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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 21<sup>st</sup> 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**