

CYNGOR SIR POWYS COUNTY COUNCIL

CABINET EXECUTIVE

9th January 2017

REPORT AUTHOR: County Councillor Aled Davies

Portfolio Holder for Finance

SUBJECT: Financial Overview and Forecast as at 30th November 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 30th November 2017, and provides an early indication of the 2017/18 end of year financial forecast.
- 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 £4.469m (October £4.260m), excluding Housing Revenue Account (HRA) and Delegated Schools. This is largely the result of non-delivery of savings targets. There has been limited improvement in recent months and it is of concern that savings delivery is becoming increasingly difficult. This raises concerns about the anticipated year end position. 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	71,025	2	77,417	(6,392)	(9)
Place	38,494	(8,153)	37,754	740	2
Schools	24,459	(1,158)	24,983	(524)	(2)
Resources	18,261	(554)	18,068	193	1
Central Activities	12,299	(456)	10,785	1,514	12
Total	164,538	(10,319)	169,007	(4,469)	(3)
Housing Revenue Account	0	(53)	(108)	108	
Schools Delegated	75,442	(2,027)	75,578	(136)	(0)
Total including HRA and Delegated Schools	239,980	(12,399)	244,477	(4,497)	(2)

- 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 underspend of £245k a reduction of £593k on the £838k underspend projected at the end of October.

- 2.3 The deficit recovery plan has identified £2m of proposals that have been factored in to reduce the deficit. The delivery of a further £4.6m is explained in section 13.

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.

- 3.2 An additional £384k of savings has been achieved during the month, within Adult Social care, all other Service's unachieved savings remain the same. To date, £7.066m has been achieved (60% of the total), leaving £4.714m yet to be attained.

Financial Year	Target £'000	Delivered £'000	Variance £'000
2015/16	1,323	44	1,279
2016/17	841	476	365
2017/18	9,616	6,546	3,071
Total	11,780	7,066	4,714

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

- 3.4 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.

Forecasted sensitivity analysis of savings delivery			
	BASE	POTENTIAL	BEST CASE
Directorate	Current forecast - includes savings already delivered	Forecast if savings with RAG status Amber are delivered	Forecast if all savings are delivered
	£'000	£'000	£'000
People	-6,392	-6,096	-4,756
Place	740	1,008	1,768
Schools	-524	-524	-317
Resources	193	317	317
Central Activities	1,514	1,514	3,234
Total	-4,469	-3,781	245

- 3.7 To achieve an improved outturn position of £3.781m overspend, (medium confidence in savings delivery) an additional £688k of savings, will need to be delivered.

3.6 All services must aim to deliver their targets in order to achieve a balanced budget by year end. If all the savings were delivered, based on the current service projections an overall budget outturn of £245k would be achieved. A number of savings continue to be reported as RED and as the year progresses there is an increased risk that these will fail to be delivered. The risk within Children's services is of particular concern and in addition to the non-delivery of savings, the overspend in this service continues to rise and is the main contributor to the overall deficit position.

4 Reserves

4.1 The total revenue reserves held at 1 April 2017, together with the forecast addition/ (use) of reserves during the year and the projected year end balances as at 30th November, are set out in the table in Appendix C.

4.2 The revenue reserves held at the beginning of the year totalled £38.8m, with £8.6m held in the General Reserve and Specific and Ring fenced reserves of £28.4m. The forecast use of reserves to support the revenue budget during the year, (excluding Schools and HRA) is £10.3m.

4.3 Delivery of the agreed efficiency savings will reduce the draw on the general reserve, which is currently forecast at £5.2m, bringing the projected year-end balance to £3.3m. The revised forecast level of General Fund reserve as at 30th November 2017 is 2% of total net revenue budget (excluding Schools and HRA). This increases to 4.2% if the budget management reserve is included, and meets the 3% agreed strategy.

4.4 The Capital Financing Requirements allows for £1m of additional spending within capital, we have assumed this in our forecast to bridge the funding gap, by transferring monies from reserves set aside for capital to fund revenue instead.

5 Revenue Forecast

5.1 Appendix A confirms that the overspend of £4.469m relates to undelivered efficiency savings of £4.7m 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)

6. <u>People Directorate</u>	Net Working Budget:	£ 71,025k
	Net Forecast Expenditure:	£ 77,417k
	Variance (Over)/Under Spend:	£ (6,392)k
	October Forecast (Over)/Under Spend:	£ (6,125)k
	Change in Forecast	£ (267)k

6.1 Adult Social Care (ASC) - Net Budget £57,077k, Forecast Overspend £(1,908)k

6.1.1 The forecast position has improved by £194k from October. The key changes in month are:

- Further efficiencies of £383k have been delivered, mainly through identification of the how Reablement service has reduced home care packages after the intensive support intervention. The analysis of business intelligence data shows a real reduction in care hours across client packages after Reablement as well as cost avoidance of £88k associated with new clients accessing Reablement and remaining independent after the intervention rather than entering the care system.
- Increase in support of existing Learning Disability clients and an additional 3 mental health clients resulting in £75k and £137k part year cost respectively.

6.1.2 The service are preparing a report to demonstrate the need to draw down £500k from the ASC reserve to cover winter pressures and inspection readiness costs that are likely to be incurred in the last quarter of the financial year.

6.2 Children’s – Net Budget £13,150k, Forecast Overspend £ (4,499)k

6.2.1 The forecast overspend for Childrens Services has increased by £458k to that reported at the end of October, mainly due to the following:-

- Additional looked after child placement and changes to the service provision of the existing client base, resulting in further costs of £279k in year.
- Increase in capacity to deliver the Childrens Improvement Plan resulting in additional costs to date of £101k. Finance are working with the service to finalise the total in year cost which is expected to be in the region of £900k.
- Legal costs of £78k

7. <u>Place Directorate</u>	Net Working Budget:	£ 38,494k
	Net Forecast Expenditure:	£ 37,754k
	Variance (Over)/Under Spend:	£ 740k
	October Forecast (Over)/Under Spend:	£ 201k
	Change in Forecast	£ 539k

7.1 The Service areas within this directorate remain in a forecast underspend position and there has been a significant increase in underspend of £539k projected at the end of November.

7.2 As a result of the request to capitalise revenue expenditure, as set out in October’s Cabinet Finance report, a total of £564k of revenue expenditure has been capitalised; £466k in relation to structural maintenance schemes and £98k on waste and recycling bins and caddies.

8 <u>Schools Service</u> (non delegated)	Net Working Budget	£24,459k
	Net Forecast Expenditure	£24,983k
	Variance (Over)/Under Spend:	£ (524)k
	October Forecast (Over)/Under Spend:	£ (571)k
	Change in Forecast	£ 47k

8.1 Overall there has been very little change in the outturn forecast for Schools Service, the main change with the Home to School/College Transport forecast overspend

reducing by £39k to £527k. The review of all routes by the transport department and finance has now been completed, resulting in a slight reduction to that previously forecast.

- 8.2 A virement request is made to transfer £140k from Cleaning Services to Non Delegated Schools to cover the cleaning staff costs in schools that arose from job evaluation. Cleaning were fully funded for these pressures when all cleaning staff were under their control. Since cleaning staff are now in school control this budget needs to be transferred. In year this funding supports the Home to School Transport deficit. In 2018/19 it will be included within delegated schools budgets.

9	<u>Resources Directorate</u>	Net Working Budget:	£	18,261k
		Net Forecast Expenditure:	£	18,068k
		Variance (Over)/Under Spend:	£	193k
		October Forecast (Over)/Under Spend	£	205k
		Change in Forecast	£	(12)k

10	<u>Central Activities</u>	Net Working Budget:	£	12,299k
		Net Forecast Expenditure:	£	10,785k
		Variance (Over)/Under Spend:	£	1,514k
		October Forecast (Over)/Under Spend	£	2,030k
		Change in Forecast	£	(516)k

- 10.1 The reason for the change in forecast, is due to the capitalisation of revenue costs of £539k which have now been actioned and accounted for within the Place directorate forecast, whilst last month we accounted for it centrally.

- 10.2 The £500k relating to transformation capitalisations and the £1m relating to the reserve monies set aside for capital, which can now be utilised to fund revenue have been accounted for in the figures above.

- 10.3 There has been no further decrease due to discounts and exemptions granted in respect of Council Tax; the surplus remains at £500k.

11	<u>Schools Delegated</u>	Net Working Budget:	£	75,442k
		Net Forecast Expenditure:	£	75,578k
		Variance (Over)/Under Spend:	£	136k
		October Forecast (Over)/Under Spend	£	133k
		Change in Forecast	£	(3)k

- 11.1 The individual Schools Delegated budgets are forecasting a deficit reserves balance at the 31st March 2018 of £2.1m. The figures, where available, incorporates figures provided from the High Schools and the All Through School in accordance with the Scheme for Financing Schools of any update to their previous available forecast year end position.

- 11.2 The budgeted and forecast use of Schools Reserves is shown in the table below. The current information projects a £2.027m use of reserves.

	Opening Balance	Original Budgeted Contribution/ (Use)	Revised Budgeted Contribution/ (Use)	Forecast Underspend/ (Overspend)	Forecast Closing Balance
School Sector	£'000	£'000	£'000	£'000	£'000
Primary	1,608	(503)	(360)	1	1,249
Special	(259)	42	23	(30)	(266)
Secondary	(864)	(1,522)	(1,741)	(103)	(2,708)
Total	485	(1,983)	(2,078)	(132)	(1,725)
School Loans/Other	(493)	55	51	0	(442)
Total Balance	(8)	(1,928)	(2,027)	(132)	(2,167)

12 Housing Revenue Account

- 12.1 The Housing Revenue Account (HRA) is forecasting an underspend of £108k, but it is important to note the following:-
- 12.2. As previously reported voids are impacting on underachieved income of £137k along with an overspend of £147k in respect of repairs and maintenance to void properties. The service has reviewed its planned repairs and maintenance to mitigate the overspend.
- 12.3 Grounds Maintenance is currently showing an underspend, but this is due to there being issues with the maps that were used when drawing up the external contract. This has resulted in an increase in the contract for 2018/19 by £153k.

13 Deficit Recovery Plan

- 13.1 The October cabinet report set out £2m of actions to be pursued to mitigate and reduce the level of projected overspend, thus far Place have transferred capital costs currently funded from revenue totalling £564k. The current forecast also allows for a capitalisation direction of £500k for revenue transformation costs and £1m of additional spending within capital and we will utilise this to bridge the gap transferring monies from reserves set aside for capital to fund revenue instead.
- 13.2 Cabinet agreed that budget managers should look to minimise spend where possible, and refrain from all spend unless essential, this includes delaying recruitment where appropriate.
- 13.3 Management of Change and Contingency budgets are frozen and held for additional Children Improvement Plan costs likely to be incurred in the new year, not currently included in the overall forecast.
- 13.4 ASC are preparing a report to request the draw down of £500k from the ASC reserve to cover winter pressures and inspection preparatory work occurring in the new year. This report will need approval before funds are released.
- 13.5 Technical experts have set out the implications of changing the Minimum Revenue Provision (MRP) policy in order to provide a more prudent approach whilst generating annual revenue savings. MRP is the annual revenue charge that local authorities are required to make for the repayment of their debt liability in respect of capital

expenditure funded by borrowing. In Wales this provision is applicable to both General Fund (GF) and Housing (HRA) debt and an MRP allowance for supported borrowing is provided within the Revenue Support Grant (RSG) awarded to the Authority by the Welsh Government.

13.6 An explanation of the proposed MRP changes will be presented in a report to Cabinet and Council for approval in January as part of the annual MRP Statement. The financial implications are summarised below and allow for up to £4,624k to be used in this year to offset the deficit.

- The Adjustment A calculation represents an annual reduction to the debt liability that would otherwise arise when using the Capital Financing Requirement (CFR) as an ongoing capital debt liability assessment factor. A calculation of the CFR as at 31 March 2004, based upon the Prudential Code principles which could result in a permanent annual reduction in MRP for supported borrowing of £48k per annum. A one off benefit can be taken by the council in 2017/18 of £624k which equates to the annual reduction of £48k backdated over 13 years.
- Calculation have been completed to confirm the savings that could be made if adjustments to the current years calculations to apply the straight-line policy of 2% retrospectively. The impact of applying the retrospective application of 2% would repay the 2007/08 liability a full 8 years earlier and effectively move the start of the 50 years back to 2007/08. This means that the liability will be reduced to nil in 2057 years rather than in 2065. Over the years 2007/08 to 2016/17, the Authority would have charged a total of £17.584m less MRP on the General Fund CFR balance as at 2007/08 if it had adopted the 2% straight line method on its historic/supported debt in 2007/08. The benefit of this approach is to release an annual amount into revenue, suggested at £4m in 2017/18, £5m in 2018/19 and 2019/20 and the balance in 2020/21.

14 **Options Considered/Available**

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

15 **Preferred Choice and Reasons**

None to consider.

16 **Impact Assessment**

Is an impact assessment required? Yes/No

17 **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.

18 **Local Member(s)**

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

19 **Other Front Line Services**

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

20 **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.

21 **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.

22 **Scrutiny**

Has this report been scrutinised? Yes / No

23 **Statutory Officers**

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

As with previous reports to Cabinet the position is a 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.

The actions identified within the Deficit Recovery Plan must now be implemented to reduce the level of projected deficit currently being forecast and to bring the budget back to as near a balanced position as possible. This is essential to limit the impact on the General Fund reserve and to safeguard the council's financial position.

The increasing demand within Children Services and the implementation of the improvement plan continues to be the main financial challenge for the Authority. It is essential that the costings developed to support the plan are robust in order to provide the appropriate level of financial resource and governance.

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

The Monitoring Officer has no specific concerns with this report.

24 **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 by Cabinet; and</p> <p>b. Cabinet supports appropriate action by services to curtail or reduce the reported forecasted service deficits.</p> <p>c. Revenue virement as set out in paragraph 8.2 is approved</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.

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	Fax	E mail
Jane Thomas	01597 826341	01597 826290	jane.thomas@powys.gov.uk

Forecast Outturn and Undelivered Savings as at 30th November 2017

Service Area	Net Budget	Forecast Spend	Variance (Over) / Under spend	Total Unachieved Savings as at 30th November 2017	Service Under/(Over) spend excl. unachieved savings	Variance (Over) / Under spend as a % of Net Budget	Variance BRAG status
		£'000	£'000	£'000	£'000	%	
People							
Adult & Commissioning	57,077	58,985	(1,908)	(534)	(1,374)	(3.3)	R
Children Services	13,150	17,649	(4,499)	(1,101)	(3,398)	(34.2)	R
Housing General Fund	798	783	15	0	15	1.9	B
Place							
Leisure & Recreation	9,207	9,087	120	0	120	1.3	B
Regeneration, Property & Commissioning	8,906	8,816	90	(84)	174	1.0	B
Highways, Transport & Recycling	20,381	19,851	530	(944)	1,474	2.6	B
Schools							
Schools Service	24,459	24,983	(524)	(207)	(317)	(2.1)	R
Resources							
Business Services	6278	6,303	(25)	(92)	67	(0.4)	G
Information Services	4,588	4,587	1	(32)	33	0.0	G
Legal Services	3,030	2,955	75	0	75	2.5	B
Financial Services	1,877	1,771	106	0	106	5.6	B
Workforce, OD & Comms	2,488	2,452	36	0	36	1.4	B
Service Area Totals	152,239	158,222	(5,983)	(2,994)	(2,989)	(3.9)	
Central Activities	12,299	10,785	1,514	(1,720)	3,234	12.3	B
Total	164,538	169,007	(4,469)	(4,714)	245	(2.7)	
Housing Revenue Account (HRA)	0	(108)	108	0	108		G
Schools Delegated	75,442	75,578	(136)	0	(136)	(0.2)	G
Total including HRA	239,980	244,477	(4,497)	(4,714)	217		

EFFICIENCY TRACKER AS AT 30th November 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	%
Place							
Highways Transport & Recycling	151	364	1,839	2,354	1,410	944	60%
Regeneration, Property & Commissioning	14	35	399	448	364	84	81%
Leisure & Recreation	0	0	730	730	730	0	100%
Place	165	399	2,967	3,532	2,504	1,028	71%
Schools							
Schools	158	88	1,619	1,865	1,658	207	89%
Schools	158	88	1,619	1,865	1,658	207	89%
People							
Adult	0	0	2,231	2,231	1,697	534	76%
Children Services	0	1	1,101	1,101	0	1,101	0%
People	0	1	3,332	3,333	1,697	1,636	51%
Chief Executives							
Chief Executives	0	0	250	250	250	0	100%
Legal	0	12	28	40	40	0	100%
Chief Executives	0	12	278	290	290	0	100%
Resources							
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%
Resources	999	340	1,421	2,760	917	1,844	33%
Grand Total	1,323	841	9,616	11,780	7,066	4,714	60%

RESERVES TABLE AS AT 30th NOVEMBER 2017

APPENDIX C

Summary	Opening Balance (1st April 17) Surplus / (Deficit)	Forecast Addition / (Use) of Reserves	Forecast (Over) / Under Spend	Projected Balance (31st March 18) Surplus/ (Deficit)
	£`000	£`000	£`000	£`000
General Fund	8,585	(778)	(4,469)	3,338
	8,585	(778)	(4,469)	3,338
Ringfenced & Specific Reserves				
Budget Management Reserve	3,484	100		3,584
Specific Reserves	1,902	(285)		1,617
21st Century Schools Reserve	6,297	(1,581)		4,716
Adult Services Reserve	2,750	0		2,750
Regeneration Reserve	100	100		200
Invest to Save & Corporate Initiatives (inc J)	5,300	(562)		4,738
Insurance Reserve	2,394	(46)		2,348
Transport & Equipment Funding Reserve	6,199	(7,238)		(1,039)
Sub-Total	28,426	(9,512)	0	18,914
Schools Delegated Reserves	486	(2,078)	(136)	(1,728)
School Loans & Other Items	(494)	51		(443)
Net School Delegated Reserves	(8)	(2,027)	(136)	(2,171)
Total Ringfenced & Specific Reserves	28,418	(11,539)	(136)	16,743
Housing Revenue Account	1,761	(82)	108	1,787
	1,761	(82)	108	1,787
Total Revenue Reserves	38,764	(12,399)	(4,497)	21,868