

9th October 2018**REPORT AUTHOR:** County Councillor Aled Davies

Portfolio Holder for Finance

SUBJECT: Financial Overview and Forecast as at 31st August 2018

REPORT FOR: Decision / Discussion / Information

1. Summary

- 1.1 This report provides an update on the projected revenue spend against budget for the 2018/19 financial year and reflects the position as at 31st August 2018, it provides an early indication of the 2018/19 full year financial forecast.
- 1.2 The revenue expenditure outturn against budget is projected to be £5.8m over budget, this is based on savings achieved to date but also reflects assurance that further savings will be achieved in year.
- 1.3 The position has deteriorated to that reported for July as expenditure in Social Service provision is projected to increase further.
- 1.4 Action is already underway to reduce the projected deficit and if necessary fund any final shortfall with the following being considered:-
- A detailed review of all budget headings to identify areas of underspending or higher than expected levels of income, delegated authority is given to the Section 151 Officer in consultation with the Portfolio Holder for Finance to freeze or realign these budgets for the remainder of this financial year. (As agreed in the July report).
 - A review of staff vacancies.
 - The capitalisation of transformational costs.
 - The identification of alternative reserve funding to limit the impact on the General Fund Reserve.
- 1.5 The impact of these actions will be reflected in next month's report.
- 1.6 Savings of £4.997m (£4.588m July) have been delivered to date, 41% (37% July) of the total £12.296m required, with £7.708m yet to be achieved.
- 1.7 The report has been prepared on an exceptions basis, using actual variance against budget to define the RAG (Red, Amber, Green and Blue) status of the services' financial position. The report only highlights those service areas where projections are forecast to exceed the budget provided, or services that have a significant degree of financial risk on the Council, and where corrective action must be taken to ensure a balanced year end budget, and mitigate any risk for future years.

2 Revenue Position

- 2.1 The revenue forecast is summarised in the table below, expenditure is projected to exceed the budget by £7.917m (July £7.504m), excluding Housing Revenue Account (HRA) and Delegated Schools. It is important to note that this position is reported based on the current delivery of efficiency savings and does not reflect those that remain to be achieved, we maintain this approach to ensure a prudent position. This position is likely to improve as the year progresses.
- 2.2 To counter this prudent approach and better predict the year-end position, this year's reporting also provides a forecast based on the expected delivery of savings. This is only included following assurance from Directors that savings will be achieved or that alternative means of delivery are identified and realistic.
- 2.3 On this basis the projected position will be an overspend of £5.804m (July £4.917m) against the approved budget.
- 2.4 Both projections are included in the table below.

Summary Forecast by Directorate	Total Working Budget	Forecast Spend	Variance (Over) / Under Spend		Variance including expected savings delivery	
	£'000	£'000	£'000	%	£'000	%
Social Services	84,348	89,043	(4,695)	(6)	(4,134)	(5)
Environment	30,680	32,533	(1,853)	(6)	(408)	(1)
Schools	36,073	36,110	(37)	(0)	70	(0.2)
Resources	18,138	18,167	(29)	(0)	(29)	(0.1)
Central Activities	2,478	3,781	(1,303)	(53)	(1,303)	(52)
Total	171,717	179,634	(7,917)	(5)	(5,804)	(3.4)
Housing Revenue Account (HRA)	0	(8)	8		2	
Schools Delegated	75,287	75,487	(200)	(0)	(19)	(0)
Total including HRA and Delegated Schools	247,004	255,113	(8,109)	(3)	(5,821)	(2)

- 2.5 The table in Appendix A details the forecast spend by Service, against approved working budget and shows the projected position on both savings delivery and service performance.

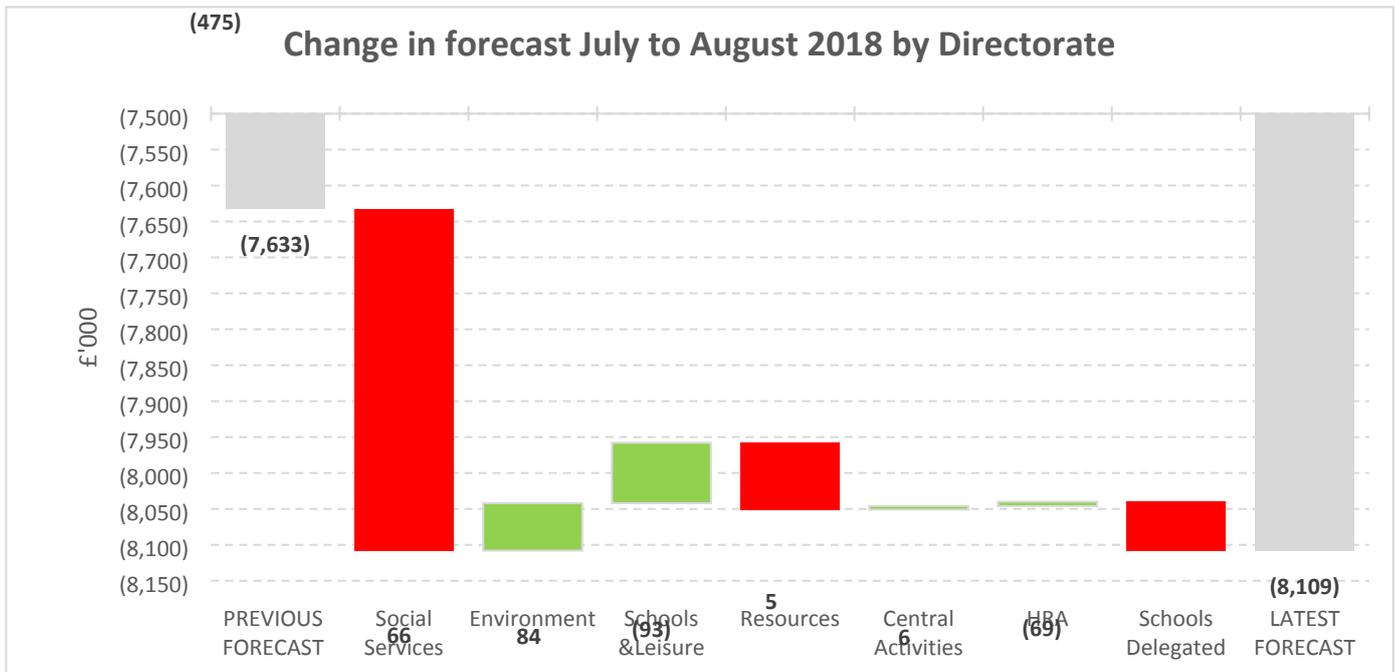
3 Reserves

- 3.1 The total revenue reserves held at 1 April 2018, together with the forecast addition/(use) of reserves during the year and the projected year end balances, as at 31st August, are set out in the table in Appendix C. The revenue reserves held at the beginning of the year totalled £40.3m, with £9.7m held in the General Reserve and Specific and Ring fenced reserves of £27.4m. The planned use of reserves to support the overall revenue budget during the year (excluding Schools and HRA) is £10.1m.

3.2 Based on the projections included in this report the overspend position would be financed from the General Fund Reserve. With the assurance around the delivery of savings the impact on the General fund would be £5.804m, reducing the balance to £3.886m this would then represent 2.3% of the total net revenue budget (excluding Schools and HRA) or 4.3% when including the budget management reserve. This revised position would be in line with the policy set.

4 Revenue Forecast

4.1 The graph below shows the change in forecast, from that reported at the end of July to the projected forecast position as at 31st August by Directorate, including HRA and Delegated Schools:



4.2 RAG status has been applied to service variance based on the categories below, and those with a variance calculated as “red” have been explained in more detail below.

- **Red** Overspend above 2%
- **Amber** Overspend of 1-2%
- **Green** +/- 1%
- **Blue** Underspend above 1%

Service Area	Net Budget	Forecast Spend	Variance (Over) / Under spend	Variance (Over) / Under spend as a % of Net Budget	Variance RAGB status
	£'000	£'000	£'000	%	
Children Services	18,513	24,056	(5,543)	(30)	R

Costs within Children services has increased by £267k since that reported in July, expenditure for the year is now projected to be £5.543m more than the budget allocated.

The appropriate workforce establishment has been agreed and although funding for this is accommodated within the service budget, many posts are being covered by agency staff at a higher cost per post. The projected position includes the continuation of agency staff through to the end of this financial year, at a current cost of £14.5k per day. There are currently 24.1 Fte's over the agreed establishment.

The predicted spend on Looked after Children (LAC) continues to be higher than the budget allocated due to the increased number of placements currently 232, this represents a pressure of £3.078m and additional £304k during the month. Fluctuations in demand and levels of complexity make it a very high risk area which is difficult to forecast.

The forecast position also reflects £2.208m of undelivered efficiencies that remain in the base budget. Cabinet are reviewing this position as part of their budget setting for 2019/20.

There are a number of risks that may further impact the financial position, these include:-

- Additional costs backdated in respect of 'Sleepins' following the outcome of a judicial review
- Holiday pay liability for relief staff at Golwg y Bannau/Camlas
- Legal costs – baseline budget has already been utilised

Service Area	Net Budget	Forecast Spend	Variance (Over) / Under spend	Variance (Over) / Under spend as a % of Net Budget	Variance BRAG status
	£'000	£'000	£'000	%	
Highways, Transport & Recycling (HTR)	21,252	23,287	(2,035)	(10)	R

The overspend in this area has reduced slightly to that reported in July by £30k. Unachieved savings at this point in the year total £1.4m and are the main reason for the projected position.

The service is also forecasting overspends against some areas of budget:-

- Training cost spend is currently projected to exceed budget by £79k, this is now being reviewed to re-align costs back to the budget.
- Trade Waste collection and Domestic Waste are forecast to overspend by £215k and £185k respectively, due to a forecast reduction in income from Trade Waste and continuing increased fuel costs for domestic waste vehicles.
- An increase in the usage of materials within the fleet workshops and a shortfall in income due to the transfer of vehicles to HOWPS no longer maintained in-house, resulting in a forecast overspend at year end of £300k.
- These over spends are reduced by an under spend of £110k on Waste Contracts, due to increased income from sale of recyclable material and lower than budgeted spend on Landfill Tax.

The revised forecast based on the expected delivery of savings and other service factors shows that the position will be improved by year end with a forecast overspend reduced to approximately £400k.

Service Area	Net Budget	Forecast Spend	Variance (Over) / Under spend	Variance (Over) / Under spend as a % of Net Budget	Variance BRAG status
	£'000	£'000	£'000	%	
Workforce, OD and Comms	2,433	2,550	(117)	(5)	R

The position within Workforce, OD and Comms remains the same, with unachieved savings of £144k being the main reason for the overspend in this area. The saving is to be found from a new service delivery model and a review of all corporate budget headings. However, no plans are currently in place to deliver this.

Service Area	Net Budget	Forecast Spend	Variance (Over) / Under spend	Variance (Over) / Under spend as a % of Net Budget	Variance BRAG status
	£'000	£'000	£'000	%	
Central Activities	2,478	3,781	(1,303)	(52)	R

The position within this area remains as previously forecast with the Council Tax surplus projected at £700k. The £1.7m saving for third party spend and additional income remains a pressure on the current year's budget. Additional income is being generated but is included in service specific proposals, this pressure will be removed as part of next year's budget plan.

4.3 Other Service areas which are not RAG status RED but due to a high level of scrutiny, further information is also provided below.

Service Area	Net Budget	Forecast Spend	Variance (Over) / Under spend	Variance (Over) / Under spend as a % of Net Budget	Variance BRAG status
	£'000	£'000	£'000	%	
Adult Social Care	65,835	64,987	848	1.3	B

The forecast underspend position within Adult Social Care has reduced by a further £208k from July with a year end position as at the end of August projected at £848k. However, the Service continue to deliver on their savings programme with an additional £362k achieved during the month. Savings of £871k or 61% have been achieved to date. £1.389m of the original £2.2m investment still remains to be allocated to Service budget headings, this will only be released on presentation of business cases which satisfy criteria set out by full council.

The forecast does not account for future demography, learning disability transitions, contractual agreements including uplifts or winter pressures. In addition, the liability associated with the

recent judicial review relating to the payment of the National Living Wage in respect of “Sleep-ins” is still being calculated for the in-house service and legal direction has been sought re external providers.

Schools Delegated	75,287	75,487	(200)	(0.27)	G
--------------------------	---------------	---------------	--------------	---------------	----------

The BRAG rating of Green reflects the projected outturn against budget plans submitted by the Schools. These plans include a significant draw on their delegated reserves.

Budget plans across the primary sector expect to draw a net £478k from reserves, a £140k increase on that reported at the end of July, £61k in the Special sector. This will be updated monthly going forward.

Budget Plans and forecasts received for Secondary schools are projecting a net £1.2m in year draw from reserves.

In line with the Scheme for Financing schools, Secondary Schools are required to submit monthly forecast end of year projections, and if not received will be notified of the failure to comply with the scheme, continued non-compliance will result in a notice of concern.

Recovery plans have been requested by the end of September for all schools with unlicensed deficit budgets.

Schools Services	27,285	27,434	(149)	(0.55)	G
-------------------------	---------------	---------------	--------------	---------------	----------

The significant variances within the Schools Service are detailed below:

Schools Improvement – further improvement has been realised in this area but a forecast overspend of £49k is still expected, this is mainly due to unachieved savings in respect of the change in admission age and the transformation of the 3 year plus provision. Alternative delivery options are being considered by the Service.

Home to School Transport – the forecast position remains the same with an overspend of £147k projected, not including any re-tender price changes. The forecast includes unachieved savings of £81k and a projected overspend of £80k in respect of 14-19 provision as previously reported.

The centrally retained provision for supply costs projected overspend has reduced to £89k, this is due to ongoing supply commitments, further work is required to determine when the projected costs will cease.

Schools delegated central – expenditure is projected to exceed budget by £193k and is due to an over commitment on the contingency for class size protection provided to schools and £120k unachieved saving relating to small school closures.

These overspends are being offset by an underspend of £408k within the Special other budget this is mainly due to increased income for inter-authority recoupment.

5 Savings

5.1 The table below summarises the delivery of the savings including those that remained undelivered in prior years; £5m or 41% (July £4.6m or 37%) has been delivered. For prudence the forecast includes savings that have been achieved or have progressed to a

point
final
taking
does not
that are
being realised.

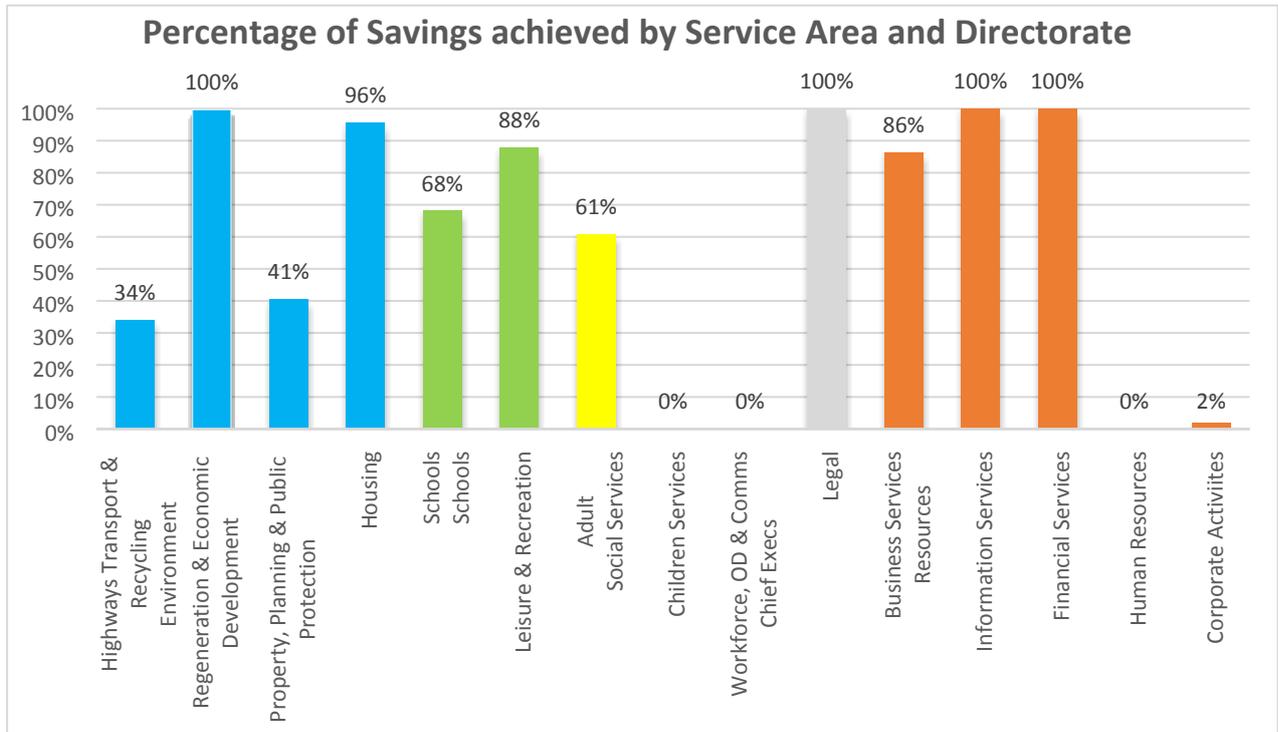
	Target £'000	Delivered £'000	Variance £'000
2015/16	1,157	77	1,080
2016/17	321	0	321
2017/18	1,975	351	1,624
2018/19	8,843	4,569	4,274
Total	12,296	4,997	7,299

where there is confidence in delivery place. It reflect expectations not currently

5.2 Further analysis of the savings showing the RAG status by Directorate is provided in the table below. Further detail by Service area can be found in Appendix B.

UPDATE ON DELIVERY OF SAVINGS PROPOSALS BY RAG				
Directorate	RED	AMBER	GREEN	TOTAL UNACHIEVED SAVINGS AS AT 31ST AUGUST 2018
	£'000	£'000	£'000	£'000
Social Services	2,298	550	11	2,859
Environment	0	1,632	0	1,632
Schools & Leisure	504	87	0	591
Resources	2,013	97	0	2,111
Chief Executives	107	0	0	107
Total	4,922	2,366	11	7,299

5.3 The graph below shows the percentage of savings achieved to date by Service Area and Directorate.



6 Virements and Grants for Approval

6.1 To accept £103.3k from the Regional Additional Learning Needs Transformation Grant, to support the implementation of the Additional Learning Needs and Education Tribunal (Wales) Act 2018 and the Welsh Government Transformation Programme.

7 Options Considered/Available

No alternative options are considered appropriate as a result of this report.

8 Preferred Choice and Reasons

None to consider.

9 Impact Assessment

Is an impact assessment required? Yes/No

10 Corporate Improvement Plan

To achieve the Corporate Improvement Plan (CIP) objectives the Council undertakes forward planning with its medium term financial strategy (MTFS) - this sets out the financial requirements to deliver the short and longer term council vision. These capital and revenue monitoring reports are used to ensure the funding identified to deliver the council priorities is spent appropriately and remains within a cash limited budget.

11 Local Member(s)

This report relates to all service areas across the whole County.

12 Other Front Line Services

This report relates to all service areas across the whole County.

13 Communications

Budget information is of interest to internal and external audiences and regular updates are provided by the Portfolio Holder for Finance. Detailed finance reports are presented to Heads of Service, Cabinet and the Audit Committee. These reports are public and are part of a range of statutory and non-statutory financial information documents including the Statement of Accounts.

14 Support Services (Legal, Finance, HR, ICT, BPU)

This report has no specific impact on support services other than reporting on those service areas financial outturns. Financial Services work closely with all service areas in monitoring financial performance against budgets.

15 Scrutiny

Has this report been scrutinised? Yes / No

16 Data Protection

If the proposal involves the processing of personal data then the Data Protection Officer must be consulted and their comments set out below.

17 Statutory Officers

The Head of Financial Services (Deputy Section 151 Officer) has provided the following comment:

The projected position continues to report an increasing level of projected expenditure from that reported previously and although some assurance has been provided that savings for some Directorates will be delivered the overall position remains in an overspend position.

The Council has made a significant level of investment into social care services in Powys. The additional funding provided budget to support the increased level of demand experienced in both service areas and also funded the detailed plans for improvement. Demand within Children's services continues and placement costs are already exceeding the increased level of budget. This continues to be an area of financial risk for the Council.

Assurance received that further savings will be delivered is reassuring, however the outstanding savings removed from the base budget within children's services remain an issue, further consideration of these will to be taken through the budget process, any change in this requirement will add to the savings gap for 2019/20.

The council needs to address the projected deficit and deliver an outturn more in line with the approved budget. The actions being considered to deliver an improved position will limit the impact on the general fund reserve.

School budgets particularly those within the secondary sector, remain a risk that needs to be addressed, compliance work and action is crucial to ensure that this is managed effectively.

The Monitoring Officer has no specific concerns with this report.

17 **Members' Interests**

The Monitoring Officer is not aware of any specific interests that may arise in relation to this report. If Members have an interest, they should declare it at the start of the meeting and complete the relevant notification form.

Recommendation:		Reason for Recommendation:	
<p>a. The contents of this report are noted</p> <p>b. Acceptance of the grant detailed in para 6.1</p>		<p>To monitor the council's financial performance and ensure that spending remains within approved limits and that the 3% minimum general fund reserve is maintained.</p>	
Relevant Policy (ies):		Financial Regulations	
Within policy:	Yes	Within Budget:	n/a
Relevant Local Member(s):			
Person(s) To Implement Decision:		Jane Thomas	
Date By When Decision To Be Implemented:		Ongoing	
Contact Officer	Tel	E mail	
Jane Thomas	01597 827789	jane.thomas@powys.gov.uk	

Forecast Outturn and Undelivered Savings as at 31st August 2018

Service Area	Net Budget	Forecast Spend	Variance (Over) / Under spend	Total Unachieved Savings as at 31st August 2018	Service Under/(Over) spend excl. unachieved savings	Variance (Over) / Under spend as a % of Net Budget	Variance BRAG status
		£'000	£'000	£'000	£'000	%	
Social Services							
Adult & Commissioning	65,835	64,987	848	(561)	1,409	1.3	B
Children Services	18,513	24,056	(5,543)	(2,298)	(3,245)	(29.9)	R
Environment							
Regeneration	1,392	1,331	61	0	61	4.4	B
Property Planning and Public Protection	7,089	6,975	114	(180)	294	1.6	B
Housing General Fund	947	940	7	(4)	11	0.7	G
Highways, Transport & Recycling	21,252	23,287	(2,035)	(1,448)	(587)	(9.6)	R
Schools							
Schools Service	27,285	27,434	(149)	(504)	355	(0.5)	G
Leisure & Recreation	8,788	8,676	112	(87)	199	1.3	B
Resources							
Business Services	6,626	6,604	22	(97)	119	0.3	G
Information Services	4,121	4,119	2	0	2	0.0	G
Legal Services	3,066	3,023	43	0	43	1.4	B
Financial Services	1,892	1,871	21	0	21	1.1	B
Workforce, OD and Comms	2,433	2,550	(117)	(157)	40	(4.8)	R
Service Area Totals	169,239	175,853	(6,614)	(5,336)	(1,278)	(3.9)	
Central Activities	2,478	3,781	(1,303)	(1,963)	660	(52.6)	R
Total	171,717	179,634	(7,917)	(7,299)	(618)	(4.6)	
Housing Revenue Account (HRA)	0	(8)	8	0	8	0.0	G
Schools Delegated	75,287	75,487	(200)	0	(200)	(0.3)	G
Total including HRA	247,004	255,113	(8,109)	(7,299)	(810)	(7,299)	

EFFICIENCY TRACKER AS AT 31st AUGUST 2018

APPENDIX B

Efficiency / Saving	2015/16	2016/17	2017/18	2018/19	Total to be Achieved 18/19	Total Achieved to Date	Remainder to find	Achieved
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	%
Environment								
Highways Transport & Recycling	0	0	270	1,923	2,194	746	1,448	34%
Regeneration & Economic Development	0	0	0	100	100	100	0	100%
Property, Planning & Public Protection	0	0	31	272	303	123	180	41%
Housing	0	0	0	86	86	82	4	96%
Environment	0	0	302	2,381	2,683	1,051	1,632	39%
Schools								
Schools	158	0	49	1,376	1,583	1,079	504	68%
Leisure & Recreation	0	0	0	709	709	623	87	88%
Schools	158	0	49	2,085	2,292	1,701	591	74%
Social Services								
Adult	0	0	0	1,432	1,432	871	561	61%
Children Services	0	1	1,101	1,197	2,298	0	2,298	0%
Social Services	0	1	1,101	2,629	3,730	871	2,859	23%
Chief Executives								
Workforce, OD & Comms	0	0	0	107	107	0	107	0%
Legal	0	0	0	61	61	61	0	100%
Chief Executives	0	0	0	168	168	61	107	37%
Resources								
Business Services	0	0	92	623	715	618	97	86%
Information Services	0	0	32	323	354	354	0	100%
Financial Services	0	0	0	303	303	303	0	100%
Human Resources	0	0	0	50	50	0	50	0%
Corporate Activities	999	320	400	281	2,001	38	1,963	2%
Resources	999	320	524	1,580	3,424	1,313	2,111	38%
Grand Total	1,157	321	1,975	8,843	12,296	4,997	7,299	41%

RESERVES BALANCES AS AT 31ST AUGUST

APPENDIX C

Summary	Opening Balance (1st April 18) Surplus / (Deficit)	Forecast Addition / (Use) of Reserves	Forecast (Over) / Under Spend	Projected Balance (31st March 19) Surplus/ (Deficit)
	£'000	£'000	£'000	£'000
General Fund	9,680	10	(5,804)	3,886
	9,680	10	(5,804)	3,886
Ringfenced & Specific Reserves				
Budget Management Reserve	3,584	0		3,584
Specific Reserves	2,356	50		2,406
21st Century Schools Reserve	5,524	(5,000)		524
Adult Services Reserve	2,750	(2,004)		746
Regeneration Reserve	100	(100)		0
HOWPS	185	(137)		48
Mid Wales Growth Fund	150	0		150
Highways Reserve	57	(57)		0
Invest to Save & Corporate Initiatives (inc J	5,830	(850)		4,980
Insurance Reserve	1,587	0		1,587
Transport & Equipment Funding Reserve	6,163	(2,071)		4,092
Sub-Total	28,286	(10,169)	0	18,117
Schools Delegated Reserves	(693)	(1,642)	(200)	(2,535)
School Loans & Other Items	(185)	7		(178)
Net School Delegated Reserves	(878)	(1,635)	(200)	(2,713)
Total Ringfenced & Specific Reserves	27,408	(11,804)	(200)	15,404
Housing Revenue Account	3,267	212	8	3,487
	3,267	212	8	3,487
Total Revenue Reserves	40,355	(11,582)	(5,996)	22,777

This page is intentionally left blank