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Finance Panel – 25-11-2022

MINUTES OF A MEETING OF THE FINANCE PANEL HELD AT BY ZOOM ON FRIDAY, 25 NOVEMBER 2022

PRESENT: County Councillor A W Davies (Chair)
County Councillors E A Jones, P Lewington, J Pugh, 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), James Chappelle (Capital and Financial Planning Accountant)

Others In Attendance: L Hamilton (Chair of the Governance and Audit Committee – Observer)

1. APOLOGIES

Apologies for absence were received from County Councillors A Kennerley, A Cartwright and T Colbert.

2. MINUTES

Documents Considered:

- Minutes 29-07-2022.

Issues Discussed:

- None

Outcomes:

- **Noted.**

3. FINANCIAL FORECAST FOR THE YEAR ENDED 31ST MARCH 2023 (AS AT 30TH SEPTEMBER 2022)

Documents Considered:

- Report of the Cabinet Member for Finance and Corporate Transformation.

Issues Discussed:

- The report provided the forecast revenue outturn at the end of September.
- The current economic situation was continuing to impact on the Council's finances as was rising inflation. Employee costs were likely to rise significantly due to recent pay awards.
- Capital schemes was being impacted due to increasing contractor and materials costs as well as the cost of borrowing became more expensive.
- The budget set by the Council in March was insufficient to cover costs and the Council was taking action to reduce expenditure and draw on reserves.
- At quarter 1, it was reported that £3.827m was being drawn from specific reserves to cover pressures and in addition an additional shortfall of £1m had been forecasted.

- The position at quarter 2 projected an increased deficit of £7.064m. £5.316m was being drawn down from specific reserves leaving a further £1.748m deficit to be funded from general reserves.
- The revised projection included an estimate of the NJC and Teacher’s pay awards at an additional cost of £8m to be found in the financial year. The budget set in March set aside funds for assumed pay costs but they did not meet the fully estimated costs leaving a £3.7m gap in year.
- Steps were being taken to reduce expenditure by £2m over the remainder of the financial year. Some capital schemes would be delayed reducing the need to borrow and revised assumptions on Council Tax collection would also assist the position.
- The reversal of the National Insurance increase had reduced the employer’s National Insurance contribution.
- The delivery of cost reductions were projected to be £7.848m for the year (73% of the total) with £3m unachieved and at risk of delivery for the year. Services were reviewing these and considering mitigating action to deliver within the budget allocated.
- It was anticipated that £14m of reserves would be used to support the budget during the year.
- The Highways, Transport and Recycling Service had been carrying a £1.3m unachieved savings target within their budget. This had been managed within the overall Service budget for 2021-22. The service had identified how these savings could be absorbed on a permanent basis by realigning budgets to recognise the additional income being achieved from the street works, highways and highways design income.
- The level of financial risk is significant such as the risk of increased pay costs as negotiations continue, demands for services could increase such as winter pressures on social care, rising inflation, the cost of borrowing.
- Holding sufficient reserves is crucial for the Council’s financial resilience.
- Additional funding had been provided by Welsh Government in previous years towards the end of the year but this was unlikely to happen for the current financial year so budgets would have to be planned without that expectation.
- The indicative funding allocations from Welsh Government for the next two years were well below the level of inflation and would represent a real term cut in funding for the Council.
- The Medium Term Financial Strategy and the assumptions on which is was based continued to be reviewed. Projections would be updated as more information became available.
- Questions:

Question	Response
In section 2.10 – reducing service expenditure by £2m. Is there any detail giving the implication of this on those services.	Cabinet Member Response: These are not set out in detail but this was a request to services to make cost savings to deal with the inflation pressures being experienced. These reductions would be efficiencies within services such as reducing travel, lighting costs in buildings which should have no impact on service users.
There are delays to some capital	Cabinet Member Response:

<p>projects. What is the impact of these delays on service delivery.</p>	<p>Around £10m of the capital programme has been delayed. That would save around £500k in the revenue budget in the next financial year. Whilst the projects are delayed in the current year the savings would be generated in the following year.</p>
<p>The forecast is a £7.2m deficit at the end of quarter 2, what is the end of year projection.</p>	<p>Officer Response: The £7.2m is currently the end of year projection.</p>
<p>Can see the prudence in the budget and it looks as if the books can be balanced for this year. There is a draw down on reserves of £13m out of £60m. This is not a trend you want to repeat in the future as there are so many unforeseen elements such as Covid and you need to hold a reasonable level of reserves. This plan provides a breathing space which highlights the importance of the Medium Term Financial Plan (MTFS) and gives time to plan ahead and make tough decisions as budgets are not going to improve.</p>	<p>Cabinet Member Response: The MTFS will be discussed in the confidential session following the meeting and those points can be discussed then.</p> <p>Officer Response: In terms of reserves the Council has to protect its level of reserves as much as possible and having reserves to cover the risks being faced is critical. This is why reserves are reviewed on an annual basis and is a key element of finalising the budget position in the current challenging environment.</p>
<p>Could the Head of Finance touch on the planned use of reserves as there is always a planned use of some reserves.</p>	<p>Officer Response: There are some specific reserves such as the reserve for purchasing new capital equipment, purchase of vehicles which are a planned schedule which feed through to revenue budget as the use of reserves. There is a similar arrangement for Housing where part of the rent collection is set aside for capital works to the housing stock which is a planned process.</p>
<p>Of the £13.9m use of reserves, how much was planned and how much was adjustments.</p>	<p>Officer Response: The schools delegated funding would be planned by the schools themselves. A substantial amount of the specific reserves would be for funding of vehicles. Transport funding of equipment (£2.8m) would be planned.</p> <p>The budget management reserve (£1.7m) would cover what was not expected at the beginning of the year such as the deficit being seen and that was planned at year end as it was known that prices were rising but not planned at the beginning of the previous financial year as that funding was not</p>

	<p>available. There would need to be a change in how reserves were used following this year.</p> <p>Cabinet Member Response: The £1.7m being used from the management budget reserve was used as a last resort to balance the budget due to unexpected pressures faced in the current year. It was hoped that this would not need to be used if services could meet savings targets and efficiency measures.</p>
<p>Is there a percentage figure which the Council needs to hold for reserves to prevent it being challenged by auditors</p> <p>Audit Wales undertook a review of the level of reserves held by authorities and there was a range of reserves held by Councils and Powys was towards the lower end of reserves held. Some authorities have significant reserves and Powys has more limited reserves.</p>	<p>Cabinet Member Response: The target is 4% of the net budget for the general fund reserve.</p> <p>Officer Response: This is a limit that the Council sets itself rather than be imposed on the Council by others.</p> <p>Audit Wales undertook a study around two years ago. It was clear that the reserves in Powys are around the lower end and the main reason for that is that the rural local authorities have seen significant cuts in Rate Support Grant over the past ten years or more by comparison to urban authorities which enabled them to develop more significant reserves than rural authorities. Powys has strengthened its reserves over the past two or three years as funding was added to the reserves when additional grants came from Welsh Government late in the financial year. That additional amount in the reserves was assisting the Council currently with pay and inflation pressures, and changes to the global economy. Therefore, the Council was in a better position as reserves were relatively healthy and allowed space for planning prior to the next and future financial years. Reserves are crucial and are there to be used in year to balance when there was an expected change in economy as seen. However, the Council needed to be careful not to make assumptions about the use of reserves in planning for the future and</p>

	<p>budgets and services would need to be planned in a way that balanced the budget every year without the need to use reserves.</p>
<p>The schools delegated reserve was increased at the end of the previous financial year standing at almost £9m. The teachers’ pay award was not fully funded. What was the percentage assumed increase included in the budget for pay awards which was included in the schools delegated budget.</p>	<p>Officer Response: It was around 2% or 3% included in budgets for pay, but the level of inflation had not been anticipated as well as the level of pay increases which was a 5% pay settlement for teachers which was more than had been allowed for which was an additional pressure which had added to the projected deficit. This was being taken into account in the planning for the next and future financial years.</p> <p>In terms of schools delegated budgets, reserves were held by individual schools and the position varied. Some primary schools had healthy reserves but this was not necessarily the position for the larger primary schools or secondary schools. Where schools had reserves they were asked to make effective use of them and these levels of reserves would assist some in absorbing these costs and planning for the future.</p>
<p>The sum put into the delegated budget for pay awards falls short of the increase. Is that difference made up centrally or are you expecting schools to absorb that from within their reserves and what is the difference between the expected and the settlement as that would have a significant impact on the £93k in table 3 if schools were expected to absorb the increase.</p>	<p>Officer Response: Schools would be expected to absorb the increase. However, the pressure for schools for the current financial year would not be as great as for the next financial year as the impact would be from September. Schools would have to fund the remainder for the next financial year.</p>
<p>In relation to reserves – do we have a reserves policy which tells us what we hold reserves for and what the levels of reserves are.</p>	<p>Officer Response: There is a policy and this can be forwarded to Members of the Panel.</p> <p>The Chair of the Governance and Audit Committee suggested that it might be helpful if that Committee reviewed the reserves policy and that the chair of the Finance Panel attend that meeting.</p> <p>The Cabinet Member and Head of Finance were in agreement with the policy being considered by the Governance and Audit Committee.</p>
<p>Highways, Transport and Recycling –</p>	<p>Cabinet Member Response:</p>

<p>there were undelivered savings from the previous year of £1.3m identified. The budget has been realigned and the £1.3m was being covered by increased income from other areas.</p> <p>This shows an inaccuracy in the projected income for this area as the £1.3m was not identified as income previously when budgets were set which is concerning. Is there an explanation for this.</p>	<p>That was identified from street works, highways design and recycling income. The Head of Service is confident that the Service could absorb this. The Cabinet Member did not have an explanation for the increased income and why the £1.3m would no longer need to remain as a savings target.</p>
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Outcomes:

- **Noted.**
- **The Head of Finance to circulate a copy of the Reserves policy to Members of the Finance Panel.**
- **That the Governance and Audit Committee undertake a review of the reserves policy and that the Chair of the Finance Panel be invited to that meeting.**
- **That the Head of Highways, Transport and Recycling be asked to provide an explanation of the increased income of £1.3m not identified previously.**

4.	CAPITAL FORECAST 2022 - 23 AS AT 30TH SEPTEMBER 2022
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Documents Considered:

- Report of the Cabinet Member for Finance and Corporate Transformation.

Issues Discussed:

- The report provided an update on Council's financial position for the capital programme as at 30th September 2022.
- The revised programme is budgeted at £96.46m following the awarding of additional grants and the reprofiling of budgets between financial years.
- Actual spend amounts to £24.37m (25% of the total budget).
- 42% or £40.66m of the capital programme will be supported through borrowing.
- The continued increase in inflation is having an impact on schemes as materials and construction costs rise. Interest rates are also rising increasing the cost of borrowing.
- Service managers are monitoring schemes and mitigating increases where possible.
- Some schemes may be reduced or paused until there is more certainty about cost and funding. Any additional funding required is likely to increase borrowing which will increase costs on the revenue budget. To reduce expenditure some pipeline capital schemes that have not progressed to approval stage have been delayed, thus reducing the immediate need to borrow, delivering an underspend on borrowing costs for the year of £0.5m.
- Capital receipts - £810k have been received and further sales agreed to the value of £870k. It was expected that sales totalling £2m would be achieved in the financial year.
- Questions:

Question	Response
What is the current cost of borrowing and how much has it gone up	<p>Officer Response:</p> <p>It has gone up and down. In the last financial year the Council managed to borrow at under 2%. At points this year it had been well over 4%. Currently it was around 3.6% and that trend was expected to continue and reduce to about 3% next year. The Council has mitigated the higher rates by only taking out 12 month borrowing at slightly higher rates in the anticipation that rates would fall and longer term borrowing would be undertaken when rates were more reasonable.</p>
What are the advisers forecasting as far as rates next year, are they expecting them to be above 3%.	<p>Officer Response:</p> <p>The advisers are expecting rates to reduce to 3% / 3.5% next year and then reducing to 2.5% / 3% the following year.</p>
It is prudent to reprofile and delay capital projects under the circumstances. It is noted that around 40% of funding comes from grants from Welsh Government. Can assurance be provided that by delaying projects this does not compromise or reduce the amount of Welsh Government grant.	<p>Officer Response:</p> <p>The grants identified will be spend this year within the terms of the grant. There are schemes where there is a finite date by which funding has to be spent and the Council works to ensure that this funding is spent. There is a longer term envelope for the funding on other schemes such as for school projects and there are opportunities to reprofile these in consultation with Welsh Government so grant funding is not lost. Therefore there are no major risks.</p> <p>Services are cutting their cloth accordingly with the in year grant schemes.</p>
The percentage of grant expected will follow through so it will be 50% / 60% of the total cost. Are we not expecting much variation in that.	<p>Officer Response:</p> <p>No and borrowing would be expected to reduce towards the end of the year as more up to date forecasts and spend is known.</p>
Page 46 - Appendix B – Head of Service commentary for Adult Services. Did not find the commentary very explanatory / helpful. It states that the capital funds would be fully utilised then stated that the funding would be fully spent or carried forward. We do need the funding but if the funding was not spent this year could it be taken out of the current	<p>Officer Response:</p> <p>The £1m budget for Adult Services is comprised of several different pots. A certain part of it is set aside to undertake capital works for the refurbishment of care homes which it is expected will be fully utilised during the year. Other funding for other schemes may be spent if possible but could be</p>

year's budget and put in next year's budget	carried forward to next year depending on the feasibility of schemes currently. It was expected that the service would spend about half of the funding in the current financial year.
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Outcomes:

- **Noted.**
- **The Cabinet Member for Finance was asked to challenge services to include more useful commentary in the report in future.**

5. WORK PROGRAMME

Documents Considered:

- Forward Work Programme for 2023.

Issues Discussed:

- None

Outcomes:

- **Noted.**

**County Councillor A Davies
(Chair)**