

# Public Document Pack

Finance Panel – 29-07-2022

## MINUTES OF A MEETING OF THE FINANCE PANEL HELD AT BY ZOOM ON FRIDAY, 29 JULY 2022

### PRESENT:

County Councillors T Colbert, A Kennerley, E A Jones, P Lewington, J Pugh,  
E Vaughan, A W Davies, and C Walsh  
Independent Member: G Hall.

Cabinet Portfolio Holders In Attendance: County Councillor D. Thomas (Cabinet  
Member for Finance and Corporate Transformation)

Officers: Wyn Richards (Scrutiny Manager and Head of Democratic Services) and  
Jane Thomas (Head of Finance)

### 1. APOLOGIES

An apology for absence was received from County Councillor A Cartwright.

### 2. ELECTION OF CHAIR

**RESOLVED** that County Councillor A Davies be elected Chair for the  
ensuing year.

### 3. ELECTION OF VICE-CHAIR

**RESOLVED** that County Councillor P Lewington be elected Vice-Chair for  
the ensuing year.

### 4. MINUTES

The Panel received the minutes of the meeting held on 14 February 2022.

### 5. REVENUE REPORT - QUARTER 1

#### Documents Considered:

- Report of the Cabinet Member for Finance and Corporate Transformation  
– Revenue Report – Quarter 1.

#### Issues Discussed:

- The report provides the projected out-turn for the revenue budget for  
2022-23, based on the position at the end of June 2022. Following the  
proposed use of £3.8 million of specific reserves a deficit of £1.014 million  
is projected. Appendices A and B provide the financial position for each  
service together with commentary from Heads of Service.
- The projections are broken down into categories covering cost pressures,  
cost underspends, cost reductions and proposed use of reserves.
- The use of reserves includes the call on specific reserves set aside at the  
end of the last year to meet projected pressures this year, and pressures  
identified as risk through the budget setting process. These relate to  
ongoing Covid costs, rising costs due to the situation in Ukraine and  
inflation. These costs will be funded from the £2million revenue risk  
budget.

- The remaining overall deficit would also require funding from the Council's revenue reserves if realised.
- Cost reductions of £8.072million were approved as part of the Council's budget. Undelivered savings from 2021-22 have been rolled forward into the current year and the total to be achieved in 2022-23 is £10,855 million.
- 27% or £2.886million of the cost reductions have already been delivered and a further 42% or £4.541million are assured of delivery by the Service. Heads of Service are identifying that £3.428million of cost reductions are unachieved and are at risk of delivery during the year. Heads of Service will need to consider what mitigating action to take to deliver within their budget.
- Revenue reserves at the beginning of the year were £63.782million with a general reserve of £9.333 million.
- Grants for Education and for Children's Services are set out in the report as are virements for Cabinet approval.
- A number of financial risks are set out in the report. The Council achieved an underspend in last year's out-turn due to additional funding received from Welsh Government. That level of additional funding is not expected for the current financial year.
- The projected deficit demonstrates the pressures due to Covid, the Ukrainian crisis and inflation and the call on reserves is likely to increase throughout the year.
- Rising energy and fuel costs are impacting on the Council with contractors raising concerns with the Council. The greatest risk is to deliver a balanced budget over the medium and longer term. The original modelling showed a budget gap of £14million up to 2027, but this is now likely to be significantly higher as assumptions and key pressures are reassessed in line with the current economic factors and the impact these are having on the Council. The Medium Term Financial Strategy (MTFS) is being reviewed and will be considered by Cabinet and Council in September.
- The Head of Finance indicated that whilst this is the Quarter 1 report the forecast is for the full financial year.
- Questions:

Question	Response
<p>Cost reductions – there are a number of services of concern such as Children's Services and Highways, Transport and Recycling. It is too early in the year to draw the conclusion that some of the cost reductions not achievable. The reasoning is set out in Appendix B. How soon after the budget was set did services respond to say that cost reductions were not deliverable. It is a pattern that has been seen over a number of previous years.</p> <p>When has the Cabinet asked for a response from Services.</p>	<p>Officer Comment: The Cabinet in reviewing the report felt that the commentary from Heads of Service should be much stronger about what services are doing to manage cost reductions and action to be taken to deliver the Service within the budget allocated. There will therefore be a greater degree of challenge through the performance reviews.</p> <p>Cabinet Member Comment: Services saying that they cannot deliver savings already in Quarter 1 does raise questions about the IBP (Integrated Business Planning) process and what is included in the FRM (Finance Resource</p>

	<p>Model). The Cabinet in respect of Children’s Services would like a response before the end of Quarter 2, and from other Services by the end of Quarter 2 at the latest.</p>
<p>The Council is continually asking Services to make reductions. None of the services come back and say that they cannot deliver a service any more, and that is not acceptable. It would be useful for new Members to understand how much the Council has reduced budgets over the last 10 to 15 years.</p> <p>It would be helpful for the Panel to see something from the Heads of Service to say that they are unable to deliver elements of a service any longer as they are currently delivered, and what could not be delivered to the required standard.</p> <p>Once you have a budget and understand what is being delivered as a service, there is a point when you can no longer deliver that service due to constraints. Those delivering services must know that point where they cannot deliver a service any longer because if you do not know that point then you cannot introduce protocols and fail safes. The Council needs these things in place to know when a service will fail.</p>	<p>Officer Comment: This is difficult as we are not delivering a certain thing but delivering a service which is affected by demand pressures during the year.</p> <p>The IBPs which services produce every year indicate how the service can deliver that service at what cost and this is based on a degree of choice. This is the discussion which takes place with services as the budget is developed. What can be assumed when the budget is set is that the service as defined can be delivered within that sum of money. As that changes it will need to be reflected upon during the year.</p> <p>Similarly with Children’s Services it is difficult to assess the level of demand for services during a year. This is based on a number of assumptions but until you know the individual level of support required for each child it is difficult to determine the level of budget required.</p> <p>Once produced, the IBPs are then challenged and decisions are taken collectively across the Council as to what are the priorities and what level of service can be accommodated.</p> <p>Cabinet Member Comment: Cost pressures are added to the budget and identified through the IBPs. Changes in the way services are delivered should be delivering the cost reductions. If Heads of Service cannot make savings they need a fall back position and need to look at alternatives as the budget has already been set which includes the cost reduction requirements.</p>
<p>The Children’s Services base budget was low originally but it has almost doubled in the years following the inspection. Whilst Children’s Services across the UK are struggling due to the</p>	<p>Officer Comment: In relation to benchmarking we are getting to a stage when we can start to pull this information together. The demands on Children’s Services has</p>

<p>pressures post Covid, that is a significant increase in budget. However, it would be interesting to compare figures with other comparable Councils in Wales to see in Powys' costs are comparable or higher than other authorities, for example for agency staff.</p>	<p>increased across Wales but the key question to ask ourselves is what is the cost of delivering our services and where are we by comparison to others, and if we are more expensive than others understanding the circumstances why is this the case. Cabinet has asked to focus this work on Children's Services due to the ongoing pressures.</p>
<p>Table 2 – it would be useful to see where services have come from and what major changes have been required to stay within their budget. Table 2 sets out all services' cost reductions. The largest unachieved cost reductions relate to Childrens Services and Highways Transport and Recycling. The appendix seems to amalgamate into one the cost savings not met and those unassured so it is difficult to differentiate between the two items. What seems to be missing is comment from the Head of Service indicating that these cost reductions that are unachieved or unachievable. Where are the planned savings being discussed, how far are the Heads of Service from achieving their savings and why is that.</p>	<p>Officer Comment: In relation to Table 2 (Childrens Services) – where it shows the cost reductions unachieved this figure includes the elements that are unachieved and are at risk of delivery in year. Later in Appendix A is the detail of those cost reductions not yet delivered but which are assured, which can be reflected in the budget position at year end, and the remainder is what is now being stated as cannot be delivered.  The format of the table can be reviewed to make this clearer to the Panel. There is also a need to improve the commentary from the Head of Service as currently it does not provide the detail which members are asking for.</p>
<p>How cost reductions are identified has been raised previously, and it is assumed that they are discussed with the relevant Head of Service who agreed them. If they have been agreed would there not be an action plan as to how the Head of Service is going to achieve the saving.  In terms of cost pressures for the placement of children in local authority care – are these placements outside Powys.  Have the cost of agencies which have been identified as cost pressures been taken away from the cost underspends due to vacancies.  With current vacancies for social workers it will take about three months to fill these roles which will add to agency costs. In relation to benchmarking do we use Internal Audit to benchmark costs and good practice.</p>	<p>Officer Comment: Historically the Council set targets for savings which were imposed on services but have moved away from that method. Heads of Service are now asked to identify cost reductions and then a discussion is held as to whether this is possible and the impact on the service. Proposals are reviewed and challenged by the Cabinet and Council as part of budget setting to give an appropriate level of assurance that the cost reductions can be achieved. The Head of Finance also has to take this into account in advising the Council whether the budget is robust or not. Sometimes things change such as Services having to react to the pandemic rather than undertaking business as usual which meant that they could not deliver the reductions.  This is what needs to be included in the commentary and how services will react to those changes.</p>

	<p>Any underspends and cost pressures are offset against other costs to reach the year end forecast for the service. Vacancies would be identified as an underspend as well as the relevant cost pressure of agency staff.</p> <p>In relation to vacancies and agency costs there is a lead in time to get people into post and this is factored into the forecast.</p> <p>Internal audit did undertake a review of the budget management in Childrens Services in 2021 and did not raise any major issues and felt that most practices were being fulfilled. The accountants are working with the service currently on the benchmarking data which will start to identify the costs. The Audit Team has not been involved in reviewing best practice to date. Benchmarking data is going to be key, especially where other authorities are delivering services at a lower cost than Powys so we can understand why this is the case.</p> <p>Cabinet Member Comment: With regard to the impact of Covid there were significant undelivered savings in the out-turn 2021-22. The reason for that was accepted as Covid. However in quarter 1 of the current budget for a Service identifying that it cannot deliver £1.6m of savings which was identified some months ago is concerning.</p> <p>In relation to placement costs Childrens Services have been proactive in procuring properties in which to support children which will provide the ability to bring children back into county and will provide a saving for the service.</p>
<p>In relation to the cost pressure of £399k additional placement costs, is this for additional children needing to be placed or more complex packages as the numbers of placements were relatively stable.</p>	<p>Officer Comment: This is a mixture of both as some placements are more costly than the average, and depends on where the placement can be procured.</p>
<p>In terms of Childrens Services the out-turn at year end is never as good as it seemed to be at the beginning of the</p>	<p>Cabinet Member Comment: For many years prior to the inspection there seemed to be no issues in</p>

<p>year, but the Council never challenges the evidence provided. There is a need to challenge Childrens Services and ask a scrutiny committee to look at the service.</p>	<p>Childrens Services. Following the inspection the Council started putting more money into this service. However, throwing money at the issue does not necessarily make services operate more efficiently. This is why benchmarking is so important to help Members drill down into the service.</p>
<p>Is this all of the cost reductions or just the undeliverable ones as this is not clear. This is why the commentary needs to be improved.</p>	<p>Officer Comment: Not certain, will need to review the information.</p>
<p>Adults Services – cost pressures in relation to risk for contractual obligations of £500k – why was this not known about before the budget was set. (P13)</p>	<p>Officer Comment: Not sure what this is, will need to check the detail.</p>
<p>The schools delegated budget is another issue for the Council. There has been much emphasis in other committees about the transformation agenda. Also there is a £244k loss highlighted in the school meals budget, is this due to covid and disruption to schools.</p> <p>Looking forward with free school meals commencing in September, we need to make sure that Welsh Government cover sufficiently this provision from September.</p>	<p>Officer Comment: It is not certain whether this is a flat rate per pupil or a sum per authority provided for the roll out of free school meals.</p> <p>In relation to the loss in the school meals budget (Housing and Community Development overview P19) the Catering Service is forecasting that overspend. However, it is not clear what is causing the overspend such as the cost of food, or take up of meals.</p>
<p>Cost inflation – the home to school transport budget is around £10m per year. Is there a cap on the amount of inflation or uplift that could be applied.</p> <p>Work is being undertaken across the council about inflation and the impact on budgets. Can the Panel be provided with more information about this.</p> <p>Will the Cabinet be updated regularly. Could the Panel look at the revised MTFS.</p>	<p>Officer Comment: Members will be able to view the report to the Governance and Audit Committee online. The report updated the Committee as to the process in place to monitor the situation in terms of rising costs and supply chain issues and requests for assistance from contractors using an open book approach. The purpose of the report was to provide assurance to the Committee that a process is in place to manage the situation and to be able to report the position effectively and the Committee was reasonably assured by that.</p> <p>The Cabinet will be updated regularly as part of the monitoring process and the information will be used to revise the MTFS and the assumptions within it which will need to be considered by the Council in September. The Panel can</p>

	look at the revised assumptions in the MTFS as well in September.
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**Comment:**

- The Chair commented that the budget tables did not show the additional investments into Service budgets within the overall year, for example the Childrens Services budget grew for the current financial year. The additional investments also go hand in hand with the cost reductions and it is about delivering services in a different way. It would be useful to have the out-turn figure for the previous financial year in the table as well.
- It is of concern that key staff have left Social Care recently and there is a new staffing structure and this needs to be monitored. Would prefer a single person responsible for the whole service.

**Outcomes:**

- **Noted.**

<b>6.</b>	<b>CAPITAL REPORT FOR JUNE 2022</b>
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**Documents Considered:**

- Report of the Cabinet Member for Finance and Corporate Transformation – Capital Report for June 2022.

**Issues Discussed:**

- The report provided an update on the Capital Programme 2022-23 as at 30<sup>th</sup> June 2022.
- The Capital Programme as approved by Council in March 2022 included capital schemes totalling £133.88m of which £25.55m related to the Housing Revenue Account. The programme has been updated following the reprofiling of projects the previous year and additional grants received from Welsh Government.
- Table 1 shows the revised budgets at £115.31m across the Council’s services. Actual spend amounts to £11.22m which is 10% of the total budget. The programme is funded through grants, capital receipts, borrowing and revenue.
- Inflation is having a significant impact on schemes due to rising material and construction costs. Officers are considering this impact and mitigating costs where possible. Some schemes may be reduced or paused. Any additional funding required is likely to increase borrowing which will add pressure on the revenue budget.
- A number of grants have been received during the first quarter including from Welsh Government schemes. The report also details a number of virements which the Cabinet was asked to support as well as the reprofiling of budgets already approved and the capital receipts position.

• **Questions:**

Question	Response
The bulk of capital expenditure is schools related. There is a list of projects in progress and others such as Bro Hyddgen and Sennybridge which	Officer Comment: Sennybridge has had the Strategic Outline Case (SOC) submitted to Welsh Government and the next stage will be

<p>have not commenced. The danger with the further delay of these projects is that costs will increase so it is imperative for some of these projects to start.</p> <p>What is the likely start dates for those two projects – Bro Hyddgen and Sennybridge</p>	<p>the submission of the Outline Business Case (OBC). A revised Outline Business Case is to be submitted for Bro Hyddgen to Welsh Government. There will also need to be a budget re-profiling undertaken once costs are finalised and when they are likely to be incurred over the next few years.</p>
<p>It is not helpful that the authority is proceeding with new schools with different designs. There should be one design for a primary school and another for a secondary school.</p> <p>The Panel should receive regular reports on capital schemes such as Abermule where there has been an overspend on a quarterly basis, so that it can assess whether the Council is on target or not with such schemes.</p>	<p>Officer Comment: There are two Boards which have oversight and monitor the delivery of individual projects. The Panel would not see that level of detail. There is a schools capital oversight board which monitors individual projects. The board consists of officers and operates at an operational level. This board receives regular reports indicating if a project is on budget or not. A general capital oversight board has been established to look at projects across the whole of the Council's capital schemes This board reviews all business cases and agree that the project can proceed to the next level of approval. It will also monitor spend against the project.</p> <p>A PAR review was undertaken through Welsh Government which considered a specific project, its governance and processes and the Council received a positive report on the processes in place.</p> <p>Cabinet Member Comment: In the past most contracts had 3% inflation built into them. Inflation is currently running at around 11% so costs are increasing which will have an impact going forward. The report does give some assurance that this is being monitored and mitigated where possible.</p>
<p>Inflation, construction costs , wages and supply chain costs are increasing. Over 40% of funding for capital schemes is from grants from Welsh Government. Grants when offered during periods of inflation will be out of date very quickly. Fifty percent of funding is from borrowing. If costs go up all the Council can do is to borrow more to make projects happen.</p>	<p>Officer Comment: The grants in the list are a mix. Some are fully funding projects and others where we need to make a contribution. The size of projects will also be different. With short term projects there is a reasonable level of assurance that it can be delivered within the budget. This is more difficult for the larger projects and there have been instances where</p>



<p>In the chart showing Welsh Government grants is the funding 100% for discrete schemes or are they contributions and if the latter, what mechanisms are there to feed back to Welsh Government about cost increases and requesting proportional increases in grants as the Council will increasingly need to decide whether project go forward or not.</p>	<p>contractors could not sign off contracts due to cost increases. Where this is the case with projects funded by Welsh Government the Council has gone back to Welsh Government and discussed this issue.</p> <p>Some of the contracts are at a fixed cost so contractors will carry the risk for additional costs, but it is likely this risk will be factored into future bids. For smaller contracts there is not the ability to have such conversations with Welsh Government and the Council may need to reduce the scheme if appropriate to within the funding available.</p>
<p>Are Welsh Government responsive to requests for additional funding.</p>	<p>Officer Comment: This is on a case by case basis. This has also been raised through the Welsh Local Government Association and by the Society of Welsh Treasurers with Welsh Government.</p>
<p>One large capital project listed is Ysgol Calon Cymru which was around £60m initially but more likely to be around £80m. When will decisions be taken about budget re-profiling or whether these projects will in fact be going forward.</p>	<p>Officer Comment: In terms of schools projects there is no information available as yet about the next band of funding from Welsh Government so there are no approvals to date beyond band B and the Council will also need to decide what it can afford in terms of funding future projects.</p>
<p>The contractors are at risk as well with their budgets. To what extent do we look at the financial stability of contractors before contracts are allocated.</p>	<p>Officer Comment: A financial assessment is undertaken as part of any tendering process to make sure the contractor can deliver especially where the contract period is over a few years.</p> <p>The down side of that is when you make those assessments they are based on the latest set of accounts which may not be as current as possible. If the Council does have any concerns following the undertaking of the financial assessment it does ask for more information to provide a greater level of assurance, but this is no guarantee as circumstances can change during the life of a project.</p>
<p>Inflation is mentioned in the report. Has any modelling been undertaken on the current rate and at higher rates (up to 20%) to see what the impact is on particular projects.</p>	<p>Officer Comment: Modelling is undertaken as part of the updated MTFS.</p> <p>Borrowing is fixed at the rate on the date that the Council undertakes the</p>

<p>If inflation rates go up interest rates are likely to rise. What is the impact of this on our borrowing.</p>	<p>borrowing so existing payments would not increase but the costs of borrowing for future schemes could increase which would impact on the revenue budget as well.</p> <p>The Council when it borrows money can decide over what term that borrowing is undertaken, for example there was borrowing last year at a low rate over 50 years with the rate locked in for that period. The Council also has other options which gives flexibility in terms of borrowing and this is considered every time the Council needs to borrow.</p>
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**Outcomes:**

- **Noted.**
- **Details of the Capital Programme in the next financial year to be circulated to the Panel.**
- **Indication of potential projects coming forward to be circulated to the Panel.**

**County Councillor A. Davies  
Chair.**