

**CYNGOR SIR POWYS COUNTY COUNCIL**

**AUDIT COMMITTEE**

**15<sup>th</sup> April 2016**

**REPORT AUTHOR: David Powell, Strategic Director – Resources**

**SUBJECT: WAO Report on Financial Resilience**

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**REPORT FOR: Information**

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**1.0 Introduction**

**1.1** The Council has been subject to an assessment by WAO on its Financial Resilience. The assessment was undertaken during the period May to October 2015, and followed up issues highlighted in the 2014-15 financial position work. The focus of the work was on delivery of 2014-15 savings plans, and the 2015-16 financial planning period.

**1.2** Good financial management is essential for the effective stewardship of public money and the delivery of efficient public services. Good financial management:

- Helps councils take the right decisions for the short, medium and long term;
- Helps councils deliver services to meet statutory obligations and the needs of local communities;
- Is essential for good corporate governance;
- Is about managing performance and achieving strategic objectives as much as it is about managing money;
- Underpins service quality and improvement;
- Is the basis of accountability to stakeholders for the stewardship and use of resources; and
- Is a key management discipline.

**1.3** Long-term financial management is not about predicting the future; it is about preparing for it. Councils need to understand future demand, assess the impact of probable changes, review the gap between funding needs and possible income, and develop appropriate savings strategies.

**1.4** Well-considered and detailed long-term financial strategies and medium-term financial plans can ensure the delivery of strategic priorities by enabling appropriate financial choices. Conversely, short-term annual budget planning alone encourages an incremental and process-driven approach that can be ineffective in a period of rapid external change.

**1.5** Financial resilience is achieved when a council has robust systems and processes to effectively manage its financial risks and opportunities, and to secure a stable financial position.

**2.0 Background**

**2.1** The work undertaken by WAO focused on answering the following question: **Is the Council managing budget reductions effectively to ensure financial resilience?**

Also considered within the report is whether:

- **Financial planning arrangements effectively support financial resilience;**
- **Financial control effectively supports financial resilience; and**
- **Financial governance effectively supports financial resilience.**

**2.2** Given the continuing pressures on funding, WAO has considered whether the Council has appropriate arrangements to plan to secure and maintain its financial resilience in the medium term (typically three to five years ahead). They have also considered evidence of the Council’s approach to managing its finances in the recent past and over the medium term when reaching a view on the Council’s financial resilience. Financial resilience is achieved when a council has robust systems and processes to effectively manage its financial risks and opportunities, and to secure a stable financial position.

**2.3** The assessment was undertaken during the period May to October 2015, and followed up issues highlighted in the 2014-15 financial position work. The focus of the work was on delivery of 2014-15 savings plans, and the 2015-16 financial planning period.

**3.0** **Findings**

**3.2** Overall the report concludes that **the Council is improving its financial management arrangements with the benefit of increasingly rigorous internal scrutiny and challenge, but recognises that it needs to better align and monitor service and financial performance if it is to be confident of achieving its priorities with the resources at its disposal.** This conclusion is based on findings in relation to financial planning, financial control and financial governance arrangements. WAO rated the risk to the Council’s delivery of its financial plan for each of these elements as follows: -

Financial planning	Medium risk	There are some shortcomings in systems, processes or information that may affect the council’s ability to deliver the desired outcomes of its financial plan.
Financial control	Medium risk	
Financial governance	Medium risk	

**4.0** **Financial Planning**

**4.1** **WAO overall assumption: *The Council continues to develop and refine its long-term approach to financial planning, working to integrate and align it with its corporate change and improvement planning.***

**3.2** The Council is improving its financial management arrangements with the benefit of increasingly rigorous internal scrutiny and challenge, but recognises that it needs to better align and monitor service and financial performance if it is to be confident of achieving its priorities with the resources at its disposal.

**3.3** The Council continues to develop its strategic financial planning arrangements, taking an appropriate longer-term approach to forecasting changes to its budget.

This is achieved by means of its Financial Resource Model (FRM). By taking this approach the Council is better able to plan to meet the budget challenges that it faces.

- 3.4 Last year it was highlighted that the Council needed to be clear about how it would resource its identified corporate priorities, and be clear how it would ensure its corporate and strategic financial plans were sufficiently aligned. The Council acknowledged that its financial planning should begin earlier and the initial work for the 2015-16 budget began in May 2014.
- 3.5 Forward identification of savings proposals over a three-year period is a positive development, building greater awareness of future service changes and allowing a longer timeframe for planning.
- 3.6 The review of the arrangements in place and their implementation for the 2015-16 Budget identified that the Council's strategic financial plans and corporate change and improvement plans are developed in parallel and that each informs the other. The Council's future intent and work in progress including development of the cost improvement strategy, should lead to fuller integration and alignment of strategic planning arrangements, and enhance the Council's ability to progress towards achieving its vision and priorities.

## 5.0 **Financial Control**

- 5.1 **WAO overall assumption: *Whilst the Council's overall financial control arrangements are adequate, arrangements for the combined scrutiny of service and financial performance remain less than effective.***
- 5.2 The Finance team has reduced the time between monthly closure and budget reporting to 13 days by completing a lean systems review.
- 5.3 The Council has a clear framework for managing its financial affairs. The Financial Procedures Rules (FPRs) provide detailed guidance on various aspects of the process including delegation for financial controls.
- 5.4 The Council's budget monitoring arrangements are regular and comprehensive.
- 5.5 Financial and performance data are not reported together. The Council has recognised this as a weakness and is looking to establish a Business Intelligence Unit with the aim of better linking finance and performance data.
- 5.6 The Council achieved 80 per cent of the savings it identified for 2014-15 (delivering £14.02 million of savings from a required total of £17.58 million). The £3.56 million of unachieved savings were carried forward for delivery in 2015-16.
- 5.7 The Council improved its approach to monitoring savings delivered in 2014-15 by recording achievement against savings targets on a 'line by line' basis.
- 5.8 The Council recognises that further work is needed to optimise its income and deliver the Council's policy of full cost recovery as outlined in the Statement of Intent 2014-17.

## 6.0 **Financial Governance**

- 6.1 WAO overall assumption: *The Council's developing financial governance arrangements are leading to increasingly rigorous internal scrutiny and challenge of its budget setting and financial performance.***
- 6.2** The Council has made progress on the work started last year with the Centre for Public Scrutiny (CfPS) on strengthening financial resilience through scrutiny.
- 6.3** To help deliver on the recommendations of the Financial Scrutiny Panel (FSP), the Council has produced a three-year MTFs. It has held a workshop for Heads of Service to agree a revised approach to savings monitoring, and reviewed the corporate planning process to look at ways in which it can become more integrated with finance.
- 6.4** The Council has actively sought to increase Member involvement in the budget process.
- 6.5** Scrutiny and challenge happen internally at various stages, undertaken by both officer and member groups. In relation to savings proposals for the 2016-17 budget, the FSP put a series of questions to each Head of Service. This was conducted with rigour and the issues identified for actions appear appropriate.
- 6.6** The work undertaken by the FSP so far, building upon the support from external specialists, has enabled some positive benefits to be derived, although some arrangements are clearly developing and have yet to be fully embedded.

**7.0 Next Steps**

- 7.1** An Action Plan will be developed to respond to the areas of weakness identified within the report. This will be presented at the next available Audit Committee before the Action Plan is presented to Cabinet for approval.

**6.0 Statutory Officers**

- 6.1** The Strategic Director, Resources (S151 Officer) has made the following comment: "The report is welcomed and provides an opportunity to assess progress and apply learning in order to improve the council's financial resilience."
- 6.2** The Solicitor to the Council (Monitor Officer) has commented as follows: "I note the legal comment and have nothing to add to the report."

**7.0 Future Status of the Report**

- 7.1** Not applicable

<b>Recommendation:</b>	<b>Reason for Recommendation:</b>
<b>The Audit Committee notes the attached WAO report and comments on its findings. In addition, Audit Committee will review the action plan when it is brought to the next meeting.</b>	<b>In order to ensure the Authority uses the issues raised in the WAO report to build its financial resilience.</b>

<b>Relevant Policy (ies):</b>			
<b>Within Policy:</b>	<b>Y / N</b>	<b>Within Budget:</b>	<b>Y / N</b>

<b>Relevant Local Member(s):</b>	<b>Not Applicable</b>
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<b>Person(s) To Implement Decision:</b>	
<b>Date By When Decision To Be Implemented:</b>	

<b>Contact Officer Name:</b>	<b>Tel:</b>	<b>Fax:</b>	<b>Email:</b>
Caroline Evans	01597826171		caroline.evans@powys.gov.uk