

Assurance and Risk Assessment Review – Powys County Council

Audit year: 2021-22

Date issued: February 2023

Document reference: 3409A2023

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What we reviewed and why

- 1 We undertook this project to identify the level of audit assurance and/or where further audit work may be required in future years in relation to risks to the Council putting in place proper arrangements to secure value for money in the use of resources. This project also helped us to assess the extent to which the Council is applying the sustainable development principle in taking steps to meet its well-being objectives.
- 2 This report summarises our findings in the areas where we have undertaken more detailed Assurance and Risk Assessment work. We will also produce an Annual Audit Summary in early 2023 that will summarise all of our audit work undertaken since our last Annual Audit Summary in February 2022.
- 3 We focused in particular on the following areas at the Council:
 - Financial position
 - Implications of the Local Government and Elections (Wales) Act 2021 and Self-assessment arrangements
 - Carbon reduction plan
- 4 Our evidence base for this work included interviews with senior officers and elected members, and the review of relevant documents.
- 5 The Assurance and Risk Assessment project has been ongoing throughout the year. We fed back emerging findings to officers as we undertook this work. We also used ongoing conversations to gather the perspectives of senior managers on the council's key audit risks and to inform our forward planning.

Financial position 2021-22

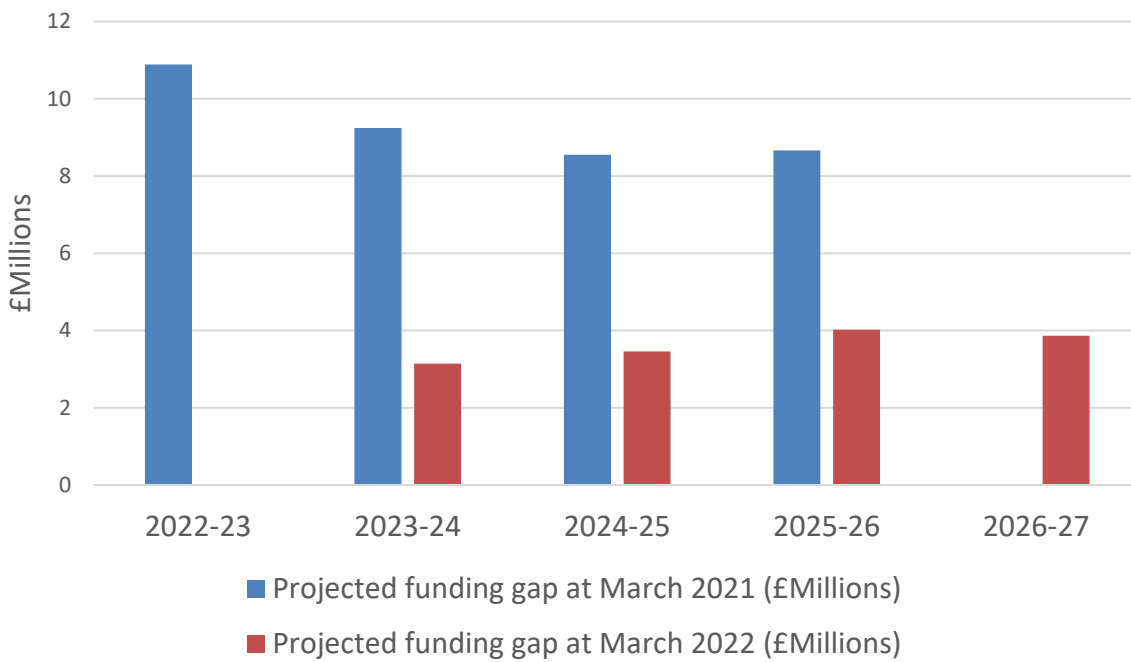
Additional Welsh Government funding has helped improve the Council's financial position in recent years, but the Council needs to develop a sustainable plan to address substantial emerging cost pressures

- 6 We reviewed the Council's 2021-22 financial position during August and September 2022. This included consideration of the Council's financial reserves position, the delivery of planned savings and performance against the planned budget for the 2021-22 financial year.
- 7 We also published a [Local Government Financial Sustainability Data tool](#) in February 2022 which includes a range of financial data for councils, national parks, and fire and rescue authorities in Wales.

Financial strategy

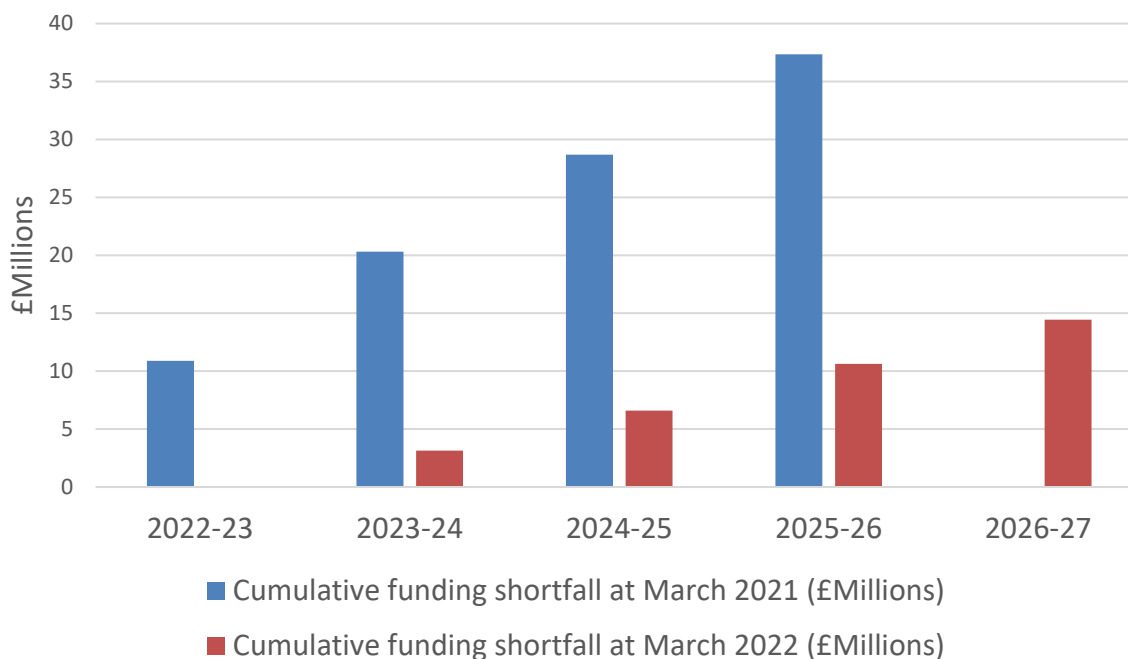
- 8 Our [previous report](#) in September 2021 relating to the Council's financial sustainability showed a significant budget gap in its Medium Term Financial Strategy (MTFS) and some key risks that could impact on its financial resilience. However, the Council reported that these issues were being tackled through improvements to its financial management arrangements. These improvements continued in 2021-22.
- 9 The Council's forecasted funding gap, as published in its 2023-24 MTFS in March 2022, decreased by £6.1 million between 2021 and 2022, from £9.243 million in March 2021 to £3.141 million in March 2022. The forecasted funding gap for 2024-25 and 2025-26 also decreased in the Council's March 2022 MTFS compared to its March 2021 MTFS.

Exhibit 1: as at March 2022, the Council's total projected medium term funding gap for 2023-24 was £3.14 million – £6.1 million lower than the forecast in the March 2021 MTFS



10 The Council's March 2022 MTFS also looked at the forecasted cumulative funding shortfall. This showed an improved position compared to the March 2021 MTFS, but the cumulative funding gap was still forecast at that time to reach nearly £15 million over the next four financial years.

Exhibit 2: as at March 2022 the Council’s total projected medium term funding gap by 2026-27 was just under £15 million – compared to £37 million by 2025-26 in the previous MTFS



Useable reserves

- 11 The Council’s useable reserves grew by nearly £20 million between 2019-20 and 2020-21, from £28.6 million to £47.8 million. This followed a decrease in 2018-19. Usable reserves represented 17.5% of the Council’s forecast net cost of services in 2020-21, a rise of seven percent from the previous financial year. The Council had the seventh-lowest level of reserves as a percentage of its net cost of services in 2020-21.
- 12 The Council acknowledged in its March 2022 MTFS that the support of the Welsh Government’s Hardship fund allowed it to operate balanced budgets in 2020-21 and 2021-22, receiving £11.727 million in 2021-22 alone. Without this funding, the Council would have needed to either reduce spending or use its useable reserves to help achieve a balanced budget.
- 13 In its March 2022 MTFS, the Council outlined circumstances in which it might be required to use useable reserves to maintain a balanced budget in 2023-23, which included:
 - natural disasters and pandemics;
 - the legal requirement to deliver statutory duties;
 - the increased threat of legal litigation; and
 - an increase in energy prices.

Exhibit 3: Powys Council's usable reserves versus annual budget

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Net Cost of Services (£ Millions)	259.33	262.79	281.47	276.15	273.20	284.17
Total Usable Reserves (£ Millions)	37.00	37.09	26.76	28.59	47.78	59.34
Total Usable Reserves as a percentage of net cost of services	14.3	14.1	9.5	10.4	17.5	20.9
Ranking compared to other councils in Wales	14th	14th	19th	15th	16th	N/A

Savings delivery

- 14 The Council has made cumulative savings of £83.9 million since 2014-15. This was 73.5% of the Council's targeted savings of £114.1 million over the period.
- 15 In 2021-22, the Council achieved its planned savings of £11.8 million to deliver a balanced budget against £280.6 million in projected revenue expenditure, with £1.6 million of undelivered savings rolled forward from 2020-21. £9.4 million of savings were achieved, with £1.4 million written off and £2.6 million rolled forward to 2022-23.
- 16 According to the Council's 2022-2027 MTFS, £6.96 million of savings were delivered in 2021-22 and a further £3.5 million were assured of delivery by Heads of Service. The remaining £2.94 million (22% of the targeted savings) was not achieved.
- 17 These savings levels are similar to those reported for the previous financial year in 2020-21. Against the proposed targeted savings of £10.8 million in 2020-21, plus £1.6 million carried forward for delivery in the following year. £9.5 million was achieved, 76% of the total. Of the savings not achieved, £1.6 million was rolled forward to 2021-22 and £1.377 million was removed from the 2022-23 budget as being considered unachievable.

Performance against budget

- 18 Audit Wales published a Financial Sustainability Assessment of the Council in July 2021. This report stated that the Council's performance against budget improved in 2020-21 compared to previous financial years.
- 19 The Council reported an overspend in three service areas (Adult Services, Children's Services and Finance), but additional funding streams received late in the financial year from the Welsh Government resulted in a surplus at the year-end for all services.
- 20 For the 2021-22 financial year, the Council reported an overall surplus of £7.408 million on its revenue budget outturn against the planned budget figure of £202.619 million, a variance of 3.7%. This excludes delegated schools and the Housing Revenue Account (HRA).
- 21 This compares to the year-end 31 March 2021, where a surplus of £4.24 million was recorded against a planned budget of £187.7 million, excluding schools and the HRA.
- 22 The Welsh Government Hardship fund provided £11.727 million of funding to the Council during the 2021-22 financial year. This funding will not be available in the 2022-23 financial year.

Future budget pressures

- 23 As at March 2022, the Council's MTFS recognised the identified future pressures on its finances. These included the withdrawal of the Welsh Government Hardship fund and the continued impact of COVID and other pressures on services.
- 24 The Council's medium-term financial planning continues to rely on a range of assumptions. When coupled with the changing socio-economic landscape in this period of significant economic uncertainty, planning for financial resilience and future budget rounds will continue to be extremely challenging for councils.
- 25 The Welsh Government's provisional funding settlement for Powys County Council of 8.7% for 2023-24 provides a degree of funding certainty over the medium term. However, medium-term financial planning will continue to rely on a range of assumptions, and when coupled with the changing socio-economic landscape in this period of significant economic uncertainty, planning for financial resilience and future budget rounds will continue to be challenging for councils.
- 26 As a result of the recent changes in the socio-economic climate, and the Council's estimation of the impact they will have on its finances, it is planning to publish an update to its March 2022 MTFP in December 2022.

Implications of the Local Government and Elections (Wales) Act 2021 and Self-assessment arrangements

The Council is putting in place arrangements to assure itself that it is meeting the requirements of the Local Government and Elections (Wales) Act 2021 and produced its self-assessment report

- 27 We reviewed the work the Council was undertaking in response to the Local Government and Elections (Wales) Act 2021.
- 28 We undertook our assessment of the Council's progress in responding to key requirements in the Local Government and Elections and (Wales) Act 2021 between January and April 2022. The evidence was gathered through interviews and document reviews and also drew on relevant findings from our other ongoing and recent work at the Council. Our work looked at the arrangements the Council is putting in place in responding to the Local Government and Elections and (Wales) Act 2021.
- 29 We recognise that the Council's response to the Local Government and Elections (Wales) Act 2021 is ongoing. As such we have provided this feedback based on our work at a point in time.
- 30 The Council had a well-articulated plan for how it proposed to undertake its self-assessment and has liaised with the Welsh Local Government Association during the process.
- 31 The Council did not produce a separate Self-Assessment report, as the self-assessment was used to update how the Council delivered against its well-being objectives within its current Corporate Improvement Plan and areas which may need improvement.
- 32 The Council will use and adapt its existing stakeholder engagement activities and tools to discharge its self-assessment consultation duties. To avoid consultation fatigue, the Council intends to undertake consultation on the self-assessment over the course of the year, rather than be a one-off specific exercise. The approach to consultation on the self-assessment has been clearly articulated within its Draft Participation Strategy.
- 33 The Council's Governance and Audit Committee composition has been approved by Council and Audit Committee as six councillors and three independent members, and the decision to delegate authority to amend the constitution has been resolved. Whilst the response to the initial recruitment campaign was poor, a further recruitment campaign was undertaken in January 2022. All three new independent members have now been recruited and appointed.
- 34 The Council is currently not using the Power of General Competence and reported that it has no specific plans to use it in the near future.

Carbon reduction plan

Powys has a clear understanding of the scale of this agenda and comprehensive structures in place to develop and manage activity. However, it has not yet published a fully costed net zero action plan and needs to undertake further work to fully understand the cost of all its planned activity contributing to the net zero agenda

Context

- 35 In July 2022, the Auditor General published his Public Sector readiness for Net Zero Carbon by 2030 report, which looked at decarbonisation actions in 48 public bodies, including all councils. This report found uncertainty that the collective ambition for a net zero public sector by 2030 will be met. Our work identified significant, common barriers to progress that public bodies must collectively address to meet the collective ambition. We found that while public bodies are demonstrating commitment to carbon reduction, they must now significantly ramp up their activities, increase collaboration and place decarbonisation at the heart of their day-to-day operations and decisions.
- 36 In the report, the Auditor General makes the following five calls for action from public bodies:
- Strengthen your leadership and demonstrate your collective responsibility through effective collaboration
 - Clarify your strategic direction and increase your pace of implementation
 - Get to grips with the finances you need
 - Know your skills gaps and increase your capacity
 - Improve data quality and monitoring to support your decision making
- 37 The following paragraphs set out the findings of our local audit work on the Council's decarbonisation action plan. These findings sit within the wider context of the Auditor General's July 2022 report that calls for increased pace and stronger leadership across Wales in reducing carbon emissions.

What we looked at

- 38 Between May and August 2022, we undertook an assessment of the Council's arrangements to develop and deliver their Climate Emergency and Action Plan. We gathered evidence through interviews, document reviews and the Council's returned Call for Evidence for our Decarbonisation Baseline Review.

What we found

- 39 The Council has a clear understanding of this agenda and has created a structure of internal roles and groups along with published plans including Net Positive Powys 2021-2030 and a Carbon Positive Energy Strategy, published in 2018 as part of the Public Service Board's Well-being Plan 'Towards 2040' to help it develop and manage policy and activity that contribute to reducing its emissions.
- 40 However, the full extent of activity needed to achieve net zero emissions has not been costed or integrated into the Council's Medium Term Financial Strategy. As such there is a significant risk that the Council will not meet the Welsh Government target of net zero emissions by 2030.
- 41 The Council established a cross-party working group as part of the Notice of Motion Climate Emergency Declaration made in September 2020 to support work on this agenda. The Council is currently reviewing the arrangements. At the time of writing, the Council's relevant Scrutiny Committee with responsibility for this portfolio is yet to be confirmed.
- 42 The Council has established an internal Climate Emergency Programme Board. This Board has membership of officers from all council service areas and has working groups to support it. These working groups are responsible for the drafting of the action plans that will identify and cost future activity to reach net zero emissions. However, this is yet to happen.
- 43 The Council is also planning to create a stakeholder group to shape and discuss activity about this agenda. The group will have external membership and the Council aims to engage with individuals and groups with knowledge and interest in this area, such as Powys Action for Climate Emergency.
- 44 The Council is looking to develop external communications to raise the profile of this agenda with residents and businesses. They are also planning to host a Climate Emergency event in March 2023 for stakeholders, organisations and communities. They hope to launch their costed action plan at this event.
- 45 There are two officers who support this work within the Council, one fully dedicated and one part dedicated who is the Economy Strategy and Climate lead. All four posts sit under the Planning, Property and Public Protection service.
- 46 The Council has yet to draft costed action plans of all activity needed to achieve net zero by 2030. The Council needs to identify if sufficient staff resources, time and funding are available to achieve net zero. For instance, much of the Council's assets and building stock are old and not suitable for modern re-fitting processes that would reduce emissions. This applies to both the Council's housing stock and school buildings.

Recommendations

Exhibit 4: recommendation

The table below sets out the recommendation that we have identified following this review.

Recommendation	
R1	In order to meet its net zero ambition, the Council needs to fully cost its intended action plan and ensure that it is aligned with its Medium Term Financial Strategy.



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