

**CYNGOR SIR POWYS COUNTY COUNCIL.
CABINET EXECUTIVE
20th December 2016**

REPORT AUTHOR: **Jeremy Patterson
Chief Executive**

SUBJECT: **Budget Recovery Plan Incorporating a Financial Outturn
Forecast Update**

REPORT FOR: **Decision / Discussion / Information**

1. Introduction

- 1.1 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.
- 1.2 Unfortunately 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 November is an over spend of £5.6m.
- 1.3 The Cabinet asked the Chief Executive and the Management Team to produce a recovery plan which identifies the reason for the deficit and also outlines proposals to address it.
- 1.4 This Budget Recovery Plan contains both reasons for the deficit and outlines proposals for containing the deficit for this financial year and also suggests a range of actions which if implemented should reduce the risk of similar events happening in future.

2. Budget Setting 2016/17

- 2.1 The Council's budget is set by the County Council at its annual budget meeting. The budget provides details of changes to the annual budget with regard to new responsibilities, grant transfers, funded pressures and identifies the savings required by each service area, it also proposes the level of Council Tax to be set for the year. After debate the proposals are agreed and become the Council's annual budget. As such the spending and savings/income targets for the forthcoming year are known by all. In the current financial climate this is particularly important as budgets are "Cash limited", that is, they should not overspend.
- 2.2 The proposed budget for 2016/17 included recognition of the commitment expressed by Welsh Government in protecting Schools and the Adult Social Service budget. The proposal provided 1.85% level of protection for Schools with £1.273m transferred into the Schools Delegated Budget, and £1.053m allocated to Adult Social Care which represents the same percentage increase in line with the overall increase in funding across Wales.

- 2.3 In order to produce a balanced budget for 2016/17 and future 2 years substantial savings of £29.887m were required and services were targeted with identifying proposals to deliver a 20% reduction in funding over the next three years.
- 2.4 The Cabinet recognised the financial pressure being experienced within Adult Social Care with an increasing demand for services to support Powys' elderly population. As such Adult Social Care were not required to deliver the 20% saving requested of other services however, the Service was required to meet the demographic pressures, inflationary increases and other financial pressures for the 2016/17 financial year. At the time the Service was expected to contribute 5% of its budget as savings in 2017/18 (£2.486m) and 2018/19 (£2.361m) and to deliver the outstanding savings from 2015/16.

3. Projected End of Year Position 31st March 2017

- 3.1 Following the decision of Cabinet to request this report a review of expenditure and savings was undertaken. The projected year-end position for the Council is now an over spend in the region of £5.56m, based on the November forecast. The Deficit is driven by over spending in Adult Social Care, a small over spend in Children's Services and emerging overspends within Schools. There has been concern as to the degree of confidence with the projected figures for Adult Social Care and a significant amount of review and challenge has been made to ensure that the commitments recorded are robust. A summary of the position for each service appears in the table below.

£,000	Forecast as at 30/10/16	Forecast as at 31/11/16	Difference	Comments on Change in Month
Adult & Commissioning	(5,670)	(5,300)	370	Continued staff underspends and case management
Childrens	(462)	(292)	170	Staff slippage & restructure
Housing	10	18	8	
TOTAL PEOPLE	(6,122)	(5,574)	548	
Regen, Property & Commissioning	182	226	44	Forecasting additional income against the plan
Highways, Transport & Recycling (HTR)	(709)	(588)	121	Waste contract reduction, managing trade waste
3rd Party Efficiency	(307)	(312)	(5)	
Leisure & Recreation	93	133	40	R & M Budget savings on new contract
TOTAL PLACE	(741)	(541)	200	
Schools	(139)	(556)	(417)	School Severance pay £320k and Home to School Transport
Resources	44	132	88	
Corporate	842	905	63	
Total	(6,116)	(5,634)	482	

3.2 People Directorate

- 3.2.1 The current projection is that the directorate is to overspend by £5,574k. In summary:
- Children's services are forecast to deliver their savings but are experiencing pressure in their Looked-After Children's budget, this is a volatile area and additional placement costs are difficult to predict. Recent placements have

impacted on the budget although the Service will seek to contain these costs. The savings from a staff re structure will now improve the forecast each month. The 3rd party savings of £105k have not been achieved.

- The Adult Social Care budget is the area of concern for this Directorate and the Council. The overspend forecast at £5,300k is a slight decrease of £370k. Main areas of concern are the increase in demand for care packages. The overspend position and recovery plan is further explained within Section 5.

3.3 Place Directorate

- 3.3.1 The current position for the Directorate shows an over spend of £541k. However it is hoped the delivery of the remaining service savings and the transfer of under and over spends across the Directorate will produce a balanced year end position. Increased planning and design team income provides much of the mitigation, alongside reducing the waste contract and managing trade waste costs.
- 3.3.2 The delivery of the third party savings remains a concern for this and other Directorates, both in this year and 2017/18, but this is referred to in a separate section below.

3.4 Schools Service

- 3.4.1 The service has an increased deficit now of £557k, mainly due to further demand on Home to School Transport (HST) totalling £387k and school severance pay with a forecasted overspend of £319k. This is based on an estimate of future redundancy costs that will be incurred by the Service as part of the efforts by schools to comply with the Council's Scheme for Financing Schools to eliminate deficits and achieve balanced budgets. This expenditure has a direct correlation to the decline in pupil numbers across both primary and secondary schools. These pressures are being mitigated by underspends across other areas of the service the most significant of which relates to centrally held contingencies for schools delegated budgets. Officers are also working to identify small underspends to reduce the deficit and are scrutinising the use of HST.
- 3.4.2 The work on this recovery plan has revealed that the HST budget has been allowed to overspend for a number of years with no corrective action having been requested. This should not have been allowed to happen. As such the current deficit of £587k is a cumulative figure which has increased over the years. The cause of the overspending is the addition of either passengers or routes which have not been budgeted for. Good practice dictates that the position should be reviewed at the end of each financial year.
- 3.4.3 HST has appointed a project officer and their role is to work with the HST Board. They will meet every quarter to review the ideas that the project team have identified to implement/identify efficiencies on the way we deliver the Home to School Transport.

3.5 Resources

- 3.5.1 The Directorate is projecting a surplus of £132k and there are likely to be efficiencies realised by year end to improve this position, which will mitigate the offset of unachieved 3rd party savings allocated to this area.

3.6 Corporate

- 3.6.1 In previous years initiatives put in place within corporate budgets have released funds which have been used to balance the overall budget or provide transfers into reserves, these have included capitalisation directives, policy changes with regard to the Minimum Revenue Provision, underspending on Capital Charges and surplus on Council Tax.

The latter are once again providing underspends projected at £905k which can contribute to the overall budget position.

- 3.6.2 Schools Delegated and the Housing Revenue Account are ring-fenced, the budget position for these areas will be managed within their specific reserves and does not impact on the General Fund.

3.7 3rd Party Savings and PWC Income Targets

- 3.7.1 Savings being delivered by Commercial Service activity are being realised, but these do not necessarily contribute to base line reductions in budgets held by Service departments due to the delegated or ring-fenced nature of certain budgets. With the benefit of hindsight this issue should have been identified at the commencement of the scheme. The table below sets out the original targets which were agreed by the Corporate Commissioning and Procurement Board.

	Target £'000
Adults	373
Childrens	110
Housing	7
Place	369
Change and Governance	68
Resources	195
Communications	1
Total	1,123

- 3.7.2 The actual cost improvement for this activity is in excess of the above target at £1,517k. But many of the savings have been identified as capital grants, HRA and delegated schools services, which cannot be removed from the revenue budget, other improvements are reducing areas of overspend. It has been suggested that the HRA and the schools delegated budget could bear a fee from Commercial servicers associated with support to achieve the saving. In summary, to date, the main split of savings are:

- HRA / Delegated Schools £772k
- Capital and Grants £95k
- Assisting unavoidable spend and mitigating overspends £67k
- Efficiencies spent on other savings £218k
- Useable savings £365k

- 3.7.3 There is limited scope to reduce base budgets due to the reasons stated and there is a serious risk of not achieving these targets. Therefore corrective action should now be taken to ensure the knock-on effect for 2017-18 is fully identified.

- 3.7.4 Delivery of income targets has also been variable, and currently £146k has been delivered against the target of £621k, identified by the work undertaken by PWC. However £110k relates to the carbon reduction tax charge to schools which has been postponed until next year and agreed to be funded from the budget management reserve this year. There is £244k that will definitely not be achieved relating to HTR £140,240, Corporate £50k, and Chief Executives £54k.

Many service areas are mitigating non delivery by other budgets underspends but again the base budget is reliant on these savings being achieved on a permanent basis. A detailed report on Income and the proposed action for next year will be completed shortly.

4. Funding the Gap

- 4.1 Service areas are focusing on delivering their remaining savings and this, together with action to mitigate any budget overspends, will limit the risk of overspend. In addition, the underspend in the Corporate budget will once again assist in reducing the overall deficit. Any remaining overspend will require funding from reserves. The projected reserve position based on the current overspend is provided below.

Summary	Reserves 01/04/16 Surplus/ (Deficit)	Forecast Addition / (Use) of reserves	Projected 31/3/17 Surplus/ (Deficit)
	£`000	£`000	£`000
General Fund	10,285	(1,090)	9,195
Projected Overspend		(5,634)	(5,634)
Projected Overspend - Schools Delegated Other		394	394
	10,285	(6,330)	3,955
Ring-fenced & Specific Reserves			
Budget Managers Reserve	3,984	(610)	3,374
Specific Reserves	1,881	(378)	1,503
21st Century Schools Reserve	6,734	(1,692)	5,042
Invest to Save & Corporate Initiatives (inc. JE)	8,673	(1,195)	7,478
Insurance Reserve	1,965	(23)	1,942
Transport & Equipment Funding Reserve	5,054	(42)	5,012
Sub-Total	28,291	(3,940)	24,351
Schools Delegated Reserves	2,810	(2,082)	728
School Loans & Other Items	(417)	55	(362)
Projected Underspend		30	30
Net School Delegated Reserves	2,393	(1,997)	396
Total Ring-fenced & Specific Reserves	40,969	(12,267)	28,702
Housing Revenue Account	1,385	(384)	1,001
Projected Underspend		58	58
	1,385	(326)	1,059
Total Revenue Reserves	42,354	(12,593)	29,761

- 4.2 An assessment of the reserves held is currently being undertaken as part of the budget process, the redirection of some reserves may be necessary to provide a prudent level of general fund reserves.

5. Adult Social Care (ASC)

5.1 As indicated earlier in this Report Adult Social Care are forecasting an over spend of £5,300k, with only a limited opportunity to recover this position within year although there are opportunities to make significant savings in subsequent years. The deficit consists of a number of elements and these are detailed below. However, when considering the different elements of the deficit it is important to note two of the Council's Budget Protocols.

- Firstly, undelivered savings in any one year are transferred into the subsequent year and will remain as a deficit until delivered.
- Secondly, budgets are cash limited. This means that budgets cannot be exceeded or overspent. If, at the start of the year overspending is likely, corrective action should be taken in the form of savings elsewhere within the budget to compensate for the over expenditure.

5.2 The deficit can be broken down into sub headings as follows:

- Opening deficits -£1,990k
- In year overspends -£3,400k
- In year underspends £840k
- Unachieved efficiencies/savings -£750k

5.3 2016/17 Opening Budget

5.3.1 ASC commenced the year with a number of deficit budgets from the previous year together with a number of known pressures. These totals were partly helped through the allocation of an additional £1.053m provided to the service in the Council's Budget for 2016/17, but there was still a gap of £1,990k which needed to be addressed:

Opening Budget Detail	Amount £'000
Bringing home care back in house	730
Home care demand – full year effect (FYE) of 2015/16 overspend	470
Learning Disability (LD) Independent Residential Care (IRC)	440
IRC demand in 2015/16 – FYE & intermediate care beds no longer funded from Welsh Government Grant - Intermediate Care Fund	1,400
Budget Setting funding	(1,050)
Total	1,990

5.4 2016/17 In year Overspend

5.4.1 The in-year overspend is estimated at £3,400k and most of this will have an impact on the base budget for 2017/18.

In Year Overspend Detail	Amount £'000
Living wage – this is to Period 7, others still being negotiated	260
Reduced income - regulatory changes on charging for respite care	100
5% top slicing of the Independent Living Fund monies that were transferred	58
1% pay increase and two tier pension that was not given to fund employee cost	768
55 additional places for respite & IRC placements for older & physical disability	479

4 additional IRC placement for mental health	230
IRC LD placements – additional 11, in the main transitions	760
Increase of 1,000 hours in year, includes hours transferred from in-house	700
Day centres cost of building works.	45
Total	3,400

5.5 2016/17 In year underspends/savings

5.5.1 There are a number of in year underspends/savings that reduce the impact of the deficits totalling £840k. These are identified because they may form the basis for possible permanent reductions through the efficiency tracker from 2017/18. This possibility would mean a reduction in substantive posts and a decision not to back fill with agency.

In Year Underspend Detail	Amount £'000
Support Staff slippage	320
Reablement staff slippage and travel	200
Day and Employment staff slippage	180
LD staff slippage	70
MH staff slippage	70
Total	840

5.6 2016/17 Efficiencies

5.6.1 In addition to looking at underspends a number of additional in-year efficiencies for 2016/17 have been identified which amount to £750k in total and work has commenced to ensure they are delivered in full. They are listed in the table below:

- An independent practitioner has commenced reviewing the high cost placements and a £30k reduction has been realised, with further reductions awaiting processing.
- Letters have been sent to Direct Payment recipients and training is planned for additional resource to increase capacity which will commence the auditing accounts.

Efficiencies Detail	Original £'000	Deliverable £'000	Undeliverable £'000
Day Centres	450		450
Home Care – reduce reliance at the front door and divert to other community services	100	100	
Direct payment claw back from unused monies held by service users	200	200	
Mental Health review current high cost placements	45	45	
IRC LD review high cost placements	150	150	
3 rd Party payments	373		373
Home Care Right Sizing – accelerate	255	255	

reablement referrals to reduce reliance on home care			
Total	1,573	750	823

5.7 Growth Pressures in 2017/18

5.7.1 In order to set the 2017/18 budget it is clear that the significant financial risk associated with Adult Services will have to be addressed. The potential financial requirement could be as great as £10.4m based on information provided by the Service. A detailed draft of the Finance Resource Model (FRM) is currently being discussed with the service. The pressures arise from demography, unachieved savings and known financial pressures that have not, to date, had an accompanying financial plan. At this stage it is important to stress that the identified areas have not been subject to detailed assessment or scrutiny. The position is broken down into the following headings:

	£'000
Service pressures 2015/16 impacting on 2017/18	1,990
Service pressures 2016/17 impacting on 2017/18	1,480
In year overspends 2016/17 impacting on 2017/18	2,540
Undelivered efficiencies 2015/16 and 2016/17	1,320
Service pressures 2017/18	2,510
Demographic growth	3,250
Less savings (includes £482k from efficiencies)	-2,690
Total	£10,400

5.7.2 Given the timing in the budget cycle, the gap cannot, even if feasible, be met from further deeper budget savings in other council services already facing unprecedented savings requirements. In order to deliver a sustainable Adult Services function that is both affordable and effective a complete review of the Service will be required. The review will need to be a corporate initiative and need to address both financial and cultural/behavioural issues within the service/council and the wider stakeholder community; one of the drivers of the overspend is the failure to deliver agreed savings targets. .

5.7.3 There is also danger that unless the whole service including its base budget is reviewed the Council will not be able to produce a sustainable service in the long-term. This is because although the service environment has changed quite dramatically in recent years the allocation of budgets and approach to service delivery has not significantly changed. To merely meet the forecast growth on current approaches may not represent best value.

5.7.4 The outcome of the review will be a revised Transformation and Financial Strategy for the Service which will need to be closely linked to the emerging Health and Care Strategy which is being jointly produced with the Powys Teaching Health Board. The Service have commenced work on a Vision of Adult Social Care to 2021, which focuses on transformation within a strategic and legislative agenda, and will include budget modelling that shapes the financial strategy.

5.7.5 The only way to address the 2017/18 budget risk is to require some further adjustments to create capacity in the Adult Services base budget. Even this will not close the potential worse case gap of £10.4m and therefore further measures are required to ensure the 2017/18 budget can be set. The approach would see a combination of permanent base budget and reserve capacity to be drawn down in the year based on agreed criteria to meet emerging financial pressure. This will need to be undertaken in conjunction with the Review and if this is to work there must be greater financial discipline, financial support and a robust financial improvement plan backed up by clear and agreed savings plans.

5.8 Proposed Approach

5.8.1 Within the budget framework Cabinet have identified three key areas of priority (household waste sites, day centres and leisure centres). All other areas are open to review, which could realise £4.85m in additional base budget for 2017/18 and further refinements in 2018/19.

5.8.2 A further review of revenue reserves should yield approximately £2m for transfer to a specific Adults Services reserve. This would only be released when assessed against specific criteria.

5.8.3 The above would create £4.85m base budget and £2m reserve capacity. This is still short of the worst case figure of £10.4m but as this is a worst case position it is reasonable to assess that the requirement will be between this figure and the sum identified of £6.85m.

5.8.4 The potential gap will need to be addressed through the Vision of Adult Social Care to 2021 document, which focuses on transformation within a strategic and legislative agenda, the service have a 31st January deadline to complete the first draft. The pending document must not just be listed they must be fully explained and tested.

5.9 2017/18 and Beyond - Scope for further saving in the delivery of services

5.9.1 The original efficiency target for ASC was £1,589k, which has been reviewed by independent consultants and replaced by a more challenging £2,208k target. The Service have taken full ownership for the delivering the targets and already drafted business cases. The resourcing to ensure the delivery of these savings is critical and must be properly planned by the service. The full three year detail is shown below.

Saving Plan	2017/18 £'000	2018/19 £'000	2019/20 £'000
Community Care - Support individuals through use of direct payments, to support outcome focused care plans	175	268	
Older People - Reduce admissions by 10% in IRC	298	299	
Older People - Reduction in length of stay in residential care from 847 to 730 days			303
Home Care - Right sizing of packages - accelerate referrals and 42% reduction in hours	604	511	
Day Care – Development of hubs to support outcome focused activities and respite	151		
LD IRC - high cost placements - right sizing high cost packages and bring back into community living	350	150	
LD Supported tenancies - reprofile packages for 10%	150	200	150

efficiency and remodel profile			
LD Day and employment - 15% of £3.2m budget remodel to direct payments and review those having support, will include staff reductions	480		
Total	2,208	1,428	453

5.9.2 Alongside delivery of these targets, the service will also review its area of underspend, especially on staffing, and utilise these for conversion into permanent reductions, in part already anticipated through the efficiency targets.

5.9.3 ASC have to ensure they put resource in place to deliver their revised efficiency plan and address the cultural and behavioural issues which underpin many of the savings. The service has drafted a qualitative tracker, to be monitored alongside the efficiency tracker.

Activity
Practitioners - Cultural Change Programme
Devolving budgets to lowest levels to ensure strong ownership / management is embedded
Financial training for Team Leaders
Removing out of panel spend - there needs to be this capability so that the service is responsive in an emergency, but spend is ratified then through panel retrospectively
Panel requests are all fully costed (ready reckoner) and panel minutes have a complete picture of spend each week
Two panel structure - managing demand - single point of access
Practitioners - Right Sizing Training
Use of Vanguard / Alder upskill Social Workers to use community resources and reduce the need for statutory support
Upskill Social Workers on Continuing Health Care processes and effect challenge maximise health contributions to the best interest of service users
Use of 8 Area Coordinators to reduce numbers through front door - % increase on Direct Payments and reduce home care etc.
Improve transition planning and reduce expectation of carers for LD clients
Better use of assistive technology to reduce sleep in carers
Finance / Contracts / Business Support Unit
Review end to end process for clients in/out of system and how paperwork is processed, including deaths, revisions, new clients and income maximisation
Housekeeping of system and removal of unused and duplicate packages
Revised management information / reports for managers at all levels.

6 The Way Forward

6.1 The Council in recent years has had a good record of delivering savings; since 2012 savings of £53m have had to be delivered, with an additional £10m for the current year targeted. However, the easier savings have now been taken and successful savings

delivery is now dependent upon changing modes and patterns of delivery and workforce behaviours.

6.2 Despite the daunting target for this financial year and the subsequent two years delivery by services has been good apart from ASC. At the outset it must be acknowledged that there are considerable pressures on ASC services as a result of the growing elderly population and due to regulatory changes. However, the production of this Report has highlighted a number of weaknesses and learning points which must be addressed. These form the basis of the recommendations appearing below.

- **A full Transformation Plan must be delivered through completion of the Vision of Adult Social Care to 2021**, this focuses on transformation within a strategic and legislative agenda, and will include budget modelling that shapes the financial strategy. A first draft will be delivered by 31st January **2017**. The Vision must be linked to the MTFs and thus be for at least a 3 year period and cover the complete budget, fully identify and cost both savings and growth pressures and clearly articulate how and when they will be delivered or met (in the case of growth pressures). The Vision must be informed by a review of the base budget for ASC and also incorporate a rigorous examination of growth pressures and address issues of culture and behaviour within the Service. It is important that the Strategy goes beyond merely re-producing financial data and it makes the strategic links between the individual activities to produce a comprehensive picture of improvement, integration and financial management. It is also recommended that this approach is adopted for all services, but ASC is the priority.
- **A review of all business cases for current savings proposals and the production of business cases for all future savings activities.** This approach will test deliverability and strategic alignment and thus support the production of the overall financial strategy for the Service.
- **Immediate review and reduction of care and financial systems and processes.** The investigation of the reasons for the over-spending within ASC and the production of this Report have revealed that there are still multiple systems and processes in existence. These lead to delay, complexity, confusion and cost. Their rationalisation will improve financial reporting and budget accountability and produce financial savings.
- **Increase in financial expertise and capacity available to the service.** The need to increase management accounting and strategic capacity and capability across the Council had previously been identified as a priority. There is also a need to ensure that where it is evident that budget protocols are not being adhered to escalatory action is taken.
- **Bespoke financial and system training for all managers within ASC and other budget holders.** Feedback from a number of sources has identified a lack of understanding and ownership of financial and budget issues across many Services. The Council must take positive action to address this and to support managers within the Services.
- **Review of change/management capacity within ASC.** The Council has made additional resources available to the Service to support change and savings activity. An assessment must be undertaken to ascertain whether this resource has been adequately deployed and whether or not further resources are needed.

- **Development and delivery of a scrutiny programme.** The implementation of the recommendations above need to be subject to review and scrutiny to ensure their effective implementation.
- **An updated Income Register** is presented to cabinet with an action plan to mitigate the impact of any shortfalls in 2017/18.

Recommendation:	Reason for Recommendation:
That: <ol style="list-style-type: none"> The contents of this report are noted by Cabinet The recommendations set out in section 6 as “The Way Forward” are agreed, and a detailed action plan is presented to Cabinet following input from the Audit/Finance Scrutiny Panel. All services must focus on delivering their savings to mitigate budget overspends, with any remaining overspend at year end to be funded from the general reserve. 	To ensure the financial position in 2017/18 is delivered within budget throughout the financial year and adequate time is given to ASC to develop and change its model of service delivery

Relevant Policy (ies):	Financial Regulations		
Within Policy:	Yes	Within Budget:	n/a

Relevant Local Member(s):	
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Person(s) To Implement Decision:	Jane Thomas
Date By When Decision To Be Implemented:	

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