

CYNGOR SIR POWYS COUNTY COUNCIL

CABINET EXECUTIVE

18th June 2019

REPORT AUTHOR: County Councillor Aled Davies
Portfolio Holder for Finance

SUBJECT: Financial Outturn for the Year Ended 31st March 2019

REPORT FOR: Information

1. Summary

- 1.1 This report provides the summary outturn position by Service for the year ended 31st March 2019. The final outturn position, is an overspend of £713k versus the working budget, which will be funded from the General Fund reserve. This compares with a forecast overspend of £2.464m estimated at the end of February. The figures include savings delivered of £6.536m, 58% of the £12.296m target, this compares with 71% delivered last year.
- 1.2 The approved budget for 2018/19 included a £7m draw on specific reserves. This one off funding was included to support the investment in both Childrens and Adult Services recognising the Council's commitment to deliver improved services and provide for increasing demand and rising third party costs.
- 1.3 In delivering the outturn position, consideration has been given to the balance between the use of capitalisation, maintaining a prudent level of reserves, and the subsequent demand on future year budgets. It is important that the council's reserves are protected given the risk inherent in the 2019/20 budget and the significant challenge to balance the budget over the medium term.
- 1.4 This approach has secured the level of general fund reserves at year end of £9.065m representing 5.28% of total net revenue budget excluding Schools and Housing Revenue Account (HRA).
- 1.5 The Medium Term Financial Strategy and financial planning models will be updated with the final outturn information.

2. Revenue Outturn versus February Forecast:

- 2.1 The outturn position demonstrates an improved position against the February forecast of £1.7m, as shown in the table below:

Table 1: Variance to Budget - (Overspend)/ Underspend

| Directorate/ Service | Mar 19 (£000s) | Feb 19 (£000s) | Change (£000s) |
|-------------------------------------------|-------------------|-------------------|-------------------|
| Social Services | (3,696) | (4,526) | 830 |
| Environment | (125) | (200) | 75 |
| Schools and Leisure | 1,338 | 782 | 556 |
| Resources | 94 | 215 | (121) |
| Central Activities | 1,676 | 1,265 | 411 |
| Total (Exc HRA/ Schools Delegated) | (713) | (2,464) | 1,751 |

2.2 The following key items have contributed to the improvement outturn position:

- The revenue cost associated with supporting the capital programme (MRP and interest) were £1.87m less than budgeted. The impact of the slippage in the delivery of the Capital programme, and the replacement of borrowing with unexpected grant funding, had not been fully reflected in the February forecast. Whilst it is appropriate to take a prudent approach, and the exact level of borrowing is difficult to predict, some of this benefit could have been reflected sooner. Improvements to the monitoring of the capital programme will be implemented in 2019/20.
- As a consequence of the above, Management of Change activities (£1.932m) have been funded from the revenue budget underspend, rather than utilising capital receipts, this will protect this source of funding for future transformational activity or to support the capital programme.
- In the Schools service a reduction in the cost of out of county placements and additional income from inter authority recoupment has seen a £400k improvement. Additional grant funding received in March and lower than expected costs including Statutory testing have resulted in a further £150k improvement.
- An additional £475k to that estimated has been collected in Council Tax relating to empty properties.
- The improvement in Social Care is due to an unexpected £250k increase in 'deferred charges' offsetting the cost of service provision in Adult Social Care and the receipt of the 'Social Care Tasks Performed by a Registered Nurse in Nursing Homes' grant of £120k. A reduction in the value of orders committed has also contributed to the improvement.
- The February forecast assumed that the Social Care element of the backdated holiday pay would be funded from base budget. The cost was funded from a specific reserves in P12, giving a £219k benefit over the February forecast.
- Remaining general fund underspends were used to fund Resources posts (e.g. Job evaluation, Change & Improvement etc.); the February forecast assumed these would be funded from reserves in line with the approved budget.

3. Revenue Outturn variance against Budget

3.1 The table below outlines the outturn position by service, against approved working budget, which includes budgeted transfers to or from reserves. RAG status has been applied to service variance based on the parameters below:

| | |
|---|------------------------------------------------------------|
| B | Underspend greater than 1% |
| G | +/- 1% (or £0.05m if budget less than £5m) |
| A | Overspend of 1-2% (£0.05m - £0.1m if budget less than £5m) |
| R | Variance above 2% (£0.1m if budget less than £5m) |

Table 2: Variance to Budget 2018/19

| Directorate/ Service | Actual (£000s) | Budget (£000s) | Variance (£000s) | Variance % | RAG Status |
|-------------------------------------------|-------------------|-------------------|---------------------|---------------|---------------|
| Adult & Commissioning | 63,989 | 65,932 | 1,943 | 2.9% | B |
| Children Services | 24,229 | 18,590 | (5,639) | (30.3%) | R |
| Sub Total: Social Services | 88,218 | 84,522 | (3,696) | (4.4%) | R |
| Regeneration | 1,234 | 1,330 | 96 | 7.2% | B |
| Property Planning and Public Protection | 6,960 | 7,470 | 510 | 6.8% | B |
| Housing General Fund | 653 | 830 | 177 | 21.3% | B |
| Highways, Transport & Recycling | 22,529 | 21,621 | (908) | (4.2%) | R |
| Sub Total: Environment | 31,376 | 31,251 | (125) | (0.4%) | G |
| Schools Service | 26,744 | 27,641 | 897 | 3.2% | B |
| Leisure & Recreation | 8,375 | 8,816 | 441 | 5.0% | B |
| Sub Total: Schools & Leisure | 35,119 | 36,457 | 1,338 | 3.7% | B |
| Business Services | 6,430 | 6,434 | 4 | 0.1% | G |
| Information Services | 4,299 | 4,391 | 92 | 2.1% | B |
| Legal Services | 3,104 | 3,196 | 92 | 2.9% | B |
| Financial Services | 1,724 | 1,843 | 119 | 6.5% | B |
| Workforce, OD and Comms | 2,516 | 2,303 | (213) | (9.2%) | R |
| Sub Total: Resources | 18,073 | 18,167 | 94 | 0.5% | G |
| Central Activities | (393) | 1,283 | 1,676 | 130.6% | B |
| Total (Exc HRA/ Schools Delegated) | 172,393 | 171,680 | (713) | (0.4%) | G |
| Housing Revenue Account (HRA) | (1,632) | - | 1,632 | - | |
| Schools Delegated | 75,938 | 75,322 | (616) | (0.8%) | |
| Total (inc HRA/ Schools Delegated) | 246,699 | 247,002 | 303 | 0.1% | |

3.2 Action was taken during the Autumn of 2018 to control spending across the authority following the reporting of an increasing deficit forecasted for 2018/19. Services were requested to limit or delay spend and more accurately report increased levels of income, budgets in some areas were frozen and vacant posts held to improve the overall financial position and limit the impact on the Councils reserves. This action has contributed to the underspends shown in the table.

3.3 Further commentary around the services with a RAG status of Red can be found below:

3.3.1 Childrens Services:

The Childrens Services outturn for 2018/19 exceeds the baseline budget set by £5.639m. The baseline budget includes an Investment of £6.416m in 2018/19 (£3.530m for Improvement Capacity and £2.886m to address service pressures) following an adverse Care Inspectorate Wales (CIW) inspection. The key drivers of the variance to budget were:

- £2.298m of undelivered efficiencies (£1.101m brought forward from 2017/18 and a further £1.197m for 2018/19), for which there were no plans in place to deliver. This position has been resolved as part of the 2019/20 budget setting process.
- Placement expenditure exceeds the baseline budget by £3.55m for this service area. The total number of Children Looked After placements at the end of the financial year stood at 246, a 22.7% increase versus March 2018. Welsh Government provided an additional one-off grant allocation of £579k which has been used to offset these pressures.
- Agency spend put pressure on the staffing budget with £566.3k reported over budget. An appropriate workforce establishment was agreed at 248 FTE's and although funding for this is accommodated within the service budget, following the investment provided, many posts are being covered by agency staff at a higher cost per post. This area is currently being restructured (implemented from the 1st April 2019) which should address this pressure.
- Improvement capacity investment funding offsets this expenditure by £710k.

3.3.2 Highways, Transport and Recycling:

The overspend in Highways, Transport and Recycling was as a result of:-

- Undelivered savings in 2018/19 totalling £990k
- A deficit of £248k on trade waste collection services, due to income achieved being lower than the budgeted target..
- An outturn over spend of £556k on recycling and waste services as a result of increased vehicle hire costs, fuel costs and the additional cost of depreciation for replaced vehicles. Noting that the vehicles that were replaced had been fully depreciated and that there was no revenue budget allocated for replacement of the vehicles. Prompt future replacement of life expired vehicles will remove this anomaly in future years.
- An outturn over spend of £152k on the fleet workshops due to increased costs on materials and parts coupled with an ongoing pressure that arose as a result of a shortfall in income in relation to the loss of the maintenance of the HOWPS vehicles. It has not been possible to negate all of the income lost with reductions in overhead expenditure.
- An over spend of £240k on Public Transport, as a result of the new prices from the re-tender exercise.. A capital grant has been received which will be used to reduce revenue costs but the financial benefit of this will not be realised until

the 2019-20 financial year. Also contributing to the over spend is a loss of income on the T4 route due to the unexpected “commercialisation” of part of the route.

These over spends are, in part, offset by under spends of;

- £110k as a result of the spend freeze and an under spend of £103k in Traffic and Travel Management
- An under spend of £449k in compliance and waste contracts mainly as a result of reduced waste disposal costs and increased recycle income.
- An under spend of £550k in Highways Operations mainly as a result of under spends on Street Cleaning and Routine Maintenance as a result of reductions in staffing costs

3.3.3 Workforce, OD & Comms:

The variance in this area is as a result of posts being funded from revenue base budget rather from Reserves, as explained in section 2.2 above.

4. **Efficiency Savings**

- 4.1 Total efficiency savings required in the 2018/19 budget were £12.296m. The total savings delivered in 2018/19 were £6.536m, or 53% of the total required. However, £5.76m of savings unachieved included £2.2m relating to the Children’s service (3.3.1 above) and £1.7m income and cost improvement target held corporately. Neither of these savings are achievable and they have therefore already been written out of the 2019/20 budget.
- 4.2 Adjusting for these, recurrent savings of £1.86m or 22% of the 2018-19 target are still to be delivered in 2019/20.
- 4.3 A detailed report on the delivery of savings will be provided to Cabinet and Council shortly, this will include details from the services of how the remaining savings will be delivered.
- 4.4 The table below shows the breakdown by service area:

Table 3: Savings Delivery 2018/19

| Directorate/ Service | Total To Be Achieved 18/19 | Actually Achieved 18/19 | Remainder | % Achieved 18/19 |
|-----------------------------------------|----------------------------|-------------------------|--------------|------------------|
| Adult & Commissioning | 1,432 | 1,469 | (37) | 103% |
| Children Services | 2,298 | - | 2,298 | - |
| Sub Total: Social Services | 3,730 | 1,469 | 2,261 | 39% |
| Regeneration | 100 | 100 | - | 100% |
| Property Planning and Public Protection | 303 | 228 | 76 | 75% |
| Housing General Fund | 86 | 86 | - | 100% |
| Highways, Transport & Recycling | 2,194 | 1,203 | 991 | 55% |
| Sub Total: Environment | 2,683 | 1,617 | 1,066 | 60% |
| Schools Service | 1,583 | 1,270 | 313 | 80% |
| Leisure & Recreation | 709 | 709 | - | 100% |
| Sub Total: Schools & Leisure | 2,292 | 1,979 | 313 | 86% |
| Business Services | 715 | 715 | - | 100% |
| Information Services | 354 | 354 | - | 100% |
| Legal Services | 61 | 61 | - | 100% |
| Financial Services | 303 | 303 | - | 100% |
| Workforce, OD and Comms | 157 | - | 157 | - |
| Sub Total: Resources | 1,590 | 1,434 | 157 | 90% |
| Central Activities | 2,001 | 38 | 1,963 | 2% |
| Total | 12,296 | 6,536 | 5,760 | 53% |

5. Revenue Reserves

- 5.1 The revenue reserves held at the beginning of the year totalled £40.36m, with £9.68m held in the General Fund Reserve and Specific and Ring fenced reserves of £30.67m.
- 5.2 In terms of movement in the reserves during the 2018-19 financial year, the General Reserve balance has reduced by £615k, whilst £10.3 million has been drawn from specific reserves to support the revenue budget for the year, (excluding Schools and HRA). This includes the £7 million redirected from the 21st Century Schools Reserve (£5 million) and the use of the Adult Services Reserve (£2 million) agreed at budget setting.
- 5.3 General Fund reserves at the 31st March 2019, stand at £9.065 million. This is equivalent to 5.28% of the net revenue budget (Excluding Schools delegated and HRA). This rises to 7.37% when the Budget Management Reserve is included. The Council faces a continuing financial challenge; in particular, the demand for services in both Adults and Children’s Services, and it is essential that a prudent reserve level is in place to ensure enough financial capacity is available. This

cannot be stressed too highly given the level of savings, the risk inherent in the budget and the significant challenge to balance the budget over the medium term.

- 5.4 The actual use of the HRA reserve was £2.156m. An underspend of £1.632m within the HRA was offset by the decision to use £4m from the HRA reserve to fund the HRA capital programme, rather than borrowing. This will reduce the MRP and interest cost to be borne by the HRA going forward. Before this adjustment the balance on the HRA reserve would have been £5.111m, way in excess of the £1m required by financial regulations. The actual closing balance on the HRA reserve was £1.111m.
- 5.5 The opening position on the Schools Delegated Reserves was a deficit balance of £878k. School balances reported to Cabinet on the 19th June 2018 predicted a £1.559m call on reserves for 2018-19. The actual call on reserves for 2018-19 was £616k which is an improvement on the February position and is due to a number of grants received late in the year including funding for the Teachers Pay award, Class size grant and ERW funding.
- 5.6 The Insurance reserve now stands at £716k after £871k was drawn down in 2018/19 to settle insurance claims. Should this level of payment continue the reserve will be fully utilised in 2019/20. The level of funding to support the settlement of claims is being considered in the budget planning for 2019/20.
- 5.7 The Council's reserves are key to our financial planning; maintaining these at an appropriate level is central to our financial stability. They provide a safeguard against risk, unusual events and future financial pressures.
- 5.8 The table below details the reserve position at 31st March 2019:

Table 4: Revenue Reserve Movements

| Reserve Name | Opening Balance at 1st April 2018 (£000s) | Addition/ (Use) of Reserves (£000s) | Outturn impact - Addition/ (Use) of Reserves (£000s) | Balance at 31st March 19 Surplus/ (Deficit) (£000s) |
|-------------------------------------------------|-------------------------------------------|-------------------------------------|------------------------------------------------------|-----------------------------------------------------|
| General Fund | 9,680 | 98 | (713) | 9,065 |
| Ring-fenced & Specific Reserves: | | | | |
| Budget Management Reserve | 3,584 | - | | 3,584 |
| Specific Reserves | 2,356 | (1,065) | | 1,291 |
| 21st Century Schools Reserve | 5,524 | (5,045) | | 479 |
| Adult Services Reserve | 2,750 | (2,004) | | 746 |
| Regeneration Reserve | 100 | - | | 100 |
| HOWPS | 185 | (185) | | - |
| Mid Wales Growth Fund | 150 | (25) | | 125 |
| Highways Reserve | 57 | (57) | | - |
| Invest to Save & Corporate Initiatives (inc JE) | 5,830 | (1,378) | | 4,452 |
| Insurance Reserve | 1,587 | (871) | | 716 |
| Transport & Equipment Funding Reserve | 6,163 | 329 | | 6,492 |
| Sub Total | 28,286 | (10,301) | - | 17,985 |
| Schools Delegated Reserves | (878) | 1,201 | (616) | (293) |
| Housing Revenue Account | 3,267 | (3,788) | 1,632 | 1,111 |
| Total Revenue Reserves | 40,355 | (12,790) | 303 | 27,868 |

6. Impact of Capital

- 6.1 Capital investment and the financing of capital activities have a significant impact on the authority's Revenue position.
- 6.2 In 2018/19 £76.971m was actually spent (including HRA) on capital investments versus the original budget of £87.703m. This gave an underspend of £10,732m or 12.2%.
- 6.3 Approximately 25.6% (£19.679m) of the actual spend for 2018/19 was incurred in March 2019.
- 6.4 The majority of the underspend can be attributed to delays in the delivery of the capital programme. The budgets associated with these projects will be rolled forward into 2019/20. The virements required to do this are outlined in the Capital monitoring report and are subject to approval from Cabinet and/ or full Council.
- 6.5 The 2018/19 budget assumed that the revenue cost of capital investment and financing would be £14.4m. Due to slippage in the delivery of the capital programme, and a reduction in the underlying need to borrow as a result of un-anticipated Capital Grant funding received from Welsh Government in March 2019, the actual cost of supporting the capital programme was £12.5m.

7. Options Considered/ Available

7.1 N/A

8. Preferred Choice and Reasons

8.1 N/A

9. Impact Assessment

9.1 Is an impact assessment required? Yes/No

10. Corporate Improvement Plan

10.1 N/A

11. Local Member(s)

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

12. Other Front Line Services

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

13. Communications

13.1 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)

14.1 This report has no specific impact on support services other than reporting the financial outturn for each specific area. Financial Services work closely with all service areas in monitoring financial performance against budgets.

15. Scrutiny

15.1 Has this report been scrutinised? The report will be considered by the Finance Panel on the 12th June.

16. Statutory Officers

16.1 The Head of Finance (Section 151 Officer) comments:

The improved financial position at year end limits the impact on the general fund reserve, this maintains the level of the reserve which is essential to support future budgets and the medium term financial strategy.

Achievement of savings within the 2018/19 financial year is 77%. The Council has a good record of delivering savings but some continue to take longer than one financial year to be delivered. The level of savings required in 2019-20 is a significant challenge, the delivery of these is essential to deliver a balanced budget and this presents some risk to the Council. Coupled with the need to transform the council and the increasing potential pressures in social services it means that a prudent approach must be adopted.

The current and projected financial position of our Schools continues to be a challenge. The additional funding included in the budget plan assists schools in meeting the pressures they face, but it is essential that all Governing Bodies take action to provide a curriculum that can be delivered within the funding provided to them. The school reserves are ring fenced but, ultimately, represent a potential council risk. It is essential that compliance work is undertaken to ensure that school budgets are managed in accordance with regulations by Governing Bodies.

The level of reserves held must be appropriate to the level of risk inherent in the future budget plans. These are the funds that can support any potential slippage in delivery of savings or additional potential demand pressures, and given the continued scale of savings required in the future contributes to the financial stability of the council.

16.2 The Monitoring Officer has no specific concerns with this report.

17. Members' Interests

17.1 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: |
|------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| a. The contents of this report are noted by Cabinet | To outline the end of year financial position and the council's financial performance. To ensure appropriate reserves are established. |

| | | | |
|-------------------------------------------------|--------------|------------------------------|--------------------------|
| Relevant Policy (ies): | | Financial Regulations | |
| Within Policy: | Yes | Within Budget: | Y |
| Relevant Local Member(s): | | | |
| Person(s) To Implement Decision: | | Jane Thomas | |
| Date By When Decision To Be Implemented: | | | |
| Contact Officer Name | Tel | Fax | E mail |
| Jane Thomas | 01597-826341 | 01597-826290 | jane.thomas@powys.gov.uk |