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Financial Resilience Assessment

Vale of Glamorgan Council

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Status of report

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The person who delivered the work was Janet Smith.

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Summary report

Summary

1. Good financial management is essential for the effective stewardship of public money and the delivery of efficient public services. Good financial management:
   - helps authorities take the right decisions for the short, medium and long term;
   - helps authorities 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.
2. Long-term financial management is not about predicting the future; it is about preparing for it. Authorities 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.
3. 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.
4. Financial resilience is achieved when an authority has robust systems and processes to effectively manage its financial risks and opportunities, and to secure a stable financial position.
5. Given the continuing pressures on funding, in this review we have considered whether the authority has appropriate arrangements to plan to secure and maintain its financial resilience in the medium term (typically three to five years ahead). While there may be more certainty for the authority over an annual cycle, financial pressures impact beyond the current settlement period. We have considered evidence of the authority's approach to managing its finances in the recent past and over the medium term when reaching our view on the authority's financial resilience.
6. We undertook our assessment 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.

7. The work focused on answering the following question: **Is the Vale of Glamorgan Council managing budget reductions effectively to ensure financial resilience?** In this report we also consider whether:

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

8. Overall we concluded that 'the Council's financial arrangements are effective but savings plans need to be developed in more detail for future years'. We came to this conclusion based on our findings in relation to financial planning, financial control, and financial governance arrangements.

9. This report gives a risk rating for each aspect; financial planning, financial control and financial governance. The descriptors for risk ratings are set out below:

Low risk	Arrangements are adequate (or better) with few shortcomings in systems, processes or information. Impact on the authority's ability to deliver its financial plan may be minimal.
Medium risk	There are some shortcomings in systems, processes or information that may affect the authority's ability to deliver the desired outcomes of its financial plan.
High risk	There are significant shortcomings in systems, processes or information and/or there is a real risk of the authority's financial plan not delivering the desired outcomes.

10. We rate the risk to the Council's delivery of its financial plan for each of these elements as follows:

Medium risk	Financial planning
Low risk	Financial control
Low risk	Financial governance

Proposals for improvement

Financial Planning	
P1	Develop more detailed savings plans to cover the period of the Medium **T**erm Financial Plan.
Financial Control	
P2	Develop an income generation/charging policy.
Financial Governance	
P3	Develop Key Performance Indicators to monitor the Medium Term Financial Plan.

Detailed report

Overall the Council's financial arrangements are effective but savings plans for future years need to be developed in more detail

Financial Planning

The Council's financial planning arrangements are sound but savings plans for future years need to be developed in more detail

11. The Council has a corporate framework in place for financial planning. The Council engages with Members and officers, including holding seminars and workshops, to develop and discuss budget and savings proposals prior to formal consideration of the budget in February. The Medium Term Financial Plan (MTFP) forms an integral part of the Authority's corporate planning framework. The MTFP and budgets are set in line with corporate priorities within the resources available and cover the current year and following three years. The MTFP is usually rolled forward annually in the summer of each year and incorporates the Budget Strategy for the next financial year.

12. The Corporate Plan sets out the priority outcomes for the Council, and from these improvement objectives are set. These are reflected in service plans which include key actions and identify savings requirements. The Council's Corporate Plan 2013-17 was approved in 2012 and set out the vision of the Council up to 2017 and is structured around eight corporate priorities. The Corporate Plan was reviewed during the summer and autumn of 2015. The Council has refreshed its vision, values, corporate priorities and improvement objectives. In December 2015 the Council published its draft Corporate Plan 2016-20. The draft Corporate Plan has been influenced by the required outcomes of the Well-being of Future Generations (Wales) Act 2015 and developed to demonstrate the Council's contribution to the well-being goals identified in this Act. The draft Corporate Plan 2016-20 has four well-being outcomes each of which is supported by two well-being objectives.

13. The MTFP was updated in December 2015, which was later than usual to allow for the financial implications of the revised Corporate Plan to be incorporated into the MTFP, thus aligning both plans. The Council carrid out a joint consultation on the draft Corporate Plan and the Draft Budget, which were approved in March 2016.

14. The MTFP is supported by appropriate human resource related policies, such as redeployment, flexible retirement and redundancy policies and an asset management strategy.

15. The Council has a good track record of delivering a balanced budget, albeit that there are some spending variations to planned budget. The majority of in-year savings proposals are delivered as planned and non-achievement of savings plans from previous years are carried forward, where feasible, to future years.

16. The Council's MTFP is underpinned by reasonable assumptions around, for example, inflation, income levels, demographics, and future demand for services. The MTFP for 2014-15 to 2017-18, approved by Cabinet in August 2014, projected a shortfall in funding of £32 million over the period 2015-16 to 2017-18. This included a forecast reduction in funding of four per cent for 2016-17 and two per cent for 2017-18. At that point the Council had already identified savings of £18 million to contribute to meeting the budget gap with a further £14 million being required to close the budget gap. The 2016-17 financial planning assumptions were revised in July 2015 and the 2016-17 budget strategy was approved in isolation, pending the update of the Corporate Plan. The revised assumptions set out in the updated MTFP were based on a reduction in funding of four per cent in 2016-17 and three per cent in both 2017-18 and 2018-19 resulting in a savings requirement of £30.9 million across the three years. At that point savings of £17.8 million had already been identified leaving a shortfall in funding across the three years to 2018-19 of £13.1 million of which £3.247 million related to 2016-17.

17. Following the Comprehensive Spending Review in autumn 2015, the Council was informed that it would receive a more positive Revenue Support Grant settlement from the Welsh Government than the Council had anticipated. The Council is now re-profiling the levels of savings needed to reflect this. It is now forecasting a budget shortfall of approximately £25.3 million over three years rather than £30.9 million. The Council is also revising its Medium Term Financial Plan to reflect this.

18. The Council recognises that delivery of savings proposals is key to achieving a balanced MTFP. The 2015-16 budget included sufficient savings to meet the budget gap and savings proposals were identified on a line-by-line basis. It also included some savings targets for 2016-17 and 2017-18 relating to alternative service delivery and efficiency service reviews, which form part of the Council's Reshaping Services Strategy and Change programme. Detailed savings plans to deliver these savings are subject to the development and finalisation of business cases which are split into two. Tranche 1 business cases are due to be finalised in 2015 for implementation in 2016 and Tranche 2 business cases in 2016 for implementation in 2017.

19. The Council needs to ensure that its change agenda is realistic, while also being sufficiently aspirational. It intends for the Reshaping Services Programme to balance these considerations, rather than focusing on traditional, straightforward savings. A number of the proposals have long lead-in times and require extensive consultation periods. Failure to develop robust business cases that are underpinned by fully resourced and timely project plans may compromise the Council's ability to deliver its savings plans fully. The Council needs to ensure that specific detailed savings plans are developed prior to agreeing the annual budget. The Council recognises the challenges and has sought to develop added resilience and capacity by creating an Operational Manager post that brings together corporate policy, performance and business improvement and aligns the reshaping agenda with policy, budget setting and performance. The Council has also included 'Failure to deliver the Reshaping Services programme' to its Risk Register, demonstrating an awareness of the risk and commitment to monitoring and managing it.

Financial Control

The Council has adequate controls in place for managing its financial affairs

20. The Council has a clear framework for managing the Council's financial affairs. Policies on financial and budget management are embedded in the Council's Constitution, which also defines the roles and responsibilities of Members and Officers.

21. The Council does not have a reserves policy but has always taken a prudent approach to managing its use of reserves. The Section 151 Officer has advised that the minimum balance on the general reserve should be no less than £7 million. This is considered sufficient to cover unforeseen expenditure whilst, in the short term, maintaining a working balance. The level of reserves is reviewed as part of the budget setting process and at the year-end and agreed transfers to and from reserves or establishment of reserves are clearly explained and reported transparently.

The Council is planning to use a considerable amount of its earmarked reserves and to reduce its general reserve over the coming years to support the transitional changes in service delivery. However, the Council recognises that as reserves are a non-recurring means of funding, they can only be used as part of its specific financial strategy. At 31 March 2015 the general reserve was £12.5 million and earmarked reserves £61 million.

22. The Council does not have a corporate income generation/charging policy but general guidance on the level of fees and charges is provided when setting the annual budget. The Reshaping Services Programme includes a work stream to review income generation. The review is due to be completed in March 2016 and this will be used to inform the development of a corporate income generation/charging policy.

23. Budget setting is robust and timely with good Member engagement. The Council has a good track record of spending within its overall budget and proactively managing forecast in-year overspends. Budgets are monitored at Officer and Member level and reported to Corporate Management Team, Cabinet and Scrutiny Committees on a regular basis. Budget monitoring reports include a separate savings monitoring report but the detail in savings monitoring reports is limited.

24. Work carried out by Internal and External Audit during the year has not identified any significant weaknesses in the key financial systems and they are adequate to meet future needs.

Financial governance

The Council's financial governance arrangements are sound and it is seeking to mitigate the risk of having lost strategic financial experience

25. Members, officers and managers across the Council understand the financial challenges and risks the Council faces. The S151 Officer provides Budget Strategy Updates to Directors and Members, by way of seminars, briefing sessions and formal reports, which provide an overview of the budget issues and outlook for the forthcoming financial years, including the resultant budget gaps and potential impact on service delivery.

26. There was extensive consultation on the 2015-16 budget proposals with Members, citizens, business, partners and staff, and the feedback was included in the budget setting report. Where feasible and appropriate the Council acts on constructive feedback.

27. There is a framework in place for reviewing and challenging financial performance. The Council reports monthly on budget performance and savings progress to Corporate Management Team and Scrutiny Members and has increased the frequency of reporting to Cabinet from quarterly to monthly. Workstream savings relating to the Reshaping Services programme are also monitored by the Reshaping Services Programme Board. Budget monitoring reports include explanations of significant variances to planned budget, planned actions to bring budgets back in line and progress on the achievement of planned savings. Whilst the Scrutiny budget monitoring reports include progress on planned savings they lack sufficient detail to enable Members to constructively challenge and understand why savings cannot be achieved. Officers and managers across the Council are aware of the financial challenges the Council faces and are involved in the reshaping services programme.

28. Key financial performance indicators, other than prudential indicators, have not been developed to measure financial performance.

29. The Finance Department is fit for purpose but the retirement of both the Managing Director and Section 151 Officer earlier in the year meant that some strategic financial experience was lost. This, coupled with other staff changes at a corporate level, could have posed a risk, in the short term, to the Council's financial strategy. There is capacity and capability within the finance department to meet the statutory day-to-day requirements but given the scale and pace required to deliver some savings plans additional capacity and specialist skills may need to be brought in. The Council is aware of this and has used external expertise to support some Reshaping Services work, as well as seeking to develop internal capacity and resilience (see paragraph 19). The new Operational Manager responsible for Reshaping Services is a qualified accountant and there has also been a restructuring of the Finance Division with a new post of Operational Manager-Exchequer Services created. The Council has therefore taken steps to mitigate the risk, but new arrangements will inevitably take time to become established.

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