

CYNGOR SIR POWYS COUNTY COUNCIL.

CABINET EXECUTIVE

24th March 2020

**REPORT AUTHOR: County Councillor Aled Davies
Portfolio Holder for Finance**

**REPORT TITLE: Financial Overview and Forecast as at 29th February
2020**

REPORT FOR: Decision

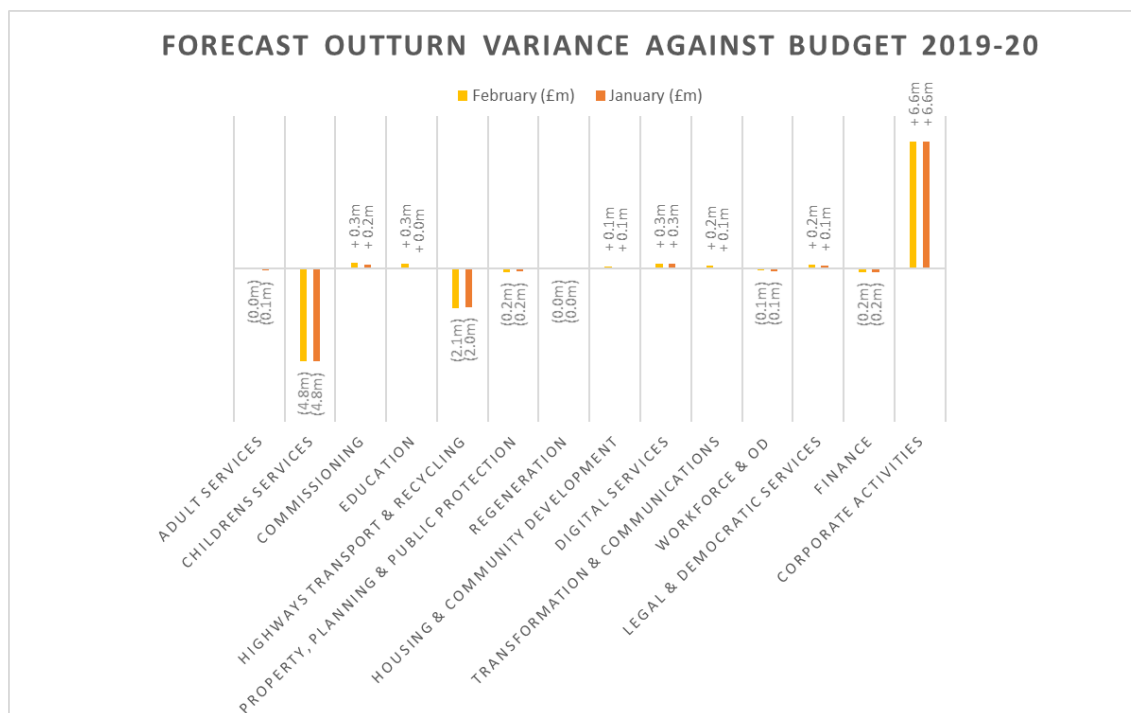
1. Purpose

- 1.1 To provide Cabinet with an updated forecast outturn position for the 2019-20 revenue budget as at 29th February 2020.
- 1.2 It also proposes a virement to adjust the revenue budget within the IT budget.

2. Overview

- 2.1 The forecast as at 29th February 2020 shows an underspend at year end of £583,000 compared to a forecast underspend of £6,000 at the end of January 2019. This improvement is as a result of the delivery of additional cost reductions.
- 2.2 Subject to the delivery of further expected cost reductions in March, the outturn is projected to improve further by £900,000, however, several significant events will now impact on this forecast. The additional costs incurred in managing the consequences of the February Storms is not yet confirmed. There will be support provided by Welsh Government through the Emergency Financial Assistance Scheme (EFAS) but the level of grant awarded will not be confirmed for some time. In addition the emerging situation with the COVID 19 virus will also have a impact on the Council. These will inevitably change the projected financial position and will potentially impact negatively on the Council Reserves.

3. Revenue Position



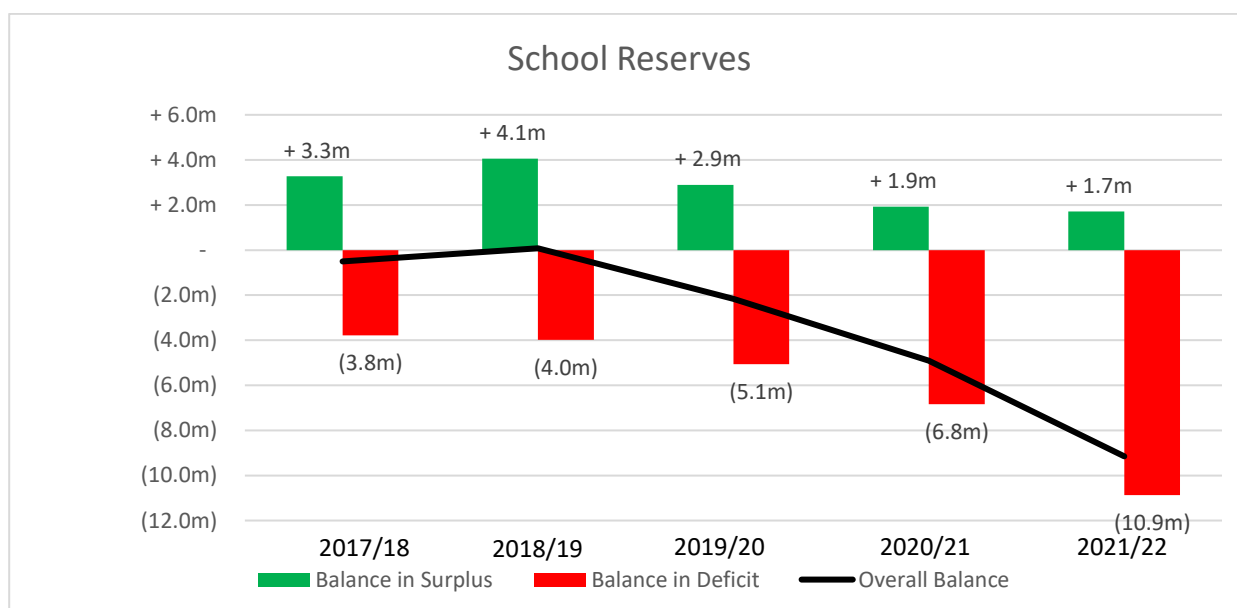
- 3.1 The chart above shows the variance against budget for each service, and how this position has changed since that reported in January. Due to changes in reporting structures the Regeneration section is being reported separately and Outdoor Recreation and Catering and Cleaning have moved from Housing and Community Development to Highways, Transport and Recycling and Property, Planning and Public Protection respectively. The January figures above have been restated to reflect this change.
- 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 Estimates suggest that £1.5 million of costs have been incurred in dealing with the immediate response to the February Storms. In addition, further substantial costs for the repair of structural damage could double this figure. We have registered the impact of the event with Welsh Government under the Emergency Financial Assistance Scheme (EFAS), and have to provide details on the costs later this month. The council will be expected to meet an initial threshold of £517,909 before any support is granted. Above the threshold, grant would normally be paid at a rate of 85% of eligible expenditure. Managers are currently working through the eligibility criteria in order to submit our claim.
- 3.4 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 £1.29 million. The reserves were originally set aside to fund specific projects, and to support the vehicle and equipment capital replacement programme.
- 4.2 Cost reductions are not reflected in the outturn position until they are achieved. The improved forecast as at 29 February 2020 reduces the impact on our General Fund reserve. A planned contribution from the reserve will result in a projected balance of £9.6 million (5.6% 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)	620	9,598
Budget Management Reserve	3,584	0	0	3,584
Specific Reserves	7,909	(832)	(37)	7,040
Transport & Equipment Funding Reserve	6,493	(330)	0	6,163
Sub-Total	27,051	(1,249)	583	26,385
Schools Delegated Reserves	78	(2,621)	89	(2,454)
School Loans & Other Items	(371)	7	0	(364)
Housing Revenue Account	1,111	2,168	116	3,395
Total	27,869	(1,695)	788	26,962

- 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 £2.62 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 £2.45 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.

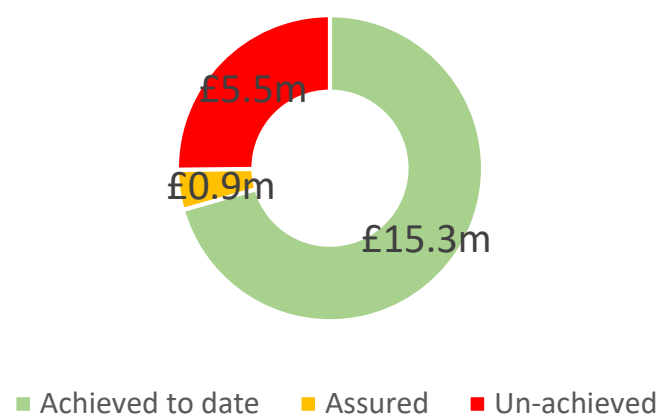
4.5 The 2020-21 budget approved by Council on 28th February includes funding to help meet the pressures faced by schools, including pay and price pressures and this will assist in stabilising school budgets. This will not remove the need for Governing bodies to take action to reduce deficits and further 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 29th February, £15.32 million had been delivered, comprising £9.42 million of cost reductions and £5.90 million of pressures managed by Social Care.

5.2 Assurance has been provided that further cost reductions / pressures of £0.92 million can be delivered or managed this year although as there is only one month of the financial year remaining so the full year effect may not materialise. These have been allocated an Amber RAG status. The remaining £5.45 million is unachievable in the current financial year and is therefore recorded as Red. These comprise of £3.06 million of cost reductions and £2.39 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 be delivered recurrently in 2020-21 and the 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 Virement for Approval

The WCCIS project is a joint project with the health board funded on a 50:50 basis. The Council's funding is provided by the services revenue base budget together with an annual contribution from a specific reserve which has been set aside to fund the project. The project is being implemented over 3 years and costs are higher in the current financial year than originally profiled. A virement is requested to increase the requirement from the Welsh Community Care Information System (WCCIS) specific reserve to £583,000 for the current financial year.

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, once again supported by an increase in the level of cost reductions delivered. However the delivery of a balanced budget for the financial year ending 31st March 2020 is now under considerable pressure due to the impact of the February Storms and the COVID 19 response.
- 8.2 The costs incurred in dealing with the impact of the storms, and the level of support granted by Welsh Government will be confirmed over the next few weeks. We will then better understand how this will impact on the outturn position and the impact this will have on the Councils reserves.

- 8.3 The impact of COVID 19 cannot yet be quantified but undoubtedly this will impact on the Council, the financial impact is however now more likely to effect next financial year.
- 8.4 Assurance continues that further cost reductions can be achieved in the final month of the year. This supported by the removal of undeliverable cost reductions as agreed in the Council's budget will strengthen and stabilise the councils base budget as we move into the new financial year.
- 8.5 Some risk remains that pressures in Adult Social Care could still rise but as the winter months pass this risk reduces.
- 8.6 Any further slippage in the Capital Programme or the receipt of additional grant funding will also impact on the revenue budget.
- 8.7 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 Virement in Section 7.1 above is 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	65,000	(8)	(0.0)	G
Childrens Services	20,571	25,403	(4,832)	(23.5)	R
Commissioning	3,191	2,899	292	9.2	P
Education	21,910	21,640	270	1.2	A
Highways Transport & Recycling	29,990	32,042	(2,052)	(6.8)	R
Property, Planning & Public Protection	6,708	6,871	(163)	(2.4)	R
Regeneration	1,124	1,155	(31)	(2.8)	R
Housing & Community Development	5,890	5,788	102	1.7	A
Digital Services	4,963	4,689	274	5.5	P
Transformation & Communications	1,766	1,613	153	8.7	P
Workforce & OD	1,366	1,453	(87)	(6.4)	R
Legal & Democratic Services	3,163	2,967	196	6.2	P
Finance	4,945	5,119	(174)	(3.5)	R
Corporate Activities	14,768	8,125	6,643	45.0	P
Total	185,347	184,764	583	0.3	
Housing Revenue Account (HRA)	0	(116)	116		G
Schools Delegated	69,840	69,751	89	0.1	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	65,000	(8)	(0.0)	G

HOS Comment

From a position of commencing the year with £9.5m pressure, this is an excellent budget position at this point in the financial year. There are continuing risks with regards to winter pressures monies and the full year impact of this short term Welsh Government investment. The service is also aware of pressures that may arise from coronavirus contingency planning.

It is anticipated that the service will finish the financial year with a balanced 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	%	
Childrens Services	20,571	25,403	(4,832)	(23.5)	R

HOS Comment

Children's Services began the year having identified potential pressures of £6.25m that were not funded. 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, the gap has reduced by more than £1.4m.

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	3,191	2,899	292	9.2	P

HOS Comment

The restructure and managing of vacancies have enabled this positive variance. These posts will be filled during the coming months into 2020/21.

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	21,910	21,640	270	1.2	A
Schools Delegated	69,840	69,751	89	0.1	R

HOS Comment

The Schools Service (excluding Schools Delegated Budgets) has a projected year end underspend of £270k.

The main reasons for this overspend and changes are:

- Schools Central is forecast to underspend by £118k due to a £78k general underspend on Various heading that no longer need to be committed and a £63k under on the Early Retirement costs. These are then offset by £33k overspend on Suspended Teachers cover costs.
- School Improvement is showing a £41k underspend mainly due to staff reductions in the Athrawon Bro Area.
- Schools Operational is forecasting a £461k overspend. This is mainly due to Property Plus projecting to be £200k overspend due to emergency commitments. This has gotten dramatically worse this month due to the flooding damage that was caused by recent storms. Freedom Leisure contract inflation amounting to £122k (19-20 £70k plus £50k 18-19) with no change here since last month. £66k shortfall on School Central Support Services team –The main items contributing to this are budget reductions to be found of £43k that will not be found in this year. There is also £27k in relation to Exam fees that are not covered by budget. This area has improved by £3k since last month. There is Shortfall on rates funding and a HOWPS maintenance overspend amounting to £53k on Asset Management.
- Pupil Inclusion is showing a forecast underspend of £548k. This is due to Savings made on out of county placements and increased income on inter Authority recoupment.
- Youth Services are forecast to be £25k underspent due to utilising gran funding to offset existing costs in the service.

Schools delegated

The projected outturn on this area is £89k underspend. The reasons for the overspend in this area are due to:

- Schools Delegated Other is forecast to be £277k overspent by year end. This is due to £120k Efficiency Target brought forward from 18-19 in relation to school closure that has not been found to date. There is also a non-achievement of income from schools in relation to Insurance recharges amounting to £110k.
- Schools Delegated Budgets are now forecasting to be £365k underspent at year end however this is offset by the budgeted use of reserves amounting to a draw on them of £2.6M. This forecasts that school balances on reserves will be a deficit of £2.2M at year end. This has improved from the original Cabinet position by £1M throughout the 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	29,990	32,042	(2,052)	(6.8)	R

HOS Comment

The forecast overspend is largely made up of £1.3M unachieved savings to date, This will reduce by year end, leaving an actual budget overspend of c£700k. Improvements in Waste & Recycling Operations continue to significantly reduce the level of overspend from last year, whilst an insufficient Welsh Government Grant support for current Public Transport services means a budget overspend in for this 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	%	
Property, Planning & Public Protection	6,708	6,871	(163)	(2.4)	R

HOS Comment

Unachieved savings 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. This area now includes the Catering Service which is forecasting an overspend and will not achieve its savings target for this financial year. There was a reduction in the uptake of school meals following the price increase in April 2019. The Service has worked hard to reduce the overspend as far as possible, by monitoring staffing hours and promoting school meals. As a result there has been some increase in 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	%	
Regeneration	1,124	1,155	(31)	(2.8)	R

HOS Comment

The un-achieved savings target of £150k in this area has largely been mitigated by increased income from the EU transition fund and an underspend in the Regeneration strategy 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	%	
Housing & Community Development	5,890	5,788	102	1.7	A
Housing Revenue Account	0	(116)	116		G
<u>HOS Comment</u>					
Housing & Community Development: Savings have been made in this area but are offset by an anticipated overspend on Y Gaer of £69k mainly as a result of un-achieved savings of £50k.					
Housing Revenue Account: Any underspend in this area will be transferred to the HRA Reserve at year-end.					

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	4,689	274	5.5	P
<u>HOS Comment</u>					
The forecast under spend of £274,000 comprises an underspend of £157,000 on the Digital Services budget and an underspend of £117,000 on the Pooled Fund managed under a Section 33 Agreement with Powys Teaching Health Board. The underspend has arisen due to staff vacancies, including posts held vacant to deliver planned 2020-21 cost reductions as well as some in year savings against contracts. Any recurrent impact of the underspend has been taken into account in the 2020-21 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	%	
Transformation & Communications	1,766	1,613	153	8.7	P
<u>HOS Comment</u>					
The service remains vigilant with its spending, has overachieved on income and has retained a post in readiness for cost reduction in 2020/21. There are also a few vacancies that are in the recruitment process.					

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	1,453	(87)	(6.4)	R

HOS Comment

Out of the revenue savings required for the WOD service in 2019/20, a balance of £226k remains. A further £26k of base budget savings will be achieved during the current year, leaving a base budget pressure of £200k. Further in-year one off savings will reduce this pressure to c£87k by the year end.

It should be noted however, that whilst in-year savings will help to part mitigate the pressures in this way, they will not improve the recurring base budget pressure, which is forecasted to be c£200k

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	%	
Legal & Democratic Services	3,163	2,967	196	6.2	P

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	4,495	5,119	(174)	(3.5)	R
Corporate Activities	14,768	8,125	6,643	45.0	P

HOS Comment

The Finance Service budget is now projecting an overspend due to insurance excesses exceeding the budget allocated. The shortfall will be funded from the insurance reserve. The other areas of the service continue to project a balanced position despite £0.12 million savings not achieved.

The Corporate Activities budget continues to report a significant underspend of £6.643 million. £3.60 million forecast underspend on the capital charges' budget - Last year's 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 a surplus of £1m projected on Council Tax collection.