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Finance Panel Friday, 15 September 2023

MINUTES OF A MEETING OF THE FINANCE PANEL HELD AT BY ZOOM ON FRIDAY, 15 SEPTEMBER 2023

PRESENT:

County Councillor AW Davies (Chair)

County Councillors, E A Jones, E Vaughan, P Lewington, C Kenyon-Wade.

Co-opted Member: Gareth Hall joined late due to meeting commitments.

Cabinet portfolio Holders in Attendance:

County Councillor D Thomas (Cabinet Member for Finance and Corporate Transformation)

Officers: Jane Thomas (Head of Finance), James Chappelle (Capital and Financial Planning Accountant), Mari Thomas (Finance Manager)

Observer: Lynne Hamilton – Chair of the Governance and Audit Committee

1. APOLOGIES

Apologies for absence were received from:

County Councillors: J. Pugh, G. Preston, C. Walsh, G Ratcliffe.

2. DECLARATIONS OF INTEREST

There were no Declarations of Interest from Members relating to items to be considered on the agenda.

3. MINUTES & ACTIONS

- The minutes of the 30th June 2023 were agreed by Panel members present as a true and accurate reflection of the meeting and ratified accordingly by the Chair.

ACTIONS:

1. Chair/ Vice Chair and Head of Service to discuss wording of Terms of Reference.

Points raised:

- TOR lacked clarity and purpose.
- Removal of wording “assist with” & add d to “evidence, base upon...”
- Clarity required for how the Panel are to plan and inform policy.
- Review formatting – 7.38.1 first line sub-heading, with the bullet points to follow.
- Review formatting – 7.38.2 first line sub-heading, with the bullet points to follow:

***Action:** Jane Thomas to review, update wording and formatting “The Panel will review the strategic financial matters...” Share changes with Chair & Vice Chair and seek Finance Panel Members approval at next meeting. Changes to be referred to the Monitoring Officer.

Finance Panel Members are politically balanced & as such are required to provide challenge at the earliest opportunity to understand the context under which the Cabinet are working.

Sustainable Powys should inform of the Councils aspiration to progress. However, at present there appears a lack of substance, information, and development.

Service Areas are focussing on and developing plans through into the Autumn, for Cabinet to review and share when appropriate.

Members Development on Sustainable Powys scheduled for 20th Sept.

Expected wage inflation for the next 12 months. The Head of Service will submit a report in due course, ideally with a presentation to Finance Panel between the submissions to Cabinet EMT (Executive Management Team) & Cabinet.

2. Head of Service to discuss outside this forum PTHB (Powys Teaching Health Board) contract and uplifts. Chair to be involved in discussion.

- **Action to be completed:** Jane Thomas to discuss with Member concerned.

3. Information on receipt of £2.2m Capital Efficiency works grant to be forwarded to Chair / Panel.

Date of award letter 02/02/23. Chair requests date which award received. Completed with Email sent 18/08/23.

4. Head of Service will review comment in relation to funding returned to WG (Welsh Government) and advise.

Not yet received detail from the Member concerned after raising, nor has Head of Service been able to uncover anything other than a small amount of grant funding returned.

- **Action to be completed:** Head of Service to seek further information from the Member concerned.

5. Bro Hyddgen capital project delivery timescales, Head of Service will request information and forward to Panel.

(Below received from Marianne Evans)

Timescales affected by changes to the leisure and library part of the buildings.

Project Re-start	January 2023
RIBA 2 – Concept Design	Completed July 2023
RIBA 3	July 2023 – November 2023
Planning	November 2023 – February 2024
Procurement of a contractor	December 2023 – August 2024
RIBA 4 (technical design)	August 2024 – February 2025
FBC (Final Business Case) preparation and approval	March 2025 – July 2025
Construction starts (contracts, mobilisation etc)	August 2025
School opens	September 2027

4.	THE REVENUE FINANCIAL FORECAST AS AT 30TH JUNE 2023 - QUARTER 1
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Background.

Portfolio Holder gave a brief precis to the report:

- Reported current position of £3.7m surplus.
- Surplus largely associated with expenditure against Corporate Budgets.
- £3m Risk budget with only £23k drawn down in Q1.
- Risk budget was approved at budget setting, to manage financial risk across the Councils services, with £5m of potential costs identified.
- Monies will be released as costs materialise throughout the financial year.
- £9.4m of savings had been delivered with a further 40% (£7m) assured by Services. £968k of savings were unachieved and at risk of delivery within year.
- Proposed to transfer the £0.7m from the Powys Recovery Fund Reserve to the General Reserve, to maintain the minimum level (4%) of net revenue budget.
- Specific pay reserves were established to support this year's pay awards. National level negotiations continue. Increase is expected to be above the 5% funded at budget setting.
- The current pay offer equates to approximately 7%, resulting in a shortfall of £3.3m this year. Reserves will fund costs for this financial year, but recurring budget shortfall will need to be addressed at budget setting 2024-25.
- Schools have set budgets with an expected call on reserves of £5.7m, an improvement of projected forecast by £98k.
- A virement is required to re-allocate the approved budget for Transformation to the individual service budget, together with a proposal to utilise funds from the spend to save reserve for severance costs.
- One-off funding approved at budget setting for the Urdd from reserves, was included in error in the funding for 2024-25. Therefore, a virement proposed to release £100k from reserves to support the Urdd 2023-24.
- Inflation, demographic pressures, and rising interest rates continue to impact on the budget, whilst CPI levels are starting to fall, they remain higher than the budgeted allocation.
- Greatest financial risk remains in the Councils ability to provide balanced budget over the medium and longer term.

Planning has a focus on 2024-25 and beyond in accordance with the MTFs (Medium Term Financial Strategy) with Sustainable Powys proving fundamental to help bridge forecasted gaps in 2024-25.

The Council remain concerned about public finances in general terms, with the expectation that future settlements will be tight, and Council services would have to be delivered within a smaller financial envelope.

Points raised by the Panel:	Responses received from Officers or Cabinet Members.
<p>Was the general fund reserve of 4% subject to regular reviews, and in the prevailing circumstances would 4% be a correct amount.</p>	<p>Reviews form part of the budget determinations on an annual basis. The S151 Officer would undertake assessments of the reserves held alongside the budget proposal, to understand if the resources available are adequate to cover any risk in terms of the budget plan.</p> <p>In recent years, the level of reserves were increased from 3% to 4% in line with tighter budgets to maintain and improve the Council's financial resilience.</p>
<p>If costs for the 20mph speed limits exceed the grant funding from WG of £1.6m, where would the additional funding come from.</p> <p>Clarification sought as to whether the £1.6m covered the labour costs.</p> <p>Information requested as to the deficit position of Highways, evident that maintenance work is falling behind.</p>	<p>The specific Service Area will be monitoring the spend with plans to deliver within the £1.6m funding envelope.</p> <p>Estimated costs would have been submitted as part of the grant application, it would have cited the installation of the change in the signs etc.</p> <p>Would have to seek clarification from the Service area as to whether the labour force is Council staff or subcontracted staff.</p>
<p>If recycling targets, were not reached the Council could incur a fine of £100k per failed percentage point, has the risk be identified with a corresponding covering provision.</p>	<p>The Council are aware of the risk, to date targets have been achieved. Not aware that any Local Authority has been charged in conjunction to this specific risk area.</p>
<p>Clarification sought on the overspend figure by Adult Social Care of £2.74m.</p>	<p>Before delivery of savings, the £2.74m would have been the overspend position, when cost reductions are delivered the final figure would be the stated forecasted overspend.</p>
<p>The reported HTR (Highways Transport and Recycling) costs pressures of £208k for Home to School Transport, by year end this could equate to approximately £1m. Would investigations be undertaken, or alternative solutions sought prior to any future contract negotiations.</p>	<p>For clarity, the £208k noted is Q1 papers, it was the full year projected overspend.</p>
<p>Would Schools Service or HTR be liable for overspend costs.</p>	<p>The budget is allocated to the HTR Service, therefore HTR hold responsibility for the budget</p>

	<p>management. HTR may hold discussion with the Schools Service, based on the overall position of the budget, with reports presented to Cabinet for approval.</p>
<p>Whilst pleased to see the 314K forecast for car parking, at budget setting the increased charges were meant to achieve a target of £50k, how can this be explained.</p>	<p>This issue has been raised in a few arenas; in terms of the projections the demand has far outweighed the expectation. What began as a very prudent budget saving offering has generated a much higher income return, fundamental for the service as an overspend would otherwise have been reported.</p>
<p>Shocked to note that the schools delegated budget used £6m from reserves. With a reserve of £1m, concern raised for future years if shortfall was again in excess of £5m.</p> <p>The shift in the levels of school reserves was what was raising alarm. The trend in expenditure must be curtailed.</p>	<p>Schools balance budgets over a number of years and would be able to draw on reserves to smooth out fluctuations over this time. As a £5m use of reserves this year does not mean this would be repeated in subsequent years. Schools have experienced energy cost pressures and although the Council were able to put additional funding into schools in March, not all costs were covered. Reductions of energy costs are being reported. The majority of schools have submitted budget plans to address deficits, where schools are still exceeding set budgets policy, finance officers continue to work with them.</p> <p>Cabinet Member added that the potential forecast of £1M in school reserves at year end. I accept that the fund is not equally distributed and is a problem in itself, when compared to an overall schools delegated budget of £90m, the Council's budget sits at £326m with a general reserve of £9m. For schools to have £1m in reserves is quite reasonable.</p>
<p>If reserves were evenly distributed across the school sectors (primary and secondary) it would be acceptable, however, as separate reserves the secondary sector would be drawing on negative reserves or increasing deficits. Have all high schools set budgets that have been licensed this year? Concern raised that approximately 90% of schools</p>	<p>Not all High Schools have set a balanced budget to date. Finance surgeries have been scheduled for all schools and will pick up those schools from whom recovery plans have been requested. Of the 11 schools in total (including 3 All-through) 6 have set budgets at the start of the year that were approved</p>

<p>budget was allocated for staff resource and therefore would be unable to draw back within the last 6 months of this financial year.</p> <p>Due to the ongoing substantial risk, for the Q2 report Chair requested the need for clear narrative on the impact of surgeries and number of schools setting balanced budgets within a 3-year cycle.</p>	<p>under the scheme.</p> <p>There were some schools that had a historic deficit position, which would return to surplus over time.</p>
<p>This is an unusual Q1 report, with a positive balance noted.</p>	<p>There have been significant changes, the last few years have not been a good base indicator. During the pandemic all income recovery ceased, last year saw rapid inflation, higher than had been anticipated. This year's budget setting was a slightly different position again with no significant changes that created a further shock factor on the budget.</p> <p>We are mindful of carrying a certain level of risk, with the expectation that some of those projected or understood pressures would materialise to be drawn down from the funds held centrally.</p>
<p>The £3.7m is partly made up of risk reserves. Have risk reserves always been left in the position reported and has the reporting method altered.</p> <p>There has been a shift from a negative £6m position to a positive £6m in a number of months.</p>	<p>Mostly, £3m is allocated for risk reserves.</p> <p>The reporting has not changed as would be shown as a variance on the Corporate line. There were not the shocks causing financial pressures, as seen in the previous 2 years, where risk reserves have been utilised.</p> <p>This would be dependent on the pay awards for this year effectively, £1.7m equates to a single percentage change, creating a level of risk despite the reserve set aside. If pay awards exceed the reserve, there would be immediate pressure placed on the budget.</p> <p>We have £5m projected, that may come to fruition, not included until in receipt of a definitive figure.</p> <p>The swing of previous years with significant grant funding from WG, is unlikely to re-occur.</p>

	<p>Cabinet Member commented that there was no room for complacency on the £3.7m surplus. There is £5m identified risk with the budget which may still materialise. Reviewing the national economic situation, the alarming rise in interest rates to combat inflation, heightens the risk of triggering a recession.</p> <p>The core rate of inflation remains at 7%, which is extremely worrying going forward.</p>
<p>Has the pay settlement for 2023-24 been agreed.</p>	<p>Currently awaiting resolution for the April pay awards.</p>
<p>The decision to support the Urdd Eisteddfod in Meifod next year was taken at budget setting 2023-24, why were the funds allocated to the wrong year.</p> <p>Surprise expressed that the error had occurred, and reassurance sought by Panel Chair that funds were not otherwise used to balance the budget due to extra expectations.</p> <p>When reserves drawn there would be a plan to replenish.</p>	<p>Cabinet Member responded that there was a misunderstanding at the initial stage that funds were required upfront.</p> <p>Discussions within the Service were that funds were believed to be required in 2024-25, once informed that funds were required for promotion of the event, virement was requested.</p> <p>Even in the 2024-25 year the funds for the Urdd Eisteddfod were expected to have been drawn from reserves, therefore no significant impact on the budget plan 2023-24, funds were profiled into the incorrect financial year.</p> <p>The Service would look at which was the most appropriate reserve to be used. If there was an underspend, this could be utilised to offset costs rather than reserves.</p>

Actions:

- **High Schools setting approved budgets under the scheme** – The Chair requested Q2 reports include clear narrative on the impact of finance surgeries and number of schools setting balanced budgets within a 3-year cycle.
- **Highways budget deficit** – Chair to discuss outside meeting with Head of Service.

5. CAPITAL FORECAST 2023-24, AS AT 30TH JUNE 2023 - QUARTER 1

Background

Portfolio Holder gave a brief precis to the report:

- The programme has been updated following the re-profiling of projects and with additional grants received from WG.
- The revised programme as at the 30th June 2023 is budgeted at £102.5m.
- Actual spend at £7.61m representing only 7.4% of the total budget.
- Currently £48.82m of 48% of the capital expenditure is budgeted to be finance through borrowing, interest costs of which are charged to the revenue account.
- Finance Services are working with Services to ensure that the profiling of budgets is accurate to effectively manage borrowing.
- Virements proposed for approval by Cabinet:
 - £0.02m from the leisure capital budget to schools major improvements budget as a contribution to the works for Llanidloes HS sports centre gymnasium.
 - £0.02m to the Highways budget from the unallocated central Capital budget, WG Funding of £0.13m has been provided to continue to expand the community electric vehicle hubs and will enable the Council to meet its percentage of the total cost.

Q1 spend was extremely low. Heads of Service commentary provides further context. Many schemes where spend was anticipated later in the year, were still progressing as planned.

Points raised by the Panel:	Responses received from Officers or Cabinet Members.
Request for the dates and timelines of capital projects to be included in reports to assist Panel Members.	
Comment made earlier that projects would be financed by borrowings. How does the Bank of England interest rate impacts on LA borrowing, what rates are the Council borrowing at.	<p>Public Works Loan Board (PWLB) rates are linked to Gilt markets. Gilt market rates have increased as base rate has increased.</p> <p>Currently borrowing for 1 year at a rate of 5.9% nearly 6%, all rates are high, hence trying not to be locked in over a long period.</p> <p>The Council is running down as much cash as possible, whilst liquidity maintained, by borrowing the minimal amount required over a short term, i.e., 12 months or slightly longer. As loans mature, it is hoped interest rates will fall. The Treasury Board expect the PWLB rate to reduce to 3.8% in 2-3 years' time.</p>
Capital receipts reported at approximately £1m, where are Property Services hoping to obtain the £7m projected target from.	Property Service would progress sales of various assets at any time and would be dependent on sales being completed within a reasonable timeframe. Often, projected target based rather than specific. Request for further information to be provided

<p>One of the emerging conclusions from the Governance and Audit Committee’s Capital Working Group was the requirement for greater visibility a 10-year Capital programme. From 2024 there is an ambitious schools transformation programme, we are all aware of the increasing inflationary pressures, alongside these programme we need to be informed of costs and how the Council would address shortfalls.</p> <p>Whilst realise there would be gaps in a 10-year Capital programme it would be a formal recommendation from the Governance and Audit Committee to Cabinet.</p> <p>Chair of Finance Panel supportive of G&A Committee’s recommendation of a 10year Capital programme to provide a sense of direction and focus to priority projects.</p>	<p>to Panel from the Property Services.</p> <p>The Service are keen to have a 10-year capital programme plan in place. A draft has been in operation for oversight on longer-term projects. Projects could also be driven by the Council term, resulting in difficulty to predict, with any real certainty, long term programmes, especially if reliant on grant funding.</p> <p>The Service has looked to extend the programme view to maintain a longer-term focus on capital.</p>
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Actions

- Request by Chair to have dates and timelines of capital projects included in reports, to assist Panel Members with the scheduling of expenditure.
- Property Services projected target - Request for further information to be provided to Panel from the Property Services.

6. FINANCIAL PLANNING REPORT

Background

Portfolio Holder gave a brief precis to the report as:

An update on the latest economic projections, how they influence and impact the development of the Councils budget for 2023-25 and the MTFs (Medium Term Financial Strategy). The report sets out the key factors to our financial planning and how they change the assumptions used to develop budget plans.

- WG are reviewing departmental budgets, impact of which is yet to be seen by Local Government.
- NHS funding is subject to review which could impact on joint funding arrangements i.e., CHC (Continuing Health Care) ALN (Additional Learning needs and Children’s Services).
- Inflation continues to impose cost pressures, transport, food, and insurance continues to see higher levels of inflation than the average.
- Economic context has significant implications for the Council financial planning, updating the strategy is key to the Councils financial stability. To reduce the gaps in the financial plan will require resolution either by increased income generation or cost reductions.

- Cost of living challenge continues to impact on businesses and residents, with increased demand for Council services expected through 2024-25, influencing the Councils indicative budget plan for 2024-25 increasing costs, pushing the budget gap to £16.3m, an increase of £6m from the projected figure in February 2023. If the teachers' pension increase is included from 2024 this will increase to £18m.
- Future funding levels including those from WG are not yet confirmed i.e., Settlement and Council Tax income with the assumptions key factors in the development of budget plans.
- The revised modelling creates a £16.3m budget gap next year and a cumulative gap of £43.4m.
- Worst case scenario sees the cumulative figure increase to £82.3m at the end of year 5.
- It is becoming clear that the Council in its current form is not sustainable over the longer term, in response the Council has embarked on a programme of change to re-imagine what the Council to ensure that it can remain financially sustainable and provide services over the long term. Services provision and delivery will be reviewed to meet current needs whilst ensuring innovative solutions and adaptation made to meet future need.
- Proposals will be developed for consideration prior to inclusion in the budget plan.

The Council must place financial resilience at the forefront of its activities, with support from Audit Wales, drawing on CIPFA's 5 Pillars of financial resilience, which are indicators of financial stress.

A financial resilience snapshot is included for the first time in reports for Panel, providing a higher-level overview of the financial health of the Council. There is no immediate cause for concern, however, need to remain vigilant over the medium term.

Management of risk is a necessity, with effective monitoring and management of financial risk to support financial resilience.

The requirement to hold an appropriate level of reserves has been highlighted over the last year, particularly supporting pay pressures, whilst uncertainty persists reserves will remain crucial to the Councils financial stability.

Points raised by the Panel:	Responses received from Officers or Cabinet Members.
Concern persists of the Revenue Support Grant (RSG) to Powys, aware it would be difficult to make any significant changes and that revaluation will make differences starker.	
Income from fees and charges are set out in Councils income policy, based on full cost recovery, how come there was such an overachievement in the projected car parking target.	The principle used was full cost recovery. In some instances, the Council is restricted by WG guidance, which vary. Services are requested when setting fees and charges that full-cost recovery is the principle used. Demand would also be assessed with

	<p>modelling completed, reviewing the opportunities to charge the best levy on certain items.</p>
<p>Fees and charges can be perceived as taxing by the back door, the principle was to recover costs therefore should not obtain additional funds.</p>	
<p>Another emerging conclusion of the Capital Working group was the importance of the work of Sustainable Powys in framing decision making.</p> <p>The findings and conclusions of Sustainable Powys not only what the Council looks like but what services are provided what would be cut back or sold to generate receipts etc. Cannot underestimate the importance the engagement of residents which will impact longer than a 10-year capital programme.</p>	<p>Every LA in Wales will be facing severe and difficult to manage financial situations, which would not dissipate in the short term, as an Authority we have to change how we deliver services.</p> <p>Through Sustainable Powys there is the opportunity to build on and manage this crisis and implement transformational and cultural change. Transformation is time critical and would be a risk to underestimate the rate of deterioration in public finances available in the coming years.</p>
<p>Table in respect of Usable Capital Receipts for 2021/22, what is that a percentage of.</p>	<p>The table should read value not percentage. Future Capital Forecast requirements reported at 4% this year and estimated at 4.4% 4.2% 4.1% onwards.</p>
<p>In previous years when have discussed the 21st Centuries Schools programme the percentage rose significantly leading to concern of the degree of costs to the revenue fund.</p>	<p>Percentages do fluctuate with a number of impacting factors e.g., the Net Revenue Budget. Percentages may have been slightly higher in the forecast, prior to the Net Revenue Budget increasing. The profiling of capital schemes have been pushed back due to impacts on our borrowing requirements being delayed.</p> <p>We have drawn information from a benchmarking tool provided by Audit Wales and will develop within the Service.</p>
<p>Capital programmes have been pushed back which would impact on maintenance programmes and the ability to reform the schools with the LA.</p> <p>It is difficult to understand and justify that decision from the table provided as the timeframe covered is 4-5years.</p> <p>The school transformation papers shows a real deficit of capital expenditure to improve the school infrastructure, leading to concern of a lack of ambition in schools.</p>	<p>There was a significant amount of borrowing included over the timeframe noted.</p> <p>The Capital financing requirement is the proportion of the capital programme funded from borrowing over time. In 2022-23 the borrowing stood at just over £400m and is projected to increase by a further £100m over the 5years to 2026/27.</p>

Would inflation account for the increase.	There is no inflation involved. The figure denotes the borrowing requirement, and not impacted by interest rates
Revisit as go through budget setting process	Cabinet Member commented that it was important to note the current and future economic trends, including the potential impact on public finances. There has to be an element of caution when capital or revenue spend is discussed. In addition, General Elections can trigger a period of uncertainty.

7. FORWARD WORK PROGRAMME

Comments:

- Council Tax Base Rate 2024/25 to be added.

8. EXEMPT ITEM

The following Resolution was passed by Finance Panel Members:

RESOLVED to exclude the public for the following item of business on the grounds that there would be disclosure to them of exempt information under category 3 of The Local Authorities (Access to Information) (Variation) (Wales) Order 2007).

The Monitoring Officer has determined that category 3 of the Access to Information Procedure Rules applies to the following item. His view on the public interest test (having taken account of the provisions of Rule 14.8 of the Council's Access to Information Rules) was that to make this information public would disclose information relating to the financial or business affairs of any particular person (including the authority holding that information).

These factors in his view outweigh the public interest in disclosing this information. Members are asked to consider these factors when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.

9. FINANCIAL MANAGEMENT (FM) CODE

A presentation of the Financial Management Code was received by Finance Panel members.

County Councillor A W Davies (Chair)