

**CYNGOR SIR POWYS COUNTY COUNCIL**

**CABINET EXECUTIVE**

10<sup>th</sup> October 2017

**REPORT AUTHOR: County Councillor Aled Davies**

**Portfolio Holder for Finance**

**SUBJECT: Financial Overview and Forecast as at 31<sup>st</sup> August 2017**

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

**1. Summary**

- 1.1 This report provides an update on the Revenue spend against Budget for the year to date, as at 31<sup>st</sup> August 2017, and provides an early indication of the 2017/18 end of year financial forecast. It is important to note that efficiency savings are only included when they have been delivered, and we maintain this approach to ensure a prudent position.
- 1.2 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. This method assists in highlighting those service areas with significant pressures which carry the most financial risk to the Authority and where corrective action must be taken to ensure a balanced year end budget, and mitigate any risk for future years.

**2. Revenue**

- 2.1 The projected revenue forecast, is shown in the table below, with a projected overspend of £6.093m (July £4.302m), excluding Housing Revenue Account (HRA) and Delegated Schools. This adverse projection remains in the main due to unachieved savings targets which will improve as the year progresses. Sensitivity Analysis, shown in 3.3 below, demonstrates the impact of the future delivery of savings on the outturn position.

Summary Forecast by Directorate	Total Working Budget	Approved Use To / (From) Reserves	Forecast Spend	Variance (Over) / Under Spend	
	£'000	£'000	£'000	£'000	%
People	70,865	2	77,151	(6,286)	(9)
Place	38,418	(8,153)	38,507	(89)	(0)
Schools	24,505	(227)	24,883	(378)	(2)
Resources	18,107	(448)	17,882	225	1
Central Activities	12,705	1,491	12,270	435	3
<b>Total</b>	<b>164,600</b>	<b>(7,335)</b>	<b>170,693</b>	<b>(6,093)</b>	<b>(4)</b>
Housing Revenue Account	0	(49)	(4)	4	
Schools Delegated	75,381	(2,090)	75,346	35	
<b>Total including HRA and Delegated Schools</b>	<b>239,981</b>	<b>(9,474)</b>	<b>246,035</b>	<b>(6,054)</b>	<b>(2)</b>

2.2 The table contained in Appendix A provides a forecast spend by service, against approved working budget, which includes budgeted transfers to / from reserves. It shows the projected position on both savings delivery and service performance. Services are collectively forecasting an overspend of £409k for general delivery of service, this is a significant change from the £1.4m underspend projected last month, the sections that follow explain the reasons for this change

### 3. Efficiency savings

3.1 The efficiency saving target of £11.78m includes both in year and undelivered previous year targets. 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. The projected outturn has only improved by £20k on last month, £6.095m has now been achieved (52% of the total), leaving £5.685m yet to be attained.

Financial Year	Target £'000	Delivered £'000	Variance £'000
2015/16	1,323	44	1,279
2016/17	841	295	546
2017/18	9,616	5,756	3,860
<b>Total</b>	<b>11,780</b>	<b>6,095</b>	<b>5,685</b>

3.2 The table contained in Appendix B provides a service breakdown on the delivery of savings required within the budget.

3.3 A sensitivity analysis has been introduced for delivery of savings and the potential impact on the outturn position. The table below shows a range of forecasts, based on the level of confidence in the delivery of the remaining targets. The analysis uses a rating of High, Medium or Low; High being the current forecast position and includes savings already delivered; Medium based on savings with RAG status Amber; and Low, the position if all savings are delivered.

<b>Forecasted sensitivity analysis of savings delivery</b>			
	<b>BASE</b>	<b>POTENTIAL</b>	<b>BEST CASE</b>
<b>Directorate</b>	<b>Current forecast - includes savings already delivered</b>	<b>Forecast if savings with RAG status Amber are delivered</b>	<b>Forecast if all savings are delivered</b>
	£'000	£'000	£'000
People	-6286	-6161	-4,203
Place	-89	302	1,461
Schools	-378	-378	-171
Resources	225	349	349
Central Activities	435	435	2,155
<b>Total</b>	<b>-6093</b>	<b>-5,453</b>	<b>-409</b>

3.4 To achieve an improved outturn position of £5.453m overspend, (medium confidence in savings delivery) an additional £640k of savings, will need to be delivered. All services must aim to deliver their targets in order to achieve a balanced budget by year end. However, it should be noted that even if all the savings were achieved the current projections for service overspend would still result in an overall deficit budget outturn of £409k.

3.5 The risk within Children’s services remains and in addition to the non delivery of savings, a worsening overspend in this service, is the major contributor to the increased deficit position. This is because the previously forecasted duration of placements has been revised to a more realistic position.

#### **4 Reserves**

4.1 The revenue reserves held at the beginning of the year totaled £38.8m, with £8.6m now held in the General Reserve after it was agreed by cabinet in June to transfer £100k to a Regeneration reserve. The forecast use of reserves to support the revenue budget during the year, (excluding Schools and HRA) is £7.3m.

4.2 Delivery of the agreed efficiency savings will reduce the draw on the general reserve, which is currently projected at £6m and would reduce the reserve to £1.8m. The revised forecast level of General Fund reserve as at 31<sup>st</sup> August 2017 is 1% of total net revenue budget (excluding Schools and HRA). This increases to 3.3% if the budget management reserve is included.

#### **5 Revenue Forecast**

5.1 Appendix A confirms that the overspend of £6.093m relates to undelivered efficiency savings of £5.7m offset in part by net over/underspends currently projected on service budgets. RAG status has been applied to service variance based on the categories below, and those with a variance calculated at “red” have been explained in more detail.

- **Blue** Underspend above 1%
- **Green** +/- 1% (or £0.05m if budget less than £5m)
- **Amber** Overspend of 1-2% (£0.05m - £0.1m if budget less than £5m)
- **Red** Variance above 2% (£0.1m if budget less than £5m)

<b><u>6. People Directorate</u></b>	Net Working Budget:	£ 70,865k
	Net Forecast Expenditure:	£ 77,151k
	Variance (Over)/Under Spend:	£ (6,286)k
	July Forecast (Over)/Under Spend:	£ (3,979)k
	Change in Forecast	£ (2,307)k

6.1 The significant increase in forecast overspend in the People Directorate is due to 7 new service users and significant increases in 3 packages of care in Adult services, equating to £711k. Along, with 9 new Looked after Children placements and an increase in the duration of the current cohort of children’s placements totalling

£1,596k. However this is the worst case scenario and should reduce as 7 are under review.

## **6.2 Adult Social Care (ASC) - Net Budget £56,940k, Forecast Overspend £(2,391)k**

6.2.1 The service have delivered 56% of their £2.2m efficiency target. There is a real risk that the £603k savings projected for Reablement Intervention cannot be delivered within the current financial year; over a longer timescale alternative projects will need to be implemented to deliver the full target. The remaining £379k savings are still outstanding, but at this point no concerns have been raised about their achievement, which would reduce the overspend to £2.012m.

6.2.2 The growth monies provided in the base budget for 2017/18 have been allocated to alleviate most of the historic pressures carried by the service. The in-year pressures including in year inflationary increases remain a concern, although the National Living Wage pressures are likely to be funded through a Welsh Government Grant.

## **6.3 Older people - Net Budget £25,250k, Forecast Overspend £ (1,890)k**

6.3.1 Home Care **£(1,601)k** – the overspend is partly due to the unachieved efficiency savings for Reablement Intervention of £603k. This was a known potential risk when the overall target was adopted, and further clarification was sought from the consultants about the strength of this proposal. The expected consequence was a reduction in Home Care demand, but the project is likely to support cost avoidance rather than savings. There is increased demand relating to new clients utilising the Extra Care scheme in the north, although it is likely that this service is more cost effective than traditional services.

6.3.2 Residential Care **£ (364)k** - reclassification of Physically Disabled spend to Older Peoples expenditure accounts for £211k, (a virement is required to realign budgets as clients now within older category but receiving same level of care). There has been an additional 5 clients in August.

6.3.3 A shortfall of £42k is estimated in respect of Care Home deferred charge income, i.e. from clients relating to sale of their property, based on the annual trend.

## **6.4 Learning Disabilities(LD) – Net Budget £18,787k, Forecast Overspend £ (1,124)k**

6.4.1 Resettlement Houses and Independent Residential Care **£(944)k** – there are inflation pressures that are in part covered by a Welsh Government Grant and corporate monies available totalling just over £1m. But the overall quantum is likely to be greater and for prudence a pressure of £280k on supplier demands is built into the projection that can only be mitigated by savings or demand management. An increase in support hours has resulted in an additional budget pressure of £105k. Independent Residential Care has an additional client and a significant increase in support hours for three clients with no funding identified to cover their costs.

6.4.2 Home Care £182k – The reclassification of out of county supported tenancies has resulted in a transfer of £311k of client costs to Residential Care. However, a virement is required to realign the budgets. There has been 13 new service users in 2017/18 to date.

## 6.5 Mental Health and Physically Disabled (PD)- Net Budget £7,120k, Forecast Underspend £551k

6.5.1 Underspends in both Mental Health and PD of £71k and £348k respectively, mitigate the overspend within the service. A reduction in client numbers for Mental Health and a reclassification of clients to older category are the main reasons for the underspends in these areas and budget virements will be completed to mirror the change in clients.

## 6.6 Children's – Net Budget £13,127k, Forecast Overspend £ (3,908)k

6.6.1 Following the outcome of the CSIW inspection, the service, through the autumn, will be reviewing the whole budget position and savings strategy as part of the service improvements to be delivered as part of the wider Improvement Plan.

6.6.2 The overspend in Children's is partly due to non-delivery of the efficiency savings of £1.1m. In the main this is within Children with Disabilities Residential establishments - Golwg Bannau and Golwg Camlas of £556k, as yet this remains a RED risk and £388k in relation to the new model for delivery of Childrens Services and the partnership working with the Powys Teaching Health Board and third sector, have not been delivered.

6.6.3 Looked After Children numbers are at a five year high, and the service is predicting an overspend of £2.856m. This area is one of significant risk, due to the demand and complexities with service user need and the month on month fluctuating activity, (9 new placements in August), making it very difficult to forecast with accuracy. The current cohort of children in the Powys care system have now been committed to the year end in their current placement (i.e. additional full year cost of 13 placements), this is the worst case scenario and should reduce, as 7 are under review.

6.6.4 An increase in spend in Leaving Care relating to the rent commitments for young adults, has resulted in a forecast overspend of £50k.

<b>7. <u>Place Directorate</u></b>	Net Working Budget:	£ 38,418k
	Net Forecast Expenditure:	£ 38,507k
	Variance (Over)/Under Spend:	£ (89)k
	July Forecast (Over)/Under Spend:	£ (457)k
	Change in Forecast	£ 368k

7.1 Although the Service areas within this directorate are no longer RAG status RED, due to the significant change in forecast this month, the following is worth noting:-

7.2 Changes in service delivery and processes within Waste recycling, has resulted in additional income of £121k compared to period 4, due to the maximisation of the quality of the recyclable materials derived through the operational process. Further income potential is expected if the market remains stable.

7.3 The transfer of employees to the Heart of Wales Property Service (HOWPS) has allowed 2 vacant posts for Trainee Technicians to be removed, with a saving of £40k. However, the project target for the joint venture of £50k, is forecast to be unachieved with only £18k being realised so far through the rental of property to HOWPS.

<b>8</b>	<b><u>Schools Service</u></b> (non delegated)	Net Working Budget	£24,505k
		Net Forecast Expenditure	£24,883k
		Variance (Over)/Under Spend:	£ (378)k
		July Forecast (Over)/Under Spend:	£ (520)k
		Change in Forecast	£ 142k
<b>9</b>	<b><u>Resources Directorate</u></b>	Net Working Budget:	£ 18,107k
		Net Forecast Expenditure:	£ 17,882k
		Variance (Over)/Under Spend:	£ 225k
		July Forecast (Over)/Under Spend:	£ 218k
		Change in Forecast	£ 7k
<b>10</b>	<b><u>Central Activities</u></b>	Net Working Budget:	£ 12,705k
		Net Forecast Expenditure:	£ 12,270k
		Variance (Over)/Under Spend:	£ 435k
		July Forecast (Over)/Under Spend:	£ 436k
		Change in Forecast	£ 1k
<b>11</b>	<b><u>Schools Delegated</u></b>	Net Working Budget:	£ 75,381k
		Net Forecast Expenditure:	£ 75,346k
		Variance (Over)/Under Spend:	£ 35k
		July Forecast (Over)/Under Spend:	£ (465)k
		Change in Forecast	£ 500k

11.1 The individual Schools Delegated budgets are forecasting a net £35k underspend as at the end of August. The figures from the High Schools and the All Through School have been incorporated where available, in accordance with the Scheme for Financing Schools. There are 6 Schools closing at the 31<sup>st</sup> August 2017, once a final financial position has been confirmed for each of these schools the cumulative deficit/surplus balances will be reported.

11.2 The budgeted and forecast use of Schools Reserves is shown in the table below. The current information projects a £2.140m use of reserves.

School Sector	Opening Balance	Cabinet Budgeted Contribution/ (Use)	Budgeted Contribution/ (Use)	Forecast Underspend/ (Overspend)	Forecast Closing Balance
	£'000	£'000	£'000	£'000	£'000
Primary	1,608	(503)	(393)	0	1,215
Special	(259)	42	22	(18)	(255)
Secondary	(864)	(1,522)	(1,769)	53	(2,580)
<b>Total</b>	<b>485</b>	<b>(1,983)</b>	<b>(2,140)</b>	<b>35</b>	<b>(1,620)</b>

11.3 The balance of reserves held by schools at the beginning of the year was £485k, the projected draw will move these into a significant deficit balance by the end of this financial year.

12 **Options Considered/Available**

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

13 **Preferred Choice and Reasons**

None to consider.

14 **Impact Assessment**

Is an impact assessment required?      Yes/No

15 **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.

16 **Local Member(s)**

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

17 **Other Front Line Services**

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

18 **Communications**

This report has no specific communication considerations. 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.

19 **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.

20 **Scrutiny**

Has this report been scrutinised?      Yes / No

21 **Statutory Officers**

The Strategic Director, Resources (Section 151 Officer) has provided the following comment:

The report, and the position it presents, is a fair and prudent reflection of the projected 2017/18 revenue budget outturn. The projections will only be adjusted when there is confidence and evidence that savings have been delivered.

As in previous years mitigation from additional sources will be sought and included when identified. Whilst the current profile of delivered savings at this stage of the financial year is in line with previous years, it is important that strict budget control is applied and further measures will be kept under review to protect the overall financial position.

The report draws cabinet’s attention to the more realistic position for Children’s Services now included in the projections. This realism is welcomed but highlights a corporate financial challenge for the authority.

The overall schools’ balance position is a risk that will need to be addressed and will require concerted effort to ensure it is managed effectively.

The Monitoring Officer has no specific concerns with this report.

22 **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. <b>The contents of this report are noted by Cabinet; and</b></p> <p>b. <b>Cabinet supports appropriate action by services to curtail or reduce the reported forecasted service deficits.</b></p>	<p><b>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.</b></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>	
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<b>Person(s) To Implement Decision:</b>	Jane Thomas
<b>Date By When Decision To Be Implemented:</b>	ongoing



<b>Contact Officer Name</b>	<b>Tel</b>	<b>Fax</b>	<b>E mail</b>
Jane Thomas	01597-826341	01597-826290	<a href="mailto:jane.thomas@powys.gov.uk">jane.thomas@powys.gov.uk</a>

APPENDIX A

**Forecast Outturn and Undelivered Savings as at 31st August 2017**

Service Area	Net Budget	Forecast Spend	Variance (Over) / Under spend	Total Unachieved Savings as at 31st July 2017	Service Under/(Over) spend excl. unachieved savings	Variance (Over) / Under spend as a % of Net Budget	Variance BRAG status
		£'000	£'000	£'000	£'000	%	
<b>People</b>							
Adult & Commissioning	56,940	59,332	(2,392)	(982)	(1,410)	(4.2)	R
Children Services	13,127	17,035	(3,908)	(1,101)	(2,807)	(29.8)	R
Housing General Fund	798	784	14	0	14	1.8	B
<b>Place</b>							
Leisure & Recreation	9,196	9,093	103	0	103	1.1	B
Regeneration, Property & Commissioning	8,908	8,798	110	(92)	202	1.2	B
Highways, Transport & Recycling	20,314	20,616	(302)	(1,458)	1,156	(1.5)	A
<b>Schools</b>							
Schools Service	24,505	24,883	(378)	(207)	(171)	(1.5)	A
<b>Resources</b>							
Business Services	6288	6,279	9	(92)	101	0.1	G
Information Services	4,416	4,407	9	(32)	41	0.2	G
Legal Services	3,038	2,988	50	0	50	1.6	B
Financial Services	1,877	1,758	119	0	119	6.3	B
Workforce, OD & Comms	2,488	2,450	38	0	38	1.5	B
<b>Service Area Totals</b>	<b>151,895</b>	<b>158,423</b>	<b>(6,528)</b>	<b>(3,964)</b>	<b>(2,564)</b>	<b>(4.3)</b>	
Central Activities	<b>12,705</b>	12,270	435	(1,720)	2,155	3.4	B
<b>Total</b>	<b>164,600</b>	<b>170,693</b>	<b>(6,093)</b>	<b>(5,684)</b>	<b>(409)</b>	<b>(3.7)</b>	
Housing Revenue Account (HRA)	0	(4)	4	0	4		G
Schools Delegated	75,381	75,346	35	0	35	0.0	G
<b>Total including HRA</b>	<b>239,981</b>	<b>246,035</b>	<b>(6,054)</b>	<b>(5,684)</b>	<b>(370)</b>		

**EFFICIENCY TRACKER AS AT 31<sup>st</sup> AUGUST 2017**

**APPENDIX B**

Efficiency / Saving	2015/16	2016/17	2017/18	Total to be Achieved 17/18	Total Achieved to Date	Remainder to find	Achieved
	£000's	£000's	£000's	£000's	£000's	£000's	%
<b>Place</b>							
Highways Transport & Recycling	151	364	1,839	2,354	896	1,458	38%
Regeneration, Property & Commissioning	14	35	399	448	356	92	79%
Leisure & Recreation	0	0	730	730	730	0	100%
<b>Place</b>	<b>165</b>	<b>399</b>	<b>2,967</b>	<b>3,532</b>	<b>1,982</b>	<b>1,550</b>	<b>56%</b>
<b>Schools</b>							
Schools	158	88	1,619	1,865	1,658	207	89%
<b>Schools</b>	<b>158</b>	<b>88</b>	<b>1,619</b>	<b>1,865</b>	<b>1,658</b>	<b>207</b>	<b>89%</b>
<b>People</b>							
Adult	0	0	2,231	2,231	1,249	982	56%
Children Services	0	1	1,101	1,101	0	1,101	0%
<b>People</b>	<b>0</b>	<b>1</b>	<b>3,332</b>	<b>3,333</b>	<b>1,249</b>	<b>2,083</b>	<b>37%</b>
<b>Chief Executives</b>							
Chief Executives	0	0	250	250	250	0	100%
Legal	0	12	28	40	40	0	100%
<b>Chief Executives</b>	<b>0</b>	<b>12</b>	<b>278</b>	<b>290</b>	<b>290</b>	<b>0</b>	<b>100%</b>
<b>Resources</b>							
Business Services	0	0	278	278	187	92	67%
Information Services	0	0	232	232	200	32	86%
Professional Services	0	20	215	235	235	0	100%
Corporate Activiites	999	320	695	2,015	295	1,720	15%
<b>Resources</b>	<b>999</b>	<b>340</b>	<b>1,421</b>	<b>2,760</b>	<b>917</b>	<b>1,844</b>	<b>33%</b>
<b>Grand Total</b>	<b>1,323</b>	<b>841</b>	<b>9,616</b>	<b>11,780</b>	<b>6,096</b>	<b>5,684</b>	<b>52%</b>