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Joint Audit Committee and Finance Scrutiny Panel – 24 October 2018

MINUTES OF A JOINT MEETING OF THE AUDIT COMMITTEE AND FINANCE SCRUTINY PANEL HELD AT COUNTY HALL, LLANDRINDOD WELLS, POWYS ON WEDNESDAY, 24 OCTOBER 2018

PRESENT

County Councillors JG Morris (Chair), B Baynham, J Charlton, M J Dorrance, E Durrant, J Gibson-Watt, D R Jones, M J Jones, K Lewis, N Morrison, WD Powell, P Roberts D A Thomas, R G Thomas, T J Van-Rees, E Vaughan, A Williams, G I S Williams J M Williams and Mr J Brautigam

Cabinet Portfolio Holders In Attendance: County Councillor A W Davies

Officers: Nigel Brinn, Ian Halstead, David Powell and Jane Thomas

Other Officers In Attendance: Messrs P Pugh and A Veale, WAO

1. APOLOGIES

Apologies for absence were received from County Councillors M Barnes, L V Corfield and K Laurie-Parry

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. DISCLOSURE OF PARTY WHIPS

There were no disclosures of party whips.

4. REVIEW OF 2017/18 BUDGET OUTTURN AND FUNDING FLEXIBILITIES
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Documents:

- Report of the Portfolio Holder for Finance
- Financial Overview and Forecast as at 31 August 2018

Discussion:

- The Chair explained that he had called a joint meeting of the Audit Committee and Finance Scrutiny Panel regarding concerns that there was an overspend projected at year end. Any overspend affects the following year's budget. Some services perform within budget others do not and this poses a real risk to the Authority. Ultimately the Committee need assurance that the budget is managed.
- The Deputy Chief Executive and Section 151 Officer had had discussions with the Chair regarding a comparison of the overspend at this point in time as compared with to the same period in the previous year.
- As at the end of August an overspend of £5.82M was forecast for year end. If this is the case at year end, the overspend will be met from reserves. The Deputy Chief Executive assured the Committee that the Authority would not go 'broke'. However, the effect on the financial

stability of the Authority in the medium term would need to be considered given the pressure faced by the Council.

- The overspend was remarkably similar to that forecast in August 2017. In the last financial year, the budget balanced at year end due to additional grant funding from the Welsh Government. By year end it had also been possible to make a contribution to reserves.
- The Committee questioned whether the Authority might find itself in a similar position at the end of the current financial year. There was some flexibility in that capital receipts could be used for revenue expenditure classified as 'transformational'. This is a fundamental change to a key accounting principle. This could support issues around change, including redundancy costs and is available until the end of the 20121/22 financial year.
- The Council has reserves of £28.3M including specific reserves such as schools and the Housing Revenue Account (HRA)
- Members also questioned the additional contributions agreed to be made to the Pension Fund and what the likely effect on Council Tax would be
- The Portfolio Holder indicated that the level of Council Tax was still under consideration. There were no guarantees of additional funding from the Welsh Government and the Authority must remain prudent. Cash reserves were low as a decision had been taken to use cash reserves rather than borrowing to support the Council's budget.
- The Deputy Chief Executive reminded Members of the difference between balance sheet reserves and cash reserves. It is likely that planned borrowing will recommence shortly. There would be no additional contributions to the Pension Fund until 2020. The Pension Fund is now 90% funded following gains on the stock market. A Triennial Actuarial Review was due next year to be implemented in 2020. Funding to the Pension Fund will be determined by the Actuary.
- It was confirmed that 'The Floor' was likely to be triggered this year – this ensures that there is a limit to the reduction in Welsh Government Funding in the settlement
- It was noted that the Authority would not be bankrupt in the current year, but Members were concerned that this could happen in future years – this could happen if the Council does not change. There has been transformation over previous years but this must be accelerated. There would be some difficult decisions to be made. The Deputy Chief Executive commented that we were in effect still funding what could be viewed as 'yesterday's' Council and we need to fund tomorrow's Council.
- Members were aware that there had been a change to the Minimum Revenue Policy (MRP) which could have an impact in the longer term. The Head of Financial Services confirmed that the policy had changed which resulted in lower contributions and that this had been backdated. This was being used to support the revenue budget but would result in pressures in years 4 and 5. The WAO had been asked to comment on the proposal to adjust the MRP. They noted that by amending the policy there was a change to the profile of financing. Early benefits would be achieved but there would be a need to pay more in the longer term. This is of concern from a finance point of view, but the Authority was entitled to make this decision.
- In using capital receipts for revenue purposes, is the Authority clear on eligibility and that service change did not necessarily equate to

transformation? A directive has been issued which clearly sets out criteria and categories. This is quite specific.

- Do reserves include liabilities – the Portfolio Holder for Finance confirmed that this was the case
- The Chair suggested that a programme of capitalisation should be set out early in the year to enable decisions to be made regarding the revenue budget. The Head of Financial Services informed the Committee that a Management of Change Budget was established and that there was an opportunity for projects within that to be paid for by capital receipts.
- A number of Audit Committee Members had attended a training session organised by the South West Audit Partnership (SWAP) the day before the Committee. They had been alerted to the fact that reserves could disappear rapidly in certain circumstances. The training had also highlighted issues in Northamptonshire County Council which had led to severe financial pressures – some of these elements, such as failure to deliver savings, were also relevant to Powys.
- The Portfolio Holder confirmed that Powys must deliver services within the budget but emphasised the need to transform. He confirmed that Powys maintained a safe level of General Reserve at a policy level of 3% of Revenue Budget.
- Officers were asked to what extent capital receipts could be used during the current and subsequent years. To the end of 2017/2018 £1.5M had been used. A decision was still needed for the current year. The Council must also form a view regarding the scale of use of transformation.
- The financial management of councils was becoming more complicated. The Welsh Government have indicated that Powys County Council will receive a 1% cut to its settlement for next year (after allowing for the 'Floor'). Significant and complex financial management is required including the flexible use of capital receipts. No target has been set for capital receipts this year but this will be needed going forward.
- The Committee noted the need for a policy on Capital disposals and sought clarification of the current position – the Deputy Chief Executive confirmed that work had started and that there was the potential to set the budget using capital receipts. It was expected that the Policy would be available with the budget papers
- The Vice Chair had produced a series of statistics from Stats Wales – the Finance Scrutiny Panel had been advised that it was thought that the number of Looked After Children (LACs) had peaked at 208 but the most recent figures show that this has risen to 232. Was this now considered to have peaked? The Portfolio Holder for Finance indicated that the numbers had been relatively static since the spike around May 2018. As these numbers were driving expenditure, the Committee asked whether the growth had been accounted for. The Director of Social Services had also informed the Panel that work would be carried out to reduce the numbers of children out of county where this was possible. The adverse Childrens Services Inspection report had to be addressed. It was possible that the service may take up to three years to stabilize.
- The Deputy Chief Executive stated that the latest figures showed there were 235 LAC. He acknowledged that this was a significant pressure on the budget. However, steps were being taken to write out existing children's services savings targets and reminded Members that if a child was assessed as having need, then that child's care would be funded.

There was a lack of placements in the area. It was noted that the average cost of placements had reduced from £4200 in August to £3800 in September 2018.

- There were concerns that some service areas had year on year overspends – budgets were not being managed. Adjusting the MRP resulted in one off savings and had been used to ‘fire-fight’. This will have to be paid for and the Authority cannot depend on ‘windfalls’ at year end to balance the budget.
- Concerns had previously been expressed regarding a number of high risk savings. Since 2015 there are £7M of undelivered savings – of this £4M are considered high risk with £2.2M of that within Childrens Services. This is not good budget management. If such savings are not achievable, savings which are achievable must be built in.
- The Portfolio Holder for Finance noted that these savings had included income targets which had been set by the previous Council. These savings will have to be dealt with and proposals to write out some of these savings are in hand.
- The Deputy Chief Executive noted that the Council had managed to maintain services but that this may no longer be possible.
- The Chair noted the adverse comments received by Scrutiny and Audit when risks had been identified
- What assumptions are made regarding the value of non-cash reserves including housing stock and the county farms estate. It was suggested there may be a fall in the Welsh housing market of 15-20% and there may be and drop in land prices. The Deputy Chief Executive reminded the Committee that the HRA was ring-fenced. The County Farms Estate was not featured in the budget. The Authority did not have a credit rating per se, but could borrow from the Public Works Loan Board (PWLB), which afforded some protection from risk.
- Members were concerned that the true definition of transformation was unclear and that it was not actually happening. There has been no scrutiny of business cases for transformation or business plans for future service delivery. The Committee needed assurance that transformation was backed by good planning, good scrutiny and fed through the system
- The Portfolio Holder for Finance reiterated his wish to have a longer term view of the budget and avoid sudden reactions which will impact in the longer term. He agreed that robust cases needed to surround any change and that the Council should have a clear view of where it aims to be.
- Transformation had been used frequently. However, the Council could no longer afford to run as it had been. It must be changed and some of this work will be transformational. There will be a change in the way people work as more technology is used. Scrutiny is valuable and must be used effectively. Some decisions that will be made will be difficult for the public to accept.
- It was noted that a number of service changes which had been due to deliver savings had not materialised. The processes for developing business cases did not appear to be sufficiently robust.
- It was noted that the WAO had made a statutory recommendation to ensure a more robust process was in place to deliver savings
- The Chair reminded Members that the Committee was charged with assuring the financial security of the Council. There were very able people within the Council and he sought assurance that the Section 151

Officer and Head of Financial Services were adequately supported. He reminded the meeting of the position of Northamptonshire County Council and agreed to circulate the training material he had received. Although Powys was not in the same position as Northamptonshire, Powys needed to act sooner rather than later to prevent a similar position occurring. Scrutiny and Audit were here to assist the Cabinet in moving forward.

Outcomes:

- **A report would be prepared for submission to Cabinet – a draft would be agreed with the Committee, Portfolio Holder and officers prior to submission**
- **The training materials provided by SWAP would be circulated and a similar presentation would be made to County Council**

County Councillor JG Morris (Chairman)

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