

\ Report

Independent Assessment of the Proposed Budget for 2019/20 and the Adequacy of Reserves held

Powys County Council

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This report has been commissioned by the Powys County Council Head of Finance to provide an independent review and to assist in the assessment of how the Council has developed its budget proposals in line with the requirements of the Local Government Act 2003. This Act requires the Chief Finance Officer, Section 151 Officer (the Head of Finance), to make a report to the Council when it is considering its budget and Council Tax. The report must provide assurance on the robustness of the estimates, highlighting the risks associated with its deliverability and the adequacy of the reserves allowed for in the budget proposals.

This CIPFA report details our brief, approach, findings and conclusions. As with all public sector organisations including local government the challenges of providing public services with diminishing resources means having a clear understanding of the financial position, risk and options when making decisions. This report highlights our findings at Powys and indicates our conclusions around further activity and direction.



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1. Introduction

- 1.1 The Local Government Act 2003 requires the Chief Finance Officer, Section 151 Officer (the Head of Financial Services), to make a report to the Council when it is considering its budget and Council Tax. The report must provide assurance on the robustness of the estimates, highlighting the risks associated with its deliverability and the adequacy of the reserves allowed for in the budget proposals.
- 1.2 This report has been commissioned by the Head of Finance to assist in this assessment. CIPFA has been asked specifically to provide an independent review of how the Council has developed its budget proposal in terms of:
 - How well it understands the financial position it faces;
 - The risks embedded within the proposal and how these will be managed;
 - The robustness of the savings plans;
 - The level of reserves maintained and their adequacy;
 - The process in place for monitoring the delivery of the proposal during the forthcoming year.
- 1.3 In order to carry out this work we have reviewed a series of reports and presentations and interviewed a number of Elected Members and senior officers. In the time available we have not been able to test the accuracy of the numbers nor have we been able to validate how well the various processes operate in practice. Our report relies on the accuracy of the documentation provided to us and on the representations provided by officers and Members. A list of the documents reviewed is provided in Appendix 1 of this report while a list of interviewees is provided in Appendix 2.

2. Budget Context

- 2.1 The Council budget for 2019/20 is set in the context of continuing financial pressures. At the time of writing this report an indication of the final settlement figure for the 2019/20 Welsh block grant has been received. The projected budget for the year has been calculated on the basis of a 9.5% increase in Council Tax. This would enable a balanced budget to be delivered.
- 2.2 The local context affecting funding and demand for services is heavily influenced by Powys being sparsely populated with a wide geographic area requiring services. It has a higher than average elderly population that is predicted to increase at a rate that is significantly greater than the national average.
- 2.3 Conversely, the younger population is declining with a reducing birth rate, and a sizeable outward migration of young people looking for further educational and career opportunities, being the main contributors to this trend.

- 2.4 These factors in combination are presenting significant challenges. The provision of services to a dispersed and relatively small population is expensive as a result of greater transport costs and the demand for facilities to be delivered locally or within a commutable distance. Additionally, a consequence of an ageing population is the increased demand for more complex and therefore more expensive care support.
- 2.5 An inspection of the services for children in 2017 was critical of the standard of service provided and resulted in an Improvement and Assurance Board being established to report directly to the Welsh Government. A further inspection in 2018 has indicated that significant improvements have been made but that more still needs to be done. The Improvement and Assurance Board remains in place. Partly as a result of these reports, and also because of increased service demands, the Council has identified additional service pressures, included in the draft 2019/20 budget amounting to £22.4m, partially offset by identified savings of £14.5m leaving a net increased requirement of £7.9m.
- 2.6 Despite the challenges, the Council continues to develop and refine its strategic financial planning arrangements and has developed a longer term approach to forecasting. The summary Financial Resource Model that we have seen covers the period from 2019/20 to 2023/24 in terms of outline planning totals.

3. Robustness of Budget proposals

3.1 Budget Setting Process

3.2 As a result of the Council elections in May 2017 a new administration was formed to run the Council based on a coalition of Independent and Conservative Members. Approximately 50% of the Members of the Cabinet are in their first term of office. As a result the Head of Finance has made regular and frequent presentations to the Cabinet to increase their understanding of the financial processes and position of the Council. In addition there have been a series of budget seminars for all Council Members in November and December 2018 and in January 2019.

3.3 The overall Medium Term Financial Strategy has been developed and controlled through the Financial Resource Model. The Council has recognised that it is essential that financial decisions are taken at a corporate level, providing a more transparent view of available resources, the impact of decisions across the whole Council, and the effective alignment of resources across both capital and revenue budgets to deliver the Council "Vision 2025". Although this may be seen as reducing decision making at a service/Directorate level it is designed to ensure that the use of resources is prioritised by effective financial planning at a corporate level.

- 3.4 The Financial Resource Model has been designed to capture everything of a financial nature including the following:-
- General Pay and Price pressures;
 - Contract Pressures – Inflationary uplifts, risk of price changes at retendering;
 - Service Demand Pressures;
 - Demographic Changes;
 - New responsibilities – statutory and regulatory changes;
 - Additional Income Streams – demand led increases;
 - Expected Capital Receipts;
 - Grant Income increases;
 - Grant Income reductions or transfers into the settlement;
 - Capital requirements;
 - Mitigating action to deal with pressures;
 - Savings;
- 3.5 Financial Resource Models are prepared for each Directorate and services are expected to manage pressures within their own service or directorate. Service Heads have had to be explicit about how they are managing these pressures. They have had to provide assurance that the budget proposals are robust and deliverable.
- 3.6 Finance Business Partners have worked closely with Heads of Service and Directorate Management Teams to ensure that the budget process has operated as intended and that financial information is robust, timely and comprehensive.
- 3.7 We have reviewed the budget planning process and we have discussed the effectiveness with Service Directors. In terms of comments from Directors these may be summarised as follows:
- The system has changed this year and has generally worked well;
 - The forms and documentation are fine;
 - There is more involvement of budget holders and the process is more open;
 - Financial support has been good but input from Business Partners can be inconsistent and there is scope for improvement;
 - The process is now more thorough and better focused;
- 3.8 Overall, Directors consider that the process is working well and that budget holders are more closely involved with decision making despite the increased emphasis on central control of priorities. On the basis of our review of documents and the interviews that we have carried out we are satisfied that the Council has implemented a robust and effective budget planning process that aligns the use of resources with Council priorities.

3.9 Impact Assessment

3.10 The Council has taken steps to increase awareness of the consequences of savings. The scale of the reductions required means that the Council must assess the impacts carefully.

3.11 All budgetary proposals carry associated impacts – whether it is an impact on service delivery, equality and poverty, Welsh language, well-being of future generations, safeguarding, or a combination of any or all of these. There must be an awareness of the impact and the Council should seek to avoid or mitigate adverse impacts. However, it is inevitable that a number of manageable risks are inherent within the budget.

3.12 In order to ensure a consistent approach to impact assessment the Council has introduced an Impact Assessment form that must be completed for every service change proposal. The form is part of a toolkit that was introduced in 2017/18. A comprehensive list of all Impact Assessment forms is maintained. The combined impact assessment approach helps to ensure statutory compliance with key legislation and provides a useful summary of how service proposals have been developed.

3.13 Risk Management

3.14 There are risks associated with any budget plans. Risk is managed on a corporate basis with regular reports to the Audit Committee. A risk assessment has been undertaken for each of the budget savings proposed by service areas. This assessment identifies the deliverability of the saving, along with the likely impact on service delivery.

3.15 The risk assessment allows a risk status to be attached to each saving, and significant risks are monitored within project or service risk registers. The corporate risk register has also formed part of the background data assisting the budget setting process.

3.16 The following specific risks have also been considered:

Budget Savings – The level of savings required in 2019/20 is £22.4m gross, £7.9m net. This is a very significant level of saving to be achieved particularly in the light of the Council's recent record on the actual implementation of savings. Any unforeseen delays in implementation will impact on the achievement of the reductions required. Progress on the delivery of agreed savings targets will be reported to Cabinet on a monthly basis. Plans within service areas need to be managed robustly in order to limit any underachievement.

Inflation – Provision of £1.3m has been included for pay awards. Other key inflationary factors have also been included, but with the current low rate of inflation the majority of non pay budgets have been cash limited.

Employers' Pension Contribution – In 2016 the actuarial revaluation of the pension fund identified an increased pension fund deficit. Following discussion and negotiation with the Actuary it was agreed that the Council would pay an employers' contribution rate of 18.7% plus a fixed lump sum each year. An additional £750k per annum was included in the budget proposal for 2017/18 and the two subsequent years to meet these additional costs. Accordingly, the budget proposal for 2019/20 includes additional expenditure of £750K for this item.

Income – The budget is supported by over £60m of generated income and therefore services need to constantly review their income levels and develop creative plans to ensure that they are sustained. This risk is being mitigated by an overall strategy for income, a move to full cost recovery wherever appropriate, and annual uplifts to keep in line with rising costs. The Council will be requested to approve the Fees and Charges Register at its meeting on 21 February 2019.

Council Tax – Collection rates continue to be relatively good but have shown some deterioration with the introduction of Universal Credit. The 2019/20 budget projection which we have reviewed is based on a 9.5% increase in Council Tax. Future assumed collection levels will need to be kept under review.

Equal Pay – The Council has mitigated the financial risk of potential future equal pay claims by holding a reserve to support these costs. This is kept under review.

Treasury Management – The revenue budget and capital programme are supported by daily monitoring of cash movements managed within the Council approved borrowing and investment strategies. The financial climate has a significant impact on these activities. Any variation in the cost of borrowing is being mitigated by a proactive approach to refinancing borrowing. This ensures that, wherever possible, long term borrowing for capital projects takes advantage of the historically low level of debt interest.

Future Years – Although a balanced budget is proposed for 2019/20, additional significant savings will be required to balance the budget in future years. Although the Council is well aware of this issue we consider it to be a major area of risk over the period of the Medium Term Financial Strategy.

Variations to Settlement Assumptions – The Council makes every effort to ensure that its assumptions about budget settlements for future years are based upon the best available evidence. However, future settlements cannot be predicted with absolute accuracy and can be influenced by political and economic policy changes.

Approval of the Budget – The Council is required under the Local Government Act 2003 to set a balanced budget for the forthcoming financial year, and this must be approved by Full Council. The date set for approval is 21 February 2019.

Adequacy of Insurance Arrangements – The Council’s insurance arrangements are a balance between external insurance premia and an insurance reserve to “self insure”. The Council uses the services of an external insurance advisor to provide additional expertise in managing its insurance arrangements.

4 The Monitoring Process

4.1 The Council has well established budget monitoring and internal control arrangements and these act as an effective early warning system in identifying potential problems and for managing potential areas of risk. Finance Business Partners are located centrally within the Resources Directorate but they work closely with Directors and Heads of Service. We discussed budgetary control procedures with Directors and in summary their comments were as follows:

- Finance has been very helpful in working with managers;
- Budget monitoring reports are produced on a timely basis and there is good financial support;
- One to one meetings of Business Partners with Heads of Service are seen as very helpful.

4.2 Monthly reports are provided to Budget Holders, Heads of Service, Directors and Cabinet. The reports monitor performance against budget with full year forecasting and variance reporting. The delivery of savings and the forecast use of reserves are also included.

4.3 This ongoing regular review highlights problems and risks early so that corrective action can be put in place and this is supported by a clear virement process which provides some flexibility to adapt expenditure patterns to meet changing needs and objectives.

4.4 As part of our work we reviewed the Financial Overview and Forecast Report as at 30 November 2018 which was presented to the Cabinet Executive on 15 January 2019. The report is comprehensive in that it provides information covering:

- A summary Revenue forecast for the year;
- A Revenue forecast by Directorate;
- The position on the delivery of savings;
- Additional grants receivable;
- A statement on the projected level of reserves at the year end.

4.5 We had some concerns over the timeliness of reporting but we were assured that, although the end of November figures were not being reported formally to Members until 15 January 2019, monthly figures are available within a fortnight after each month end. In addition the month end figures are examined informally by the Cabinet two weeks before the formal Cabinet meeting.

- 4.6 Based on our review of the available documentation and our discussions with Directors we have formed the view that there are good arrangements in place for budget monitoring and control although there is scope for further improvement. Reporting appears to be timely and appropriate, providing time for corrective action to be taken in year.

5. Current year position

- 5.1 The overall financial position for the Council for 2018/19 is a forecast overspend of £3.6m, excluding HRA and delegated schools, as at 30 November 2018. The key issue is a projected overspend of £6.1m in Childrens Services.
- 5.2 Included within the forecast is a savings target of £12.3m, comprising £8.8m of in year savings and £3.5m of undelivered savings from previous years. Savings of £5.8m had been delivered by 30 November 2018 and it was projected that an additional £1.6m would be delivered by the year end.
- 5.3 Projected undeliverable savings of £3.9m have been removed from the projected budget for 2019/20.
- 5.4 The projected budget deficit of £3.6m at the end of 2018/19 will be met from reserves.

6. Budget Position 2019/20 and Future Years

- 6.1 The detailed Financial Resource Model which we have seen shows a balanced budget for 2019/20 followed by projected budget deficits of £6.5m for 2020/21, £9.4m for 2021/22, £7.5m for 2022/23 and £2.7m for 2023/24.
- 6.2 We have reviewed the various papers that explain the budget position for future years and we are satisfied that the processes that the Council has in place to identify service pressures and savings are robust. Our discussions with Directors and Members confirms that there is a clear understanding of the financial position both now and in the future.
- 6.3 The savings totalling £14.5m identified for 2019/20 include the use of £2m of capital receipts to fund transformation costs. It is not proposed that any reserves will be used to balance the budget.
- 6.4 The budget projection which we have reviewed is predicated on an increase in Council Tax of 9.5%. This would enable a balanced budget to be delivered. If this proposed increase is not agreed then the budget would need to be balanced by a combination of additional savings or the use of reserves. Either of these measures would increase the degree of risk in delivering services against the budget in 2019/20 and increase the difficulty of delivering balanced budgets in future years.

6.5 Our overall conclusion on the financial position can be summarised as follows:

- The Council has sound processes in place to set a balanced budget for 2019/20. From the evidence that we have seen the Council will be able to set a balanced budget at its meeting on the 21 February 2019;
- Directors and members appear to be acutely aware of the deficit position in future years and of the need to continue to take action as a priority.

7 Reserves

7.1 The Reserves Policy establishes a framework within which decisions are made regarding the level of reserves held by the Council and the purposes for which they will be maintained and used.

7.2 The use of reserves and the levels at which they are maintained is determined on an annual basis as part of the Budget setting process

7.3 Financial Indicators for Reserves

7.4 The holding of reserves is a matter for each Authority to determine as part of sound financial management. Powys appears to be maintaining reserves at a level broadly in line with that of other Welsh authorities.

7.5 In terms of specific ratios we have seen reports to show that the Council monitors the following ratios including comparison with other Welsh authorities:

- Useable reserves as a percentage of gross revenue expenditure;
- Earmarked reserves as a percentage of gross revenue expenditure;
- General reserves expressed as number of days turnover.

7.6 Based on the reports that we have seen and our discussions with officers we are aware that the Council monitors the level of reserves held on a regular basis throughout the year. The level of reserves and their forecast use is reported monthly to Cabinet as part of the budget monitoring process. Final decisions on the year end position are made in the annual budget cycle and during the closing of the accounts.

7.7 As at 30 November 2018 the projected overspend of £3.6m in 2018/19 will reduce the forecast level of General Fund reserves at 31 March 2019 to £6.1m compared with an opening balance of £9.7m. The total of ring fenced and specific reserves in the General Fund at 31 March 2019 is projected to be £17.9m.

7.8 From the documents we have seen and from our discussions with officers we are aware that the following adjustments are likely to be made:

- The Budget Management Reserve will be maintained at £3.6m and this will continue to be considered alongside the General Fund Reserve so that the total balance will exceed the Council agreed target of a minimum of 3% of net revenue expenditure, excluding the delegated schools budget;
- The proposed budget for 2019/20 includes the addition of £0.5m to General Fund reserves and £2m to the Budget Management Reserve. Whilst the creation and use of reserves is a matter for the Council to determine, the Budget Management Reserve could be used to support possible pressures in Social Services given the scale of the proposed transformation programme in that service to meet future demand pressures;
- The Schools Delegated Reserves are projected to be overdrawn by £3m by 31 March 2019. This is due to falling pupil numbers and funding levels that have not kept pace with inflationary pressures. This overall deficit position will pose a risk for the General Fund of the Council. As a result the Council is planning to take appropriate action in this area with formal intervention by the Council including the possible withdrawal of delegation.
- Each reserve will continue to be assessed, particularly those held for specific purposes, to ensure that the reserve is still required.

7.9 Based on the work that we have carried we are satisfied that the Council has appropriate procedures in place to monitor the level and use of reserves and that it takes a prudent approach to the management of those reserves.

8 Conclusions

8.1 Based on the work that we have carried out as defined in Section 1 of this report we have been able to reach the following conclusions:

- The Council has appropriate procedures in place to set a robust budget for 2019/20;
- Based on our discussions with officers and Members we are satisfied that the Council is well aware of the difficult financial position that it continues to face and that it will need to monitor the budget closely during 2019/20;
- We are also satisfied that the Council operates a sound system of budget monitoring during the financial year with monthly figures available on a timely basis. This enables corrective action to be taken in-year;
- There is a sound process in place for monitoring the level and use of reserves.

8.2 A major area of risk relates to the financial position for 2020/21 and beyond, although the Council is well aware of the financial problems that it is facing.

Appendix 1

List of Documents Reviewed

DOCUMENT	DATE
Medium Term Financial Strategy 2018/2023	May 2018
Vision 2025	
Council Budget Seminar Presentations	20 November 2018 12 December 2018 3 January 2019
Directorate Financial Resource Models	
Financial Resource Model - Summary	
Budget Savings Proposals Summary	
Executive Management Team - Budget Pressures Summary	
Various Impact Assessment forms	
Minutes of Savings Panels	14 November 2018 27 November 2018 11 December 2018 17 December 2018
Improvement and Assurance Board Bulletins	
Financial Overview and Forecast as at 30 November 2018	15 January 2019

Appendix 2

List of Interviewees

NAME	TITLE
Jane Thomas	Head of Financial Services
Mohammed Mehmet	Interim Chief Executive
David Powell	Deputy Chief Executive
Alison Bulman	Director of Social Services
Nigel Brinn	Director of Environment
Cllr Aled Davies	Portfolio Holder for Finance
Cllr John Morris	Chair of Audit Committee and Finance Scrutiny Panel