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Financial Resilience Assessment

Bridgend County Borough Council

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Status of report

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This document was produced by KPMG LLP on behalf of the Wales Audit Office. The audit team comprised Darren Gilbert (Director), Melanie Watson (Senior Manager), Matthew Arthur (Manager) and Chris Russell-Jones (Auditor).

Contents

Whilst the Council faces some significant financial challenges, its current arrangements for achieving financial resilience are sound.

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 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 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 Council'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 Bridgend County Borough Council (the 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: 'Whilst the Council faces some significant financial challenges, its current arrangements for achieving financial resilience are sound.' 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 Council'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 Council'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 Council'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.

Low risk	**Financial Planning**
Low risk	**Financial Control**
Low risk	**Financial Governance**

Whilst the Council faces some significant financial challenges, its current arrangements for achieving financial resilience are sound

Financial planning

The Council has an effective corporate framework for financial planning

11. The Council has an effective corporate framework which ties corporate objectives to financial planning. These objectives are clearly set out in the Council's Corporate Plan, which sets out key outcomes by 2017, in addition to medium-term goals and route-plans for 2015-16. The objectives are analysed in further detail in the Council's Improvement Plan (part of the Corporate Plan), which describes the Improvement Priorities, actions already taken, goals for 2017 and commitments for 2015-16. It further explains how citizens can become involved, and what the Performance Indicators are for each priority for the next two years.

12. The Council is planning for £36.5 million of reduced funding over the next four years. In order to meet this challenge, the Council has recently reduced the number of Improvement Priorities from six to three (to take effect from 2016-17): supporting the local economy, helping people to be more self reliant, and smarter use of resources. These three areas will still be subject to efficiency savings and any other planned savings; however, the remainder of the required cuts will fall in other areas.

13. It is important that the Performance Indicators which are used to monitor and assess the progress of the Improvement Priorities meet the SMART criteria (Specific, Measureable, Achievable, Relevant and Timely & Time-bound); our review confirms that this is the case. Furthermore, during 2014-15, the Council has successfully implemented a project to map each Improvement Objective to the financial ledger; this facilitates year-on-year monitoring of financial aspects of each objective including regarding KPIs (see below).

14. In addition to the Corporate Plan, the Council also publishes a Medium Term Financial Strategy (MTFS), covering a four-year period, currently 2015-16 to 2018-19. The MTFS covers all Directorates, thereby supporting a linked-up approach to financial strategy, and is reviewed and amended regularly. It also links with other key strategies, such as the workforce planning strategies, which includes substantial provision for workforce issues such as redundancies and legal cases.

15. The Council applies a prudent approach to forecasting. Although the MTFS includes a worst, best and most likely case scenarios for the net budget reduction requirement, most of the detail reported to the Council focuses on the most-likely case scenario. The Council exercises prudence in its assumptions for this scenario, for example, assuming that a 3.2 per cent reduction in external funding will be required.

16. Whilst it is vital to have a Council-wide Corporate Framework, Strategy, and Improvement Objectives, these plans must also link through to individual Directorate Priorities, Business Plans, and Service Plans. These links are embedded in each Directorate's budgets. In practice, as explained above, this usually translates as determining which sections of a budget are subject to less cuts than other areas. The links between Improvement Objectives and Directorate Budgets are documented in the MTFS, in particular Appendix F which links each Corporate Improvement Priority to Directorate Budgets, and includes a 'Business as Usual' column and a Budget column, to enable analysis of scale of cuts or spend.

17. Underpinning the Council's ability to make cuts are many Savings Proposals. Each of these is documented on a template document, which requires a risk assessment, impact assessment, and the linking of the proposal to an Improvement Objective, thereby ensuring coherence between the two. Appendix C to the MTFS aggregates and summarises these Savings Proposals. Although we recognise that the impact of changes to funding on service areas is considered by the Council, our review of the Savings Proposal forms suggests there is opportunity for more detailed documentation of this in the forms.

18. As part of effective financial planning, it is essential that councils monitor and manage financial risks. The Council performs this function via a number of risk assessment processes: of particular relevance is the monthly budget monitoring process, the quarterly reporting to members, quarterly challenge of budget monitoring and Council performance reports by scrutiny committees, and the Corporate Management meetings with directors, all of which include an assessment of financial risks. In addition, the Director of Resources has monthly meetings with Heads of Service to assess performance against budget, and to identify budget risks. Risks are escalated to the Corporate Risk Register where required.

19. In order to monitor and assess the implementation of the Council's plans and strategies, it is vital that the Council has targets and Key Performance Indicators. These are extensively covered in Appendix 1 to the Corporate Plan, covering a range of financial and non-financial measures, and include benchmarking. The Council also publishes benchmarked data in its Annual Report, allowing comparison with other Councils, and includes financial targets within its Treasury Management Policy (Appendix K to the MTFS).

Financial control

The Council has effective financial controls, financial management is generally strong and it has a good track record of spending to budget

20. The Council has a number of policies to support management of its finances, including financial procedure rules which clearly outline responsibilities for Members, Officers and budget holders. Currently, Directors are solely formally responsible for budgetary monitoring within their own Directorate, although informally this is delegated to Heads

of Service, Group Managers, and sometimes Service Managers. However, this informal delegation is set to change during 2016-17, with the planned introduction of formally delegated financial management responsibilities at sub-Director level. Collaborative Planning is a budget management software tool which, when installed throughout the Council, allows Directorates to undertake more financial management activities, thereby improving their access to financial information, as well as generating efficiencies within the central Finance department. The long-term aim will be to roll out the budget monitoring module of this system once the latest version is released and tailored for the Council. This will involve financial training for Directorates. The project plan for this will be developed during 2016-17 with the aim to have it in place for 2017-18. Having formally-recognised financial management responsibilities helps ensure effective financial management, and we therefore recommend that these changes are implemented as planned.

21. Effective financial control over Reserves is crucial for sustainable financial management. Therefore, in 2014-15, the Council developed a new Protocol on its Reserves and Balances, which is included as Appendix G to its MTFS. For many years, the Council has had a policy of maintaining the General Fund at £7 million. The new Protocol develops this by providing a clear justification for the policy. In addition, the Protocol outlines important principles, such as how to assess the adequacy of reserves, the rationale for establishing reserves, the monitoring of the reserves, the relevance of risk assessment within all Reserves-related decisions, and includes forecasts for earmarked reserves. This Protocol marks a significant improvement in the Council's financial control procedures. In addition, the Council is able to report on transfers to, from or between reserves during the three years ending in 2014-15. Our review has noted that this reporting was more robust and had greater clarity in 2014-15 than in prior years, which again reflects the improvements made over the past year.

22. Under the current cost-cutting regime, the Council must assess all potential cost-cutting opportunities and also Income Generation and Charging opportunities 'IG&C'. Work has been undertaken in this area for a number of years. For example, the Council has already out-sourced its more significant 'standard' income generation routes to independent organisations, such as its leisure centres, and popular venues such as Porthcawl Grand Pavilion and Bryngarw House. However, the Council's register of charges has not been updated since 2013. Our review has highlighted that the Council does not currently have a strategic approach to IG&C and IG&C is solely the responsibility of each individual Directorate. More recently, the Council has undertaken a survey examining how each Directorate is approaching IG&C. One of the aims is to encourage Directorates to consider new strategic directions for IG&C, such as the provision of professional services to outside organisations, such as HR services, finance services, or property advice. The Council has drafted a policy on IG&C, which is due to be presented to Council in March 2016. We have been advised that the Council also intends to establish a new commercialisation group in 2016-17 that will review fees and charges and the generation of income. Our review of the policy confirms that in its draft form, it includes IG&C Principles, advice on when to charge and on the setting of charges, to ensure they are fair, consistent, and concessions are offered where appropriate.

23. In summary, our research suggests that the Council currently does not have a strong strategic approach to IG&C; however, it has taken important steps towards developing such a strategy. We also recognise that there is still scope for more detailed analysis and assessment of IG&C opportunities and that substantial work will be required to fully exploit IG&C opportunities.

24. Financial control is of central importance in relation to budgets. As in prior years, our current year review confirms that the budget setting and monitoring process at the Council is well developed and effective and helps to underpin a strong track record of spending to budget. In addition, financial controls across the Council are effective, with no significant issues identified from external or internal audits.

Financial governance

The Council has a sound framework for reviewing and challenging financial performance through its Corporate Performance Assessment process and Section 151 Officer and has a good track record for meeting financial targets

25. Financial Governance at the Council is generally strong. The Council has a sound framework for reviewing and challenging financial performance through:

- Monthly monitoring at Directorate level, and quarterly reporting to Cabinet (including to Scrutiny) of the Corporate Performance Assessment process. The CPA includes financial measures, such as performance versus budget and versus savings targets, as well as operational performance indicators. Our review has confirmed that the Council continues to improve its monitoring and reporting of performance against savings proposals; in 2014-15, the Council developed its RAG reports, which report on planned versus actual savings using a Red Amber Green system, and includes an examination of all of the RAG savings proposals (formerly only Red and Amber ones were examined). Where savings proposals are not achieved, the Directorates are expected to produce alternative savings proposals.
- Regular meetings with the Section 151 officer, who plays a key role in helping the Council balance local service needs with corporate interests whilst ensuring compliance with all financial, statutory and constitutional requirements; via monthly monitoring at a directorate level and quarterly reporting to Cabinet.

26. The Council has strong financial governance procedures in place, as evidenced by its good track record for meeting financial targets and holding people to account for their budgets.

27. The Council has strengthened its financial governance over Reserves. During 2014-15 the Council has implemented a much improved process in the form of a new Protocol on Reserves (which includes School Reserves, for which a separate 'Guidance on the Use of School Balances' is available), as contained in Appendix G to the MTFS.
In addition to the MTFS, the Council also reports on its reserves as part of its quarterly monitoring reports and its half-yearly report.

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