

Pecyn Dogfennau Cyhoeddus



Neuadd y Sir / County Hall, Llandrindod, Powys, LD1 5LG

Os yn galw gofynnwch am - If calling please ask for
Lisa Richards

Ffôn / Tel: 01597 826371

Ffôn Symudol / Mobile:

Llythyru Electronig / E-mail: lisa.richards@powys.gov.uk

PWYLLGOR ARCHWILIO
Dydd Mawrth, 20 Chwefror, 2018

P E C Y N A T O D O L

1.	LLYTHYR ARCHWILIO BLYNYDDOL SWYDDFA ARCHWILIO CYMRU 2016/17
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I ystyried adroddiad yr Arweinydd, y Cynghorydd R Harris.
([Tudalennau 1 - 16](#))

Mae'r dudalen hon wedi'i gadael yn wag yn fwriadol

CYNGOR SIR POWYS COUNTY COUNCIL.

COUNCIL
22nd February 2018REPORT AUTHOR: County Councillor Rosemarie Harris
Leader of Council

SUBJECT: WAO Annual Audit Letter 2016-17

REPORT FOR: Information and Decision

1. Summary

1.1 The purpose of this report is to present the Wales Audit Office Annual Audit Letter 2016-17 (Appendix A) to the council for information and decision. The letter, which was issued on 25th January 2018 summarises the key messages arising from the WAO's statutory responsibilities under the Public Audit (Wales) Act 2004 and reporting responsibilities under the Code of Audit Practice. It covers the last financial year prior to the elections in May 2017.

1.2 The letter sets out a Statutory Recommendation which requires consideration and a decision by the council, no later than one month following the letter issue date. The report meets this requirement.

1.3 The report's appendices indicate the action being taken to address the points raised in the letter.

2. Proposal

2.1 Having considered the improvement required to the Council's governance arrangements and the financial challenges which are outlined in the Audit letter, the WAO Auditor General has decided to make a Statutory Recommendation to the Council.

2.2 In accordance with sections 25 and 26 of the Public Audit (Wales) Act 2004, the Council is required to consider the WAO Statutory Recommendation outlined below:

In setting a balanced budget, the Council must ensure that all savings plans are sufficiently well developed for inclusion in the annual budget. The Council must also act immediately to update its Medium Term Financial Strategy to enable the Council to live within its means going forward, and design and implement actions to address the weaknesses identified and reported by me in respect of its corporate and financial arrangements.

2.3 The Council has strengthened the development of savings proposals included in the budget plan. The revised Impact Assessment includes a section on deliverability which assesses the risk of achieving the proposal. It

includes the timetable of action or further approval process that is required to complete and deliver the proposal.

2.4 A Cabinet sub-committee reviews the completed assessments for quality and where necessary requested improvements or omissions to be rectified for some proposals. This has strengthened the process and quality of assessments being completed.

2.5 The assessment of risk for each proposal is summarised at an overall level, categorising delivery by Low, Medium, High or Very High Risk. It is inevitable that a certain, manageable amount of risk is inherent within the budget. The assessment highlights the level of that risk and forms an essential part of the overarching assessment of the budget proposal.

2.6 In addition the Council operates a sound system of budget monitoring during the financial year providing monthly reviews on the achievement of savings. A sensitivity analysis is provided assessing the remaining risk of delivery and the potential impact this will have on the Outturn position. This enables corrective action or additional challenge to be taken in-year.

2.7 Specifically, and in accordance with section 26(5) of the Act, the Council should decide:

1. Whether the report requires the Council to take any action;
2. Whether the Recommendation made is to be accepted; and
3. What action, if any, is to be taken in response to the Recommendation

2.8 In accordance with the statutory recommendation above, the council has (prior to receipt of the letter) already recognised the need to produce a revised Medium Term Financial Strategy by the end of May 2018 and this is included as a recommendation to Council as part of the Cabinet's Budget Proposal. In addition, improvements in our Strategic and Financial planning are also being delivered and monitored through the new Corporate Leadership and Governance Plan, which clearly defines the need for an improved and more robust approach.

2.9 In order to support the council's decision, Appendix B draws out the key points/ recommendations from the WAO Annual Audit Letter and explains the actions the council already has planned to address the issues. Appendix B also makes reference to the proposals for improvement that the WAO published in their Annual Improvement Report 2016-17 (Issued in June 2017). Appendix B shows the action that has already been taken to address the proposals and action that is planned as part of the council's existing plans. Appendix B indicates that many of the issues identified in the WAO Annual Audit letter are addressed through dedicated action plans.

3. Corporate Improvement Plan

3.1 As part of delivering its Corporate Improvement Plan, the council needs to ensure that the improvements identified in the Annual Audit Letter are clearly aligned to its improvement objectives. The WAO Statutory Recommendation will impact particularly on the council's Vision 2025 enabling priority: Making it Happen.

4. Sustainability and Environmental Issues/Equalities/Crime and Disorder,/Welsh Language/Other Policies etc

4.1 Impact Assessments are completed for each individual saving plan which accompany and support the MTFS.

4.2 Impact Assessments will also be completed for individual change proposals which are delivered through the strategic planning process.

5. Children and Young People's Impact Statement - Safeguarding and Wellbeing

7.1 This will be covered under the individual Impact Assessment.

6. Local Member(s)

6.1 This report impacts all Members equally and does not affect local Members individually.

7. Other Front Line Services

7.1 The recommendations of the report do not specifically affect individual front line services.

8. Support Services (Legal, Finance, Corporate Property, HR, ICT, Business Services)

8.1 Legal: The recommendations can be supported from a legal point of view.

8.2 Finance: The Finance function is an integral part of the development and modelling of annual budgets, savings plans and financial planning.

9. Local Service Board/Partnerships/Stakeholders etc

9.1 The statutory recommendation outlined in the WAO Annual Audit Letter requires a decision from the Council only, and does not require the views of partners or stakeholders.

10. Corporate Communications

10.1 The report is of public interest and requires use of proactive news release and appropriate social media to publicise the report and the cabinet's response.

11. Statutory Officers

11.1 The Head of Financial Services (Acting Section 151 Officer) comments: The budget being considered by Council on the 22nd February 2018 sets a balanced budget for the financial year 2018/19 as required under the Local Government Act 2003. There is no requirement to set out a balanced

position beyond the next year, but effective strategic planning is crucial to help develop well-considered, affordable and sustainable responses to financial pressures.

The Medium Term Financial Strategy provides the framework for future budget modelling and the effective alignment of resources across both Capital and revenue budgets. The five year strategy has been developed to enable this longer term planning and transformation.

The Council recognises that it needs to strengthen its medium and longer term financial strategy in light of the significant challenge it faces in delivering a balanced budget from 2019/20. This work is already underway and will strengthen the links between the strategies, policies and plans for services, with the medium and long-term financial plan. The revised Strategy will be completed by the end May 2018.

11.2 The Solicitor to the Council (Monitoring Officer) has commented as follows: "I note the legal comment and have nothing to add to the report".

12. Members' Interests

The Monitoring Officer is not aware of any specific interests that may arise in relation to this report. If Members have an interest they should declare it at the start of the meeting and complete the relevant notification form.

13. Future Status of the Report

(This section must be completed if the report is a confidential/exempt report)

Members are invited to consider the future status of this report and whether it can be made available to the press and public either immediately following the meeting or at some specified point in the future.

The view of the Monitoring Officer is that:

Recommendation:	Reason for Recommendation:
<p>1. That Council consider the WAO findings set out in the Annual Audit Letter 2016-17 and accept the Statutory Recommendation.</p> <p>2. That Council supports implementation of action plan in Appendix B as the Council's response to the WAO recommendations.</p>	<p>To ensure the Council addresses the recommendations identified by the WAO and has robust plans in place to improve its corporate governance and financial arrangements.</p>

Relevant Policy (ies):	MTFS, Corporate Improvement Plan, Regulatory Tracker.		
Within Policy:	Y	Within Budget:	Y

Relevant Local Member(s):	All Members
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Person(s) To Implement Decision:	Chief Executive
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Date By When Decision To Be Implemented:	25th February 2018
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Contact Officer Name:	Tel:	Fax:	Email:
Emma Palmer	01874 612217		emma.palmer@powys.gov.uk

Mae'r dudalen hon wedi'i gadael yn wag yn fwriadol



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Wales Audit Office / Swyddfa Archwilio Cymru

24 Cathedral Road / 24 Heol y Gadeirlan
Cardiff / Caerdydd
CF11 9LJ
Tel / Ffôn: 029 2032 0500
Fax / Ffacs: 029 2032 0600
Textphone / Ffôn testun: 029 2032 0660
info@audit.wales / post@archwilio.cymru
www.audit.wales / www.archwilio.cymru

Please contact us in Welsh or English.
Cysylltwch â ni'n Gymraeg neu'n Saesneg.

Councillor Rosemarie Harris – Leader / David Powell - Acting Chief Executive
Powys County Council
County Hall
Llandrindod Wells
Powys
LD1 5LG

Reference: AJB356

Date issued: 25 January 2017

Dear David and Councillor Harris

Annual Audit Letter Powys County Council 2016-17

This letter summarises the key messages arising from my statutory responsibilities under the Public Audit (Wales) Act 2004 and my reporting responsibilities under the Code of Audit Practice.

The Council complied with its responsibilities relating to financial reporting but did not have sufficient appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources

It is Powys County Council's (the Council) responsibility to:

- put systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
- maintain proper accounting records;
- prepare a Statement of Accounts in accordance with relevant requirements; and
- establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Public Audit (Wales) Act 2004 requires me to:

- provide an audit opinion on the accounting statements;
- be satisfied that the Council has appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- issue a certificate confirming that I have completed the audit of the accounts.

Local authorities in Wales prepare their accounting statements in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This code is based on International Financial Reporting Standards. On 28 September 2017, I issued an unqualified audit opinion on the accounting statements confirming that they present a true and fair view of the Council's and Powys Pension Fund's financial position and transactions. My report is contained within the Statement of Accounts.

The key matters arising from the accounts audit were reported to members of the Audit Committee in my Audit of Financial Statements report on the 22 September 2017, and a more detailed report will follow in due course.

I issued a certificate confirming that the audit of the accounts has been completed on 22 November 2017

My report dated 28 September 2017, highlighted that at that point in time I could not formally conclude my audit until I had completed my consideration of matters brought to my attention by a local authority elector. This matter has now been resolved and I issued my certificate confirming the completion of the audit on 22 November 2017.

My work to date on certification of grant claims and returns has not identified significant issues that would impact on the 2017-18 accounts or key financial systems

My ongoing work on the certification of grant claims and returns has not identified any significant issues to date in relation to the accounts or the Council's key financial systems. A more detailed report on my grant certification work will follow in the spring 2018 once this year's programme of certification work is complete.

The financial audit fee for 2016-17 is currently expected to be in line with the agreed fee set out in the Annual Audit Plan.

The Council did not have sufficient appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, and the current and future financial position represents a significant challenge

My consideration of the Council's arrangements to secure economy, efficiency and effectiveness has been based on the audit work undertaken on the accounts as well as placing reliance on the work completed under the Local Government (Wales) Measure 2009. In my [Annual Improvement Report](#), I highlighted a number of areas where the effectiveness of these arrangements has yet to be demonstrated or where improvements could be made.

I have concluded that whilst the Council has clearly articulated a strategic ambition to achieve transformational change, its ability to drive the pace of change required is compromised by a lack of capacity and expertise. Strategic workforce planning has been slow in development, and staff resources have been depleted as a result of the Council's response to austerity. New business planning and programme management is placing demands for specialist skills and competencies which are in scarce supply, and the Council has difficulty in recruiting to fill some key positions. A significant proportion of key management positions are now held under interim arrangements.

I have further concluded that given the ambition and pace of its service change programme, there is significant scope for the Council to strengthen its governance arrangements. The findings of our

corporate assessment, undertaken in November 2016, were that the Council's scrutiny and decision-making arrangements were neither strategic nor robust. Key decisions around fundamental service change have been predominantly driven by the need to deliver financial savings, with Council policy and service outcomes being less influential. There has been an insufficient clear line of sight, for example through the Cabinet Forward Work Programme, to facilitate appropriate and timely scrutiny. At the time of our assessment relationships between the then Cabinet and Scrutiny function were strained, and scrutiny recommendations were not always valued or appropriately responded to by the then Cabinet. The conduct of Cabinet meetings we observed in November 2016 led to a lack of clarity and consequently transparency with regard to decision-making. It was not clear to us at that time that key officers were providing members with appropriate advice and direction in the circumstances. For some key service changes that we reviewed, the quality of option appraisals was mixed as were the arrangements for engaging with citizens and stakeholders in relation to those proposed changes. Overall, I concluded that there were weaknesses in the sufficiency and timeliness of information made available to members in relation to both scrutiny and decision-making functions of the Council.

In relation to its use of resources, I:

- recommended that the Council strengthen its financial planning arrangements by ensuring that all savings plans are sufficiently well developed for inclusion in the annual budget; forecasting the use of reserves over the medium term financial plan period; and ensuring that the service savings targets set for third party spend, income and cost improvement opportunities can be achieved in planned timescales; and
- reported the need for the Council to increase the pace and scale of change in implementing its 'Schools Organisation Policy, Planning Education Provision', in order to achieve an affordable and sustainable education service.

In October 2017, the Care and Social Services Inspectorate Wales (CSSIW) issued a critical report in respect of the provision of Children's Services within the Council. An independently chaired Children's Services Board is in place and the Council has submitted an improvement plan in response to the recommendations contained within the report. This improvement plan is in the process of being costed. Some of the resource needed has been identified but if the requirements impacting on the current financial year exceed the amount set aside then this could have a further significant impact on the forecast operating deficit for the financial year ended 31 March 2018. In addition, the Council has drafted a Corporate Leadership and Governance Plan.

The Council has contacted the Cabinet Secretary for Local Government and Public Services (the Cabinet Secretary) seeking support under section 28 of the Local Government (Wales) Measure 2009. As a result a formal package of support will be provided.

The Council has acknowledged that it is facing significant financial challenges in the 2017-18 financial year and as at November 2017, the Council anticipated an operating deficit of £4.5 million for the year ended 31 March 2018. The Council has reported that the projected operating deficit is largely due to the combination of unachieved in year (and previous years) savings plans, coupled with service overspends primarily within Adult Social Care and Children's Services.

The Council is currently exploring a range of options to reduce the level of forecast deficit as at 31 March 2018. These include:

- reducing projected spend across services by either not incurring or delaying non-essential expenditure;
- utilising under committed revenue budgets set aside to support transformation and change; and
- reviewing a number of technical accounting options to generate in year revenue.

The Council intends to utilise a combination of the above options to reduce the forecast operational deficit to a balanced position for the financial year to 31 March 2018. Specifically, it intends to utilise the release of non-recurrent savings of £4 million via a planned reduction to the Minimum Revenue Provision (MRP) charge. The projected General Fund reserves position is expected to remain at £8.5 million as at 31 March 2018. In addition to the General Fund, the Council has two specific reserves (Budget Management Reserve £3.6m and Adult Services Reserve £2.0 m) which are ring fenced to support financial pressures and these specific reserves are projected to amount to approximately £5.6 million as at 31 March 2018.

The Council continues to face significant financial challenges in 2018-19 and beyond. Initially, the Council identified the need to find savings of £8.4m in 2018-19 but further annual costs pressures have been identified of £8.3m and £6.8m for Children's Services and Adult Social Care respectively. Therefore, the Council will need to find savings totalling approximately £23 million in 2018-19.

We understand that plans are in place to deliver a balanced financial budget for the financial year 2018-19. However, a balanced position is primarily dependent on:

- the need to deliver £8 million of efficiency savings;
- the release of non-recurrent savings of £5m via a planned reduction to the MRP charge; and
- the use of the specific reserve set aside to support financial pressures (Adult Social Care £2m) and following a review of other reserves, the use of the specific reserve originally set-aside for 21st Century Schools of £5m.

Given that the Council has acknowledged that it has had difficulty in achieving its planned level of efficiency savings in previous years, this represents a significant risk to the Council. It is imperative that the Council delivers these savings plans and adopts a more robust approach to budgetary control to manage and mitigate the potential for in-year over spends. Both Cabinet and scrutiny committees will need to play a key role in monitoring the delivery of the savings plans.

As outlined above, the Council intends to utilise reserves to support the financial pressures identified in 2018-19. Whilst reserves provide a temporary cushion against financial pressures, they should not be considered as a sustainable medium or longer term solution. In this respect, the Council's General Fund reserve (and any other reserves utilised to support the financial position) will need to be closely monitored to ensure they are maintained at appropriate levels.

Financial pressures continue in 2019-20 with the Council predicting the need to deliver efficiency savings of £17m.

Given the scale of the future financial challenge, a strategic and transformational approach is required to the way the Council currently delivers its services as it can no longer afford to deliver its services in their current form. In this respect, the Council need to revisit and update their medium term financial strategy to enable it to live with its means going forward.

I have decided to make a Statutory Recommendation to the Council under section 25(2) of the Public Audit (Wales) Act 2004

Having carefully considered the improvements required to the Council's governance arrangements and financial challenges outlined above, I have decided to make a Recommendation pursuant to section 25(2) of the Public Audit (Wales) Act 2004 (the Act).

In setting a balanced budget, the Council must ensure that all savings plans are sufficiently well developed for inclusion in the annual budget. The Council must also act immediately to update its Medium Term Financial Strategy to enable the Council to live within its means going forward, and design and implement actions to address the weaknesses identified and reported by me in respect of its corporate and financial arrangements.

In accordance with sections 25 and 26 of the Act, the Council is now required to consider my Recommendation at a meeting within one month of the date of this letter.

Specifically, and in accordance with section 26(5) of the Act, that meeting of the Council should decide:

1. Whether the report requires the Council to take any action;
2. Whether the Recommendation made is to be accepted; and
3. What action, if any, is to be taken in response to the Recommendation.



As soon as is practicable after the meeting, I should be notified of the decisions made by the Council and provided with a notice summarising the decisions which, once approved by me, must be published in a local newspaper circulating in the Council's area, subject to the exceptions in relation to confidential issues contained in section 26(5) of the Act. The Council is also required to publish the recommendation and its decisions in relation to it.


Yours sincerely




Anthony Barrett
Assistant Auditor General
For and on behalf of the Auditor General for Wales

Mae'r dudalen hon wedi'i gadael yn wag yn fwriadol

Audit title	Conclusions	Proposals for improvement	Where it's monitored	Progress / Planned Action	
<p>Good governance when determining service changes (March 2017)</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Tudalen 13</p>	<p>Given the ambition and pace of its service change programme, there is significant scope for the Council to strengthen its governance arrangements</p>	<p>The Council's governance arrangements could be strengthened by:</p>	<p>Governance Action Plan</p>	<p> 2018-02-07 Governance Action I</p>	
		P1			<p>Reviewing the current remit and role of the Cabinet to enable it to focus on the Council's key priorities and significant service changes.</p>
		P2			<p>Clarifying and strengthening the role of scrutiny committees in considering service change.</p>
		P3			<p>Aligning Cabinet and Scrutiny work programmes to include details of forthcoming service change proposals and making them easily accessible on the Council's website.</p>
		P4			<p>Improving the quality of information and options appraisals provided to Members to enable them to consider the strategic implications of the proposed service changes.</p>
		P5			<p>Clarify delegated authorities, particularly for significant service changes so that decisions are transparent and accountability for them is clear.</p>
		P6			<p>Strengthening arrangements for monitoring the impact of service changes including explicitly setting out at the point of decision what will be monitored, where this will be monitored and who will be responsible for doing so.</p>
<p>Savings planning – Financial Resilience (March 2017)</p>	<p>Whilst the Council is strengthening its arrangements for developing savings plans, some are insufficiently developed and have unrealistic delivery timescales which may not fully support future financial resilience.</p>	<p>P1 Strengthen financial planning arrangements by:</p> <ul style="list-style-type: none"> • ensuring that the service savings targets set for third party spend, income and cost improvement opportunities can be achieved in planned timescales; • ensuring that all savings plans are sufficiently well developed for inclusion in the annual budget; and • forecasting the use of reserves over the MTFS period. 	<p>Corporate Leadership and Governance Plan (Improvement Area D)</p> <p>Regulatory Tracker</p>	<p> CL&G Plan Priority Improvement Area D</p>	

Audit title	Conclusions	Proposals for improvement		Where it's monitored	Progress / Planned Action
Tudalen 14 Review of Education Finance (June 2017)	We concluded that schools and councillors receive improved advice and support about the management of schools' budgets, but the Council faces challenges in achieving the pace to deliver an affordable, sustainable education service. We reached this conclusion because: <ul style="list-style-type: none"> • the monitoring of schools' delegated budgets, and the support and challenge provided to schools when setting their budgets, are improving in most respects; but • the Council faces major challenges in achieving the pace that will deliver an affordable and sustainable education service and halt the projected substantial decline in schools' financial health. 	P1	In order to provide the necessary challenge to secondary schools with regard to their financial planning, the Council should ensure that it has the capacity to analyse and evaluate schools' curricular planning.	Review of Education Action Plan	 Audit Committee Report - 02.02.2018.
		P2	The Council should work with schools to explore means of improving the efficiency and effectiveness with which schools procure goods and services.		
		P3	In order to further embed resource management as a key component of school improvement, the Council should agree with schools: <ul style="list-style-type: none"> • a consistent template for recording key financial information within school development plans; and • a system whereby schools' financial health might be assessed and reported annually. 		
		P4	In order to improve its clarity and transparency, the Council should review its Service Level Agreement with schools for Financial Services, ensuring that the optional element includes only those services that are not statutory functions of the Council.		
		P5	In order to ensure a common understanding of financial data, the Council should ensure that data reported to members is consistent with that reported to the Welsh Government, and that any necessary variance between the two sets is fully explained.		
		P6	In order to achieve an affordable and adequately resourced school system, the Council should increase the pace and scale of change in implementing its Schools Organisation Policy, Planning Education Provision. In particular, the Council should work with partners inside and outside Wales to ensure that learners aged 16 to 19 are able to access a suitable curriculum in the language of their choice.		

Audit title	Conclusions	Proposals for improvement	Where it's monitored	Progress / Planned Action
<p>Local risk-based performance audit (Corporate Assessment) (May 2017)</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Tudalen 15</p>	<p>Our assessment findings underpinned the conclusions set out above and we further concluded that:</p> <ul style="list-style-type: none"> • the Council has a clear and ambitious vision for transformational change but capacity, capability and pace remain as challenges; • the Council is working in collaboration with Powys THB through its integration plan, supporting cultural change and staff engagement; and • the Council has a track record of financial resilience but management information and data remains a challenge if the Council is to deliver sustainable models for Education and Social Services. 	<p>No specific proposals for improvement were received from WAO. However, they acknowledged in their Annual Improvement Report that the Council is developing and implementing an action plan to respond to the findings and conclusions. These actions are being delivered within the Corporate Leadership and Governance Plan.</p>	<p>Corporate Leadership and Governance Plan (Improvement Area C)</p>	 <p>Corporate Leadership Governan</p>

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