



AUDIT COMMITTEE – 9TH SEPTEMBER 2015

SUBJECT: WAO REPORT – THE FINANCIAL RESILIENCE OF COUNCILS IN WALES

REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES & S151 OFFICER

1. PURPOSE OF REPORT

- 1.1 To present the Audit Committee with a report produced by the Wales Audit Office (WAO) on the financial resilience of Councils in Wales.

2. SUMMARY

- 2.1 The financial resilience review report attached as Appendix 1 is a composite report reflecting findings from reviews carried out across all of the 22 Local Authorities in Wales. Each Authority also received an individual financial position assessment report and the report for Caerphilly CBC is included separately on the agenda for today's meeting.
- 2.2 The focus of the financial resilience review was the 2014/15 financial planning period and the delivery of 2013/14 financial plans. The financial performance track-record of Councils in 2011/12 and 2012/13 was also analysed.
- 2.3 The robustness of management and planning arrangements to support financial resilience at each Council was reviewed focusing on how Councils plan and then deliver their budget commitments. These reviews involved external audit teams undertaking fieldwork of each Council's financial planning arrangements.
- 2.4 The review also draws comparisons with the experience of English Councils, based on similar analysis conducted in 2013/14 by Grant Thornton. By making these comparisons, the report identifies some key lessons to support Welsh Councils in becoming financially resilient in the future. Councils in England have faced significant financial challenges earlier than Councils in Wales. There is therefore an opportunity for Welsh Councils to learn from and draw upon the experience of Councils in England.

3. LINKS TO STRATEGY

- 3.1 Strong financial management is a key component in supporting the Council to deliver its strategic plans and priorities.

4. THE REPORT

- 4.1 The WAO report is attached as Appendix 1 and provides full details of the review undertaken, the findings, conclusions and recommendations.
- 4.2 The main conclusions arising from the review are the following:-

- 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.
- Most Councils demonstrate clarity of vision and set coherent corporate objectives but need to ensure their medium-term financial plans and operational plans are sufficiently aligned to deliver their objectives.
- Financial management and controls are sound in most Councils, although many need to improve budget setting and monitoring and ensure there is sufficient capacity and capability in the finance team to meet the challenges ahead.
- Whilst financial governance arrangements are comparatively robust, the quality of performance and cost information being used and the level of scrutiny and challenge in Welsh Councils varies significantly, which can undermine the effectiveness of decision making.
- Councils are under significant stress and financial management arrangements that were once good enough will not remain fit for purpose in the face of increasing financial pressures.
- The experience of English Councils shows that it is possible to deal effectively with significant reductions in funding through redesigned service delivery models supported by sophisticated financial planning.

4.3 The WAO report also contains a number of recommendations which are set out on pages 10 and 11 of the attached document. Members should be aware that these are generic recommendations arising from the review of all Councils in Wales and not all of the recommendations will be relevant to the specific local circumstances in Caerphilly CBC. During the coming months the focus in Caerphilly will be on the following: -

- Continuing to embed the good practice and proposals for improvement outlined in the WAO's financial position assessment for Caerphilly CBC.
- The development of a reserves strategy.
- The development of a corporate wide policy on income generation.
- Continued provision of training opportunities for Elected Members to ensure that they have the necessary knowledge and skills to facilitate effective financial overview and scrutiny.

4.4 Following on from the financial resilience review the WAO will now be undertaking a further piece of work which will follow-up the issues previously highlighted. The follow-up review will also consider whether Authorities have robust approaches in place to manage the budget reductions that they are facing, to secure a stable financial position that enables them to continue to operate in the foreseeable future. The focus of this work will be on the 2015/16 financial planning period and the delivery of 2014/15 budgets.

4.5 As part of the follow-up review WAO auditors will determine a risk rating for each Authority against the aspects of Financial Planning, Financial Control and Financial Governance. Each category will be assigned as low, medium or high risk. The fieldwork will be undertaken during September and October 2015 and individual high-level findings reports for each Authority will be distributed by the end of December 2015. A national report will be published by March 2016.

5. EQUALITIES IMPLICATIONS

- 5.1 This report is for information purposes so the Council's Equalities Impact Assessment (EqLA) process does not need to be applied.

6. FINANCIAL IMPLICATIONS

- 6.1 There are no direct financial implications arising from this report.

7. PERSONNEL IMPLICATIONS

- 7.1 There are no direct personnel implications arising from this report.

8. CONSULTATIONS

- 8.1 There are no consultation responses that have not been reflected in this report.

9. RECOMMENDATIONS

- 9.1 Members of the Audit Committee are asked to note the content of the report.

10. REASONS FOR THE RECOMMENDATIONS

- 10.1 To ensure that Members of the Audit Committee are aware of the review work undertaken by the WAO and the resulting findings, conclusions and recommendations.

11. STATUTORY POWER

- 11.1 Local Government Acts 1972 and 2003.

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Appendices:-

Appendix 1 – WAO Report – The Financial Resilience of Councils in Wales (April 2015)