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Financial Resilience Assessment

The City of Cardiff Council

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Status of report

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Summary report

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 (MTFPs) 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, we have 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). While there may be more certainty for the council over an annual cycle, financial pressures impact beyond the current settlement period. We have considered evidence of the Council's approach to managing its finances in the recent past and over the medium term when reaching our view on its 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 the delivery of 2014-15 savings plans, and the 2015-16 financial planning period.
7. The work focussed on answering the following question: **Is the City of Cardiff 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 has improved its arrangements for financial planning and has sound financial control and governance arrangements, but now needs to develop robust plans to support the timely delivery of its savings proposals.’ 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, process 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**

11. Our April 2015 report ‘The financial resilience of councils in Wales’ was based on fieldwork carried out in all Welsh local authorities. From this work, and from other available material related to aspects of financial management, we have drawn together some key characteristics of good practice to assist practitioners in developing their arrangements. These characteristics can be found in Appendix 1.

Proposals for improvement

P1	The Council should improve its financial planning processes by: • developing more explicit links between the Medium Term Financial Plan and the Council's improvement planning arrangements; • strengthening links between the Medium Term Financial Plan and service plans; • ensuring that savings proposals owned by Directorates are linked to the Organisational Development Programme where relevant, are fully costed and that delivery is driven by the Organisational Development Programme Board; and • ensuring all budget savings plans are fully developed as appropriate with realistic timescales when the annual budget is set.

Detailed report

The Council has improved its arrangements for financial planning and has sound financial control and governance arrangements, but now needs to develop robust plans to support the timely delivery of its savings proposals

Financial planning

The Council has improved its financial planning arrangements, and has a track record of operating within its overall budget, but has not delivered all of its in-year planned savings

12. The Council has a corporate framework in place for financial planning which recognises that resources to deliver its vision, improvement priorities and statutory services will be constrained or reduced in the medium to longer term. This has resulted in the Council changing its approach to setting savings targets with a more focussed approach being applied for 2015-16. This new approach is underpinned by three key drivers: policy-led savings; business process-led corporate efficiency savings; and discrete Directorate-led savings. A further driver, income and commercialisation, has been added for 2016-17.

13. The Council's MTFP forecasts a shortfall of £116 million for the period 2016-17 to 2018-19, which includes a target of £44 million for policy-led savings. The Council recognises that the budget gap for future years is subject to change, and key variables will need to flex to reflect this.

14. The Council's Organisational Development Plan is the key driver for reviewing the shape and scope of services that can be delivered in future years. Whilst projects in the Organisational Development Plan enable managers to make changes in services, not all projects or work streams will result in financial savings. The Council made a conscious decision not to link any projects which may result in savings to the Organisational Development Plan for 2015-16. The primary aim of the Organisational Development Plan was, initially, to promote accountability and ownership for organisational change within services. However, from 2016-17, as projects are developed, the Council has told us that work stream projects will, where appropriate, be linked to savings plans.

15. Not all savings plans are fully developed when the annual budget is set. For example, for 2015-16, the Council identified that of the savings requirement of £33.1 million for that year, £25.7 million (approximately 77 per cent) were at the detailed planning stage, £5.8 million at the general planning stage, and £1.6 million had already been achieved.

16. Savings proposals are risk assessed in terms of residual risk and achievability, and assigned a Red/Amber/Green status as defined in the Council's Risk Management Policy, Strategy and Methodology document[1]. For 2015-16, the Red/Amber/Green status showed that when the annual budget was agreed, £6.1 million of savings were Green, £16.7 million were Amber/Green, £7.7 million were Red/Amber and £2.6 million were Red.

17. The Council maintains a central contingency budget equating to approximately 10 per cent (£4 million) of the total annual savings requirement and includes this in its base budget to mitigate the risk of planned savings not being achieved in-year. At the financial year-end the Council reviews budget savings and decides whether unachieved savings are rolled forward to future years or written off.

18. The Council reported a net surplus of £1.741 million on its 2014-15 budget. This was achieved by application of one-off savings not originally anticipated when the budget was agreed, and the use of the central contingency budget of £4 million used to mitigate planned savings not being achieved. The 2014-15 outturn position included a shortfall on the savings target of £6.9 million. As at 12 November 2015, the reported projection was that £2.8 million of the total 2014-15 savings brought forward, along with £5.7 million of the 2015-16 target savings, were unlikely to be achieved by 31 March 2016. Projected undelivered savings for 2015-16 mainly relate to service delivery changes which have not happened or are taking longer to implement than anticipated, resulting in either a part-year or no in-year saving. This suggests that savings delivery plans are not sufficiently developed when the budget is set.

19. We were informed by the Council that during the budget setting process, consideration is given to corporate priorities and outcomes through discussions with the leadership team and Cabinet, but this is not formally documented. Whilst the Council's improvement objectives are linked to the respective Directorate Delivery Plans not all Directorate Delivery Plans contain links to the Council's MTFP.

20. We found that comprehensive and reasonable planning assumptions, underpinned by robust data, have been made in identifying the budget shortfall for 2015-16. The Council has used a range of scenarios and sensitivity analysis to model projections for budget shortfalls for the period 2016-17 to 2018-19, along with a longer-term forecast up to 2030.

21. The capital programme criteria for new schemes has been reviewed and improved to ensure that the ratio of capital financing costs to controllable revenue budgets does not become unsustainable. The Council has also reviewed its Balance Sheet to release funds where possible to help meet the budget shortfall.

[1] **Risk Management Policy, Strategy and Methodology**

Financial control

The Council has sound financial control arrangements in place

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

23. Budgets are monitored at Officer and Member level and reported to Corporate Management Team, Cabinet and Scrutiny on a regular basis. Budget monitoring reports are comprehensive and include savings monitoring reports. Projected overspends and underspends are reported at an early stage and potential mitigating actions identifed.

24. The Council has a reserves policy and reviews its useable reserves bi-annually. The General Fund balance is kept at or above a locally agreed minimum level as advised by the Council's S151 Officer. The creation and planned use of earmarked reserves are transparent and subject to appropriate approval.

25. The Council does not have an overarching policy on income generation and charging. However, the annual budget report includes a comprehensive schedule of changes to fees and charges which encompasses all services. An Income and Commercialisation Stream is being added to the Organisational Development Plan work stream projects for 2016-17.

26. The profile of financial resilience has been raised throughout the Council. A financial resilience dashboard has been developed which provides a snapshot of key financial comparators for past, present and future years. This is available to all Members, officers and staff. It includes comparisons of reserve levels, sources and split of external revenue funding for previous and current year, revenue and capital outturn position, and a risk analysis of 2015-16 savings proposals. Financial performance indicators include calculation of working capital and gearing ratios and a local indicator for capital financing costs as a percentage of controllable budget. However, there is no evidence of benchmarking with other councils.

27. Budget Strategy reports include an appendix which provides a synopsis in a 'Quick Question and Answer' style on the major budget issues, assumptions, impacts and financial challenges facing the Council. It is also used at staff training and Member briefing sessions.

28. Neither the external auditor's report included in the 2014-15 Statement of Accounts nor internal audit reports for 2014-15 have highlighted any significant issues in financial control or systems, which indicates that key financial systems are adequate to meet future needs.

29. The Council recognises that reducing staff numbers while making significant changes in business processes could impact negatively on the financial control environment. Consequently, plans to reduce the headcount in the finance section will take place in the latter years of the MTFP to mitigate the risk.

Financial governance

The Council has sound financial governance arrangements in place

30. The Council has developed an Organisational Development Programme which identifies key enablers through which the Council will reposition its approach to delivering services. This programme will inform the Council's target operating model, and is central to meeting the service challenges facing the Council within a more challenging financial environment.

31. The Organisational Development Programme provides a model to implement fundamental changes required to ensure sustainable services are developed for the future. The programme is governed by the Organisational Development Board which is chaired by the Chief Executive and comprises all Directors. The Organisational Development Board is complemented by the Investment Review Board which approves resource decisions and is chaired by the Corporate Director of Resources who is also the S151 Officer.

32. The Organisational Development Programme is split into two portfolios. The first portfolio is the Enabling Technology and Strategic Commissioning Portfolio, which includes: Assets and Property; Commercialisation and New Income Streams: Improvement; Governance and Engagement; and Strategic Commissioning.
The second portfolio is the Reshaping Services Portfolio which comprises: Reshaping Customer Focus and Enabling Technology: Reshaping Infrastructure and Neighbourhood Delivery: Reshaping Services for Vulnerable Adults; and Reshaping Services for Vulnerable Children.

33. The Reshaping Services Programme will continually review how services are reshaped against the target operating model. This will focus on delivering sustainable services that are classed as: targeted delivery through gateways; universal provision of services using the One Council approach; or enabling services within the organisation. The Organisational Development Programme also identifies and addresses skills gaps to enable effective delivery of the projects.

34. The Council recognises that going forward it needs to link any budget savings resulting from work stream projects within the Organisational Development Programme projects to its MTFP.

35. The S151 Officer provides regular briefings and budget strategy updates on the financial challenges facing the Council to Directors and Members. As part of budget strategy development, Market Place Sessions were held with Members to review the budget savings proposals for 2015-16 with budgetary analysis sheets provided for context. Extensive consultations were also held with citizens, businesses, partners and staff on the 2015-16 budget, and an extensive feedback report was produced.
For 2016-17 the Council has produced a video which explains the financial challenges the Council is facing in the medium term, how the Council is planning to address these challenges and citizens are invited to comment on the plans for future service delivery.

36. The Council's MTFP covers the period 2016-17 to 2018-19. Positive steps have been taken to improve the identification of savings for 2016-17 and for the medium term, through engagement with directorates and an exercise to reshape the base budget. Members and directorates are actively involved in the process of setting the savings targets.

37. Directors are held to account for performance through the Council's 'Star Chamber' performance management process which was established to promote a culture of accountability and continuous improvement. The Chief Executive also holds monthly meetings with Directors to discuss financial performance and savings targets.

38. There are robust budget monitoring processes in place both at Member and Officer level, with regular reports being made to Cabinet and Scrutiny Committees.

Appendix 1

Key characteristics

Key characteristics of good financial planning
The authority's budget is set in the context of a longer-term financial strategy and a medium-term financial plan covering a three to five-year horizon.
The authority has clearly identified the savings it intends to make over a three to five-year term. The savings plan is underpinned by detailed costings and delivery plans for individual savings (including transformation/change savings).
The authority has a good track record of delivering on its savings plans.
Medium-term financial planning and annual budgeting reflect the authority's strategic objectives and priorities for the year, and over the longer term.
Assumptions around inflation, income levels, demographics, future demand for services and the costs of delivering services are modelled and based on reasonable predictions.
The authority understands its sources of income and the risks arising from these, and has reviewed its approach to fees and charges to ensure it achieves value for money.
Financial and corporate planning processes are integrated, link to risk management arrangements, and incorporate strategic planning for other resources including the capital programme and workforce planning.
The authority uses financial modelling to assess likely impacts on financial plans and required savings for different scenarios, and to help ensure short-term fixes are not achieved at the expense of long-term sustainability.
The authority models key expenditure drivers (for example, population changes and demand for services), sources of income (for example, income and government grant forecasts), revenue consequences of capital and resource requirements and balances.
The authority operates within a level of reserves and balances (including earmarked reserves and the general fund balance), approved by members, and appropriate to the strategic, operational and financial risks it faces.
If the authority is not at its target level for balances, there is planned action in place to achieve this, taking account of any associated risks to the organisation's financial position and delivery of its priorities.

Key characteristics of good financial control
The authority has an appropriate and effective budget management policy that clearly sets out roles, responsibilities and accountability. The scheme of delegation is clear, and processes are set out to manage budget under and overspends.
Financial monitoring and forecasting are fit for purpose and accruals based, helping to ensure a clear link between the budget, in-year forecasts and year-end position.
The authority analyses and extrapolates relevant trends, and considers their impact on the projected final out-turn.
The authority takes timely action to address any budget pressures, for example, by taking corrective action to manage unfavourable variances or by revisiting corporate priorities.
The authority has a good recent record of operating within its budget with no significant overspends.
The authority has agreed a clear policy on the use of its reserves. There is a clearly justified minimum level for its 'general fund' reserves balance. There is a clear rationale to explain transfer from, or between, reserves. Clear protocols explain how and when each reserve should be used. Decisions about reserves are underpinned by a comprehensive assessment of risk and current performance.
The reserves policy has been agreed by members and is subject to scrutiny.
The authority has a clear policy on income generation/charging. There is a register of charges across its services to help manage charges consistently. The authority has corporate guidelines on how concessions should be applied. Charges are regularly reviewed and the policy updated.
The authority monitors its key financial ratios, benchmarks them against similar bodies and takes action as appropriate.
The annual governance statement gives a true reflection of the authority.

Key characteristics of good financial governance
The leadership team clearly understands the significant and rapidly changing financial management challenges and risks facing the organisation, and is taking appropriate action to secure a stable financial position.
The authority has sufficient capacity and capability to promote and deliver good financial management.
The leadership team fosters an environment where there is good understanding and routine challenge of financial assumptions and performance, and a culture of transparency about the financial position.
The leadership team provides constructive scrutiny and challenge on financial matters to ensure arrangements remain robust and fit for purpose.
There is regular and transparent reporting to members. Reports include detail of action planning and variance analysis.
Members scrutinise and challenge financial performance effectively, holding officers to account.
Internal and external audit recommendations are dealt with effectively and in a timely manner.
There is effective engagement with stakeholders on budget issues, including public consultations.

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