

## APPENDIX 1

### FINANCIAL ANALYSIS

The 2012/13 Social Services revenue budgets for Blaenau Gwent and Caerphilly Councils are £36.2m and £73.6m respectively. A full breakdown of the 2012/13 budgets is provided in Appendix 4 and the following tables provide a summary of outturn against budgets for both Councils for the last 3 financial years: -

#### Blaenau Gwent

Year	Budget £	Final Outturn Figure £	Variance Over / (Under) Spend £	Variance Over / (Under) Spend %
2009/2010	33,137,643	33,123,674	(13,969)	(0.04%)
2010/2011	34,702,990	34,937,735	234,745	0.68%
2011/2012	35,296,050	36,433,801	1,137,751	3.22%

#### Caerphilly

Year	Budget £	Final Outturn Figure £	Variance Over / (Under) Spend £	Variance Over / (Under) Spend %
2009/2010	67,352,413	67,238,237	(114,176)	(0.17%)
2010/2011	70,983,122	69,988,835	(994,287)	(1.40%)
2011/2012	71,094,893	71,259,740	164,847	0.23%

Both Councils are already experiencing increasing demand for services particularly in the following areas: -

- Placements for children looked after.
- Legal costs for Children's Services.
- Residential and Nursing home placements.
- Care packages for older people in the community e.g. home care services.
- Supported Living.

The following table provides details of the projected outturn for both Directorates of Social Services for the 2012/13 financial year: -

Service Area	2012/13 Projected Over/(Under) Spend			
	Blaenau Gwent		Caerphilly	
	£000s	%	£000s	%
Children's Services	(216)	(2.57)	(438)	(2.25)
Adult Services	1,764	8.01	425	0.88
Business Support	(173)	(3.28)	3	0.09
Totals: -	1,375	3.85	(10)	(0.01)
One-off Contribution From Reserves	(650)	-	0	-
Net Position: -	725	2.03	(10)	(0.01)

It is important to stress that the projected overspend of £725k for Blaenau Gwent Social Services is net of a one-off contribution of £650k from reserves.

In terms of the whole Authority position for 2012/13, Caerphilly CBC is forecasting an underspend of £2m (0.63%) and Blaenau Gwent CBC is projecting an overspend of £1.7m (1.57%), which reduces to £1m after taking account of the one-off contribution from reserves for Social Services.

## **2013/14 Budget Proposals**

### **Caerphilly CBC**

The 2013/14 Social Services budget is an uplift of 3.47% or £2.45m. This honours the Welsh Government 1% protection for Social Care and includes additional growth monies of £1.2m to meet emerging cost pressures arising from increasing demand. This growth follows on from a balanced budget position. As part of the Council's Medium Term Financial Plan (MTFP) savings in advance of £5.2m have been achieved thus avoiding the need for any further savings to be found across the Council to balance the 2013/14 budget.

### **Blaenau Gwent CBC**

The 2013/14 Social Services budget is an uplift of 4.3% or £1.5m. This honours the Welsh Government 1% protection for Social Care and includes £335k for incremental growth arising from Job Evaluation. Both elements will form part of the base budget going forward into 2014/15. This growth follows on from a 2012/13 position of a forecast Social Services overspend of £1.4m. The agreed budget also includes a proposal to further increase the base budget by £267k to meet emerging cost pressures, which the budget report states is anticipated to be the starting point for a more sustainable budget to be developed from 2013/14.

At an Authority-wide level Blaenau Gwent CBC has identified cost pressures for 2013/14 totalling £6m, of which £3.5 m relates to Social Services. The budget includes achieved savings of £4.2 m. Risks have been identified in the Council's budget report: -

- There is a risk that all savings proposals will not be achieved within the required timescale;
- There is a risk that the additional funding identified for Social Services will be insufficient to meet increasing cost pressures;
- There is a risk that current year cost pressures will impact on the base budget for the next financial year;
- There is a risk that the costs of the new Council Tax Reduction Scheme (CTRS) will exceed available funding.

The detailed Budget Report for Caerphilly CBC was presented to Council on 27 February 2013. The report is available on the Council's website.

Given that Caerphilly CBC is forecasting a balanced budget in 2012/13 the additional proposed Social Services growth of £1.2m can be applied to new service pressures. The position for Blaenau Gwent CBC is different in that the new funding allocated in 2013/14 will need to be offset against current service pressures and there will be limited funding to meet any increased demand in the identified in the new financial year.

An Integrated Social Services would undoubtedly involve pooling of budgets, harmonisation of service delivery and a joint Management Team. With any full integration of services on this basis there would always be a risk of one Authority cross subsidising another at some point in time. This is a major risk, which would need to be fully mitigated to ensure that there is a robust Business Case for each Authority. It would also ensure that a decision to integrate is not unlawful. This risk can be mitigated if: -

- Both partners are committed and have the ability to commit to funding requirements and savings requirements, to ensure that one partner is not financially disadvantaged;
- Service delivery is significantly enhanced for both Authorities;
- Service delivery becomes more sustainable for both Authorities without any requirement to cross subsidise.

To safeguard against cross subsidisation and to give an integrated service a realistic chance of succeeding both parties should be able to evidence that they can deliver their current and future level of service from current budgets and their MTFP proposals. There should also be robust forecasts provided with a Medium Term Financial Plan for at least the remaining 3 years that is able to confirm that the full Welsh Government cash pledge growth for Social Services is affordable and sustainable by each Authority plus any other required growth.

In addition, there needs to be evidence that each Authority can deliver a balanced budget for their Social Services Directorate and the Authority as a whole.

### **Medium-Term Financial Planning**

In Caerphilly CBC there is a strong culture of medium-term financial planning, which is firmly embedded in the budget setting process. The Council has adopted a financial strategy that focuses on the forthcoming financial year and the following 2 years for planning purposes. This has ensured that balanced budgets have been achieved year on year and savings have been made in advance, which have allowed one-off contributions to be made to the Council's Capital Programme.

In Caerphilly CBC's Annual Improvement Report the Wales Audit Office (WAO) commented: -

*"To date, the Council has responded effectively to the financial challenges it has faced. In particular, the Council has taken a proactive view in identifying its savings requirements allowing it to plan ahead in a measured way".*

Caerphilly CBC's recently published budget proposals and updated Medium-Term Financial Plan (MTFP) for 2013/14, 2014/15 and 2015/16 shows that a balanced budget can be set for 2013/14 with a total Council savings target for 2014/15 to 2015/16 of £6 m.

Blaenau Gwent's Medium Term Financial Strategy (MTFS) was published in August 2011. During the last three financial years the Council has adopted a staff downsizing strategy as the main mechanism for achieving budget savings.

The WAO in the Annual Improvement Report (Jan 2012) commented on Blaenau Gwent's financial position as follows: -

*"The Council has recently adopted a Medium Term Financial Strategy which sets out its predicted future resource requirements. The strategy establishes a broad framework for future financial planning but has a number of significant weaknesses. The Medium Term Financial Strategy has no action plan showing how predicted deficits will be addressed or how service based pressures will be managed. Without this level of detail the Council is unable to clearly identify and plan for how it will address the significant funding challenges it faces. The Medium Term Financial Strategy information on capital expenditure is also limited in coverage and only presents a partial picture of current and future challenges. The Medium Term Financial Strategy has not been mainstreamed within the financial arrangements for the Council as a whole and is not supported by a detailed long term plan reflecting risks, opportunities and the potential impact of transformation and remodelling".*

As stated in Blaenau Gwent's Budget Report for 2013/14, the strategy adopted for 2013/14 is an interim strategy and will inform a longer-term view from 2014/15 onwards. A revised MTFS covering the period 2013/2014 to 2019/2020 (to tie into phase 1 of the 21<sup>st</sup> Century Schools programme) is currently being consulted on and this identifies that £19m savings are required for that period. The action plan proposes three main areas to reduce the funding gap: -

- Portfolio reviews focusing on statutory vs non-statutory services.
- Workforce challenge strategy.
- Workplace transformation.

It is evident that medium-term financial planning is well embedded into the financial culture in Caerphilly CBC. This has resulted in financial stability in recent years and an Authority-wide underspend of £2 m is projected for 2012/13 although it is recognised that there are very challenging times ahead. A balanced budget has been set for 2013/14 largely due to savings achieved in advance and additional funding of £1.2m has been identified for Social Services in addition to the Welsh Government cash pledge growth.

### **Other Considerations**

Some further concerns that have arisen during the process are: -

- Caerphilly CBC has adopted the Living Wage and incorporated this into its updated MTFP. Blaenau Gwent have confirmed that there is no intention of introducing a Living Wage at this stage;
- Caerphilly CBC has tried to reduce financial exposure to increases in employer's superannuation costs by voluntarily increasing the employer's contribution in 2012/13 by £1.1m and by making a £1m contribution to pension deficit shortfall in 2011/12. A further contribution of £530k has been agreed by Council to cover the shortfall in 2012/13. Blaenau Gwent is looking to increase its contribution rate by 1% in 2013/14, but confirmation has not been received as to whether one-off contributions have been made;
- Both authorities are exposed to the impact of the welfare reform changes introduced by Central Government.

### **Potential Savings**

The workstreams established to explore service delivery proposals for a fully integrated Social Services Directorate have explored potential options but at this stage these are not at a sufficiently detailed stage to accurately quantify likely savings. The following table summarises the early savings that could be achieved through integrating Management Teams and progressing proposals for the Joint Workforce Development Team, Interim Integrated Contracts and Commissioning Team and merging IT systems.

Description	Saving £000s
Director x 1	111
Assistant Director x 1	98
Service Manager x 2 (Adults Services)	129
Service Manager x 2 (Children's Services)	129
Joint Workforce Development Team	70
Integrated Contracting & Commissioning Team	24
Information Technology	100
<b>Total: -</b>	<b>661</b>

In line with the report endorsed by Executive/Cabinet in July 2011 the above savings would be shared equally between the two Councils. However, this arrangement would be subject to further Council approval if the integration was to proceed.

In addition to the current financial pressures, there are a range of other challenging issues that would need to be addressed: -

**Job Evaluation** – The JE outcome in both Authorities has led to some significant salary differences for certain similar posts. Harmonisation of staff terms and conditions along with levels of pay would create a range of risks and challenges, especially as the numbers are so large (e.g. the top of the grades for Social Workers, Senior Social Workers and Senior Practitioners are three incremental points higher in Blaenau Gwent than Caerphilly and this would affect 207 staff).

**Alignment of Fees and Charges** – The work undertaken by the Finance Workstream has highlighted significant variations in a number of areas, particularly the following: -

- Payments to independent sector providers.
- Charges for non-residential services.
- Foster Carer fees and allowances.

Whilst these issues are not insurmountable it must be recognised that there would need to be a transitional process to harmonise fees and charges over a period of time and this could impact financially on either or both Authorities.

**Eligibility Criteria** – Blaenau Gwent and Caerphilly currently have different thresholds in terms of eligibility criteria for access to services. This would also need to be harmonised over time and this will have a financial impact. It

should be noted, however, that there is a national programme underway to explore the potential for rolling out a standard eligibility framework across Wales.

## **CONCLUSIONS**

The financial positions in both Councils differ at the present time with Caerphilly CBC projecting an Authority-wide underspend of £2m for 2013/14 and Blaenau Gwent projecting an overspend of £1.7m (reducing to £1m after taking account of a one-off contribution from reserves for Social Services). Caerphilly CBC has set a balanced budget for 2013/14 largely due to savings achieved in advance and additional funding of £1.2m has been identified for Social Services in addition to the Welsh Government cash pledge growth. Blaenau Gwent CBC has agreed savings of £4.2m for 2013/14 and only limited growth of £267k has been identified for Social Services.

An Integrated Social Services would undoubtedly involve pooling of budgets and with any full integration of services on this basis there would always be a risk of one Authority cross subsidising another at some point in time. To safeguard against this there should be evidence that both Councils can deliver their current level of service funded from current budgets and there should be medium-term plans that show that Social Services is affordable and sustainable by each Authority.

Following on from the above, Cabinet are required to make a decision whether to proceed or not to develop a full business case for an integrated service.