

CYNGOR SIR POWYS COUNTY COUNCIL.

21st February 2019

REPORT AUTHOR: David Powell, Acting Deputy Chief Executive (Section 151 Officer)

SUBJECT: Section 151 Officer's Personal Statement on the 2019/20 budget

REPORT FOR: Information

1. Purpose

- 1.1. This document lays out the approach adopted to meet the requirements of the Section 151 Officer's personal statement on the 2019/20 budget.
- 1.2. The note covers the process setting the budget; the background as well as risks and factors shaping the conclusion reached by the Section 151 Officer.

2. Background

- 1.1. The Local Government Act 2003 requires an authority's Section 151 Officer to give a formal opinion about the robustness of the budget estimates; it also requires the Section 151 Officer to comment on the level of reserves.
- 1.2. Under Section 26 of the 2003 Act, it is not considered appropriate for the balance of the Council's General Fund Reserves to be less than the maximum amount determined by an appropriate person. For Powys, this is the Deputy Chief Executive (Section 151 Officer).

3. Context

- 1.3. The Welsh Government's Final Settlement was received on 19 December 2018. The Aggregate External Finance (AEF) figure for Powys was £174.291m; a reduction of 0.3% in grant after adjusting for grant transfers.
- 1.4. Throughout the planning process the Section 151 Officer, supported by the Head of Financial Services and Portfolio Holder, has ensured Cabinet and Management Team have been aware of the likely reduction in funding. In addition there has been a clear message about the role that Council Tax can play to meet the funding 'gap' and ensure on-going funding for financial stability and resilience.
- 1.5. The position that the council finds itself in also has an impact on the council tax level built into the budget. There is little doubt that even without the issues arising from a

'Poor' rated Children's Services inspection and the concerns raised around Adults Services there would be a need to rebalance the budget to meet the impact of increasing demand for social care.

- 1.6. Between 2009 and 2018 the population trends in the over 65 population (as a share of overall population) in Powys rose from 22% to just under 27%. This trend will continue and the importance of having a significant element of base funding from council tax is clear if this element becomes an increasingly important part of the Council's overall funding. Going forward local government spending in Wales will not recover to 2010/11 levels in real terms until 2023/24. Per capita expenditure will remain well below this level.
- 1.7. The Welsh Government has also indicated that decision-making around the level of council tax clearly rests with an individual Council. It is a matter for each council to determine the level of increase that is appropriate to meet service pressures and priorities. In fact it could be viewed that there is an expectation that councils will set the level of increase required by their own circumstances. This is especially true of Powys given the need to improve services following a 'Poor' rated inspection and shortcomings elsewhere at a time when the Council must demonstrate improvement and the capacity to deliver this requirement. The significant degree of Welsh Government interest, Ministerial oversight and the involvement of the Improvement and Assurance Board means that the budget and the approach to the level of council tax level plays a role when seeking to provide confidence and assurance to both regulators and government about the commitment to fund improvements.

4. Budget Planning

- 1.1. The scale of the financial challenge met with a good, supportive response from the Cabinet and Management Team. This saw 2019/20 budget preparations commence in a timely manner immediately after the 2018/19 budget was set.
- 1.2. The approach has also benefitted from addressing the Wales Audit Office Annual Audit letter's statutory recommendation that stated:

"The Council must act immediately to update its Medium Term Financial Strategy to enable the Council to live within its means going forward. In setting a balanced budget, the Council must ensure that all savings plans are sufficiently well developed for inclusion in the annual budget."

This was responded to with the following measures:

- a. The development of individual and service Financial Resource Models that detail and capture financial issues affecting services; this approach has meant directorates can develop and manage their own financial strategies as well as informing the Corporate position. In effect, a 'no surprises' approach has been adopted, enabling all potential pressures to be brought forward.
- b. The preparation for the 2019/20 budget has seen an unprecedented process involving Cabinet, Council and EMT events. Key events have tested pressures,

savings and funding assumptions; a list of events at which the budget was subject to detailed work or covered in routine agendas (EMT) is detailed in Appendix A.

- c. A Budget Assurance Panel was established, comprising the Chief Executive, Section 151 Officer, Head of Financial Services, and the Portfolio Holder for Finance. Each Head of Service delivered their proposal to the Panel. The Panel was set up to enable the Council and Statutory Officer to sign-off the budget with confidence.
- d. A budget review saw the removal of £2.2m of undelivered savings in Children's Services and £1.7m of undelivered income and cost reduction savings representing the residue of an overall programme set up in 2014. These savings were in the 2018/19 base budget and will not feature from 2019/20 onwards. If these had been removed in 2018/19 budget process the Council would (as of December 2018) be projecting an underspend.

5. Development of the 2019/20 Budget

1.3. The initial budget 'gap' was identified as £17.179m. The process to develop and deliver the 2019/20 budget commenced in April 2018 and featured the following:

- Services were required to develop proposals for a target of 21% reduction followed by 25% reductions for the next 2 years;
- No reduction for Social Services but later a £1m reduction for Adults Services was included because of the significant projected 2018/19 underspend;
- A review of key areas that had not met previous years' savings targets; this meant the removal of £1.7m from the Income and Cost Improvement programme, and £2.2m savings from Children's Services;
- The 2019/20 budget also addresses the significant use of reserves and other one – off measures in the 2018/19 budget. The necessary late change to the 2018/19 budget put additional funding into the budget for issues arising from the Children's Services inspection outcome that had required significant additional resources at a late stage in the 2018/19 budget process. At the same time additional funding was also put into Adults Services; and
- Other pressures agreed to be covered were inflation; Pension Fund deficit; Additional Schools Delegated Funding; Capital Financing; Council Tax Reduction Scheme and Holiday Pay Directive.

1.4. In order to set the budget, the following areas were subject to specific reviews:

- Grants to Third Party Organisations
- Redundancy Policy
- Children and Young People Partnership
- Assets, including Disposal Policy
- Funding for Transformation
- Capital Financing

6. Social Services and Budget Setting

- 1.5.** Social Services represents the biggest risk in 2019/20 and the most challenging area when signing off the budget. This risk is both in terms of the delivery of transformation as well as how to deal with the potential 'gap' between base budget and possible levels of expenditure.
- 1.6.** Social Services will continue to experience pressure for services as a result of demographic changes and general service pressures. Some of this pressure comes from the response to the 'Poor' rated Children's Services inspection report and the consequent and continuing improvement journey.
- 1.7.** There is still varying levels of volatility within the Children Services and Adult Services budgets. Whilst some of the pressures outlined by the Services are potential pressures (and mitigation has been developed) there is little doubt that some pressures will require additional financial support. The approach adopted as part of the budget seeks to ensure adequate 'cover' is in place to allow for any overspend. In an ideal world this would be reflected in the base budget but the level of savings required and the current transformation stage in Social Services (and the Council) has led to an approach accepting that not all potential risks will be covered by base budget. Instead an element of risk is accepted and supported by a budget strategy that puts an additional £2.5m in reserves to cover this issue and also removes £2.2m of unachieved savings in Children's Services.
- 1.8.** The link with the Reserves position is crucial because the Services continue to look for financial mitigation within their budget areas. However, this work does not (yet) cover the full gap and further transformation of service delivery is required. The savings proposals put forward to date are credible and appropriate.
- 1.9.** The Children's Services position in one scenario assumes a further £1m growth in Children Looked After (CLA) due to an assumption about increased numbers; this is an estimate put forward by the service. In Adults Services the outcome of the ceasing of the contract for residential homes is likely to lead to additional costs and it is appropriate that balances are available to support the position. The inflationary increase for providers is not yet determined and the service estimates this may range from a maximum of £2.9m additional cost to a negotiated nil increase.
- 1.10.** It is important to be clear about the potential unfunded level of Social Care. The overall total cannot be determined with absolute accuracy but may range from a worst case scenario of £7.97m to a best case scenario of £2.95m.
- 1.11.** The range and on-going mitigation means that there must be 'cover' in place and this is provided by the reserves outlined in the next section. The amounts available to meet Social Services pressures are in reality within the overall £13.438m corporate reserves anticipated at 1st April 2019. Within the £13.438m total the first 'draw' would be on the Budget Management Reserve and the Adult Social Care Reserve; these will total £6.33m. The clear expectation is that Social Services will be first for consideration when using these reserves with the rest of the council continuing to manage within budget as has been the case in all recent years.

7. Reserves

- 1.12. The Council carries out an annual reserves assessment and operates a policy of holding a minimum level of 3% (£5.1m) for its General Fund Reserve.
- 1.13. As of the end of December 2018, the Council's overall projected level of reserves at the end of the 2018/19 financial year is £21.528m (excluding HRA). This includes specific reserves.
- 1.14. Within the £21.528m total, the General Fund Reserve is projected to be £6.608m at the end of March 2019. This is after allowing for a projected £3.072m overspend in 2018/19 (as of December). There is also an Adult Social Care Reserve of £746k and in 2018/19 the Budget Management Reserve is £3.584m.
- 1.15. Other corporate reserves are also in place; £2.357m for Job Evaluation and a reserve of £1.114m for Invest to Save. If required these could be re-designated and this is particularly true of the Job Evaluation Reserve given that it is increasingly less likely it will be required for the original purpose.
- 1.16. The draft 2019/20 budget strategy agreed by Cabinet includes an additional £2m for the Budget Management Reserve and £500k for the General Fund. The following table shows the anticipated Corporate Reserves position as at 01 April 2019. The position allows for a projected £3.072m revenue budget overspend as of end December 2018:

Corporate Reserves

| | Closing 18/19 (£million) | Additions to Reserves (£million) | Total 19/20 (£million) |
|---|---|---|---------------------------------------|
| General Fund | 6.608 | 0.500 | 7.108 |
| Budget Management Reserve | 3.584 | 2.000 | 5.584 |
| Adult Social Care | 0.746 | - | 0.746 |
| | | | |
| Total | 10.938 | 2.500 | 13.438 |
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| | | | |
| N.B. The General Fund 18/19 total of £6.608m is after allowing for a projected £3.072m overspend in 18/19 | | | |
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- 1.17. The above shows that the General Fund, Budget Management Reserve and Adult Social Care Reserve will total £13.438m on 01 April 2019. This is after the additional £2.5m as part of the 2019/20 budget strategy.

- 1.18. The overall reserves position, coupled with the commitment to add £2.5m as part of the 2019/20 budget, is a factor in reaching a conclusion about the robustness of the overall budget.

8. CIPFA Assessment

8.1 The Council commissioned CIPFA to provide an independent review to assist in the assessment of how the Council has developed its budget proposals in line with the requirements of the Local Government Act 2003.

Based on the work CIPFA carried out they concluded:

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

Summary

- A comprehensive and inclusive 2019/20 budget process has seen a good level of ownership and engagement both within EMT and Cabinet
- Individual Finance Resource Models have provided greater awareness and visibility of services' financial risk to support a 'no surprises' approach to financial planning
- A new management team in social services and the emphasis on transformation in the new council structure will also help mitigate the financial position
- The risks facing Social Services are known and understood. Some of the potential pressures are not able to be accurately quantified (for example the precise level of inflation increase for providers). However, the level of Reserves will support a potential pressure
- Work has commenced within social services to mitigate specific financial risks; a good start has been made
- The reserves are reasonable; £13.4m of corporate reserves will be in place on 1st April 2019 and this coupled with the process to date means the budget can be signed off by the S151 Officer

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APPENDIX 1: List of Budget Related Events

April 10 2018 – Cabinet (Financial Overview, and Capital)
April 11 2018 – EMT
April 12 2018 – PCC Leadership Conference
April 18 2018 - EMT
May 01 2018 – Cabinet Panel to Examine Savings Proposals
May 02 2018 – EMT
May 02 2018 – Budget Panel
May 08 2018 – Cabinet / Management Team (Outturn Report, Capital)
May 09 2018 – EMT
May 15 2018 – Cabinet Budget Panel
May 16 2018 – EMT
May 16 2018 – EMT, HoS, Senior Managers, and Professional Leads
May 23 2018 – EMT
June 05 2018 – Cabinet / Management Team (Financial Outturn, Capital, Schools, Rates)
June 06 2018 – EMT
June 12 2018 – EMT Session re: 2018/19 Budget
June 13 2018 – EMT / HoS
June 19 2018 – Cabinet (Capital, Schools)
June 19 2018 – EMT Dedicated Budget Session
June 20 2018 – EMT
June 26 2018 – Cabinet / Management Team
June 26 2018 – Cabinet Budget Session
June 27 2018 – EMT Away Session
July 10 2018 – Cabinet (Capital)
July 10 2018 – Budget Session with Cabinet
July 25 2018 – EMT
July 31 2018 – Cabinet (Scrutiny Observations to Cabinet on Children’s Services Budget)
July 31 2018 - Social Services Budget Workshop
August 01 2018 – EMT
August 08 2018 – EMT
August 09 2018 – Cabinet / Management Team (Budget, ASC Outturn)
August 16 2018 – Workshop with WAO: Review of Powys County Council's Organisational Transformation and Efficiency Programmes (Making It Happen Board Members)
August 20 2018 – Informal Meeting with Cabinet
August 22 2018 – EMT
September 03 2018 – Interview with WAO: Review of Organisational Transformation and Efficiency Savings
September 04 2018 – Cabinet / Management Team
September 05 2018 – EMT
September 05 2018 – Improvement and Assurance Board
September 11 2018 – Cabinet Budget Workshop
September 19 2018 – EMT
September 21 2018 – S151 and deputy S151 Officer Budget Catch-Up
September 25 2018 – Cabinet / Management Team (Financial Overview, Capital)
September 26 2018 – EMT
September 26 2018 – Improvement and Assurance Board
September 27 2018 – S151 and deputy S151 Officer Budget Catch-Up

October 09 2018 – Cabinet Budget Workshop
 October 10 2018 – EMT
 October 15 2018 – Budget RMT Meeting
 October 16 2018 – Cabinet / Management Team (Budget Outturn, Capital)
 October 16 2018 – EMT Budget Session
 October 24 2018 – Audit Committee and Finance Scrutiny Panel
 October 30 2018 – Cabinet Budget Workshop
 November 06 2018 – Cabinet (Financial Overview)
 November 13 2018 – Cabinet / Management Team (Financial Overview, Council Tax)
 November 14 2018 – Savings Panel (Environment)
 November 15 2018 – PCC Leadership Seminar
 November 20 2018 – Budget Session for Members
 November 27 2018 – Savings Panel (Resources)
 December 12 2018 – Council Budget Seminar
 December 13 2018 – Finance Scrutiny Panel (budget scrutiny)
 December 17 2018 – Savings Panel (Social Services)
 December 18 2018 – Cabinet Budget Workshop
 December 20 2018 – Cabinet Workshop on Schools Funding
 January 02 2019 - EMT
 January 03 2019 – Council Budget Seminar
 January 04 2019 – Corporate Financial Review Panel
 January 04 2019 – Cabinet Budget Seminar
 January 08 2019 – Cabinet / Management Team (Budget Outturn, Capital)
 January 09 2019 – CIPFA Budget Assessment
 January 10 2019 – Corporate Financial Review Panel
 January 14 2019 – Corporate Financial Review Panel
 January 15 2019 – 2019/20 Budget Assurance Requirements for Social Services
 January 15 2019 – Cabinet (Financial Overview, Capital)
 January 16 2019 – EMT
 January 16 2019 – EMT / HoS Budget Session
 January 18 2019 – Cabinet / EMT Budget Meeting
 January 22 2019 – Corporate Finance Review Panel
 January 22 2019 – Budget 19/20, Joint Group meeting
 January 23 2019 – Finance Review Panel
 January 23 2019 - Meeting to Discuss Resources Directorate 2019/20 Pressures
 January 24 2019 – County Council Budget Seminar
 January 28 2019 – Corporate Financial Review Panel
 January 29 2019 – Cabinet / Management Team
 February 05 2019 – Finance Scrutiny Panel
 March 15 2019 – Corporate Financial Review

The above excludes the monthly Improvement and Assurance Board that received regular budget/financial updates