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AUDIT COMMITTEE
Friday, 3rd November, 2017

S U P P L E M E N T A R Y P A C K

1.	BUDGET RECOVERY PLAN
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To consider the report of the Portfolio Holder for Finance /Strategic Director Resources.

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CYNGOR SIR POWYS COUNTY COUNCIL

**Cabinet / Management Team
24th October 2017**

REPORT AUTHOR: Jane Thomas, Head of Financial Services

SUBJECT: Deficit Recovery Plan

REPORT FOR: Decision / Discussion

1. Summary

1.1 This report provides an update on the projected financial deficit and sets out a number of options to manage the deficit by year end. The options consider management action to limit expenditure and review spending, a reassessment of the use of reserves and a number of technical changes being developed by finance that could assist in recovering the position.

2. Introduction

2.1 The Council's cabinet monitors the financial performance of the Council on a monthly basis. The monitoring takes the form of a monthly report to the Cabinet which highlights the current month's financial position and the projected end of year position based on that position. The monthly position is made up of performance against the allocated budgets and savings targets. Accordingly at the commencement of the year there is a projected deficit at year-end because the savings will be delivered throughout the year; as such the expectation is that the projected year-end deficit will steadily reduce as the agreed savings are delivered.

2.2 The monthly budget monitoring reports in recent months have shown a mounting deficit position at year-end rather than a reducing one. The projected forecast as at the 30th September 2017 is an over spend of £6.3m.

2.3 In addition the recent CCSIW inspection of Childrens services has further impacted on the Councils Budget with immediate action being required to put in place plans to address the issues raised. These actions will require additional financial support.

2.4 This Deficit Recovery Plan outlines proposals for containing the deficit for the current financial year including the additional emerging financial pressures within Childrens Services.

3. Budget setting for 2017/18

3.1 The development of the budget was undertaken through a series of Cabinet and Management Team sessions, this ensures that proposals being considered are understood and financial pressures identified. To assist in this understanding other processes to assess impact and risk were in place.

3.2 Risk Management

There are a number of risks associated with the budget plans. Risk management is managed on a corporate basis with regular reports to the Strategic Overview Board and Audit Committee. A risk assessment was undertaken for each of the budget savings proposed by service areas. This assessment identified the deliverability of the saving, along with the likely impact to service delivery.

3.3 Budget Savings - The level of savings required in 2017/18 is significant. Any unforeseen delays in implementation will impact on the achievement of the reductions required. Progress on the delivery of agreed savings targets are reported to Cabinet on a monthly basis. Plans within service areas need to be managed robustly in order to limit any underachievement and monthly budget monitoring and savings delivery monitoring ensures Cabinet has visibility of financial performance.

3.4 Risk Assessment of the Budget - Conclusion

Overall, the Council's Budget has no significant capacity to meet unforeseen costs or income shortfalls. Therefore careful monitoring and early corrective action will be essential to keep net expenditure within the approved Budget next year.

It is essential that the significant savings and additional income are delivered, in the event that variances are identified then prompt remedial action will be necessary.

4. September position

4.1 The financial position as at 30th September is on today's Cabinet / Management Team agenda, in readiness for Cabinet on 7th November. The table below shows the directorate over and underspends, a net overspend of £6.3m is forecast (excluding Schools and HRA).

Summary Forecast by Directorate	Total Working Budget	Approved Use To / (From) Reserves	Forecast Spend	Variance (Over) / Under Spend	
	£'000	£'000	£'000	£'000	%
People	70,978	2	77,016	(6,038)	(8.5)
Place	38,429	(8,153)	38,390	39	0.1
Schools	24,499	(227)	25,067	(568)	(2.3)
Resources	18,097	(449)	17,891	206	1.1
Central Activities	12,586	(410)	12,487	99	0.8
Total	164,589	(9,237)	170,851	(6,262)	(3.8)
Housing Revenue Account	0	(49)	0	0	
Schools Delegated	75,390	(1,977)	75,243	147	
Total including HRA and Delegated Schools	239,979	(11,263)	246,094	(6,115)	(2.5)

4.2 There are four service areas of concern, and their overspends are split between unachieved savings and overspends within service delivery as shown in the table below. There is potential that the current position for these particular areas could improve by £833k due to additional savings and the use of grants for core costs. This still suggests a projected overall deficit of £5.4m that needs to be addressed in year.

Service	Current Projected Overspend £'000	Due to Unachieved Savings £'000	Due to Service Overspend £'000	Best Case Projected Overspend £'000
ASC	(2,113)	(918)	(1,195)	(1,600)
Childrens	(3,945)	(1,101)	(2,844)	(3,945)
HTR	(168)	(1,458)	1,290	152
Schools	(568)	(207)	(361)	(568)
Total	(6,794)	(3,684)	(3,110)	(5,961)

- 4.3 ASC - The service are expecting to deliver on saving targets, except for £603k for Reablement. There are also a number of grants that are not being fully utilised for their original intended purpose, we will ensure that grants are maximised and offset core spend as necessary, at this stage assuming around £200k will be offset. The service expect to manage the winter pressures demands within the existing budgets, but this must be highlighted as a risk.
- 4.4 Childrens – There will be reviews of the current Looked After Children that are contributing towards the overspend, for prudence we have not assumed an improved position until there is clarity that these children will have service changes.
- 4.5 In addition the improvement plan for Childrens services is not yet costed. Some resource has been identified but if the requirements impacting on the current financial year exceed the amount set aside then this could have a further significant impact on the Outturn position for 2017/18.
- 4.6 HTR - The service are making inroads into the savings targets, having recently closed the Dole road depot and delivered the LED street lighting changes ahead of schedule, this mitigates the jet patching project, which is likely to achieve its benefits next year. An additional £320k is forecast in year on the efficiency target.
- 4.7 Schools – There is nothing further that can mitigate this position, at this time.

5. Savings delivery

- 5.1 Savings delivery is reported to Heads of Service, Directors and Cabinet on a monthly basis within the financial monitoring report. During the current financial year an additional sensitivity analysis has been introduced to show a range of forecasts, based on the level of confidence in the delivery of the remaining targets. The analysis uses a rating of High, Medium or Low; High being the current forecast position and includes savings already delivered; Medium based on savings with RAG status Amber; and Low, the position if all savings are delivered.
- 5.2 All services must aim to deliver their targets in order to achieve a balanced budget by year end. However, it should be noted that even if all the savings were achieved the current projections for service overspend would still result in an overall deficit budget outturn of £646k.

- 5.3 This approach has highlighted a number of savings that are at increased risk of delivery and further challenge to these service areas does not reduce the concern that these will now fail to be delivered. These are as follows:-

Financial Year	Target £'000	Delivered £'000	Variance £'000
2015/16	1,323	44	1,279
2016/17	841	295	546
2017/18	9,616	5,824	3,792
Total	11,780	6,163	5,616

6. Funding the Gap

- 6.1 It is essential that action is now taken to reduce the level of projected deficit and limit the impact on the Authority's revenue reserves. A number of options can be considered to reduce revenue expenditure from that projected, these include management action and some technical adjustments that can be applied.
- 6.2 The Management of Change budget was put in place to provide funding to support transformation and change costs across the Council, for 2017/18 this budget totals £2.48m. Commitments already approved against this budget for the current financial year are £678k it is therefore proposed that no further bids are considered from this fund and the remaining budget be utilised to support the improvements required within Children Services. The release of any funding will be approved following a clear business case outlining the need and its contribution to the improvement plan with approval authorised by the Section 151 Officer.
- 6.3 Capitalisation directive approved by Welsh Government enables Local Authorities to capitalise transformational costs utilising capital receipts obtained during the financial year. Initially a £2m target was set for capital receipts from both property and county farm disposals, however, a recent decision by Cabinet to suspend declaring any further property from the Farm estate surplus will effectively mean the target for capital receipts will not be met. Capital receipts already received during 2017/18 amount to £329k, and are estimated to rise to £717k by year end. This provides an option to capitalise transformation costs currently funded within revenue budgets which would reduce revenue expenditure.
- 6.4 The use of Capital receipts to fund these costs does have an impact on the overall Capital budget, as borrowing would need to be undertaken to fund the capital schemes to which the capital receipts have been committed. This generates a revenue cost to be funded over a number of years depending on the life of the asset and is a consideration in terms of the impact this has on future financial year in with the requirements of the Well-being of Future Generations (Wales) Act 2015.
- 6.5 It must be noted that capitalisation can only be undertaken to the value of capital receipts actually received in the financial year in which the costs are incurred. Until received we cannot guarantee the release of funding.

- 6.6 Management Action to further mitigate the deficit can also be considered. Budget Managers to review their service need and where possible refrain from all but essential spend, or delay expenditure. Use of skype rather than travelling, delay in purchasing goods and services where appropriate. These actions must be considered and balanced against the impact on the service user or wider population.
- 6.7 It is also important that budget managers undertake their routine financial tasks such as housekeeping, raising of debtor invoices, banking of income, correct application of VAT and payroll administration in a robust and timely way to ensure that the financial data held is as up to date and accurate as possible to enable effective forecasting of the financial position and efficient Treasury Management.
- 6.8 Technical Accounting Options - Finance staff are currently working with advisors to explore potential technical adjustments that could generate revenue savings both for the current financial year and as permanent savings in future years. These include a review of the Balance Sheet, Minimum Revenue Provision policy, Housing Revenue Account (HRA) Pooling arrangements and the financing of the Capital Programme.
- MRP Policy – There are further changes to the MRP policy that would provide both one off and recurrent budget reductions. One of the technical changes that is being considered could provide a one-off immediate saving of c. £652k in the MRP Charge and an ongoing reduction of £48k.
 - Pooled Budgets – in 2015 Powys bought themselves out of the HRA subsidy scheme and set up a single pooled budget arrangement. Scenarios have been modelled to consider the impact of moving to a two pooled budget arrangement, this could potentially mean a greater proportion of the authority's debt being charged to the HRA. Any adjustment would need to be considered to ensure that the change is equitable to the General Fund and affordable by the HRA.
 - Capitalising Revenue Spend – we estimate there is £300k of revenue spend that could be capitalised and funded through borrowing. There is a cost to this approach as the extra borrowing will have an annual interest charges that are incurred over the life of the borrowing.
- 6.9 This technical analysis work will be completed within 3 weeks, any proposed changes may require policy change and will be dealt with within the existing governance arrangements. All proposals will be considered within the budget setting framework as Cabinet form their budget proposal and any benefit for the current financial year will be reported within the monthly financial monitoring reports with the necessary virements submitted for consideration.

7. Reserves

- 7.1 At budget setting for the current financial year the Section 151 Officer concluded that the estimates used in the budget proposal for 2017/18 were adequately robust but that significant risk remains. Based on the assessment of reserves at that time it was concluded that the overall level is adequate but at the lower end of acceptability given the scale of savings required in the future.
- 7.2 The revenue reserves held at the beginning of the year totalled £38.8m, with £8.6m held in the General Reserve and Specific and Ring fenced reserves of £28.4m. The forecast use of these reserves to support the revenue budget during the year, (excluding Schools and HRA) is £9.2m, of which £8m will fund the transport strategy.

- 7.3 Further delivery of savings and other action to mitigate budget overspend, will reduce the draw on the general reserve, which is currently forecast at £6.9m, bringing the projected year end balance to £1.6m.
- 7.4 The projected reserve position based on the current projected level of overspend as provided in Appendix A.
- 7.5 The holding and use of reserves is defined within the reserves policy, The policy defines that the General Fund reserve must be maintained at 3% of net revenue budget (excl Schools and HRA), the projected deficit currently being reported would see that percentage drop to 1%, however the consideration of the Budget Management Reserve in the calculation would maintain the 3% strategy.
- 7.6 A reassessment of reserves will be undertaken as part of this recovery plan as the redirection of some reserves may be necessary to provide a prudent level of general fund reserves. This could include the review of the 21st Century Schools Reserve. This reserve has been funded to cover the cost of 21st Century Schools capital programme this is currently £6.4m. If we utilised £2m of this reserve and switched the funding to borrowing it would cost £78k per annum for 50 years to borrow this over 50 years based on 3% and would free up some of the reserve for one off amounts. The drawback is that we would lose flexibility in funding repairs within the programme for which we cannot undertake borrowing to fund, reserves can be used for this work as they were originally from a revenue source.
- 7.7 All local authority budgets contain risks and the key area of concern within the budget was Adult Social Care, a specific reserve of £2.75m was identified to mitigate that risk. The specific reserve is a key component of the overall budget strategy in order to provide assurance around adequacy of reserves.
- 7.8 The following set off criteria was established upon which the reserve could be accessed.
- The use of the reserve can only be agreed as part of a report to formal cabinet. This can be part of the budget monitoring report so long as there is a clear separate recommendation. Depending on the amount it may also need to go to the following Council Meeting for agreement under the terms of the constitution.
 - Any draw down of the reserve will need to have a business case demonstrating why the funds are needed and why the requirement cannot be met by management action to address the one off pressure or overspend. The business case will have to be signed off by the S151 Officer before it goes to Cabinet.
 - The reserve will be reviewed annually as part of the budget process. This will assess whether the amount is appropriate. If the reserve is no longer required (or reduced) the amount will return to the general fund unless otherwise proposed by the Cabinet as part of the budget policy.
 - Any use of the reserve will not automatically lead to an increase in the service's base budget the following year. In other words the service will first have to explore options to meet the funding that has been drawn down in future years. By doing so the reserve in effect becomes a means of 'smoothing' pressure between financial years.

7.9 Adult Social Care projected expenditure is forecast to exceed budget by £2.1m, although this may be mitigated as explained in 4.3. A business case should be submitted by the service for consideration in order to draw down the reserve.

8. Impact on Future Year Budgets

8.1 Whatever action is considered and actioned to reduce the level of the projected deficit for the current year, it is also critical that we clearly understand the impact of non-delivery of savings and service overspends on the base revenue budget going forward.

8.2 Savings have to be delivered on a permanent basis and services must contain expenditure within cash limited budgets, failure to deliver these outcomes increases the financial pressure on an already challenging financial plan.

8.3 Cabinet have already agreed that the forthcoming budget proposal includes a "Resetting of the Budget" to eliminate persistent underspends and other targets now considered to be unachievable, this will give stability to budget going forward.

9. Options for Consideration

9.1 That the following actions and options are all considered to reduce the level of the projected deficit at year end.

9.2 That the further delivery of savings is progressed and prioritised.

9.3 That a hold is placed on the Management of Change budget for the remainder of the financial year.

9.4 That the Capitalisation directive is explored further, utilising capital receipts for the funding of transformational costs.

9.5 Budget Holders be instructed to review service need and limit or delay revenue spend including vacancy management. Freeze on non essential expenditure.

9.6 Technical financial adjustments be explored and brought forward following the review.

9.7 A reassessment of reserves and their use is carried out to ensure that the level of reserves is maintained at a prudent level.

9.8 That a business case is submitted by Adult Social Care to request the drawn down of the specific reserve.

9.9 Further updates and proposals will be included with the monthly financial monitoring reports to Cabinet.

Summary	Opening Balance (1st April 17) Surplus / (Deficit)	Forecast Addition / (Use) of Reserves	Forecast (Over) / Under Spend	Projected Balance (31st March 18) Surplus/ (Deficit)
	£'000	£'000	£'000	£'000
General Fund	8,585	(678)	(6,262)	1,645
	8,585	(678)	(6,262)	1,645
Ringfenced & Specific Reserves				
Budget Management Reserve	3,484	100		3,584
Specific Reserves	1,902	(180)		1,722
21st Century Schools Reserve	6,297	74		6,371
Regeneration Reserve	100			100
Invest to Save & Corporate Initiatives (incl JE and ASC reserve)	8,050	(562)		7,488
Insurance Reserve	2,394	0		2,394
Transport & Equipment Funding Reserve	6,199	(7,962)		(1,763)
Sub-Total	28,426	(8,530)	0	19,896
Schools Delegated Reserves	486	(2,028)	147	(1,395)
School Loans & Other Items	(494)	51		(443)
Net School Delegated Reserves	(8)	(1,977)	147	(1,838)
Total Ringfenced & Specific Reserves	28,418	(10,507)	147	18,058
Housing Revenue Account	1,761	(78)	0	1,683
	1,761	(78)	0	1,683
Total Revenue Reserves	38,764	(11,263)	(6,115)	21,386