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Financial Resilience Assessment

Monmouthshire County Council

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Status of report

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The team who delivered the work comprised Steve Wyndham, Dave Wilson and Phil Morgan.

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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 councils take the right decisions for the short, medium and long term;
   - helps councils 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. Councils 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, we have considered whether Monmouthshire County Council (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 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 Monmouthshire County 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 generally effective financial governance but its financial planning and control arrangements are not fully embedded or delivering effectively, in the face of some significant financial challenges. 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
Medium 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

The Council should ensure that all budget mandates are costed and are sufficiently detailed	
P1	All budget mandates should be fully costed and supported by information showing how each saving area will be achieved with an evaluation of its impact. This information should be produced on a timely basis to inform the agreement of the mandates by Members.

Detailed report

The Council has generally effective financial governance but its financial planning and control arrangements are not fully embedded or delivering effectively, in the face of some significant financial challenges

Financial planning

The Council's financial planning arrangements continue to improve although the medium term financial plan is not fully balanced, some budget mandates do not define how savings will be achieved and some planned savings are unlikely to deliver

12. The Council has a four year Medium Term Financial Plan (MTFP) which it reviews regularly and updates to reflect changing circumstances. The MTFP includes assumptions on income such as increases in Council Tax, collection rates and anticipated changes to Revenue Support Grant. It also takes account of budget pressures and projections on usable reserves and balances.

13. In line with many other councils, Monmouthshire's MTFP is not yet fully funded. For 2015-16 its MTFP is balanced but, at the time of our review, shortfalls remained for the following three years as follows: £3.252 million in 2016-17; £3.828 million in 2017-18 and £2.975 million in 2018-19. We understand, however, that the principal reason for the shortfalls is due to the Council not being made aware of the funding it will receive from the Welsh Government over this period. Once the funding position is clearer the Council will update its MTFP and the draft budget mandates (some of which have been identified although they have not been subject to wide consultation pending notification of the 2016-17 settlement) will be worked on further before being presented as proposals, with the intention of ensuring that its MTFP is balanced.

14. The Council's budget setting process takes account of consultation with local residents and stakeholders but is not aligned to a strategic workforce plan.

15. The Council has clearly agreed Improvement Objectives set out in its Corporate Improvement Plan 2015-17 as follows: education; safeguarding vulnerable people; promotion of enterprise, economic development and job-creation; and maintaining locally accessible services. Members are aware of these objectives when setting the budget and the links are made in the budget proposals report. In addition the budget mandate form seeks information on how the proposal contributes to the organisation's strategic objectives and fits with other initiatives.

16. The Council has a mixed track record of delivering savings. In 2012-13 the Council did not specifically monitor its savings of £4 million but did achieve an overall revenue underspend of £19,000, indicating that savings were achieved; in 2013-14 the Council achieved 84 per cent of its £4.3 million savings target; and in 2014-15 the Council achieved 91 per cent of its savings target of £5.5 million.

17. The Council defines its budget savings through individual 'budget mandates' that are business cases intended to provide members with sufficient information to make robust decisions. For 2015-16, the Council agreed 24 budget mandates for various projects to deliver savings of £4.783 million. We tested three mandates specifically to assess whether they clearly defined the intended impact of the projects on service delivery and local people, and whether they were likely to deliver the planned savings. We found that for:

- Education – a saving of £1.24 million was agreed to the funding for schools by maintaining funding at 2014-15 levels. The budget mandate explained that the schools budget would not increase for the financial year 2015-16 and new pressures related to teachers' pension increases and any inflationary pay/increments would need to be met by schools. The budget is achievable from the Council's perspective as this involves a reduction in funding to schools, but the budget mandate did not explain what impact this would have on schools directly, how this might impact on educational attainment or how schools would manage with the reduced funding.
- ICT – overall savings of £250,000 were agreed; £150,000 from the Shared Resource Service (SRS) and £100,000 via the CMC2 arrangement. The budget mandate explained that the saving would:
  - drive cost efficiencies and income generation opportunities within the SRS that would subsequently result in the Council benefitting from a reduced budgeted contribution for 2015-16; and
  - generate ongoing savings and user benefits from custom-built software solutions being developed, together with potential profits being generated from software being productised and sold commercially.

  The £150,000 budget savings to be achieved from SRS were clearly defined in the budget mandate and the Council expects to achieve these planned savings in full. The £100,000 budget savings through software solutions were not defined and the Council does not expect to be able to achieve any of these planned savings during 2015-16.

- Youth service – savings of £200,000 through development of income generation opportunities were agreed. The budget mandate provided an outline of the savings as follows:
  - Establish the 'Propel Training Academy' – to offer niche bespoke training opportunities within the areas of technology, teaching qualifications, and assessing qualifications.
  - Establish the 'Wellbeing Centre' – to increase opportunities for young people with learning and physical needs; to offer courses to adults and other professions on: dealing with young people in times of crisis; learning needs; wellbeing; therapy; and creative alternative therapies.
  - Establish the 'Immersive Welsh Language Centre' to provide the opportunity for different ways of learning the Welsh language to people of all levels of ability including complete beginners.
  - Establish an 'Integrated Service Framework' model to help services work closely together to enhance provision, avoid duplication and ensure young people receive the right support from the right individual.
  - Establish a 'Volunteering Framework' model to provide cost savings for the Council and ensure sustainability of services.

  The planned budget saving was only partially defined when this budget mandate was approved, and the Quarter 2 budget forecast showed that less than half of the planned saving would be achieved in 2015-16.

18. The budget mandates are released early in the process so that Member and stakeholders have sufficient opportunity to scrutinise and understand the implications of each mandate. However, based on the budget mandates above, it is clear that when Members made key decisions on budget savings in December 2014, they were not clear about the impact of their decisions on service delivery or how these might affect outcomes.

Financial control

The Council has established financial control arrangements but the Council is uncertain whether it will remain within its 2015-16 revenue budget due to pressures in Social Services and non-delivery of parts of the savings plan

19. The Council has well-developed budgetary control arrangements. Budget holders exist for each cost centre with largely effective arrangements in place for appropriate support by service accountants. Services take a lead role in identifying budget savings and although support is provided by corporate services such as finance and procurement, this is generally on request. Corporate services are now more visible to services through the budget setting process, but there remain opportunities for this support to be improved.

20. Although budget holders are aware of their budgets and their responsibilities in managing spending, the Council has forecast some significant budget variations. In its 2015-16 six month budget monitoring report to Cabinet, an overspend of over £1 million was forecast in Children's Social Services and this was expected to be offset by some large underspends in other services.

21. The Council has a good recent track record of managing spending within budget. In 2014-15, the Council made a £31,000 contribution to reserves as a result of its overall underspend. Within this overall underspend there was an overspend of approximately £1.5 million in the Social Care and Health Directorate and this was offset through favourable outturns in Operations, Chief Executives, corporate services, treasury management and council tax recovery. This indicates further potential weaknesses in budgetary control in 2014-15 although it is acknowledged that the overall outturn position was favourable.

22. The Council has robust arrangements for monitoring delivery of individual budget mandates and overall delivery of the savings targets using a red, amber, green (RAG) rating system. Success in delivering the agreed budget mandates has, however, been mixed. The Council's monitoring report at month 6 forecast that £810,000 (17 per cent) of the total 2015-16 budget mandate savings of £4.7 million would not be delivered. Of the £810,000 underachievement, £312,000 was due to delayed implementation of projects and £498,000 was later considered unachievable since its approval in December 2014. In 2014-15 only nine per cent of planned savings were not delivered, indicating a deteriorating position and suggesting that Monmouthshire is finding it increasingly difficult to achieve ongoing savings over time.

23. The Council has set a minimum prudent level of general reserves of between four and six per cent of its net budget, which it aims to maintain going forward. It has a general reserve of £7 million (excluding school balances) and earmarked reserves of £10.9 million, providing an overall reserves balance of £18 million. Members review earmarked reserves at budget setting and outturn based on the advice of the Section 151 officer.

24. Overall the Council's General Reserve levels are within its own prudent level limit (4.5 per cent of net budget) as set by the Council. However, as previously reported following our 2014-15 financial audit work, the Council's Insurance Fund Reserve exceeds the estimated value of the amount required to settle its known insurance claims as at 31 March 2015 by some £1.35 million although the fund should also cover the potential claims not yet known to the Council. The Council is to commission an actuarial review of the value of this fund during 2015-16, which could result in the value of this reserve being revised.

25. The Council approved its Income Generation Strategy in October 2015. The strategy focuses on the opportunities to secure new and additional resources and achieving increased revenue income. The Income Generation Strategy does not cover charging for services, although fees and charges are reviewed annually based on guidance issued by Central Finance and a full schedule is approved by members as part of the budget setting process.

26. The Council's Annual Governance Statement is consistent with our knowledge of the Council.

Financial governance

The Council has generally effective financial governance arrangements in place

27. The Head of Finance (Section 151 Officer) is a member of the Senior Leadership Team. The Senior Leadership Team demonstrates a good understanding of the rapidly changing financial climate and the risks facing the organisation which are reflected in the Council's MTFP. The Council is seeking to identify changes in service delivery that will meet the forecast shortfall in its funding.

28. Members are provided with information quarterly to monitor spend and performance and there are opportunities to hold officers to account. The Council's Select Committees receive monitoring reports relating to service areas within their terms of reference and an aggregated report is presented at Cabinet.

29. The Council provides challenge to senior managers through Heads of Service Challenge Sessions but these are not held regularly. Heads of Service challenge sessions have taken place during 2014 and 2015 to hold senior managers to account for their service and budget management, including the delivery of savings proposals. Although officers and members found these sessions to be effective in challenging the pace and delivery of improvements, few have taken place in 2015 and the Council does not have a clear programme of challenge sessions going forward. In spite of these challenge sessions taking place, some budget mandates are not delivering as planned and some significant budget pressures continue.

30. Whilst not directly involved in the budget monitoring arrangements, the Audit Committee has a key role in ensuring that robust financial control arrangements are in place and are operating effectively. The Committee has provided an appropriate level of challenge to officers. Members of the Committee have also demonstrated a willingness to continually develop and enhance their role and effectiveness and a self-assessment exercise was undertaken earlier in 2015, which was facilitated by the Wales Audit Office.

31. The Council proactively engages with local residents. It arranges events and other means of engagement to seek the views of local people and stakeholders as part of the budget setting process. This provides the Council with an opportunity to inform local residents about the Council's MTFP and to seek their views on proposals to make savings.

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 a good understanding and routine challenge of financial assumptions and performance, and a culture of transparency about the financial position.
The leadership team considers the financial skills required for different tiers of management and staff throughout the organisation, and actively develops financial literacy and skills.
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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