

**CYNGOR SIR POWYS COUNTY COUNCIL**

**CABINET EXECUTIVE**

**12<sup>th</sup> February 2019**

**REPORT AUTHOR: County Councillor Aled Davies**

**Portfolio Holder for Finance**

**SUBJECT: Financial Overview and Forecast as at 31<sup>st</sup> December 2018**

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

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**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 31<sup>st</sup> December 2018, it provides an indication of the 2018/19 full year financial forecast.
- 1.2 The revenue expenditure outturn against budget is now projected to be £3.1m (November £3.6m) over budget, this is based on savings achieved to date but also reflects assurance received from budget managers that further savings will be achieved in year.
- 1.3 Savings of £6.040m have been delivered to date, 49% of the total £12.296m required, with £6.256m yet to be achieved.
- 1.4 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, underlying expenditure is projected to exceed the budget by £4.340m (November £5.074m), 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. Given previous years' trends and performance this position is likely to improve as the year progresses.
- 2.2 To counter the prudent approach to reporting savings 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 the basis of expected savings delivery and capitalisation of transformation costs the projected position will be an overspend of £3.072m (November £3.618m) 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	84,369	89,280	(4,911)	(6)	(4,906)	(6)
Environment	30,823	32,156	(1,333)	(4)	(70)	0
Schools and Leisure Resources	35,991	35,294	697	2	697	2
Central Activities	18,212	18,034	178	1	178	1
	2,254	1,225	1,029	46	1,029	46
<b>Total</b>	<b>171,649</b>	<b>175,989</b>	<b>(4,340)</b>	<b>(3)</b>	<b>(3,072)</b>	<b>(2)</b>
Housing Revenue Account (HRA)	0	(28)	28	0	28	0
Schools Delegated	75,354	76,025	(671)	(1)	(671)	(1)
<b>Total including HRA and Delegated Schools</b>	<b>247,003</b>	<b>251,986</b>	<b>(4,983)</b>	<b>(2)</b>	<b>(3,715)</b>	<b>(2)</b>

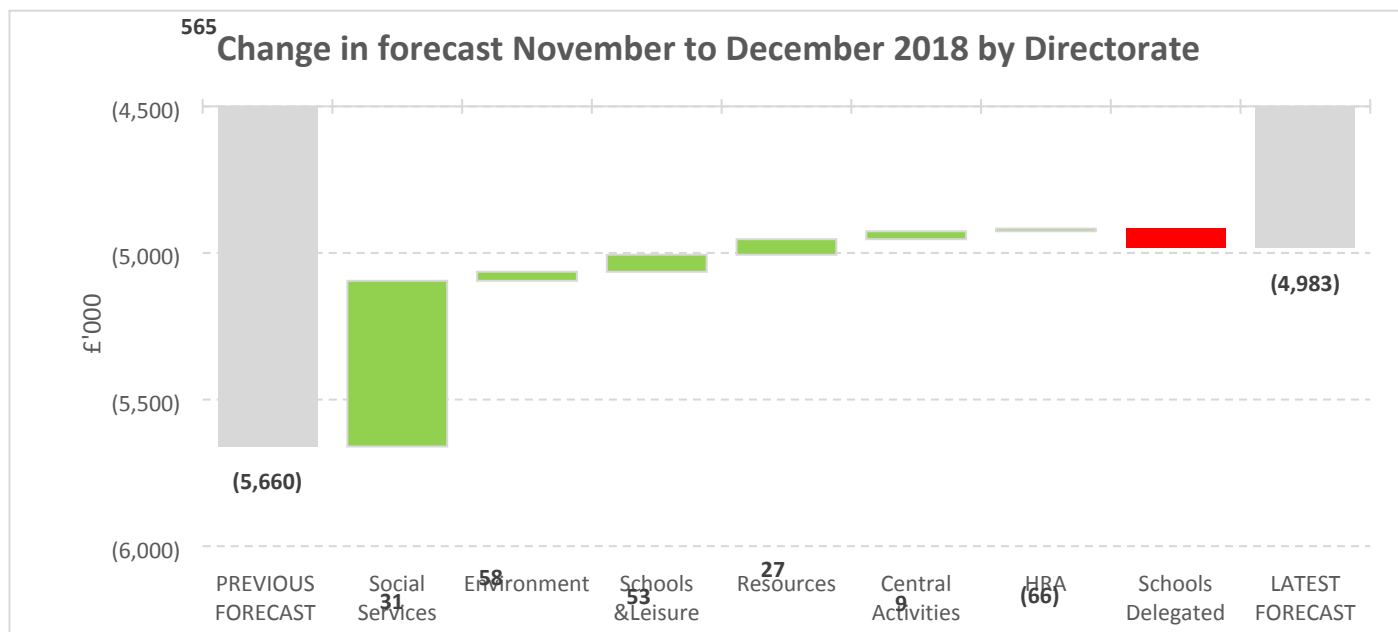
2.5 The table in Appendix A details the forecast spend by Service, against approved working budget and shows the projected position based on savings delivery, capitalisation and service performance.

### 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 31<sup>st</sup> December, 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 £10.3m.
- 3.2 Based on the projections included in this report the overspend would be financed from the General Fund Reserve. With the assurance around the delivery of savings and the capitalisation of transformation costs the impact on the General fund would be £3m, reducing the balance to £6.608m this would then represent 3.8% of the total net revenue budget (excluding Schools and HRA) or 5.9% when including the budget management reserve. This revised position would be in line with the policy set.
- 3.3 Specific reserves will also be reviewed to identify alternative reserve funding to limit the impact on the General Fund Reserve.

### 4. Revenue Forecast

- 4.1 The graph below shows the change in forecast, from that reported at the end of November to the projected forecast position as at 31<sup>st</sup> December 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	%	
<b>Children Services</b>	<b>18,535</b>	<b>24,551</b>	<b>(6,016)</b>	<b>(32)</b>	<b>R</b>

Projected expenditure within Children services has improved by £45k, spend is now forecast to exceed the budget by £6.016m.

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 considerably higher cost per post. Following the Children’s workforce analysis carried out in June 2018 agency workers have risen by 6.5 ftes. The projected position includes the continuation of agency staff through to the end of this financial year, with costs exceeding baseline budget by £624.9k. A slight improvement due to reduced agency days over the Christmas period.

There is a continuing increasing trend for the numbers of Children looked after (CLA); this has increased by 8 in month to 234 in December. This has a significant budgetary impact but increases in the number of placements are being offset by changes in service provision reducing the cost per week of existing placements, this is reflected in the improved forecast with costs

now projected to exceed the baseline by £3.552m by the end of the year. Cabinet will note this area sees fluctuations in demand and the levels of complexity make it a very high risk area which is difficult to forecast.

The forecast position also reflects £2.2m of savings that cannot be achieved. This is impacting on the position reported for the current financial year. This has been removed as part of the Council's overall budget strategy for 2019/20.

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

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

The financial pressures are mitigated by investment funding that remains unallocated of £810k and additional monies from Welsh Government for "Supporting Sustainable Social Services" totalling approximately £579k.

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	%	
<b>Highways, Transport &amp; Recycling (HTR)</b>	<b>21,340</b>	<b>23,033</b>	<b>(1,693)</b>	<b>(8)</b>	<b>R</b>

The overspend in this area is at a similar level to the previously reported position with only a £7k reduction in the forecast since November. Unachieved savings at this point in the year total £1.190m and are the main reason for the projected position.

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

- Underachievement of income in respect of Trade Waste collection of £165k and a forecast overspend in Domestic Waste of £376k, due to continuing increased fuel costs, additional costs of depreciation for vehicles and increased vehicle hire costs in domestic waste.
- An over spend of £150k within the fleet workshops as a result of an over spend on materials and parts, and a pressure resulting from not being able to negate all income lost with reductions in overheads, due to a decrease in the fleet held by the Council and the associated in-house maintenance.
- An overspend of £278k on Public Transport is forecast as a result of the re-tender exercise and loss of income on the T4 route due to the impact of the commercialisation of part of the route not foreseen during the tender process.
- These over spends are offset by an under spend of £110k as a result of the spend freeze, the Design team forecast to overachieve their budgeted contribution by £100k and an underspend of £265k on waste contracts, due to increased income from sale of recyclable material and lower than budgeted spend on landfill tax.

An additional £200k of savings are expected to be achieved within HTR by the end of the year. This along with other factors; such as grant monies and income expected but not yet confirmed,

contribute to the revised forecast which shows a significantly improved year end position for the Environment Directorate of approximately £70k overspend.

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	%	
<b>Workforce, OD and Comms</b>	<b>2,522</b>	<b>2,570</b>	<b>(48)</b>	<b>(3)</b>	<b>R</b>

The forecast position within Workforce, OD and Comms has improved by £32k since previously reported and is now forecast to be £48k overspent by year end. Unachieved savings remain the main reason for the overspend in this area offset by small underspends across the board.

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	%	
<b>Adult Social Care</b>	<b>65,834</b>	<b>64,729</b>	<b>1,105</b>	<b>0.9</b>	<b>G</b>

The forecast underspend position within Adult Social Care has increased by a further £520k from November, with the year end position now projected at £1.105m. The improvement is attributed to the achievement of a further £157k of savings, utilising grant funding to support qualifying expenditure and the removal of commitments not required for service placements

Undelivered savings equate to £5k but there are plans in place to deliver the remaining target by the end of the financial year, which is reflected in the assured forecast position for Social Services. Of the original £2.2m investment, £200k has been committed to procure external advice for the BUPA re-tender and £491k still remains to be allocated to Service budget headings. As agreed 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. These pressures suggest that the position in the next financial year (2019/20) will be challenging.

<b>Schools Delegated</b>	<b>75,354</b>	<b>76,025</b>	<b>(671)</b>	<b>(0.9)</b>	<b>G</b>
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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 £458k from reserves, and £125k in the Special sector. This will be updated monthly going forward.

Approved budget plans and forecasts received for Secondary schools reported to cabinet, projected a net £1.2m in year draw from reserves, however, end of year projections last month showed a further deficit of £405k. 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.

## 5. Savings

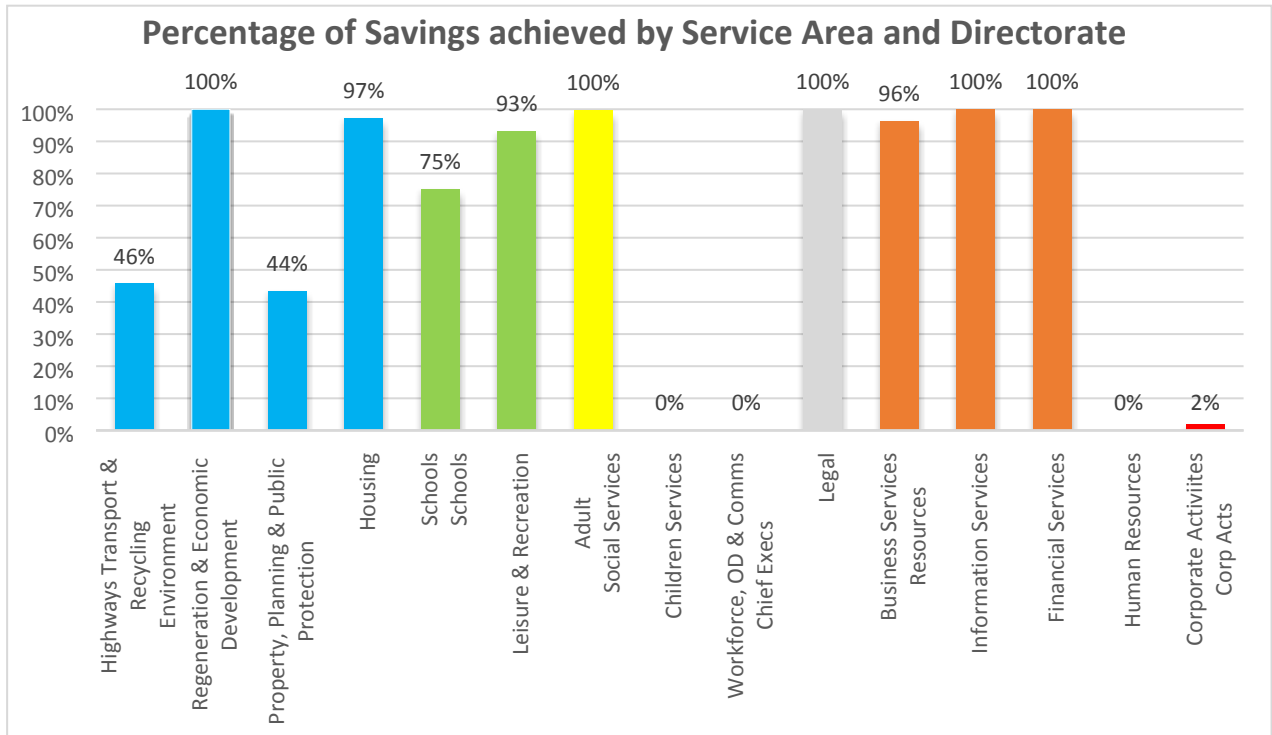
- 5.1 The table below summarises the delivery of the savings including those that remained undelivered in prior years; £6m or 49% has been delivered. For prudence the forecast includes savings that have been achieved or have progressed to a point where there is confidence in final delivery taking place. It does not reflect expectations that are not currently being realised.
- 5.2 Savings included in previous budget plans which remain outstanding, and which are now undeliverable, have been removed from the budget plan for 2019/20. £3.9m of these unachieved savings are included in the figures reported below.

	<b>Target £'000</b>	<b>Delivered £'000</b>	<b>Variance £'000</b>
2015/16	1,157	77	1,080
2016/17	321	0	321
2017/18	1,975	420	1,555
2018/19	8,843	5,543	3,300
<b>Total</b>	<b>12,296</b>	<b>6,040</b>	<b>6,256</b>

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

<b>UPDATE ON DELIVERY OF SAVINGS PROPOSALS BY RAG</b>			
<b>Directorate</b>	<b>RED</b>	<b>AMBER</b>	<b>TOTAL UNACHIEVED SAVINGS AS AT 31st December 2018</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Social Services	2,298	5	2,303
Environment	0	1,364	1,364
Schools	394	49	443
Resources	50	26	76
Corporate Activities	1,963	0	1,963
Chief Executives	107	0	107
<b>Total</b>	<b>4,812</b>	<b>1,444</b>	<b>6,256</b>

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



**6 Virements and Grants to be accepted**

None

**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 a deficit outturn. The option to capitalise transformation costs provides an opportunity to improve the revenue position and this together with assurance that savings for some Directorates will be delivered significantly reduces the overall deficit projected.

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.

The Council needs to further address the projected deficit and deliver an outturn more in line with the approved budget. The actions taken to date have improved the projected forecast, but given the pressure on the revenue budget Cabinet have supported the S151 Officer's requirement to further control discretionary expenditure until the end of the financial year this 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.

<b>Recommendation:</b>		<b>Reason for Recommendation:</b>	
<p>a. That the contents of this report are noted.</p> <p>b. That given the pressure on the revenue budget the Cabinet supports the S151 Officer's requirement to control discretionary expenditure until the end of the financial year</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>	
<b>Relevant Policy(ies):</b>		<b>Financial Regulations:</b>	
<b>Within policy:</b>	Yes	<b>Within Budget:</b>	n/a
<b>Relevant Local Member(s):</b>			
<b>Person(s) To Implement Decision:</b>		Jane Thomas	
<b>Date By When Decision To Be Implemented:</b>		Ongoing	
<b>Contact Officer</b>	<b>Tel</b>	<b>E mail</b>	
Jane Thomas	01597 827789	<a href="mailto:jane.thomas@powys.gov.uk">jane.thomas@powys.gov.uk</a>	

APPENDIX A

**Forecast Outturn and Undelivered Savings as at 31st December 2018**

Service Area	Net Budget	Forecast Spend	Variance (Over) / Under spend	Total Unachieved Savings as at 31st December 2018	Service Under/(Over) spend excl. unachieved savings	Variance (Over) / Under spend as a % of Net Budget	Variance BRAG status
	£'000	£'000	£'000	£'000	£'000	%	
<b>Social Services</b>							
Adult & Commissioning	65,834	64,729	1,105	(5)	1,110	1.7	B
Children Services	18,535	24,551	(6,016)	(2,298)	(3,718)	(32.5)	R
<b>Environment</b>							
Regeneration	1,412	1,359	53	0	53	3.8	B
Property Planning and Public Protection	7,120	6,839	281	(171)	452	3.9	B
Housing General Fund	951	925	26	(2)	28	2.7	B
Highways, Transport & Recycling	21,340	23,033	(1,693)	(1,190)	(503)	(7.9)	R
<b>Schools</b>							
Schools Service	27,230	26,875	355	(394)	749	1.3	B
Leisure & Recreation	8,761	8,419	342	(49)	391	3.9	B
<b>Resources</b>							
Business Services	6,576	6,451	125	(26)	151	1.9	B
Information Services	4,164	4,154	10	0	10	0.2	G
Legal Services	3,058	3,027	31	0	31	1.0	G
Financial Services	1,892	1,832	60	0	60	3.2	B
<b>Workforce, OD and Comms</b>	2,522	2,570	(48)	(157)	109	(1.9)	R
<b>Service Area Totals</b>	<b>169,395</b>	<b>174,764</b>	<b>(5,369)</b>	<b>(4,292)</b>	<b>(1,077)</b>	<b>(3.2)</b>	
Central Activities	2,254	1,225	1,029	(1,963)	2,992	45.7	B
<b>Total</b>	<b>171,649</b>	<b>175,989</b>	<b>(4,340)</b>	<b>(6,255)</b>	<b>1,915</b>	<b>(2.5)</b>	
Housing Revenue Account (HRA)	0	(28)	28	0	28	0.0	G
Schools Delegated	75,354	76,025	(671)	0	(671)	(0.9)	G
<b>Total including HRA</b>	<b>247,003</b>	<b>251,986</b>	<b>(4,983)</b>	<b>(6,255)</b>	<b>1,272</b>		

EFFICIENCY TRACKER AS AT 31<sup>st</sup> DECEMBER 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	%
<b>Environment</b>								
Highways Transport & Recycling	0	0	270	1,923	2,194	1,003	1,190	46%
Regeneration & Economic Development	0	0	0	100	100	100	0	100%
Property, Planning & Public Protection	0	0	31	272	303	132	171	44%
Housing	0	0	0	86	86	83	2	97%
<b>Environment</b>	<b>0</b>	<b>0</b>	<b>302</b>	<b>2,381</b>	<b>2,683</b>	<b>1,319</b>	<b>1,364</b>	<b>49%</b>
<b>Schools</b>								
Schools	158	0	49	1,376	1,583	1,189	394	75%
Leisure & Recreation	0	0	0	709	709	660	49	93%
<b>Schools</b>	<b>158</b>	<b>0</b>	<b>49</b>	<b>2,085</b>	<b>2,292</b>	<b>1,849</b>	<b>443</b>	<b>81%</b>
<b>Social Services</b>								
Adult	0	0	0	1,432	1,432	1,427	5	100%
Children Services	0	1	1,101	1,197	2,298	0	2,298	0%
<b>Social Services</b>	<b>0</b>	<b>1</b>	<b>1,101</b>	<b>2,629</b>	<b>3,730</b>	<b>1,427</b>	<b>2,303</b>	<b>38%</b>
<b>Chief Executives</b>								
Workforce, OD & Comms	0	0	0	107	107	0	107	0%
Legal	0	0	0	61	61	61	0	100%
<b>Chief Executives</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>168</b>	<b>168</b>	<b>61</b>	<b>107</b>	<b>37%</b>
<b>Resources</b>								
Business Services	0	0	92	623	715	689	26	96%
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%
<b>Resources</b>	<b>0</b>	<b>0</b>	<b>124</b>	<b>1,299</b>	<b>1,422</b>	<b>1,347</b>	<b>76</b>	<b>95%</b>
Corporate Activities	999	320	400	281	2,001	38	1,963	2%
<b>Grand Total</b>	<b>1,157</b>	<b>321</b>	<b>1,975</b>	<b>8,843</b>	<b>12,296</b>	<b>6,040</b>	<b>6,256</b>	<b>49%</b>

RESERVES BALANCES AS AT 31<sup>ST</sup> DECEMBER 2018

## 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	0	(3,072)	6,608
	<b>9,680</b>	<b>0</b>	<b>(3,072)</b>	<b>6,608</b>
<b>Ringfenced &amp; Specific Reserves</b>				
Budget Management Reserve	3,584	0		3,584
Specific Reserves	2,356	130		2,486
21st Century Schools Reserve	5,524	(5,043)		481
Adult Services Reserve	2,750	(2,004)		746
Regeneration Reserve	100	0		100
HOWPS	185	(185)		0
Mid Wales Growth Fund	150	0		150
Highways Reserve	57	(57)		0
Invest to Save & Corporate Initiatives (inc JE)	5,830	(1,031)		4,799
Insurance Reserve	1,587	0		1,587
Transport & Equipment Funding Reserve	6,163	(2,082)		4,081
<b>Sub-Total</b>	<b>28,286</b>	<b>(10,272)</b>	<b>0</b>	<b>18,014</b>
Schools Delegated Reserves	(693)	(1,552)	(671)	(2,916)
School Loans & Other Items	(185)	7		(178)
<b>Net School Delegated Reserves</b>	<b>(878)</b>	<b>(1,545)</b>	<b>(671)</b>	<b>(3,094)</b>
<b>Total Ringfenced &amp; Specific Reserves</b>	<b>27,408</b>	<b>(11,817)</b>	<b>(671)</b>	<b>14,920</b>
Housing Revenue Account	3,267	212	28	3,507
	<b>3,267</b>	<b>212</b>	<b>28</b>	<b>3,507</b>
<b>Total Revenue Reserves</b>	<b>40,355</b>	<b>(11,605)</b>	<b>(3,715)</b>	<b>25,035</b>