

CYNGOR SIR POWYS COUNTY COUNCIL.

CABINET EXECUTIVE

28th July 2020

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REPORT TITLE: Financial Forecast for the year ended 31st March 2021
(as at 30th June 2020)

REPORT FOR: Decision

1. Purpose

- 1.1 To provide Cabinet with an updated assessment of the potential impact the Covid 19 pandemic could have on the Council's revenue budget for 2020/21 and the measures that need to be considered to limit the financial impact on the Council over the immediate and longer term.

2. Overview

- 2.1 Cabinet received a report on the 5th May 2020 which provided an early assessment of the potential impact the pandemic could have on the financial position of the Council for the financial year 2020/21. This initial assessment was clear that the virus would have an unprecedented detrimental financial impact on the Council, and without further support from the Welsh Government (WG), the Council may not be able to financially sustain itself for the current financial year.
- 2.2 The report highlighted that there are many unknowns and that it is difficult to accurately reflect the impact with any certainty. The situation has and continues to evolve with many restrictions still in place.
- 2.3 The Council continues to respond to these changes as they arise, some services continue to deal with the specific challenges of the pandemic, others have continued with varying degrees of service delivery and many are now planning for the lifting of some restrictions as they are applied over the coming weeks.
- 2.4 The need to review and reassess the council's finances in line with the changes imposed is critical to understand and manage the impact on our budget and to consider what action may be needed to protect our financial position.
- 2.5 Discussions continue with WG and the Welsh Local Government Association (WLGA), several funding streams have already been made available and more support is expected. Initial assessments on the financial impact have been updated and submitted to inform the ongoing debate and further information has been provided by all Local Authorities across Wales estimating the financial impact for the 2nd quarter of the year.
- 2.6 This updated assessment shows the impact of the pandemic on the council's revenue budget for the first quarter of the year which reports a deficit of £10.7m.
- 2.7 The full year position has also been reviewed and updated, assumptions have been made based on current understanding of the restrictions and future expected changes have also been considered. The full year budget is now projected to be in a deficit

position of £13.01 million (excluding Schools Delegated and Housing Revenue Account).

- 2.8 Cost reductions of £5.37 million have been achieved to date 43% of the total required, a further £2.21 million are assured of delivery by Heads of Service, this would reduce the projected full year deficit to £10.8 million if achieved.
- 2.9 The position reflects the funding provided by WG to date. Further support is expected to support loss of income but until the allocation is confirmed this is not included.
- 2.10 Even with further WG support the Council is facing a significant deficit and corrective action must be considered to reduce the deficit further. This will ensure that the budget for the current year is managed effectively, limiting the use of reserves, and importantly reducing the financial pressure on future years to ensure the sustainability of the Council. Our Medium Term Financial Strategy is already extremely challenging with significant budget gaps over the next 4 years. We can only expect this challenge to be greater as future financial settlements come under more pressure as a result of Government spending to support the pandemic.
- 2.11 The Strategy will now be reviewed, funding assumptions revisited, and the revised budget gaps calculated. Clear plans will be developed through the recovery work to bridge the budget gaps over the life of the plan. We cannot under estimate the significant challenge facing the Council in balancing the financial position over many years to come, there will be difficult choices to make, and the clear prioritisation of resources that deliver realistic outcomes is the key to our success.

3. Revenue Position – Quarter 1

- 3.1 The pandemic has had a considerable impact on the Councils budget during the first quarter of the year. Appendix A provides a breakdown of the deficit by service for quarter one, broken down into cost pressures, cost underspends, service reductions not yet delivered and loss of income. The indicative deficit is £10.78 million for the quarter (excluding schools and the HRA).
- 3.2 The deficit includes cost reductions still to be delivered totalling £7.08 million which will improve when the assured reductions of £2.21 million are achieved. Both Services and Council Tax collection have seen a £5.1 million reduction in income, the projections are expected to improve in the second quarter as some Services resume and income collection starts to improve. Section 4 provides greater detail of the main areas of variance as part of the annual forecast.
- 3.3 We have not yet received confirmation from WG as to what level of support the Council can expect for loss of income, the figure is likely to be netted off by underspends for this activity. Indicative estimates of £2.5 million have been submitted to Welsh government, but as yet there is no commitment to fully fund this.
- 3.4 If Services deliver their cost reductions in full and we receive a significant element of the lost income then the overall forecast will improve dramatically.
- 3.5 Subjective analysis set out in Table 1 below compares spend this quarter against the same quarter last year, and the underspends can be linked to the reduced service delivery models due to Covid-19.

Table 1 – Examples of Quarter 1 Underspend against 2019/20

£'000	2019-20	2020-21	Variance	%
Utilities	415	141	273	66%
Staff Travel	317	118	198	63%
Vehicle Hire, Fuel etc	581	514	66	11%
Transport	2,146	1,565	582	27%
General Office Expenses	160	96	64	40%
	3,619	2,435	1,184	33%

3.6 These underspend will support service areas to mitigate cost pressures and unachieved income, as they manage their budget position.

4. Revenue Position – Projected Full year forecast

4.1 The forecast set out in Table 2 shows a projected full year overspend of £13.01 million or 6.8% based on the position at the end of June (excluding HRA and delegated schools). The financial pressure is also being felt by our Schools and HRA with a further £0.47 million deficit projected for these ring-fenced budgets. An overall net deficit of £12.51 million is forecast for the Council.

Table 2 – 2020/21 Revenue Forecast Outturn by Service

Service Area	Working Budget	Forecast Spend	Variance (Over) / Under Spend	Variance (Over) / Under Spend %	Variance BRAG Status
Adult Services	63,974	68,697	(4,723)	(7.4)	R
Childrens Services	25,960	27,491	(1,531)	(5.9)	R
Commissioning	3,192	3,149	43	1.3	A
Education	19,385	19,062	323	1.7	A
Highways Transport & Recycling	33,749	37,102	(3,353)	(9.9)	R
Property, Planning & Public Protection	7,771	10,144	(2,373)	(30.5)	R
Regeneration	907	1,073	(166)	(18.3)	R
Housing & Community Development	5,990	5,990	0	0.0	B
Digital Services	4,702	5,055	(353)	(7.5)	R
Transformation & Communications	1,752	1,675	77	4.4	P
Workforce & OD	1,850	1,911	(61)	(3.3)	R
Legal & Democratic Services	3,211	3,415	(204)	(6.4)	R
Finance	6,201	6,385	(184)	(3.0)	R
Corporate Activities	13,081	13,589	(508)	(3.9)	R
Total	191,725	204,738	(13,013)	(6.8)	
Housing Revenue Account (HRA)	(1,169)	(1,645)	476	(40.7)	G
Schools Delegated	78,883	78,863	20	0.0	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 remains to be shown as Red. This highlights the level of deficits recorded in Schools.*

- 4.2 The service forecasts are based on a wide range of assumptions and must be viewed in this context. Heads of Service have considered the constraints currently imposed and how these may move and change as the year progresses. They have made judgements about their service cost pressures and underspends, alongside their ability to deliver the cost reductions approved at budget setting and the ongoing impact of lost/reduced income levels due to the effects of covid-19.
- 4.3 Table 3 below summarises the projected full year position for each of these categories across the Council's services including HRA and delegated schools. Further detail for each service area is provided in Appendix A and Heads of Service provide their individual narrative in Appendix B.

Table 3 – Summary Forecast

	£'000
Base Budget	269,439
Cost Pressures	4,290
Cost Underspends	(7,784)
Cost Reductions Shortfall	7,077
Lost Income	8,933
Forecast Outturn	281,954
Overspend	12,515
Overall Gap	12,515

- 4.4 **Cost Pressures** – These cost pressures exclude those service pressures which are reclaimable against the WG Covid-19 Hardship Fund. The main cost pressures are:

4.4.1 Adult Social Care:

- £0.95 million relating to the cost of proving home care for an additional 960 hours per week. These hours were identified as a cost pressure as part of budget setting, but for over a year there was a lack of resource available to deliver these hours. Due to the recent economic situation there have been successful recruitment campaigns and all additional hours are being delivered.
- Transitional costs relating to young adults transferring from Childrens Services £391,000, who require ongoing care. These are part year costs and the full year effect will be in excess of £500,000.
- Due to the Covid-19 pandemic some Supported Living tenders were placed on hold and an agreed interim contract is in place which costs an additional £575,000. When the tender is advertised it will include the realignment of service user hours and the maximisation of enabled technology care which should reduce the overall cost.
- £227,000 relates to the redeployed staff from across the Council who are supporting Adult Social Care (ASC) activities, the staff will have a base budget elsewhere in the council, and those services will have identified staffing underspends, in the overall budget this has a net nil effect. At this time the service is mitigating these by staff slippage.

4.4.2 Highways, Transport and Recycling:

- Passenger Transport, cost of delivery from external contractors has increased by £390,000 and has arisen out of the retendering of contracts.
- Increased kerbside collection costs of £526,000 for paper and card resulting from increased tonnages of kerbside waste and the cost of disposing of paper and card where previously this generated an income.

4.4.3 Property services have a forecast increase of £280,000 relating to statutory testing fees which relates to an increase in contractor costs as part of the contract renegotiation.

4.4.4 Housing have a staff overspend of £121,000, relating to HRA staff that have been redeployed to support Homelessness. These costs cannot be reclaimed from the Covid-19 funding, as there is a base budget in the HRA.

4.4.5 An increase in the number of benefit claimants has seen eligibility for the Council Tax Reduction Scheme increase. Caseload has risen from 9,500 to 10,050 this quarter and the budget of £10.3 million is likely to be exceeded by £600,000 due to the additional demand. There may be further demands due to the time lag in claims, scenario modelling has suggested a greater deficit, up to £1 million arising at the end of the Job Retention Scheme (JRS). This pressure forms part of the ongoing discussions with Welsh Government requesting additional financial support.

4.5 **Cost Underspends** – The main cost underspends are as follows:

4.5.1 Education forecast £446,000 of underspends due to reduced or non-delivery of services during the pandemic and service underspends, mainly within School Improvement and Pupil Inclusion due to some service activities ceasing and staffing slippage.

4.5.2 Highways, Transport and Recycling

- Most Home to School transport did not operate from April to June, and there is a forecast underspend of £398,000. Operators have received 75% of contract value if not operating as per Welsh government instruction for these months.
- Household and waste recycling centres were closed in April and into May the cost saving is £255,000.

4.5.3 Property, Planning and Public Protection (PPPP)

- Whilst the costs of catering provisions are forecast to be reduced by £1.26 million, this does not offset the loss of income. It is assumed within this forecast that school canteens will remain closed until September and that a fifth of the income will be received from September. The payments to Free School Meals pupils have been increased by WG because of COVID-19 and the increase in the cost is being reclaimed through the COVID grant.
- Within Property Services there are underspends due to the Covid-19 situation and homeworking resulting in Energy Management underspends of £89,000 and utility costs of £100,000.

4.5.4 Housing, Community Development and Regeneration

- Gypsy sites are reporting a forecast outturn under spend of £92,000. The cancellation of the Royal Welsh show is contributing to the saving. Due to Covid-19, the planned works on Gypsy sites may not be undertaken, the only exception

being the Machynlleth site which will be developed in due course and may require support from the proposed underspend.

- The Housing Revenue Account is reporting a forecast outturn underspend of £476,000, this is mainly as a result of an assumed reduction in expenditure on repairs and maintenance along with savings made because of staff redeployment to Homelessness

4.5.5 Across the Council there are a number of service areas with staffing underspends due to their staff being redeployed into other services, such as libraries and planning services who provided support to ASC. This creates a cost pressure within the services utilising the resource. Within Highways there is an underspend of £278,000 due to vacant posts and reduced private contractor spend. For PPPP they have a £250,000 staff underspend, for ASC they have £348,000 in part due to redeployment and vacancies. The majority of the underspend in Digital Service £168,000 is due to managing staff vacancies across the teams.

4.5.6 There is a centrally held risk budget of £1.5 million, of which £1 million is forecast to offset the outturn position. This budget is there to underpin areas of risk including the funding of the pay award above 2%.

4.5.7 The council has a significant capital programme which is detailed in a separate report. Although funding is in place to fund for the programme, delivery will depend upon the continued ability of the construction industry to maintain social distancing on sites, the availability of materials through the normal supply chains, and the availability of project management and other consultancy resources. As part of budget setting we prudently assumed only a 70% delivery level for borrowing estimates, and a recent review of the profiling of the schemes identified many schemes that are further delayed this year and this will reduce the need to borrow, at this time we have assumed an underspend of £1 million.

4.6 **Cost Reduction Delivery Shortfall** - Prior to the covid-19 the council's budget included cost reductions of £12.39 million for delivery during 2020/21. The delivery of many of these is now at risk. It is essential that these proposals are progressed wherever possible to limit the impact on the budget position. Section 5 of this report provides further detail.

4.7 **Lost Income** - At this stage of the year the council is already experiencing a significant loss of income associated with the temporary ceasing of charges and reduced levels of trading. The forecast outturn relies upon assumptions about the timing and usage as lockdown gradually eases. The overall estimate on the loss of income from fees and charges across the council is likely to be around £6 million for the year.

- Car parking forecast £1.03 million
- Waste (trade, bulky and recyclable income) £746,000
- Public transport £500,000
- Catering (mainly school meals) £2.89 million.
- Regulatory Services are reporting a forecast outturn over spend of £305k due to reduced income forecast in Development Management and Trading Standards
- There are further £205,000 unachieved income targets due to land charges and registration fees.

- 4.7.1 Council Tax collection has rallied in May against the April position where many payments were delayed. Collection was down by 7.5% in April, 3% in May and 1.19% in June, with £0.95 million outstanding. At this stage of the year projections have been estimated on a Council Tax collection rate of 95.3% a shortfall of £1.9 million from the 97.5% expected. It is hard to predict whether collection rates will rally or reduce again at the end of the job retention scheme.
- 4.7.2 The impact on the collection of Business Rates is likely to be significant, collection was 38% down for April and 11% in May resulting in a £1.75 million shortfall, this is after the WG business rate relief of £10.3 million has been applied. It is hard to predict the outturn against the annual £32 million budget, currently it is assumed that £3 million will not be collected in year, of this £2m may be collected in future years and circa £1 million may never be collected, reducing the in year collection rate from 98% to 89%. Due to the pooling arrangements for Business Rates this shortfall will not fall upon the Council but will be met by WG. The impact of permanent reductions in Business Rates across Wales will have a significant impact on future WG budgets.
- 4.8 **Other Considerations** - The Council has furloughed 199 staff to mitigate the loss of income for the period 23rd March to 10th June and our claim totalling £205,700 has been settled by the HMRC under the Job Retention Scheme. A further £190,000 will be reclaimed for June and July.
- 4.9 Storm/flood costs continue to be incurred by Highways associated with the recovery phase of the storms endured in February 2020, £0.69 million of costs have been incurred this year to date. It is assumed that these costs will be funded by Welsh Government to a level of 85%.

5. Cost reductions

- 5.1 In March 2020 the Council approved cost reduction proposals of £10.79 million. In addition, undelivered cost reductions in 2019/20 of £1.60 million have been rolled forward for delivery in the current year. This increases the value of cost reductions required during 2020/21 to £12.39 million.
- 5.2 The summary at Table 4 shows that 43% or £5.37 million have been delivered and a further 18% £2.21 million are assured of delivery by Heads of Service. £4.82 million, 39% are unachieved and are at risk of delivery.

Table 4 – Cost Reductions Summary

Service	£'000	To Be Achieved	Actually Achieved	Assured	Un-achieved	% Achieved
Adult Services		4,070	1,032	(48)	3,086	25%
Childrens Services		2,496	974	1,173	349	39%
Digital Services		771	396	325	50	51%
Education		701	578	82	41	82%
Finance		426	276	-	150	65%
Central Activities		870	1,000	45	(175)	115%
Highways Transport & Recycling		1,109	290	439	379	26%
Housing & Community Development		218	143	16	59	66%
Regeneration		326	135	-	191	41%
Legal & Democratic Services		331	169	-	162	51%
Property, Planning & Public Protection		784	279	72	433	36%
Transformation and Communication		85	85	-	-	100%
Workforce & OD		209	10	103	96	5%
Total		12,394	5,365	2,206	4,823	43%
			43%	18%	39%	

- 5.3 Appendix B provides Service Heads comments explaining their progress to date and ability to deliver these targets through the year.
- 5.4 Although the table suggests that 39% (£4.82 million) of the planned cost reductions will not be delivered in year, this is likely to change as services start to have capacity to consider delivering their original targets or making revised plans. The current requirement to focus on Covid-19 has transferred resources away from delivering these at this time.

6. Welsh Government Support

- 6.1 A survey undertaken by the WLGA in April was submitted to Welsh Government setting out the estimated additional costs and the anticipated loss of income for the Council due to the impact of covid-19. The estimates covered the 1st quarter of the year April - June 2020. This survey provided evidence to WG about the significant financial pressures being faced by Local Authorities across Wales and has been instrumental in getting WG agreement to support a package measures, in the form of the Covid 19 Hardship Fund.
- 6.2 WLGA have repeated this survey across all councils to assess the position for the second quarter of the year (July to September 2020).
- 6.3 WG Local Authority Hardship Fund totalling £188.5 million has been set up in recognition of the wider role in the community during a crisis. This includes:
- £40 million for extra costs for adult social care services, including increased costs of basic PPE, food, staffing costs and ICT.
 - £40 million for the provision of Free School Meals to support children who are eligible.
 - £10 million to help local authorities take immediate and direct action to protect against homelessness and support rough sleepers in the face of the coronavirus pandemic.
 - £7 million to create temporary facilities to handle the tragic increased number of deaths during the pandemic.
 - More recently £78 million has been set aside to support local government for the loss of income experienced as a direct result of the pandemic, and help maintain

the sector's financial resilience and mitigate against cuts in services now and in the longer term.

- 6.4 The Hardship Fund claims are based on actual spend incurred by Councils on a monthly basis, claims for March and April were £33,698 and £368,323 respectively, whilst the May claim that was submitted in June was substantially more at £2.03 million.
- 6.5 The budget position reported is provided on a prudent basis. Additional support from Welsh Government for loss of income and the delivery of further cost reductions that are being assured will improve the position. The table below incorporates these elements and reduces the projected deficit to £7.457 million.

Table 5 - Projected Full Year Position @ 30th June 2020

	As reported		With Assumed Support
	£'000's		£'000's
Cost Pressures Unfunded via Hardship Fund	4,290		4,290
Service Underspends	- 7,022	640	- 6,382
Undelivered Cost Reductions	7,077		
- Assured of delivery		-2,210	4,867
Loss of Income	8,667		
- Underspends re income		- 640	
- Income Loss supported by WG assumed		-3,345	4,682
Projected Deficit	13,012		7,457

- 6.6 This should however be considered in the context of the changing environment.

7. Transformation

- 7.1 Transformation of the councils services is critical in providing an appropriate level of service to our residents at a much lower cost ensuring that the councils budget is maintained on a sustainable footing for the future.
- 7.2 The underspend on the Transformation budget (£0.46 million) in 2019/20 has been rolled forward into 2020/21 to support this years programme in addition to the £2 million budget. A further £1 million has been made available for transformational redundancies. These budgets are funded by capital receipts, utilising the Welsh Government Capitalisation Directive.
- 7.3 Transformation activities totalling £2.16 million have thus far been agreed

8. Virements

- 8.1 Virements are required to reflect new WG grants that have been received in 2020/21 in the Councils budget, these are as follows:
- Local Authority Education Grant – Additional School Based Counselling - £47,672. This funding will contribute towards delivering improvements in a number of priority areas set out by the Education Minister. Targeting existing waiting lists and increasing capacity to meet anticipated demand, as a result of the current crisis. Delivery of support to young people (training of councillors to

deliver remotely). Working with Third sector partnerships to support young people. Supporting work already underway to meet the needs of young people below the current Y6 Statutory counselling threshold.

- Period Dignity Grant - £141,503. The purpose of this funding is to support and ensure period dignity for women and girls from low income households. This may be through partnerships with third sector organisations, food banks, community hubs, family centres etc.
- Local Authority Education Grant – Additional Learning Needs (ALN) - £278,526. The purpose of this grant is to assist providers to continue to provide high quality support to learners with additional learning needs. The funding may be used flexibly to strengthen current ALN provision and/or support activities related to the ALN transformation programme.
- Road Safety – our original 20/21 budget assumed we would receive grant of £114,460, confirmation now received, the grant award for 20/21 is £64,468; a virement is required to reduce the grant funding in the 20/21 budget by £49,992. The Purpose of Road Safety Revenue funding is to support schemes and projects that contribute to the Welsh Government objective to reduce casualties on Welsh roads.

9. **Reserves**

- 9.1 The Reserves position at Table 5 below sets out the reserve balance as at 31st March 2020. The opening reserves stand at £32.5 million, with the general reserve £9.47 million representing 5.1% of total net revenue budget (excluding Schools and the HRA for 2019/20).
- 9.2 In closing the accounts for 2019/20 consideration was given to the impact that the Covid-19 pandemic may have on the Council's finances in subsequent years. In order to add resilience to our planning, the use and holding of reserves was a key part of the year end assessment. This approach has facilitated an increased level of useable reserves to provide greater flexibility should it be needed to support the financial position due to the pandemic.

Table 5 – Reserves

Summary	Opening Balance (1st April 20) Surplus / (Deficit)	Forecast Addition / (Use) of Reserves	Forecast (Over) / Under Spend	Projected Balance (31st March 21) Surplus/ (Deficit)
General Fund	9,472	(70)	0	9,402
Budget Management Reserve	3,584	0	0	3,584
Specific Reserves	7,523	(1,108)	0	6,415
Transport & Equipment Funding Reserve	9,266	(5,672)	0	3,594
Usable Reserves	29,845	(6,850)	0	22,995
Schools Delegated Reserves	(889)	(1,261)	20	(2,130)
School Loans & Other Items	(371)	7	0	(364)
Housing Revenue Account	3,918	(1,379)	476	3,015
Ringfenced Reserves	2,658	(2,633)	496	521
Total Reserves	32,503	(9,483)	496	23,516

- 9.3 The budget for 2020/21 includes the planned use of some specific usable reserves at £6.85 million to support schemes such as the replacement programme of vehicles and equipment within HTR.
- 9.4 School budgets have now been submitted and are being reviewed, a detailed report is currently being drafted. Cost pressures of £1.26 million have been identified for the secondary sector. It is likely that this may be mitigated by underspends due to school closures for the last two months, but the assumptions are still being collated.
- 9.5 The Housing Revenue Account business plan is also supported by reserves of £1.38 million although this may reduce by £476,000 as a saving is now forecast in this service.
- 9.6 The use of reserves should be treated as a last resort in meeting any remaining deficit and should only be considered when all other measures have been exhausted.

10. Actions to Reduce the Deficit

- 10.1 Corrective action must now be implemented to reduce the level of deficit projected. This will ensure that the budget for the current year is managed effectively and limiting the impact on reserves, especially specific reserves which could be more effectively utilised to support capital projects reducing the need for future borrowing.
- 10.2 Further support from Welsh government is expected to support income loss but the value or contribution rate is yet to be confirmed. There is an expectation that underspends already made, where services are not being delivered, will be expected to meet some on this loss. There is no certainty that WG funding will be available or to what extent through quarter 2 and the survey undertaken through the WLGA will provide the figures to support that discussion.
- 10.3 The Council has already used the opportunity provided under the job retention scheme with the furloughing of 199 staff, 83 FTE's.
- 10.4 The delivery of cost reductions approved in the budget is a large part of the projected deficit, services should be challenged as to how they can manage that position and deliver services within the budget provided. What would each service need to do to mitigate any shortfall including not reinstating some activity.
- 10.5 There is some slippage in the Capital programme and the projected position assumes an underspend of £1 million against the budget, a review has been undertaken to reassess all schemes, and reprofile those that were likely to be delayed or not commence at all. Further detail can be found in the capital report.
- 10.6 We should now re-consider the schemes included in the forward Capital Programme identifying those which can be delayed or even stopped. The 10 year Capital Programme was approved in principle in March but the commitment from the revenue budget to support the programme is significant at over £12 million in the current financial year (4.2% of the revenue budget), and this will increase further over future years, can we now afford that level of investment, do the projects within the programme align with changes in service delivery now being explored? All projects in the programme should be reviewed and prioritised alongside the re-evaluation of services.
- 10.7 Most services are already mindful of the need to limit expenditure to all but essential activity but this needs to be applied consistently across all budget holders.

10.8 The above actions need to be completed with proposals submitted for consideration in September at the latest.

11. Key Financial Risks

11.1 The Council's Risk Register includes a number of financial risks which are regularly reviewed, in addition further risks have been identified as a result of the impact of the Covid 19.

11.2 The greatest risk focuses on our ability to deliver a balanced budget for 2020/21, and highlights the risks already outlined in this report. We have to limit the deficit and the wider impact on our reserves. This is fundamental in supporting our financial resilience over the Medium and Longer Term and our ability to approve and deliver balanced budgets.

11.3 Treasury Management, maintaining the Councils cash flow to meet liabilities, is also under close scrutiny and continues to be monitored on a daily basis. We must ensure that the Council has sufficient liquidity to meet its immediate costs such as salaries and wages, HMRC taxation, and maintaining payment to suppliers and precepting authorities.

11.4 The cashflow forecast is sufficient to meet our obligations and it will also support the award of the various business support grants administered on behalf of Welsh Government until they are eventually reimbursed by WG. Current scenarios suggest we will have circa £34 million available as at 31st August.

11.5 The Council remains under borrowed as we continue to utilise our cash reserves to underpin our cashflow. We have the ability to borrow both in the short to medium or long term, our approach is regularly updated and explained as part of the Treasury Management update to Audit Committee.

11.6 Our ability to complete the closure of accounts for 2019/20 and to prepare and publish the Statement of Accounts for the Council and the Pension Fund was highlighted as a risk at the outset of the pandemic. Finalising the accounts was delayed however the draft accounts were signed off by the Section 151 Officer and submitted to the Wales Audit Office by the statutory deadline of the 15th June. Some risk remains as to whether the auditors will be able to complete their audit work and report to the Audit Committee in September in order for the Committee to approve both sets of Accounts by the statutory deadline.

12. Recovery and MTFS forward planning

12.1 Recovery is now moving to the fore of everyone's minds, not only how we recover council services and adapt to the new environment and regulations, but how we can manage the projected deficit and deliver a balanced budget for the current and future years.

12.2 The table below shows the budget gap that remains for each of the next 5 years based on the assumptions made when the MTFS was approved in March 2020.

Scenario Gap - £m	2021/22	2022/23	2023/24	2024/25	Cumulative
Best	(£6.21m)	(£6.53m)	(£2.69m)	(£3.31m)	(£18.7m)
Most Likely	(£9.89m)	(£13.10m)	(£6.47m)	(£5.27m)	(£34.7m)
Worst	(£13.58m)	(£16.72m)	(£10.01m)	(£8.74m)	(£49.0m)
Cost Reductions to Reduce the Gap	(£9.02m)	(£6.48m)	(£0.73m)	£ 0	(£16.23m)
Revised Worst Case gap	(£4.56m)	(£10.24m)	(£9.27m)	(£8.74m)	(£32.81m)

- 12.3 These assumptions will now be reviewed, working with the WLGA and other authorities we can consider the position of future local government settlements. The pressures and cost reductions proposed by services will be challenged as the recovery work is progressed. The overriding principle as we undertake this work is that all services will need to identify lower costs options to deliver the Councils outcomes and statutory services.
- 12.4 The approach defined through the Recovery Coordination Group and the five sub-groups is the mechanism to coordinate the recovery of our services and determine changes to services and activities over the short and longer term. This planning is critical in developing our financial plan which must now be considered in the context of a very different financial future.

13. Resource Implications

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

As expected in our initial assessment it is clear that the virus is having an unprecedented detrimental financial impact on the Council.

The support provided by Welsh Government to date has been significant and welcomed but without clarity as to what further support is going to be offered it is difficult to assess the level of action that is now required to ensure that the budget for the current year is managed effectively and limit the impact on reserves.

The Council must act to take every opportunity to reduce costs and limit the financial impact on its budget, not only to address the deficit in the current year but to reduce the financial pressure on future years and ensure the sustainability of the Council.

The impact of the situation on the Council is not unique to Powys, every Council is facing the same financial difficulty. Individual circumstances will differ, the level of reserves held, the extent of commercial activity and the impact on the wider business and resident communities will be difference, but all are concerned as to their financial sustainability.

Our Medium Term Financial Strategy is already extremely challenging with significant budget gaps over the next 4 years. We can only expect this challenge to be greater as future financial settlements come under more pressure as a result of Government spending to support the pandemic.

The Strategy will now be reviewed, funding assumptions revisited, and the revised budget gaps calculated. Clear plans will be developed through the recovery work to bridge the budget gaps over the life of the plan.

We cannot under estimate the significant challenge facing the Council in balancing the financial position over many years to come, there will be difficult choices to make, and the clear prioritisation of resources that deliver realistic outcomes is the key to our success.

14 Legal implications

- 14.1 The Monitoring Officer has no specific concerns with this report.

15. Comment from local member(s)

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

16. Integrated Impact Assessment

16.1 No impact assessment required

17. Recommendations

17.1 That Cabinet note the budget position at the end of the first quarter and the projected full year position to the end of March 2021.

17.2 That the virements proposed in section 8 of the report are approved.

17.3 That the actions in section 10 of the report are agreed and implemented as a matter of urgency with proposals brought forward for consideration by the end of August.

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Appendix A – Council Forecast as at 30th June 2020, alongside Quarter 1

	ANNUAL FORECAST						QUARTER ONE POSITION					
£'000	2020/21 Base Budget	Add Cost Pressures not funded by Covid	Less Cost Underspends	Add Cost Reductions Shortfall	Add Lost Income	Revised Forecast	2020/21 Base Budget	Add Cost Pressures not funded by Covid	Less Cost Underspends	Add Cost Reductions Shortfall	Add Lost/Gained Income	Revised Forecast
Adult Services	63,974	1,924	(348)	3,086	60	68,696	15,994	962	(174)	3,086	60	19,928
Childrens Services	25,960	9	0	1,522	0	27,491	6,490	5	0	1,522	0	8,016
Commissioning	3,192	0	(43)	0	0	3,149	798	0	(22)	0	0	777
Education	19,385	0	(446)	123	0	19,062	4,846	0	(223)	123	0	4,746
Highways Transport & Recycling + Director	33,749	943	(1,213)	818	2,805	37,102	8,437	629	(809)	818	1,870	10,946
Property, Planning & Public Protection	7,771	320	(1,732)	506	3,279	10,144	1,943	160	(866)	506	1,640	3,382
Regeneration	907	0	(25)	191	0	1,073	227	0	(13)	191	0	405
Housing & Community Development	5,990	141	(256)	75	40	5,990	1,498	94	(128)	75	71	1,609
Digital Services	4,702	40	(168)	375	106	5,055	1,176	20	(84)	375	27	1,513
Trace and Track	0	41	0	0	0	41	0	41	0	0	0	41
Transformation and Communications	1,752	38	(115)	0	0	1,675	438	38	(69)	0	0	407
Workforce & OD	1,850	0	(265)	199	86	1,870	463	0	(133)	199	0	529
Legal & Democratic Services	3,211	29	(229)	162	242	3,415	803	15	(115)	162	105	970
Finance	6,201	49	0	150	(15)	6,385	1,550	25	0	150	0	1,725
Corporate Activites	13,081	756	(2,182)	(130)	2,064	13,589		378	(1,000)	(130)	1,200	448
Total	191,725	4,290	(7,022)	7,077	8,667	204,736	44,661	2,365	(3,634)	7,077	4,972	55,441
												0
Housing Revenue Account	(1,169)	0	(476)	0	0	(1,645)	(292)	0	(238)	0	0	(530)
Schools Delegated	78,883	0	(520)	0	500	78,863	19,721	0	(260)	0	280	19,741
Total	77,714	0	(996)	0	500	77,218	19,429	0	(498)	0	280	19,211
Total	269,439	4,290	(8,018)	7,077	9,167	281,954	64,090	2,365	(4,132)	7,077	5,252	74,651
Variance						(12,515)						(10,562)

Appendix B

Quarter 1 Forecast of the Outturn Position – Commentary by Heads of Service

Service – Adult Social Care

1. Cost Pressures unlikely to be funded

- £227,000 Staff redeployed to support Adult Social Care create a service cost pressures but offset by underspends in other service areas. There may be an additional requirement for up to £25k to fund external investigators for stage 2 complaints investigations, which is following service transferred back and no corresponding budget.
- £0.95 million relating to the cost of proving home care for an additional 960 hours per week. These hours were identified as a cost pressure as part of budget setting, but for over a year there was a lack of resource available to deliver these hours. Due to the recent economic situation there have been successful recruitment campaigns and all additional hours are being delivered.
- Transitional costs relating to young adults transferring from Childrens Services £391,000, who require ongoing care. These are part year costs and the full year effect will be in excess of £500,000.
- Due to the Covid-19 pandemic some Supported Living tenders were placed on hold and an agreed interim contract is in place which costs an additional £575,000. When the tender is advertised it will include the realignment of service user hours and the maximisation of enabled technology care which should reduce the overall cost.
- The impact of the national response to COVID-19 on adults with eligible social care needs is unknown. We anticipate an increase in demand for social care support as the lockdown eases and an increase in numbers of people requiring support to return home from hospital. Our understanding will develop over time, but this cannot be predicted at present.

2. Cost underspends due to service changes re Covid

- There are job vacancies in the system which are not being recruited.

3. Cost Reductions undelivered at this point in the year

- This is set out in the cost reduction spreadsheet. The savings likely to be achieved are significantly less than planned, at this stage of the year only £1,032k is delivered of the £4,070k.
- It is likely that a significant percentage of these savings will be delivered by other means as the service is carrying out a review of its plan and developing a recovery plan against the pressures.

4. Income changes – lost income / extra income above target

- Where there are voids in residential care, the income to PCC will have reduced accordingly, unless funded by Welsh Government.
- Additionally, loss of income from sale of meals at Day Centres and attendance for places by other Local Authorities on the Powys border.

5. Any other mitigations / changes in plan

- The service will be dependent upon the Welsh Government Hardship Fund paying for voids and additional costs in association with Covid 19, except for redeployed employees, as well as the hospital discharge surge fund in partnership with the PTHB.

Service – Children's Services

1. Cost Pressures unlikely to be funded

• Complaints

Possible additional requirement for up to £15k to fund external investigators for stage 2 investigations. But as yet unknown.

• Care Leavers Maintenance Payments

Increased benefit payments will need to be matched for some care leavers. Costs being calculated now. Additional hardship payments for care leavers due to the impact of covid-19, but some may be reclaimed from the grant.

- **The impact of the national response to Covid-19 on children, young people and their families is unknown.** We anticipate a surge in demand for early help and potentially statutory social services including accommodation for more children than we had anticipated when the budget was set. Our understanding will develop over time, but this cannot be predicted at present.

2. Cost underspends due to service changes re Covid-19

• Travel

We expect to have reduced expenditure on travel however we have a saving from 19/20 that has been rolled forward to 20/21 of £20k for travel reduction.

3. Cost Reductions undelivered at this point in the year (£349k unachievable)

• CH01 Shared Costs - Joint funding. Continuing Health Care.

This work has been delayed due to business continuity plans (BCP) being invoked in March 2020. The Service is developing a plan regarding the assessment of children's needs in relation to continuing care. Legal training has been delivered to key staff in the service in preparation for the new system.

• CH02 and CH03 - Closer to Home (placements)

Due to BCP this work has been delayed. There is a plan in place to deliver this work by increasing capacity within in-house foster and residential placements. However, covid-19 has halted many of these plans. For example, assessments of new foster carers are delayed until current restrictions are lifted.

We are awaiting a decision, but there is increased risk that due to redirection of funds, we may be unable to secure funding for this provision. This will impact on our ability to make the savings from bringing children out of high cost placements into this provision.

4. Income changes – lost income / extra income above target

- Currently no lost income anticipated

5. Any other mitigations / changes in plan

- Recruitment activity has been curtailed due to restrictions currently in place. However, we have made further permanent recruitments during the last period. Recruitment activity will continue.

Service – Schools Service

1. Cost Pressures unlikely to be funded

There are cost pressures due to costs of staff that have been redeployed due to COVID-19 and are not covered by the claim, thus far we are containing this within our budget.

2. Cost underspends due to service changes re Covid £446k

- £125k underspend within Schools Improvement due to underspend on Early Years – This is the predicted saving on the summer term payments to the non-maintained functions due to the suspension of funding due to COVID 19.
- £210k underspend within Pupil Inclusion – estimated saving of £63k on out of county placements and £46k Pupil Referral Units due to vacancies. The ALN also has £15k savings from staff slippage and some unused non pay budgets like travel.
- £65k – central school services has underspends from the redundancy/retirement budget, which may change as the year progresses.

3. Cost Reductions undelivered at this point in the year £123k

All savings on track to be delivered but £123k still requires further planning before it can be achieved

4. Income changes – lost income / extra income above target

None

5. Any other mitigations / changes in plan

Further work required on ALN out-of-county and inter-authority recoupment. Some furloughing of staff in settings where staff costs are usually covered by income generation eg after-school clubs

Service – Schools Delegated

Schools were given an extension to submit their approved budgets to the 22nd May so the figures shown in the report above are estimates based on surgery sessions not the approved budgets submitted which are still being validated. Approved budgets and updated forecasts will be provided in September.

Primary - The forecasted contribution from reserves for the Primary Sector is currently £580k.

Secondary - The Secondary sector has a forecast call on reserves currently of £928k.

Special - The special sector has a £245k forecast contribution to reserves.

Detailed analysis of the approved budgets is currently being undertaken and will be fed into the school balances cabinet report after liaising with the service Senior Management Team around what actions are needed.

Service – Highways, Transport & Recycling

1. Cost Pressures unlikely to be funded

Most cost pressures are assumed to be recoverable from the COVID grant. Highways, Transport and Recycling, but these are in the forecast:

- Passenger Transport, cost of delivery from external contractors has increased by £390,000 and has arisen out of the retendering of contracts.
- Increased kerbside collection costs of £526,000 for paper and card resulting from increased tonnages of kerbside waste and the cost of disposing of paper and card where previously this generated an income.

2. Cost underspends due to service changes re Covid

- Most Home to School transport did not operate from April to June, and there is a forecast underspend of £398,000. Operators have received 75% of contract value if not operating as per Welsh government instruction for these months.
- Household and waste recycling centres were closed in April and into May the cost saving is £255,000.

3. Cost Reductions undelivered at this point in the year

- Review of fleet maintenance resources, management of change program has slipped due to COVID the shortfall of £20k currently assumes the management of change program will now be able to progress.
- Bulky waste charges were not increased, as a result of COVID collections were stopped so it was not felt it was appropriate to increase the charges, this saving won't be achieved unless uptake of the service increases
- The other savings forecast to be unachieved are as a result of COVID. When carrying out operational services with reduced staffing due to shielding it is not possible to currently pursue the efficiencies planned. Car park income has been severely impacted by COVID therefore it is not possible to achieve the car parking savings.

4. Income changes – lost income / extra income above target

The service is anticipating a reduction in income for the following activities:

- £126K - Trunk Road Income for carrying out Category 1, category 2 defects and cyclical works are estimated to be reduced by 25% during the period April to June 2020.
- £357K reduction in income from delivering capital works, where it is anticipated that income is likely to be reduced by 90% in April, 60% in May, 35% in June, 20% in July and 10% in August 2020.
- £54K reduction in highways income from internal PCC revenue clients and external private works.
- £1.03m reduction in car park income:
 - Car park income and off-street penalties are expected to be reduced by 100% Apr to June, 75% July to September, 50% October to December and 25% January to March 2021.
 - On street enforcement income is expected to be reduced by 100% April to June 2020 and 75% July to September.
- £70K reduction in street works from scaffolding, skips and utility fees.

- £112K reduction in development control fees and local land charges.
- £30K reduction in produce and street market income.
- £500k loss of income from public transport bus fares, it is assumed income will be reduced by 70%
- £746K loss of income from trade waste customers, assumed 50% of 2019-20 income will be recovered.

5.Any other mitigations / changes in plan

- The service are furloughing staff to mitigate the impact of lost income within the service

Service – PPP & P

1.Cost Pressures unlikely to be funded

- Most known cost pressures currently are assumed to be recoverable from the COVID grant.

2.Cost underspends due to service changes re Covid

- There have been savings identified in respect of office accommodation utility costs an average of £31k per month. This has now been extended for a further five month period till the end of September.
- The cost of catering provisions budget spend will reduce as little spend is currently being incurred. Spend will rise by a fifth in September resulting in an under spend of £1.2m.

3. Cost Reductions undelivered at this point in the year

- It is unlikely that the target of £100k additional income from renting out Council properties will be met
- A saving of £168k was put forward for changes to senior management, this has been part completed but it is not possible to fully complete due to COVID it is estimated £65k will be achieved.
- £142K for Neuadd Maldwyn, it has been assumed that the saving will be achieved from the end of December totalling £35k
- Cleaning in Council Properties, £75k this has been forecast not to be achieved.
- It is unlikely increased rental income of £75k will be achieved in full £20k will be achieved for the Ffrwdgrech unit but it is unlikely any additional income will be achieved from Ladywell House due to COVID.

4.Income changes – lost income / extra income above target

- Income areas under threat are Water Supplies £11k pm, Licensing Act £10k pm, Building Control Fees £10k pm offset by additional income in respect of cemetery fees. Planning Fees are slightly down at present but this is expected to increase later in the year.
- Currently very little income is being generated, the income has been estimated based on an assumption that a fifth of the income generated in 2019-20 will be generated from September through to March. A loss of £3.06 is forecast.

5.Any other mitigations / changes in plan

- Management of change process for Senior Management Team to recommence.
- Private water supplies work to recommence to ensure additional income generation.

- An increase in planning application fees is expected during this financial year.

Service – Housing and Community Development

1. Cost Pressures unlikely to be funded

- Additional staff have been redeployed from the HRA to deal with the increased demand in Homelessness, this equates to £121k, and has been estimated to continue for 6 months. Payments made to support our Leisure provider of £120k for additional costs have been included in the claim to WG for COVID-19, WG have come back asking for more information so this may become a pressure in the future if WG will not fund.

2. Cost underspends due to service changes re Covid

- It is anticipated that there has been a net reduction in running costs across the area during the first three months of the financial year.
- Gypsy sites are reporting a forecast outturn under spend of £92k. The Royal Welsh show has been cancelled contributing to the saving.

3. Cost Reductions undelivered at this point in the year

- Restructure of the Housing Senior Management team is on hold - £25k
- Y Gaer – move to a sustainable operating model - £34k

4. Income changes – lost income / extra income above target

- Potential loss of income in respect of Y Gaer and the Library Service of £72k for the year
- Private Sector Housing are forecast to overspend by £58k, due to Covid-19 there is an anticipated reduction in income for this area

5. Any other mitigations / changes in plan

- Services are reducing costs and expenditure where possible.
- The service has savings to achieve of £218k in 2020-21, £143k has been achieved to date.

Housing Revenue Account

- The Housing Revenue Account (HRA) is reporting a forecast outturn underspend of £476k at the end of June
- Rent collection has improved, with a forecast shortfall of £166k. Although longer term impact unknown at this stage
- Reducing void turnaround time is a priority in order to minimise loss of income.

Service – Digital Services

1. Cost Pressures unlikely to be funded

- Not all cost pressures currently are assumed to be recoverable from the COVID grant. Prioritisation of projects to ensure delivery of savings are now being implemented.

- WCCIS funding is insufficient to meet current staffing provision and discussions are in progress with Social Care and PTHB to establish long term requirements now implementation phase is complete.
- Cost pressures from supporting PTHB during Covid19 are ongoing for full cost recovery

2. Cost underspends due to service changes re Covid

- 69k underspend, mainly due to vacant posts from delayed recruitment

3. Cost Reductions undelivered at this point in the year

- £50k of the anticipated £200k savings for Digital Transformation will not be achieved due to digital services staff being diverted to develop systems for welfare calls and track and trace as a result of COVID-19
- £14k of the £27k put forward for the Hybrid Mail solution, staff again have been diverted to business critical activities as a result of COVID-19

4. Income changes – lost income / extra income above target

No significant income losses are anticipated.

5. Any other mitigations / changes in plan

No.

Service – Transformation and Communications

1. Cost Pressures unlikely to be funded

- £38k Power BI licence – bid for funding submitted to S151 Officer for ongoing funding. However, any underspend during 2020/21 will be used to offset this cost as a 'one off' (within Digital funding from WG grant).

2. Cost underspends due to service changes re Covid

- Holding one Grade 10 vacancy - Research and Analytics Officer
- Holding one Grade 8 post – Business Intelligence officer funded by Digital grant from WG
- Holding maternity cover for one Change and Improvement Officers. One officer has now returned from maternity hence the reduction to one.

3. Cost Reductions undelivered at this point in the year

Full savings achieved.

4. Income changes – lost income / extra income above target

- £37k PSB money will not be received for 2020/21, this will not have an effect on the base budget.
- Anticipate an over achievement on income generation.
- All other grant money has been confirmed so full year forecast should be included bringing additional income into the Council.

5. Any other mitigations / changes in plan

Service – Workforce & Organisational Development

1. Cost Pressures unlikely to be funded

The Contract for the Council's HR Management System must be renewed from 1st July 2020. The procurement process is nearing completion and confirms that the new and significantly upgraded system will cost an additional £30k a year with one off start-up costs of £65k, providing for additional costs of £95k in 2020/21. However, any service underspend during 2020/21 could be used to help offset this pressure.

2. Cost underspends due to service changes re Covid

We expect to underspend by c£30k on non-staff costs such as travel expenses and general office expenses over the first 6 months of 2020/21 due to minor operational and working changes arising from the pandemic. This could be used to contribute to the one off 2020/21 HRMS costs detailed above.

3. Cost Reductions undelivered at this point in the year

Savings pressures for 2020/21 currently amount to £96k as follows:

- We planned to save £30k during 2020/21 by introducing and promoting a salary sacrifice additional voluntary contribution pension scheme. Under the scheme the employer and employee save on NI costs, with the employee also able to make savings on tax. The rollout of the scheme has been delayed and will now be implemented virtually. As a consequence, we expect lower take up and will only achieve a part year effect. We are predicting to achieve a saving of £10k, leaving a savings pressure of £20k.
- Through a new apprenticeship scheme, we planned to recruit, develop and deploy a minimum of an average of 10 apprentices across the year, with the apprentices being deployed in actual vacancies. As well as providing great development and career opportunities for the people of Powys, this would provide a full year saving to the Council of £120k. Due however to the pandemic the Council has not been able to recruit apprentices, the savings and plan has therefore been reprofiled on the basis of being able to recruit an average of 10 apprentices over the final 7 months of 2020/21, leaving a savings pressure of £50k.
- The service has a residual base budget savings requirement of £26k from the 2019/20 budget, which we are confident we will be able to remedy from the 2020/21 budget.

4. Income changes – lost income / extra income above target

No significant income losses are anticipated.

5. Any other mitigations / changes in plan

No.

Service – Legal

1. Cost Pressures unlikely to be funded

- £70k potential extra cost of webcasting
- Extra £47k required to finance Member Pension costs not previously charged.

2. Cost underspends due to service changes re Covid

- It is anticipated that there has been a net reduction in running costs across the area during the first three months of the financial year

3. Cost Reductions undelivered at this point in the year

- The restructures planned have been put on hold due to COVID.

4. Income changes – lost income / extra income above target

5. Any other mitigations / changes in plan

Service – Finance

1. Cost Pressures unlikely to be funded

- Most cost pressures currently are assumed to be recoverable from the Covid grant. But there is a pressure relating to Insurance of £40k to fund the additional cost of insurance claims.

2. Cost underspends due to service changes re Covid

- There is a potential underspend non-staff costs such as travel expenses, office expenses etc

3. Cost Reductions undelivered at this point in the year

- There is a total of £150k that is deemed unachievable, and this relates to some specific workstreams within Finance Transformation project, some elements will be delayed due to the need to focus on Covid activities. There is no capacity currently to focus on restructuring the service or some change projects as planned.

4. Income changes – lost income / extra income above target

- Currently there is no loss of income across Finance.

5. Any other mitigations / changes in plan