

CYNGOR SIR POWYS COUNTY COUNCIL.

Governance and Audit Committee

10th February 2022

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REPORT TITLE: Audit Wales Sustainability Assessment

REPORT FOR: Information

1. Purpose

- 1.1 This report sets out the findings of the Financial Sustainability Assessment carried out by Audit Wales during 2020/21 and explains the approach being taken to track and deliver on the proposals for improvement recommended.
- 1.2 The Governance and Audit committee are asked to review the Audit Wales report and to consider the adequacy of the approach and actions set out in this report to respond to the recommendations.

2. Background

- 2.1 Audit Wales undertook assessments between February and April 2021 on the financial sustainability of all Councils in Wales due to the risk to councils putting in place proper arrangements to secure value for money in the use of resources. The assessment work identified that financial sustainability was a key risk to councils' arrangements even before the pandemic occurred. Their report focused on securing value for money when resources are decreasing, combined with rising demand for some services.
- 2.2 An overarching all Wales summary report was produced alongside an individual report for each council.
- 2.3 Powys' Financial Sustainability assessment findings set out 3 proposals for improvement, these are being addressed and as part of the Councils overarching Financial Management (FM) Code annual assessment and will be monitored through the Regulatory Tracker. The proposals are that:-
- The Council needs to formulate and progress its plans to meet the medium term budget gap,
 - The Council needs to ensure that its ambitious capital programme is affordable,
 - The Council continues to ensure that it monitors whether its budget planning processes are having the desired effect and helping to prevent significant overspends in key service areas
- 2.4 Further analysis explains the significant medium-term budget and key risks which could impact on its financial resilience going forward:
- The immediate impact of COVID-19 on the Council's financial sustainability has been mitigated by additional Welsh Government funding

- The Council continues to have a significant medium-term financial budget gap, and the impact of the pandemic has delayed its ability to consider the key actions it needs to take to address this
- With the exception of the 2020-21 financial year, the Council's useable reserves have declined in recent years, and they are relatively low in relation to the net cost of services compared with other Welsh councils
- The Council's performance against budget for 2020-21 shows an improved position compared to previous years
- Despite making incremental improvements to the rigour and challenge to savings proposals, the full quantum of annual savings required is not being achieved
- The Council's financial liquidity ratio is fairly low, but shows a steady position over the last few years

3. **Advice**

- 3.1 Significant progress has been made to improve the Councils' financial sustainability and has been documented as part of our FM Code Assessment. This is a self-assessment that Powys has undertaken in 2021, which is designed to support good practice in financial management and assist local authorities in demonstrating their financial sustainability. It is up to each authority to determine the extent to which it complies with the Code and to identify what action it may wish to take to better meet the standards that the FM Code sets out. It becomes mandatory in 2022.
- 3.2 The FM Code has several components, including CIPFA 6 Statement of Principles of Good Financial Management. The principles are as follows:
- Organisational leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
 - Accountability – financial management is based on medium-term financial planning, which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
 - Financial management is undertaken with transparency at its core using consistent, meaningful and understandable data, reported with appropriate frequency and with evidence of periodic officer action and elected member decision making.
 - Adherence to professional standards is promoted by the leadership team.
 - Sources of assurance are recognised as an effective tool mainstreamed into financial management and include political scrutiny and the results of external audit, internal audit and inspection
 - The long term sustainability of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources
- 3.3 The FM Code translates the principles of good financial management into a series of standards. These standards address the aspects of an authority's operations and activities that must function effectively if financial management is to be undertaken robustly and financial sustainability is to be achieved. The areas covered by the standards are:
- The responsibilities of the chief financial officer (CFO) and leadership team (EMT)
 - Governance and financial management style
 - Long to medium-term financial management
 - The annual budget

- Stakeholder engagement and business plans
- Monitoring financial performance
- External financial reporting.

3.4 The initial self-assessment confirms that of the 63 activities that underpin the 7 standards, 39 are rated green (62%) and 24 rated amber (38%), there were no red rated activities.

Standard	Green	Amber	Red
The responsibilities of the Chief Finance Officer and leadership team	3	6	
Governance and financial management style	9	5	
Medium and long term financial management	6	5	
The annual budget	5	0	
Stakeholder engagement and business cases	4	4	
Monitoring financial performance	6	4	
External financial reporting	6	0	
	39 (62%)	24 (38%)	0

3.5 The initial self-assessment identified a series of actions needed to be delivered through 2021-22, the detail within this will support the Audit Wales proposals for improvement, no separate action plan is proposed to avoid duplication.

3.6 The Council draws upon CIPFA’s pillars of financial resilience and indicators of financial stress as a framework for improvement within its Finance Transformation plan. Symptoms of stress and pillars of resilience are shown in the diagram below:

CIPFA Pillars of Financial Resilience



3.7 The Governance and Audit Committee will review and monitor the delivery of the action plan and will receive an update on the progress being made towards achieving compliance with the FM Code. It is proposed that a workshop session will be

undertaken with the Governance and Audit committee to review the detail of the self-assessment and the proposed action plan.

- 3.8 Audit Wales continue to support councils in assessing their financial sustainability and have rolled out a sustainability tool that brings together all the information they have collected since 2019 from across Wales public sector using a range of financial indicators. We expect to use this as part of our suite of benchmarking information and help us understand how we compare against others and question those similarities and differences. The link to the website:

<https://app.powerbi.com/view?r=eyJrIjoiOTY4ZGE0NzEtYTBJNC00NDE4LWJjMWQtZWQzZDI5NW11YmU0IiwidCI6ImRmZDY5MmYwLTE2YmYtNDQ0OS04OGUzLWU3NmM1ZGZlY2ZlOCIsImMiOiJh9&pageName=ReportSectiona1dd6e25719b0e5900a0>

4. Resource Implications

- 4.1 The resources needed to deliver the improvements and actions set out in the plan are already included in service budgets. Additional resource is also in place to support the Finance Transformation work.

5. Legal implications

- 5.1 There are no legal requirements that need to be highlighted here

6. Data Protection

- 6.1 No issues to report

7. Comment from local member(s)

- 7.1 Not required

8. Impact Assessment

- 8.1 Not required

9. Recommendation

- 9.1 That this report and the response to the Audit Wales Sustainability Assessment is accepted.
- 9.2 That Governance and Audit Committee participate in a workshop session to review the detail of the Financial Management Code self-assessment and the action plan.

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