

## Audit Committee

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Meeting Venue  
**Council Chamber - County Hall,  
Llandrindod Wells, Powys**

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Meeting Date  
**Thursday, 4 February 2016**

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Meeting Time  
**10.00 am**

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County Hall  
Llandrindod Wells  
Powys  
LD1 5LG

For further information please contact  
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29 January 2016

### AGENDA

<b>1.</b>	<b>APOLOGIES</b>	<b>A1-2016</b>
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To receive apologies for absence.

<b>2.</b>	<b>DECLARATIONS OF INTEREST</b>	<b>A2-2016</b>
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To receive declarations of interest from Members.

<b>3.</b>	<b>DISCLOSURE OF PARTY WHIPS</b>	<b>A3-2016</b>
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To receive disclosures of prohibited party whips which a Member has been given in relation to the meeting in accordance with Section 78(3) of the Local Government Measure 2011.

(NB: Members are reminded that under Section 78 Members having been given a prohibited party whip cannot vote on a matter before the Committee.)

<b>4.</b>	<b>MINUTES</b>	<b>A4-2016</b>
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To authorise the Chair to sign the minutes of the previous meeting.  
(Pages 5 - 12)

<b>5.</b>	<b>CLOSURE OF ACCOUNTS</b>	<b>A5-2016</b>
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To receive a presentation by the Professional Lead, Finance.

<b>6.</b>	<b>WAO</b>	<b>A6-2016</b>
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**6.1. Review into the Letting of the Domiciliary Care contract**

To consider the WAO review into the letting of the contract and the report of the Strategic Director Resources (S151 Officer).  
(Pages 13 - 52)

**6.2. Management Letter - 2014-15**

To consider the Management Letter for 2014/15.  
(Pages 53 - 72)

<b>7.</b>	<b>CORPORATE ASSESSMENT</b>	<b>A7-2016</b>
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To receive a presentation on the forthcoming Corporate Assessment.

<b>8.</b>	<b>RISK MANAGEMENT</b>	<b>A8-2016</b>
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To consider the report of the Business Continuity and Risk Management Officer.  
(Pages 73 - 100)

<b>9.</b>	<b>TREASURY MANAGEMENT</b>	<b>A9-2016</b>
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To consider the report of the Portfolio Holder for Finance.  
(Pages 101 - 122)

<b>10.</b>	<b>DELEGATED AUTHORITY TO THE CHAIR OF AUDIT COMMITTEE</b>	<b>A10-2016</b>
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To consider the report of the Strategic Director, Resources.  
(Pages 123 - 124)

<b>11.</b>	<b>SCRUTINY OF LOCAL AUTHORITY HOLDING AND UTILISING OF RESERVES</b>	<b>A11-2016</b>
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To consider Welsh Government guidance for Members on scrutinizing reserves.  
(Pages 125 - 144)

<b>12.</b>	<b>WORKING GROUPS</b>	<b>A12-2016</b>
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**12.1. Finance Scrutiny Panel**

To receive the scrutiny summary report.  
(Pages 145 - 146)

<b>13.</b>	<b>WORK PROGRAMME</b>	<b>A13-2016</b>
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To consider the forward work programme and whether any additional items should be included.

(Pages 147 - 150)

<b>14.</b>	<b>JOINT CHAIRS STEERING GROUP</b>	<b>A14-2016</b>
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To receive the notes of meetings of the Joint Chairs Steering Group held on 22 November 2015 and 22 January 2016.

(Pages 151 - 156)

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**MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD AT COUNCIL CHAMBER - COUNTY HALL, LLANDRINDOD WELLS, POWYS ON MONDAY, 9 NOVEMBER 2015**

**PRESENT**

County Councillor J G Morris (Chair)

County Councillors J Brautigam, S C Davies, D E Davies, L R E Davies, E R Davies, L Fitzpatrick, G Hopkins, E A Jones, M J Jones, F H Jump, P J Medicott, R H Mills, JG Morris, WD Powell, D R Price, D A Thomas, D G Thomas and R G Thomas and Mr J Brautigam (Independent Member)

<b>1.</b>	<b>ELECTION OF CHAIR</b>	<b>A80-2015</b>
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**RESOLVED that County Councillor J G Morris be elected Chair.**

The Chair paid tribute to the former Chair and the considerable work he had undertaken in moving Audit Committee forward.

Pursuant upon the Vice Chair having been elected Chair, an election for Vice Chair was undertaken.

**RESOLVED that Mr J Brautigam be elected Vice Chair.**

<b>2.</b>	<b>APOLOGIES</b>	<b>A81-2015</b>
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An apology for absence was received from County Councillor T J Van Rees.

<b>3.</b>	<b>DECLARATIONS OF INTEREST</b>	<b>A82-2015</b>
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There were no declarations of interest.

<b>4.</b>	<b>DISCLOSURE OF PARTY WHIPS</b>	<b>A83-2015</b>
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There were no disclosures of party whips.

<b>5.</b>	<b>MINUTES</b>	<b>A84-2015</b>
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The Chair was authorised to sign the minutes of the previous meeting, held on 28 September 2015, as a correct record.

It was noted that the WAO report regarding Domiciliary Care was not yet available and this would be considered at the next meeting.

<b>6.</b>	<b>RISK MANAGEMENT AND BUSINESS CONTINUITY</b>	<b>A85-2015</b>
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**Documents:**

- Update report of the Business Continuity and Risk Management Officer
- Policy, Strategy and Methodology
- Heat Map
- Risk Register

**Issues:**

- Scoring mechanism
- Budget savings
- Draft Strategy
- Grouping of risks in higher categories

**Responses:**

- The Committee requested details of regarding the scoring of risk and the consultation process. In consultation with officers, and the use of a matrix, a simple formula is used to multiply probability by impact to achieve a numeric, inherent risk score. Officers have been issued with guidance to ensure consistency across the Authority. Probability is based on whether an event would occur within the year, in one to five years or whether it was unlikely to occur. The impact considers financial risk, ability to achieve and corporate objectives. Members asked whether there was an independent assessment of the scoring – this is undertaken by Management Team. Services continue to manage risk through their own management teams.
- One of the Business Continuity Champions had been invited to attend the meeting and comment on procedures from a service perspective. The Communications Manager informed Members that the process had been easy to follow and assess. A Business Continuity Champions Group meets regularly enabling networking and challenge across the Authority. The Communications Manager is also a member of the Dyfed Powys Local Resilience Forum which ties in with his work as Business Continuity Champion
- It was suggested that a peer review, either by the Public Service Board or another authority, could be undertaken to ensure greater challenge and this suggestion was welcomed by officers. Further consideration would be given as to whether this would be an effective method to further strengthen the service.
- The revised Strategy supports the process. A draft is due to be submitted to Cabinet for approval in January 2016. Cabinet review the Risk Register on a quarterly basis with the Leader and Business Continuity and Risk Management Officer meeting monthly. Management Team review the Register on a quarterly basis and each risk identified on the Corporate Risk Register is 'owned' by a member of Senior Management.
- Members sought assurance that the budget proposals and associated Strategic Impact Assessments would be included within the Register where appropriate. The Impact Assessments were currently being analysed and would be presented to Cabinet in December.
- Concern was expressed at the number of risks in the High/High category with none in the Low/Low or Low/Medium categories. It was considered that the spread of risks should be across all categories and not concentrated in the High sector. Originally there were 85 corporate risks. The Authority is improving in identifying and categorizing risks. The level

of challenge is also improving and risks may move between categories. However, it was inevitable that some risks would remain High.

- The Portfolio Holder, Finance, informed the Committee that the failure to meet constraints was a budget risk. A recent announcement regarding cuts to local government funding of 30% over four years in England would have to be monitored to assess how this would affect funding to Wales. Cabinet will have to address savings in high risk areas in order to achieve the required level of savings.
- The Heat map would be aligned with the budget going forward
- The Finance Scrutiny Panel with its overarching, independent review of proposals will have to consider the associated risks
- The progress in developing the risk register was noted. This area of work had not been a priority following the departure of the previous officer and the post having been left vacant. Managers were now on board with the new processes. Other authorities were taking an interest in the development of the processes and had requested advice from the Business Continuity and Risk Manager.

**Outcome:**

- **The draft Policy, Strategy and Methodology be approved for submission to Cabinet**

<b>7.</b>	<b>COMMERCIAL SERVICES</b>	<b>A86-2015</b>
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The Committee received a presentation on the work of the Commercial Service Team by the Professional Lead, Commercial Services.

**Issues:**

- Northgate
- Cumulative savings
- Collaboration with other authorities
- Cost of producing invoices
- Double accounting of savings

**RESOLVED to exclude the public for the following items of business on the grounds that there would be disclosure to them of exempt information under category 1 of The Local Authorities (Access to Information) (Variation) (Wales) Order 2007**

- The Committee was provided of an overview of the requirements Northgate were expected to deliver
- Northgate were reskilling the Commercial Services Team and would start to withdraw after 18 months. Their contract ends in September 2017.
- Members requested that net figures be given in reports
- The Portfolio Holder was asked if he would consider using this type of contract in the future. He responded that this had been a good example and would be used where appropriate.
- As the Council becomes more commercially aware there would inevitably be a need for fewer staff – however, commercial rigour would still be required as the Council moves to a commissioning model

**The Committee returned to open session.**

- Further clarity was needed regarding ‘cumulative’ or ‘anticipated savings. The move to a three year budget should provide that clarity but the Strategic Director invited Members to challenge any further instances where jargon was used.
- Many purchases were made through the Wales Purchasing Consortium but there was no direct collaboration with other authorities. It was hoped to progress to greater collaboration once the Authority’s own processes were more developed
- It was noted that the current cost of processing an invoice was £25 in line with the national benchmark. The Committee were concerned that there were many thousands of invoices processed valued at less than £20. The Professional Lead informed Committee that she hoped that this level would fall following recent intervention but that the data was not yet available.
- An ongoing concern of Members was that the same savings may be being accounted for in different areas. All lines for savings have been consolidated although it was acknowledged that there had been some initial confusion. The Professional Lead for Finance was undertaking a wide ranging task to assess this issue. This was nearing completion and the findings would be reported to Members.
- Cost reductions did not always lead to budget reductions
- Members were pleased that payment was no longer made against invoices which did not include a purchase order but questioned why this had happened at all. The Authority had had a low level of purchase order compliance but this was now much tighter. Compliance had risen to 90%, excluding schools, from 35%. The change had caused some difficulties to local suppliers. Financial discipline continues to improve.
- Members noted the next steps to be taken with regards spend control and cited examples of where they thought there could be tighter financial control – for example in travel and accommodation. All requisitions are now approved by the Professional Lead but must have a proven business case or Head of Service approval.

**Outcome:**

- **That the presentation be noted.**

<b>8.</b>	<b>CLOSURE OF ACCOUNTS</b>	<b>A87-2015</b>
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**Documents:**

- Report of the Professional Lead, Finance

**Issues:**

- The WAO Memorandum of Accounts has been issued recently
- The Finance Officers’ Group will respond
- An improvement on the previous year had been noted but officers were aware of the need for continuous improvement
- Further consideration will be given to the information to be made available and an assessment made to streamline the process



- Workshops will be held with service areas where difficulties in obtaining information have occurred
- There are too many feeder systems - a project is underway to ensure that all information is fed into e-financials directly

**Outcome:**

- **That the report and the ongoing progress in closing the accounts be noted.**

<b>9.</b>	<b>TREASURY MANAGEMENT</b>	<b>A88-2015</b>
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**Documents:**

- Report of the Portfolio Holder for Finance
- Credit Rating list (confidential)

**Issues:**

- Changing situation
- Funds held in Iceland
- Inflation levels

**Responses:**

- An announcement regarding base rates had been made since the report had been written – it is now thought unlikely that there will be any movement in interest rates until end of 2016
- There has been no further progress with funds held in escrow in Iceland pending decisions by the Icelandic government
- Concern was expressed at the low level of inflation incorporated into forward proposals and the Portfolio Holder was questioned as to whether this would be revised. The Portfolio Holder informed the Committee that this was being considered by the Cabinet.

**Outcome:**

- **That the report be noted.**

<b>10.</b>	<b>AUDIT COMMITTEE</b>	<b>A89-2015</b>
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**Document:**

- Report of the Solicitor to the Council

**Issues:**

- Members were invited to debate the composition of the Audit Committee following a recent self-assessment indicating that a reduction in numbers could be considered and the ongoing for savings to be made in the operational costs of committees generally. The report detailed the composition of other Audit Committees across Wales – Powys has the largest with 22 members although it was noted that there were a number of vacancies.

**Member Comments:**

- Concern regarding workload of Members
- Concern regarding the engagement of some Members
- All committees should be subject to review not just Audit
- Current arrangements had been devised to ensure every Member sat on one scrutiny or regulatory committee
- Some Members no longer sit on any committee
- There should be parity of responsibility
- The functions of the committees would have to be reviewed following any alterations
- Attendance details for Audit Committee showed that, with the exception of the former Chair and Lay Member, attendance was less than 50%
- If a smaller Committee were to be agreed there must be a commitment from Members to attend
- Members debated how to encourage engagement
- The Strategic Director was of the opinion that the Committee needed more focus on some issues and a smaller committee may be the means to achieve that focus
- The Independent Remuneration Panel for Wales was proposing amendments to Cabinets in attempt to drive down the costs of democracy
- There should be more corporate responsibility by all Members

**Outcome:**

- **Members agreed that consideration could be given to change but that this must be across all committees**

<b>11.</b>	<b>WORKING GROUPS</b>	<b>A90-2015</b>
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<b>12.</b>	<b>FINANCE AND PERFORMANCE</b>	<b>A91-2015</b>
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**Document:**

- Scrutiny summary report

**Issues:**

- Consideration of financial issues had improved although consideration should be given to receiving Cabinet's response to the Financial Overview and Forecast report prior to the Group's consideration of the reports
- Performance reporting had been problematic and no improvements had been forthcoming. The issue was to be reported to the Joint Chairs Steering Group for further consideration.

**Outcome:**

- The report be noted

<b>13.</b>	<b>FINANCE SCRUTINY PANEL</b>	<b>A92-2015</b>
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**Document:**

- Scrutiny summary report

**Issues:**

- The Panel continues to move forward
- There is some overlap with Political Group considerations
- The Panel is now meeting Heads of Service regarding budget proposals

**Outcome:**

- **The report be noted**

<b>14.</b>	<b>INTERNAL AUDIT WORKING GROUP</b>	<b>A93-2015</b>
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**Documents:**

- Scrutiny summary report
- Oral update of recent meeting

**Issues**

- Despite improvements in project management in recent years there is a general perspective that there is still a shortfall in this area going forward
- Post Implementation Audits should be a basic requirement
- An Organisational Development Board, chaired by a senior LHB officer and with the Strategic Director, Resources as Deputy Sponsor, will monitor future developments.
- It is essential to recruit and retain the right people

**Outcomes**

- The report be noted

<b>15.</b>	<b>WORK PROGRAMME</b>	<b>A94-2015</b>
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**Documents:**

- Forward Work Programme

**Outcome:**

- That the Work Programme be noted and items arising from the meeting be included.

<b>16.</b>	<b>CORRESPONDENCE</b>	<b>A95-2015</b>
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There were no items of correspondence.

**County Councillor J G Morris**

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## CYNGOR SIR POWYS COUNTY COUNCIL.

**Audit Committee**  
**4<sup>th</sup> February 2016**

**REPORT AUTHOR:** David Powell, Strategic Director – Resources (S151 Officer)

**SUBJECT:** Wales Audit Office Report on the Review of the Letting of a Domiciliary Care Contract

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**REPORT FOR:** Information and Comment

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### **1.0 Introduction**

- 1.1 The letting of the domiciliary care service in Powys has been subject to three reviews and the third and final review by Wales Audit Office (WAO) means that there is a considerable body of information to analyse the process and also support learning for the organisation going forward.
- 1.2 The review by WAO falls under the Auditor General's responsibility to satisfy himself under the Public Audit Wales Act 2004 that the Authority made proper arrangements for securing economy, efficiency and its effectiveness in its use of resources. This requirement, under the 2004 Act, was applied to the review into the letting of the contract. The approach adopted by WAO recognises the two previous reviews carried out by the following:
- Oxford Brookes University's Institute of Public Care (IPC) that was jointly commissioned by Powys County Council and the Good Services Improvement Agency for Wales; and
  - Care and General Services Inspectorate Wales (CSSIW).
- 1.3 The work undertaken by WAO did not duplicate the previous reviews but necessarily drew on this body of work and made reference to the reports in the report.

### **2.0 Background**

- 2.1 The WAO report sets out the context within which the Authority operated and let the contract which was awarded to Alpha Care Limited. The contextual detail has been comprehensively covered in the other two reports about the engagement of

Alphacare but it is worth summarising that in March 2014 the Council awarded contracts for the provision of domiciliary care. A total of four providers were appointed, two in the north of the county and two in the south of the county.

### **3.0 Findings**

- 3.1 The report lays out a number of key findings. These findings when taken together with the previous two reports provides a significant body of evidence to help deliver improvements. These lessons will be applicable to any major re-procurement that the Council may need to make in future.
- 3.2 The review's central message is that because of the pace applied the timescales were compressed. Therefore as a result of the requirement to act quickly the integrity of governance arrangements was compromised.
- 3.3 In summary the WAO found that:-
- The governance, management and scrutiny arrangements for the procurement were inadequate;
  - The Invitation to Tender (ITT) had weaknesses and ambiguities that meant the submission of robust tenders was compromised;
  - Weaknesses were evident in the evaluation processes;
  - The Authority tried to support Alphacare to deliver the contract but these efforts were unsuccessful.
- 3.4 The review notes that the lessons based on issues identified as part of the review are more widely applicable. As a result it suggests the Authority should satisfy itself that the identified concerns are not more widespread.
- 3.5 The review makes three recommendations and these are on page 8 of the attached document. In summary these are as follows:-
- (a) The Authority should ensure that the identified weaknesses and/or deficiencies are not replicated in any future domiciliary care procurement exercise;
  - (b) The Authority should consider whether the issues raised by the review have wider relevance. As a result of a review of the processes for developing and letting major contracts should be subject to review;

- (c) Document retention was identified as an issue and the review identified at point (b) should include the extent to which adequate documentation is produced and retained around the letting of tenders.

#### **4.0 Next Steps**

- 4.1 As indicated the Authority now has a significant body of evidence as a result of three reviews into the letting of the contract. The latest and final review by the WAO adds to the overall understanding through its narrower focus on the tendering process and subsequent letting of the contract for domiciliary care.
- 4.2 The Cabinet has requested that the common themes evident in the three reviews should be included in an action plan to ensure that wider learning is evident from the process. This will be presented at the next available Cabinet.

<b>Recommendation:</b>	<b>Reason for Recommendation:</b>
<b>The Audit Committee notes the attached WAO review and comments on its findings. In addition, Audit Committee will review the Cabinet report and action plan based on the three reports about the letting of the domiciliary care contract.</b>	<b>In order to ensure the Authority uses the issues raised in the WAO review and the two other reports into the same issue to assess the wider relevance for letting contracts.</b>

<b>Relevant Policy (ies):</b>	N/A		
<b>Within Policy:</b>	Y / N	<b>Within Budget:</b>	Y / N

<b>Relevant Local Member(s):</b>	N/A
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<b>Person(s) To Implement Decision:</b>	N/A
<b>Date By When Decision To Be Implemented:</b>	N/A

<b>Contact Officer Name:</b>	<b>Tel:</b>	<b>Fax:</b>	<b>Email:</b>
David Powell	01597 826729		david.powell@powys.gov.uk

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# Review of the Letting of a Domiciliary Care Contract to Alpha Care Limited

## **Powys County Council**

**Audit year:** 2014-15

**Issued:** January 2016

**Document reference:** 692A2015

# Status of report

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This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at [info.officer@audit.wales](mailto:info.officer@audit.wales).

The team who delivered the work comprised Iolo Llewelyn and David Rees under the direction of Anthony Barrett

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## Detailed report

Background	9
The governance, management and scrutiny arrangements established for the procurement of the domiciliary care service were inadequate	12
The 2014 tender was progressed too quickly, which left insufficient time to scrutinise and test the proposals	12
There was a lack of clarity and rigour within the decision-making process for the procurement.	15
There was a lack of clarity regarding the project management and accountability arrangements	16
Weaknesses and ambiguities in the invitation to tender meant that it was not conducive to the submission of robust tenders by potential providers	18
The appointment of two providers covering the same area resulted in competition for limited staff resources	18
The contract structure introduced too high a degree of uncertainty for tenderers increasing the risk of provider failure	19
The range of hourly rates specified within the invitation to tender was not soundly based	20
There was a lack of clarity in the invitation to tender regarding the workload available to providers and its distribution	22
The estimated workload specified in the invitation to tender was overstated	23
The geographic distribution of the workload specified in the invitation to tender was incorrect	24
The invitation to tender did not provide information on the length of visits	25

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The scoring structure of the invitation to tender led to high levels of subcontracting, which in the case of Alpha significantly impacted on the company's ability to recover its overheads	25
Weaknesses in the processes adopted for the evaluation of tenders submitted by potential providers has resulted in the Authority being unable to demonstrate that contract award decisions were soundly based	28
There is no evidence that a range of information requested from tenderers by the invitation to tender was evaluated by the Authority	28
The inclusion of hourly rates for 'internal hours' in the tender evaluation distorted the results of the evaluations	30
The Authority tried to support Alpha to deliver the contract, but these efforts proved unsuccessful	32
The Authority sought to support Alpha's cash flow by paying agreed elements of disputed invoices	32
The Authority provided other practical assistance to support Alpha	32
The Authority continued to support Alpha until it became clear that Alpha was not sustainable	33
<b>Appendices</b>	
The geographic distribution of the estimated workload specified in the invitation to tender	34

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# Summary report

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## Introduction

1. In March 2014, Powys County Council awarded contracts with a four year duration for the provision of adult domiciliary care. Four domiciliary care providers were appointed to deliver the service, two in the North and two in the South of Powys. Within a year of their commencement three of the contracts had been terminated; one was terminated by the authority and two by mutual agreement.
2. In April 2015, the principal domiciliary care contractor for the South of Powys, Alpha Care Limited (Alpha) ceased to operate due to financial difficulties. The collapse of this contract attracted intense public and media interest prompting the Auditor General for Wales (Auditor General) to undertake an audit review of the circumstances and issues which led to the failure of the contract. The Auditor General's review focused on the contract with Alpha. However, as Alpha was appointed as part of a county-wide tendering exercise, the audit review identifies issues which have relevance to other domiciliary care contracts within Powys.
3. Alpha commenced work under the contract on 23 April 2014. For various reasons there were problems with the transfer of existing care packages and staff from previous providers to Alpha. Alpha also experienced cash flow problems and to support the company through these difficulties the Authority paid agreed elements of disputed invoices, whilst seeking to resolve the disputed elements.
4. During the autumn/winter 2014-15 concerns were raised with the Care and Social Services Inspectorate Wales (CSSIW) by service users and their representatives regarding the quality of the service provided by Alpha. CSSIW undertook an inspection of the company's work, and in early 2015 CSSIW issued six notices of non-compliance with the Domiciliary Care Agencies (Wales) Regulations 2004.
5. In late 2014, Alpha advised the Authority that it had serious financial difficulties. In order to ensure continuity of care to its vulnerable elderly clients, the Authority put in place arrangements to support Alpha. The Authority re-categorised areas classified under the contract as 'town' as 'rural' in order to better reflect the costs being incurred by the provider, provided staff support to help Alpha schedule work and held regular meetings with Alpha to discuss how difficulties could be resolved. The Authority actively considered other options to support the company including:
  - providing Alpha with a loan of £285,000 (which the Authority ultimately decided should not proceed); and
  - increasing the rate the Authority would pay for each unit of care delivered above the original contract value.

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6. The Authority decided, however, that it was not sustainable to continue using Alpha due to the latter's financial position and the contract was terminated in early April 2015. The Authority took on the services formerly provided by Alpha and some 124 former Alpha staff members were transferred to the Authority. Approximately a third of this work has now been reallocated to external providers.
  7. This report sets out the findings of the Auditor General's review and considers the lessons to be learnt by the Authority from the way it procured and managed the domiciliary care contract.
  8. This project was undertaken to assist the Auditor General in discharging his responsibility under the Public Audit Wales Act 2004 to satisfy himself that the Authority made proper arrangements for securing economy, efficiency and effectiveness in its use of resources in letting and managing this contract.
  9. The domiciliary care service in Powys has already been subject to reviews by:
    - Oxford Brookes University's Institute of Public Care (IPC), jointly commissioned by the Authority and the Social services Improvement Agency for Wales; and
    - CSSIW.
  10. We have not duplicated the above work but where appropriate, we have drawn on the findings of these other reviews, and refer to them in this report.

## Overall conclusions

11. Powys County Council had been concerned for several years that the development of domiciliary care services across Powys was inconsistent and that the quality and value for money of the service needed improvement. The Authority decided to look at alternative ways of commissioning the service. In late 2013 the Authority sought to progress quickly the development and implementation of new arrangements for the service.
12. In circumstances where timescales are compressed, ensuring that risk is effectively managed and proper accountability arrangements are in place is particularly important. We are of the view that in its haste to introduce the new domiciliary care service as quickly as possible, the integrity of the Authority's established governance arrangements was compromised. In consequence, the Authority and users of the domiciliary care service were exposed to unnecessary risk. We found that:
  - the governance, management and scrutiny arrangements established for the procurement of the domiciliary care service were inadequate;
  - weaknesses and ambiguities in the Invitation to Tender (ITT) meant that it was not conducive to the submission of robust tenders by potential providers;
  - weaknesses in the processes adopted for the evaluation of tenders submitted by potential providers has resulted in the Authority being unable to demonstrate that contract award decisions were soundly based; and

- 
- the Authority tried to support Alpha to deliver the contract, but these efforts proved unsuccessful.
- 13.** In the light of the findings of this report, the Authority should review other major projects currently being progressed and assure itself that the concerns identified in respect of governance and accountability are not more widespread.

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## Recommendations

### **Domiciliary care provision**

R1 The Authority should ensure that the weaknesses and/or deficiencies in the arrangements established to let the current domiciliary care contract are not replicated in any future domiciliary care procurement exercise. These include deficiencies in:

- governance and accountability;
- the way the contract was structured;
- information made available to tenderers; and
- the way in which tenders were evaluated.

### **Wider implications for the Authority**

R2 In order to meet the challenges of transforming its service delivery in the light of reduced financial resources and increasing demand, the Authority has adopted a clearly defined commissioning and procurement strategy.

We recommend that the Authority consider whether the issues raised in this report have wider relevance for the successful delivery of its commissioning and procurement strategy, and undertake a review of its processes for developing and letting major contracts. Particular attention should be paid to ensuring that the governance arrangements for developing, scrutinising and approving contracting exercises are appropriate and are working in practice.

### **Document retention**

R3 Audit work undertaken previously by the Auditor General in 2010 and 2014 on the Authority's whistleblowing policies identified that 'there was often a lack of an audit trail to support key decisions and events. Some key decisions were not documented and there were instances of key documents or supporting information not being found or not existing.'

Similar issues are identified in this report. The review recommended above should also consider the extent to which adequate documentation is produced and retained to support key decisions made when developing and letting tenders.



# Detailed report

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## Background

14. Historically Powys County Council had commissioned most of its domiciliary care from some 25 separate private sector providers, purchased on a 'spot contract' basis, supplemented by its in-house workforce. As a result of the contracting arrangements, the development of home care across the County had been inconsistent, and the Authority had concerns regarding the quality, cost and value for money of the service. Furthermore, the Authority was also concerned that, under the existing arrangements, providers were only required to give 10 days' notice before ceasing to support a care package and that a significant number of care packages could not be placed with any providers at all.
15. From 2008 onwards, the Authority considered various options for commissioning its domiciliary care services. By early 2013 the Authority had decided to seek tenders for the domiciliary care services already outsourced. It was not intended to outsource the work undertaken by the in-house domiciliary care workforce due to concerns over the cost of transferring staff to private contractors under the provisions of the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE).
16. In a parallel development, the Authority sought to develop its re-ablement services. A report to Cabinet dated 23 April 2013 described re-ablement as 'a service which supports people to maintain or increase their skills thus being less reliant on traditional services. Through re-ablement people who would have needed ongoing home care at a cost to the Authority are able to return to more independent lives. This results in:
  - improved outcomes in terms of independent living for service users;
  - improved value for money in terms of cost avoidance for Powys County Council; and
  - more sustainable services to meet the needs of the growing older population in Powys within the resources available.'
17. The authority estimated that the planned extension of the re-ablement service would result in reductions in demand for domiciliary services equivalent to some £1.9 million per annum.
18. In June 2013, the Authority invited tenders for the provision of domiciliary care services within the county. The key features of the exercise were:
  - dividing the county into 19 lots;
  - providers would initially apply for inclusion on a framework; specific lots would be awarded to providers on the framework following 'mini competitions'; and
  - providers could bid for a maximum of 5 lots up to of 75,000 hours per annum.
19. Seventeen bids were received for inclusion on the framework. Five of these were assessed as being below the threshold set for admission to the framework. However, three of the latter were existing suppliers to the Authority, who between them provided some 50 per cent of the workload. In order to try to minimise short-

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term disruption to the service the threshold was lowered to allow these low scoring providers into the framework.

- 20.** When tenders were invited for specific lots a number of problems arose, as set out in detail in [paragraph 32](#), which led to the decision in December 2013 to abandon the tendering exercise and commence a new procurement exercise with a different lotting strategy.
- 21.** On 20 November 2013, the Authority invited domiciliary care providers to a meeting in which the Authority's proposals for new contractual arrangements were set out and discussed.
- 22.** The key elements of the revised approach involved:
  - Dividing the county into two lots and appointing two providers for each lot. The two lots consisted of Framework A (for the Southern part of the county) and framework B (for the northern part of the County). For each lot there would be a primary provider (allocated 60 per cent of the work in the relevant area) and a secondary provider (allocated 40 per cent of the work in the relevant area).
  - Providers being willing to accept work across the whole geographical area covered by each framework.
  - Requesting potential providers to state how much of the work they would subcontract, up to a maximum of 40 per cent of the work.
  - Requesting separate hourly rates for town and rural areas within each lot. Rates were also requested for work which previously had been delivered by the in-house workforce; these rates were required to take into account transfers of staff from the Authority under TUPE.
  - Potential providers only being allowed to tender for one Framework.
- 23.** In January 2014, potential domiciliary care providers were invited to submit tenders for either Framework A or Framework B. Five suppliers submitted tenders for Framework A and six submitted bids for Framework B.
- 24.** In March 2014, following an evaluation of the tenders, the Authority awarded contracts with a four year duration for the provision of adult domiciliary care. Four domiciliary care providers were appointed to deliver the service, two in the North and two in the South of Powys. Alpha was appointed as the principal contractor for the South of Powys to undertake 60 per cent of the contracted work in that area.
- 25.** Alpha commenced work under the contract on 23 April 2014. For various reasons there were problems with the transfer of existing care packages and staff from previous providers to Alpha. From the outset, the secondary provider in the South was unable to fulfil its contractual requirement to provide 40 per cent of the services and Alpha agreed for an initial period to increase its service provision from 60 per cent to 75 per cent.
- 26.** Alpha also experienced cash flow problems and to support the company through these difficulties the Authority agreed to pay any undisputed elements of disputed invoices, whilst seeking to resolve the disputed elements.

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- 27.** During the autumn/winter 2014-15 concerns were raised with the CSSIW by service users and their representatives regarding the quality of the service provided by Alpha. The CSSIW undertook an inspection of the company's work, and in early 2015, the CSSIW issued Alpha with six notices of non-compliance with the Domiciliary Care Agencies (Wales) Regulations 2004.
  - 28.** In late 2014, Alpha advised the Authority that it had serious financial difficulties, despite the fact that in November 2014, CSSIW had reported that Alpha's 'registered manager confirmed that there are no financial issues and that Alpha Care is a financially viable business'. In order to ensure continuity of care to its vulnerable elderly clients, the Authority took steps to try and support Alpha.
  - 29.** The Authority concluded however, that it was not sustainable to continue using Alpha due to the latter's financial position. The contract with Alpha was terminated in early April 2015. Alpha subsequently ceased trading. The Authority is now directly providing the services formerly provided by Alpha. Some 124 former Alpha members of staff were transferred to the Authority to undertake the work previously delivered by Alpha. Approximately a third of this work has now been reallocated to external providers.
  - 30.** Two of the other three suppliers appointed in March 2014 ceased providing the service within a year of the contracts commencing.

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## The governance, management and scrutiny arrangements established for the procurement of the domiciliary care service were inadequate

The 2014 tender was progressed too quickly, which left insufficient time to scrutinise and test the proposals

- 32.** As set out in [paragraph 19](#), in June 2013, the Authority invited tenders for the provision of domiciliary care services within the county. Following the receipt of tenders, several factors led the Authority to deliberate on whether to continue with the tendering exercise. These factors included:
- Tenders could not be obtained for three of the lots.
  - The successful tenderer for one lot advised the Authority that the amount of work it had won was insufficient for it to be viable to continue providing the service and that it would withdraw from any further work with effect from 15 November 2013. As the Oxford Brookes University's Institute of Public Care (IPC) report notes, the Authority managed to 'persuade the provider to continue to deliver the services right through to handover of services in April/May 2014', but 'there was a continuing concern that the service could be withdrawn at short notice at any point'.
  - In October 2013, the Authority decided that it wished to outsource the work undertaken by the in-house domiciliary care workforce by including the work in the tender process already underway. However legal advice obtained by the Authority stated that because this had not been specified in the ITT for the domiciliary care contract, and as it represented a significant change to the work specified in the ITT, the Authority could be subject to legal challenge if it attempted to outsource this work as part of the current exercise.
- 33.** As a consequence of these issues a project group (the Project Group) comprising representatives from adult social care, finance, legal and procurement met to consider the way forward. The Project Group produced a discussion paper setting out two options:
- option A: halting the current procurement process and restructure the tender to reduce the number of lots, reduce the restrictions in terms of hours and include the in-house hours to be outsourced; and
  - option B: continue with the current procurement process.
- 34.** These two options were presented to a meeting of the Adult Social Care Senior Management Team (SMT) on 5 November 2013. The minutes of the meeting record that SMT decided to recommend Option A, and that 'a decision will now be sought from the Leader of the Council and Chief Executive'.

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- 35.** On the same day, the then Council Leader and Portfolio Holder People Directorate, Chief Executive and Director of People met and agreed to support ‘the approach’ of Option A and that ‘member decision to be logged ... through appropriate process’.
- 36.** We have been told by officers that on 12 November 2013, a paper was submitted to a meeting with the then Leader and Portfolio Holder People Directorate setting out two possible options for procuring domiciliary care. These options were:
- option 1: 2 lots, in each lot 2 suppliers. Within each lot the work split 60 per cent/ 40 per cent; and
  - option 2: 4 lots, in each lot 2 suppliers. Within each lot the work split 60 per cent/ 40 per cent.
- The paper presented to the then Leader and Portfolio Holder People Directorate recommended that option 1 be approved.
- 37.** The Authority has not retained any minutes of the meeting of 12 November 2015; however, an internal email from the Head of Adult Services to other members of the Project Group dated 12 November 2015 states that, ‘the Leader and Portfolio Holder have opted for option 1 (North and South) – 2 Lots, 4 providers’.
- 38.** This decision was taken in advance of the formal decision to abandon the existing procurement process which was made by the Cabinet at its meeting held on 3 December 2013.
- 39.** On 20 November 2013, a meeting of the Provider Domiciliary Care Forum was held at which the Authority’s proposals for new contractual arrangements were presented to domiciliary care providers as set out in [paragraphs 22 to 23](#). These new proposals were presented to domiciliary care providers in advance of a decision being made by the Cabinet to abandon the previous procurement exercise.
- 40.** The minutes of a meeting of the Project Group on 4 December 2014 referring to the Provider Domiciliary Care Forum of 20 November 2013 stated that officers had ‘met the providers and others and discussed various options. The market appears to be collaborating and responding positively to this’. However the minutes of the Forum meeting record that significant concerns were raised by the providers regarding the proposals, including:
- Difficulties in recruiting staff and shortages of staff.
  - High travel costs.
  - The proposed model was not financially attractive.
  - The financial risks arising out of subcontracting.
  - Potential timescales – ‘in order for providers to submit a bid, they need to have agreements in place with potential sub-contractors tied up within the next two to three weeks. This is impossible.’

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41. The forum minutes clearly indicate that the model used within the procurement process had already been substantially developed by that date. Although the officers who attended the meeting agreed to 'consider and reflect on ... (the)... discussions and will work on the next steps and approach', there is no evidence that many of the issues raised in the Forum were addressed.
  42. On 3 December 2013, a paper was presented to and considered by Cabinet on the future of domiciliary care. This paper focuses on the future of the Authority's in-house domiciliary care staff. However, the paper also included a proposal: 'to undertake a further procurement exercise for the re-provisioning of current domiciliary care services delivered by the independent sector with new geographic lotting strategy' approved by the then Council Leader and Portfolio Holder People Directorate on 12 November'.
  43. The paper made no mention of the difficulties experienced in attracting sufficient bids under the previous tender exercise or the reasoning for the revised geographical lotting strategy.
  44. The minutes of the Cabinet meeting of 3 December 2013 record that Cabinet approved the domiciliary care proposals set out in the paper presented, including the new procurement exercise.
  45. The tendering process proceeded very quickly and the ITT was published on 8 January 2014 via the Bravo E-Tender website (Bravo). The deadline for the receipt of tenders was 17 February 2014.
  46. The rapid development of the tender did not leave adequate time to:
    - consider alternative options;
    - properly scrutinise the agreed approach;
    - ensure that the ITT included all the information required by potential tenderers to submit robust tenders; or
    - take fully into account the concerns raised by providers.
  47. It is symptomatic of the haste with which the Authority sought to put in place the new arrangements that the contract terms and conditions were not available to suppliers when the ITT was issued, and although the tender documentation stated that they would be available by 15 January 2015, they were not produced until 22 January 2015. The terms and conditions contained key information needed by potential providers to formulate the content of their tenders.
  48. We consider that the hasty development of the tender exercise contributed to the structural and procedural weakness we describe later in this report.

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**There was a lack of clarity and rigour within the decision-making process for the procurement.**

- 49.** As set out in **paragraph 36**, on 12 November 2013 a paper was presented to the then Leader and Portfolio Holder People Directorate setting out two possible options for procuring domiciliary care. An internal email from the Head of Adult Services to the Project Group records that the then Leader and Portfolio Holder People Directorate 'opted for option 1'.
- 50.** The Authority has retained no minutes of the meeting of 12 November 2013 and in consequence there is no evidence of what considerations were taken into account by the then Leader and Portfolio Holder in reaching their decision. This was in our view contrary to the Council's constitution which states that the giving and recording of reasons for decisions is a principle which applies to all decisions made by the Council (paragraph 13.2.7).
- 51.** The decision made at the meeting of 12 November 2013 was not recorded, distributed to all Members of the Council and published in the form of a decision notice as required by the Council's constitution which states that: 'A Decision Notice recording decision(s) of an individual Cabinet Member shall where ever practicable be published within two working days of the decision being taken. Decision Notices will be circulated to all Members of the County Council in accordance with the Council's current practice and will be published on the Council's Internet Site save where they contain confidential or exempt information.'
- 52.** The paper provided to the then Leader and Portfolio Holder People Directorate was not sufficiently robust. The paper did not set out an evaluation of the various possible options for delivering domiciliary care in Powys. In our view, the paper only presented a single option with two alternative lotting strategies. This was inconsistent with the Council's constitution which sets out consideration should be given to 'any alternative options'; (paragraph 13.2.6). In our view, the risks associated with the recommended procurement option and the potential impact on service delivery and the domiciliary care market were not adequately articulated.
- 53.** As set out in **paragraphs 44 to 46**, on 3 December the Cabinet approved a proposal within a paper on the future of domiciliary care: 'to undertake a further procurement exercise for the re-provisioning of current domiciliary care services delivered by the independent sector with new geographic lotting strategy, approved by the [then Leader and Portfolio Holder People Directorate] on 12th November 2013'.
- 54.** The paper did not set out the rationale for the proposal, nor did it provide any details of the proposed new contractual model or of the risks associated with it.

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- 55.** We have not seen any Authority documentation from this time which:
- sets out alternative options for commissioning and/or procuring domiciliary care services within Powys;
  - articulates the procurement model;
  - sets out how it was developed and the underlying rationale; and
  - sets out the Authority's consideration on risk and market impact.
- 56.** We understand the urgency of putting in place new contractual arrangements, particularly in view of the fact that one of the existing main providers had indicated that it intended to withdraw its services. Nevertheless, this urgency should not have compromised the integrity of the Authority's established decision-making and scrutiny arrangements.
- 57.** In view of the sensitivity and the scale of change the proposals would have on the delivery of domiciliary care in Powys, we would have expected far more information to have been provided to members to enable them to scrutinise and challenge the proposals. In the event, we have found little evidence that the proposals were subject to any robust scrutiny by officers or members.

### There was a lack of clarity regarding the project management and accountability arrangements

- 58.** The Project Group established for the previous abandoned procurement was largely retained as the Project Group for the new procurement exercise. The written terms of reference for the original Project Group were not revised to set out the remit, status and authority of the new Project Group within the Authority's overall decision-making mechanisms.
- 59.** A project plan was drawn up by the Project Group but this consisted of only a Gant chart outlining allocation of responsibilities within the Group and the expected timing of key project activities. The project plan contained only limited information on roles and responsibilities, and did not include the other information one would expect for such a large complex and sensitive project, for example:
- lines of accountability;
  - scrutiny arrangements;
  - risks and how these would be addressed;
  - project interdependencies; and
  - sign-off arrangements.
- 60.** We found a lack of review or challenge by senior officers in the project group in respect of key aspects of the tender, for example:
- the open book exercise undertaken to calculate the acceptable hourly rates; and
  - the identification of town/rural areas.



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- 61.** Key project activities which should have been undertaken were overlooked. For example, there is no evidence that the 'Qualification Envelope', one of the three tender modules was evaluated. This illustrates a lack of managerial oversight.
- 62.** The lack of effective project management arrangements was in our view, symptomatic of a project rushed through due to its perceived urgency without proper regard to good governance. Whilst there were significant pressures upon the Authority to act quickly to ensure the continuity of service provision, this did not justify shortcutting governance arrangements. If the project was time-critical, the Authority could and should have provided the project with the skills and resources necessary to progress the project quickly whilst ensuring risks were properly managed, decisions properly made and recorded, arrangements to secure value for money established and the interests of the people of Powys protected.
- 63.** In the course of consulting with the Authority on my draft findings, officers have maintained that the Authority's governance arrangements were followed and that the procurement was not rushed. In particular, officers contend that as the Authority had put in place project management arrangements for the previous procurement process which commenced in early 2013 and was subsequently abandoned, (eg a project plan, terms of reference for a Project Group, an option appraisal document etc), the Authority was able to rely on these for the procurement project to which this report relates. We do not accept this view for the following reasons:
- The previous procurement exercise failed. In the light of this, the Authority should have formally sought to evaluate the reasons for this failure and the lessons to be learned. At the very least this should have led to a fundamental reassessment of the options for delivering the domiciliary care service as part of the Authority's overall approach to commissioning. We have seen no evidence that this was the case.
  - A project plan and project management documentation cannot simply be transferred from project to project. Each project and procurement will have distinctive elements and differing accountabilities. Moreover, the membership of the Project Group for the two domiciliary care procurements differed.
  - Whilst not the subject of this report, our audit work indicates that the project documentation underpinning the previous procurement exercise which commenced in early 2013 was inadequate. For example, the option appraisal was at a very high level: the options were a) block contract, b) spot contract, c) framework, d) cost and volume and the options do not specify any detail in respect of how the work would be structured within these broad options. Furthermore, the option appraisal contained no financial information.
- 64.** In our view, if effective governance, management and scrutiny arrangements had been established for the procurement of the domiciliary care contract it may have prevented some of the flaws in the contractual arrangements set out in the following sections.

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## Weaknesses and ambiguities in the invitation to tender meant that it was not conducive to the submission of robust tenders by potential providers

### The appointment of two providers covering the same area resulted in competition for limited staff resources

- 65.** As noted above the County was divided into two framework areas with two providers appointed for each area. This structure was adopted to ensure that:

  - lots were sufficiently large to be commercially viable and attractive to potential providers; and
  - by including both town and rural areas in each framework, potential providers would not be able to avoid bidding for the more difficult to serve areas.
- 66.** Whilst the contract model ensured that domiciliary care would be available throughout Powys, insufficient consideration was given by the Authority as to how the contractors would be able to recruit sufficient staff resource to deliver their contractual responsibilities. Domiciliary care workers must be suitably skilled to provide a vital care service to vulnerable people, and yet work within a low-pay industry. This means that there is often a scarcity of suitable staff resource. The contractors appointed in the South of Powys had to compete to attract the limited staff resources available. The availability of suitable staffing was also likely to have been affected by:

  - the decision of the Authority not to transfer its own domiciliary care staff to the new providers, but to instead offer staff voluntary severance;
  - lack of willingness of previous providers to support the new providers; and
  - some carers being unwilling to start work for a new employer.
- 67.** Alpha was very proactive in seeking to recruit staff and was more successful in attracting staff than the other appointed contractor for the South of Powys. The other contractor in the South of Powys was unable to recruit the staff required for it to deliver its awarded share of the work (40 per cent). With the agreement of both suppliers, the Authority transferred some work from the other contractor to Alpha, such that Alpha would deliver 75 per cent of the workload available under the framework rather than the 60 per cent originally contracted.
- 68.** Even though Alpha was paying staff in excess of the market norm, an inspection undertaken by CSSIW in mid-October 2014 found that Alpha was still not fully staffed and that 'there is an ongoing recruitment drive.'

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- 69.** As referred to in [paragraph 42](#), concerns regarding staff availability had already been raised in the Providers' Forum. The Authority should have given greater consideration to the impact that the structure of the new contract would have on available resources within the local labour market and how it could ensure that suitable labour was available to the contractors at affordable rates. In our view, it was foreseeable that the introduction of a two-contractor model was likely to result in competition for scarce resources and this would impact upon labour rates.

### The contract structure introduced too high a degree of uncertainty for tenderers increasing the risk of provider failure

- 70.** The ITT stated that for each framework: 'The 1st ranked provider (the Lead Provider) will initially be allocated approximately 60 per cent of the hours available to be allocated in that framework. The 2nd ranked provider (the Secondary Provider) in each framework will initially be allocated approximately 40 per cent of the available hours to be allocated.'
- 71.** The ITT further stated that: 'Tenderers must bid on the basis that they may be allocated up to 60 per cent of the service if they are the 1st ranked (lead) provider or allocated up to 40 per cent of the Service if they are the 2nd ranked (secondary) provider (in the Framework for which they have bid).'
- 72.** The direct cost per hour of delivering care, (primarily the cost of carers), is not likely to vary significantly, irrespective of whether a provider wins 60 per cent or 40 per cent of the work. However, the quantum of work won has a significant impact on a provider's ability to recover its central overheads, eg management and premises costs. A supplier winning 40 per cent of the work would need to spread its overhead costs over significantly less units of activity than a provider winning 60 per cent of the work, ie the unit cost of delivering the service would be significantly higher for suppliers winning only 40 per cent of the work. This issue could have been addressed within the structure of the tender by allowing suppliers to bid different rates if awarded 40 per cent or 60 per cent of the work. However, the ITT made no provision for suppliers to bid differential rates.
- 73.** It would have been very difficult for providers to develop tenders that would have been simultaneously competitive (under the 60 per cent scenario) and sustainable (under the 40 per cent scenario).
- 74.** The approach adopted for the structure of these contracts had significant potential to result in:
- higher tender rates if a tenderer won the 60 per cent allocation; and/or
  - greater risk of provider failure if a tenderer won the 40 per cent allocation.

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- 75.** The potential impact of structuring the ITT to only allow suppliers to bid a single price for differently sized lots of work introduced too great a degree of uncertainty for tenderers who essentially had to price their bids without having a clear understanding of the quantum of work they were bidding for. We consider that the impact of this should have been foreseen by the Authority.

### The range of hourly rates specified within the invitation to tender was not soundly based

- 76.** The ITT stated that tenders should submit hourly rates which were within certain ranges. These ranges were:
- Town areas: £13.10 to £14.90
  - Rural rates: £14.30 to £16.50
- 77.** These ranges were included in the ITT to cap the rates at a level which the Authority considered appropriate and to reduce the rates from those previously charged by suppliers in Powys.
- 78.** Rates were also requested for work which previously had been delivered by the in-house workforce; these rates were required to take into account the provisions of TUPE and were capped by the ITT at £35 per hour. No differentiation was made between rural and town areas.
- 79.** We have been advised that the rates cited in the ITT were based on an 'open book' exercise undertaken by the Authority in 2011 in conjunction with some of the Authority's existing providers. The 'open-book' exercise involved:
- Asking suppliers to provide a detailed analysis of the hourly cost in delivering services for the Authority and the rates charged for this work.
  - The costs and rates charged were adjusted by the Authority to reflect inflation, an assessment of excess profits earned as a result of the then basis of contracting used by the Authority (spot-contracting) and to reduce actual profit margins to a maximum of three per cent. This was used to produce a 'target rate'
  - The target rate was used to inform the minimum/maximum price ranges used within the ITT.
- 80.** The Authority has provided us with the 'open book' working papers from which the rates within the ITT were derived. We consider the methodology used and the way the rates within the ITT were calculated was fundamentally flawed for the following reasons:
- The suppliers participating in the open-book exercise based their costs on delivering between 5,872 and 88,000 hours of care per annum for the Authority. However, the ITT required successful suppliers to deliver a minimum of 170,000 hours of care. There is no evidence that any consideration was given to the impact of scale of operation on cost.

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- The rates within the ITT assumed suppliers should be able to make a three per cent profit on the care hours delivered. However, suppliers were required to subcontract up to 40 per cent of the work. There is no evidence that the calculation of the range of rates within the ITT took into account the need for suppliers to obtain a margin on the work undertaken by subcontractors.
  - Whilst the model included provision for inflation, this only applied to the period up until 2013. The contract did not commence until 2014.
  - There is no clear link between the calculated target rate and the range of rates included within the ITT.
  - There are errors in formulae within the spreadsheet used to calculate the 2011 average cost. For example, the wages of care staff was calculated to be £6.44 per hour but based upon the information provided should have been calculated to be £7.09 per hour. This differential based on the maximum hours within the ITT equates to some £560,000 per annum. Similarly, the cost of travel was understated in the calculations by £0.16 per hour, equating to some £130,000 per annum.
  - The figures provided by suppliers in respect of miles travelled per hour were adjusted downwards by 25 per cent on the assumption that terminating spot-contracting would significantly reduce travel requirements. No evidence has been provided to support this assumption which resulted in the calculated target rate being reduced.
- 81.** The Authority has told us that it accepts that ‘there is no evidence that the open book exercise was reviewed and/or challenged by senior officers’.
- 82.** A further benchmarking exercise undertaken by the Authority based on information from 16 Welsh, English and Scottish authorities identified rates ranging from £10.99 per hour to £25 per hour, but it is unclear how comparable these figures were.
- 83.** The way in which the contract was structured, the weaknesses in the open book exercise and the lack of clarity regarding some of the information contained in the ITT, calls into question whether the hourly rates cited in the ITT were realistic and sustainable in the context of Powys.
- 84.** This is illustrated by:
- the financial difficulties experienced by Alpha;
  - one of the appointed suppliers stated that it required a rate of at least £19.85 per hour for its contract to be sustainable; and
  - one of the appointed suppliers stated that they had predicated their bid on calls of at least one hour’s duration, and that its contract, at current rates, was not sustainable.

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- 85.** We are unclear what purpose providing ranges of rates within which suppliers must bid served in practice. One of the consequences of including the ranges was that most tenderers bid at the lower end of the ranges in order to optimise their chance of being awarded work. In consequence, there was very little price differential between the bids of the suppliers.
- 86.** The rate ranges also failed to take into account that suppliers would be required to sub-contract up to 40 per cent of the awarded work. This meant that the successful contractors needed to agree sub-contractor rates which were lower than the contract rates within their tender so they could cover their overhead costs. The level of the bid prices meant that it was very difficult for the contractors to obtain sub-contracted services at affordable prices. This is considered in more detail below in [paragraphs 114 to 123](#).

### There was a lack of clarity in the invitation to tender regarding the workload available to providers and its distribution

- 87.** In 2012-13, the Authority's records show that it provided some 668,000 hours of domiciliary care, which increased to 751,000 in 2013-14, sourced from both its in-house workforce and from external providers.
- 88.** The ITT identified four possible levels of work. These are summarised in [Exhibit 1](#).

**Exhibit 1: workloads specified in the ITT**

	Total for both frameworks (Hrs)
Current hours available, external suppliers	631,000
Current hours available, in-house and external suppliers	757,000
Current hours available augmented by 15 per cent, external suppliers	726,650
Current hours available augmented by 15 per cent, in-house and external suppliers	870,550

Source: ITT – instructions to tenderers

- 89.** No explanation was provided in the ITT of the 15 per cent augmentation and the circumstances in which the additional work would become available.
- 90.** With regard to the position of the work previously undertaken by the in-house workforce, the ITT stated that: 'The Council reserves the right to make available hours currently delivered by the Council's in house teams. ....It is at the Council's sole discretion whether or not to purchase Internal Hours via the 'Frameworks'.'

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91. The ITT identified the expected geographical distribution of the maximum quantum of work by Framework and by whether that work would be rural or urban (see [Appendix 1](#)). However, 23 per cent of the work for South Powys was not categorised as rural or urban but as 'unknown'. The 'unknown' category relates to the work formerly delivered by the in-house workforce.
92. As a result of the above factors, and the fact that tenderers did not know whether if successful they would be awarded 40 per cent or 60 per cent of the work, potential providers faced significant uncertainty when compiling tenders with regards to:
- the total level of work available; and
  - the allocation between rural/town areas.
93. It is widely recognised that companies in the domiciliary care industry operate on very tight financial margins. To allow potential providers to compile robust tenders, it is important for them to have reliable information on the extent of work available.
94. In the event both the total quantum of work available to tenderers was overstated (see [paragraphs 98 to 104](#)) and the expected split between rural and urban areas was also found to be inaccurate once the contracts commenced (see [paragraphs 105 to 110](#)).

### The estimated workload specified in the invitation to tender was overstated

95. The actual number hours of domiciliary care delivered by external providers for 2014-15, the first year of the contracts, was 555,000, being between 64 per cent and 88 per cent of the estimated amount quoted in the ITT. In a meeting held with Council officers in September 2014, Alpha stated that its workload was 30 per cent lower than it had expected from the ITT.
96. The reduction compared to previous years arose due to:
- Some domiciliary care continuing to be delivered in-house to cover gaps in the coverage of providers appointed in 2014.
  - Reduction in demand due to the expansion of the re-ablement service. As noted above the Authority had estimated that its expanded re-ablement service would reduce domiciliary care costs by some £1.9 million per annum. It does not appear that this factor was taken into consideration in developing the ITT for the domiciliary care service.
  - A number of recipients of the service transferred to the direct payment scheme, which allows them to purchase care directly from providers of their choice. The number of people eligible for domiciliary care opting for direct payments increased significantly during 2014-15. In 2013-14, 287 clients opted for direct payments at a total cost to the Authority of £3,359,750; by 2014-15 these figures had increased to 450 clients at a cost of £4,896,762.

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97. We were also advised by the Authority that at the date of compiling the ITT, the data held on activity levels was unreliable. We have been advised that systems have been established to ensure that better activity information is now available.
  98. During the providers meeting in November 2013, concerns were raised regarding the prospective work load by one of the existing providers. The provider stated that the proposed activity levels seemed to show 'at least in relation to our own services, levels of service up to 20 per cent over what we currently deliver' and that the 'information is ..... not providing an accurate picture of service delivery across Powys.'
  99. This issue was again raised with the Authority by another existing supplier during the tendering process via the on line query facility in Bravo. The Authority's response to this query was: 'This information is an example of packages which may be commissioned via the Framework. Obviously it is the nature of the service that this list alters daily. The actual, final customer data will be provided by the Council to the appointed bidders only prior to final allocation of hours. However it is planned that the hours allocated to the appointed bidders will be around the same volume in terms of hours and similar in terms of location.'
  100. This response turned out to be incorrect because the appointed bidders were not allocated 'around the same volume in terms of hours and similar in terms of location'.
  101. As noted above, the domiciliary care industry operates on very tight financial margins. The reduction in actual hours compared to the estimates provided in the ITT is likely to have had a significant impact on the viability of the contracts awarded. The Authority should have ensured that it had validated that the information provided to tenderers within the ITT was reliable and robust. Whilst the Authority wished, for legitimate reasons, to introduce new contractual arrangements as quickly as possible, this should not have been at the expense of rigour. If the project was time-critical, the Authority should have provided additional resource to ensure that the arrangements were robust.

### The geographic distribution of the workload specified in the invitation to tender was incorrect

102. **Appendix 1** summaries the geographical distribution of the work available as outlined in the ITT (with the exception of work transferred from the in-house staff as noted above), split between town and rural areas.
103. Potential providers were requested to submit separate rates for town and rural areas. The cost of providing domiciliary care in rural areas is higher than that in town areas, mainly due to increased transport costs. In some parts of the county with low population densities, transport costs can be high.
104. The ITT stated that the workload in Framework A would be split 62:38 between town and rural areas (excluding the work undertaken by former in-house staff).



- 
- 105.** The Authority has not been able to demonstrate how the original split was calculated. In fact, the work allocated to Alpha was split 90:10 between town and rural areas.
- 106.** The difference between the expected distribution of town/rural workload set out in the ITT and what happened in practice impacted on the income tenderers could have expected from the contract.
- 107.** In March 2015, the Authority re-evaluated the town/rural split. The maximum distance from a town centre used to classify packages of care as town was reduced from 10 miles to seven miles. A back payment of £35,000 was made to Alpha to reflect this change.

### The invitation to tender did not provide information on the length of visits

- 108.** One of the factors impacting on the hourly cost of domiciliary care is the length of the visits made to clients. The shorter the visits, the greater the hourly cost, due to relatively higher transport costs.
- 109.** The ITT however contained no information on visit lengths. Potential providers were therefore left to make their own assumptions regarding visit lengths. For example one provider had stated that it had based its tender on visit lengths of one hour and that 'calls that are less are not sustainable on the hourly rate'.

### The scoring structure of the invitation to tender led to high levels of subcontracting, which in the case of Alpha significantly impacted on the company's ability to recover its overheads

- 110.** In compiling the tender, the Authority sought to:
- source as much work as possible from within the county boundary (to ensure that as much as possible of the money spent on providing the service was retained within the Powys economy; referred to by the Authority as protecting the 'Powys Pound'); and
  - ensure the continuation of an active local supplier base.
- 111.** One method of achieving these aims was to encourage successful tenderers to subcontract a significant proportion of the work to other suppliers.
- 112.** While the ITT did not state that potential providers were required to subcontract a particular level of work, they were requested to state how much work they would subcontract, in the range 0 per cent to 40 per cent of the allocated workload. The higher the level of subcontracting, the higher the score achieved in the tender assessment process as shown in [Exhibit 2](#).

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Exhibit 2: the scoring of proposed subcontracted work

Proportion of work subcontracted	Score (points)
0%	2.5
10%	5
20%	15
30%	20
40%	30

- 113.** A further 10 points was based on assessment of providers' proposals to manage subcontractors.
- 114.** Forty points, 20 per cent of the maximum score (200 points), was linked to the use of subcontractors. The scoring mechanism therefore encouraged potential providers to maximise the use of subcontractors: it is unlikely that a potential provider's tender would be successful unless a high level of subcontractor input was specified. Three of the four successful providers proposed to subcontract 40 per cent of the work, and the remaining provider proposed to subcontract 30 per cent.
- 115.** However, Alpha found that the hourly rates demanded by subcontractors were only some 2.5 per cent less than the rates being paid by the Authority. In light of the cost structure of the industry and the competition for care staff in Powys, this was not unexpected. This meant that 40 per cent of its work was not making any meaningful contribution towards the company's overheads.
- 116.** In our view, there was an over emphasis on subcontracting within the scoring of tenders and there is little evidence to suggest that the Authority considered what impact this would potentially have on the market and the financial viability of tenderers. In consequence, this resulted in:
- Significant uncertainty for tenderers within the bidding process. Tenderers were asked to bid for work without knowing the cost of providing up to 40 per cent of the work or whether they would be able to find suitable subcontractors to undertake the work.
  - Suppliers needing to attract scarce subcontractor resources having to pay subcontractors at a rate which provided little or no contribution to the supplier's overhead costs.
- 117.** This was within the context that many of the potential subcontractors that had previously supplied domiciliary services for Powys County Council under spot-contracts, felt disenfranchised by their exclusion from the new contract, and had previously been paid far more than the subcontracted rates being offered by the contractor.

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- 118.** At a meeting of the Provider Domiciliary Care Forum on 20 November 2013 concerns were raised with the Authority by potential providers regarding the financial viability of using subcontractors, particularly given the very short timescale available to reach an agreement with potential subcontractors.
- 119.** It was therefore always likely that the contractors would find it difficult to obtain subcontractors who would work for much, if anything, less than the rates being paid to the contractors.

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## Weaknesses in the processes adopted for the evaluation of tenders submitted by potential providers has resulted in the Authority being unable to demonstrate that contract award decisions were soundly based

There is no evidence that a range of information requested from tenderers by the invitation to tender was evaluated by the Authority

- 120.** The ITT consisted of three sections or 'envelopes':
  - The qualification envelope
  - The technical envelope
  - The commercial envelope
- 121.** The 'qualification envelope' requested a range of information on a potential provider, including:
  - Financial standing
  - Capability and capacity
  - Quality management
  - Equal opportunities
  - Sustainability
- 122.** There is no evidence that this information was checked for completeness or was evaluated.
- 123.** Evaluating potential service providers' financial reports is an essential part of the process of due diligence and obtaining assurance regarding the financial resilience of tenderers to provide the service over the contract period. From a managerial perspective, financial reports can provide insight into the scale of work that can be managed by the providers.
- 124.** The ITT requested that tenderers provide:
  - audited accounts for the most recent three financial years;
  - any quarter or half yearly accounts, results or management accounts since the end of the most recently completed financial year; and
  - their Dun and Bradstreet registration number.
- 125.** There was no requirement for Alpha's accounts to be audited as, due to the size of the company, it fell below the audit threshold. Alpha therefore provided unaudited copies of their 2010-11 and 2011-12 annual accounts. Neither set of accounts was signed by the accountant who compiled the accounts. Little assurance therefore could have been placed on these accounts as sources of information on the company's trading activities and financial position.

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- 126.** In view of the long time lag between the end of the period covered by the latest set of accounts provided and the date on which the tender was submitted (July 2012 and January 2014 respectively), it would not have been unreasonable to expect management accounts and/or draft annual accounts for 2012-13 and management accounts for July to December 2013 to have been submitted in order to comply with the ITT requirements.
- 127.** The company's turnover for 2011-12 (the latest set of accounts provided as part of the tender process) was some £834,000. Alpha was being evaluated on their capacity to deliver a contract with a potential value in the range £1.9 million to £2.9 million. A review of the accounts provided should therefore have raised questions regarding:
- the company's capacity to manage the cash flow implications of such a significant expansion in activity;
  - its management capacity to deliver such a significant expansion in activity; and
  - the reasons for the lack of financial information dated later than July 2012.
- 128.** The Authority has provided us with access to all the tender evaluation records it holds. However, the documents held by the Authority do not record that the information provided by all tenderers including Alpha was considered or that the Authority satisfied itself on the points set out in [Paragraph 127](#). Whilst it is possible that Alpha could have provided satisfactory answers to these questions, in not considering these matters the Authority exposed itself to unnecessary risk of contractor failure and potential disruption to a vital service.
- 129.** In September 2014, the Authority obtained a credit limit check of Alpha from a national credit reference agency. The credit report states, 'The company appears to be of sufficient financial stability to undertake contracts to a value of £600,000'. This report was obtained just 6 months after the Authority awarded Alpha a 4 year contract with a total estimated value of £7 million.
- 130.** In October 2015, the Authority's Treasury Manager undertook an assessment of Alpha's financial capacity based on Alpha's financial position as at 2013 (prior to the contract award). This assessment concluded that the maximum contract award which the Authority should have considered making to Alpha was £485,000.

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## The inclusion of hourly rates in the tender evaluation for Authority staff who might be transferred to providers distorted the tender evaluations

- 131.** The authority's in-house work force had historically provided a proportion of the domiciliary care services. In 2013-14 this totalled some 144,000 care hours (19 per cent of the total).
- 132.** The work undertaken by the in-house workforce had not been included in the 2013 tender exercise. However in October 2013 the Authority decided that it would transfer this work to external contractors. A costing exercise undertaken by the Authority indicated that if the staff employed by the in-house workforce were to be transferred to external providers, the protection provided to the staff's terms and conditions by the provisions of TUPE would result in very high costs falling on the external providers, which would ultimately be reflected in the prices paid by the Authority.
- 133.** Therefore, on 3 December 2014, the Authority's Cabinet agreed to offer voluntary severance to the in-house staff.
- 134.** Despite this decision, the ITT identified between 126,000 and 145,000 hours of domiciliary care work which the Authority could request, at its discretion, successful tenderers to undertake using care staff transferred from the Authority. The ITT requested potential providers to include hourly rates for undertaking work using former Authority employees transferred to the successful providers. (This work was described as 'internal hours' in the ITT).
- 135.** However the ITT did not contain the payroll information required to calculate the rates for the 'internal hours'. This was raised with the authority by a number of potential providers during the tender process. The Authority's response was that:
- the Authority is not committed to commissioning any internally delivered hours via the frameworks but wishes to reserve the right to do so at a point in the future;
  - should it decide to transfer staff it will provide relevant TUPE information at the relevant time; and
  - it would be willing to negotiate with bidders regarding the exact rate to be paid and may be prepared to pay in excess of the 'maximum' rate of £35 per hour set out in the tender.
- 136.** Notwithstanding these responses, the ITT still required tenderers to submit a rate for the work. The rates submitted by tenderers ranged between £14.30 per hour and £35 per hour (the latter rate was included by six of the 10 evaluated tenders). The wide range of rates indicates tenderers did not have sufficient information on which to base robust submissions.
- 137.** In view of the Authority's intention to minimise the number of in-house staff transferred to providers and its stated position that it would negotiate with the successful contractors over the rate it would pay for transferred staff, we consider that it was inappropriate to include the rates submitted for internal hours within the scoring mechanism and to include this factor in the ranking of contractors.

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**138.** It should be noted that no staff were transferred from the Authority to any of the providers, due mainly to:

- internal transfers to the Authority's re-ablement service; and
- staff accepting the authority's offer of voluntary severance.

**139.** A review of the evaluation of the 'commercial' (or priced element) of the tenders showed that had the 'internal hours' element been removed:

- it would have affected the ranking of the tenderers for Framework A (South Powys) but is unlikely to have changed which two tenderers were appointed to Framework A; and
- it would have affected which tenderers were appointed to Framework B (North Powys).

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## The Authority tried to support Alpha to deliver the contract, but its efforts proved unsuccessful

### The Authority sought to support Alpha's cash flow by paying agreed elements of disputed invoices

140. The contract with Alpha set out the target that undisputed invoices would be paid within 30 days of receiving the invoices. However, a large number of invoices submitted by Alpha were disputed by the Authority for various reasons. This had a significant impact on Alpha's cash flow.
141. The Authority sought to reduce the impact by making payments to Alpha based upon those elements of the invoices which were undisputed, whilst continuing to seek resolution on the disputed elements.

### The Authority provided other practical assistance to support Alpha

142. In order to provide practical support to Alpha an officer from the Authority was seconded to Alpha for short periods in order to assist the development of rotas and schedules.
143. Towards the end of 2014, Alpha's performance started to deteriorate and in January 2015 a Performance Notice was issued. This identified performance issues that needed to be resolved. Frequent meetings were held between the Authority and Alpha in an attempt to determine whether Alpha's performance and financial difficulties could be resolved.



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## The Authority continued to support Alpha until it became clear that Alpha was not sustainable

- 144.** As Alpha's financial position worsened, various further steps were taken to financially support the company in order to safeguard the continuity of the service. These steps included:
- revising the definitions of the town/rural areas for both contract areas, so that all suppliers, (including Alpha) would benefit from the higher rates that it had submitted for the rural areas, as set out in [paragraphs 105 to 110](#); and
  - from 4 March 2015, paying Alpha for the work taken over from the secondary contractor, at the secondary contractor's tendered rates.
- 145.** Consideration was also given to providing a loan of £285,000 to Alpha. In order to determine Alpha's underlying financial position, the Authority undertook a due diligence review of the company's finances. Following the review the Authority concluded that due to Alpha's precarious financial position a loan could not be justified.
- 146.** During the first few months of 2015 the Authority started developing contingency plans in the event of Alpha being unable to continue trading. By early April 2015, the Authority concluded that to continue with Alpha was no longer viable and its contract was terminated. To ensure continuity of service, the Authority took back in-house the work covered by the Alpha contract and transferred Alpha's staff to the Authority to deliver this work.

# Appendix 1

The geographic distribution of the estimated workload specified in the invitation to tender

Per ITT	Town		Rural		Unknown		
	Hrs	%	Hrs	%	Hrs	%	
<b>Framework A</b>							
Brecknockshire town	119268	119268	27				
Brecknockshire rural	67732			67732	15		
Brecknockshire internal	56650					56650	13
Radnorshire town	92251	92251	21				
Radnorshire rural	61749			61749	14		
Radnorshire internal	46350					46350	10
<b>Total</b>	<b>444000</b>	<b>211519</b>	<b>48</b>	<b>129481</b>	<b>29</b>	<b>103000</b>	<b>23</b>
<b>Framework B</b>							
Montgomery town	229296	229296	54				
Montgomery rural	154804			154804	36		
Montgomery internal	41400					41400	10
<b>Total</b>	<b>425500</b>	<b>229296</b>	<b>54</b>	<b>154804</b>	<b>36</b>	<b>41400</b>	<b>10</b>
<b>Grand total</b>	<b>869500</b>	<b>440815</b>	<b>51</b>	<b>284285</b>	<b>33</b>	<b>144400</b>	<b>17</b>

Source: ITT – commercial envelope



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## Management Letter for 2014-15

### **Powys County Council**

**Audit year:** 2014-15

**Issued:** December 2015

**Document reference:** 599A2015

# Status of report

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This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at [info.officer@audit.wales](mailto:info.officer@audit.wales).

# Contents

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This document, which has been prepared and presented on behalf of the Auditor General, summarises the conclusions on the audit of Powys County Council's 2014-15 financial statements and Whole of Government Accounts return.

**Appendix 1** contains recommendations to Powys County Council's management.

**Appendix 2** summarises our performance against agreed measures.

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## Summary report

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# Summary report

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## Introduction

1. The financial statements are an essential means by which Powys County Council (the Council) accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. The Auditor General's Code of Audit Practice identifies that it is the responsibility of the audited body to:
  - put in place systems of internal control to ensure the regularity and lawfulness of transactions;
  - maintain proper accounting records; and
  - prepare financial statements in accordance with relevant requirements.
2. As auditors, we are required to audit the financial statements and part of the remuneration report and to issue an auditor's report which includes an opinion on whether the financial statements give a 'true and fair' view of the state of affairs of the Council. The auditor's report also gives our opinion on whether the financial statements have been prepared properly in accordance with relevant legislation, directions or regulations, and applicable accounting standards, and that its income and expenditure have been applied for their intended purpose.
3. The Auditor General also reports by exception if:
  - the Annual Governance Statement does not reflect compliance with guidance;
  - adequate accounting records have not been kept;
  - financial statements are not in agreement with accounting records and returns; and
  - all the information and explanations required for audit have not been received.
4. The legislative authority for the Whole of Government Accounts (WGA) is the Resources and Accounts Act 2000 (the GRAA). This appoints the Comptroller & Auditor General (C&AG) as the auditor of the WGA. His audit opinion is underpinned by work carried out by a central WGA consolidation audit team within the National Audit Office and the auditors of component bodies that are included in WGA.
5. Most public sector bodies including the Council are required to provide WGA information under the HM Treasury's Whole of Government Accounts (Designation of Bodies) Order. This identifies the English and Welsh bodies to be included in the 2014-15 WGA.
6. We are responsible for interpreting the National Audit Office's instructions for a Welsh context and check that WGA packs have been prepared properly and in accordance with guidance and provide an assurance statement to the National Audit Office.



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## The Auditor General issued an unqualified opinion on the 2014-15 financial statements of Powys County Council

7. On 30 September 2015, the Auditor General issued an unqualified auditor's report on the financial statements. The Auditor General did not issue a substantive report on the financial statements.
8. However, due to the ongoing review of Domiciliary Care Procurement the audit remains open and no audit certificate has yet been issued.
9. We received the draft Statement of Accounts for audit in line with the agreed deadline of 30 June 2015. We are pleased to report improvements this year in both the quality of the draft financial statements and the information available to support them. There are still areas, however, where improvements should be made and these are detailed within the recommendations within [Appendix 1](#).
10. In undertaking our audit of the financial statements, we review the Council's financial systems used to produce the financial statements. This involves obtaining an understanding of its significant financial systems and controls and, where necessary, testing the operation of those controls.
11. We concluded that the Council's significant financial systems can be relied upon to produce materially correct outputs. We have, however, identified that there is scope to improve the internal controls by:
  - Ensuring that bank reconciliations are undertaken on a regular basis. Any un-reconciling items should be clearly identified with explanations and efforts made to clear these as soon as possible.
  - Reminding staff that all journals with a value greater than £100,000 require additional authorisation prior to being input to the ledger.
  - Ensuring that procurement standing orders are updated to reflect the latest European rules on procurement.
12. The Auditor General's **Audit of the Financial Statements** report was presented to the Audit Committee on 28 September 2015. A summary of the findings is set out in [Exhibit 1](#).

## Exhibit 1: Audit of Financial Statements Report to the Audit Committee

Reporting requirement	Audit findings
Modifications to the auditor's report	There was no modification to the auditor's report.
Unadjusted misstatements	Three unadjusted misstatements were reported. These were: <ol style="list-style-type: none"> <li>1. £213,580 relating to historic cost impairment not being reversed correctly;</li> <li>2. £207,274 relating to items of capital included within revenue; and</li> <li>3. £444,917 relating to depreciation being calculated incorrectly.</li> </ol>
Views about the qualitative aspects of the entity's accounting practices and financial reporting	We are pleased to report improvements this year in both the quality of the draft financial statements and the information available to support them. There are still areas, however, where improvements should be made.
Matters specifically required by other auditing standards to be communicated to those charged with governance	<ul style="list-style-type: none"> <li>• We again this year identified a material error in your draft financial statements. Internal recharges of £27.596 million had to be removed from both income and expenditure in the net cost of services.</li> <li>• In our view the elements you are currently reporting within Trading Accounts are not strictly trading activities, as few (if any) external charges are generated.</li> </ul>
Any other relevant matters of governance interest relating to the audit	No issues noted.

13. Recommendations arising from our audit of the financial statements are set out in [Appendix 1](#).

## We identified no issues with Powys County Council's Whole of Government Accounts return

14. Powys was required for 2014-15, to provide an unaudited WGA return to the Wales Audit Office and the Welsh Government by 14 July 2015. We were required to complete our review by 2 October 2015. This return was received on 14 July 2015 and our review was completed by 6 October 2015.
15. There were no issues identified during the course of this work that we wish to draw to your attention.

# Appendix 1

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## Recommendations from our 2014-15 audit work

We set out all the recommendations arising from our audit with management's response to them. We will follow up these next year and include any outstanding issues in next year's audit report:

### Matter arising 1 – quality of the draft accounts and supporting working papers

<b>Findings</b>	<p>As noted above there was a significant improvement in the quality of the draft accounts presented for audit and the accompanying supporting papers. However, further improvements could be made as there were still a number of:</p> <ul style="list-style-type: none"><li>• arithmetical errors within the notes and primary statements;</li><li>• cross casting errors resulting in the primary statements not agreeing to the notes;</li><li>• disclosures and notes that did not agree to the requirements of the Local Government Code of Practice (the Code); and</li><li>• working papers that did not agree to the figures in the draft accounts.</li></ul>
<b>Priority</b>	High
<b>Recommendation</b>	We recommend that a stringent quality assurance process, which includes completion of the Code disclosure checklist, is implemented prior to the draft accounts being provided to audit.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	The Code disclosure checklist will be incorporated within the Closure of Accounts Project plan. A more rigorous review of the primary statements, notes and working papers to be undertaken against a prescribed checklist.
<b>Implementation date</b>	31st May 2016.

## Matter arising 2 – property, plant and equipment disclosures contained numerous errors

### Findings

A number of issues were identified during the audit of property, plant and equipment (PPE) and are detailed below:

1. We identified an asset that came into operational use in 2013-14 (Evan Valley Cycle Path) that had not been transferred from assets under construction to operational assets until 2014-15.
2. Disposals were overstated by £132,000, which was adjusted in the audited accounts. This was a result of a manual input error onto the fixed asset system.
3. Testing of additions identified that 21 assets below Powys's capitalisation threshold of £10,000 had been capitalised. The total value of the error was £76,000 and, as this is below our trivial limit, no adjustment was made.
4. A number of accounting policies, specifically those relating to depreciation, were not up to date and did not reflect the actual treatment undertaken by the Council.
5. When an asset (that has previously been impaired) is re-valued upwards, the correct accounting treatment is to reverse any historic impairment balance before taking any remaining value to the revaluation reserve. This effectively means offsetting prior-year charges to the Income and Expenditure account. Our testing identified this had not been done in all cases. This resulted in an unadjusted error of £213,580.
6. The revaluation reserve as per Note 25 does not agree to the revaluation reserve in the fixed asset system. There is a difference of £78,000. On enquiry we were informed that this was due to historic differences and a detailed explanation of the difference could not be provided.
7. Assets transferred from 'operational' to 'assets held for sale' should be revalued prior to their reclassification in line with the Code. Our testing identified that this revaluation was not undertaken for all such assets.
8. Testing of revenue expenditure identified £207,274 relating to the purchase of travel smart card equipment had been incorrectly included in revenue rather than being recognised as a non-current asset. This error was not adjusted.
9. Capital expenditure can be used to maintain or extend the useful life of assets, but may not add any value. This expenditure needs to be written off so that it does not incorrectly inflate the value of that asset. Our testing identified that this had been done correctly. However, the useful lives of those assets were reset manually and incorrectly back to their original estimated useful life. Depreciating the assets over this longer period meant the depreciation charged for the year was less than it should have been. This resulted in an unadjusted error of £394,732.

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**Matter arising 2 – property, plant and equipment disclosures contained numerous errors****Findings**

10. Our audit identified further errors on deprecation with regards to infrastructure assets. Historically, a number of infrastructure assets were brought onto the balance sheet as additions prior to them becoming operational, rather than remaining within 'assets under construction'. These were then depreciated over the assigned life in line with the Council's accounting policies. However, in subsequent years additional expenditure was coded to the same asset and the whole asset was reset incorrectly back to the original life. This has resulted in an unadjusted understatement of depreciation of £50,185.
11. A number of differences were identified between the fixed asset register and the corresponding note within the financial statements. No explanation could be provided for these, as they are historical differences that have been present for a number of years.

**Priority**

High.

**Recommendation**

We recommend:

1. Processes are implemented to ensure that all assets completed in year are correctly transferred to operational asset categories. Further a review is undertaken of all assets within assets under construction to ensure that none of these assets are now operational.
2. Disposals are only entered onto the system once assets have been confirmed as disposed and any adjustments to correct potential errors are undertaken/reviewed by one member of staff.
3. Assets are only capitalised if they are in line with the Council's capitalisation policy or that the policy is amended to reflect that actual treatment undertaken by the Council.
4. All accounting policies with regards to PPE are reviewed to ensure that these are up to date and reflect the treatment undertaken by the Council.
5. That the treatment of historic cost impairments for all assets revalued in-year is reviewed to ensure the correct treatment is applied to any previous impairments/downward revaluations.
6. Historic differences between the information maintained on the fixed asset system and the financial statements should be investigated in order to correct any discrepancies and bring the system and financial statements in line.
7. Assets reclassified from operational to assets held for sale should be treated in line with the Code and revalued immediately prior to reclassification.
8. The Council should undertake an annual review of expenditure charged to revenue, as part of the accounts closedown process, to ensure that no capital expenditure has been incorrectly included in revenue.

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**Matter arising 2 – property, plant and equipment disclosures contained numerous errors**

<b>Recommendation</b>	<p>9. The calculation of depreciation for any asset that has had non-enhancing expenditure in-year should be reviewed to ensure that the depreciation is calculated in line with the Council's depreciation policy and the useful economic life has been entered correctly.</p> <p>10. Assets should only be classified as operational from assets under construction once the asset is complete and in use. Further expenditure on the asset should then be reviewed to confirm if it does enhance/extend the life of the asset – if not the expenditure should be written off in-year and the asset not re-lifed.</p>
<b>Accepted in full by management</b>	Yes.
<b>Management response</b>	<p>1. A review will be undertaken of all Assets under Construction to ensure they are transferred to operational assets at the correct time.</p> <p>2. A review of the disposal journal will be carried out and authorised by a separate officer before it is entered in the ledger.</p> <p>3. Accept that the Accounting Policy will be amended to reflect what Cabinet agreed at the time the de minimus sum was introduced and agreed, which allowed for flexibility.</p> <p>4. The Accounting Policies will be reviewed annually to ensure any changes are included.</p> <p>5. An additional check will be added to the procedures to ensure all the historic impairments are correctly reversed.</p> <p>6. The differences between the ledger and system will be reviewed and cleared.</p> <p>7. The Assets held for sale will be revalued prior to transfer.</p> <p>8. Review of revenue expenditure to be done by Finance Business Partners to identify any capital expenditure that may be included incorrectly.</p> <p>9. The depreciation calculation will be reviewed for all assets.</p> <p>10. The way the expenditure is treated will be reviewed.</p>
<b>Implementation date</b>	31st May 2016.

**Matter arising 3 – bank reconciliations not completed**

<p><b>Findings</b></p>	<p>Undertaking work on the Council's bank reconciliations we noted the following:</p> <ul style="list-style-type: none"> <li>• Monthly bank reconciliations have not been completed for the Council's receipts account in 2014-15 or 2015-16 to date. A year-end (31 March 2015) reconciliation was completed in July 2015.</li> <li>• The year-end reconciliation contained a number of reconciling items and an un-reconciled amount of £29.02 – the Council could not provide evidence/explanations with regards to what these relate to.</li> <li>• Primary-school bank reconciliations have not been carried out since 2013-14, on review a difference between the ledger and actual bank balance of £269.91 was identified.</li> <li>• Review of high-school bank reconciliations identified an un-reconciled difference between SIMS and the bank accounts of £41.80 and a difference of £15,639 between SIMS and EFiN for cash held. On discussion with management it was confirmed that the difference between SIMS and EFiNs was historical and had been brought forward for a number of years.</li> </ul>
<p><b>Priority</b></p>	<p>High.</p>
<p><b>Recommendation</b></p>	<p>We recommend:</p> <ul style="list-style-type: none"> <li>• The Council introduce regular (at least monthly) comprehensive bank reconciliations of the receipts account and ensure that all reconciling items are agreed to supporting evidence.</li> <li>• All un-reconciling items should be investigated to ascertain the reason for the difference with bank reconciliations being signed off as reviewed by a senior member of staff.</li> <li>• Primary-school bank reconciliations should be undertaken at least annually and any difference between the ledger and year-end bank balance investigated.</li> <li>• The difference between cash held on SIMS and EFiN should be investigated and corrected to ensure that both balances agree. Going forward detailed reconciliations should be undertaken with supporting evidence/explanations sought for any differences.</li> </ul>
<p><b>Accepted in full by management</b></p>	<p>Yes.</p>

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### Matter arising 3 – bank reconciliations not completed

<b>Management response</b>	<p>The Receipts Account will be reconciled monthly, any reconciling items will be fully supported by relevant evidence and reviewed and signed off by the Finance Operations Manager. The reconciling items identified in last year's accounts were supported by evidence with the exception of 1 item.</p> <p>Primary School Bank Reconciliations to be included in the project plan with follow up to ensure completion.</p> <p>The high school bank Accounts and SIMS records will be fully reconciled for each High School. The historical differences between SIMS and EFiN have been reduced and the remaining balance will be written off. Action incorporated into the Closing of Accounts Project workstream.</p>
<b>Implementation date</b>	Receipts Account in place, remainder ongoing to 31st May 2016.

### Matter arising 4 – journal authorisation not undertaken

<b>Findings</b>	<p>Testing of journals raised in-year has identified two instances where journals greater than £100,000 where not authorised in line with the Council's procedures.</p> <p>This is a fundamental control in ensuring the integrity of the ledger and that transactions in the ledger are not misstated.</p>
<b>Priority</b>	High.
<b>Recommendation</b>	We recommend that the Council remind staff of the process with regards to journal authorisation.
<b>Accepted in full by management</b>	Yes.
<b>Management response</b>	<p>There is a process in place that journals greater than £100,000 are authorised. The journals not authorised were reversing journals and there was a perception by some that these did not need to be signed as the original journal had been signed. Staff to be reminded of process within the department meeting and within the closing programme notes to all finance staff.</p>
<b>Implementation date</b>	Process already in place.



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### Matter arising 5 – procurement standing orders are out of date

<b>Findings</b>	<p>Testing of the Council's procurement process identified that the current procurement standing orders are out of date and do not comply with the latest European Rules on procurement.</p> <p>However, we note that the Council do not actually follow their standing orders and are applying the most up to date European guidance and therefore do comply with European Practice. Further, we note that the Council is in the process of updating the standing orders.</p>
<b>Priority</b>	High.
<b>Recommendation</b>	We recommend that the Council update the procurement standing orders as soon as possible and in the future ensure that any standing orders are updated immediately after new regulations or guidance are issued.
<b>Accepted in full by management</b>	Yes.
<b>Management response</b>	The new Contract Procedure Rules went live on 1st September 2015.
<b>Implementation date</b>	01 September 2015.

### Matter arising 6 – internal recharges included within the comprehensive income and expenditure statement

<b>Findings</b>	<p>During our 2013-14 audit we identified internal recharges of both income and expenditure of £15.2 million were included within the net cost of services in error, and these were corrected prior to the audit opinion being given. We also identified £38.8 million of recharges needing to be removed from the supporting Note 27.</p> <p>For 2014-15 the finance team had identified and removed such charges from the supporting Note 27 but not all of these were removed from the Income and Expenditure Account. Consequently, a material error of £27.596 million existed within the draft Financial Statements, these were corrected prior to the audit opinion being given.</p>
<b>Priority</b>	High.
<b>Recommendation</b>	We recommend that the Council undertake a review of internal recharge codes on the ledger and ensure that these are excluded from the financial statements at the year-end.
<b>Accepted in full by management</b>	Yes.

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**Matter arising 6 – internal recharges included within the comprehensive income and expenditure statement**

<b>Management response</b>	An additional column needed to be created in the Income and Expenditure Account. This was done during the audit process and will be used as the basis for future year's working papers. Internal recharges are being reviewed in 2015-16.
<b>Implementation date</b>	31st May 2016.

**Matter arising 7 – creditors year-end balances misstated**

<b>Findings</b>	Testing of creditors identified the following issues: <ul style="list-style-type: none"><li>• Creditors balance in the accounts had been understated due to an error in processing a payment in advance.</li><li>• A number of instances were transactions relating to the 2014-15 year had been incorrectly recognised as expenditure in 2015-16 and therefore not included as year-end creditors.</li><li>• The carbon reduction commitment had not been correctly accounted for. This again resulted in creditors being understated at the year-end.</li></ul> The total value of these errors resulted in creditors being understated by £370,000, which were adjusted in the audited accounts.
<b>Priority</b>	High.
<b>Recommendation</b>	We recommend that the Council establish processes which ensure expenditure is charged to the correct year and, if required, is correctly recorded as creditor at the year-end.
<b>Accepted in full by management</b>	Yes.
<b>Management response</b>	Creditor lists are sent out for completion near year-end. Creditor payment processing notes ask that payments processed after 1st April but relating to the previous year are referenced in a specific field so they can be identified and the charge can be recorded in the year to which the invoices relate. More emphasis to be made on following procedures within the closing notes.
<b>Implementation date</b>	31st May 2016.

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### Matter arising 8 – purchase orders raised after invoices received

<b>Findings</b>	<p>Testing of expenditure identified a number of occasions where purchase orders were being raised and authorised after the invoices were received.</p> <p>The raising and authorisation of purchase orders is a key control over expenditure and allows for a comparison between any expected costs and actual value of goods received.</p>
<b>Priority</b>	Medium.
<b>Recommendation</b>	We recommend that the Council ensure all staff are made aware of the requirements to raise and authorise purchase orders for any expenditure transactions.
<b>Accepted in full by management</b>	Yes.
<b>Management response</b>	<p>The No Purchase Order No Pay initiative was launched by Finance and Commercial Services in April 2015. All suppliers were informed by letter that they were not to accept a PCC order and not to supply the Council without a Purchase Order. The scheme is currently running around 70 - 80% compliant and is about to be refreshed. As part of the refresh the Council has organised a PO box for all invoices so that they are received into the Council at one point.</p> <p>Non-compliance is reported to Cabinet in the Monthly Budget Monitoring and Forecast Report.</p>
<b>Implementation date</b>	Process ongoing.

### Matter arising 9 – IT

<b>Findings</b>	<ol style="list-style-type: none"><li>1. Methods of access for suppliers are secure but access is not limited to a specific time period. This means that access could be left open for a period after the work has been completed and increases the risk of unauthorised changes to its systems and software.</li><li>2. Offsite Backup media is still stored too close to the main building. This situation provides an increased risk that backup data may not be available in the event of a major disaster and the Council may not be able to restore the ICT systems.</li><li>3. There has been an improvement with regards to the creation of disaster recovery plans, but these will need to be finalised as soon as possible.</li></ol>
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**Matter arising 9 – IT**

<b>Priority</b>	Medium.
<b>Recommendation</b>	We recommend that: <ol style="list-style-type: none"><li>1. The Council should consider implementing time-limited access to the network for suppliers/third parties. This will give improved control over network access, limiting risk to inappropriate use within the network (and potentially key financial systems).</li><li>2. The Council should follow best practice by identifying a new location for storage of offsite backup media at a suitable distance away from the main building, based on risk assessment of the surrounding area.</li><li>3. Disaster recovery plans are finalised as soon as possible.</li></ol>
<b>Accepted in full by management</b>	Yes.
<b>Management response</b>	Recommendation 1. Accepted. We will introduce a process whereby we can better manage supplier access to the systems by Jan 2016. Recommendation 2. Accepted. The backup system is currently being modernised to incorporate 'cloud' backup which will remove this risk. Until this is completed (estimated Jan 2016) the risk will be monitored. Recommendation 3. Current ICT Disaster Recovery risks are being reviewed. Disaster Recovery plan to be finalised Q4 2015/16. It is anticipated that some additional infrastructure work is required to make the plan robust. Timescale for this work TBA.
<b>Implementation date</b>	Shown in responses above.

**Matter arising 10 – cashflow statement not prepared in line with the Code**

<b>Findings</b>	<p>Testing of the Cash-flow statement identified two issues:</p> <ol style="list-style-type: none"> <li>1. No 'cash paid to suppliers of goods and services' line is included within the cash outflows section of the cash flow, currently this is included as part of 'other operating cash payments'. This is not in line with the Code.</li> <li>2. Gross cash outflow within the cash-flow statement is calculated based on the debits to bank accounts as per bank statements – however, the gross cash inflow is calculated by adding gross debits with the change in the receipts account. A more accurate method would be to use the credits to bank statements.</li> </ol>
<b>Priority</b>	Medium
<b>Recommendation</b>	<p>We recommend that the Council:</p> <ol style="list-style-type: none"> <li>1. Ensures that the disclosures within the cash-flow statement comply with the requirements of the Code.</li> <li>2. Cash inflow is calculated based on the credits to the bank.</li> </ol>
<b>Accepted in full by management</b>	Yes.
<b>Management response</b>	<p>Cash paid to suppliers of goods and services to be included in the cashflow. The Statement working group to discuss the best means of capturing that information.</p> <p>Credits to the bank to be used as recommended</p>
<b>Implementation date</b>	31st May 2016.

**Matter arising 11 – operating leases misstated**

<b>Findings</b>	<p>It was not possible to obtain lease documentation for one item chosen for testing as Council staff could not locate it.</p> <p>Further our testing of operating leases with the authority as lessor found that:</p> <ul style="list-style-type: none"> <li>• net present value calculations had not been correctly applied to all leases;</li> <li>• incorrect values for lease rentals were being used within the calculations supporting spreadsheet; and</li> <li>• lease terms used in the calculations were incorrect and did not agree to the supporting leases.</li> </ul>
<b>Priority</b>	Medium.
<b>Recommendation</b>	We recommend that the Council locate and review the leases in all instances where they are the lessor and confirm that the information held within the supporting calculation spreadsheet is correct.

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### Matter arising 11 – operating leases misstated

<b>Accepted in full by management</b>	Yes.
<b>Management response</b>	More comprehensive guidance notes to be provided ie, where the information is held, who is responsible for it and a check that calculations are correct.
<b>Implementation date</b>	31st March 2016.

### Matter arising 12 – year-end stock stakes not undertaken

<b>Findings</b>	<p>On review of the Council's stock balances we identified that a number of balances on the ledger had not been updated for the year-end stock count, resulting in the stock balance disclosed in the financial statements being understated by £19,000.</p> <p>Further, our testing identified that not all sites are undertaking year-end stock take.</p>
<b>Priority</b>	Low.
<b>Recommendation</b>	We recommend that the Council ensure all sites undertake year-end stock takes, and stock balances on the ledger are updated to reflect the year-end stock position.
<b>Accepted in full by management</b>	Yes.
<b>Management response</b>	Individuals responsible for stock takes to be identified before year-end, and any non-returned stock sheets will be identified and a system will be in place to ensure completion. Stock sheets to be held in central area to assist the audit process.
<b>Implementation date</b>	30th April 2016.

# Appendix 2

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## Wales Audit Office performance measures

We agreed a range of targets for the delivery of our work as set out in our 2014-15 **Audit Plan**.

I have summarised our performance against these targets below:

Planned output	Target	Outcome
Audit of Financial Statements Report	September 2015	Presented to Audit Committee 28 September 2015.
Opinion of Financial Statements	September 2015	Audit opinion signed 30 September 2015.
Management Letter	November 2015	To be issued November 2015.

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## CYNGOR SIR POWYS COUNTY COUNCIL

### AUDIT COMMITTEE 4<sup>th</sup> February 2016

**REPORT AUTHOR:** Caroline Evans, Business Continuity & Risk Management Officer

**SUBJECT:** Update Report on Risk Management

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**REPORT FOR:** Information

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#### **1.0 Summary**

- 1.1** An update has been requested by the Audit Committee on Risk Management within the Council, following a report to the previous Committee on 9<sup>th</sup> November 2015.
- 1.2** This report outlines the position statement for Risk Management within the Council, and progress made since the last committee.

#### **2.0 Background**

- 2.1** We are in a process of continuously improving and updating our approach to risk management to help us to better understand and manage the risks the Council faces and to increase the likelihood of achieving our objectives. Risk management is a core management discipline that supports organisational delivery. The risks that the organisation faces are changing all the time, so the art of good risk management is to combine planning for what we know might happen with preparation for unknown situations, and to safeguard the organisation and in turn make it more resilient.
- 2.2** A process of implementing risk management in service and directorate management teams has been initiated, to review and update service and corporate risks, and to ensure that control measures are identified. The risks are reviewed and updated quarterly to ensure that the risk registers are dynamic and remain up-to-date.

#### **3.0 Progress**

- 3.1** The process of undertaking risk workshops within SMTs has continued. Officers have been assisted to identify their risks and to assess the level of risk this poses to the service, along with identifying control measures to mitigate the risk and then assess the level of residual level of risk post-mitigation. Services have been advised to categorise those risks into either service or corporate risks.
- 3.2** The risks have been incorporated into Service Improvement Plans, and are now monitored quarterly within SMT meetings. The updated risks are then reported through the Quarterly Performance Review Meetings. New risks can also be identified at the earliest opportunity. This will ensure that service risk registers are dynamic and that services' 'own' their risks and the required mitigation. Services are currently in the process of reviewing their risks for the third quarter.

- 3.3** The risk register will also form part of the budget papers. A Single Integrated Impact Assessment (SIIA) tool has been developed which incorporates a risk assessment as well as impact on equalities, Welsh language, Wellbeing and Future Generations Act, Safeguarding and Corporate Parenting within one toolkit. SIIAs have been completed for all 2016/17 savings, and will be discussed by Cabinet later this month. Risks from the SIIAs will be incorporated into the service risk registers.
- 3.4** Directorate Management Teams now view the corporate risk register on a quarterly basis. Discussion of the risks in these meetings provides a quality assurance process that the correct risks are being escalated to the corporate risk register, as was recommended by WAO. It also allows further discussion and exploration of potential mitigating controls.
- 3.5** Previously, many of the risks within the corporate risk register were assigned to multiple owners. Single ownership has now been assigned to each risk which will provide greater accountability and enable further mitigating controls to be identified where required. All risk owners on the corporate risk register are members of Management Team. Management Team will now view and discuss the corporate risk register on quarterly basis, which will further contribute to the quality assurance process which was recommended by WAO.
- 3.6** The Cabinet continues to view the corporate risk register on a quarterly basis, and the Leader is updated on the progress of risk management on a monthly basis. The Leader has assigned himself as Portfolio Holder for Risk Management.
- 3.7** The Policy, Strategy & Methodology document, which underpins and supports the process of embedding risk management throughout the Council, was approved by Cabinet on 26<sup>th</sup> January. This document replaces the previous Risk Management Strategy and has been implemented with immediate effect.
- 3.8** At the last committee, concern was expressed at the number of High risks within the risk register, with no risks in the Low category. It was considered whether the spread of risks should be across all categories, and not concentrated in the High sector. As a result of this challenge a benchmarking exercise has been undertaken of other similar Welsh authorities, and this work has identified a similar spread of risks across the Heat Map within other authorities.
- 3.9** A reserves policy has been developed using a risk based approach. The policy has been produced to enable the Council to better manage the ongoing financial pressures, and to plan for future spending commitments. Given the increasing financial challenge it is appropriate that a more strategic approach is taken to managing our finances.
- 4.0** **Further Work**
- 4.1** Engagement with SMTs and DMTs will continue, to further embed the risk management process throughout the Council. Services will review their risks ongoing on a quarterly basis, and will report this information at the Quarterly Performance Review meetings, as well as to Cabinet Management.
- 4.2** The Business Continuity & Risk Management Officer will continue to meet with the Leader on a monthly basis to ensure that the corporate risk register remains up-to-date with the appropriate mitigating controls identified.

- 4.3 An analysis of the results of all SIAs will accompany the budget papers, along with the SIAs, to ensure Members are able to make informed decisions.
- 4.4 Upon completion of the impact assessment of budget, the project group will meet again to discuss issues and any gaps identified throughout the SIA process. The toolkit will also enable new policies and change objectives to be impact assessed prior to a decision being made to implement them.
- 4.5 A working group has been set up to help prepare the Council in readiness for the Corporate Assessment which will be undertaken this year. Risk management will be a key element within the corporate assessment.

**5.0 Business Continuity Management (BCM)**

- 5.1 Attendance at the Dyfed Powys Local Resilience Forum (DPLRF) continues. This work has helped to form good working relationships and a peer support network with colleagues within the DPLRF which will allow the sharing of information and approaches taken in other areas of work including Risk Management.
- 5.2 The BCM Group continues to meet on a quarterly basis. The Group is a forum which enables BCM Champions to interact and share knowledge, as well as identifying any inter-dependencies.
- 5.3 The Service Improvement Plan (SIP) template has been updated to incorporate an evaluation of BCM. Undertaking self-evaluation is seen as an approach to improvement. This approach should help to further embed BCM throughout the Council, and ensure that Business Continuity Plans are regularly reviewed and updated.

**6.0 Statutory Officers**

- 6.1 The Strategic Director, Resources (S151 Officer) has made the following comment:  
  
 “The Strategic Director Resources (S151 Officer) welcomes the progress being made and in particular the advances to bring risk management to the centre of corporate processes such as budget setting and the corporate assessment. The 2016/17 budget process has seen greater awareness of the impact of risk when considering decisions about resource allocation and the mitigation of required savings.”

- 6.2 The Solicitor to the Council (Monitoring Officer) has made the following comment:  
  
 “Monitoring Officer comments to follow.”

**7.0 Future Status of the Report**

- 7.1 Not applicable

<b>Recommendation:</b>	<b>Reason for Recommendation:</b>
<b>That the Audit Committee notes the</b>	<b>To ensure the adequate management</b>

<p>progress being made and endorses the role that the Business Continuity &amp; Risk Management Officer will also play in corporate processes such as budget setting and the corporate assessment to meet Risk Management requirements.</p>	<p>of risk, and safeguard the Council.</p>
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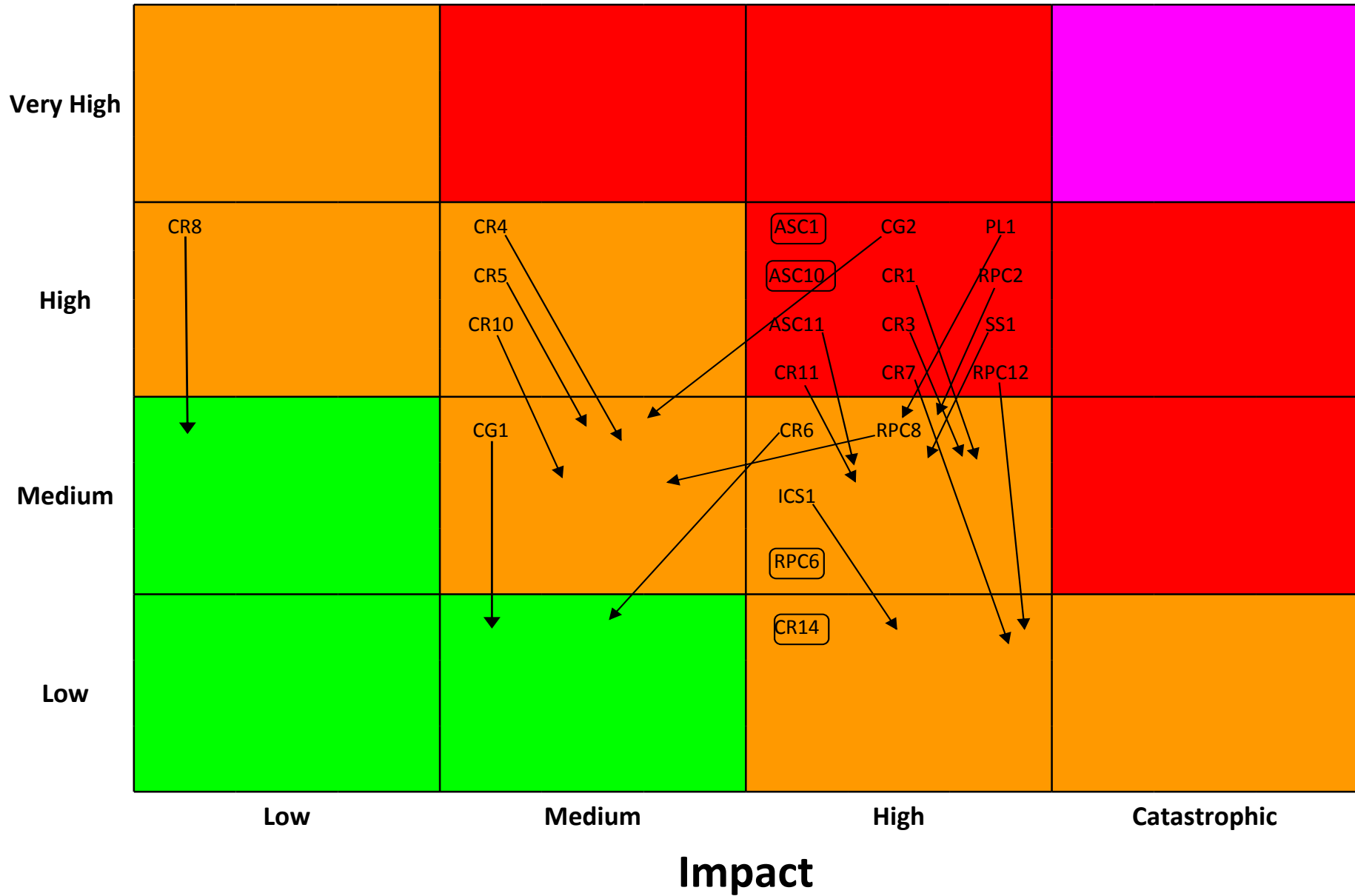
<b>Relevant Policy (ies):</b>			
<b>Within Policy:</b>	Y / N	<b>Within Budget:</b>	Y / N

<b>Relevant Local Member(s):</b>	<b>Not Applicable</b>
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<b>Person(s) To Implement Decision:</b>	
<b>Date By When Decision To Be Implemented:</b>	

<b>Contact Officer Name:</b>	<b>Tel:</b>	<b>Fax:</b>	<b>Email:</b>
Caroline Evans	01597826171		caroline.evans@powys.gov.uk

Heat Map



The risk reference e.g. ASC10 identifies the level of inherent risk to the Council (pre-mitigation).

The arrows from each risk point to the level to which the risk will reduce as a result of the mitigating controls being implemented (residual risk).

Those risks with    around them do not change their level of risk with mitigation.

Risk Register

Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk		Risk Rating	Current Controls	Risk Owner	Portfolio Holder
						P	I				
ASC1		SIP	Adult Social Care	Not gaining full agreement on some of the more controversial and high profile agreements for the direction of travel of the service, which without we'll be unable to achieve the full level of financial savings	Inability to meet the demands and requirements of service users	H	H	High 9	<ul style="list-style-type: none"> <li>• Ensure appropriate information is available to inform Member's decision making;</li> <li>• Appropriate options appraisal undertaken;</li> <li>• A series of pre and formal consultation events are being held over the winter period.</li> </ul>	Amanda Lewis	Cllr Stephen Hayes
ASC10		SIP	Adult Social Care	Re-negotiation of contracts are unsuccessful or increase costs of service delivery.	<ul style="list-style-type: none"> <li>• We fail to re-negotiate a contract;</li> <li>• Capacity to support the development of interim arrangements could delay the process;</li> <li>• Replacement services not planned for / in place in a timely manner</li> <li>• Commercial Services are unable to achieve savings identified over and above the MTFS.</li> </ul>	H	H	High 9	<ul style="list-style-type: none"> <li>• SIP outlines action to develop interim arrangements and to assess longer term implications;</li> <li>• Service provider to be consulted as part of the above;</li> <li>• Project team established. Project has commenced and is managed through ICPOP.</li> </ul>	Amanda Lewis	Cllr Stephen Hayes

Risk Register

Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk		Risk Rating	Current Controls	Risk Owner	Portfolio Holder
						P	I				
ASC11			Adult Social Care	Failure to stabilise the Domiciliary Care market.	<ul style="list-style-type: none"> <li>• A service which does not deliver the outcomes that our services users need / want;</li> <li>• An unsustainable financial burden to the council;</li> <li>• Impact on capacity of ASC Services to undertake innovative work;</li> <li>• Adverse reputational risk for the Council;</li> <li>• Service users left at risk;</li> <li>• Failure to meet statutory duty.</li> </ul>	H	H	High 9	<ul style="list-style-type: none"> <li>• SIP outlines specific action to develop plan to establish a stable Domiciliary Care Service;</li> <li>• Additional / temporary officer capacity has been sourced for Adult Social Care to support this area of work;</li> <li>• Project Board established;</li> <li>• External support and evaluation / critical support from IPC;</li> <li>• Commissioned a range of many providers to deliver care;</li> <li>• Provider forum established;</li> <li>• Robust support and monitoring arrangements in place.</li> </ul>	Amanda Lewis	Cllr Stephen Hayes
CR11	14/09/2015	CEO	Social Care	Implementation of CCIS (DRAIG replacement)	<p>Loss of data resulting in an efficient service with officers being unable to access client files.</p> <p>Delay in new system being commissioned as part of a National approach.</p> <p>Demand on resources;</p> <p>Continuity of reporting;</p> <p>Loss of data.</p>	H	H	High 9	Project team and project governance established. DRAIG will continue to support the current system until we migrate onto CCIS.	Amanda Lewis	Cllr Phil Pritchard

Risk Register

Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk		Risk Rating	Current Controls	Risk Owner	Portfolio Holder
						P	I				
CG1	Prior to 2014	SIP.L.V2	Change & Governance	Failure of governance.	Council acts ultra vires; Contravenes finance regulations and EU procurement regulations.	M	M	Medium 4	All work is report based and there is a mechanism in place by which appropriate checks are made - two checks are made by Finance and two checks by Legal (Section 151 Officer and Monitoring Officer).	Jeremy Patterson	Cllr Phil Pritchard
CG2	21/11/2012	Risk Register 21/11/12 12.11	Change & Governance	Data Protection Breaches	Information Commissioners Intervention. Financial Penalties	H	H	High 9	<ul style="list-style-type: none"> <li>Information Governance Plan supported by the Corporate Information Governance Group which meets on a quarterly basis;</li> <li>Ensure we comply with corporate training requirements and quality assure our processes;</li> <li>IT equipment encrypted;</li> <li>Policies and procedures in place;</li> <li>Staff training;</li> <li>Printer security controls;</li> <li>Data transmission controls (secure email).</li> </ul>	Amanda Lewis	Cllr Darren Mayor
CR1	21/11/2012	Risk Register 21/11/12 12.100	Corporate	The Council is unable to manage the level of financial cuts required by the Welsh Government and the relatively poor funding position	The Council incurs significant overspend. Projected budget will suffer an overspend. Penalties and fines may be imposed Council reputation damaged	H	H	High 9	Medium Term Financial Plan; Cost Recovery work; 3rd party spend reduction; Income Generation; Monthly reports to cabinet and Management Team on budget progress and progress on savings.	David Powell	Cllr Wynne Jones



Risk Register

Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk		Risk Rating	Current Controls	Risk Owner	Portfolio Holder
						P	I				
CR3	21/11/2012	Risk Register 21/11/12 12.92	Corporate	Inadequate Corporate Governance arrangements for shared services and partnerships	Failure to effectively deliver services	H	H	High 9	<p>Progress on the One Plan is reported through the Transformation Board and the LSB.</p> <p>In July 2012 PCC and PtHB entered into a formal partnership to deliver ICT services from a joint team formed by the integration of the ICT teams from both organisations. A Section 33 agreement was employed and provides a formal basis for partnership working. This agreement has two tiers of governance: -</p> <ol style="list-style-type: none"> <li>1. ICT Management Team;</li> <li>2. Joint Partnership Board.</li> </ol> <p>The Joint Partnership Board was established in 2012 and is chaired by the Leader. This manages all Section 33 agreements and is attended by the PCC Leader, PCC Chief Executive, PtHB Chief Exec and PtHB Executive Director.</p>	Jeremy Patterson	Cllr Barry Thomas

Risk Register

Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk		Risk Rating	Current Controls	Risk Owner	Portfolio Holder
						P	I				
CR4	21/11/2012	Risk Register 21/11/12 12.102	Corporate	Failure to deliver on the Powys One Plan	Failure to deliver on the Powys One Plan	H	M	Medium 6	<p>Programme Office established with Strategic Programme Managers leading on each of the 5 programmes within the Powys One Plan.</p> <p>Programme Boards meet bi-monthly and monitor progress of the projects in each programme. This is then reported up to the Transformational Board and the LSB.</p> <p>Programme Office has adopted the corporate risk assessment methodology and Strategic Programme Managers report the Programme risk registers to the Programme Boards. Projects also have their own risk registers. The registers report risks which may impact upon delivery of objectives, and identify mitigating actions taken to control these risks.</p> <p>Scrutiny challenge and feedback sessions have been held on progress made so far, this has been reported using the Performance Evaluation Grids.</p>	David Powell	Cllr Barry Thomas

Risk Register

Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk				Current Controls	Risk Owner	Portfolio Holder
						P	I	Risk Rating				
CR5	21/11/2012	Risk Register 21/11/12 12.102	Corporate	Lack of management of the procurement process within services.	Inadequate contracts and contract management exposing the authority to financial and reputational risk	H	M	Medium	6	E-Learning 'Commissioning: The Fundamentals Level 1' training course has been developed, is available and being used, and is aimed at all those employees who undertake some purchasing / ordering / buying and may undertake some commissioning. Level 1 training must be completed before anyone proceeds onto the Level 2 taught course.	David Powell	Cllr Graham Brown
Page 83	21/11/2012	Risk Register 21/11/12 12.90	Corporate	Lack of adequate service business continuity planning	Failure to deliver services in the event of an emergency.	M	H	Medium	6	Officer appointed permanently to post of Business Continuity & Risk Management Officer; Education and training programme delivered to services; Services supported to produce their own Business Continuity Plans; Self-evaluation of BCM incorporated into SIP process.	David Powell	Cllr John Powell
	CR7	21/11/2012	Risk Register 21/11/12 12.94	Corporate	Inadequate registers / notifications of items requiring statutory testing provided to the compliance team.	Regulations not met; Financial Penalties; Corporate Manslaughter.	H	H	High	9	The statutory testing team maintain a register of plant, equipment and buildings that require testing, and the timetable for testing these items. This register then forms their work programme.	Paul Griffiths

Risk Register

Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder
						P	I	Risk Rating			
CR8	21/11/2012	Risk Register 21/11/12 12.95	Corporate	Inadequacy of Absence Management process	Failure to provide service to a satisfactory standard.	H	L	Medium 3	New Absence Management Policy; Pro-active work plan in place which is supported by HR; Monthly targets reported to HoS.	David Powell	Cllr Phil Pritchard
CR10	21/11/2012	Risk Register 21/11/12 12.97	Corporate	Failure to monitor and protect Council assets	Theft and abuse of Council property	H	M	Medium 6	Each service should have it's own asset register. All ICT equipment should be recorded on the ICT asset register.	David Powell	Cllr Darren Mayor
PL1		SIP	Place Directorate	Failure to ensure Health and Safety of public and workforce	Injury to individual employees and risk to the Authority; People could be seriously or fatally injured; Exposure to litigation.	H	H	High 9	Health and Safety meetings, revenues, training and audit; Public liability insurance; Procurement - external contractors risk statements - monitoring.	Paul Griffiths	Cllr Avril York

Risk Register

Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk		Risk Rating	Current Controls	Risk Owner	Portfolio Holder
						P	I				
ICS1	Prior to 2014	SIP.ICT.?	Information and Customer Services	ICT Disaster Recovery	Failure to maintain key ICT services in the event of a major incident.	M	H	Medium 6	<p>PCC have been working closely with Microsoft and Platform Consultancy to explore utilising the latest cloud services, to provide both a backup solution and disaster recovery solution. This will provide PCC with the ability to instantly power up all replicated servers in the cloud.</p> <p><u>06/01/2016</u> Project in place. Critical services have been identified from Service BCPs to identify criticality of applications for prioritisation.</p>	David Powell	Cllr Phil Pritchard
RPC2		SIP.PPP.V1	Regeneration, Property & Commissioning - Environmental Health	Liabilities arising from closed landfill site portfolio	Significant pollution incident resulting in prosecution. Legal challenge from NRW / land owners.	H	H	High 9	<p>We have two specialist Contaminated Land Officers who will seek external legal advice when appropriate, and work closely with Natural Resources Wales.</p>	Paul Griffiths	Cllr John Powell

Risk Register

Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk		Risk Rating	Current Controls	Risk Owner	Portfolio Holder
						P	I				
RPC6		SBP 2014/17	Regeneration, Property & Commissioning - Spatial Planning	Failure to adopt the LDP	Reputational damage to the Council and a period when the Council would determine planning applications in accordance with material planning considerations rather than an adopted development plan; Financial implications.	M	H	Medium 6	Action plan in place which includes recruitment of temporary staff, and diverting built heritage work away in order to concentrate on the LDP. A request for further funding if required has been pre-agreed. Closer working with WG.	Paul Griffiths	Cllr Avril York
RPC8	2014	SBP 2014/17	Regeneration, Property & Commissioning	The property disposals programme may not realise the expected returns on time.	Other developments which depend upon them cannot be supported.	M	H	Medium 6	<ul style="list-style-type: none"> <li>Regularly revise progress on list of disposal sites/ buildings and feed this in through the corporate Cost Improvement Group as well as the property projects;</li> <li>The Property Disposals Board meets quarterly.</li> </ul>	Paul Griffiths	Cllr Darren Mayor

Risk Register

Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk		Risk Rating	Current Controls	Risk Owner	Portfolio Holder
						P	I				
SS1	13/01/2015	SMT	Schools Service	Non delivery of the Schools Transformation Programme	Infrastructure which is not contributing to the Authority's efficiency agenda, and leading to poor educational outcomes	H	H	High 9	Added capacity now in place; ODP Programme defined; Revised governance around 21st Century Schools in place; Revised Schools Transformational Policy approved by Cabinet December 2015; New structure in place; Transformation funding provided for additional resource as and when required; Programme reports to Cabinet; Regular policy and procedure legal checks required.	Marianne Evans	Cllr Arwel Jones
CR14	13/01/2015	SMT	Corporate	Condition and security of buildings and premises.	<ul style="list-style-type: none"> <li>• Breach of Equalities legislation;</li> <li>• Failure to comply with H&amp;S legislation;</li> <li>• Failure to be able to provide services in a suitable way to the public, and accommodation which is suitable for staff.</li> </ul>	L	H	Medium 3	<p>Strategic review of office accommodation in progress.</p> <p><u>Schools</u>                      Review of Special Schools; 21st Century Schools Programme (prioritised according to pupil vulnerability);                      A new Schools Service Major Improvement Programme Scoring and Prioritisation criteria was agreed by Cabinet 3/3/15, and it was also agreed a spend of £1m per year for the next three years.</p>	Jeremy Patterson	Cllr Darren Mayor

Risk Register

Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder
						P	I	Risk Rating			
RPC12	11/12/2015	HoS	Regeneration, Property & Commissioning	We have identified C£1M of urgent health and safety works (electricals, sewerage systems, asbestos etc.) that need to be undertaken on the 139 Farm Houses in our estate.	Potential threat to life	H	H	High 9	We are currently seeking funding to start a programme of repairs but until that programme of works starts we are running a liability risk as a landlord. Some revenue funding has been agreed to start planning the works, but Capital funding which is required to undertake the works is yet to be agreed.	Paul Griffiths	Cllr John Powell



Proposed Further Actions / Controls	Residual Risk				Notes
	P	I	Risk Rating		
Hold regular member development sessions to keep them informed of issues relating to service. 19/10/15 - Consultation process over the winter period for the following services: - <ul style="list-style-type: none"> <li>• Daytime activities for Older People;</li> <li>• Fairer Care Policy;</li> <li>• Residential Care;</li> <li>• Older Peoples Commissioning Strategy;</li> <li>• Learning Disabilities Project - Day &amp; Employment Services;</li> <li>• Budget Consultation.</li> </ul>	H	H	High	9	Updated at Adults SMT 22/1/16
<ul style="list-style-type: none"> <li>• In conjunction with Commercial services risk assess any interim plans;</li> <li>• Corporate ownership and support in place to ensure focused and successful implementation.</li> </ul>	H	H	High	9	Updated at Adults SMT 22/1/16

Risk Register

Proposed Further Actions / Controls	Residual Risk		Risk Rating		Notes
	P	I			
<ul style="list-style-type: none"> <li>• Integrated approach with Health to design a joint domiciliary service model;</li> <li>• Cabinet report in October on Domiciliary Care next steps.</li> </ul>	M	H	Medium	6	
Project Risk Register managed by ICT.	M	H	Medium	6	National system for Wales for Community Health & Social Care, and Early Intervention and Prevention across Wales. Integrated working and access to relevant information will be increased.

Risk Register

Proposed Further Actions / Controls	Residual Risk				Notes
	P	I	Risk Rating		
Installation of a software package by Autumn/Winter 2015. This will insist on timely provision of reports and will send reminder emails to the appropriate officers; Programme Governance Action Plan - spot audits of Programme Boards; Audit of Programme Board governance; Regulatory Reports.	L	M	Low	2	The software is extensively used by WG and automatically sends reminder emails to officers.
Introduction of information asset owners; Information Asset Register; Information Risk Assessments.	M	M	Medium	4	
Moving to 3 years balanced budget; Setting up Budget Management Reserve; Single impact assessment incorporating a risk assessment of each individual identified saving.	M	H	Medium	6	Update provided by Portfolio Holder 03/06/2015

Risk Register

Proposed Further Actions / Controls	Residual Risk			Notes
	P	I	Risk Rating	
<p>As we enter the new landscape of integration being delivered by PCC and PtHB we will require suitable governance arrangements and lines of accountability which makes governance less ambiguous and more robust, and making scrutiny more effective and more complementary with other accountability mechanisms. Taken together these make organisations more responsive to change, and will mean that scrutiny and accountability drive improvement effectively.</p> <p>This work is underway to agree a revised Scrutiny and Governance structure that will meet the increased scope &amp; pace of change for PtHB /PCC integration required by Welsh Government, address member concerns about levels of member involvement and meet PtHB requirements for separation of Board and executive functions. As part of this work we will: -</p> <ul style="list-style-type: none"> <li>• Implement a shared governance and scrutiny structure;</li> <li>• Develop and implement a shared member / non-executive training programme;</li> <li>• Develop &amp; implement a shadowing programme across PCC cabinet / scrutiny and PtHB Board and Committees;</li> <li>• Seek approval at Cabinet and PtHB.</li> </ul>	M	H	Medium 6	<p>WAO report presented to Audit Committee 22nd April 2015 identified that the Section 33 agreement has improved service resilience and reduced IT risk, and Section 33 arrangements provide a good basis for integrated working.</p>



Risk Register

Proposed Further Actions / Controls	Residual Risk				Notes
	P	I	Risk Rating		
<p>It is planned to provide key messages around Commissioning to all Powys County Council employees via NetConsent.</p> <p>The content of and targeted audience for 'Commissioning: The Technicalities Level 2' taught training course is currently being discussed with external providers and a specification is being developed.</p> <p>Visibility of the contracts register.</p> <p>Introduction of Commissioning Toolkit and Gateway process to ensure that a member of the Commercial Services team is applied to each project</p>	M	M	Medium	4	
<p>Continual engagement with BCM Champions via quarterly Business Continuity Group. Services to continue to develop and test their Business Continuity Plans.</p>	L	M	Low	2	Updated 28th January 2016
	L	H	Medium	3	

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Proposed Further Actions / Controls	Residual Risk				Notes
	P	I	Risk Rating		
Maintain position of low absence rate and continue to reduce the risk by managing interventions; Raise awareness across Management Teams.	M	L	Low	2	Robust processes in place makes this a low risk
Ensure that all services have their own asset registers in place.	M	M	Medium	4	
Continually review robust site supervision and monitoring processes internally and externally with contractors;	M	H	Medium	6	

Proposed Further Actions / Controls	Residual Risk			Notes
	P	I	Risk Rating	
<p>Microsoft Data Protection Manager will perform nightly backups to on-site storage, this backup data will then replicate into Azure blob storage as an off-site back for long-term storage.</p> <p><u>17/12/15</u> Replacement of existing systems.</p> <p><u>06/01/2016</u> Fire prevention for server rooms. Second link from a second site within the North of the County (different power grid) to replicate systems. New systems which are purchased must have cloud hosting capability.</p>	L	H	Medium 3	<p>Due for completion by December 2015.</p> <p>The cloud extension suite will enable PCC to replicate the on-site virtual server environment and compatible physical server environment into Azure.</p> <p><u>17/12/15</u> This work will reduce the level of risk in terms of virtualised systems, however a risk will remain in respect of physical systems. This risk will be mitigated by the replacement of existing systems.</p>
	M	H	Medium 6	



Risk Register

Proposed Further Actions / Controls	Residual Risk				Notes
	P	I	Risk Rating		
	M	H	Medium	6	The residual rating does not reduce following the implementation of mitigating controls as the controls will 'firefight' and are intended to stop the level of risk from increasing, rather than to reduce the current level of risk.
At the end of September 2015 a Property Disputes Board will be set up and chaired by the Portfolio Holder for Property. This will provide a mechanism for challenging services.	M	M	Medium	4	

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Proposed Further Actions / Controls	Residual Risk			Notes
	P	I	Risk Rating	
<p>A number of primary Schools have been identified for review under the Powys Schools Transformation Policy (Nov 2014) and we are in discussions with individual schools. Detailed Reports will follow to Cabinet in due course; Further discussions with WG about our capital programme; Formal consultation will commence during Spring term on a number of primary schools.</p>	L	H	Medium 3	Updated 25/01/16
<p>Strategic Outline Plan for 21st Century Schools and Capital Investment Programme.</p>	L	H	Medium 3	Updated 25/01/16 - incorporates SS4

Proposed Further Actions / Controls	Residual Risk				Notes
	P	I	Risk Rating		
Rolling programme of works	L	H	Medium	3	

## Risk Assessment Matrix

### 1. Impact:

RISK CATEGORY	RISK TYPE	RISK IMPACT (Severity)			
		Low	Medium	High	Catastrophic
FINANCIAL	<b>Financial</b>				
	Reinstatement following loss / compensation & costs / economic losses / bad lending / VAT errors / fraud / fines	<£250,000	£250 - £750k	£750k - £2m	>£2m
HAZARD	<b>Casualty</b>				
	Employee &/or Public Injury / ill-health	Minor Injuries / temporary ill-health	Ill health / disabling injuries	Single fatality	Multiple fatalities
	<b>Environmental</b>				
	Recovery/remediation time	< 1 week	1 week – 1 month	1 - 12 months	> 1 year / recovery impossible
	<b>Hazard</b>				
	Maladministration / Improvement notice / legal proceedings	Low	Medium	High	Catastrophic
OPERATIONAL	<b>Operational</b>				
	Prevention of service efficiency	Low	Medium	High	Catastrophic
	<b>Procurement / Contract / Project Failure</b>				
	Additional costs / cost over-run / delays to completion	Greater of 5% or £250k	Greater of 5-25% or £250- £70k	Greater of 25 - 50% or £70k - £2m	Greater of 50 – 100% or > £2m
	<b>Service Provision (Interruption)</b>				
	Health / Education / Key Service	1- 6 days < 1 month	1 week–1month 1-3 months	1 – 6 months 3 - 12 months	> 6 months > 1 year
STRATEGIC	<b>Reputation</b>				
	Adverse / critical comment / Ombudsman Investigation / ICO Investigation	Ward/Village	Local Media	Welsh Media	National Media
	Prosecution/punishments			Disqualification	Imprisonment
	<b>Strategic</b>				
	Failure to achieve corporate objectives	Low	Medium	High	Catastrophic

### 2. Probability:

PROBABILITY	Definition
Low	Not likely to happen or may happen once every 20 years
Medium	Possible or may happen within 10 years
High	Likely or may happen once a year
Very High	Certain or happens several times a year

### 3. Risk Profile:

PROBABILITY	Very High (4)	Medium (4)	High (8)	High (12)	Very High (16)
	High (3)	Medium (3)	Medium (6)	High (9)	High (12)
	Medium (2)	Low (2)	Medium (4)	Medium (6)	High (8)
	Low (1)	Low (1)	Low (2)	Medium (3)	Medium (4)
		Low (1)	Medium (2)	High (3)	Catastrophic (4)
<b>IMPACT</b>					

# A9-2016

## CYNGOR SIR POWYS COUNTY COUNCIL.

**AUDIT COMMITTEE**  
4<sup>th</sup> February 2016

**CABINET**  
23<sup>rd</sup> February 2016

**REPORT AUTHOR:** County Councillor Wynne Jones  
Portfolio Holder for Finance

**SUBJECT:** Treasury Management Qtr 3 Report

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**REPORT FOR:** Information

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### 1. Summary

1.1 CIPFA's Treasury Management Bulletin issued in March 2009 suggested:

“In order to enshrine best practice it is suggested that authorities report formally on treasury management activities at least twice a year and preferably quarterly.”

The CIPFA Code of Practice on Treasury Management emphasises a number of key areas including the following:-

xi. Treasury management performance and policy setting should be subject to scrutiny prior to implementation.

1.2 In line with the above this report is providing information on the activities for the quarter ending 31st December 2015.

### 2. Economic Background and Forecasts

2.1 The economic background is attached at Appendix B.

2.2 The most recent forecast of interest rates by the Authority's advisor is as follows:

	<b>Mar 16</b>	<b>Jun 16</b>	<b>Sep 16</b>	<b>Dec 16</b>	<b>Mar 17</b>	<b>Jun 17</b>	<b>Sep 17</b>	<b>Dec 17</b>
<b>Bank rate</b>	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%
<b>5yr PWLB</b>	2.40%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%
<b>10yr PWLB</b>	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%
<b>25yr PWLB</b>	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%
<b>50yr PWLB</b>	3.60%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%

**This forecast is due for revision in January.**

### **3. Treasury Management Strategy**

3.1 The Treasury Management Strategy approved by Full Council on 5th March 2015 is at Appendix A.

3.2 The Authority's investment priorities within the Strategy are: -

- (a) the security of capital and
- (b) the liquidity of its investments.

3.3 The Authority aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite has been low in order to give priority to security of investments.

### **4. Current Investments**

4.1 The current investment market is difficult in respect of earning the level of interest rates commonly seen in previous years as rates are very low and in line with the 0.5% Bank Rate.

4.2 The Authority's investment position as at 31st December 2015 is as shown below:-

<b>Invested with:</b>	<b>Principal £000's</b>	<b>Interest Rate</b>	<b>Start Date</b>	<b>Maturity Date</b>
Santander	7,260	0.40%	N/A	Deposit A/c
BOS	1,495	0.40%	N/A	Deposit A/c
HSBC	50	0.25%	N/A	Deposit A/c
<b>Total</b>	<b>8,805</b>	<b>0.40%</b>		
Lloyds TSB - LAMS	1,000	3.20%	13.08.12	14.08.17

4.3 There have been no relevant credit rating changes in the last few months in respect of the banks that the Authority utilises for deposits.

4.4 Local Authority Mortgage Scheme:

In August 2012, following a Cabinet report, the Authority entered the Local Authority Mortgage Scheme with an allocation to Lloyds TSB of £1M. Under the scheme this was deemed as Capital Expenditure. However, the Wales Audit Office (WAO) opinion differed from this in that they suggested it should be treated as an investment. Unfortunately, despite meetings and extensive correspondence by Capita Treasury with the Welsh Government, Welsh Local Government Association and the Wales Audit Office, agreement on the accounting treatment for Welsh authorities has not been reached despite the provision of 3 separate legal opinions supporting the Capital Expenditure position. As such, Capita have said that they are not sure there is much more they can do in Wales. This Authority has concurred with WAO's requirement to treat this as an investment and, as such, the amount is included in the table above and is being accounted for as an investment. Council approved this investment following a retrospective report on 16<sup>th</sup> May 2013.

#### 4.5 **Glitnir:**

The winding up board of Glitnir made a distribution to creditors in a variety of currencies in March 2012. An element of the distribution was in Icelandic Kroner (ISK) which was placed in an escrow account in Iceland. This element of the distribution has been retained in Iceland due to currency controls currently operating in Iceland and, as a result, is subject to exchange rate risk over which the Authority has no control. The distribution has been made in full settlement, representing 100% of the claim.

Cabinet will be aware that this Authority did not take up a sale of escrow option but decided to retain the money in escrow until such time as there is further information forthcoming from the Icelandic government.

#### 4.6 **Redemption Penalties:**

There are no current fixed investments to redeem.

#### 4.7 **Investment returns in future years:**

Our advisors' current suggested earning rates for investments for budgeting purposes are as follows:-

	Suggested Rate now	Suggested Rate previous
2015/16	0.50%	0.50%
2016/17	0.90%	0.90%
2017/18	1.50%	1.50%

These are based on investments for up to three months duration.

### **5. Credit Rating Changes**

5.1 There have been no credit rating changes relevant to this Authority's position during the last quarter.

5.2 The credit rating list for end of December is attached as a separate file to this report.

### **6. Minimum Revenue Provision for the Redemption of Debt**

6.1 Under regulation 21 of the Local Authorities Regulation 2003, local authorities must charge to a revenue account a minimum revenue provision (MRP) in respect of capital expenditure incurred in a prior year. Regulation 22 states "A local authority must calculate for the current financial year an amount of minimum revenue provision which it considers to be prudent? It is for an individual authority to determine what is a "prudent" MRP".

6.2 The authority has sought advice from its treasury management advisor (Capita) and this confirms that the current 4% MRP can be reduced to a 2% straight line MRP. This will require a Cabinet decision. The position will be reflected in the budget.

### **7. Borrowing / Re-scheduling**

7.1 Effective management of the Authority's debt is essential to ensure that the impact of interest payable is minimised against our revenue accounts whilst maintaining prudent borrowing policies.

## 7.2 The Authority's Capital Position:

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the current year's unfinanced capital expenditure and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through external borrowing or utilising temporary cash resources within the Council.

Net external borrowing (borrowings less investments) should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current year and next two financial years. This allows some flexibility for limited early borrowing for future years.

CFR Position:

	As at 31.03.15 Actual	2015/16 Original Estimate	2016/17 Original Estimate	2017/18 Original Estimate
	£M	£M	£M	£M
Capital Financing Requirement	224,482	227,799	319,727	329,533

7.3 The Authority had outstanding long-term external debt of £150.8M at 31<sup>st</sup> March 2015. In relation to the CFR figure for 31<sup>st</sup> March 2015, this equated to the Authority being under borrowed by £73.7M. This is a prudent and cost effective approach in the current economic climate. However, internal borrowing is only a temporary situation and, based on capital estimates, it will be necessary for the Authority to borrow at stages over the next few years. As such, the Authority needs to be mindful that it may be prudent to borrow whilst interest rates are at their low levels and carry the cost of this borrowing as opposed to borrowing at a future date at increased rates.

7.4 Capital Budget/Spend per efinancials:

Capital:	Approved Budget	Working budget	Actual Capital Spend (not including commitments)	%age spend
	128,931,594			
June		136,989,764	75,576,339	55.17%
Sept		141,157,883	83,517,819	59.20%
Dec		126,548,605	93,174,660	73.63%

The figures above include the figures for the self-financing of the HRA.

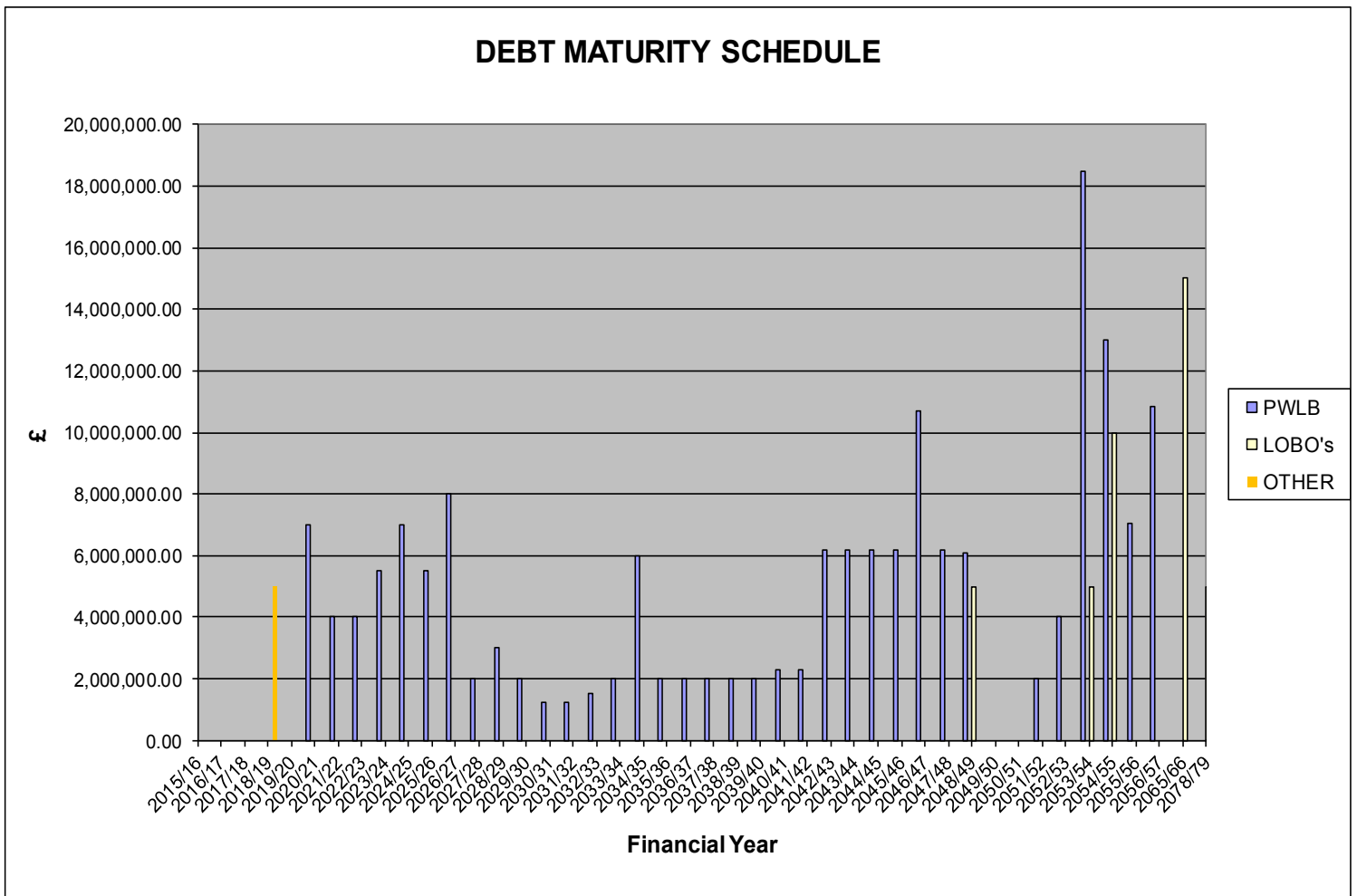


The financing of the approved capital budget included £97.4M of Prudential borrowing in total. £72.4M was borrowed on 2<sup>nd</sup> April in respect of the self-financing of the HRA.

The exact structure of loans arranged for the HRA purpose reflected the requirements of the HRA business plan, the overall requirements of the Council and certain limitations (e.g. the minimum average duration of any borrowing) put in place by the Welsh Government. The loans were, therefore, arranged at a set of bespoke, higher PWLB interest rates that applied only to Welsh HRA self-financing authorities and may make these loans less flexible, from a restructuring point of view, than would normally be the case.

**7.5 Debt Maturity Profile as at 31.12.15:**

(please click on the graph below and increase the percentage in the toolbar above for an enhanced view)



## 7.6 Target rates:

Our advisors' target rates and current PWLB rates are set out below:

Period	Borrowing rate at 31.12.15	Target borrowing rate now	Target borrowing rate previous
5 year	2.16%	2.30%	2.40%
10 year	2.79%	2.90%	3.00%
25 year	3.49%	3.60%	3.60%
50 year	3.31%	3.50%	3.60%

## 7.7 Rescheduling:

The Public Works Loans Board released a circular regarding rates on 20<sup>th</sup> October 2010. As a result of this, rates immediately increased by 0.87-0.88 basis points across the board. The overall impact of this circular was that it is far more difficult for authorities to reschedule debt

7.8 Members are aware that officers continue to look for interest savings on a daily basis by monitoring rates that may mean the Authority can re-schedule some of its debt or prematurely repay debt if applicable. However, PWLB interest rates have not been conducive towards rescheduling.

## 8. **Prudential Indicators**

8.1 All TM Prudential Indicators were complied with in the quarter ending 31st December 2015.

## 9. **Internal Audit**

9.1 TM was audited by internal audit in Sept 2015. The result of this was Substantial Assurance with only one action to initial deposit account bank statements when checked.

## **Proposal**

It is proposed that the Treasury Management quarterly report is received.

## **Statutory Officers**

The Strategic Director – Resources (s151 officer) notes the content of the report and supports the recommendation. It is important that Cabinet continues to be informed about this key activity.

The Solicitor to the Council (Monitoring Officer) has made the following comment: "I have nothing to add to the report".

## **Future Status of the Report**

Not applicable

<b>Recommendation:</b>		<b>Reason for Recommendation:</b>	
That the Treasury Management Quarterly Report be received		To ensure Cabinet remains informed about current Treasury Management performance	
<b>Relevant Policy (ies):</b>		Treasury Management Policy	
<b>Within Policy:</b>	Y	<b>Within Budget:</b>	N/A
<b>Person(s) To Implement Decision:</b>		N/A	
<b>Date By When Decision To Be Implemented:</b>		N/A	
Contact Officer Name:	Tel:	Fax:	Email:
Ann Owen	01597 826327	01597 826290	ann.owen@powys.gov.uk

**Background Papers used to prepare Report:**

CIPFA Code of Practice on Treasury Management and Cross Sectoral Guidance Notes  
Treasury Management Policy Statement  
Advisors' Information  
WAG Guidance on Local Government Investments 2010  
PWLB circulars

## Appendix A:

### Approved Treasury Management Strategy 2015/16:

#### 7.5 "High" credit quality:

7.5.1 It is proposed that the Authority continue with the following in respect of defining a "high" credit quality. If a rating is not available from any of the rating agencies then the available ratings will be used. Members will note that this proposal excludes investments with some banks off the advisors' suggested list:-

Long Term Ratings (in respect of long-term investments):

Permitted Fitch Ratings	Permitted Moodys Ratings	Permitted S&P Ratings
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-

Short Term Ratings (in respect of short-term investments):

Permitted Fitch Ratings	Permitted Moodys Ratings	Permitted S&P Ratings
F1+	N/A	A-1+
F1	P-1	A-1

#### 7.6 Country limits:

7.6.1 It is proposed that the Authority will use approved counterparties from the UK and approved counterparties from other countries with the following sovereign credit ratings:-

Permitted Fitch Ratings	Permitted Moodys Ratings	Permitted S&P Ratings
AAA	Aaa	AAA

Country	Maximum Investment per Country	Credit Rating/Other Assessment of Risk
AAA countries (listed at Appendix D)	£20M (held in call accounts)	As per rating list
UK	No Maximum Investment	As per rating list

7.7 Group/Institutions - Counterparty Criteria/Limits:

**Specified Investments:**

<b>Institution</b>	<b>Maximum Investment per Group/Institution £M</b>	<b>Maximum Length</b>	<b>Credit Rating/Other Assessment of Risk</b>
UK Banks	20 (a maximum £10M to be held in fixed term investments)	Up to 364 days	As per Capita's matrices and the Authority's definition of a high credit rating
Foreign Banks	5	Up to 364 days	As per Capita's matrices and the Authority's definition of a high credit rating
Other Local Authorities	25	Up to 364 days	N/A

**Non-Specified Investments:**

<b>Institution</b>	<b>Maximum Investment per Group/Institution £M</b>	<b>Maximum Length</b>	<b>Credit Rating/Other Assessment of Risk</b>
UK Banks	10 (£2M limit with any one institution)	Up to 2 years	As per Capita's matrices and the Authority's definition of a high credit rating
Lloyds Bank (as a mortgage lender in the LAMS scheme)	5	Up to 5 years	N/A
Foreign Banks	2	Up to 2 years	As per Sector's matrices and the Authority's definition of a high credit rating
Money Market Funds (max. of 5)	10	N/A	All are AAA rated plus the parents/owners must meet the Authority's short term investment criteria
Other Local Authorities	10	Up to 2 years	N/A
European Investment Bank Bonds	3	2-3 years	N/A

*Note: Limits for Specified and Non-Specified are combined limits. The maximum limit will also apply to a banking group as a whole.*

## **Appendix B**

### **Economic Background**

The UK recovery showed signs of some acceleration but the imbalances remain. Q3 GDP saw solid domestic demand growth continue but the drag from net trade was the largest on record. In particular, trade with the Eurozone deteriorated further. Nevertheless, the services Purchasing Managers Index (PMI) strengthened in November although there was weakening in both the manufacturing and construction numbers. This is not the ideal form of recovery and the services sector looks set to take responsibility for the overall health of the economy for a while yet.

The surge in US October non-farm payrolls allayed concerns that the recent slowing could possibly be the start of a downturn. With the unemployment rate slipping to 5%, it is now at the lower end of the Fed's range for equilibrium unemployment. Meanwhile, the number of involuntary part time workers is also on the decline and now stands at a seven year low. With full employment getting nearer, there are also signs that wage growth is gathering pace and the unexpected strength of the latter, along with core inflation, is now looking likely to be a feature of 2016. That combination could see the Fed pushed into "normalising" policy more rapidly than initially expected by the market.

In the Eurozone, while early indications seem to confirm that Q3 GDP growth slowed further, it does appear that there has been some improvement in early Q4 data, with the PMIs pointing to some acceleration. Growth, though, will remain modest at best and inflationary pressures are negligible.

Asia remains an area of concern with the two main economies, China and Japan, struggling to generate the required levels of growth.

### **UK**

The first update on Q3 GDP confirmed quarterly growth of 0.5% but the breakdown showed that household spending has continued to provide the main support for growth, while the drag on performance from net trade was the largest that has ever been seen. Business investment posted a solid quarterly pick up to push annual growth to 6.6% and survey investment intentions indicate that this healthy growth should continue, at least in the near future. The decline in the manufacturing PMI points to the strength seen in the October survey having been a blip. However, the robust services PMI ensured that the composite measure is consistent, with growth accelerating a touch in the final quarter. As noted, household spending has proved resilient, rising 0.8% for a third successive quarter, with retail sales volumes gains equally healthy as consumer confidence remains at elevated levels. The high street battle for business has led to heavy discounting, benefiting consumer purchasing power but depressing nominal retail sales. The British Retail Consortium shop price index indicates that annual prices fell at an increased rate.

Consumer services nominal spending has been more consistent, as has the housing market. Mortgage approvals rose by an annualised 0.9% in October and, with excess demand, prices are likely to be pushed higher. The trade deficit did improve in September but widened significantly over Q3, from £3.5bn to £8.5bn. As a result, net trade wiped 1.5% from quarterly GDP growth, its greatest negative impact, which more than reversed the 1.3% it added in Q2. Q3 export volumes growth of 0.9% was dwarfed by the 5.5% seen in imports. While the November manufacturing PMI offers upbeat export orders' indications, other surveys remain weak. There are significant difficulties facing exporters with Sterling rising by 2.5% since the start of October on a trade weighted basis. Reducing Sterling prices has helped to reduce the impact on sales but margins cannot be squeezed indefinitely, or indeed further.

Strong employment gains in Q3 pulled the unemployment rate down to 5.3%, the lowest for nine years, though it remains above the all-time low of 4.7% seen in 2005. Underlying the headline figure is a less positive picture as part time work drove the job figure rise and

self-employment is picking up once more. Furthermore, the timelier claimant count unemployment measure pushed higher in October. Also less positive was the slowing of annual average earnings growth from 3.2% to 2.0% in September and output per worker has eased in Q3. However, hourly productivity rose by 0.6% q/q to back up the near 1% gain in Q2.

CPI of -0.1% m/m in October was the joint lowest since the 1960's but this is likely to be the last month of deflation as inflation should pick up as the sharp decline in petrol prices a year ago drop out of the calculations. More stable oil prices should limit further falls in petrol prices in coming months. Food prices should also add to the pot as the influence of previous falls in agricultural commodity prices and Sterling gains in the supply chain starts to wane.

Overall, analysts do not foresee inflation breaching BoE target levels in 2016. Monetary indicators point to the pace of recovery being maintained with annual money growth (M4) rising at 4.5% in October which would equate to annual real GDP growth of 2%. Lending has also picked up, driven by households, but corporate lending remained weak with growth having only just sneaked into positive territory. Small and Medium-sized Enterprises' (SME) lending has been stronger than that for larger firms and it has been smaller firms where subdued lending has been problematic as large firms have the benefit of being able to raise funds through bond issuance. Interest rate expectations have been pushed back further with markets looking as far ahead as the start of Q2 2017 for the first Bank Rate rise.

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## CYNGOR SIR POWYS COUNTY COUNCIL.

### Audit Committee 4<sup>th</sup> February 2016

**REPORT AUTHOR:** David Powell, Strategic Director – Resources (S151 Officer)

**SUBJECT:** Delegated Authority to Chair of Audit Committee

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**REPORT FOR:** Decision

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#### **1. Background and Summary**

- 1.1 Due to outstanding issues affecting the annual accounts for 2014/15 the Wales Audit Office has not been able to issue a certificate of completion.
- 1.2 Whilst the accounts have been closed and approved by the Audit Committee it will be necessary to re-approve the accounts given the time that has elapsed. This is a technical issue and gives assurance that the accounts are not being changed because the audit certificate was not provided in a timely manner after the accounts were approved.
- 1.3 It is anticipated that the unqualified opinion that the Wales Audit Office provided for the 2014/15 accounts will not change as an outcome of resolving the issues that were outstanding at the time of the accounts approval.

#### **2 Delegation of Re-approval of Accounts**

- 2.1 In order to make the process as effective and efficient as possible it is proposed that the Chair of the Audit Committee is given delegated authority for the re-approval of the accounts. The alternative would be to call an additional committee. However, in the unlikely event that the 2014/15 accounts were to change an additional committee meeting would be arranged.
- 2.2 This process of delegation would enable an efficient delivery of the certificate of completion by the Wales Audit Office.

<b>Recommendation:</b>	<b>Reason for Recommendation:</b>
The Audit Committee is asked to approve that the Chair of Audit Committee has delegated authority to re-approve the 2014/15 accounts.	In order for the Wales Audit Office to issue a certificate of completion for the 2014/15 accounts and to provide assurance that accounting entries have not changed.

<b>Relevant Policy (ies):</b>	N/A		
<b>Within Policy:</b>	Y / N	<b>Within Budget:</b>	Y / N

<b>Relevant Local Member(s):</b>	N/A
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<b>Person(s) To Implement Decision:</b>	N/A
<b>Date By When Decision To Be Implemented:</b>	N/A

<b>Contact Officer Name:</b>	<b>Tel:</b>	<b>Fax:</b>	<b>Email:</b>
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# Guidance for Local Elected Members

## Scrutiny of Local Authority Holding and Utilising of Reserves

January 2016



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## Foreword

In November 2014, I wrote to all Council Leaders in Wales asking for details of their holdings of reserves. I also asked for information on their strategies for holding and utilising reserves as well as details of engagement of, and scrutiny by, Elected Members.

I expect Authorities to have the appropriate arrangements in place for internal and external challenge. Such arrangements should ensure reserves are used in the best way to drive forward the transformation of services which is needed to place public services on a sustainable basis for the longer term.

An overview of the findings from the analysis of the information provided was summarised in my Written Statement in February 2015 on Reserves held by Local Authorities in Wales. Of most concern to me was the apparent lack of opportunity provided for Elected Members to engage in and scrutinise the use of reserves held by their Authority.

In my view, the existing guidance for Members to undertake effective budget scrutiny does not go far enough in supporting scrutiny of reserves. This publication has been issued to Members to support them in this, and brings together a number of different sources of information in one place, along with a guide to interpreting financial indicators.

**Leighton Andrews**  
**Minister for Public Services**



## Section 1: Scrutiny of Reserves

### The role of councillors

1. 'Raising the Stakes: financial scrutiny in challenging times' produced by the Centre for Public Scrutiny; sets out the need for financial scrutiny and the roles and responsibilities Councillors have to ensure their Council's finances are effectively managed, including the holding and use of reserves.
2. This note builds on that guidance, drawing upon other sources of data to allow Local Elected Members to satisfy themselves that decisions about holding and using reserves deliver best value for council tax payers.
3. Councillors have a fundamental democratic right, and a responsibility, to challenge officers about financial decisions. This provides council tax payers with confidence that such decisions are subject to the appropriate scrutiny and challenge.
4. It is the responsibility of each Chief Finance Officer / Finance Director to advise his or her Authority on the levels it should hold. Levels should be prudent and not excessive. In order to assess the adequacy of reserves, the chief finance officer should consider the strategic, operational and financial risks facing the Authority.
5. The many factors involved when considering adequate levels of reserves can only be assessed properly at a local level. A considerable degree of professional judgement is required. The chief finance officer may choose to express advice on the levels of reserves in cash and/or as a percentage of budget (to aid understanding) so long as that advice is tailored to the circumstances of the Authority.
6. The Local Authority Accounting Panel (LAAP) suggests the advice chief finance officers provide to members should be set in the context of the authority's risk register and medium term plans and should not focus exclusively on short-term considerations. Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short-term option. However, it is not normally prudent for reserves to be used to fund shortfalls in current funding.
7. Part of the risk management process involves taking appropriate action to mitigate or remove risks, where this is possible. It is important that members question whether this in turn may lead to a lower level of reserves being required. Where appropriate action to mitigate or remove risks has been successfully undertaken, it would also be appropriate to consider reducing the level of reserves to avoid unnecessary holding of reserves.

## The role of audit committees

8. As set out in 'Raising the stakes: financial scrutiny in challenging times'; Councils have a statutory duty to operate an audit committee. Whilst audit committees have responsibility for ensuring the authority has adequate financial controls and complies with proper practices within the legislative framework, it is the responsibility of every Councillor to provide comprehensive financial scrutiny.
9. Scrutiny should review policies and outcomes and challenge the executive about its actions to deliver policy goals. Audit committees should provide assurance about financial controls to mitigate key risks and that the council has effective financial management arrangements.

## Section 2: Definitions of Reserves

10. Local Authorities are responsible for ensuring they follow proper accounting practices. In relation to reserves the CPIFA *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) requires the Movement in Reserves Statement to be included as part of the local authority financial statements. This Statement presents the movement in the year of the reserves of the authority analysed into what is termed 'usable' and 'unusable' reserves.

### Unusable Reserves

11. Unusable reserves arise out of the interaction of legislation and proper accounting practice either to store revaluation gains or as adjustment accounts to reconcile accounting requirements driven by reporting standards to statutory requirements. These reserves, which are not resource-backed and cannot be used for any other purpose, are briefly described as follows.

### Revaluation Reserves

12. *Revaluation Reserve* – this is a reserve that records unrealised gains in the value of property, plant and equipment. The reserve increases when assets are revalued upwards, and decreases as assets are depreciated or when assets are revalued downwards or disposed of.

13. The *Available-for-Sale Financial Instruments Reserve* – this is a reserve that records unrealised revaluation gains arising from holding available-for-sale investments, plus any unrealised losses that have not arisen from impairment of the assets.

### Adjustment Accounts

14. The *Pensions Reserve* – this is a specific accounting mechanism used to reconcile the payments made for the year to various statutory pension schemes in accordance with those schemes' requirements and proper accounting practices.

15. The *Capital Adjustment Account* - this is a specific accounting mechanism used to reconcile the different rates at which assets are depreciated and financed under proper accounting practice.

16. The *Financial Instruments Adjustment Account* – this is a specific accounting mechanism used to reconcile the different rates at which gains and losses (such as premiums on the early repayment of debt) are recognised under proper accounting practice and are required by statute to be met from the General Fund.

17. The *Unequal Pay Back Pay Account* – this is a specific accounting mechanism used to reconcile the different rates at which payments in relation to compensation for previous unequal pay are recognised under proper accounting practice and are required by statute to be met from the General Fund.
18. Other such reserves may be created in future where developments in local authority accounting result in timing differences between the recognition of income and expenditure under proper accounting practice and under statute or regulation.

## Usable Reserves

19. Usable reserves are referred to as cash-backed reserves that can be used to fund future expenditure. Some reserves however will be subject to restrictions on their usage. These include Schools Reserves, Capital Grants Unapplied, Capital Receipts and Housing Revenue Account Reserves. A brief explanation of these different categories of reserves is provided below.

### **Schools Reserves**

20. These are unspent balances of budgets delegated by the local authority to individual schools. There are specific regulations to deal with school balances which include a provision that a Local Authority should require a statement from the governing body on what it plans to do with surplus funds when they exceed 5% of the school budget or £10k, whichever is the greatest.

21. When unspent balances held by schools exceed £50k for primary schools or £100k for secondary schools and special schools, a Local Authority is able to direct schools to spend balances. The authority may, if the governing body does not comply with such a direction, require it to pay all or part of the surplus to the authority. If recovered, the funding must remain within the authority's budget for schools and so can only be reallocated amongst schools.

### **Capital Grants Unapplied Reserve**

22. This account holds the grants and contributions received towards capital projects for which the authority has met the conditions set by the grant funding body. The funds will remain in this account until the expenditure to be funded by that grant has been incurred.

23. The funding will be restricted by the grant terms and conditions to be matched against eligible expenditure. It cannot be used to fund other expenditure or the authority could be required to pay the funding back.

### **Capital Receipts Reserves**

24. This account holds the proceeds from the sale of assets and in accordance with regulations; these funds can only be used for capital purposes.

### **Housing Revenue Account Reserves**

25. The Housing Revenue Account (HRA) is kept separate from other local authority income and expenditure streams, to ensure the council house rents are not used to subsidise general expenditure and prevent the general council tax payer

subsidising council housing. Therefore these funds set aside as reserves can only be used to fund expenditure relating to the HRA.

### **Unallocated / General Reserves**

26. This is a working balance to help cushion the impact of uneven cash flows to avoid unnecessary temporary borrowing and to provide a contingency to cushion the impact of unexpected events or emergencies.
27. There is no prescriptive guidance on minimum or maximum reserves. Section 26 of the Local Government Act 2003 gives Ministers in England and Wales a general power to set a minimum level of reserves for local authorities; however this has not been applied to authorities in Wales.
28. The Chartered Institute of Public Finance and Accounting (CIPFA), the main body supporting the local authority finance profession, advises that each Local Authority, on the advice of its finance director, should make its own judgements on such matters taking into account all the relevant local circumstances.
29. CIPFA issues regular bulletins to assist local authority practitioners to apply the requirements of the accounting codes. A bulletin issued in July 2014 provided advice on Local Authority Reserves and Balances. It reminded authorities of the legislative and regulatory framework and the role of the Chief Finance Officers in assessing the adequacy of reserves. The advice suggests that in assessing the adequacy of unallocated general reserves when setting the budget, the authority should take account of strategic, operational and financial risks facing it.
30. The Wales Audit Office report indicated that 50 percent of Local Authorities in Wales set minimum reserve levels in respect of their general fund balances. The majority of which do so in percentage terms typically ranging between three and five percent of net revenue expenditure. Those authorities who do set a minimum level indicate that, whilst only a guide, it helps in terms of reporting levels of general fund balances to Members and is only used as a benchmark indicator.
31. The Wales Audit Office suggest that Members should establish minimum levels annually, based on the strategic, operational and financial risks facing the authority on advice from the Chief Finance Officer.

### **Earmarked Reserves**

32. These reserves are a means of building up funds to meet known or predicted requirements. Earmarked reserves are accounted for separately but remain legally part of the General Fund.
33. Reviews completed by the Wales Audit Office in 2012 and more recently by the Welsh Government, identified varying levels of disclosure and clarity about the purpose, use and expected timing of earmarked reserves as part of their statutory

accounts. Given this is taxpayers' money, it is reasonable to expect authorities to provide sufficient information to assist readers of the accounts in interpreting these reserves.

34. Earmarked reserves common amongst local authorities include insurance reserves which have been set up to meet uninsured risks and mitigate the impact of potential claims. Self-insurance is a mechanism used by a number of authorities but the levels should be continually reviewed to ensure the amounts set aside are a realistic estimate based on sound rationale.
35. The Audit Commission in 'Striking a balance', suggested that any reserves held for purposes that are hard to predict should be based on an up-to-date risk assessment that reflects local circumstances. This will avoid tying up funds which may be used for other purposes or part of the general reserve.
36. Other common reserves include funding for PFI contracts, Invest to Save, redundancy schemes or specific capital programmes. One example of a capital programme is the 21<sup>st</sup> Century Schools programme to meet authorities' share of investments in building new schools.
37. The levels of usable reserves reported as part of the Whole of Government Accounts by local authority are routinely published on the Welsh Government website and can be found at:  
<http://gov.wales/topics/localgovernment/finandfunding/wholegovaccounts/publications/whole-government-accounts-reserves/?lang=en>
38. This information will allow comparisons to be made across all Local Authorities in Wales.

## Periodical Reviews of Reserves

39. It is important all councils undertake periodical good-quality review of reserves which considers:
  - the rationale for keeping each reserve, with reference to the council's future spending plans
  - the funds needed – including an expected minimum and maximum for risk-based reserves; and
  - how long reserves have been held, and projections for using them, which should then be monitored
40. Regular reviews are important given that councils which earmark reserves for spending that is uncertain – in timing or cost – risk holding more than necessary as the spending needs may never arise, or may cost less than the sum set aside.

## Protocols for the management of reserves

41. Due to the nature of the restrictions applied to the accounts detailed above there is limited opportunity to challenge the levels held by authorities in relation to these funds. Therefore the scrutiny role should place greater focus on general and earmarked reserves.
42. When reviewing their medium term financial plans and preparing their annual budgets, Local Authorities should consider the establishment and maintenance of reserves. Authorities have been encouraged to develop protocols for establishing, maintaining and discharging general and earmarked reserves to increase accountability and transparency for reserves.
43. As set out in 'Local Authority Reserves and Unsupported Borrowing – Research Paper for Welsh Government' commissioned from the Wales Audit Office in July 2012, such protocols include the contents shown as follows.

### *Contents of protocols for the management of reserves*

<b>Protocol for general reserves</b>	<b>Protocol for earmarked reserves</b>
<ul style="list-style-type: none"> <li>• Who is involved in decision making and review?</li> <li>• Who is responsible for ensuring decisions are implemented?</li> <li>• What risks need to be covered?</li> <li>• When will the general reserve be reviewed?</li> <li>• When to increase or decrease the general reserve?</li> <li>• How much will be held in general reserves?</li> <li>• How will information about general reserves be reported?</li> </ul>	<ul style="list-style-type: none"> <li>• Who is involved in decision making and review?</li> <li>• Who is responsible for ensuring decisions are implemented?</li> <li>• For what purposes earmarked reserves will be held?</li> <li>• What risks need to be covered when establishing, reviewing and utilising earmarked reserves?</li> <li>• When earmarked reserves will be established.</li> <li>• When earmarked reserves will be reviewed.</li> <li>• When to use or close an earmarked reserve.</li> <li>• When to replenish an earmarked reserve</li> <li>• How will information about reserves be reported?</li> </ul>



## Section 3: Financial Indicators – Reserves

44. The comparison of information on reserves across authorities can assist Councillors in their scrutiny function.
45. The Welsh Government publication ‘Local Authority Financial Indicators, Wales’ presents some key indicators including some on reserves which provide insights into the historic performance of authorities in Wales. The report makes clear these indicators are not intended to be measures of good or poor performance but to be used by Elected Members, taxpayers and auditors to allow benchmarking, scrutiny and challenge of authority finances.
46. This information can be found on the Welsh Government website at: <http://gov.wales/topics/localgovernment/finandfunding/wholegovaccounts/publications/local-authority-financial-indicators/?lang=en>
47. The financial indicators publication includes three indicators for the reserves of Local Authorities. These are;
- Usable reserves as a percentage of gross revenue expenditure,
  - Earmarked reserves as a percentage of gross revenue expenditure
  - General reserves days turnover.
48. These measure the level of funds authorities are retaining for future plans and unforeseen expenditure. A brief explanation of each of these indicators is set out below.

### Usable reserves as a percentage of gross revenue expenditure

49. This indicator measures the relationship between an authority’s usable reserves and its annual gross revenue expenditure. This excludes those reserves which are restricted for use by the authorities as indicated previously (ie. HRA balances, schools balances and capital grants unapplied). Those reserves included in the indicator are:
- General or Unallocated Reserves
  - Capital Receipts Reserves
  - Earmarked Reserves.
50. If an authority has a high percentage for this indicator, it suggests it holds high levels of reserves relative to its expenditure levels. The next two indicators provide an indication of whether this is a result of high levels of reserves being held for general or earmarked purposes, or both.

### **Earmarked Reserves as a percentage of gross revenue expenditure**

51. This measures the relationship between an authority's earmarked reserves and its annual gross revenue expenditure.
52. This could be an indication of reserves increasing proportionately more than gross revenue expenditure or vice versa.
53. Councils need to ensure that these reserves remain adequate for planned future needs and contingencies without placing undue constraints on current expenditure.
54. Councils with very high levels of earmarked reserves relative to their spending should review the purposes for which these are held to ensure they are still required. The purposes for holding reserves, particularly where reserves are increasing, should be clearly communicated in presentation to the Council and through the annual accounts.

### **General Reserves days turnover**

55. While the equivalent indicator for general reserves is also relevant, an alternative indicator is general reserves days' turnover. This indicator measures the number of days an authority would have financial cover if it needed to utilise solely general reserves to fund day to day expenditure.
56. General reserves are intended to provide a working balance to help cushion the impact of uneven cash flows and a contingency for unexpected emergencies. An authority with a substantial amount of days cover suggests the authority adopts a low-risk strategy by ensuring it has sufficient funds available to meet any immediate funding needs. An authority with a low number of days cover, suggests it adopts a higher risk strategy. This may be from choice or, possibly due to lack of other funds.
57. An authority which has a high value for these indicators suggests it would be quite well-buffered with funds in reserves. This means it should have little difficulty meeting short-term spending needs and would not need to resort to long-term borrowing to finance future investment projects unless it chooses to do so. In comparison, an authority which has low levels of reserves could potentially be dependent on long-term borrowing to fund expenditure as it does not have the fall back on reserves to meet future large-scale investment projects.

## Section 4: 'Striking a balance – Improving councils' decision making on reserves'

58. In December 2012, the Audit Commission issued a report 'Striking a balance – Improving councils' decision making on reserves'. This report presented findings from research undertaken during 2012 on the levels of reserves that councils held and on the decisions councils made relating to them.

59. This report contained a number of recommendations intended to help improve councils' decision making around reserves. The following is an extract from that report detailing the recommendations and questions to help Elected Members.

### Recommendations

60. To better assist Elected Members in their decision making, chief finance officers should provide them with:

- information showing the current level of reserves, relative to spending; how reserves have changed over time; and how reserves compare with those held by councils facing similar circumstances;
- details of the forward strategy for reserves needed to support the council's medium and long-term spending plans;
- information that shows clearly the interaction between the council's planned spending, income, movements on reserves and council tax;
- a clear summary of the financial risks facing the council; how it will mitigate these risks, including any contingency within the council's budget; and the minimum and maximum level of residual risk for which the council may need to hold funds in its reserves;
- an explanation of the purpose and level of any earmarked reserves, clarifying which are earmarked at the council's discretion and their expected timescale for use; and
- accurate forecasts, during the year, of variation from budget and the expected effect of over or underspending on reserves at the end of the financial year.

**Elected Members should:**

- request and make use of information that will enable them to assess the adequacy and necessity of reserves; monitor change in reserves over time, relative to spending; and understand how reserves compare with those held by councils facing similar circumstances;
- ensure that reserves held to protect against financial risks are set prudently; and are informed by an up-to-date, comprehensive risk assessment, which takes account of other risk mitigation measures, including any contingency within the council's budget;
- review the purpose, level, historic use and planned use of other reserves annually, to ensure they are still necessary to support medium and long-term spending plans;
- examine the causes of variation between planned and actual changes in reserves, especially where variations are large, or where in-year budget monitoring has not accurately forecast the year-end position on reserves;
- ensure the council provides clear information about the level of reserves and their purpose in published budget information as well as in their annual statement of accounts.

## Questions to help Elected Members

61. Elected Members are responsible for agreeing the level of reserves when setting the council's budget and for scrutinising unplanned movements on reserves when councils are closing their accounts.

62. The following questions are intended to help Elected Members gather information that will assist them in their decision making and scrutiny roles.

<b>How much is held in reserves</b>	
<p>1. How much does the council have in its reserves – in cash terms and relative to spending?</p> <ul style="list-style-type: none"> <li>How do total reserves compare with those held by councils facing similar circumstances?</li> </ul>	
<p>2. How have reserves changed in recent years – in cash terms and as a percentage of spending?</p> <ul style="list-style-type: none"> <li>How do changes compare with those made by councils facing similar circumstances?</li> </ul>	
<b>What reserves are held for</b>	
<p>3. What are the risks or future spending plans for which the council is holding reserves?</p>	
<p>4. What proportion of reserves is:</p> <ul style="list-style-type: none"> <li>Held to cover short-term financial risk?</li> <li>Held for medium and long-term risks or spending plans?</li> <li>Ring-fenced income that can only be used for specific purposes?</li> </ul>	
<p>5. Are the levels of the council's different reserves appropriate to the risks it faces and the scale of its future spending plans?</p>	
<p>6. How is the need for reserves determined?</p> <ul style="list-style-type: none"> <li>At what point(s) in the financial year is the need for reserves assessed?</li> <li>When was the need for reserves last assessed?</li> </ul>	

**Contingency funds**

7. Apart from reserves, what, if any, funds does the council hold, corporately or within service budgets, to provide protection against unplanned costs?

**The relationship between reserves and council tax**

8. Is the interaction between spending, income, movements on reserves and council tax clear to Elected Members and the public?

**Unplanned movements on reserves**

9. In each of the last three years, what difference has there been between the movements on reserves the council expected when setting its budget and the movements that occurred when closing the accounts (as a percentage of spending)?

- How much variation was the result of factors within the councils control?
- What can the council learn to improve the accuracy of future budget projections and financial management?
- Are any adjustments needed to correct unplanned movements on reserves?

**Information for decision making**

10. Does advice from the chief finance officer on the adequacy of reserves make clear what reserves are needed and why?

11. Do Elected Members need any additional support to make informed decisions on the level of reserves?

## References

1. Audit Commission 2012, ***Striking a balance, improving councils' decision making on reserves***
2. Centre for Public Scrutiny 2014, ***Raising the Stakes: financial scrutiny in challenging times.***
3. Wales Audit Office 2012, ***Local Authority Reserves and Unsupported Borrowing – Research paper for Welsh Government.***
4. CIPFA Local Authority Accounting Panel (LAAP) 2014, ***LAAP Bulletin 99, Local Authority Reserves and Balances.***
5. Leighton Andrews AM, Written Statement 2015, ***Reserves Held by Local Authorities in Wales***
6. Audit Commission 2014, ***Interpreting the accounts, a review of local government financial ratios 2007/08 to 2012/13***
7. Welsh Government 2015, ***Local Authority Financial Indicators, Wales***

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## Audit Committee

4 February 2016

### Finance Scrutiny Panel

**Purpose of Report:** Progress report

A series of meetings have been held throughout the budget process which culminated in a joint meeting with Cabinet and a report to the Member Budget Seminar on 18 December 2015.

The Panel awaits a formal response from Cabinet to their report.

As part of the ongoing review of committee structures, discussions will take place regarding the future role of the Finance Scrutiny Panel, and other Audit Working Groups.

**Report contact:** Lisa Richards, Legal, Scrutiny and Democratic Services

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**Sources/background papers:** Notes of meetings

**Group Members:** County Councillors J G Morris (Lead Member), A W Davies, D E Davies, S Davies, D R Jones, M J Jones, A G Thomas, D A Thomas, R G Thomas and Mr J Brautigam

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**AUDIT COMMITTEE****Work Programme 2015-16**

Chair Cllr John G Morris  
Vice Chair Mr John Brautigam

<b>4 February 2016</b>		
<b>Standard Items</b>		
<ul style="list-style-type: none"> <li>Minutes</li> <li>Joint Chairs Notes</li> <li>Work Programme</li> </ul>	9 November 2015 20 November 2015 & 22 January 2016	Lisa Richards “ “
<b>WAO</b>	Domiciliary Care Report Management Letter	Anthony Barrett, David Powell
<b>Treasury Management</b>	Q3	Ann Owen
<b>Risk Management</b>	Progress report	Caroline Evans
<b>Closure of Accounts</b>	Progress report	Jane Thomas
<b>Working Groups</b>		
<ul style="list-style-type: none"> <li>Finance and Performance</li> <li>Internal Audit</li> <li>Finance Scrutiny Panel</li> <li></li> </ul>	Summary report “ “ “	Lisa Richards
<b>Other:</b>		
<ul style="list-style-type: none"> <li><b>Corporate Assessment</b></li> <li><b>WG Guidance on scrutiny of reserves</b></li> </ul>	Requirements of Audit Committee Advice for elected Members	David Powell

<b>15 April 2016</b>		
<b>Standard Items</b>		
<ul style="list-style-type: none"> <li>Minutes</li> <li>Joint Chairs Notes</li> <li>Work Programme</li> </ul>	4 February 2016 18 March 2016	Lisa Richards “ “
<b>WAO</b>		
<b>Risk Management</b>	Progress Report	Caroline Evans
<b>Internal Audit</b>		Ian Halstead
<b>Closure of Accounts</b>	Progress Report	Jane Thomas
<b>Treasury Management</b>	Q4	Ann Owen
<b>Working Groups</b>		
<ul style="list-style-type: none"> <li></li> </ul>		Lisa Richards
<b>Other</b>		
<ul style="list-style-type: none"> <li><b>Commercial Services</b></li> </ul>	Half yearly review	Gail Jones

<b>11 May 2016 - AGM</b>		
<b>Election of Chair and Vice</b>		

<b>30 June 2016</b>		
<b>Election of Chair and Vice</b>		
<b>Standard Items</b> <ul style="list-style-type: none"> <li>• Minutes</li> <li>• Joint Chairs Notes</li> <li>• Work Programme</li> </ul>	15 April and 11 May 2016 13 May 2016	Lisa Richards “ “
<b>Draft Statement of Accounts</b> including Annual Governance Statement		
<b>Other</b>		

<b>7 July 2016</b>		
<b>Standard Items</b>		
<ul style="list-style-type: none"> <li>• Minutes</li> <li>• Joint Chairs Notes</li> <li>• Work Programme</li> </ul>	30 June 2016 13 May 2016	Lisa Richards “ “
<b>WAO</b>		
<b>Risk Management</b>	Progress Report	Caroline Evans
<b>Internal Audit</b>		Ian Halstead
<b>Closure of Accounts</b>	Progress Report	Jane Thomas
<b>Treasury Management</b>	Q1	Ann Owen
•		Lisa Richards
<b>Other</b>		

<b>30 September 2016</b>		
<b>Standard Items</b>		
<ul style="list-style-type: none"> <li>• Minutes</li> <li>• Joint Chairs Notes</li> <li>• Work Programme</li> </ul>	7 July 2016 15 July, 16 September 2016	Lisa Richards “ “
<b>Final Statement of Accounts etc</b>		
<b>Annual Improvement Report</b>		
<b>Risk Management</b>	Progress Report	Caroline Evans
<b>Internal Audit</b>		Ian Halstead
<b>Working Groups</b>		

<ul style="list-style-type: none"> <li>• Finance and Performance</li> <li>• Internal Audit</li> <li>• Finance Scrutiny Panel</li> <li>•</li> </ul>		Lisa Richards
<b>Other</b> <ul style="list-style-type: none"> <li>•</li> </ul>		

4 November 2016		
<b>Standard Items</b> <ul style="list-style-type: none"> <li>• Minutes</li> <li>• Joint Chairs Notes</li> <li>• Work Programme</li> </ul>	30 September 2016	Lisa Richards “ “
<b>WAO</b>		
<b>Risk Management</b>	Progress Report	Caroline Evans
<b>Internal Audit</b>		Ian Halstead
<b>Closure of Accounts</b>	Progress Report	Jane Thomas
<b>Treasury Management</b>	Q1	Ann Owen
<ul style="list-style-type: none"> <li>•</li> </ul>		Lisa Richards
<b>Other</b> <ul style="list-style-type: none"> <li>•</li> </ul>		

### Working Groups

**Finance and Performance:** Chair, Cllrs L Fitzpatrick, G Hopkins, T J Van Rees and Mr J Brautigam

**Internal Audit:** Chair, E R Davies, S C Davies, F ump, D Thomas and Mr J Brautigam

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# A14-2016

## MINUTES OF A MEETING OF THE JOINT CHAIRS AND VICE-CHAIRS STEERING GROUP HELD AT COMMITTEE ROOM A - COUNTY HALL, LLANDRINDOD WELLS, POWYS ON FRIDAY, 20 NOVEMBER 2015

### PRESENT:

County Councillors D R Jones, S C Davies, E M Jones and JG Morris

### In attendance:

Officers: Peter Jones (Professional Lead - Strategic Planning and Performance), Liz Patterson (Scrutiny Officer), Clive Pinney (Solicitor to the Council), Lisa Richards (Scrutiny Officer) and Wyn Richards (Scrutiny Manager and Head of Democratic Services)

<b>1.</b>	<b>APOLOGIES</b>	<b>JCSG1</b>
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John Brautigam, Paul Griffiths (Strategic Director – Place); Amanda Lewis (Strategic Director – People); Jeremy Patterson (Chief Executive), David Powell (Strategic Director – Resources).

<b>2.</b>	<b>DRAFT NOTES - FOR CONSIDERATION</b>	<b>JCSG2</b>
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#### Documents Considered:

- Draft Notes – 20<sup>th</sup> May, 2015

#### Issues Discussed:

- Item 2 – Service Improvement Plan Scrutiny – Of 156 comments made by scrutiny, 69% of the comments had been accepted and there was no change in response to 31% of the comments.
- Community benefits policy – it was noted that this was being considered at the Cabinet meeting on 24<sup>th</sup> November. Members requested an update on the current position.

#### Outcomes:

- Draft Notes were Noted.

<b>3.</b>	<b>DISCUSSION WITH THE CHIEF EXECUTIVE, STRATEGIC DIRECTOR / DIRECTOR REGARDING POTENTIAL SCRUTINY ITEMS.</b>	<b>JCSG3</b>
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#### Documents Considered:

- None

#### Issues Discussed:

- As the relevant officers had presented apologies for meeting the item was not discussed.

<b>4.</b>	<b>WAO ANNUAL IMPROVEMENT REPORT</b>	<b>JCSG4</b>
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#### Documents Considered:

- Wales Audit Office – Annual Improvement Report 2014-15 – August 2015

#### Issues Discussed:

- Corporately there were no recommendations forthcoming from the WAO report. The only recommendations attached to the report were those arising from national reports undertaken by the WAO. It appeared that the WAO were undertaking more national rather than local studies. The likelihood would be that the WAO would test the Council over the next 12 months on how it had reacted to national report recommendations.
- The timescale for the development of the tracker for performance monitoring which had been agreed with the Joint Chairs had slipped due to staffing efficiency savings and was being re-considered.
- Agenda page 19 – Recommendation P2 – it seemed that the WAO were expecting the Council to reduce budgets without compromising services. However it was clarified that this was not the case and the WAO were more likely to be interested in the Council's understanding of what could be delivered with a reduced financial package.
- Agenda page 46 – Staffing data – Members requested an explanation of the staffing data to assess whether the figures in the report were both accurate and up to date to 2015.
- Agenda page 19 – Recommendation P2 – question regarding the inclusion of service levels in Impact Assessments. It was clarified that it was up to the service to decide what is included in the assessment. The process of impact assessments had been tightened up based on last year's experience and emerging legislation. All the current budget proposals are subject to a single impact assessment, with the aim that these assessments would be updated over time.
- Assessments could also be added to the risk register as a means of tightening the process.
- Members expressed concern as to whether all last year's savings had both been identified and achieved. Concern was also expressed as to whether the Council would get to a point where it was only providing core services.
- Agenda page 19 – Recommendation P4 - the review of scrutiny following the national review needed to be updated as the Joint Chairs had previously felt that the document tried to achieve too much in too short a timescale and that it required re-prioritisation.
- It was recognised that the need to assess the impact of scrutiny was not very robust and would need to be improved.
- It was noted that reporting back from Cabinet to scrutiny required strengthening and it was suggested that the Democratic Services Committee be asked to consider this for inclusion in the Constitution.
- Details should also be included on the Cabinet Forward Work Programme of any forthcoming scrutiny reports which would be considered by the Cabinet.
- The Joint Chairs requested that a copy of the new Single Impact Assessment form be circulated. It was suggested that a percentage of these assessments would need to go through the scrutiny process and there would need to be a discussion at officer level as to how this was undertaken.
- Members expressed concern that there were difficulties being encountered by the Council in employing to part time jobs especially for jobs over 16 hours which would affect entitlement to benefits. It was suggested that the Employment Committee be asked to consider this matter.



**Outcomes:**

	<b>Action</b>	<b>Completion Date</b>	<b>Action By</b>
(i)	Recommended to the Democratic Services Committee that the Constitution be strengthened to improve the reporting back on scrutiny recommendations by the Cabinet.	01/16	WR
(ii)	That the Employment and Appeals Committee be asked to request a report regarding vacancies.	12/15	WR
(iii)	That a copy of the single impact assessment be circulated to the Joint Chairs.	12/15	WR / PJ

<b>5.</b>	<b>PERFORMANCE REPORTS</b>	<b>JCSG5</b>
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**Documents Considered:**

- None.

**Issues Discussed:**

- A referral from the Audit Committee – Finance and Performance Working Group was considered regarding the performance information currently provided to scrutiny.
- A number of concerns had been raised but as the Vice-Chair of the Audit Committee was not present who could present the detail, it was suggested that the item be deferred to the next meeting.
- It was suggested that the Finance and Performance Working Group should be looking at the quality of the process rather than detailed performance reports. It was also suggested that there was a need for better service improvement plans, so that there was not only a setting of objectives but also expected outcomes.

**Outcomes:**

	<b>Action</b>	<b>Completion Date</b>	<b>Action By</b>
(i)	That the item be deferred to the next meeting	22/01/16	WR
(ii)	That a meeting be convened between the Chair, Scrutiny Manager, and the Professional Lead – Strategic Planning and Performance prior to the next meeting.	22/01/16	WR / PJ

<b>6.</b>	<b>SOCIAL CARE</b>	<b>JCSG6</b>
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**Documents Considered:**

- None

**Issues Discussed:**

- Concerns were expressed by Adult Social Care relating to the multiple scrutiny of the service by the Audit Committee, the Internal Audit Working Group, the Finance Scrutiny Panel and the Adult Social Care Working Group.
- It was suggested that the Audit Committee should pass on its concerns to the scrutiny group or that greater cooperation should be undertaken between the Audit and People Scrutiny Committee and their groups. This

had been tried in the past but had had limited success as each group have different terms of reference and come to a joint group with different levels of knowledge.

- It was suggested that scrutiny was looking at issues from different perspectives and a more holistic view was required to better co-ordinate work and ensure that services are subject to the appropriate levels of scrutiny.

**Outcomes:**

- **Noted.**

<b>7.</b>	<b>COMPOSITION OF SCRUTINY COMMITTEES</b>	<b>JCSG7</b>
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**Documents Considered:**

- None.

**Issues Discussed:**

- The Joint Chairs was asked to consider the composition of the Council's scrutiny committees arising from a budget line in the current draft budget which required the Council to reduce the cost of committees.
- This had been considered at a recent meeting of the Audit Committee, and that committee felt that as a minimum every Member should sit on at least one committee.
- The meeting noted that the responsibilities of scrutiny was continually changing and being increased e.g. recent addition of school scrutiny by Estyn.
- Members considered that the Council needs to consider why committees are needed and then how many it needed. It was further suggested that as a starting point there should be a discussion of this matter by group leaders.
- The questionnaires sent to Councillors in 2012 should be revisited to see whether Members' time preferences for meetings had changed. Consideration should also be given to which Members did not attend meetings.
- It was questioned whether scrutiny should be undertaking more of a social research role rather than looking at day to day operation of services.
- It was acknowledged that the Council needed to work differently and that the committee structure needed to change to reflect this.

**Outcomes:**

	<b>Action</b>	<b>Completion Date</b>	<b>Action By</b>
(i)	<b>That the group leaders consider the composition of Council committees</b>		<b>WR</b>
(ii)	<b>That changes need to be in place before May 2017 at the latest. However changes should be made as soon as possible.</b>		
(iii)	<b>That the questionnaire should be re-sent to Members seeking their views about the timing of meetings.</b>		<b>WR</b>

<b>8.</b>	<b>UPDATE - REVIEWS IN PROGRESS</b>	<b>JCSG8</b>
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**Documents Considered:**

- Update on current reviews in progress

**Issues Discussed:**

- Some of the items considered in the previous notes were not included in the update (minute item 3). However it was noted that some of these items had been picked up within the current workload by Working Groups.
- It was suggested that the Working Groups should feed back to the Joint Chairs identifying any issues or blockages to get their work completed.

**Outcomes:**

	<b>Action</b>	<b>Completion Date</b>	<b>Action By</b>
(i)	<b>Chairs of committees to report back to the next meeting on where there are issues being faced by Working groups.</b>		

<b>9.</b>	<b>WORK PROGRAMME</b>	<b>JCSG9</b>
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**Documents Considered:**

- Work Programme for 2015-16

**Issues Discussed:**

- None

**Outcomes:**

- **Noted.**

<b>10.</b>	<b>DATES OF NEXT MEETINGS - FOR INFORMATION</b>	<b>JCSG10</b>
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- 22<sup>nd</sup> January, 2016
- 18<sup>th</sup> March, 2016
- 13<sup>th</sup> May, 2016
- 15<sup>th</sup> July, 2016
- 16<sup>th</sup> September, 2016
- 25<sup>th</sup> November, 2016

<b>11.</b>	<b>DRAFT NOTES OF PREVIOUS MEETING(S)</b>	<b>JCSG11</b>
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**Documents Considered:**

- 11<sup>th</sup> June, 2015
- 24<sup>th</sup> September, 2015

**Issues Discussed:**

- None.

**Outcomes:**

- **Noted.**

<b>12.</b>	<b>LSB DATES - FOR INFORMATION</b>	<b>JCSG12</b>
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- 3<sup>rd</sup> December, 2015
- 10<sup>th</sup> March, 2016
- 9<sup>th</sup> June, 2016

- 22<sup>nd</sup> September, 2016
- 1<sup>st</sup> December, 2016

<b>13.</b>	<b>LSB SCRUTINY COMMITTEE</b>	<b>JCSG13</b>
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**Documents Considered:**

- None

**Issues Discussed:**

- It was reported that the current position on appointments to the LSB Scrutiny Committee is as follows:
  - Powys Local Health Board – appointment under discussion.
  - Powys Community Health Council – appointment under discussion.
  - Police and Crime Commissioner – declined offer at present but will review at a later date.
  - PAVO – Vice-Chair appointed – Mr Martin Nosworthy.

**Outcomes:**

- **Noted.**

**County Councillor J.G. Morris  
Chair**