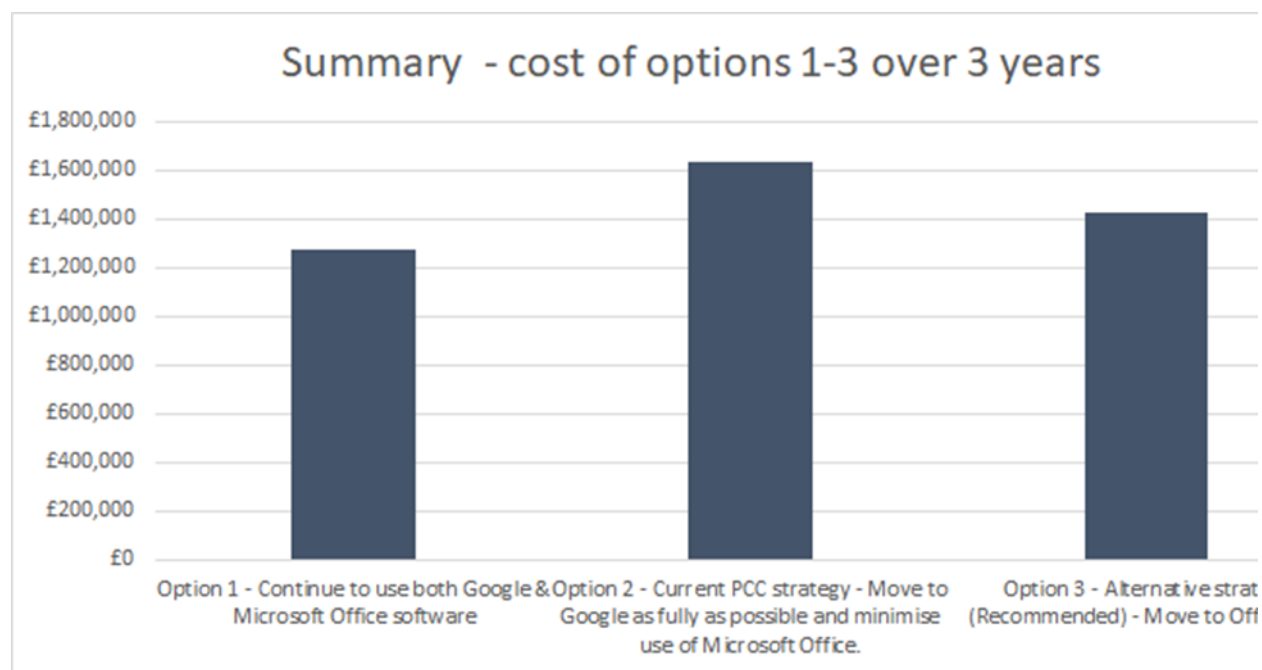
- Being on the same platform as the County Council which will lead to efficiencies as more joint work is undertaken;
- Ease of communicating with other Councils – who will be on the Microsoft platform and associated suite of applications;
- Not having multiple versions of documents and spreadsheets in Google and Microsoft formats; and,
- Ensuring that the core platform has access to the majority of industry standard applications (as they are linked to the Microsoft platform).

The Council has assessed the costs of three options:

- Continue to use both Google and Microsoft Office Software;
- Move to Google as fully as possible and minimise the use of Microsoft Office;
- Move to Microsoft Office 365.

The costs over three years of the three options considered are summarised in the graph below and the summary business case is set out in Appendix 1. Within these figures, the estimated one-off cost of implementing the change within option 3 during 2018/19 will be £0.250m which will require budgetary provision to be made. There will be the

requirement of a final business case to implement the project which, as set out in this Report, will require the approval of the Cabinet Member.



It is recommended that the Council implement option 3 - a move away from Google and to Microsoft Office 365 with effect from 1 April 2019. This will cost £1.423m over three years to 2020/21 compared to the current strategy (option 2) £1.633 and the use of one office suite will be more conducive to long term agile working and shared services and realisation of efficiencies elsewhere in the organisation.

4.6 **Decision 3: Resources required to build an improved IT support service**

IT and Digital Services are vital to the future of the Council. So much of what we do as a Council is dependent on having effective IT and Digital Services. In common with many local authorities the commissioning and delivery of the systems and the support and analysis of the data is both complex and spread across the organisation.

At the moment the Council has a devolved ICT staffing structure. It is imperative that all IT staff are consolidated within one team, along with all associated budgets to ensure full control of IT spend, solutions and the establishment of a uniform service.

The acceptance of sharing resources between Cambridgeshire and Peterborough includes senior IT management. As we move to an environment of wider sharing of not just staff, but IT & Digital systems and services, it will become more important that the delivery and support mechanisms for these systems are aligned.

We have already identified some synergies between business systems across PCC and CCC, and these represent opportunities to share resources, remove single points of failure and rationalise where possible. In the long term (12-18 months) it is proposed that the client side IT & Digital services between PCC and CCC are combined into a single service.

However, it is recognised that PCC cannot wait for 18 months before it can realise any benefit from shared opportunities with CCC. It is proposed that a 3 stage process is used to provide incremental improvements over the next 18 months to how IT and Digital services are resourced. This will require a vacant position to be funded and filled, a new

shared Client manager role to be created and a new Operations Lead post to be scoped, created and filled.

In addition to the above, the formal approval to continue with a joint head of IT & Digital across both PCC and CCC is requested.

Detailed costs are in Appendix 2

4.7 **Decision 4 – Implement Service Level Agreements with Serco to support key line of business systems**

At present, there is no single support route for services or staff for key line of business systems in Adults and Children’s Services, or Education.

This results in system issues taking a long time to resolve, and costing the organisation time and money to sporadically fix issues. Teams are dealing directly with suppliers to try to resolve issues, and do not have the required skills to effectively manage this.

Working with Serco, we are creating a number of SLA’s to support:

- Frameworki – for Adult services
- Liquid Logic – For Childrens
- Capita One – For Education
- Synergy – for School Admissions
- Routewise and Novis – for School Transport
- Technology Forge – for property services

The initial estimated cost to implement these SLAs (including building the required knowledge to support these systems, is approximately £0.2m. This will create correct support routes with suppliers and upgrade paths. It is expected to require approximately £0.020m per annum each in ongoing support. These initial estimates will be refined over the summer.

5. **CONSULTATION**

- 5.1 Consultation will be required when staff are consolidated across both Councils in Decision 3.

6. **ANTICIPATED OUTCOMES OR IMPACT**

- 6.1 The implementation of the actions in this report will start the Council on the route to a more resilient and responsive IT service as well as preparing the Council for more effective joint work with Cambridgeshire County Council and other partners.

7. **REASON FOR THE RECOMMENDATION**

- 7.1 With the Council:
 - Requiring to update its IT strategy;
 - Moving to more agile ways of working, and:
 - Delivering more services in partnership with Cambridgeshire County Council.

There is the requirement for the convergence of systems and processes. This paper sets out the first steps in this process.

8. ALTERNATIVE OPTIONS CONSIDERED

- 8.1 Do nothing – this would result in the Council running an in-efficient IT service, not delivering for its customers;
Formulate its own strategy and route-map – although this would be very Peterborough centric, it would not address the IT issues and strategy required for the joint service delivery model being implemented with the County Council:
Formulate a joint strategy with the County Council.

9. IMPLICATIONS

Financial Implications

- 9.1 The report sets out for approval, additional expenditure of up to £1.120m which is anticipated to be incurred in relation to implementation of the four short term tactical decisions in order to improve the IT service.

Legal Implications

- 9.2 There are none.

Equalities Implications

- 9.3 There are none.

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

- 10.1 Peterborough City Council Information Strategy - 2017- 2022

11. APPENDICES

- 11.1 Appendix 1 – Strategic Context
Appendix 2 – Resources Required

Appendix 1: Move from a partially implemented Google office productivity solution (G-Suite) to Microsoft 365.

Background

A review has now been conducted and from the available information, it was assumed that PCC would be able to almost completely cease using Microsoft software and that the software licence costs of Google would be cheaper overall. Certain elements of software licensing (i.e. Exit costs from the current Microsoft contract) and costs of change appear not to have been considered with the consequence that PCC are currently using and paying for both sets of software.

Strategic context

With the move to Sand Martin House, the plan to increase shared services with Cambridgeshire County Council and other significant changes to the property portfolio, the Council has a clear requirement for staff to work in a flexible and agile way and has programmes in place to support this. IT is a critical facilitator of this change and office applications are fundamental as they are the tools used by almost all staff on a daily basis and also integrate with key line of Business systems.

Some senior posts are already shared with Cambridgeshire County Council and more sharing of services is planned. Secure and straightforward sharing of information through email and documents is an important building block of sustainable and effective shared services.

. There have already been requests for staff who work across both authorities to have a more straightforward way of managing email, calendars and document sharing across both authorities. It is anticipated that this requirement will grow with the further sharing of services. Secure and straightforward sharing of data outside of email is also a requirement, particularly for P&C.

CCC utilise Microsoft Office with an almost complete rollout of laptops to staff, they have also recently started a 3 year contract with Microsoft and have no current plans to move to Google. They are however planning to move to Office 365 by April 2019 and that presents an opportunity to design the technical solution to meet the current and future requirements for sharing services – e.g. simplified calendar and email sharing and secure single document storage and sharing.

Financial Position

As the Council is currently utilising both Google & Microsoft software it is contracted to pay for both at a total cost of £606,823. Of this £405,319 is paid to Microsoft and £201,507 to Google (note this is expected to rise at the next licence renewal point). These are separate licence agreements which have a significant area of duplication around Office applications.

Of the £405,319 committed to Microsoft £185,982 is infrastructure related and should not be used in a comparison of cost or functionality between Microsoft & Google as those server and system licences will still be required.

It must be noted that if the Council continues with Google Office applications as its strategic approach it cannot be assumed that the authority will cease using all Microsoft Office software and any remaining use of Microsoft Office applications would need to continue to be licensed at full cost. Areas to be considered here include:

- Integrations – for instance Agresso uses Word & Excel
- Functionality – some people use Excel and Access functionality
- Interoperability with other councils & central government
- Continued access to and use of **existing** Microsoft Office documents & spreadsheets

The most aggressive estimate (from Google) is that 80% of Council staff would be able to cease using Microsoft Office applications and transition to fully and only using Google software. That would mean that approximately 567 staff would require access to Microsoft Office applications. Most of these would be budget managers using Excel but some would also need Word or Access. However it should be noted that there are contract limitations (minimum levels) and exit costs in the Microsoft contract that need to be considered. The costs of this ongoing use of Microsoft software have been incorporated into the costings for Options 1 and 2 below.

Options considered

Option 1 – Continue to use both Google & Microsoft Office software

Pros:

- Builds on work already undertaken to move staff to using Gmail for mail and calendar

Cons:

- PCC are paying for both G-Suite and Microsoft Office licenses.
- Staff have expressed dissatisfaction with the Google solution which does not meet business needs.
- Little training for end-users.
- Staff unclear on where to save & access shared/team data leading to potential data loss
- Lack of interoperability with CCC
- Multiple email addresses and calendars for staff in shared PCC/CCC roles that cannot be automatically synchronised across the two different systems
- Inconsistent user experience
- Difficulty exchanging data with other councils, central government and integrating with other key applications.

Option 2 – Current PCC strategy - Move to Google as fully as possible and minimise use of Microsoft Office.

Although the current situation is a mixed estate the agreed strategy is for the Council to move to using Google as fully as possible and to move away (as much as possible) from Microsoft.

Pros

- Builds on work already undertaken to move staff to using Gmail for mail and calendar
- If almost all staff are working entirely on Google it will be clear where to save & access shared/team data

Cons

- Licence costs – most expensive over 3 years.
- This option includes 'buying out' Microsoft licenses in 19/20 to enable the organisation to continue using Microsoft files (documents and files) up to the latest version of Office, but will not be able to upgrade to future versions without additional future expenditure.
- Considerable costs of change to fully implement Google
- Considerable costs of change to move away from Microsoft and Microsoft based applications
- Integration with line of business systems
- Interoperability with other authorities email & calendar (esp. Cambridgeshire)

Option 3 – Alternative strategy (Recommended) - Move to Office 365

An alternative would be cease using Google software and move to Office 365 (the Microsoft equivalent to Google).

Pros

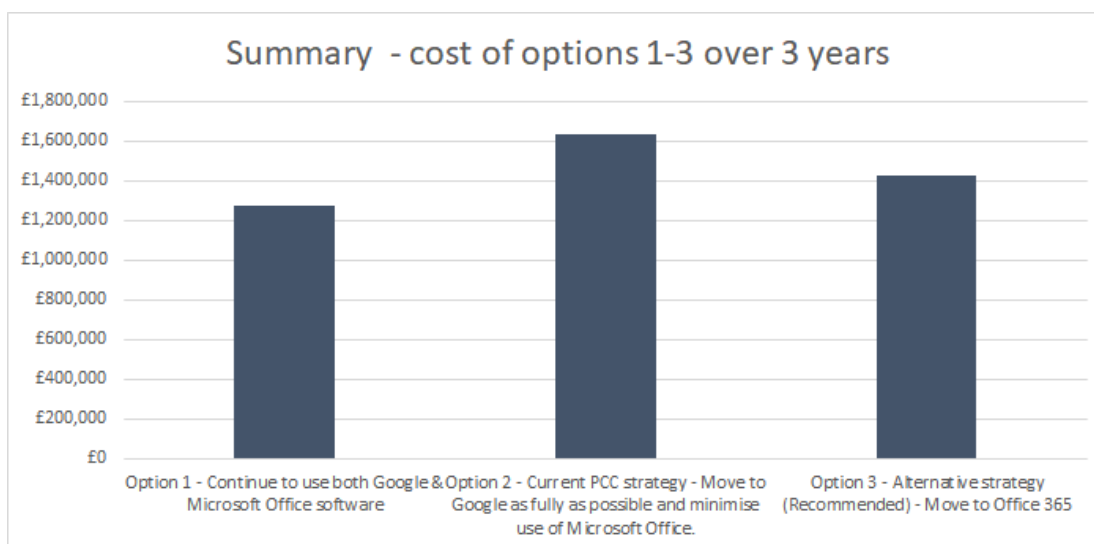
- Microsoft products have been used within PCC, and in most Local Authorities, since PC's were introduced, so staff are as familiar, and potentially more familiar, with their operation as with any other system. Ease of use with a system means less downtime spent learning a new system and improved productivity, it can also have a positive impact on staff wellbeing.
- If all staff are working entirely on Microsoft it will be clear where to save & access shared/team data
- Facilitates current and future sharing with CCC and also the majority of other councils
- Microsoft products are also heavily integrated into many line of business systems. More comprehensive use of Microsoft reduces development costs and the proposed user based licensing will mean licences can be reused by the individual, again saving significant costs.
- Microsoft Office products are used in two of the major systems in use in PCC (Framework-I and Agresso), plus numerous others - compatibility between these major systems is undoubtedly beneficial as we are already experiencing issues with systems requiring integration to a productivity suite that does not support Google.
- CCC also plan to move to Office 365 by April 2019
- Licence costs - this is cheaper than continuing with the current strategy.

Cons

- Some costs of change to fully implement Microsoft Office 365
- Licence costs – more than current situation

Financial implications

The graph and table below summarise the estimated cost of the three options considered based upon supplier renewal information over the three year period to 2020/21. The wider review of the IT service and its budgets will be required in order to determine budgetary requirements more fully from 2019/20 and over the medium term. This work will be carried out during 2018/19.



Appendix 2:

Decision 3; Resources required to build a stable IT support service

Staffing Changes Stage 1 – Early Integration – Immediate implementation

1.1 Temporary Information Services Team Manager.

The Information Services team in People and Communities have a vacant, unfunded, role of Information Services Manager. This team needs daily leadership and support, and it's essential this role is now funded and filled. Business systems deployed across the People & Communities directorate are some of the most important systems that the council runs, they are typically highly complex and have a very large number of users, and there are significant risks to the service, their system and data without this close leadership.

In addition, recruitment into this role paves the way for longer term re-structuring described in Stage 3 below. With this in mind, it is proposed this role is for a temporary term (yet to be determined) until Stage 3 is complete.

1.2 IT Client Team

In both Peterborough and Cambridgeshire, an IT Client Team manages the relationship between services and the relevant IT provider – for PCC that's Serco, in CCC that's LGSS. In addition, the effectiveness of this function is very dependent on the governance processes of the authority. This client team also helps support IT projects and contracts across both authorities, providing a single resource that's all knowing when it comes to how the authorities operate.

It is proposed that the client teams from both authorities are combined to produce a single team.

As the authorities begin to further align the delivery of ICT services, the combined experiences of managing both LGSS and Serco will be invaluable to this joint client team.

To ensure this relationship works, it is proposed to create a position of IT Client Team Manager, who will oversee and provide leadership and additional governance to that combined team, working and funded across PCC and CCC.

1.3 LGSS Support

Until such time as phase 2 (October 2018) is completed, the team is likely to continue to need external contractor support which is currently being provided by LGSS resources supplemented by an independent consultant.

Staffing Changes Stage 2 Implementation by 1st October 2018

The approach outlined in stage 1 provides a foundation structure on which to begin sharing IT & Digital services. The additional resource is in recognition that we will have a doubling of the number of IT systems in the short term and the 'built up' demand particularly in PCC will make this unsustainable bearing in mind the need for current levels of service to be maintained in CCC.

In stage 2 we propose that an 'Operations Lead' role is created within the structure who are able to deal with the day-to-day management of both CCC and PCC IT Systems.

An 'Operations Lead' post could be created as a 12-month fixed term position, funded from 2018/19 and 2019/20. This is dependent on the speed at which the two organisations can move to phase 3 of this process.

Stage 3 – Full ICT Restructure by end of Q1 2019/20

The two stages outlined above bring together client team resources and some P&C systems functions from across authorities, but it doesn't solve the much wider spread of business systems skills across PCC.

Across the organisation we currently have a range of staff supporting many IT business systems. They are primarily systems super-users and application administrators. In addition, there are other members of staff who are responsible for extracting data and creating complex spreadsheets to analyse data from these systems. These small pockets of IT knowledge and expertise are often very close to their associated business intelligence functions, they understand the interaction between the business and the IT system but in many cases, they lack resilience. Bringing these resources together will strengthen our resilience and will allow these resources to be even more effective.

It is important that the staff who support these business systems continue to work with their Directorate and Service colleagues but are also given the opportunity to use their application administration skills across different parts of the business.

The analysis of the staff involved together with the associated work required to restructure them into a single team that can operate effectively across 2 authorities is considerable, and it is anticipated that this may form part of a wider restructure as PCC and CCC become more aligned with one another.

This analysis and restructure work for ICT is likely to require external support and in order to have any chance of being implemented by April 2019 should start no later than August 2018.

The analysis should be across both PCC and CCC as this would also represent a good opportunity to 'tweak' the IT & Digital team structure created at CCC during 2017.

Financial implications

The financial implications of Stages 1 and 2 are set out in the table below. Where possible, costs will be retained within approved budgets. However, up to £106,150 may be required to be funded from the capacity building reserve.

	18/19 Estimated Expenditure £	19/20 Estimated Expenditure £
Stage 1		
Shared Head of Service	36,150	
LGSS – external support	10,000	
LGSS – external support	10,000	
Technical Advisor – external		
Client Team Manager	20,000	
Information Services Manager	35,000?	
Stage 2		
Operational Leads	30,000	30,000
TOTAL	140,150	30,000

The financial implications of Stage 3 are unknown at this stage, but it is realistic to target a 20% reduction in organisational costs resulting from changes to the PCC ICT structure. The total cost of ICT resources within PCC is not fully transparent and it will not be possible to fully establish these until the analysis work has been complete. It would not be unusual to find ICT resource costs in excess of £500k as part of this exercise. It may also identify resources that would be better placed working as part of the outsourced ICT service.

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CABINET	AGENDA ITEM No. 6
23 JULY 2018	PUBLIC REPORT

Report of:	Lou Williams; Service Director Children & Safeguarding	
Cabinet Member(s) responsible:	Cllr Sam Smith - Cabinet Member for Children's Service	
Contact Officer(s):	Lou Williams; Service Director Children & Safeguarding	Tel. 01733 863612

PERMANENCY SERVICE AND ARRANGEMENTS FOR REGIONAL ADOPTION

RECOMMENDATIONS

FROM: Corporate Director: People and Communities	Deadline date: Cabinet - 23 July 2018
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It is recommended that Cabinet:

1. Notes the budget pressures associated with the cost of children in care placements and the request for a supplementary budget of up to £3.9m this year and for inclusion of future years requirements in Tranche 2 of 2019/20 Medium Term Financial Strategy process;
2. Agrees in principle to exploring the variation to the contract for the Permanency Service contract with TACT, in line with due governance processes;
3. Notes the proposed arrangements relating to the development of a Regional Adoption Agency in partnership with Cambridgeshire and in line with government requirements.

1. ORIGIN OF REPORT

- 1.1 This report is submitted to Cabinet at the request of the Cabinet Member for Children's Services.

2. PURPOSE AND REASON FOR REPORT

- 2.1 The purpose of this report is to inform Cabinet about increased numbers of children and young people in care in Peterborough which, while remaining below the average of similar local authorities, is resulting in significant budget pressures. The placement budget transferred to TACT under the permanency service is no longer sufficient to meet demand, which requires a variation to the contract with TACT. This report also provides brief details of proposals to develop a Regional Adoption Agency, which is an expectation of the Department for Education affecting all top tier local authorities in England.
- 2.2 This report is for Cabinet to consider under its Terms of Reference No. 3.2.1, 'To take collective responsibility for the delivery of all strategic Executive functions within the Council's Major Policy and Budget Framework and lead the Council's overall improvement programmes to deliver excellent services.'

3. TIMESCALES

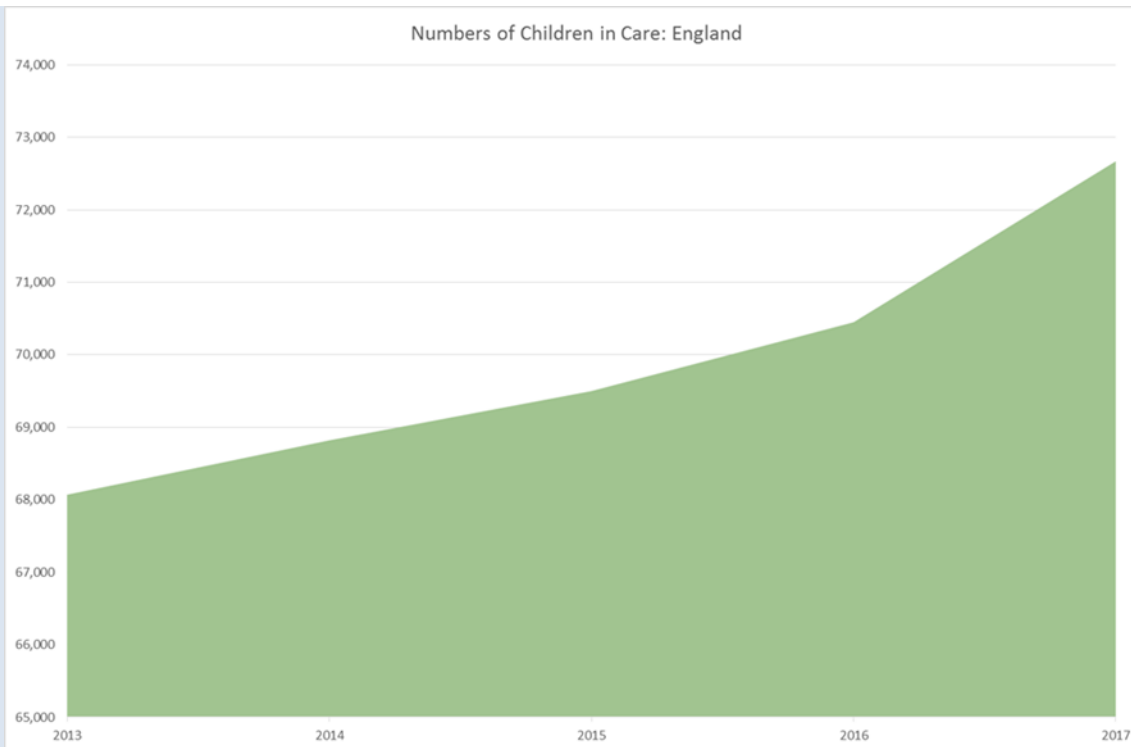
Is this a Major Policy Item/Statutory Plan?	NO	If yes, date for Cabinet meeting	N/A
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4. BACKGROUND AND KEY ISSUES

- 4.1. A 10 year contract to deliver a range of services including fostering, adoption and various functions associated with the assessment and support of permanent carers providing care to children under Special Guardianship Orders was awarded to the leading children's charity, TACT, in 2017. The new service was launched on 1 April 2017, with a number of members of staff transferring to TACT under TUPE arrangements.
- 4.2. As part of these new arrangements, the budgets associated with placement costs for children in care also transferred to TACT. These budgets meet placement costs for our own foster carers, along with those for externally purchased placements including Independent Fostering Agency foster carers and residential placements.
- 4.3. In calculating the appropriate budgets to transfer to TACT, the end of year position for 2015/16 was used as the baseline. The budget for placement costs came in on line during this financial year. The eventual aim of the contract with TACT is that reductions in costs are made because TACT will increase the number of in-house fostering placements available for Peterborough children and young people. In-house placements are usually offer the best options for children and young people, and cost significantly less than other types of placements.
- 4.4. All placement budgets transferred to TACT on 1 April 2017 at the start of the new Permanency Service. TACT is expected to manage these budgets within certain parameters but pressures have arisen that are outside of their control, including:
- The placement budget transferred to TACT was based on 2015/16 figures where we had 335-349 children in care and 7 children in sole funded residential placements;
 - On that mix and numbers, budget was sufficient, but there has been an increase in the number of vulnerable children and young people who have needed to come into care for their own safety and protection, in line with the national and regional position;
 - The needs and complexity of some children and young people needing care have become more complex.

Financial Year: 2016/17

- 4.5. During this financial year there was a very significant increase nationally and locally [e.g. in Cambridgeshire] in numbers in care, as the graph below shows:



4.6. This increase had a number of significant impacts on the local position in 2016/17 and on-going:

- The availability of Independent Fostering Agency Placements dried up, which resulted in some pricing increases;
- As fostering placements became more difficult to source, more of our children and young people were placed in residential placements and the number in sole funded placements increased to 13 by the end of the 2016/17 financial year;
- Residential placements are very high cost – ranging from around £3,000 to over £6,000 per week, with a current average of around £180,000 per annum per child or young person;
- Overall numbers of children in care also increased in Peterborough over 2016/17, ending the year at 361. Because in house provision has capacity for only 160-170 children and young people, every additional child coming into care will at best be placed with an agency foster carer at £900 per week.

Budget Position 2017/18

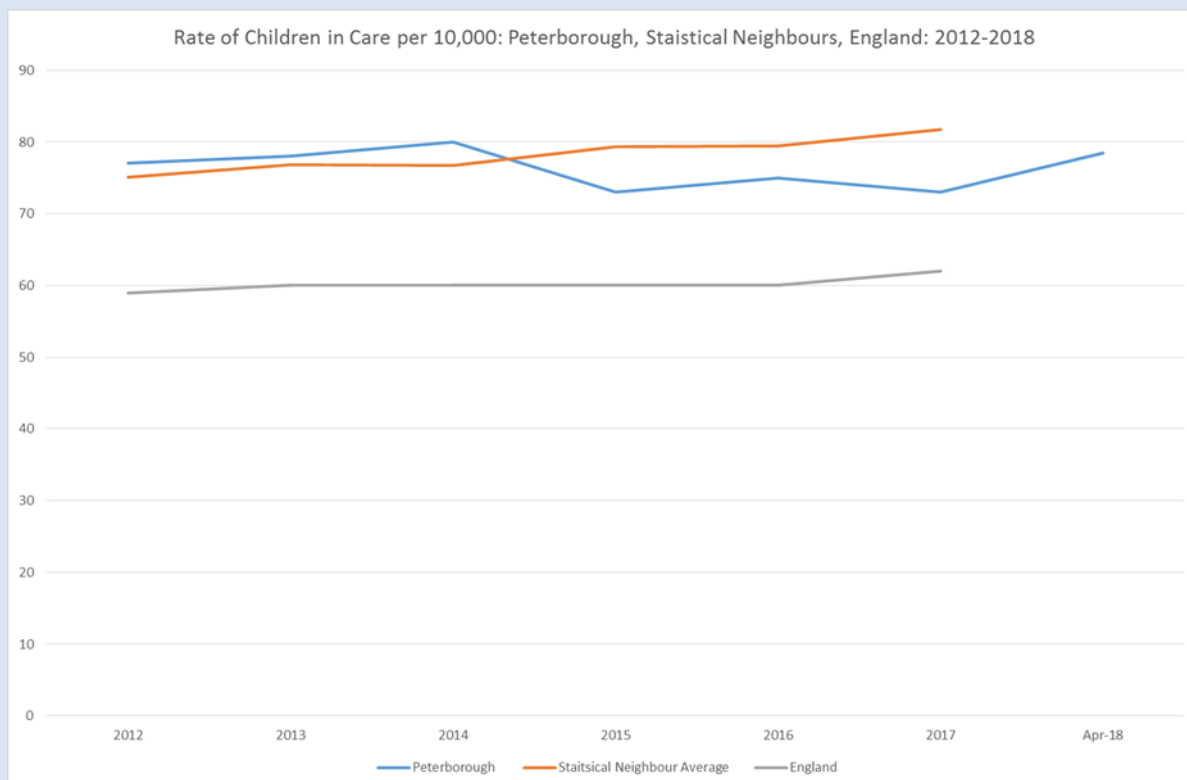
- 4.7. Unfortunately, overall numbers of children and young people in care increased further in 2017/18, reaching 385 at one point and being above 370 for most of the year. TACT made some very significant qualitative improvements to the service overall during this year, their first operating the service. TACT also needed to transfer all Peterborough carers to TACT Peterborough, a process that meant updating all reviews and presenting to panel. There was also a need to remove some carers from the stock as, for a number of reasons, they were no longer providing placements.
- 4.8. The completion of these housekeeping tasks places TACT in a strong position to move forward from 2018/19, but these housekeeping tasks needed to take place before full attention can be paid to recruitment of foster carers during 2017/18. Numbers in residential placements also remained high during this year, with associated budget pressures.
- 4.9. People and Communities managed the budget deficit for 2017/18, supported by very significant investment by TACT. The investment by TACT has seen them contribute to around £1m of placement costs in 2017/18 and TACT has also invested a further £500K of their own funds into the service overall.
- 4.10. It is clearly not the role of TACT to contribute to placement costs that would otherwise be the responsibility of the local authority; the original idea behind the concept of the Permanency

Service was that a partner agency with fostering [and adoption] expertise would make a better job of recruiting and supporting foster carers than the local authority. Children would benefit by having more local foster families, and the Council and the partner would benefit by virtue of each having a share in the savings generated. TACT expected to invest in service delivery, but not to the extent they did in 2017/18.

- 4.11. Ofsted undertook a two week full inspection of children’s services that ended on Friday 6th July 2018; and while the outcome will not be published until 6th August, it can be said that inspectors were very positive about our services to children and young people in care in general and the quality of provision by TACT in particular. Inspectors quoted foster carers as saying that they now received much better support than was the case, for example, and said that the general approach of providing good support to all types of carer, including those who have a special guardianship order, adoption orders as well as family and friends carers was one that they thought was effective.

Benchmarking Peterborough performance: Overall numbers of children in care

- 4.12. Before considering budget and other implications for the current and future financial years, it is important to consider whether increased costs are the result of performance in Peterborough that is less good than it should be when compared with other similar authorities.
- 4.13. As will be seen from the following section, performance in Peterborough compares well with similar local authorities. Although numbers in care have remained higher than in 2016/17, remaining at around 380 in the current financial year to the end of June 2018, this is equivalent to a rate per 10,000 of 79.5 based on ONS population estimates of 47,715 children and young people in Peterborough. This compares well to the statistical neighbour average, which was 82 as of the end of 2017:



- 4.14. By some measures, Office for National Statistics population estimates are unreliable, particularly in areas of fast population growth such as Peterborough, and particularly as we get further from the Census on which they are based. This is because they look backwards to make estimates of population growth, whereas other methodologies include estimates of forecast increased dwelling stock estimates.

4.15. An example of the latter approach is provided by The Cambridge Research Group.¹ Their work suggests that the ONS population estimates are an underestimate, and that by 2016 there were already 50,000 children and young people aged 0-17 living in Peterborough. If this is the case, then the rate of children looked after is actually 76 per 10,000 which would be very significantly below the average of our statistical neighbours.

Benchmarking Peterborough performance: Placement mix

4.16. While overall numbers of children in care are the most significant variable in terms of overall placement costs, placement mix is also an important factor.

4.17. In-house foster placements are the best option for most children and young people. This is because they are usually closer to home than placements provided by Independent Fostering Agencies and because we know our carers better, we can better match children needing placements to the characteristics of our available foster carers. This type of placement also has the lowest unit cost.

4.18. Independent Fostering Agency carers are often the next best option for children and young people; indeed from a placement quality point of view there is no intrinsic difference from the quality of care provided by our own carers, other than they may be further away and we will know them less well than our own carers. From a unit cost perspective, this type of placement is more than twice the typical cost of an in-house foster placement at around £900 per week.

4.19. Residential placements are the most expensive and can cost between £3,000 and as much as £7,000 per week. The highest cost placements offer highly specialised care for children with very complex needs or who have suffered severe trauma. As noted elsewhere, the national and local increase in numbers in care has resulted in a shortage of foster carers with the result that more of our children have been placed in residential placements than has been the case in recent years.

4.20. Given these unit costs, it is easy to see how relatively small changes in the numbers of children in residential placements can result in significant impacts on placement budgets.

4.21. Benchmarking information for Peterborough shows that we perform well overall in terms of placement mix:

- Nationally, 74% of children and young people are placed in foster placements; Peterborough had 76% of our children and young people placed in foster care as of the end of April 2018;
- Of the children placed with foster carers, 69% nationally are placed within in-house provision: this is slightly higher than Peterborough, where 66% of our children and young people are placed with in-house carers as of the end of April 2018;
- The focus of the contract with TACT is to dramatically decrease use of agency foster care placements and their target is to increase numbers of children placed with in-house carers by 28 in the current financial year. Achievement would mean that around 75% of children placed with foster carers in Peterborough would be placed in in-house provision – illustrating the ambitious nature of this target;
- Nationally, 12% of all children and young people are placed in residential provision, made up of sole and joint-funded placements. In Peterborough, the equivalent figure is 8.3%, with 14 children and young people in sole funded residential placements and 18 in residential placements where the cost is shared between the local authority and the DSG and, in a very small number of cases, also with health colleagues.

¹ From: 'Population and Dwelling Stock Estimates 2011-15 and 2015-based Population and Dwelling Stock Forecasts 2015-36'; published by the Cambridgeshire Research Group, 2017:
[file:///C:/Temp/yd585/Downloads/Peterborough%20UA%202015%20Estimates%20and%20Forecasts%20Report.p
df](file:///C:/Temp/yd585/Downloads/Peterborough%20UA%202015%20Estimates%20and%20Forecasts%20Report.pdf)

15-17 population calculated as 60% of 15-19 population estimates.

4.22. The options available to reduce placement costs by changing placement mix in the current financial year are therefore limited. We are close to national averages in terms of in-house fostering provision and well below national averages in terms of residential care. If anything, there are risks that placement mix moves closer to the national position. The impact of even one additional child in a residential placement can be significant. A young person with complex needs accessing a residential placement at a not untypical weekly cost of £4,500 would place a £234,000 pressure on placement budgets.

Savings Share

4.23. The original concept behind the Permanency Service delivery model was that TACT would invest in the service in the early years of the contract. This investment would then be returned to TACT, subject to good performance, because increased recruitment of in-house foster carers would reduce placements costs. The benefits of these reduced costs in the later years of the contract would be shared between TACT and the local authority on the basis of 66% to the Council and 33% to TACT.

4.24. Under this arrangement, outcomes for children and young people should be improved as more are placed with carers we know well and who are local to Peterborough, while both organisations benefit from lower unit costs than would be possible under more traditional delivery models.

Budget Position 2018/19

4.25. As noted above, the pressure on the budgets in 2017/18 arising from higher numbers of children in care and continuing higher numbers in residential placements was managed within People and Communities, with a significant contribution from TACT.

4.26. The projected placement budget overspend on placements for children in care for the current financial year is £3.9M. Working closely with TACT we will obviously do all we can to mitigate this amount, but given the benchmarking data above, it would be high risk to assume we can either significantly reduce numbers in care, or radically change placement mix in terms of numbers in residential placements.

4.27. The target for TACT to increase recruitment of in-house fostering placements during the year will have only limited impact before 2019/20, as there will only be part year impact in 2018/19.

Budget Position 2019/20

4.28. Assuming that TACT is able to achieve the recruitment targets for 2018/19, the 2019/20 budget should benefit from a full year impact of reduced costs: 28 more in-house foster placements and 28 fewer Independent Fostering Agency placements would reduce expenditure by around £730,000 per annum.

4.29. This would imply a starting position of £3.2M deficit assuming that the end of year position for the current financial year is an overspend against current budgets of £3.9M.

4.30. Our intention would be for TACT to increase numbers of children in in-house placements by a further 28 during this financial year. Because, however, the proportion of children in in-house provision will be by this point considerably above the national position, we would need to re-introduce the concept of the savings share from this point in order to appropriately incentivise continuing recruitment activity.

4.31. Further carers recruited during this year would therefore result in an improved end of year position, but financial impact would be on a part year basis and subject to a re-negotiated savings share.

Budget Position 2020/21

4.32. Assuming TACT is able to recruit sufficient additional carers so that a further 28 children are placed with in-house carers during 2019/20, then this financial year should see the full impact of that performance. This would imply a saving to the Council against current levels of expenditure

of around £500K, based on an assumption that we return to the model of savings share originally envisaged in the contract of 66% to the Council and 33% to TACT to support investment in local services.

- 4.33. Assuming overall numbers of children in care remain at around current levels, but overall numbers in in-house placements increase by just under 60 by the start of the financial year 2020/21, this implies a continuing placement budget deficit of £2.7M per annum.
- 4.34. Achieving further increases in use of in-house foster carer placement will begin to become more challenging from this point on. This is because some children in Independent Fostering Agency placements will be permanently matched to their carers, and because as in-house capacity increases, it is important to balance the need for placement choice – which means some carers having spaces – with the desire of most foster carer to be used for most of the time.

The impact of Family Safeguarding and of a growing population of children and young people in Peterborough

- 4.35. The Family Safeguarding model is based on the secondment of adult practitioners into children’s social work teams. These adult practitioners are experts in addressing substance or alcohol misuse, domestic abuse and adult mental/emotional ill-health issues. These are the three most common risks facing children and young people who end up coming into care.
- 4.36. Hertfordshire saw a reduction of around 7% in their numbers of children and young people in care as well as a range of other beneficial outcomes.
- 4.37. Peterborough has received a government grant to pilot the approach here, and this funds the additional staffing needed for the model. Careful overall management of staffing and other budgets means that we should have capacity to fund adult workers until the end of 2019/20.
- 4.38. From 2020, however, there will be no funding available to pay for the additional adult facing roles. The full year additional staffing costs for the adult facing practitioners are in the region of £800K.
- 4.39. Hertfordshire was successful in obtaining some contributions from partner agencies based on benefits also experienced by them – fewer presentations in A&E and call outs by police to domestic abuse incidents for example. We will clearly also seek contributions from partners, but it has to be recognised that the funding position for key partners is increasingly challenging, as it is for ourselves.
- 4.40. At the same time, continuing population growth in Peterborough emphasises that we need to do all we can to minimise any impact from growing numbers of children in care.
- 4.41. The Cambridgeshire Research Group estimates that our population of children and young people will grow rapidly over coming years, and more quickly than ONS estimates because we are a fast growing City, as illustrated in the table below: ²

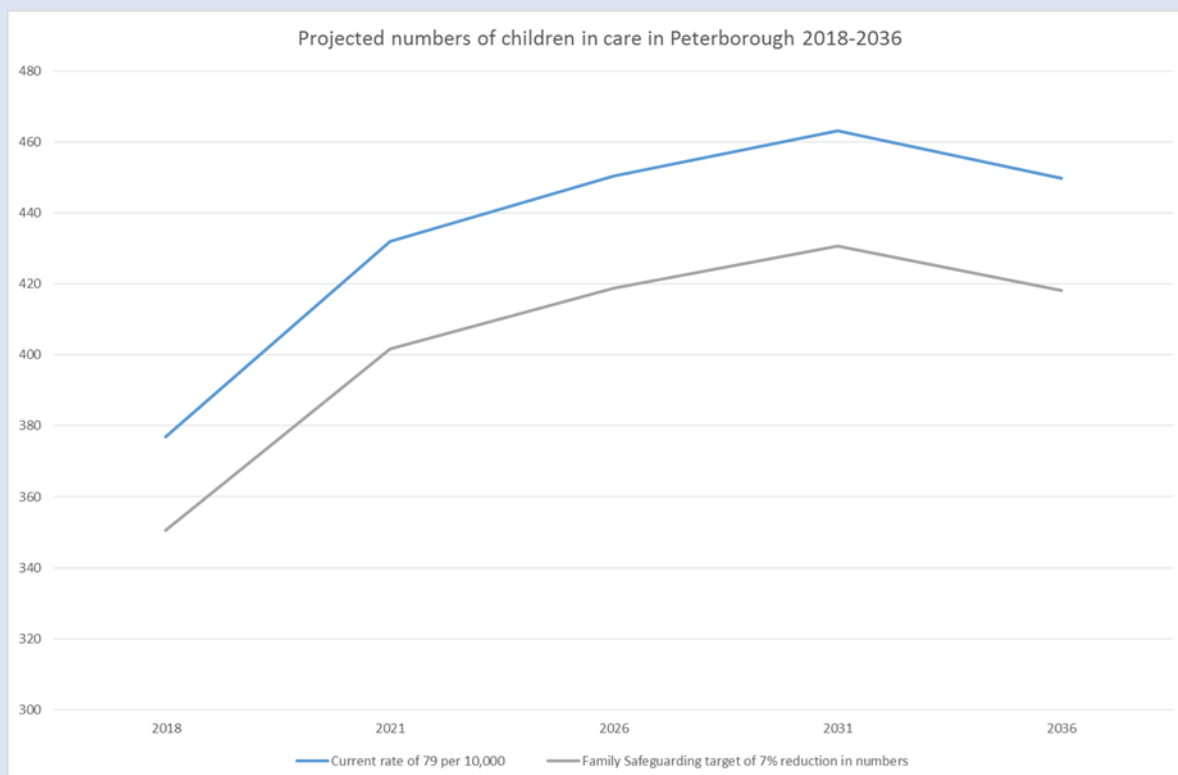
Age	2017	2021	2026	2031	2036
0-4	N/A	16300	17100	17000	16200
5-14	N/A	31020	31120	32720	31920
15-17	N/A	7360	8800	8900	8800
Total	47,700	54680	57020	58620	56920

- 4.42. The chart below illustrates the impact this increasing population would have on child in care numbers if the rate of care population remains 79 per 10,000. The chart illustrates the impact on

² From: ‘Population and Dwelling Stock Estimates 2011-15 and 2015-based Population and Dwelling Stock Forecasts 2015-36’; published by the Cambridgeshire Research Group, 2017:
<file:///C:/Temp/yd585/Downloads/Peterborough%20UA%202015%20Estimates%20and%20Forecasts%20Report.pdf>

15-17 population calculated as 60% of 15-19 population estimate

our in care population in the event that Family Safeguarding achieves a similar impact to that in Hertfordshire in preventing children and young people from coming into care:



- 4.43. This chart illustrates how simply maintaining current looked after numbers at 380 by 2020 is a significant challenge, given the projected growth of the child population in Peterborough. Maintaining numbers at 380 would evidence the impact of Family Safeguarding given that without this approach, looked after numbers might be expected to increase to above 400.
- 4.44. This emphasises the point that any possibility of seeing a reduced population of children and young people in care must be seen as very high risk; we already look after fewer children and young people than the average of our statistical neighbours, and a growing overall population of children and young people implies a corresponding increase in numbers in care, all things being equal.
- 4.45. This paper does not therefore propose any savings targets based on reductions in overall numbers of children in care.

Regional Adoption Agencies

- 4.46. In 2015, the Government announced its intention to establish new Regional Adoption Agencies (RAAs) across the country by 2020. The rationale for introducing RAAs is based around the belief that existing structures have in-built inefficiencies linked to their scale of operation, and that there are barriers around adoption created by individual local authorities and voluntary adoption agencies working separately to deliver the same core aspects of adoption provision.
- 4.47. The government has said that Regional Adoption Agencies must be fully operational by 2020 at the latest. Every top tier Local Authority must be able to demonstrate significant progress by early 2019.
- 4.48. The Department for Education has confirmed that a Regional Adoption Agency consisting of Peterborough and Cambridgeshire passes the necessary tests. A small amount of funding has been allocated to support some implementation costs including legal costs.
- 4.49. In both authorities, adoption services are currently provided by Voluntary Adoption Agencies – TACT in Peterborough and Coram Cambridgeshire Adoption in Cambridgeshire.

- 4.50. Given this background and the commitment of both authorities to developing innovative approaches with partners to deliver services where this makes sense because it delivers better outcomes for children, better value for money, or both, we have agreed in principle with the Department for Education that we will develop a Regional Adoption Agency hosted by a Voluntary Adoption Agency.
- 4.51. This will require both authorities to undertake a joint procurement exercise, and Cabinet is asked to note this position.

Variation of Existing Contract with TACT

- 4.52. As noted elsewhere, the current contract with TACT was based on numbers of children in care that were significantly below current numbers, and on a placement mix with fewer children and young people in the highest cost residential placements. This position has changed and the financial element of the contract is insufficient to meet placement cost in the current or future financial years.
- 4.53. The contract was built on the assumption that the partner delivering the service would make an initial investment, which TACT has done, but would be able to recoup investment through a savings share based on better performance in the recruitment and support of foster carers than the local authority would be able to deliver if the service remained directly delivered.
- 4.54. TACT has already invested £500K in the service and proposes to invest similar amounts in the current financial year. TACT also made a considerable contribution to additional placement costs in 2017/18. This is obviously of great benefit to the quality of service and to outcomes for children and young people, but is based on TACT being able to see how such investment can be returned in later years of the contract through good performance.
- 4.55. This savings share arrangement will also benefit the Council as it is likely to be based on the assumption in the contract of a 66% share to the local authority and 33% to TACT. More importantly, it will help us to continue to deliver the best possible outcomes for children since it means that more children in care will be placed with foster carers who we know well, are local to Peterborough, and who are themselves provided with the best possible support and training.
- 4.56. The development of the Regional Adoption Agency will also require contract variation.
- 4.57. Cabinet is asked to endorse the above proposals relating the variation of the contract for delivery of the Permanency Service.

5. CONSULTATION

- 5.1 Consultation has taken place in broad terms with TACT and with Coram Cambridgeshire Adoption in relation to the intention to develop a joint Regional Adoption Agency.

6. ANTICIPATED OUTCOMES OR IMPACT

- 6.1 That Cabinet:
- Notes the continuing pressures on budgets associated with placement costs for children and young people in care;
 - Notes the requirement by Government for all top tier authorities to enter into regional adoption arrangements and the development of joint arrangements with Cambridgeshire;
 - Agrees in principle to the need to vary the contract with TACT to take account of higher than anticipated placement costs, the need to re-establish the principle of the savings share and the need to develop a Regional Adoption Agency;
 - Notes and acknowledges the investment by TACT in the Permanency Service to date.

7. REASON FOR THE RECOMMENDATION

- 7.1 There is a legal requirement for local authorities to provide sufficient numbers of placements for children in care, and where possible, for the great majority of these to be within or close to the local authority area. The current arrangements with TACT offer the best opportunity to satisfy this sufficiency strategy.
- 7.2 From a financial perspective, the responsibility for meeting placement costs remains with the local authority except in such circumstances where costs have increased because TACT has not delivered the full requirement of the contract.
- 7.3 Current and projected numbers of children in care in Peterborough means that the budget transferred to TACT is not sufficient to meet placement costs. The partnership with TACT, by offering the greatest likelihood of achieving increased recruitment of our own carers, also provides the best opportunity for us to minimise unit placement costs while improving local placement choice for our children and young people.
- 7.4 The development of Regional Adoption Agencies is a Government requirement; the agreement to deliver this based on a partnership between Peterborough and Cambridgeshire offers a model that is in line with current direction of travel for both authorities. Bringing adoption services together in this way also offers the opportunity for benefits in the recruitment of adopters and matching of children.

8. ALTERNATIVE OPTIONS CONSIDERED

- 8.1 There is little alternative other than to meet increased placement costs. In order to ensure that the Council continues to benefit from the model underpinning the Permanency Service, a contract variation that recognises the reality of higher numbers of children in care and reinstates the principle behind the savings share is required.
- 8.2 The development of the Regional Adoption Agency also requires variation of the contract with TACT, and the commencement of a joint procurement exercise with Cambridgeshire.

9. IMPLICATIONS

Financial Implications

- 9.1 There are clear financial implications arising from increased demand for placements for children in care given that numbers have increased while remaining below the average of statistical neighbour authorities.
- 9.2 The principle behind the Permanency Service remains unaltered, however, and continues to be based on the improved recruitment of local foster carers, able to meet the needs of a broader population of children and young people in care, to the benefit of children and young people and at lower unit cost than traditional delivery models.
- 9.3 Developing the specification and undertaking a procurement process in respect of the Regional Adoption Agency will involve some direct costs including legal and procurement advice, as well as indirect costs including senior officer time. A small grant from the Department for Education of around £70,000 is available to support these costs. The DfE has indicated that more may be available subject to evidence of costs incurred.
- 9.4 As set out in the sections 4.24 to 4.33 above, there is the requirement for a supplemental budget of up to £3.9m in 2018/19 to ensure delivery of the Service in year. The service would be expected to mitigate this as much as possible in year. Any amount not mitigated would need to be funding from reserves. In addition, as part of Tranche 2 of the MTFs process, the Council will need to take account of the additional requirements for the 2019/20 and 2020/21 financial years. This will need to include a decision on Family Safeguarding roles (4.34-4.38), for which there is no funding from 2020/21.

Legal Implications

- 9.5 There are no direct legal implications relating to this report but legal advice surrounding the procurement process in relation to the development of the Regional Adoption Agency will be required.

Equalities Implications

- 9.6 There are no equalities implications, either positive or negative.

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

- 10.1 None.

11. APPENDICES

- 11.1 None.

CABINET	AGENDA ITEM No. 7
23 JULY 2018	PUBLIC REPORT

Cabinet Member(s) responsible:	Cllr David Seaton, Cabinet Member for Resources	
Contact Officer(s):	Peter Carpenter, Acting Director of Corporate Resources Kirsty Nutton, Head of Corporate Finance	Tel. 452520 Tel. 384590

BUDGET CONTROL REPORT MAY 2018

RECOMMENDATIONS	
FROM: Corporate Director: Resources	Deadline date: 13 July 2018
<p>It is recommended that Cabinet notes:</p> <ol style="list-style-type: none"> 1. The Budgetary Control position for 2018/19 at May 2018 includes a £4.904m overspend position on the revenue budget. 2. The Key variance analysis and explanations, is highlighted in Appendix A. 3. The estimated reserves position for 2018/19 outlined in Appendix B 4. The Risks highlighted within the Budget are highlighted in Appendix C. 	

1. ORIGIN OF THE REPORT

- 1.1. This report is submitted to Cabinet following discussion by the Corporate Management Team (CMT).

2. PURPOSE AND REASON FOR REPORT

- 2.1. This report comes to Cabinet as part of the Council's agreed process within the Budget and Policy framework that requires Cabinet to initiate and consider financial strategy and budget proposals in order to set a balanced budget for the forthcoming financial year.
- 2.2. This report provides Cabinet with an update of the May 2018 Budgetary Control position.
- 2.3. This report is for Cabinet to consider under its Terms of Reference No. 3.2.1 'To take collective responsibility for the delivery of all strategic Executive functions within the Council's Major Policy and Budget Framework and lead the Council's overall improvement programmes to deliver excellent services' and 3.2.5 'To review and recommend to Council changes to the Council's Constitution, protocols and procedure rules'.

3. TIMESCALE

Is this a Major Policy Item/ Statutory Plan	Yes	If yes, date for Cabinet meeting	23 July 2018
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4. MAY 2018 BUDGETARY CONTROL- REVENUE

- 4.1. The revenue budget for 2018/19, agreed at Full Council on 7 March 2018, was approved at £147.456m.

	£m
Approved Budget 2018/19	147.456
Use of reserves per MTFS	4.231
Revised Budget 2018/19	151.687
Drawdown of reserves during 2018/19	0.448
Revised Budget 2018/19	152.135

- 4.2. The 2018/19 year-end outturn position, is currently forecast to be £4.904m over spent. This is based on reported departmental information as at the end of May 2018, in comparison to a breakeven position reported at the end of April 2018. This forecast overspend is presented very early in to the 2018/19 financial year, however where risks are highlighted within this report, CMT are putting plans in place to mitigate these as far as possible.
- 4.3. The biggest financial pressure the council is facing is in relation to children's social care. In 2016 TACT was awarded a 10 year contract to operate our fostering and adoption services, together with family group conferencing and providing support to carers under Special Guardianship Orders. The new Peterborough Permanency Service went live on 1st April 2017.

At the heart of this new arrangement is the expectation that TACT will be able to use their specialist fostering knowledge to increase the recruitment of fostering households and encourage more carers to accept some of our more challenging older children and young people who have traditionally been more likely to be placed with more expensive agency or even in residential care. In so doing, the unit costs associated with care placements will reduce, delivering savings to the Council and funds that TACT can use to re-invest in local service delivery.

It is fair to say that the first year of operation was challenging owing to the increased numbers of children in care nationally and locally, and the impact this has had on placement availability. This has resulted in an on-going likelihood that there will be pressures in the children's placement budget. A separate report providing further detail will be presented at this Cabinet meeting.

- 4.4. The summary budgetary control position is outlined in the following table:

	Budget 2018/19	Cont. from reserves	Revised Budget 2018/19	Forecast Spend 2018/19	Cont. to reserves	Forecast Variance 2018/19	Forecast Variance 2018/19	Previous Month Variance	Movement
Directorate	£000	£000	£000	£000	£000	£000	%	£000	£000
Chief Executives	1,598	0	1,598	1,598	0	0	0%	0	0
Governance	4,702	0	4,702	4,631	0	(71)	-2%	16	(87)
Growth & Regeneration	23,910	0	23,910	24,459	0	549	2%	(94)	643
People & Communities	84,643	250	84,893	88,952	0	4,059	5%	0	4,059
Public Health	(126)	198	72	72	0	0	0%	0	0
Resources	36,960	0	36,960	37,327	0	367	0%	0	367
Total Expenditure	151,687	448	152,135	157,039	0	4,904	3%	(78)	4,982
Financing	(151,687)	(448)	(152,135)	(152,135)	0	0	0%	0	0
Contribution to Capacity reserve	0	0	0	0	0	0	0%	0	0
Net	0	0	0	4,904	0	4,904	0%	(78)	4,982

4.5. Further information is provided in the following appendices:

- Appendix A – Detailed revenue budgetary control position and explanation of Key variances and risks
- Appendix B – Reserves position
- Appendix C – Budget Risk Register

Appendix A – Detailed Revenue Budgetary Control position and explanation of Key Variances

Chief Executives

Budget Group	Budget 2018/19	Cont. from reserve	Revised Budget 2018/19	Forecast Spend 2018/19	Cont. to reserve	Forecast Variance 2018/19	Forecast Variance 2018/19	Previous Month Variance	Movement
	£000	£000	£000	£000	£000	£000	%	£000	£000
Chief Executive	244		244	244		0	0%	0	0
HR	1,354		1,354	1,354		0	0%	0	0
Total Chief Executives	1,598	0	1,598	1,598	0	0	0%	0	0

There are currently no variances forecast in the Chief Executive's area.

Governance

Budget Group	Budget 2018/19	Cont. from reserve	Revised Budget 2018/19	Forecast Spend 2018/19	Cont. to reserve	Forecast Variance 2018/19	Forecast Variance 2018/19	Previous Month Variance	Movement
	£000	£000	£000	£000	£000	£000	%	£000	£000
Director of Governance	377	0	377	348	0	(29)	-8%	0	(29)
Legal Services	1,616	0	1,616	1,614	0	(2)	0%	0	(2)
Constitutional Services	2,053	0	2,053	2,008	0	(45)	-2%	16	(61)
Performance & Information	176	0	176	171	0	(5)	-3%	0	(5)
Coroners Service	480	0	480	490	0	10	2%	0	10
Total Governance	4,702	0	4,702	4,631	0	(71)	-2%	16	(87)

The Governance department currently has no significant variances.

Growth & Regeneration

Budget Group	Budget 2018/19	Cont. from reserve	Revised Budget 2018/19	Forecast Spend 2018/19	Cont. to reserve	Forecast Variance 2018/19	Forecast Variance 2018/19	Previous Month Variance	Movement
	£000	£000	£000	£000	£000	£000	%	£000	£000
Development and Construction	190	0	190	190	0	0	0%	0	0
Director, OP & JV	(63)	0	(63)	(63)	0	0	0%	28	(28)
Peterborough Highway Services	9,199	0	9,199	9,349	0	150	2%	35	115
Sustainable Growth Strategy	1,469	0	1,469	1,469	0	0	0%	0	0

	Budget 2018/19	Cont. from reserve	Revised Budget 2018/19	Forecast Spend 2018/19	Cont. to reserve	Forecast Variance 2018/19	Forecast Variance 2018/19	Previous Month Variance	Movem ent
Budget Group	£000	£000	£000	£000	£000	£000	%	£000	£000
Waste, Cleansing and Open Spaces	12,269	0	12,269	12,020	0	(249)	-2%	(157)	(92)
Westcombe Engineering	93	0	93	93	0	0	0%	0	0
Corporate Property	1,506	0	1,506	1,506	0	0	0%	0	0
Resilience & Health & Safety	250	0	250	205	0	(45)	-18%	0	(45)
City Centre Management	318	0	318	554	0	236	74%	0	236
Marketing & Communications	254	0	254	296	0	42	17%	0	42
Parking Services	(2,405)	0	(2,405)	(1,978)	0	427	-18%	0	427
Regulatory Services	676	0	676	664	0	(12)	-2%	0	(12)
Service Director Environment & Economy	154	0	154	154	0	0	0%	0	0
Total Growth and Regeneration	23,910	0	23,910	24,459	0	549	2%	(94)	643

Currently the Growth and Regeneration department is forecasting £0.549m overspend.

Peterborough Highway Services

Street lighting energy costs are budgeted to reduce as the Street Lighting LED Programme replaces the old lighting with more energy efficient units. The savings are taking longer to deliver than originally envisaged, and combined with energy price increases, this is leading to an overspend of £0.148m

Waste, Cleansing and Open Spaces

Income from electricity sales at the Energy from Waste facility is currently higher than budgeted leading to a favourable forecast of £0.237m. This is due to the performance of the plant and the escalating energy prices which offsets the pressure that the council is seeing on the electricity that it buys.

Final earnings for 2017/18 income at the Energy from Waste plant have also now been confirmed and this was higher than expected by £0.177m

The new Household Recycling Centre is now due to open early 2019, therefore the budgeted investment is not fully required in 2018/19 saving £0.120m. However at the Materials Recycling Facility fees for legal advice and support for resolving contract issues, together with claims for waste contamination and increased fees are expected to cost an additional £0.350m creating a pressure.

City Centre Management

The level of income from Market stalls and the pedestrian area will be £0.151m lower than budgeted as, although this brings a net income to the council, the target for this is currently unachievable. A promotional discount to bring in new stall-holders has resulted in 5 new traders, and the income position will be monitored throughout the year.

Corporate Property

The budget includes income targets for letting space at Sand Martin House, and for the proposed car parking facilities there. As the council has only recently taken leasehold for these facilities, arrangements for securing this income are not yet confirmed. The council is progressing well with its plans for the letting of its existing office accommodation space.

Parking Services

At present the forecast income is £0.296m lower than the budget for off street car parking, including staff car parking. This is based on a reduction in current parking volumes.

There is also a forecast pressure relating to the costs of National Non-Domestic Rates (Business Rates) security, cleaning and Ringo (debit/credit card charges), which totals £0.131m

People & Communities

Budget Group	Budget 2018/19	Cont. from reserve	Revised Budget 2018/19	Forecast Spend 2018/19	Cont. to reserve	Forecast Variance 2018/19	Forecast Variance 2018/19	Previous Month Variance	Move ment
	£000	£000	£000	£000	£000	£000	%	£000	£000
Adults	44,725	0	44,725	44,050		(675)	-2%	0	(675)
Commissioning and Commercial Operations	13,787	250	14,037	18,612		4,575	33%	0	4,575
Children's & Safeguarding	11,137	0	11,137	11,131		(6)	0%	0	(6)
Director	256	0	256	256		0	-15%	0	0
Education	5,710	0	5,710	5,705		(5)	0%	0	(5)
Communities	8,765	0	8,765	9,000		235	1%	0	235
DSG	263	0	263	198		(65)	-25%	0	(65)
Total People and Communities	84,643	250	84,893	88,952		4,059	5%	0	4,059

Further Breakdown in to the key service areas:

Further Breakdown	Budget 2018/19	Cont. from reserve	Revised Budget 2018/19	Forecast Spend 2018/19	Cont. to reserve	Forecast Variance 2018/19	Forecast Variance 2018/19	Previous Month Variance	Movement
	£000	£000	£000	£000	£000	£000	%	£000	£000
Adults:									
ISP	32,067		32,067	32,067		0	0%	0	0
ASC Teams	7,382		7,382	7,361		(21)	0%	0	(21)
Block Contracts	6,352		6,352	6,340		(12)	0%	0	(12)
Financing	(2,565)		(2,565)	(3,202)		(637)	25%	0	(637)
Home Service Delivery Model	1,489		1,489	1,484		(5)	0%	0	(5)
Total Adults	44,725	0	44,725	44,050	0	(675)	-2%	0	(675)
Commissioning & Commercial Operations:									
Permanency Service	12,523		12,523	17,060		4,537	36%	0	4,537
Clare Lodge	(1,167)	250	(917)	(917)		0	0%	0	0
Commissioning & Commercial Operations - Other	2,431		2,431	2,469		38	2%	0	38
Total Commissioning & Commercial Operations	13,787	250	14,037	18,612	0	4,575	33%	0	4,575
Childrens & Safeguarding:									
Children's Social Care	6,868		6,868	6,863		(5)	0%	0	(5)
Childrens - Other	4,269		4,269	4,268		(1)	0%	0	(1)
Total Childrens & Safeguarding	11,137	0	11,137	11,131	0	(6)	0%	0	(6)
Director:									
Director	2,089		2,089	2,089		0	0%	0	0
Department Savings target	(1,833)		(1,833)	(1,833)		0	0%	0	0
Total Director	256	0	256	256	0	0	0%	0	0
Education:									
HTS & CSC Transport	4,001		4,001	4,001		0	0%	0	0
School Improvement Traded Service	(937)		(937)	(937)		0	0%	0	0
Education - Other	2,646		2,646	2,641		(5)	0%	0	(5)
Total Education	5,710	0	5,710	5,705	0	(5)	0%	0	(5)
Communities:									
Housing	2,397		2,397	2,463		66	3%	0	66
Cultural Services	2,373		2,373	2,623		250	11%	0	250
Targeted Youth Support Service (TYSS)	1,587		1,587	1,507		(80)	-5%	0	(80)
Prevention Enforcement Service (PES)	555		555	470		(85)	-15%	0	(85)
Communities - Other	1,853		1,853	1,937		84	-1%	0	84
Total Communities	8,765	0	8,765	9,000	0	235	2%	0	235
DSG	263		263	198		(65)	(0)	0	(65)
Total People and Communities	84,643	250	84,893	88,952	0	4,059	-5%	0	4,059

Adults- ASC Teams

Overall there is a £0.021m forecast underspend on all operational teams. Within this there is a pressure on 0-25 team and agency usage £0.137m which is currently being offset by vacancies and underspends on staffing, running costs and some additional income.

Adults- Block Contracts

An Overall underspend of 0.012m is forecast due to one off Direct Payments to Carers. Carer support is predominantly covered in ISP with services such as carers sitting services and respite.

Adults- Finance

Projects have been delayed to mitigate overspends in other People and Communities budgets.

Adults- Home Services Delivery Model

There is a £0.017m underspend on vacant posts and £0.013m overspend on commissioned surveyor work

Commissioning- Permanency Service (TACT)

The Council is forecasting to overspend by £4.537m within this area, this is the result of recently agreeing to pay TACT an additional £0.637m in relation to financial year 2017/18 and £3.9m in relation to financial year 2018-19. The overspend is the result of an increasing trend in the number of children coming in to care and the mix of placement types used. Although TACT are using their expertise to recruit foster parents and adoption placements, currently progress towards achieving a balanced placement mix is in transition and therefore there are still a number of placements with a high associated costs.

Clare Lodge

A reserve contribution of £250k has been agreed which offsets the forecast overspend arising from the delayed opening of the new High Dependency Unit. A risk exists around Occupancy levels (income) and the use of Agency staff

Commissioning and Commercial Operations- Other

A £0.044m forecast overspend is reported against Play Centres. This is as a result of the delay to Community Asset Transfers.

Children's Social Care

An underspend of £0.006m is forecast against Children's Social Care staffing. A risk exists around the use of Agency staff to cover substantive posts.

Director- Departmental Savings Target

It is assumed that all Department Savings targets will be achieved or will be offset by funnel savings.

Education- Home to School and Children's Social Care Transport

No variance reported. It isn't possible to accurately forecast Home to School transport outturn until all contracts are in place for the new Academic Year.

Communities- Housing

Housing is forecast to overspend by £0.051m. Temporary Accommodation costs are forecast to overspend by £0.112m. This is offset by a projected underspend on staffing of £0.058m

Communities- Cultural Services

Cultural Services is forecast to overspend by £0.250m. This represents the non-achievement of the 2018/19 and 2017/18 MTFS saving.

Communities- Targeted Youth Support Service (TYSS)

The TYSS is forecast to underspend by £0.100m. This comprises a forecast underspend of £0.126m on Employee costs, offset by other pressures of £0.026m.

Communities- Prevention Enforcement Service (PES)

The PES is forecast to underspend by £0.085m. This comprises a £0.074m underspend on staffing and an undersepend of £0.011m against non-staffing budgets.

Communities – Other

There is a forecast underspend of £0.017m. This comprises an underspend of £0.106m on staffing, which is offset by a £0.088m adverse variance against non-staffing budgets

Public Health

	Budget 2018/19	Cont. from reserve	Revised Budget 2018/19	Forecast Spend 2018/19	Cont. to reserve	Forecast Variance 2018/19	Forecast Variance 2018/19	Previous Month Variance	Movement
Budget Group	£000	£000	£000	£000	£000	£000	%	£000	£000
Children 0-5 Health Visitors	2,748	198	2,946	2,946	0	0	0%	0	0
Children 5-19 Health Programmes	1,849		1,849	1,849	0	0	0%	0	0
Sexual Health	1,830		1,830	1,830	0	0	0%	0	0
Substance Misuse	2,299		2,299	2,299	0	0	0%	0	0
Smoking and Tobacco	317		317	317	0	0	0%	0	0
Miscellaneous Public Health Services	1,736		1,736	1,736	0	0	0%	0	0
Public Health Grant	(10,905)		(10,905)	(10,905)	0	0	0%	0	0
Total Public Health	(126)	198	72	72	0	0	0%	0	0

Public Health savings are on track to be delivered

Resources

	Budget 2018/19	Cont. from reserve	Revised Budget 2018/19	Forecast Spend 2018/19	Cont. to reserve	Forecast Variance 2018/19	Forecast Variance 2018/19	Previous Month Variance	Moveme nt
Budget Group	£000	£000	£000	£000	£000	£000	%	£000	£000
Director's Office	112		112	108		(4)	-4%	0	(4)
Financial Services	3,299		3,299	3,287		(12)	0%	0	(12)
Programme Management Office	139		139	139		0	0%	0	0
Capital Financing and Capital Receipts	18,321		18,321	17,950		(371)	-2%	0	(371)
Corporate Items	4,763		4,763	4,763		0	0%	0	0
Peterborough Serco Strategic Partnership	5,681		5,681	5,876		195	3%	0	195
ICT	5,255		5,255	5,823		568	11%	0	568
Energy	780		780	780		0	0%	0	0
Cemeteries, Cremation & Registrars	(1,390)		(1,390)	(1,399)		(9)	1%	0	(9)
Total Resources	36,960	0	36,960	37,327	0	367	1%	0	367

Capital Financing and Capital Receipts

The Capital Financing forecast outturn has been based on raising new loans of £133m to fund capital expenditure, this is based on the information known to date. As outlined in Tranche 1, it is expected for this requirement to reduce in future months due to reprofiling of the capital programme to a more deliverable level of £100m, however exact details are to be confirmed. There have been delays with regards to the Norlin loan linked to the timing of the development at Fletton Quays which has resulted in less income for the year being forecast compared to budget for the interest payments on this loan. Overall the Capital Financing is forecasting an underspend of £0.371m as capital receipts are forecast to be on track due to the cash receipt of Tesam in April 2018.

Peterborough Serco Strategic Partnership

£195k pressure due to Annual Delivery Plan (ADP) these costs relate the costs of the projects for the first quarter of the year, however these are currently under review.

ICT

Savings expected to be generated through the implementation of a technology platform across Social Care (PeopleToo) now not expected to be achieved as planned, creating a £0.137m pressure. The budgeted return on loan to partners to deliver this project has also not materialised as planned creating a £0.131m pressure

Savings targets in relation to Digital Roadmap project, including guaranteed resale income and also savings through decommissioning ICT Legacy systems and departmental efficiencies are not expected to be fully achieved, causing a £0.300m pressure.

Financing

The following table show how the Council's expenditure is funded via council tax, business rates, non-specific grants and use of reserves.

	Budget 2018/19	Cont. from reserves	Revised Budget 2018/19	Forecast Spend 2018/19	Cont. to reserves	Forecast Variance 2018/19	Forecast Variance 2018/19	Previous Month Variance	Movem ent
Budget Group	£000	£000	£000	£000	£000	£000	%	£000	£000
Council Tax	(68,110)		(68,110)	(68,110)		0	0.00%	0	0
Council Tax - Adult Social Care precept	(5,328)		(5,328)	(5,328)		0	0.00%	0	0
NDR Income	(45,465)		(45,465)	(45,465)		0	0.00%	0	0
NDR Levy	216		216	216		0	0.00%	0	0
NDR S31 grants	(3,128)		(3,128)	(3,128)		0	0.00%	0	0
NDR Tarriff	2,370		2,370	2,370		0	0.00%	0	0
Revenue Support Grant	(15,056)		(15,056)	(15,056)		0	0.00%	0	0
Parish Precept	(586)		(586)	(586)		0	0.00%	0	0
New Homes Bonus	(5,152)		(5,152)	(5,152)		0	0.00%	0	0
Section 31 Grant	(5,742)		(5,742)	(5,742)		0	0.00%	0	0
Contribution from/to Grant Equalisation Reserve	(4,231)		(4,231)	(4,231)		0	0.00%	0	0
Contribution from/to Reserves	0	(448)	(448)	(448)		0	0.00%	0	0
Contribution to Capacity Reserve (bottom line underspend)	0		0	0		0	0.00%	0	0
Collection Fund - Council Tax	(1,188)		(1,188)	(1,188)		0	0.00%	0	0
Collection Fund - NDR	(287)		(287)	(287)		0	0.00%	0	0
Total Financing	(151,687)	(448)	(152,135)	(152,135)	0	0	0.00%	0	0

Appendix B - Reserves

The Council's departmental reserves and the capacity building reserve are monitored throughout the year and feed into the budget setting process accordingly. The next table summarises the expected balance for all reserves for 2018/19 to 2021/22

Out of the total reserves balance only £20.6m is deemed available or uncommitted, due to restrictions placed on the remaining reserves.

Summary of Reserves	Balance Brought Forward 1.4.18 £000	Cont. from reserves £000	Cont. to reserves £000	Movement between reserves £000	Forecast Balance 31.03.19 £000	Forecast Balance 31.03.20 £000	Forecast Balance 31.03.21 £000
General Fund Balance	6,000	0	0	0	6,000	6,000	6,000
Available Reserves							
Capacity Building Reserve**	12,714	-6,544	4,450	0	10,620	10,585	10,585
Grant Equalisation Reserve*	8,445	-4,231	0	0	4,214	4,214	4,214
Development Equalisation Reserve	1,233	-1,233	0	0	0	0	0
Departmental Reserve	5,197	-4,295	0	0	902	902	902
Subtotal	27,589	-16,303	4,450	0	15,736	15,701	15,701
Ring-Fenced Reserves							
Insurance Reserve	4,936	0	0	0	4,936	4,936	4,936
Schools Capital Expenditure Reserve	1,208	0	0	0	1,208	1,208	1,208
Parish Council Burial Ground Reserve	51	0	0	0	51	51	51
Hackney Carriage Reserve	203	0	0	0	203	203	203
School Leases Reserve	243	-15	0	0	228	178	178
Future Cities Reserve	240	-240	0	0	0	0	0
Public Health Reserve	428	-198	0	0	230	230	230
Subtotal	7,310	-453	0	0	6,857	6,807	6,807
Total Available and Ring-Fenced reserves and General Fund Balance	40,899	-16,756	4,450	0	28,593	28,508	28,508

* £4.2m drawn down per approved 2018/19 MTFS

** Capacity Building Reserve

- May be used to finance transformational costs associated with delivery of savings plans outlined in Tranche 1 of the 2019/20 – 2021/22 MTFS
- £4.2m of Capital receipts will be transferred to Capacity reserve during 2018/19.
- The forecast overspend in 2018/19 of £4.9m will be required to be funded from the Capacity reserve.

Appendix C – Budget Risk Register

The following table highlights the risks which have been identified within the 2018/19 Budget

Dept	Risk	Description	Rag rating	£000	Preventative Management Action taken, or planned
Resources	PSSP Indexation	The indexation claim on PSSP contract is still under negotiation with Serco.	Amber		Talks are still in progress and hope to have a better view of position and impact at end of next month
Resources	ADP resource plan	There are BTSI costs within the core PSSP contract that were assumed to be rechargeable as part the ADP resource plan. Some dispute over funding means this needs to be assessed and there is a risk of no funding built in to meet the current costs.	Amber		Budget Manager working to gain an understanding the original position on what was in the core fee and what the ADP was designed to do, and then to compare that to what our costs are covering now, and ultimately where they should be funded from.
Resources	Saving - Serco Variable Spend reduction	No confirmed extraction for this saving	Red	1,000	
Resources	Saving - Business Transformation	No NOC in place for achievement of this saving	Red	225	
Resources	Saving - Shared and Integrated Services Programme (exc Finance)	No confirmed extraction for this saving	Red	155	
Resources	Saving - Business Support	No NOC in place for achievement of this saving	Red	100	
G&R	Corporate Property	Income for letting space at the Town Hall and Fletton Quays is not yet secured	Red		tbc
G&R	Parking Income	Further reduction in income - Staff parking when we move to SMH, impact of wider agile working, off + on street fees	Amber	0	tbc
Gov	Cost of Coroner Service	18/19 contract costs - lack of clarity on costs charged by CCC	Amber	0	tbc
P&C	ISP	Demand currently being managed within existing resources. Additional pressures on DTOC, Sleep In payments following Mencap court case and Transforming Care service users could push ISP into overspend	Amber	0	tbc
P&C	Homelessness	Demand led area. Should demand increase or mix between accommodation types changes then could alter forecasts	Amber	0	tbc
P&C	TACT placements	Demand led area. If placement mix changes or demand increases only needs one or two cases to impact significantly	Amber	0	tbc
G&R	Amey Contract	It is anticipated that there could be financial pressures arising from the termination of the Amey contract, across Waste, Cleansing and Open Spaces, and Property services. However this will not be fully evaluated until proposals for the replacement arrangements are further developed. There	Amber	0	TBC

Dept	Risk	Description	Rag rating	£000	Preventative Management Action taken, or planned
		are also likely to be additional costs pressures in recycling across the RECAP partnership due to changes in the market for recycled material, which is reflected in a reduction in the sale value and may lead to increased processing costs			
P&C	Recruitment and Retention of Social Workers	A financial risk exists where Agency Social workers are used to cover substantive Social Worker posts in both Adult and Children Social Care (CSC). There is a budget of £0.355m in CSC to cover the Agency Premium.	Amber	0	TBC
P&C	Adult Social Care	A year round pressure exists on Independent Sector Placements as a result of Delayed Transfer of Care (DToC) from Hospitals. At present early indications show that this pressure could rise to £1m in 2018/19	Amber	0	TBC