

**CITY OF CARDIFF COUNCIL
CYNGOR DINAS CAERDYDD**

AUDIT COMMITTEE:

16 SEPTEMBER 2015

TITLE: Wales Audit Office Report on the Financial Resilience of Councils in Wales

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 6.3

Reason for this Report

To present to the Audit Committee the Wales Audit Office (WAO) Report on the financial resilience of councils in Wales

Background

The Auditor General for Wales undertakes national studies across a range of functions and activities of local government. The report on the financial resilience of councils in Wales is a recent report which seeks to identify not only the current position but some indicators of good practice.

As a result of the WAO's work the Auditor General has concluded that Councils in Wales are under significant financial stress and have been active in meeting the challenge. However, the next few years will see increasing financial pressures and councils will need to improve strategic financial planning in order to effect transformation and protect their financial resilience.

WAO's Comments and Recommendations

Councils need to make informed assumptions about the future trajectory of central funding in the absence of definitive guidance and identify the desired role of the council within a chosen delivery model for the future.

R1 Councils should ensure that their corporate plan:

- is the core driver for the service plans and other supporting strategies including workforce, information technology and capital expenditure
- maintains at least a three to five year forward view and is aligned with the medium term financial plan and other supporting strategies
- should clearly articulate the desired role of the council in five years – the model for delivering priority services and the infrastructure and resources needed to deliver future priorities within available finances

Adverse financial scenarios should be anticipated and mitigated against in the medium term financial plan, with built-in flexibility to deal with risks using reserves and other contingencies.

R2 Councils should ensure that their medium term financial plan identify the major financial risks and key assumptions and senior officers and councillors should subject them to effective scrutiny and challenge before adopting the plan.

Annual savings requirements must be realistic and achievable and avoid ‘back-loading’ towards the latter years of the medium term financial plan. Savings in the latter years of the medium term financial plan should focus on service transformation projects that need to be developed well in advance of any projected financial benefit.

R3 Councils need to ensure that funding deficits are accurately projected and fully reconciled to detailed savings plans for each year over the life of the medium term financial plan.

Failure to deliver planned savings will have a severe cumulative effect on a council’s ability to continue to be financially resilient in the future.

R4 Councils should regularly review the adequacy of the financial assurance arrangements that underpin the delivery of annual savings plans, including the level of scrutiny and challenge provided by councillors.

A reserves strategy should form part of the medium term financial plan and should clearly demonstrate the rationale for reserves in light of financial risks. The plan should include a policy on the use of revenue surpluses.

R5 Councils should ensure that they have a comprehensive reserves strategy that outlines the specific purpose of accumulated useable reserves as part of their Medium term Financial Plan.

A better understanding of income for subsidised activities can help inform investment and service delivery decisions. Profit share arrangements with commercial organisations and the commercialisation of some council services should also form part of strategic planning discussions.

R6 Councils should develop corporate wide policies on income generation.

It will be increasingly important that Council financial management systems, including budget setting and monitoring, are regularly tested. This is to ensure they continue to be effective and provide councils with assurance that their internal systems are fit for purpose.

R7 Councils should strengthen budget setting and monitoring arrangements to ensure financial resilience; and review the coverage and effectiveness of their internal and external assurance financial systems and controls to ensure they are fit for purpose and provide early warning of weaknesses in key systems.

Any proposed reductions in finance team capacity should be carefully considered in light of the need for enhanced finance skills to manage the challenges councils face. These skills include commercial awareness and cash-flow management, as well as the ability to engage with councillors, service managers and the public. Recruitment, cover and succession planning arrangements need to be strengthened.

R8 Councils must review their finance teams and ensure that they have sufficient capacity and the right skills to meet future demands.

The effectiveness of financial overview and scrutiny will be increasingly tested as the financial pressures intensify. Councillors will have to become more skilled at addressing financial risks and understanding the financial implications of their decisions. Council officers will play an important role in helping to equip and support councillors to deliver these demanding expectations.

R9 Council officers need to equip councillors with the knowledge and skills they need to deliver effective governance and challenge by extending training opportunities and producing high quality management information.

City of Cardiff Council Response

Members of the Audit Committee will be aware of the significant challenges that the Council faces in terms of budget reductions and an increasing demand for services. Financial resilience is a key area of activity and the Corporate Director Resources will provide a verbal update setting out this work at the meeting

The specific recommendations arising from the WAO Report will be reviewed to ensure that where appropriate the current processes are revised.

To ensure that the Council has had due regard to recommendations arising from regulatory and audit reports in the future the Council is introducing a 'tracker' which will log all activity and recommendations. This will set out the programme of regulators work with the indicative timeframes for reports, the reports received, recommendations/proposals for improvement, allocate a responsible lead officer (dependent on the subject matter), and evidence of the actions being taken.

The 'Tracker' will also provide key information to inform Service Improvement Board meetings and Star Chamber Sessions as well as providing Audit Committee with the visibility not only of the WAO work but the work which officers are delivering in connection with the issues raised.

Reports will be brought forward in relation to progress against these plans which will provide at a minimum an assurance statement that progress is being made and where Audit Committee requests an update a fuller report or update from the relevant Director regarding progress, issues and challenges.

Reason for Report

To present the Auditor General's findings and set out the process for providing assurance that the Council is having due regard to the output of regulatory activity

Legal Implications

There are no legal implications directly arising from this report

Financial Implications

There are no financial implications directly arising from this report

RECOMMENDATIONS

To note the work of the Auditor General and identify any issues which the Audit Committee consider relevant to their work programme.

CHRISTINE SALTER

CORPORATE DIRECTOR RESOURCES

3 September 2015

The following appendix is attached

Appendix 1: Wales Audit Office (WAO) Report on the financial resilience of councils in Wales