APPENDIX 1

Archwilydd Cyffredinol Cymru
Auditor General for Wales

WALES AUDIT OFFICE
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Financial Resilience Assessment

Neath Port Talbot County Borough Council

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Status of report

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The team who delivered the work comprised Janet Smith, Samantha Clements and Steve Barry.

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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 the delivery of 2014-15 savings plans, and the 2015-16 financial planning period.

7. The work focused on answering the following question: **Is Neath Port Talbot County Borough 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 management and governance arrangements are sound but savings plans for the medium term need to be more fully developed and integrated with the corporate planning process.’** 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 explicit links between the Forward Financial Plan, Corporate Plan, service and financial plans.

P2 Develop savings delivery plans which cover each period in the Forward Financial Plan.

Financial Controls

P3 Develop a corporate income generation and charging policy to ensure directorates review charges and income as part of the budget setting process on a consistent basis.

Detailed report

The Council's financial management and governance arrangements are sound but savings plans for the Medium Term need to be more fully developed and integrated with the corporate planning process

Financial planning

The Forward Facing Plan identifies budget gaps for future years but savings plans for the Medium Term are not fully developed

11. The Council has a track record of delivering a balanced budget or a surplus and is achieving the majority of in-year planned savings. Directorates find the money from elsewhere within their controllable budgets to absorb the minority of savings plans that do not come to fruition.

12. The Council's financial planning arrangements are also well developed. The recent monitoring report for 2015-16 forecasts that all but £90,000 of £14.1 million planned savings will be achieved and the projected out-turn position is a net underspend of £1.299 million after accounting for the savings shortfall.

13. A high level report was presented to the Council in June 2015 which identified the potential impact of continued cuts in public sector funding on the Council's financial position and as a result the Council's ability to deliver the same type and level of services would not be sustainable in the future.

14. In September 2015 the Council's Forward Financial Plan was rolled forward to cover the period 2016-17 to 2019-20 resulting in the forecast budget gap increasing from £27 million to £50 million for the period 2016-17 to 2019-20. This resulted in a savings requirement of £18.3 million for 2016-17 and savings of £15.7 million had been identified leaving a savings shortfall of £2.6 million for 2016-17.

15. The Welsh Government provisional settlement announced in December 2015 was better than the Council expected. Funding assumptions for 2017-18 to 2019-20 were therefore changed falling from £50 million to £36 million. This has enabled the Council to reduce its savings requirement for 2016-17 from £18.3 million to £11.5 million and eliminate the shortfall of £2.6 million in its savings target for 2016-17.

16. The recent revenue budget report for 2016-17 includes indicative specific savings proposals of £11.5 million for 2016-17, £4 million for 2017-18 and £260,000 for 2018-19. Work is ongoing to develop savings proposals to fill the gap of £31.7 million for the period to 2019-20.

17. The Council's financial planning arrangements have served it well in the past and some improvements have been made, but given the estimated funding gap of £31.7 million to 2019-20 the Council needs to focus on its medium to longer-term planning arrangements. These arrangements should ideally include multi-year savings targets underpinned, where appropriate, by smart action plans to ensure that the scale and pace of change required, both to identify and deliver future savings proposals, can be met. As good practice all savings proposals should be risk assessed and links to and the impact on corporate priorities clearly identified.

18. The budget savings identified for 2015-16 are a mixture of service reviews, reduction in staffing budgets and efficiency measures. It would be useful if these were categorised into groups, for example, efficiency, policy led and transformational, which means that those of a truly transformational nature could be identified easily and tracked over time.

19. There is limited use of sensitivity analysis and scenario planning in financial forecasting. The Forward Facing Financial Plan refers to the impact in absolute terms of increasing council tax by one per cent or reducing external funding by one per cent but does not include worst, best and most likely case scenarios for the net budget reduction requirement. Whilst the Council is prudent in its assumptions about medium-term funding, for example, assuming a reduction of five per cent for 2016-17, good practice would advise developing scenario planning and sensitivity analysis over the period of the Forward Facing Financial Plan including the potential impact of cost pressures, demand-led costs, and inflationary percentages.

20. The Council has a corporate planning framework which supports the delivery of its corporate vision and improvement objectives. Corporate priorities are reviewed annually alongside the updating of its Forward Facing Financial Plan. Funding of improvement priorities is considered within the context of funding constraints and other financial pressures but the links between service and financial plans could be strengthened. This was an improvement proposal in our Annual Improvement Report for 2014.

Financial control

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

21. 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 defines the roles and responsibilities of Members and Officers. In addition, these are supplemented by accounting procedures which are used by staff on a day-to-day basis.

22. The Council does not have a reserves policy but manages its reserves prudently and operates within the level of reserves agreed by the Council when setting the annual budget. This is based on the advice of the S151 Officer. The Council Fund balance has remained more or less constant over the period 2013-14 to 2014-15 and is forecast to increase by £1.7 million in 2015-16.

23. The Council does not have a formal corporate policy on income generation/charging. The general guidance when setting the annual budget is that fees and charges will increase annually in line with a stipulated percentage. There is no evidence that charges are systematically updated or concessions applied consistently. Consequently, the Council may not be maximising opportunities to generate income which could contribute towards funding the revenue budget. This was a proposal for improvement in our 2014-15 Annual Improvement Report.

24. 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.

25. 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 in-year savings monitoring report which clearly identifies the progress on achievement of all savings proposals.

26. 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 support its financial planning arrangements

27. The Corporate Director Group, Cabinet and Members understand the financial challenges and risks facing the Council. The Chief Executive Officer and S151 Officer provide 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. The Head of Finance has been working with Scrutiny Members to strengthen and improve the level of financial understanding.

28. 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 has acted on constructive feedback.

29. The Council monitors its budgets and reports to Corporate Director Group on a monthly basis and to Cabinet on a quarterly basis. The budget monitoring financial reports provide sufficient financial information and commentary to allow for effective challenge on variations in expenditure to approved budget and include progress on savings proposals and an update on reserves.

30. Performance monitoring reports are used alongside financial budget monitoring reports, and there is evidence that the impact of financial decisions on performance is considered. However, performance and financial reporting mechanisms are not yet integrated to routinely illustrate a whole authority view of both performance and

finance. For example, for each directorate the range and trend of performance indicators and scale and achievement of financial savings targets. Doing so would promote a clear understanding of the impact of financial decisions/performance on service performance for the Council. This was a proposal for improvement in our 2014-15 Annual Improvement Report.

31. The Council has an experienced Finance department and currently sufficient capacity and capability to deliver its day-to-day statutory financial responsibilities. However, the scale and type of savings proposals and pace of implementation may mean that additional capacity will be required in the medium term.

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