



Financial Position Assessment

Caerphilly County Borough Council

Audit year: 2014-15

Issued: May 2015

Document reference: 214A2015

Status of report

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Summary report

Background

1. Good financial management is essential for the effective stewardship of public money and the delivery of efficient public services, and for ensuring authorities' ability to continue to deliver services to meet statutory obligations and the needs of local communities. It will help authorities take the right decisions for the short, medium and long term. Good financial management:
 - is essential to 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. Managing for the long term is not about predicting the future; it is about preparing for it. Planning involves understanding future demand, assessing the impact of probable changes, reviewing the gaps between funding needs and possible income and developing appropriate savings strategies.
3. A Council's strategic priorities and its financial health should be the basis for deciding what is practicable. 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 encourages an incremental and process-driven approach that is too inflexible in a period of rapid external change.
4. During the period May to August 2014, the Wales Audit Office examined authorities' financial position and how they are budgeting and delivering on required savings. This work considered whether authorities have robust approaches in place to manage the budget reductions that they are facing to secure a stable financial position that will enable them to continue to operate for the foreseeable future. The focus of the work was on the 2014-15 financial planning period. In order to inform views on the planning for and successful delivery of budgets, we also considered track record for the previous financial years 2011-12 to 2013-14.
5. The work focussed on answering the following question: **Is the Council managing budget reductions effectively to ensure financial resilience?** In this report we set out our conclusions on both track record and future prospects:
 - **Track record** – whether the Council successfully identified, planned for, and delivered the savings required in the period 2011-12 to 2013-14; and, if there was a shortfall, how was this addressed.

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- **Future prospects** – whether the Council has an effective corporate framework for financial planning, exercises effective financial management and control, has a robust framework for reviewing and challenging financial performance; and whether the Council has realistic plans to make the savings required for 2014-15 and is taking appropriate steps to deliver them.
6. We analysed a range of data produced by Caerphilly County Borough Council (the Council) from published accounts, performance returns to the Welsh Government and the Local Government Data Unit. We also completed a review of Council reports and interviewed a small number of key staff.

The Council has good financial management arrangements in place and recognises that it needs to address some areas for improvement to help deliver its future savings plans

7. In answer to our overall question: ‘Is the Council managing budget reductions effectively to ensure financial resilience?’ we concluded that: **the Council has good financial management arrangements in place and recognises that it needs to address some areas for improvement to help deliver its future savings plans.**
8. We came to this conclusion because we found that **the Council has a good track record of operating within its budget. Historically, savings were identified and achieved in the prior year and a framework has now been developed to monitor the delivery of the 2014-15 savings proposals.**
9. We also found that **the Council’s future plans and arrangements to deliver savings are adequate and improvements are currently being implemented.** Our detailed conclusions are set out in [Appendix 1](#) and are based on the extent to which the Council has put in place, and is operating, effective financial management and controls which are supporting it to secure a stable financial position.

The Council has a good track record of operating within its budget and has developed a framework to monitor the delivery of its proposed savings in 2014-15

10. The Council delivered a surplus on its budget in each year between 2011-12 and 2013-14. The Council takes a forward looking approach to identify its savings requirements allowing it to do so in a planned and measured way. Budgets have been set taking into account the level of savings already identified and achieved in prior years. As such, until 2014-15, there have been no unachieved savings to monitor.

This year, there have been a number of savings to be achieved during 2014-15, rather than being brought forward as a saving in advance from the preceding year. The Council is developing a framework to regularly monitor and report the delivery of savings. Financial targets have been allocated for each individual saving identified, along with a risk assessment based on the impact and likelihood of success. Progress made against the savings targets is monitored and reported to Members together with the regular budget monitoring reports.

11. The Council has historically determined that it will hold General Funds of approximately £10 million in reserve. In the final accounts for 2013-14, the general fund balance was £16 million as at 31 March 2014 and total usable reserves were £97 million. The Council therefore has a healthy reserves position. It has not needed to use its General Reserves to offset service overspends.

The Council's future plans and arrangements to deliver savings are adequate and improvements are currently being implemented

12. The Council has a corporate framework in place for financial planning, and demonstrates adequate financial management and control. However, the Council's priorities and improvement objectives are not explicitly considered in determining the Council's savings. The Council recognises that the level of savings required is such that there will need to be more effective prioritisation of services going forward. This prioritisation needs to take into account the priorities and improvement objectives agreed in the Council's Corporate Plan.
13. Whilst the Council has a good track record of operating within its budget, the Council recognises that its current approach to delivering savings may no longer be sustainable. The Council has estimated that it will need to achieve savings of £39 million over the next three years.
14. The Council has recently set out its draft savings proposals for 2015-16, following a series of special scrutiny committee meetings to consider the proposals. As part of these, the Council is proposing to maximise the use of any 'excess' General Fund balances for Capital/Invest-to-Save Schemes rather than to use its reserves to offset savings requirements in the short term.
15. The Council is developing a new framework to monitor savings as the level of savings that can be achieved in advance is reduced. Separate monitoring of the performance of savings plans, particularly where recurrent savings are required, will become increasingly important. This will also enable the Council to evaluate and learn from those savings plans that were met in full and those that were not.
16. Without explicit monitoring of savings, the achievement of a balanced budget may mask failure to deliver agreed savings, particularly if there are one-off factors that were not part of the savings plan, but which reduce net spending. For example, achievement of a balanced budget may be due to a one-off underspend rather than the achievement of a savings plan.

Proposals for improvement

- P1 The Council should ensure that its priorities and improvement objectives are explicitly taken into account when determining its savings plans.
- P2 The Council should continue to develop the framework to formally monitor the delivery of savings and report to Members. This is becoming increasingly important as the Council faces more difficult savings requirements.

Appendix 1

Summary of the results of our review

| Key line of enquiry | Fieldwork Findings | Conclusions |
|--|---|---|
| Track Record 2011-12 to 2013-14 | <p>For 2011-12, a budget shortfall of £9.148 million was identified. A total of £12.503 million in efficiencies were achieved in preparation for the 2011-12 budget which provided a surplus in the year of £3.355 million.</p> <p>For 2012-13, a budget shortfall of £3.410 million m was identified, supplemented by savings of £3.355 million carried forward from 2011-12. A £2 million surplus was achieved this year.</p> <p>For 2013-14, a budget shortfall of £5.091 million was identified. Savings of £5.213 million had already been achieved and approved in readiness for the financial year 2013-14. The Council delivered a £4.446 million surplus on its 2013-14 budget.</p> <p>Budgets are set taking into account the level of savings already identified and achieved in prior years. As such, there have been no unachieved savings to monitor.</p> | <p>The Council has a good track record in identifying and achieving revenue budget savings in the preceding year and operating within its budget.</p> |

| Key line of enquiry | Fieldwork Findings | Conclusions |
|--|--|--|
| <p>Strategic Financial Planning</p> | <p>Our review identified that there is a consistent understanding of the Council's approach to medium-term financial planning, the challenges the Council faces and the savings required to meet these challenges amongst staff. For example, budget proposals are communicated to all staff via the Council's intranet and website. In addition, regular management meetings, such as Departmental Management Teams and service team meetings, regularly discuss the budget and are engaged in identifying savings options. Member seminars are held to discuss the budget proposals and seminars have also been held on significant or sensitive areas, such as the review of all discretionary services in order to achieve the required savings following the recent announcements from the Welsh Government on further reductions in funding.</p> <p>The Council has published a Corporate Plan, most recently covering the period for 2013-2017. The Plan details the links between the high level community priorities within the Caerphilly Single Integrated Plan and the Council's own contribution towards those community improvements and its shorter-term Improvement Objectives. The Council publishes an annual performance report to monitor how it is delivering the corporate priorities and improvement objectives it set out. However, we note that the Council's priorities and improvement objectives are not explicitly considered in determining the Council's savings. Officers told us that they guide members on priorities and the need to protect certain services in, for example, budget papers set out the Council's improvement themes, but no formal process exists to ensure corporate priorities are taken into account. Improvement objectives are, however, explicitly referenced in the example service plans obtained during the review.</p> <p>The Council has a Medium Term Financial Plan (MTFP) which is seen as an overarching plan for the financial performance of the Council for the future. The MTFP is measured through regular updates to Cabinet as well as quarterly budget monitoring reports to relevant Scrutiny Committees and the annual budget monitoring report. However, there are no explicit key performance indicators to monitor the MTFP and associated performance.</p> <p>The Council's prudent approach to managing its finances allows it to anticipate its future financial environment and to manage its financial risks. As part of its annual budget proposals, the Council updates its plan to provide a rolling three-year forecast of its financial position, to identify potential savings targets for future years and to set out the level of savings already secured.</p> | <p>The Council's corporate framework for strategic financial planning is adequate but some improvements could be made.</p> |

| Key line of enquiry | Fieldwork Findings | Conclusions |
|--|---|--|
| <p>Financial Management and Control</p> | <p>The Council's constitution, updated in January 2014, contains a section on Council Procedure Rules, which includes sections called budget and policy framework procedure rules and financial procedure rules – financial regulations. These sections provide the control framework for managing the Council's financial affairs, enabling financial management within a system of delegated responsibility and accountability.</p> <p>Budget reporting takes place at various levels within the Council. There are regular updates of the MTFP to the Cabinet during the year as well as quarterly budget monitoring reports to relevant Scrutiny Committees. Budget monitoring at both an officer and Member level within the Council is sound with clear reports that track variances and movements in reserves and current budget performance. 'Hot-spot' reports identifying areas of concern are regularly discussed at the Corporate Management Team. Reports to Members highlight and explain significant under and overspends, and identify potential cost pressures.</p> <p>The Council has historically determined that it will hold General Funds of circa £10 million in reserve. Final accounts for 2013-14 showed that the general fund balance was £16 million as at 31 March 2014 and total usable reserves were £97 million. The Council therefore has a healthy reserves position. It has not needed to use its General Reserves to offset service overspends. As part of its 2015-16 budget savings proposals, the Council is proposing to maximise the impact of the use of any 'excess' General Fund balances by utilising them for Capital/Invest-to-Save Schemes, rather than using them in the short-term to reduce the level of savings required.</p> <p>The Council has a track record of under spending to budget and proactively managing forecast overspends in-year. Going forward, the deliverability of savings and how they are achieved will be reported regularly to scrutiny committees on an exception basis.</p> <p>There is no overarching policy on income generation/charging and no formal register of charges. Each department within the Council has reviewed its fees and charges to identify opportunities to increase, for example, country-park charges and non-residential social services. As a result, income from charges going forward is not expected to deliver more than small inflationary increases that service users can tolerate.</p> | <p>The Council's financial management and control arrangements are adequate. The Council acknowledges that further improvements could be made.</p> |

| Key line of enquiry | Fieldwork Findings | Conclusions |
|------------------------------------|--|--|
| <p>Financial Governance</p> | <p>Whilst the Council has a good a track record of operating within its budget, the current approach may no longer be sustainable given the significant level of savings the Council has to achieve over the next three years following the recent local government settlement announcement. The Council is reviewing which services will continue to be delivered. It is developing a new framework to set and monitor savings as the level of savings that can be achieved in advance is reduced, requiring the Council to adopt a new approach to how it can operate within its funding allocation.</p> | <p>The Council's financial management and control arrangements are adequate. The Council acknowledges that further improvements could be made.</p> |

| Key line of enquiry | Fieldwork Findings | Conclusions |
|---|--|--|
| <p>Current Savings Plans 2014-15</p> | <p>The Council identified, as part of its revenue budget for 2014-15, a budget shortfall for the year of £15.162 million.</p> <p>The budget for 2014-15 has taken into account the Local Government Settlement for the year, pay awards, Council Tax rises, the implementation of single status, the impact of demographic changes and demands for services. In regards to inflation assumptions, we note that the MTFP includes a general cost inflation rate of 1.5 per cent, net of 1.5 per cent fees and charges increases. This is made with reference to CPI and RPI in full. Directorates are expected to take account of the impact relating to the difference between the actual general cost inflation rate and the net rate in their budget proposals through increasing fees and charges or identifying other efficiencies.</p> <p>Since the Local Government Settlement Announcements in October 2013, followed more recently by the announcement in June 2014, a significant amount of work has been undertaken within each Directorate to identify further savings than originally anticipated for 2014-15 to 2016-17. The work to identify savings has been led by the Corporate Management Team in consultation with appropriate Cabinet Members, working with the Head of Service with support from colleagues in Finance. Service Managers have also been involved to ensure that all options are identified for consideration by Members.</p> <p>The Corporate Management Team has, in the light of the extensive work undertaken and the feedback from the consultation process, identified individual proposals for 2014-15, demonstrating that the Council is prioritising the savings identified. Financial targets have been associated with each individual saving identified along with a risk assessment based on impact and likelihood for each project or scheme. Progress made against the savings targets has recently been reported and monitored through the budget monitoring reports. Funds of £800,000 have been set aside in respect of proposals where savings may be delivered part way through 2014-15 rather than during the year in full. Funds will be released to service areas on a case-by-case basis following a review of need.</p> | <p>The Council's financial management and control arrangements are adequate. The Council acknowledges that further improvements could be made.</p> |

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