



Financial Planning Assessment

Conwy County Borough Council

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Status of report

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Report

Background to our work

1. Good financial management is essential for the effective stewardship of public money and the delivery of efficient public services, and for ensuring authorities' ability to continue to deliver services to meet statutory obligations and the needs of local communities. It will help authorities take the right decisions for the short, medium and long term. Good financial management:
 - is essential to 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. Managing for the long term is not about predicting the future; it is about preparing for it. Planning involves predicting future demand, assessing the impact of possible changes, reviewing potential gaps between funding needs and possible income and developing appropriate savings strategies.
3. An authority's strategic priorities and its financial health should be the basis for deciding what is practicable. 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 encourages an incremental and process-driven approach that is too inflexible in a period of rapid external change.
4. During the period May to August 2014, the Wales Audit Office examined authorities' financial position and how they are budgeting and delivering on required savings. This work considered whether authorities have robust approaches in place to manage the budget reductions that they are facing to secure a stable financial position that will enable them to continue to operate for the foreseeable future. The focus of the work was on the 2014-15 financial planning period. In order to inform views on the planning for and successful delivery of budgets, we also considered the track record for the previous financial years 2011-12 to 2013-14.
5. The work focused on answering the following question: **Is the authority managing budget reductions effectively to ensure financial resilience?** In this report we set out our conclusions on both track record and future prospects:
 - **Track record** – whether the authority successfully identified, planned for, and delivered the savings required in the period 2011-12 to 2013-14; and, if there was a shortfall, how was this addressed.
 - **Future prospects** – whether the authority has an effective corporate framework for financial planning, exercises effective financial management and control, has a robust framework for reviewing and challenging financial performance; and

whether the authority has realistic plans to make the savings required for 2014-15 and is taking appropriate steps to deliver them.

6. We have analysed a range of data, including the Council's published accounts and its performance returns to Welsh Government and the Local Government Data Unit. We also interviewed a small number of key staff and reviewed reports that the Council and its committees have considered. Our detailed conclusions are set out in [Appendix 1](#) and are based on the extent to which the Council has put in place, and is operating, effective financial management and controls which are supporting it to secure a stable financial position that enables it to continue to operate going forward.

The Council has adequate financial management arrangements with no immediate shortcomings

7. We came to this conclusion because we found that:
- the Council has a good track record in delivering identified savings within year against the planned actions that it approved; and
 - overall, the Council's future plans and arrangements to deliver savings are fit for purpose and are being effectively managed.

The Council has a good track record in delivering identified savings within year against the planned actions that it approved

8. The Council successfully identified, planned for and delivered a range of recurring and non-recurring savings required to meet the budget shortfall between 2011-12 and 2013-14. There were no unidentified savings that needed to be developed at the time the 2011-12, 2012-13 and 2013-14 budgets were approved and the Council's planned reductions and savings were achieved across all three years.

Overall, the Council's future plans and arrangements to deliver savings are fit for purpose and are being effectively managed

9. The Council has an effective corporate framework for financial planning and exercises effective financial management and control. It has a framework for reviewing and challenging financial performance, realistic plans to make the savings required for 2014-15 and is taking appropriate steps to deliver them. It improved its medium-term planning when setting the 2014-15 budget and this will continue to be a discipline that needs to develop.

Proposals for improvement

10. There are no proposals for improvement or recommendations arising from this review.

Appendix 1

Detailed results of our review

Key line of enquiry	Fieldwork Findings	Conclusions
Track Record 2011-12 to 2013-14	<p>The Council has a good track record of delivering identified savings within year against the planned actions that it approved:</p> <ul style="list-style-type: none">• The Council identified a range of recurring and non-recurring savings to fully meet the 2011-12, 2012-13 and 2013-14 budget shortfalls. In 2011-12 the Council identified and fully implemented £5.954 million of savings and efficiencies, including £1.189 million in corporate savings. However, additional costs arising in the year increased the shortfall, which was addressed by increasing the total contributions from reserves from £356,000 to £550,000. The increase of £194,000 is not material from an audit perspective.• In 2012-13 the Council identified and fully implemented £3.569 million of savings and efficiencies of which £922,000 was funded from reserves as planned in the 2012-13 budget. There was a net revenue budget variance of just £85,000.• The Council accurately identified a shortfall of £7.193 million in the 2013-14 budget. This was met by:<ul style="list-style-type: none">£1.695 million (3.88 per cent) Council Tax increase;£5.157 million of savings and efficiencies;£114,000 contribution from reserves; and£227,000 release of provision for losses on collection of Council Tax.	<ul style="list-style-type: none">• The Council accurately identified the budget shortfall in 2011-12, 2012-13 and 2013-14.• The Council identified a range of recurring and non-recurring savings to fully meet the 2011-12, 2012-13 and 2013-14 budget shortfall.• The Council's planned reductions/savings were achieved in 2011-12, 2012-13 and 2013-14.

Key line of enquiry	Fieldwork Findings	Conclusions
<p>Strategic Financial Planning</p>	<p>The Council's corporate framework for strategic financial planning is adequate but some improvements could be made:</p> <ul style="list-style-type: none"> • The Council developed a range of budget proposals reflecting its Corporate Plan and priorities. The framework involves full engagement with Members (eg, Member Budget workshops and working groups). • The Council has developed and published a Corporate Plan for 2012-2017. The Corporate Plan sets out the Council's key priorities where it wants to focus special attention over the next five years to support the needs of the people who live in, work in and visit the County Borough of Conwy. The Council has based the priorities around eight Citizen Outcomes which state the benefits they are seeking for the people of Conwy County. • The Corporate Plan 2012-17 was formally approved in September 2012. Each financial year the Council reviews the Corporate Plan to consider if the improvement objectives are still appropriate to meet the needs of the county, and are still achievable given the economic climate. Improvement Objectives are the Council's key priority areas for improvement where resources will need to be prioritised. • The Council has a performance management framework in place which it uses to review and monitor progress against meeting the Corporate Plan priorities, the service plan priorities, key risks, performance measures, achievements and areas of improvement. • The Council has prepared a Medium Term Financial Plan for 2015-16 to 2017-18 as part of the budget papers for 2014-15. This plan includes estimates of the savings that could be achieved from the various initiatives that are underway. In this longer-term view of its financial planning, the Council estimates that, over the three years from 2015-16, it will need to find additional income and savings totalling some £29.5 million. Some £14.9 million is expected to come from the transformation programmes, leaving a further £14.6 million to come from a combination of other cost savings and future increases in Council Tax. 	<ul style="list-style-type: none"> • The Council has an adequate corporate framework for financial planning. • The Council has a clear vision and aims, and the overall aims are reflected in a coherent set of improvement objectives. • The Council's corporate planning framework effectively supports delivery of corporate visions, aims and improvement objectives; • Improvement objectives are linked to service and financial plans. • Budget-setting supports delivery of corporate visions, aims and improvement objectives. The Council's priorities influence annual budget and savings plans. • The Council has improved its Medium Term financial planning process but it will still need to develop as the financial challenges continue. • The Council does not have a formal policy on the use of reserves. • Appropriateness of reserves is regularly considered by officers and Members.

Key line of enquiry	Fieldwork Findings	Conclusions
Strategic Financial Planning (continued)	<ul style="list-style-type: none"> • The Council has a number of policies on the management of its finance, with responsibilities around budget monitoring clear. • The Council's financial planning framework involves extensive consultation with members via budget workshops. Members engage actively and challenge proposals. • There is an established process for approving a detailed budget and setting council tax for the following year. However, there is no specific policy on the use of reserves. The Council's review of reserves and balances is an ongoing process with annual references within the budget reports. • As is detailed within the <i>Annual Improvement Report</i> issued in May 2014, the Council is using reserves to balance the 2014-15 budget to 'buy time' for further planning – the Council recognises that this is not a sustainable solution for the future. The Council's general fund reserve at the end of 2012-13 represented only 1.1 per cent of gross expenditure, the lowest proportion of all councils in Wales. Other earmarked reserves increased in 2009-10 and 2010-11, but fell in 2011-12 and 2012-13, although remaining higher than the 2009 figure. Earmarked reserves at 31 March 2013 represented 8.5 per cent of gross expenditure, well below the Wales average of 11.3 per cent. 	

Key line of enquiry	Fieldwork Findings	Conclusions
<p>Financial Management and Control</p>	<ul style="list-style-type: none"> • The Council's financial management and control arrangements are robust and are being effectively managed. • The Finance team is professionally qualified and very experienced. • The Council's Financial Regulations include a section on budgets, covering financial planning and budgeting; budgetary control; virement and exceptional supplementary budgets. It is the responsibility of Heads of Service to control income and expenditure within their area and to monitor performance, taking account of financial information provided by the Strategic Director – Finance and Efficiencies. All Heads of Service should report on variances within their own areas to the Strategic Director – Finance and Efficiencies and then to Cabinet. They should also take any action necessary to avoid exceeding their budget allocation and alert the Strategic Director – Finance and Efficiencies to any problems. Virements can only be approved if: <ul style="list-style-type: none"> a) the proposed expenditure is not contrary to Council policy; b) it is not contrary to approved Service Business Plans; and c) the future revenue burden on the service is not materially increased. • The Council has no formal Fees and Charges Framework that establishes a framework within which fees and charges levied by the Council are agreed and regularly reviewed, but its current and past business planning frameworks emphasise the concept of maximising the potential of income based on the market experience/knowledge of services as one way of delivering budget reductions. • The Internal Audit function is generally effective. • Previous control weaknesses in contracting and procurement have been largely addressed and the Council is making good progress in implementing remaining recommendations. 	<ul style="list-style-type: none"> • The Council's financial management policies are robust. • The Council's budget management policy is appropriate and effective. The policy is supported by comprehensive policies and procedures for Members, officers and budget holders. • The Council has no formal Fees and Charges Framework but its current and past business planning frameworks emphasise the concept of maximising the potential of income based on the market experience/knowledge of services as one way of delivering budget reductions. • The Council demonstrates effective financial controls and effective management of financial and budget-related matters.

Key line of enquiry	Fieldwork Findings	Conclusions
<p>Financial Governance</p>	<ul style="list-style-type: none"> • The Council's financial governance arrangements to review and challenge performance are adequate but some improvements could be made: • As per the Financial Regulations there are agreed approval limits for virements, depending on amounts and whether they are within services or between services. Heads of Services alone can approve over/underspends of up to £50,000, as long as this can be netted off within their own service area. Where there are any virements over the set limits that require Cabinet approval, Finance prepares a Budget Monitoring Report to be presented to the relevant Committee. A Budget Monitoring Report will also be prepared on months where virements do not exceed £100,000 but where it is still considered that members be updated with recent activity. There is no minimum threshold for this, and it is not considered necessary to prepare the report every month. The ultimate decision on whether to report rests with the Strategic Director of Finance. • Budget Monitoring reports are reviewed by the Principal Overview and Scrutiny Committee (POSC) and then presented to the Cabinet for approval of the virements. The report shows original budget for year, re-stated budget after any virements year-to-date, and projected final out-turn following approval of proposed virements. There is also narrative to explain the reason for each virement. Whenever a budget monitoring report is approved by the relevant body this becomes the 'revised budget'. A Final Out-turn Report is taken to POSC and Cabinet in early July, after signing of financial statements, for approval. <p>However:</p> <ul style="list-style-type: none"> the budget monitoring report presented to POSC does not show year-to-date actuals; management account reports are presented to POSC and Cabinet only if there are significant over/underspends and virement requests, and are not presented each month, meaning there is a risk that management accounts are not scrutinised sufficiently robustly at committee level; and no quarterly balance sheet is prepared. 	<ul style="list-style-type: none"> • The framework for reviewing and challenging financial performance is adequate. • Budget performance is periodically measured, monitored and reported. • There is scope to include a monthly budget monitoring statement showing year-to-date actuals – and to report expenditure, together with actual expenditure to date. • Heads of Service are held to account. • The Council has a good track record of accurately reporting budget performance. • The Council has a good track record of delivering the agreed savings.

Key line of enquiry	Fieldwork Findings	Conclusions
<p>Financial Governance (continued)</p>	<ul style="list-style-type: none"> • Budget and service performance are reported together in a Finance Briefing that summarises the key issues; this provides a whole-service analysis. In addition, there is a budget monitoring statement showing the projected out-turn against the cash-limited budget. This analysis is not seen by, or presented to Members and only shows a net position. It does not report income and expenditure gross, nor does it report actual-to-date. It does, however, project a year-end position and shows changes to budget. Budget performance is reported to Scrutiny three times a year; this provides Members with key information about projected budget overspends and explains the reasons why. Formal reports to Members are at a very high level and include a supporting summary financial out-turn position by stating the revenue budget and providing a table analysing under and overspends. The reports are not supported or complemented by appropriate key performance indicators. • Heads of Service are held to account. Budget holders (Heads of Service) are held to account by the Finance department on a monthly basis, and are required to provide monthly returns and explanations on forecasts of over- and underperformance against budget, in a process overseen by the Strategic Director of Finance and Efficiencies. Periodic financial information (for revenue budget and capital development) is presented to both Cabinet and the POSC. The Council has a good track record of accurately reporting budget performance and delivering the savings agreed. 	

Key line of enquiry	Fieldwork Findings	Conclusions
<p>Current Savings Plans 2014-15</p>	<p>The Council's current savings plans for 2014-15 are fit for purpose and are being effectively managed:</p> <ul style="list-style-type: none"> • The MTFP takes comprehensive and reasonable account of the longer-term implications of interest rates, price index, demographic allocations, and policy initiatives by the Council and Government and known unavoidable commitments. The Council considers that its robust arrangements are undermined by the lack of clarity and timeliness of financial settlements in the short and medium term, from the Welsh Government. • The 2014-15 Revenue Budget incorporated prudent and reasonable inflationary assumptions. Budget planning for 2015-16 and 2016-17 uses an updated set of assumptions, which the Council intends to refresh as more information emerges. • The 2014-15 target savings total of £14.7 million has been identified. Comprehensive and reasonable assumptions have been made in identifying the shortfall for 2014-15 such as assuming pay inflation of one per cent. • Known cost pressures have been taken into account: The Council has a clear idea of the likely cost of settling Equal Pay claims and has plans to fund the payments during 2014-15. The single-status scheme is agreed and an earmarked reserve is in place. • The impact of demographic change has been costed. The percentage of the population in Conwy aged 65 and over is the highest in Wales at 25.7 per cent, a total of 29,800 people. The number of elderly people in the county is projected to increase significantly over the next 10 years as a result of increased life expectancy and the baby-boom generation entering retirement. This will increase the number of people over the age of 65 to 34,000 and the number of people over the age of 85 to 5,900 by 2023. At the same time the number of children under the age of 16 is decreasing from 20,200 in 2001 to 19,000 in 2013. • The impact of increased demand for services has been costed, especially unavoidable pressures due to increased Social Care demand. • There is no separate monthly exercise targeting solely the savings plan targets. 	<ul style="list-style-type: none"> • The Council has identified budget shortfalls and savings targets for 2014-15 and the following three years. • Comprehensive and reasonable assumptions have been used to identify the shortfall(s) in 2014-15. • Robust data supports the inflation assumptions used during budget setting; the assumptions used by the Council are reasonable and prudent. • There is a clear description of where savings will be made and specific amounts are agreed against each item as part of the annual budget. • The impact and achievability of savings are set out.

Key line of enquiry	Fieldwork Findings	Conclusions
<p>Current Savings Plans 2014-15 (continued)</p>	<ul style="list-style-type: none"> • The 2014-15 Savings Plan is SMART (specific, measurable, achievable, relevant and timely): <ul style="list-style-type: none"> the 2014-15 Savings Plan is specific; it clearly explains where savings will be made and includes savings targets for each item; the 2014-15 Savings Plan is measurable; Council has assessed the impact of the savings, evaluated risks and considered mitigation plans; and the 2014-15 Savings Plan is challenging but achievable. • The Council's 2014-15 Savings Plan takes appropriate and relevant account of the financial pressures it faces. • Historical performance suggests that the Council will meet its savings target. A detailed and SMART Savings Initiative is in place for 2014-15 in a stand-alone document that is also included within the MTFP and the 2014-15 Service Reporting Code of Practice (SeRCOP). There is no indication that the planned reduction/savings for 2014-15 are unachievable. 	<ul style="list-style-type: none"> • The 2014-15 Savings Plan is SMART (specific, measurable, achievable, relevant and timely). • Procedures and policies in place do not identify any issues which suggest that the savings plan is not achievable. • Historical performance suggests that the Council will meet its savings target. A detailed and SMART Savings Initiative is in place for 2014-15 in a standalone document that is also included within the MTFP and the 2014-15 SeRCOP.

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