

# CYNGOR SIR POWYS COUNTY COUNCIL

22 February 2018

**REPORT AUTHOR:** Finance Scrutiny Panel

**SUBJECT:** Budget Proposals 2018/19

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**REPORT FOR:** Information

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1. The Finance Scrutiny Panel has endeavoured to fulfil its scrutiny role in reviewing the 2018/19 budget proposals and the implications of that budget going forward. In previous years, the Panel has commented to Cabinet to inform their discussions but, due to the lateness of the proposals, are reporting direct to County Council.
2. The Panel have had discussions with three Portfolio Holders (two others had been invited but were unable to attend) regarding their individual areas in addition to the Portfolio Holder for Finance, who has been a regular contributor to our meetings. It has also met with finance officers. However the Panel have been frustrated by the lack of information on the budget until late in January which has compromised our ability to provide effective scrutiny. We also note comments in The Chartered Institute of Public Finance & Accountancy (CIPFA) report on the budget. Particular emphasis must however be placed on part 1.3 of their report where it highlights that in the time available they were not able to test the accuracy of the numbers nor to validate how well the various processes operate in practice.
3. We wish to make the following key points as at 8 February 2018;
  - 3.1 As a matter of principle, and in no way reflecting upon current post holder, we question whether there is a potential for a conflict of interest between the preparation of the budget and Section 151 Officer. We welcome the independent review that has been carried out by CIPFA and acknowledge that this may mitigate some of our concern.
  - 3.2 We note however that CIPFA report they had insufficient time to monitor the accuracy of figures or how processes operate in practice – their review was reliant upon documents provided to them in December using data now out of date.
  - 3.3 The Panel were alarmed that the potential budget deficit in 2019/20 had increased from the £14m reported to £17M within a very short period of time and that this was reported to a Members' seminar rather than the Panel. This sudden increase does raise concerns about the overall accuracy of the budget.
  - 3.4 The Panel continues to support the wish for a five year budget plan but note that details are sparse in later years. This lack of detail poses a substantial risk to the delivery of savings going forward and the

Council's new vision given the huge savings necessary. The Panel has previously raised concerns about the robustness of the previous three year's budget and the MTFS due to changes in policy direction.

- 3.5 Impact Assessments are an essential tool and these, too, were late in being available to us for scrutiny.
- 3.6 We are concerned that an appraisal of Impact Assessments suggests there is a risk of a savings shortfall of £2.7M and the Panel would have liked the opportunity to question Portfolio Holders and Heads of Service regarding the deliverability of these savings. For example, one Impact Assessment identifies savings of £1.2M but recommends that £1M should be re-profiled or deferred – however the £1.2M target remains in the budget.
- 3.7 There is a lack of alternative plans in those areas where savings are unlikely to be achieved
- 3.8 No Impact Assessments have been provided for Children's Services
- 3.9 The Panel are concerned regarding the additional expenditure on Adult's and Children's Services and require clarity on what is to be a one off cost and what is to be included in base budgets. In these areas a business plan now exists for the increased spend however, the Panel believes that there needs to be an appraisal of the total budget and not just rolling forward of last year's budget as the norm. The spend in these areas is probably unsustainable against the total Council budget and puts other directorates at financial risk.
- 3.10 The budget is based upon the existing Medium Term Financial Statement (MTFS) and we recognise that this needs to be completely rewritten in light of the Cabinet's 2025 Vision and changes of direction following the new Cabinet's decisions. Whilst we note the development of a new MTFS there has been insufficient time available for us to provide adequate scrutiny of the document.
- 3.11 The Finance Resource Model (FRM) indicates that the cumulative deficit could reach £37m by 2022/23. It also indicates that transformational change will result in significant savings – there is no detail on transformation and this has been recognised by CIPFA in their review at 6.4, 6.5 and 6.6. The Panel agrees with CIPFA in its comments about the seriousness of this situation and to date no known plans are in place to find the required level of savings. This is a huge risk to the financial viability of the Council.
- 3.12 It is difficult to see how the required level of savings and the transformation needed can be delivered in the short time remaining. The Panel points out that the present administration will need to address this as a matter of urgency. This should have commenced many months ago. It is inappropriate to blame previous administrations and this administration must show the political will to transform.
- 3.13 Transformation will also have cost implications and there is no indication of what this cost might be.
- 3.14 The 2018/19 budget has been balanced by the use of one off inputs and technical accounting practices and the Panel highlight that this position is not sustainable, as does CIPFA.
- 3.15 The Audit Committee have recently been informed that the Wales Audit Office (WAO) are still considering proposals regarding the Council's

wish to backdate an amendment to the Minimum Revenue Provision (MRP) policy. There are serious concerns that this would affect £20M of savings factored into the budget plan. The use of backdated MRP will result in additional pressures to the budget of £4M in 2021/22.

- 3.16 Accuracy in proposals is essential – the proposed three year budget plan failed in its first year and it appears that the five year budget plan is already struggling
- 3.17 The Panel question whether we have sufficient expertise available to address future budgets, but note that there also needs to be the political will to carry out an agreed budget
- 3.18 Savings of £4M for 2018/19 have been identified as high risk – based on history and the lack of scrutiny, the Panel are concerned that this is a significant risk
- 3.19 We have previously commented on the level of Council Tax increase and reiterate that the level of Council Tax should reflect the average wage. 30% of our residents earn below the living wage and Powys County Council remains one of the highest self-funders. A recent press release suggested that for every 1% the Welsh Government reduced the settlement, Council Tax would have to rise by 2.4%. The reduction in the settlement amounted to 0.4% and yet Council Tax is expected to rise by 5% which is considerably higher than expected although the Panel recognise this may be in part due to pressures in Children's Services highlighted in the Inspection.
- 3.20 The Panel have concerns at the level of additional funding for Children's Services when the service was already well funded in comparison to other Welsh authorities. Additional funding is invariably provided for failing services but more emphasis must be placed on addressing management failures and financial management. In order to understand and fix the problems more information is required on what caused the failure.
- 3.21 The use of capital receipts to fund transformational revenue expenditure has been permitted for a further three years. Capital receipts are dependent on disposal of assets and the capital programme submitted to Cabinet lacks a disposal programme to take full advantage of this. Consideration should be given to reviewing our assets, including the County Farms Estate, and a review of the recent Cabinet decision to suspend further farm disposals.
- 3.22 The Panel would be concerned if Reserves were to fall below the recommended 3% and would wish to see an adequate level of reserves maintained. As highlighted above, there is significant concern regarding the achievability of some savings and the additional pressures this will bring to the budget.
- 3.23 The Panel would wish to see individual reporting of schools reserves rather than the conglomerate figure provided which would highlight individual school's pressures. Every school must balance its budget. We now understand that of 13 high schools, 11 are expected to be overspent by year end, which places another risk on the Authority. Without mitigation measures school deficits are likely to be £5.4M by the end of 2019/20.

- 3.24 It is considered that there are structural problems with school funding and the Funding Formula is not fit for purpose. The revision of the Funding Formula must be progressed and it is believed that the fundamental review due to take place over the next year may be too late.
- 3.25 Whilst the emphasis is currently on Children's and Adults Services, the Panel believe the structure of education is being overshadowed. The Panel are of the opinion that there are presently many schools that are not economically sustainable and that the will to address this is lacking. The lack of proactive and immediate transformation in schools presents a major risk to the Authority.

## **Conclusion**

1. In conclusion it is noted that whilst the Authority concentrates on one area, other areas can decline. A holistic approach is needed, and not a knee jerk reaction to a crisis. If the Authority is to be sustainable, transformation must occur. The future of the Authority is heavily reliant on transformation in the next 12 months and the backdating of the MRP policy which is thought to be a significant risk.
2. The Panel welcomes the ongoing move to a five year budget strategy but the lack of detail is worrying given the level of transformation that is required.
3. The Panel also welcomes the CIPFA report which highlights the serious risks to the Council. It is important that they receive more accurate information and that the Cabinet acts upon their work.
4. Whilst we welcome the Member Seminars on the budget, details must be sent out in advance to allow Members to consider the detail. Sufficient time should also be allowed at such Seminars for Members to question the details provided.
5. The Panel are concerned by the lateness of the budget proposals being made available. It gives no time for adequate scrutiny to influence the final budget. With the increased pressures on the budget the Panel believes that it should be given more opportunity to comment on the emerging budget at a much earlier stage. The Panel has therefore not been able to adequately scrutinise the budget and its implications and Members should note this.
6. We have commented on whether there is sufficient political will to drive through transformation, but increased engagement by Members at an earlier stage would improve the process. We must continue to work together to ensure transformation can be delivered. The Finance Scrutiny Panel and other scrutiny committee's must be seen as partners to support the budget process and transformation of the Authority.

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**Background Papers used to prepare Report:**

Budget Seminar presentations – Cabinet and Council  
Notes of meetings of the Finance Scrutiny Panel

**Finance Scrutiny Panel: County Councillors J G Morris (Lead Member), M Barnes, M Dorrance, J Gibson-Watt, H Hulme, P Roberts, D A Thomas, E Vaughan, A Williams, G Williams and Mr J Brautigam**