

\ Report

Independent Assessment of the Proposed Budget for 2018/19 and the Adequacy of Reserves held

Powys County Council

January 2018

Chris Tidswell FCPFA

Mobile: 07825 190321
Contact Centre: 0207 543 5600

CIPFA
The Quadrant
Sealand Road Chester
Cheshire CH1 4QR
www.cipfa.org



This report has been commissioned by the Powys County Council Head of Financial Services to provide an independent review and assist in the assessment of how the Council has developed its budget proposals in line with the requirements of the The Local Government Act 2003. This (the Act) requires an authority's Chief Finance Officer, Section 151 Officer (the Head of Financial Services), to make a report to the authority when it is considering its budget and Council Tax. The report must provide assurance on the robustness of the estimates, highlighting the risks associated with its deliverability and the adequacy of the reserves allowed for in the budget proposals.

This CIPFA report details our brief, approach, findings and conclusions. As with all public sector organisations including local government the challenges of providing public services with diminishing resources means having a clear understanding of the financial position, risk and options when making decisions. This report highlights our findings at Powys and indicates conclusions around further activity and direction.



Chris Tidswell FCPFA

Head of CIPFA Wales

CIPFA

1. Introduction

- 1.1 The Local Government Act 2003 requires an authority's Chief Finance Officer, Section 151 Officer (the Head of Financial Services), to make a report to the authority when it is considering its budget and Council Tax. The report must provide assurance on the robustness of the estimates, highlighting the risks associated with its deliverability and the adequacy of the reserves allowed for in the budget proposals.
- 1.2 This report has been commissioned by the Head of Financial Services to assist her in this assessment. CIPFA has been asked specifically to provide an independent review of how the Council has developed its budget proposal in terms of:
 - How well it understands the financial position it faces;
 - The risks embedded within the proposal and how these will be managed;
 - The robustness of the savings plans;
 - The level of reserves maintained and their adequacy;
 - The process in place for monitoring the delivery of the proposal during the forthcoming year.
- 1.3 In order to carry out this work we have reviewed a series of reports and presentations and interviewed a number of senior officers and Members. In the time available we have not been able to test the accuracy of the numbers nor have we been able to validate how well the various processes operate in practice. Our report relies on the accuracy of the documentation provided to us and on the representations provided by officers and Members. A list of the documents reviewed is provided in Appendix 1 of this report while a list of interviewees is provided in Appendix 2.

2. Budget Context

- 2.1 The Council's budget for 2018/19 is set in the context of continuing financial pressure due to reductions in the level of external funding. At the time of writing this report the final settlement figure for the 2018/19 Welsh block grant was known but had not been considered by Members. The budget for the year has now been based on an assumed reduction of 0.4% in the level of external funding and a 5.0% increase in Council Tax.
- 2.2 The local context affecting the Council's funding and demand for services is heavily influenced by Powys being sparsely populated with a wide geographic area requiring services. It has a higher than average elderly population that is predicted to increase at a rate that is significantly greater than the national average.
- 2.3 Conversely the county's younger population is declining with a reducing birth rate and a sizeable outward migration of young people looking for further educational and career opportunities being the main contributors to this trend.

- 2.4 These factors in combination are presenting significant challenges. The provision of services to a dispersed and relatively small population is expensive as a result of greater transport costs and the demand for facilities to be delivered locally or within a commutable distance. Additionally, a consequence of an ageing population is the increased demand for more complex and therefore more expensive care support.
- 2.5 A recent inspection of the Council's services for children has been critical of the standard of service provided to the extent that an Improvement Board has been set up reporting directly to the Welsh Government minister. Furthermore, the Council will be subject to an inspection of Adult Services later in January and in its internal assessment the Council has identified that some improvements need to be made. Partly as a result of these reports, and because of increased service demands, the Council has identified additional service pressures, included in the draft 2018/19 budget amounting to £4.6m for Adult Services and £6.2m for Children's Services. Together with additional funding requirements for other services the draft budget for 2018/19 has a total of £14.7m for additional service pressures for the year.
- 2.6 Despite the challenges being faced the Council continues to develop and refine its strategic financial planning arrangements and takes a longer term approach to forecasting. The summary Financial Resource Model that we have seen covers the period 2018/19 to 2022/23 in terms of outline planning totals.
- 2.7 We understand that the Council has delivered substantial savings over the last few years amounting to £73m between 2012/13 and 2017/18. However, we are also aware that the Council's ability to deliver planned savings has decreased from 84% in 2013/14 to 76% in 2015/16 and that, at the end of that year, the level of unachieved savings was £3m. At the end of 2016/17 the equivalent figure was £2.5m which represents 79% delivery. We set out the position for 2017/18 in more detail in Section 5 of this report.

3.0 Robustness of Budget proposals

3.1 Budget Setting Process

- 3.2 As a result of the council elections in May 2017 a new administration was formed to run the Council based on a coalition of Conservative and Independent Members. Approximately 50% of the current Members of the Cabinet are in their first term of office. As a result the Director of Resources and the Head of Financial Services ran a series of Financial Briefing Workshops for the Cabinet to increase their understanding of the financial processes and position of the Council. The induction has been followed up by a series of Budget Workshops during September and October 2017.
- 3.3 The development of the budget has continued through a second round of workshops with the Cabinet and the full Council in November and December 2017 culminating in a full Council Budget Seminar on 19 December 2017.

The objective of this session was "To provide an update on the budget proposal being developed by Cabinet further to the Council Seminar held on 29th November 2017 and to provide Members with a better understanding of the savings proposed within the budget". We have reviewed the slides used in the seminar and they provide a clear indication of the Council's budget position for 2018/19 and for the period of the Medium Term Financial Planning period from 2018/19 to 2022/23.

- 3.4 The overall Medium Term Financial Planning position of the Council has been controlled through the Financial Resource Model (FRM). For the 2018/19 budget cycle Directorate Financial Resource Models have been introduced. These have been designed to enable each Service and Directorate to consider, record and plan their individual financial strategies as well as inform the corporate financial decision making process. These will also ensure that all the relevant information is submitted into the process in a structured, equitable way and will improve the overall decision making at a corporate level.
- 3.5 The Council has recognised that It is essential that financial decisions are undertaken at a whole council level, providing a more transparent view of the Council's available resources, the impact of decisions across the whole Council and the effective alignment of resources across both capital and revenue budgets to deliver the Council's "Vision 2025". Although it may be seen as reducing decision making at a service/Directorate level it is designed to ensure that the use of resources is prioritised by effective financial planning at a corporate level.
- 3.6 The FRMs that have been developed were intended to cover a 5 year period but not all directorates have fully developed their plans for the period after 2018/19. The FRMs have been designed to capture everything of a financial nature including the following: -
- General Pay and Price pressures;
 - Contract Pressures – Inflationary uplifts, risk of price changes at retendering;
 - Service Demand Pressures;
 - Demographic Changes – rising or falling;
 - New responsibilities – e.g. Statutory, regulatory changes;
 - Additional Income Streams – demand led increases;
 - Expected Capital Receipts;
 - Grant Income increases;
 - Grant Income reductions or transfers into the settlement;
 - Capital requirements;
 - Mitigating action to deal with pressures;
 - Savings;
- 3.7 The Directorate Management Team will own the FRM and its content and take the appropriate action to mitigate cost pressures. At specific points in the cycle the FRMs will be forwarded for discussion at Corporate Management Team. The plans are 'live' documents and will be updated on a continual basis as implications become known.

There will be cut off points for data to be included in the overall budget proposal as the Cabinet makes its final decisions each year. The FRMs will capture Revenue and Capital considerations. In terms of the process for approval the FRMs will be approved first by Directorate Management Teams, then by the Corporate Management Team before the final sign-off by the Cabinet.

3.8 At a more detailed level Finance Business partners have worked closely with Heads of Service and Directorate Management Teams to ensure that the budget process has operated as intended and that financial information is robust and comprehensive.

3.9 We have reviewed the budget planning process and the use of FRMs in each directorate and we have discussed the effectiveness of both with Service Directors. In terms of comments from Directors these may be summarised as follows:

- There is a well established system although it has changed this year;
- The forms and documentation are fine;
- There is more involvement of budget holders and the process is more open;
- Financial support has been good but input from Business Partners can be inconsistent and there is scope for improvement;
- The process is now more thorough and better focused;

3.10 Overall, Directors consider that the process is working well and that budget holders are more closely involved with decision making despite the increased emphasis on central control of priorities. On the basis of our review of documents and the interviews that we have carried out we are satisfied that the Council has implemented a robust and effective budget planning process that aligns the use of resources with the Council's overall priorities.

3.11 Impact Assessment

3.12 The Council has taken steps to increase its awareness of the consequences of savings and to ensure that it is taking into account legislative requirements. The scale of the reductions required means that the Council must assess the impacts carefully.

3.13 All budgetary proposals carry associated impacts – whether it is an impact on service delivery, equality and poverty, Welsh language, well-being of future generations, safeguarding, or a combination of any or all of these. There must be an appropriate balance struck between, on the one hand being aware of the impact and seeking to avoid or mitigate adverse impacts and, on the other, the benefit gained from making the saving. It is therefore inevitable that a certain, manageable amount of risk is inherent within the budget.

3.14 In order to ensure a consistent approach to impact assessment the Council has introduced an Impact Assessment form that must be completed for every service change proposal. The form is part of a toolkit that was introduced in April 2017. A comprehensive list of all Impact Assessment forms is maintained by the Council.

We understand that the use of the forms has been acknowledged by the Wales Audit office. However, our interviews with Directors revealed the following summary of comments, forms may:

- Confuse equality with financial impacts;
- Be too detailed and take too long to complete;
- Result in a slow process that needs review;
- Are useful but need to be refined.

3.15 The combined impact assessment approach helps to ensure statutory compliance with key legislation and it provides a useful summary of how service proposals have been developed. However, the process appears to be slightly cumbersome in operation. We recommend that the toolkit should be reviewed to see if a more streamlined and effective approach can be designed. This needs to be carried out as a matter of some urgency as potential savings for 2019/20 will need to be identified early in 2018/19. We will refer to this issue again later in this report.

3.16 Risk Management

3.17 There are a number of risks associated with any budget plans. We understand that in 2014 the council revised its approach to risk management and this is now managed on a corporate basis with regular reports to the Strategic Overview Board and Audit Committee. A risk assessment has been undertaken of each of the budget savings proposed by service areas. This assessment identifies the deliverability of the saving, along with the likely impact to service delivery.

3.18 The risk assessment allows a risk status to be attached to each saving, and significant risks are monitored within project or service risk registers. The corporate risk register has also formed part of the background data assisting the budget setting process.

3.19 The following specific risks have also been considered:

Budget Savings – The level of savings required in 2018/19 was set out in the Council Budget Seminar as £8.6m. This is a very significant level of saving to be achieved particularly in the light of the Council's recent record on the actual implementation of savings referred to above. Any unforeseen delays in implementation will impact on the achievement of the reductions required. Progress on the delivery of agreed savings targets will be reported to Cabinet on a monthly basis. Plans within service areas need to be managed robustly in order to limit any underachievement and monthly budget monitoring and savings delivery monitoring ensures that the Cabinet has visibility of financial performance.

One-off Funding Adjustments – The Revised FRM in the Council Budget Seminar contains one-off funding adjustments of £11.9m in order to achieve a balanced budget. Although this is acceptable in 2018/19 it increases the risk of not achieving a balanced budget in succeeding years as, by definition, it can not be repeated.

In effect potential underspends are carried forward in the base budget and hence further savings will need to be found for 2019/20. This is a serious area of risk and we will return to this issue in Section 7 of this report.

Inflation – Pay Awards have been included at 2% for 2018/19. Other key inflationary factors have also been included, but with the current low rate of inflation the majority of non pay budgets have been cash limited. Regular updates provided by the Council’s advisers will assist in reviewing the position on a regular basis.

Employers’ Pension Contribution – In 2017/18 the actuarial evaluation of the pension fund identified an increased pension fund deficit. Following discussion and negotiation with the Actuaries it was agreed that the Council would pay an employers’ contribution rate of 18.7% plus a fixed lump sum each year. An additional £750k per annum was included in the budget proposal for 2017/18 and the two subsequent years to meet these additional costs. Accordingly, the budget proposal for 2018/19 includes additional expenditure of £750K for this item.

Income – The budget is supported by approximately £60m of generated income and therefore services need to constantly review their income levels and develop creative plans to ensure that they are sustained. This risk is being mitigated by an overall strategy for income and a move to full cost recovery wherever appropriate and annual uplifts to keep in line with rising cost. The Council will approve the Fees and Charges Register at its meeting on 22 February 2018.

Council Tax – Collection rates continue to be good in Powys at 97.67% at the end of a financial year with the figure rising above 99.06% after the accounts have been closed. The 2018/19 budget proposal contains a 5.0% increase in Council Tax but the future assumed collection levels will be kept under review.

Equal Pay – The Council has mitigated the financial risk of potential future equal pay claims by holding a reserve to support these costs. This is kept under review.

Treasury Management – The revenue budget and capital programme are supported by daily cash movement managed within the Council’s borrowing and investment strategies, the financial climate has a significant impact on these activities. The Council continues to monitor these on a daily basis. Any variation in the cost of borrowing is being mitigated by a proactive approach to refinancing borrowing wherever possible. This ensures that wherever possible the Council’s long term borrowing for capital projects takes advantage of the historically low level of debt interest.

Change Delivery Capacity – Although the Council will achieve a balanced budget in 2018/19 future years from 2019/20 to 2022/23 include savings that are described as “Transformation required to balance budget”. In effect the use of one-off adjustments in 2018/19 is storing up budget pressures for future years. Although the Council is well aware of this issue we consider it to be a major area of risk over the period of the current Medium Term Financial Strategy. We will return to this issue in Section 7 below.

Variations to Settlement Assumptions – The Council makes every effort to ensure that its assumptions about budget settlements for future years are based upon the best available evidence.

However, future settlements cannot be predicted with absolute accuracy and can be influenced by political and economic policy changes.

Political Approval of Budget – The Council is required under the Local Government Act 2003 to set a balanced budget for the forthcoming financial year, and this must be approved by Full Council. The date set for approval is 22nd February 2018.

Adequacy of the Authority's Insurance Arrangements – The Council's insurance arrangements are a balance between external insurance premiums and an insurance reserve to "self insure". The Council also uses the services of an external insurance advisor to provide additional expertise in managing its insurance arrangements.

4 The Monitoring Process

4.1 The Council has well established budget monitoring and internal control arrangements and these act as an effective early warning system in identifying potential problems and for managing potential areas of risk. Finance Business Partners are located centrally within the Resources Directorate but they work closely with Directors and Heads of Service. The Council recognises that there is inconsistency in the approach adopted by Business Partners but training has been put in place to address this issue. We discussed budgetary control procedures with Directors and in summary their comments were as follows:

- Finance have been very helpful in working with managers;
- Budget monitoring reports are produced on a timely basis and there is good financial support;
- Business Partners are sometimes invited to Directorate Management Team meetings but this appears to be inconsistent;
- One to one meetings of Business Partners with Heads of Service are seen as very helpful but they do not appear to occur consistently.

4.2 Monthly reports are provided to Budget Holders, Heads of Service, Strategic Directors and Cabinet. The reports monitor performance against budget with full year forecasting and variance reporting, the delivery of savings and the forecast use of reserves are also included.

4.3 Budget Challenge events are also undertaken throughout the year to challenge financial performance at a service level. No service area should plan to overspend, all expenditure should be consistent with approved service priorities and the overall approved budget.

4.4 Various Scrutiny fora involving members are also in place.

4.5 This ongoing regular review highlights problems and risks early so that corrective action can be put in place and this is supported by a clear virement process which provides some flexibility to adapt expenditure patterns to meet changing needs and objectives.

4.6 As part of our work we reviewed the Financial Overview and Forecast Report as at 30th November 2017 that was to be presented to the Cabinet Executive on the 9th January 2018. The report is comprehensive in that it provides information covering:

- A summary Revenue forecast for the year;
- A Revenue forecast by Directorate;
- The current position on efficiency savings and a sensitivity analysis on the confidence of delivery;
- A deficit recovery plan;
- A statement on the projected level of reserves at the year end.

4.7 We had some concerns over the timeliness of reporting but we were assured that, although the end of November figures were not being reported formally to Members until the 9th January 2018, monthly figures are available by the 11th working day after each month end. In addition the month end figures are examined informally by the Cabinet two weeks before the formal Cabinet meeting.

4.8 Based on our review of the available documentation and our discussions with Directors we have formed the view that there are good arrangements in place for budget monitoring and control although there is scope for further improvement as outlined above. Reporting appears to be timely and to the appropriate fora thus providing time for corrective action to be taken in year.

5. Current year position

5.1 The overall financial position for the Council for the 2017/18 financial year is a forecast overspend of £4.5m, excluding HRA and Delegated Schools, as at the end of November 2017. The table below shows the breakdown of the overspend:

Summary Forecast by Directorate	Total Working Budget	Approved Use To / (From) Reserves	Forecast Spend	Variance (Over) / Under Spend	
	£'000	£'000	£'000	£'000	%
People	71,025	2	77,417	(6,392)	(9)
Place	38,494	(8,153)	37,754	740	2
Schools	24,459	(1,158)	24,983	(524)	(2)
Resources	18,261	(554)	18,068	193	1
Central Activities	12,299	(456)	10,785	1,514	12
Total	164,538	(10,319)	169,007	(4,469)	(3)
Housing Revenue Account	0	(53)	(108)	108	
Schools Delegated	75,442	(2,027)	75,578	(136)	(0)
Total including HRA and Delegated Schools	239,980	(12,399)	244,477	(4,497)	(2)

- 5.2 The largest contributor to this overspend is the People Directorate which shows a projected figure of £6.4m. Within this total £4.5m is due to Children’s Services and £1.9m from Adult Services.
- 5.3 Included within the forecast is an efficiency saving target of £11.78m which is made up of in year and undelivered previous years’ targets. We understand that the forecast above includes only those savings that have been achieved or have progressed to a point where there is confidence in final delivery taking place. The efficiency savings target of £11.78m is made up as follows:

Financial Year	Target £’000	Delivered £’000	Variance £’000
2015/16	1,323	44	1,279
2016/17	841	476	365
2017/18	9,616	6,546	3,071
Total	11,780	7,066	4,714

- 5.4 The Council has carried out a sensitivity analysis for the delivery of the savings figures and the potential impact on the outturn position. This shows that the overspend could be reduced to £3.8m if all savings with a RAG Amber rating could be achieved and an underspend of £245K could be achieved if all savings are delivered.
- 5.5 In order to mitigate the projected overspend a Deficit Recovery Plan was submitted to the October meeting of the Cabinet. This set out £2m of actions to be pursued to reduce the level of the projected overspend. These actions were to:
- Place Directorate to transfer capital costs currently funded from Revenue totalling £564K;
 - Seek a capitalisation direction of £500K for transformation costs;
 - Fund £1m of additional spending from capital rather than revenue so that reserves set aside for capital can be used to fund revenue instead.
- 5.6 The Council is intending to fund the remaining £4.5m overspend by making one-off adjustments to the Minimum Revenue Provision. These adjustments are explained fully in a separate report being presented to the Cabinet Executive on 16th January 2018 so we have not repeated that information here. The adjustment has been agreed with the Council’s Treasury Advisers.
- 5.7 The net effect means that there will be no budget deficit at the end of 2017/18 but the overspend will remain in the base budget for 2018/19. Further adjustments to the MRP in 2018/19 and subsequent years of the MTFs will be available to support services.

5.8 Based on our review of the various reports referred to above and our discussions with Directors we are of the view that the Council is well aware of the likely overspends for 2017/18 and that appropriate action has been taken to meet the overspend. Timely action has been taken through the Deficit Recovery Plan and by making one-off adjustments to the MRP.

6. Budget Position 2018/19 and 2019/20

6.1 In the Revised Financial Resource Model presented to the Council Budget Seminar on 19th December 2018 the following table shows a balanced budget for 2018/19 and a budget deficit for 2019/20 of £14.7m. The table also shows an increasing cumulative deficit for the years after 2020/21 in the MTFS.

	2018/19	2019/20	2020/21	2021/22	2022/23
	£000's	£000's	£000's	£000's	£000's
Council Tax Increase	3.75%	3.75%	3.75%	3.75%	3.75%
Funding reductions	-1.0%	-2.5%	-2.5%	-2.5%	-2.5%
Net Budget	240,192	245,226	243,630	242,247	241,074
Grant Transfers / New Responsibilities	4,567	0	0	0	0
Pension Requirements / Levies	1,274	900	750	750	750
Other Pressures Agreed	5,003	5,822	1,690	1,713	1,747
Savings Identified	(8,586)	(576)	(14)	(32)	0
To/(From) Reserves	800	(140)	0	0	0
Impact of Decision HWRCs	100	0	0	0	0
Total Budget	243,351	251,232	246,057	244,677	243,571
AEF	172,644	168,328	164,120	160,017	156,017
Council Tax	72,581	75,302	78,126	81,056	84,096
Surplus / (Shortfall)	1,874	(7,601)	(3,810)	(3,604)	(3,458)
Real cost of capital	1,563	0	0	0	0
2018/19 Service Pressures	14,725	0	0	0	0
Review of original FRM pressures	(1,639)	0	0	0	0
5% increase in Council Tax	(874)	(33)	(34)	(35)	(37)
One off funding	(11,900)	7,100	100	4,000	1,000
Revised Surplus / (Shortfall) In Year	(0)	(14,669)	(3,876)	(7,568)	(4,422)
Cumulative Shortfall		(14,669)	(18,545)	(26,113)	(30,535)
Transformational Change		14,669	3,876	7,568	4,422

6.2 We have reviewed the various papers that explain the budget position for the first two years and we are satisfied that the processes that the Council has in place to identify service pressures and savings are robust. We have described these processes in the previous sections of this report. Our discussions with Directors and Members confirms that there is a clear understanding of the financial position both now and in the future. There is evidence of a commitment to achieving a balanced budget for 2018/19.

- 6.3 The table above highlights the additional service pressures for 2018/19 over and above the already agreed service pressures. The detailed summary FRM that we have seen shows that these additional service pressures for 2018/19 amount to £14.7m. This figure is met by additional resources found through a review of the FRM and by one-off funding adjustments. This latter group contains three large items those being:
- Draw on the Adult Social Care Reserve - £2m;
 - Back dated MRP adjustment - £5m;
 - Other Reserves – 21st Century Schools - £2m.
- 6.4 Although a significant part of the funding arises from a one-off adjustment we are of the view that the Council will achieve a balanced budget in 2018/19. However, the deficit for 2019/20 amounts to £14.7m and, without further action, the cumulative deficit would reach £30.5m by 2022/23. At the moment the table shows that this deficit will be eliminated by “Transformational Change” but there is currently no explanation of what this means for the Council nor how the savings will actually be achieved.
- 6.5 We have discussed this issue at length with the Directors and with the Cabinet Member for Finance and we are of the view that the Council is well aware of the seriousness of the problems that it faces and note that there is no plan currently in place to find the required level of savings. Given that the budget cycle for 2019/20 will now commence in the Spring of 2018 there is very limited time to identify what Transformational Change will entail let alone implement measures that will lead to significant savings.
- 6.6 Notwithstanding our remarks we are aware that plans are in place to initiate the process of Transformational Change starting with an Awayday for the Corporate Management Team on the 15th January 2018. This will enable the Management Team to start the discussion and it will be followed up with a meeting with the Cabinet. The Director of Education has been given responsibility for the development of a Corporate Improvement Plan and a Corporate Leadership and Governance Plan. Both of these will, be set within the context of the Council’s “Vision 2025”. At the moment there is no Transformation Programme but the 2025 Vision will be the basis of the way forward.
- 6.7 We understand that Programmes and Projects will be developed to deliver well-being objectives and outcomes identified within the 2025 Vision. Identified projects will be supported by a robust business case. The council’s adopted approach to undertaking Impact Assessments will also need to be completed.
- 6.8 The resource requirements to deliver the projects will be considered through the ‘Making it Happen’ workstream which will be led by the Acting Chief Executive. Additional resources identified to deliver these schemes will be incorporated into the Resource Plan and where appropriate additional funding requests will be considered from Management of Change funding.

6.9 All of the financial considerations will be incorporated into the Financial Planning Cycle and built into the 5 year plan if the project is approved.

Projects for investment must be considered in terms of the Vision 2025 and the well-being objectives and reviewed alongside other projects in a more holistic and strategic way and prioritised accordingly.

6.10 Our overall conclusion on the Council's current position can be summarised as follows:

- The Council has sound processes in place to set a balanced budget for 2018/19. From the evidence that we have seen the Council will be able to set a balanced budget at its meeting on the 22nd February 2018;
- Directors and members appear to be acutely aware of the deficit position in 2019/20 and of the need to take action urgently;
- The savings required in 2019/20 and beyond depend on Transformational Change but there is no current definition of what that means;
- Plans are being developed within the context of the Council's "2025 Vision" to address this issue but we are very concerned that there is very little time to decide on the steps required and to implement savings measures in time for the 2019/20 budget cycle. We consider that this is an area of high risk for the Council and one that needs urgent attention early in 2018.

7 Reserves

7.1 The Reserves Policy establishes a framework within which decisions are made regarding the level of reserves held by the Council and the purposes for which they will be maintained and used.

7.2 The use of reserves and the levels at which they are maintained is determined on an annual basis as part of the Council's Budget setting process

7.3 Financial Indicators for Reserves

7.4 The holding of reserves is a matter for each authority to determine as part of sound financial management. As part of our work we reviewed the indicators included in the Budget Assessment Report for 2017/18 and this showed that the County was maintaining reserves at a level broadly in line with that of other Welsh authorities.

7.5 In terms of specific ratios we have seen reports to show that the Council monitors the following ratios including comparison with other Welsh authorities:

- Usable reserves as a percentage of gross revenue expenditure;
- Earmarked reserves as a percentage of gross revenue expenditure;
- General reserves days' turnover.

- 7.6 Given the timing of this report we are not able to calculate similar ratios for 2018/19 as the final figures for reserves are not yet available. However, we are able to comment, in broad terms, on the figures included in the Council's Financial Overview and Forecast Report as at 30th November 2017 which was presented to the Cabinet Executive on 9th January 2018. We are also able to comment on the Council's processes for monitoring the level of reserves required.
- 7.7 Based on the reports that we have seen and our discussions with officers we are aware that the Council monitors the level of reserves held on a regular basis throughout the year. The level of reserves and their forecast use is reported monthly to Cabinet as part of the budget monitoring process. The Budget Scrutiny Panel is also provided with information on the levels and use of Reserves to enable it to fulfil its scrutiny role. Final decisions on the year end position are made in the annual budget cycle and during the closing of the accounts.
- 7.8 The table below reports the opening and projected balance of the reserves held, forecast to the 2017/18 year end, as at 30th November 2017. As at this date the projected overspend in 2017/18 will reduce the forecast level of General Fund reserves at 31 March 2017 to £3.4m compared with an opening balance of £8.6m.

Summary	Opening Balance (1st April 17) Surplus / (Deficit)	Forecast Addition / (Use) of Reserves	Forecast (Over) / Under Spend	Projected Balance (31st March 18) Surplus / (Deficit)
	£'000	£'000	£'000	£'000
General Fund	8,585	(778)	(4,469)	3,338
	8,585	(778)	(4,469)	3,338
Ringfenced & Specific Reserves				
Budget Management Reserve	3,484	100		3,584
Specific Reserves	1,902	(285)		1,617
21st Century Schools Reserve	6,297	(1,581)		4,716
Adult Services Reserve	2,750	0		2,750
Regeneration Reserve	100	100		200
Invest to Save & Corporate Initiatives (inc JB)	5,300	(562)		4,738
Insurance Reserve	2,394	(46)		2,348
Transport & Equipment Funding Reserve	6,199	(7,238)		(1,039)
Sub-Total	28,426	(9,512)	0	18,914
Schools Delegated Reserves	486	(2,078)	(136)	(1,728)
School Loans & Other Items	(494)	51		(443)
Net School Delegated Reserves	(8)	(2,027)	(136)	(2,171)
Total Ringfenced & Specific Reserves	28,418	(11,539)	(136)	16,743
Housing Revenue Account	1,761	(82)	108	1,787
	1,761	(82)	108	1,787
Total Revenue Reserves	38,764	(12,399)	(4,497)	21,868

7.9 From our discussions with officers we are aware that the following adjustments are yet to be made and that further adjustments are likely to be made before the year end:

- The balance on the General Fund is shown before the adjustment for MRP described earlier in this report;
- For 2018/19 the Budget Management Reserve will be considered alongside the General Fund Reserve so that the total balance will meet or exceed the Council's target of 3% of net revenue expenditure, excluding the delegated schools budget;
- We understand that the 21st Century Schools Reserve is to be released in 2018/19 to fund revenue expenditure;
- The Transport and Equipment Reserve was set up to fund vehicle purchases and this will continue to be used for this purpose;
- The Schools Delegated Reserves are showing a projected balance of (£1,728m) as at 30th November 2017. This is due to falling pupil numbers and funding levels that have not kept pace with inflationary pressures. The reserves position is projecting an overall deficit position for 31 March 2018, at which point the risk will then fall on the General Fund of the Council. As a result the Council is planning to take appropriate action in this area with formal intervention by the Council including the possible withdrawal of delegation. The 2018/19 FRM for schools includes an element of £1.7m for redundancy costs;
- The HRA Reserve is specific to meet Welsh Quality Standards;
- In addition, each reserve will be assessed particularly those held for specific purposes to establish if the reserve is still required.

7.10 Based on the work that we have carried we are satisfied that the Council has appropriate procedures in place to monitor the level and use of reserves and that it takes a prudent approach to the management of those reserves.

8 Conclusions

8.1 Based on the work that we have carried out as defined in Section 1 of this report we have been able to reach the following conclusions:

- The Council has appropriate procedures in place to set a robust budget for 2018/19. Notwithstanding this conclusion the budget has been balanced using one-off accounting adjustments with the result that inherent budget pressures will be carried forward in the base budget for subsequent years;
- Based on our discussions with officers and Members we are satisfied that the Council is well aware of the difficult financial position that it is facing and that it will need to monitor the budget closely during 2018/19;
- We are 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 although, at the time of writing this report, further adjustments to reserves will be required at the year end.

- 8.2 Our major area of risk relates to the financial position for 2019/20 and beyond. Although the Council is well aware of the financial problems that it is facing, there is a significant potential risk that insufficient action has been taken to address the issues. The revised FRM presented to the Council on 19th December 2017 shows a shortfall of £14.7m in the budget for 2019/20 with the cumulative deficit rising to £30.5m by 2022/23. At the moment the required savings are to be delivered by “Transformational Change” but that change has not yet been specified and plans do not yet exist. Given the time required to effect major change we are of the view that this is an area of high risk for the Council and it is the major challenge facing the Council in 2018.
- 8.3 We have seen documents that suggest that the Council is taking steps to address the problem commencing with an awayday for the Corporate Management Team on the 15th January 2018. We are aware that the Council has developed a “2025 Vision” and within that there is a Corporate Development Plan and a Corporate Leadership and Governance Plan. These are positive steps that are being taken by the Council but we would stress the urgency required to tackle this area of high risk and to plan the necessary transformational change early in 2018 if solutions are to be implemented in time to affect spending decisions in the 2019/20 budget cycle.

Appendix 1

List of Documents Reviewed

DOCUMENT	DATE
Various Cabinet Induction Workshop Presentations	May to July 2017
Various Budget Workshop Presentations	November/December 2017
Various Cabinet Budget Workshop Presentations	September to October 2017
Council Budget Seminar Presentation	19 December 2017
Directorate Financial Resource Models	December 2017
Financial Resource Model - Summary	December 2017
Budget Savings Summary 2018/19 to 2022/23	December 2017
Financial Planning Framework	October 2017
Various Impact Assessment forms	Various
Assessment of the Robustness of Proposed Budget for 2017/18 and Adequacy of Reserves Held	23 January 2017
Changes to the Minimum Revenue Provision	16 January 2017
Financial Overview and Forecast as at 30 November 2017	9 January 2018

Appendix 2

List of Interviewees

NAME	TITLE
Jane Thomas	Head of Finance & Acting S151 Officer
Philip Evans	Interim Director of Social Services
Ian Budd	Director of Education
CLlr Aled Davies	Portfolio Holder for Finance
Mark Evans	Acting Director of Resources
Paul Griffiths	Strategic Director, Place
David Powell	Acting Chief Executive



The Chartered Institute of
Public Finance & Accountancy

77 Mansell Street, London E1 8AN
T: +44 (0)20 7543 5600 F: +44 (0)20 7543 5700
cipfa.org





The Chartered Institute of
Public Finance & Accountancy

77 Mansell Street, London E1 8AN
T: +44 (0)20 7543 5600 F: +44 (0)20 7543 5700
cipfa.org



CIPFA, registered with the Charity Commissioners of England and Wales No.231060. CIPFA Business Limited, the trading arm of CIPFA, registered in England and Wales no.2376684. Registered Office: 77 Mansell Street, London E1 8AN