

YNGOR SIR POWYS COUNTY COUNCIL.

CABINET EXECUTIVE 3rd March 2020

REPORT AUTHOR: County Councillor Aled Davies
Portfolio Holder for Finance

REPORT TITLE: Financial Overview and Forecast as at 31st January 2020

REPORT FOR: Decision

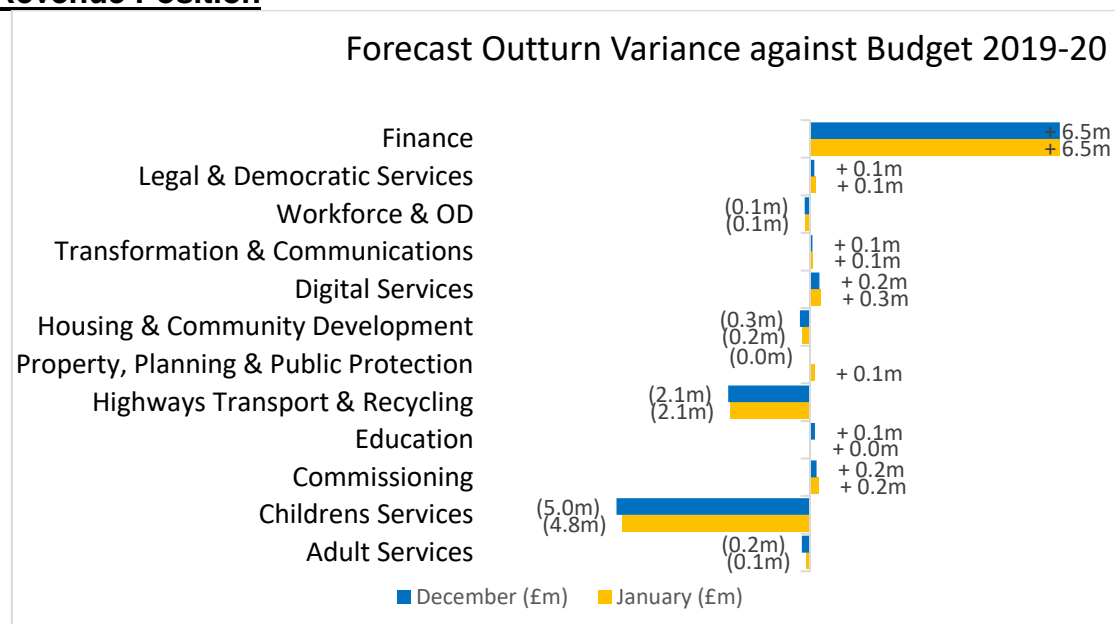
1. Purpose

- 1.1 To provide Cabinet with an updated forecast outturn position for the 2019-20 revenue budget as at 31st January 2020.
- 1.2 It also proposes a virement to adjust the revenue budget within the Waste and Recycling budgets.

2. Overview

- 2.1 The forecast as at 31 January 2020 shows an underspend at year end of £6,000 compared to a forecast overspend of £570,000 at the end of December 2019. This improvement is as a result of the delivery of additional cost reductions.
- 2.2 Subject to delivery of further expected cost reductions in February and March, the outturn is currently forecast to be an underspend of £650,000. However, several risks could affect this forecast including previously reported potential winter pressures arising in Adult Social Care and the costs of managing the consequences of Storm Dennis on our services and communities. The full cost of Storm Dennis will not be known for some time and there may be potential financial support from Welsh Government.

3. Revenue Position



- 3.1 The chart above shows the variance against budget for each service, and how this position has changed since that reported in December. The variance continues to reflect the significant underspend of £6.5 million against Finance due to the reduced cost of borrowing to support the capital programme estimated at £3.4 million, the unallocated £2 million budget set aside to cover the risk in the budget in meeting additional cost pressures particularly within social care and a £1 million council tax surplus. The Children's Services' overspend has reduced by £200,000 to £4.8 million.
- 3.2 The revenue budget that supports the borrowing requirements of the Council's capital programme is under constant review and due to changes and slippage in the capital programme the need to borrow and make provision for future debt has reduced, this budget is therefore reported with a significant level of underspend which is offsetting overspends in other services and the cost of planned but undelivered on a non-recurrent basis.
- 3.3 Further details on the projected position for each Service is provided in Appendix A of this report.

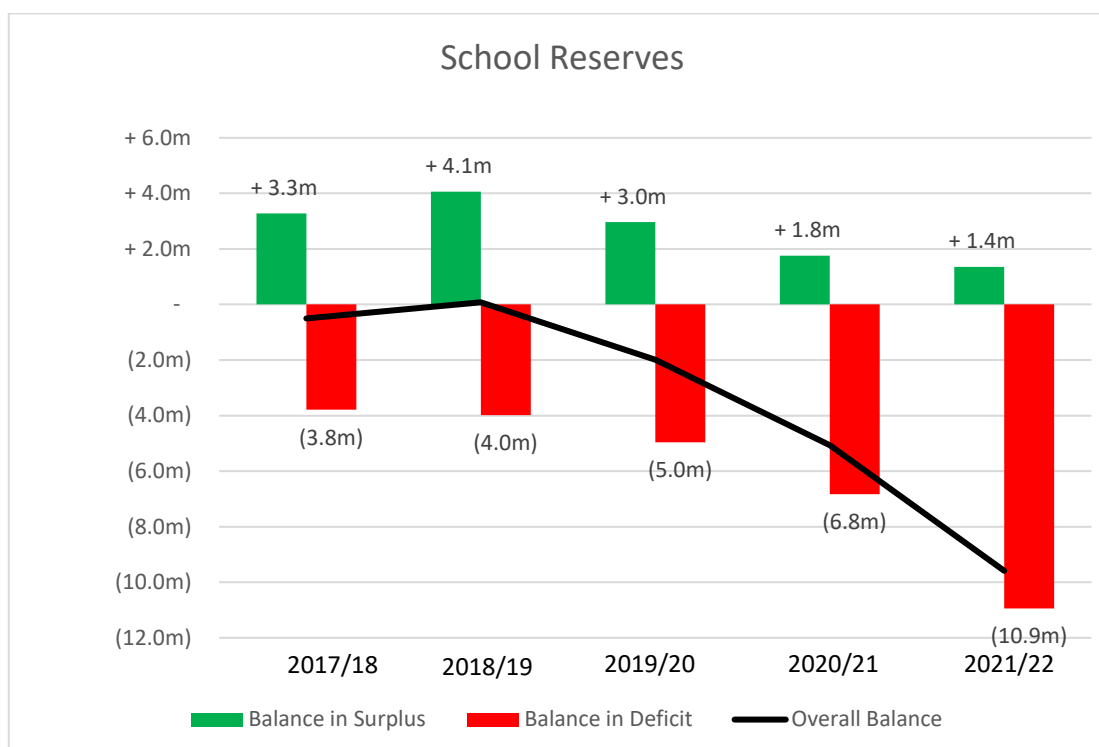
4. Reserves

- 4.1 The revenue reserves held at the beginning of the year totalled £27.90 million, with £9.1 million held in the General Fund Reserve and £18.8 million in Earmarked (Specific and Ring-fenced) Reserves. The planned use of Earmarked reserves during 2019-20 (excluding Schools and HRA) is £1.25 million.
- 4.2 Cost reductions are not reflected in the outturn position until they are achieved. Based on the forecast as at 31 January 2020 the impact on our General Fund is reduced. A planned contribution from the reserve will result in a projected balance of nearly £9 million (4.9% of the total net revenue budget (excluding Schools and HRA)). This revised position remains in line with the policy set.

Summary	Opening Balance Surplus / (Deficit) £'000	Forecast Addition / (Use) of Reserves £'000	Forecast (Over) / Under Spend £'000	Projected Balance Surplus/ (Deficit) £'000
General Fund	9,065	(87)	18	8,996
Budget Management Reserve	3,584	0	0	3,584
Specific Reserves	7,909	(832)	(24)	7,053
Transport & Equipment Funding Reserve	6,493	(330)	0	6,163
Sub-Total	27,051	(1,249)	(6)	25,796
Schools Delegated Reserves	78	(2,650)	578	(1,994)
School Loans & Other Items	(371)	7	0	(364)
Housing Revenue Account	1,111	2,168	183	3,462
Total	27,869	(1,724)	755	26,900

- 4.3 School Budgets and the level of deficits continue to be a significant risk that must be addressed. The opening position on Schools' Delegated Reserves was a balance of

£78,000. Budgets for 2019-20 projected a further draw on reserves of £2.65 million. During the year schools have revised their budget plans reducing the projected balance at the end of the financial year to a deficit balance of £1.99 million.



4.4 This chart shows the overall School Reserve balances and the total value of Schools which are in Surplus (Green) and Deficit (Red) and the forecast for this financial year and the following two financial years based on budget plans submitted by the schools in 2019-20. All schools will need to revise their budget plans following the issue of the funding formula allocations for 2020-21 and Governing Bodies are required to submit their budget plans to the Council by 1st May 2020.

4.5 The draft budget 2020-21 approved by Cabinet on 21st January includes funding to help meet the 2020-21 pressures faced by schools, including pay and price pressures and this will assist in stabilising school budgets. This will not remove the need for Governing bodies to take action to reduce deficits and further compliance work is crucial to ensure that these are managed effectively. Follow up work is continuing with those schools under Notices of Concern and Warning Notice and further intervention will be taken if necessary.

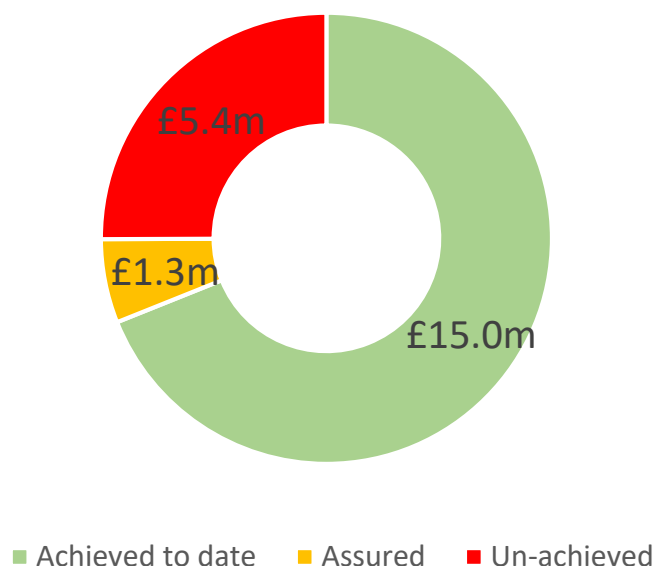
5. Cost reductions

5.1 In February 2019 the Council approved cost reduction proposals of £12.99 million. In addition, Council was advised that Social Services (Children's and Adults Services) would offset or absorb £8.70 million of service pressures within the 2019-20 budget allocations. Together these total £21.69 million and as at 31st January, £14.95 million had been delivered, comprising £9.33 million of cost reductions and £5.62 million of pressures managed by Social Care.

5.2 Assurance has been provided that further cost reductions / pressures of £1.3 million can be delivered or managed this year although as there are only two months of the financial year remaining so the full year effect may not materialise. These have been

allocated an Amber RAG status. The remaining £5.44 million is unachievable in the current financial year and is therefore recorded as Red. These comprise of £3.06 million of cost reductions and £2.38 million of pressures within Social Care.

Cost Reduction Delivery 2019-20



- 5.3 Some mitigating action has been taken by services, and alternative means of covering the shortfall in 2019-20 has been put in place. While this has helped to resolve the gap for the current financial year it will not address the recurrent gap in 2020-21 and beyond. The remaining shortfall in cost reductions and unmitigable pressures is being offset by the £2 million risk management budget which is held in the Corporate Services budget.
- 5.4 Services have confirmed that £1 million of the outstanding cost reductions will delivered recurrently in 2020-21 and the draft budget for 2020-21 addresses the remaining cost reductions shortfall.

6. Transformation

Transformation Costs 19-20	Forecast Outturn	Budget	Variance
	£,000	£,000	£,000
Transformation Projects to be Capitalised	1,820	2,000	180
Council Redundancies plus Pension Strain	1,080	990	(90)
School Redundancies plus Pension Strain	540	650	110
	3,440	3,640	200

- 6.1 Transformation of council services is critical to reducing the cost of delivering essential services to our residents. Maximising the use of the Welsh Government Directive to support the cost of this transformation is a key element of our financial strategy through to 2021-22. The table above shows the level of support built into

the budget for the current financial year and the position to date. The funding for this can be provided through the ability to utilise capital receipts through a capitalisation direction or supported by revenue underspends. The level of Capital receipts is expected to increase during the year, the level held will be in excess of that needed to cover the costs incurred in the current financial year.

7 Virements and other Updates

7.1 Grants / Virements for Approval

Following the removal of the garden waste “green banks” at all the small recycling “bring sites” the cost of collecting materials from these sites has reduced. To ensure that the information provided in benchmarking and other returns show the actual cost of these sites, internal charges are made to the bring site budget from the waste collection teams. A virement is proposed to reduce the collection costs in these budgets from £231,000 to £130,000 to reflect this change.

7.2 Rhayader Leisure Centre Trust Fund

The 2018-19 Rhayader Leisure Centre Trust Fund Accounts (the elected members of the Council are the Trustees of the Charity) have been independently examined and were filed with the Charity Commission ahead of the 31st January 2020 deadline.

8. Resource Implications

The Head of Finance (Section 151 Officer) has provided the following comment:

- 8.1 This month reports a continued improvement in the Outturn projected, this is supported by an increase in the level of cost reductions delivered and confirmation that the cost of borrowing remains significantly lower than the budget.
- 8.2 Assurance continues that further cost reductions can be achieved during the last two months of the year, and this is expected to deliver a balanced budget and reduces the need to draw on the revenue reserves. The £2 million set aside to mitigate the risk inherent in the budget, particularly the continued pressure on the Children’s Service’s budget, is contributing to the delivery of a balanced budget. This has not been allocated to any specific service.
- 8.3 The potential pressures identified in Adult Social Care are significant and although not fully materialised this still represents a risk to our projected forecast, particularly as the pressure of the winter period is now clearly upon us.
- 8.4 The impact of Storm Dennis and the resulting cost to the Council is not yet quantified and without financial support from Welsh Government the costs will be borne by the Council, this will impact on the revenue outturn position and any resulting overspend will be financed from the Council’s reserves.
- 8.4 Any further slippage in the Capital Programme or the receipt of additional grant funding will also impact on the revenue budget.
- 8.5 School budgets continue to be a significant risk that needs to be addressed, compliance work and action is crucial to ensure that this is managed effectively. Discussions continue with the schools issued with formal Warning

Notices. Further action will be taken where recovery plans are not being developed and implemented.

9 Legal implications

The Monitoring Officer has no specific concerns with this report.

10. Comment from local member(s)

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

11. Integrated Impact Assessment

No impact assessment required

12. Recommendation

12.1 That Cabinet note the budget position.

12.2 The Virements in Section 7.1 above are approved.

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Appendix A:

Revenue Forecast

Service Area	Working Budget	Forecast Spend	Variance (Over) / Under Spend	Variance (Over) / Under Spend %	Variance BRAG Status
Adult Services	64,992	65,077	(85)	(0.1)	G
Children's Services	20,300	25,148	(4,848)	(23.9)	R
Commissioning	3,438	3,216	222	6.5	P
Education	21,988	21,971	17	0.1	G
Highways Transport & Recycling	29,075	31,137	(2,062)	(7.1)	R
Property, Planning & Public Protection	5,784	5,672	112	1.9	A
Housing & Community Development	8,939	9,144	(205)	(2.3)	R
Digital Services	4,963	4,686	277	5.6	P
Transformation & Communications	1,766	1,692	74	4.2	P
Workforce & OD	1,366	1,482	(116)	(8.5)	R
Legal & Democratic Services	3,165	3,025	140	4.4	P
Finance	19,648	13,180	6,468	32.9	P
Total	185,424	185,430	(6)	(0.0)	
Housing Revenue Account (HRA)	0	(183)	183		G
Schools Delegated	69,761	69,183	578	0.8	R

The variance status criteria is as follows

- *Overspend greater than 2% - Red*
- *Over/Underspend between 1 & 2% - Amber*
- *Over/Underspend less than 1% - Green*
- *Underspend greater than 2% - Purple*
- *Schools Delegated status is shown as Red. Expenditure is reported broadly in line with budgets demonstrated by a small variance; however, some schools are in an unlicensed budget position with deficit reserve balances and this position is highlighted through the revised Red status.*

Head of Service Commentary

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 Services	64,992	65,077	(85)	(0.1)	G

HOS Comment

The service is confident in achieving a balanced budget by the end of the financial year. Starting the year with a significant pressure, the mitigation and cost reductions proposed have been achieved.

This, however, is aided by the winter pressures additional money which requires close management as there is a risk of creating an additional pressure for 2020/21 when the money ends in March 2020.

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	%	
Children's Services	20,300	25,148	(4,848)	(23.9)	R

HOS Comment

Children's Services began the year having significant pressures that were anticipated but not funded in the base budget. This has been managed in part to the level of £1.4m through reducing the number of children who are looked after by the local authority, stabilising the workforce, reducing the number of agency social workers and increasing the permanent workforce as well as making effective use of available grants.

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	%	
Commissioning	3,438	3,216	222	6.5	P

HOS Comment

The commissioning service has made excellent use of grant funding and other sources in order to ensure sustainability and ongoing viability. A restructure during the year and a further pending restructure (currently in consultation) has reduced the number of staff and will ensure that the services remains within budget for 2020/21. While undertaking the restructures the service has held vacancies in order to deliver on budget.

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	%	
Education	21,988	21,971	17	0.1	G
Schools Delegated	69,761	69,183	578	0.8	R

HOS Comment

The education central service area has seen an improvement this month due in the main to some out of county placements that haven't materialised as projected. The work continues on a monthly basis to review all budgets ahead of the new financial year. Delegated budgets are going to be underspent and the impact of this will need to be reviewed by both the school and the school service ahead of the new financial year.

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	29,075	31,137	(2,062)	(7.1)	R

HOS Comment

Highways, Transport and Recycling are reporting a forecast outturn over spend of £2.06 million at the end of January; a slightly reduced position from last month. The majority of the overspend is due to unachieved cost reductions at this point. If these cost reductions are excluded from the forecast the overspend reduces to c£600,000. The main areas of overspend are Waste & Recycling operations c.£280,000 and Passenger Transport c.£500,000 which are offset by underspends in other areas. Recently introduced improvements to Fleet maintenance are contributing to a continued reduction of the overspend in Waste & Recycling, and this along with continued logistical refinements, will address the cost pressure for 2020-21. The overspend in Passenger Transport services is due to increased contract costs. PCC are in discussion with Welsh Government over various service provisions and future mitigation of this 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	%	
Property, Planning & Public Protection	5,784	5,672	(112)	(1.9)	A

HOS Comment

Unachieved cost reductions and income targets relating to property related projects remain a concern for the service area. Measures such as not filling vacant posts and undertaking work for other authorities has helped to mitigate the impact.

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	%	

Housing & Community Development	8,939	9,144	(205)	(2.3)	R
Housing Revenue Account	0	(183)	183		G

HOS Comment

The Catering Service is forecasting an overspend due to not being able to deliver all planned cost reduction in year. The service has partially offset the shortfall by management of staff costs and promoting school meals which has increased uptake since the summer, compared to last year.

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	%	
Digital Services	4,963	4,686	277	5.6	P

HOS Comment

The forecast underspend is due the service holding vacancies to deliver proposed cost reduction in 2020-21 and overachieving contract cost reductions. The forecast underspend at year end could be slightly lower due to some investment in digital transformation but are subject to market response.

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	%	
Transformation & Communications	1,766	1,692	74	4.2	P

HOS Comment

The forecast underspend is due the service holding a vacancy to deliver a proposed cost reduction in 2020-21. The forecast underspend at year end could be slightly higher subject to possible increased income.

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	1,366	1,482	(116)	(8.5)	R

HOS Comment

Out of the revenue cost reductions required for the WOD service in 2019-20, a balance of £226,000 remains. Cost reductions of £26,000 will be achieved by year end leaving a base budget pressure of £200,00 which has been addressed in the 2020-21 Draft Budget. For 2019-20 further one off cost reductions will leave a forecast overspend of c.£140,000 by 31 March 2020.

Service Area	Net Budget	Forecast Spend	Variance (Over) / Under spend	Variance (Over) / Under spend as a % of Net Budget	Variance BRAG status
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	£'000	£'000	£'000	%	
Legal & Democratic Services	3,165	3,025	140	4.4	P

HOS Comment

The underspend is due to income received to reimburse the costs for the 2017 general election, the costs were funded from the general fund reserve when they were incurred.

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	%	
Finance	19,648	13,180	6,468	32.9	P

HOS Comment

Financial Services has maintained its projected position to achieve a balanced budget for the year despite £0.12 million savings not yet achieved, which relate to the "Right First Time" project.

There is a £3.40 million forecast underspend on the capital charges' budget due to slippage in the Capital Programme. Last years capital outturn position, the receipt of additional grant and slippage in this years projects have all reduced the need to borrow and lessened the increase in the Minimum Revenue Provision. The position will be continually reviewed and updated as we move towards year end. The forecast outturn also takes into account the £2.00 million set aside to manage the risk inherent in the budget, together with the surplus £1m projected on Council Tax collection.