

Report

Cabinet

Part 1

Date: 17 October, 2016

Item No: 7

Subject Welsh Audit Financial Resilience Review

Purpose This report outlines the key findings of the above review and the action plan to address some of the findings

Author Head of Finance

Ward All

Summary The WAO completed a 'financial resilience' review in the Council in Spring 2016, as part of their 2015/16 performance audit and was completed in all Welsh Councils. This report highlights the key findings and recommendations and shows the action plan which has been developed from these, for Cabinet's review and approval.

Proposal That Cabinet:

- Note the findings coming out of the review
- Notes and approves the action Plan to address some of the key findings

Action by Head of Finance and Assistant Head of Finance – incorporate action plan recommendations and changes in work programmes going forward

Timetable As noted in Action Plan

This report was prepared after consultation with:

- Senior Leadership Team
- Cabinet Member for Finance
- Senior Finance Business Partners
- Welsh Audit Office officers
- Monitoring Officer
- Head of People & Business Change

Background

THE REVIEW

1. As part of the 2015/16 Performance Audit work-plan, the Welsh Audit Office have completed a review of all Welsh Local Authorities 'Financial Resilience' arrangements. This followed some of their concerns, across Wales, about the rigour and robustness of Council's Medium Term Financial Plans and ability to deliver on budgeted savings which culminated in their national report "The financial resilience of Councils in Wales" in April 2015 .

The review focussed on:

- Financial Planning arrangements
- Financial Control arrangements, including delivery of savings
- Financial Governance arrangements

For each of the above areas, the WAO gave a risk rating following their review – based on the following;

LOW	Arrangements are adequate (or better) with few shortcomings in systems, process or information. Impact on the authorities' ability to deliver its financial plan may be minimal.
MEDIUM	There are some shortcomings in systems, process or information that may affect the authorities' ability to deliver the desired outcomes of its financial plan.
HIGH	There are significant shortcomings in systems, process or information and/or there is a real risk of the authorities' financial plan not delivering the desired outcomes.

2. They undertook their assessments and reported on findings locally, across Wales and here in Newport between May 2015 and January 2016. The work focused on the delivery of 2014/15 saving plans and the 2015/16 financial planning period. Each Council in Wales has their own separate report on findings and an assessment on each of the themes above and in due course, the Welsh Audit Office will issue a national report, highlighting key, common issues and other points of interest.

The topic is also now going to be re-run each year given the importance of good financial planning and management in a period of significant financial challenge, but Councils will not be risk assessed, like this first review.

FINDINGS

3. The full report is attached as Appendix One. In summary, the report highlights:
 - (i) on-going improvements made over the last few years, including:
 - Improved financial planning arrangements, including a clear vision through its future service delivery strategy 'Newport 2020'
 - Improvements to its medium term financial planning
 - Greater transparency on reserves
 - More robust business cases
 - Robust processes through Change/Efficiency programme and Directorate Boards on managing the financial position

- Sound financial governance arrangements at an officer level

(ii) Some weaknesses, including:

- Further work required to balance its medium term financial plan
- Strengthening the link between the financial plans / business cases and the Council's key priorities / improvement plans
- Mixed track record in delivering cross-cutting saving plans
- Development of a reserves policy to support use and maintenance of these
- Development of a policy on fees/charges
- Scrutiny committees do not receive budget monitoring information and monitoring of savings delivered to hold officers to account
- Making the budget consultation easier to engage with and easier to understand business cases
- Engagement of members, including scrutiny's earlier in financial planning process

4. In terms of the risk rating, all three areas were assessed as 'Medium'. The risk rating has been the subject of numerous conversations with Welsh Audit Office. The following are key points to note:

- (i) The lack of a *balanced* medium term financial plan means that the best rating on the financial planning area can only be a 'medium'. Following discussions, the report now acknowledges this is the position in most Welsh Local Authorities (and would also be the case across the UK) and the on-going lack of information on medium term funding support from WG is a significant barrier to this.
- (ii) In the area of financial control, the Authority has balanced, and under-spent its budget over last 3 years or so and fully understands why. It has capacity to fund change through its Invest to Save reserve and a revenue budget contingency to deal with the inherent problems in delivering significant budget savings and demand on services, if needed. Financial control processes and arrangements are robust which is recognised within the report. Reserves are in place to manage risks and enable key developments and priorities.

There are few weaknesses identified in this area within the report.

5. In saying these, a number of issues and helpful recommendations are made in the report and are noted. The report includes a summary of 'proposals for improvement' on page 6 of the main report. It is replicated in the table below.

P1 Improving financial planning by:

- clearly linking savings plans, the level of Council Tax and the use and maintenance of reserves, together with consideration of statutory service provision and delivery of corporate priorities to secure a balanced MTFP;
- developing a MTFP that is balanced over a longer term with comprehensive multi-year savings plans to cover the period of the MTFP, which incorporates the level and planned use of reserves; and
- continue to develop business cases that have improved clarity, quality and robustness.

P2 Improving financial control by:

- developing a formal policy on the use of reserves; and
- formalising income generation/charging policies.

P3 Improving financial governance by:

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| <p>a. maximising the role scrutiny can play in challenging the Council's financial position and performance through the provision of integrated financial and performance reports including the position against agreed savings plans; and</p> <p>b. seek to engage scrutiny members earlier in the consideration of savings proposals.</p> |
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The Head of Finance and his accountancy team have considered the report, findings and the above recommendations and developed an action plan of improvements, shown in Appendix Two – a few which were ‘in progress’ anyhow and now already implemented . These have been discussed with the Cabinet Member and Senior Management Team.

Financial Summary

N/A – the action plan have no direct financial implications but will improve overall financial arrangements

Risks

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Action plan items can't be implemented	L	L	<ul style="list-style-type: none"> - Focus on delivering improvements - Manage progress through senior finance team forum - Manage through service plan process 	HoF / AHoF

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

Sound financial planning, management and governance are the foundations to any organisation and more so in the very challenging financial climate that the public sector faces. To that end, they support all the Council's activities and priorities.

Options Available

Cabinet can

- Note the report but not implement the improvements shown in the Action Plan
- Note the report and implement the improvements shown in the Action, plus identify any further changes which they believe should be considered.

Preferred Option and Why

To approve the Action Plan, including the identification of any further improvements which Cabinet feel require consideration

Comments of Chief Financial Officer

There are no direct financial implications. Recommendations require no cashable resources as they are process / procedural changes.

Sound financial planning, management and governance are the foundations to any organisation and more so in the very challenging financial climate that the public sector faces. To that end, the action plan, alongside improvements already made in the last few years, support all the Council's activities and priorities.

Comments of Monitoring Officer

There are no specific legal issues arising from the Report. The proposed action plan sets out the improvements that are required to the existing financial management and governance arrangements in order to address the weaknesses and risks identified in the WAO Financial Resilience Report.

Staffing Implications: Comments of Head of People and Business Change

No staffing impacts.

Comments of Cabinet Member

The Cabinet Member has reviewed the WAO report and Action Plan

Local issues

N/A

Scrutiny Committees

N/A

Equalities Impact Assessment

N/A

Children and Families (Wales) Measure

N/A

Consultation

N/A

Background Papers

-Financial Resilience Report

Dated: 30 September 2016

APPENDIX 1

Archwilydd Cyffredinol Cymru
Auditor General for Wales



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Financial Resilience Assessment

Newport City Council

Audit year: 2015-16

Issued: June 2016

Document reference: 296A2016

Status of report

This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at info.officer@audit.wales.

The team who delivered the work comprised Sara-Jane Byrne and Terry Lewis under the direction of Alan Morris and Anthony Veale.

Contents

The Council has strengthened its financial arrangements but more work is required to deliver a balanced medium term financial plan and to improve the clarity of financial information reported to members

Summary report	
Summary	4
Proposals for improvement	6
Detailed report	
Financial planning	7
The Council's medium-term financial plan is not yet fully balanced and supported by a formalised reserves policy	
Financial control	12
The Council has improved elements of its financial controls, which included a review of the unplanned underspend reported in 2014-15 but there is scope to improve its financial controls further	
Financial governance	14
The Council has sound financial governance arrangements at an officer level but the clarity of information provided to Cabinet and Scrutiny could be further improved to support the monitoring of agreed savings	
Appendices	
Key characteristics	18

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. 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](#).
6. Given the continuing pressures on funding, 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.
7. We undertook our assessment during the period May 2015 to January 2016, 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.

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8. The work focused on answering the following question: **Is Newport City 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.**
9. Overall, we concluded that the Council has strengthened its financial arrangements but more work is required to deliver a balanced medium term financial plan and to improve the clarity of financial information reported to members. We came to this conclusion based on our findings in relation to financial planning, financial control, and financial governance arrangements
10. 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.

11. 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
Medium Risk	Financial governance

Proposals for improvement

The Council should strengthen its financial resilience by:

P1 Improving financial planning by:

- a. clearly linking savings plans, the level of Council Tax and the use and maintenance of reserves, together with consideration of statutory service provision and delivery of corporate priorities to secure a balanced MTFP;
- b. developing a MTFP that is balanced over a longer term with comprehensive multi-year savings plans to cover the period of the MTFP, which incorporates the level and planned use of reserves; and
- c. continue to develop business cases that have improved clarity, quality and robustness.

P2 Improving financial control by:

- a. developing a formal policy on the use of reserves; and
- b. formalising income generation/charging policies.

P3 Improving financial governance by:

- a. maximising the role scrutiny can play in challenging the Council's financial position and performance through the provision of integrated financial and performance reports including the position against agreed savings plans; and
- b. seek to engage scrutiny members earlier in the consideration of savings proposals.

Detailed report

The Council has strengthened its financial arrangements but more work is required to deliver a balanced medium term financial plan and to improve the clarity of financial information reported to members

Financial Planning

The Council's medium-term financial plan is not yet fully balanced and supported by a formalised reserves policy

12. The Council has strengthened some of its financial planning arrangements. This includes the development of a clear vision through its future service delivery strategy Newport 2020, improvements to its medium-term financial plan (MTFP), greater transparency about its reserves and more detailed business cases.
13. It has a corporate plan, 'Standing up for Newport' which sets out the Council's priorities and improvement objectives. In 2013, the Council also developed 'Prospectus for Change 2013-17', which sets out the Council's change and efficiency programme to help it meet the financial challenges it is facing. The Council is now in the process of reviewing and refining its future service delivery strategy to reflect the changing environment, both in terms of legislation and financial pressures. In its strategy, 'Newport 2020', which was agreed by Cabinet in February 2016, the Council sets out the following principles which will underpin the Council's transformation programme:
 - better use of technology;
 - ability to generate more income;
 - how it can use community capacity more effectively;
 - how it can manage demand as the city grows and resources reduce;
 - what potential alternative delivery models could it consider putting in place; and
 - what is the vision for each service by 2020 and how can it judge whether it has succeeded.
14. The MTFP includes key components, such as savings plans, the level of Council Tax and the use and maintenance of reserves. However, the Council needs to set out clearly how these components are linked and utilised so that the MTFP is clearly articulated and understood. A formal reserves policy is key to this coupled with clear statements on statutory service provision and the delivery of its corporate priorities.

The Council recognises that further work is needed to balance its medium-term financial plan

15. Until 2015, the Council's approach has been to focus on a balancing the first year of the MTFP with high level consideration of the next three years (but not fully balanced). Following the Comprehensive Spending Review in autumn 2015 and a more positive

settlement from the Welsh Government than had been anticipated, the Council's Cabinet reviewed and updated its MTFP in February 2016. It sets out the financial gap for each of the four years and previously agreed savings proposals for future years together with savings proposals per directorate across the timeframe of the MTFP.

16. In its MTFP in February 2015, the Council had assumed a reduction in funding of 2.5 per cent for 2016-17, 2017-18 and 2018-19 and nil change for 2019-20. The Welsh Government has now informed the Council that it will receive a 0.7 per cent reduction in its Revenue Support Grant (RSG) for 2016-17. The Council has subsequently changed its assumptions for reduction in the level of RSG from 2.5 per cent to 1.5 per cent for 2017-18 and 1.25 per cent in 2018-19. The Council has assumed there will be no reduction in the RSG for 2019-20. Exhibit 1 below shows the Council's estimated budget shortfalls as set out in February 2015, revised in September 2015 and subsequently further revised in February 2016. Although the required level of savings is still significant, the current estimated budget shortfalls as at February 2016, show an improved position from the estimated budget shortfalls identified 12 months ago.

Exhibit 1: Council's estimated budget shortfalls

	2015-16	2016-17	2017-18	2018-19	2019-20	Total budget shortfall
February 2015	11.1	12.4	8.8	7.8		40.1
September 2015		12.1	8.3	8.4	3.8	32.6
February 2016		8.1	6.7	7.4	4.4	26.6

17. The Council acknowledges that it has not yet developed detailed and fully costed savings plans to support its longer-term savings targets. This is a similar position to many other Welsh councils. As at February 2016, the focus is still predominately on the 2016-17 annual budget (as the revenue support grant from the Welsh Government is set annually) and the Council's 2016-17 – 2019-20 MTFP does not yet constitute a fully detailed MTFP supported by robust business cases. We acknowledge that the lack of longer term funding does not facilitate longer term planning. Nevertheless, the updated MTFP is a positive step forward from what was essentially an MTFP with the first year balanced and subsequent years showing a financial 'gap'.

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18. The Council's MTFP makes reference to 'Prospectus for Change' and 'Newport 2020' but the extent to which the Council's priorities have influenced the MTFP and the identification of savings proposals needs to be clearer. The 2016-17 budget and MTFP discussed by Cabinet in February 2016, simply states, 'In drawing up budget proposals, due regard has been given to key Council policies and priorities.' The business case template does not include a section relating to the Council's priorities. We understand that the Council has developed plans showing the level of resources for each of its 2016-17 improvement objectives. We raised a related recommendation in our Corporate Assessment follow-up report in May 2015 to ensure that financial plans provide clear links to improvement objectives and service plans. Whilst the development of plans for each of its improvement objectives is a step forward, we believe that further work is required to address this recommendation fully.
 19. Cabinet reviewed the MTFP three times during 2015-16 and formally approves the budget each year. There is ongoing discussion of the MTFP by senior management. Budgets have been set taking into account the level of savings already identified and achieved in prior years.

There is good and early cabinet member involvement in the consideration of the Council's savings proposals and whilst improved, business cases are not yet consistently robust

20. Cabinet members are well engaged in the MTFP process and there have been a number of meetings between Cabinet and senior management to discuss the proposed savings plans.
21. The Council develops business cases for its savings proposals on an annual basis, some of which are planned to deliver savings beyond the first year and over the medium term. It has recently agreed the savings proposals for 2016-17. The level of detail contained in the business cases for 2016-17 is much improved on prior years. The business case template includes sections on impact on citizens, impact on performance, staff, and high-level timescales and milestones. However, as stated above, the template does not include a section on corporate priorities. Mechanisms are in place to challenge the quality of draft business cases before the Council publishes them and it has a business improvement team that provides ongoing support and challenge to directorates on the development of business cases. Nevertheless, the Council recognises that there is scope to improve the quality of the business cases by incorporating a specific reference to corporate priorities and ensuring that the quality of information included in the business cases is consistently clear and robust.

The Council has achieved the overall level of savings required for 2014-15 but it has a mixed track record of delivering its cross-cutting savings plans

- 22. The Council set a savings target of £10 million for the 2014-15 financial year. Given the scale of the annual savings target, there were inevitable challenges in securing the delivery of the £10 million savings target.
- 23. The June 2015 budget monitoring report to Cabinet specifically identified a shortfall in the delivery of cross-cutting savings of £1.1 million, primarily attributable to the timings of the benefit realisation. However, the Cabinet report did not in our view provide a sufficient level of detail to assess both the reason for the non delivery and whether these savings could be delivered in 2015-16 (the Council has explained that this was attributable to staff shortages at that time). We did note that the Council’s budget monitoring report to Cabinet in January 2016 provided this level of detail. However, this level of detail should have been provided within the June 2015 report to shape and support the delivery of in-year and future savings targets.

The Council has prudently increased its level of reserves but the use and maintenance of its reserves needs to be underpinned by a reserves policy and clearly set out and considered in its financial planning

- 24. As the diagram from the Council’s budget report in February 2016 shows, the Council has an increasing level of reserves.

Exhibit 2: Level of Council funds, schools funds and earmarked reserves

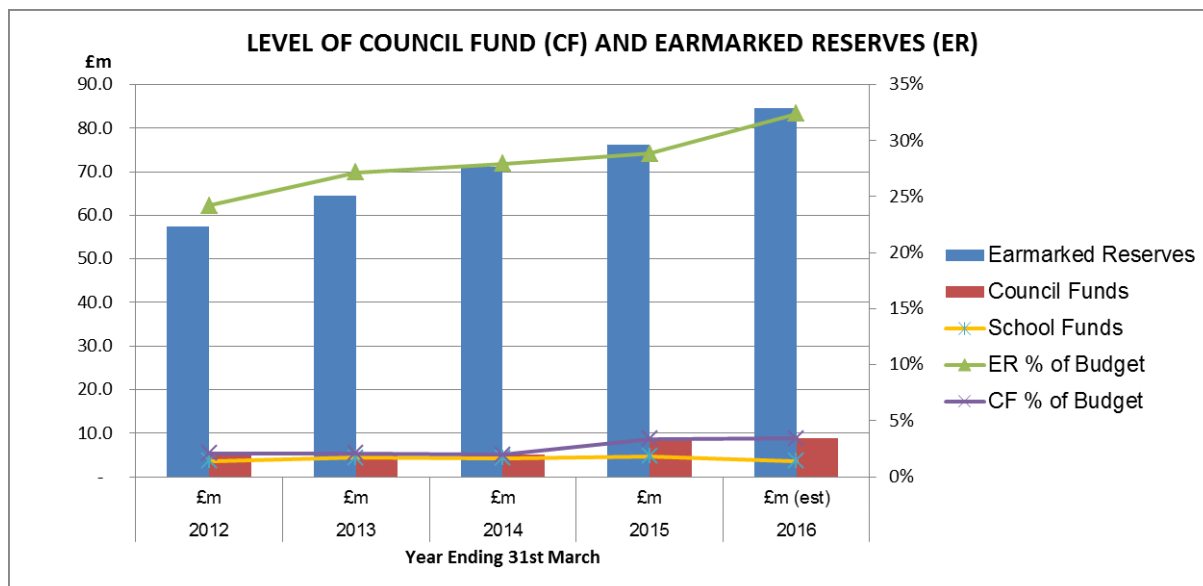


Exhibit source: Newport City Council 2016-17 budget and medium-term financial plan, 15 February 2016.

- 25. Like most councils, the Council manages a wide and complex array of reserves. It has a general fund reserve and earmarked reserves, including its ‘Invest to Save’ reserve. Further detail about the Council’s reserves is provided in paragraph 37. The Council

continues to manage a £1.5 million contingency fund, which it uses to offset any budget overspends and non-delivery of savings proposals. The Council did not use its contingency fund in 2014-15. As at February 2016, it is also forecasting that it will not need to use its contingency fund in 2015-16.

- 26.** Transparency around the Council's use of reserves has improved. There is evidence of reports to Cabinet and Audit Committee explaining the different types of reserves, what they are for and how much is held in each. Cabinet has also considered the use of the pay reserve to mitigate potential increasing pay inflation. The Council's MTFP sets out the different types of reserves and how the Council plans to use these, primarily to offset risks.
- 27.** The Council has the flexibility to determine which reserves are earmarked and which can be used more generally. However, this is not always clear within reports to members. The Council would benefit from a clearer and strategic approach to the use of its reserves supported by an agreed reserves policy. Building up reserves to an appropriate level is prudent so that the Council can manage any future challenges and risks. However, at a time when the Council is making cuts to services and increasing Council Tax, it is vital that the Council is explicit about how it takes into account and uses its levels of reserves in considering its savings proposals throughout the year and indeed future years. It is also important that any use of reserves is considered beyond one year and linked to the MTFP so that the future impact or risks can be considered.

Financial control

The Council has improved elements of its financial controls, which included a review of the unplanned underspend reported in 2014-15 but there is scope to improve its financial controls further

28. The Council's constitution and scheme of delegation set out levels of responsibilities and these are supported by Financial Regulations and Contract Standing Orders. The Council has established its financial management policies over time and these are widely understood but they are not formalised in any document. For example, processes have evolved around monitoring of savings but the Council has not formally articulated these to clarify levels of accountability.
29. Budget reporting and monitoring take place at both a corporate and directorate level within the Council. There are quarterly budget monitoring reports to Cabinet and the Senior Leadership Team. Directors and Heads of Service also meet regularly with individual Cabinet Members.
30. The Council has established a Change and Efficiency Board and directorate portfolio boards. The position against the budget and savings proposals is monitored monthly through these mechanisms using a clear 'red amber green' (RAG) rated dashboard and highlight reports. Particular focus is placed on those areas under pressure, such as Social Services, which is currently forecasting a potential overspend. Our observation of the Change and Efficiency Board and the People Portfolio Board found that these mechanisms are sound and provide a strong basis to manage the Council's financial position. We observed robust challenge of savings proposals at risk of non-delivery as well as consideration of the impact of savings on service users.

The Council has a track record of underspending against its annual revenue budget and arrangements are in place to review any significant underspends

31. The Council has a track record of underspending against its budget: £5.2 million in 2014-15; £4 million in 2013-14; and £3 million in 2012-13. These figures include the Council's annual revenue contingency fund, which equated to £2 million.
32. In respect of the 2014-15 position, the Council exceeded its planned outturn for by £5.2 million with underspends across most directorates. The level of underspend was primarily due to a variance arising from the interest in respect of the Private Finance Initiative Scheme (£2 million) and the contingency fund (£2 million) which was not utilised. We are pleased to report that the Council undertook a review of the variances in order to strengthen its forecasting and monitoring arrangements.
33. Capacity problems within the finance department meant that this underspend was not fully identified at an early stage (partly due to the overall position being offset by savings in respect of capital financing/PFI costs).

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34. The Council has now addressed the capacity issues in the finance department with a number of key appointments already having a positive impact on financial management. As stated previously, it is positive to note that the Council is taking steps to strengthen its financial controls and at the end of the 2014-15 financial year, analysed the 2014-15 underspend to understand the contributing factors.
 35. As at January 2016, the Council is forecasting an underspend in 2015-16 albeit by £0.4 million but this is after it has transferred £3.2 million of its underspend into its reserves. We have noted that this has been clearly reported in the Cabinet budget monitoring reports during 2015-16.
 36. The Council reviews its level of reserves annually. The Council does not have a formal reserves policy but it has stated its intention to maintain its General Reserve at a minimum level of £5 million. The level of the Council's general reserves currently stands at £8.9 million. It has 'earmarked' reserves of approximately £85 million, which includes its PFI reserve (which is approximately 50 per cent of its earmarked reserves). It has earmarked reserves to mitigate a range of risks and to cover future expected increases in costs, such as an insurance reserve, a capital expenditure reserve, a pay reserve, and a reserve for Friars Walk. The full list of earmarked reserves is included in the 2016-17 budget report, which was considered by Cabinet in February 2016.
 37. The Council has improved the transparency and clarity around its reserves. For example, Cabinet has received reports about the different types of reserve and considered the use of its pay reserve to mitigate the risk of pay inflation. However, there should be greater clarity about its planned use of reserves and how this will influence its savings with incorporation into the MTFP.
 38. Within its MTFP and budget report for 2016-17, the Council includes performance against some key financial indicators, such as working capital and gearing ratio for current and prior years. These indicators can be used to monitor the MTFP and associated performance. The Council does not formally benchmark its financial performance with other councils.
 39. The Council considers income generation and charges annually as part of its budget setting process but it does not have a defined and agreed policy.
 40. Councils' Internal Audit service is an integral part of their governance framework that provides assurance on the financial controls in operation. The Council's Internal Audit annual report for 2014-15 concluded that the internal controls in operation were 'reasonable' (defined as – adequately controlled although risks identified which may compromise the overall control environment; improvements required). There were five 'unsatisfactory' audit opinions out of 34 issued in 2014-15, and as at quarter three of 2015-16 there had been three 'unsatisfactory' audit opinions out of the 20 reviews completed. Internal Audit are tracking the implementation of recommendations arising from the 'unsatisfactory' opinions.

Financial governance

The Council has sound financial governance arrangements at an officer level but the clarity of information provided to Cabinet and Scrutiny could be further improved to support the monitoring of agreed savings

41. It is evident that the Council's senior officers have a strong understanding of the Council's financial position and the challenges it faces. There is frequent discussion and monitoring of the Council's financial position at a corporate and directorate level. This includes considering monthly reports to Cabinet, to the Change and Efficiency Board and directorate Portfolio Boards as well as being a standard agenda item for Cabinet Member briefings.
42. Good mechanisms are in place at an officer level to elevate and address budgetary concerns and to take appropriate action to strengthen the Council's financial resilience. Arrangements are in place through the Change and Efficiency Board, and Portfolio Boards, to hold those responsible for managing financial performance to account.
43. We understand that individual cabinet members meet regularly with directors and heads of service. Cabinet member briefings are used and progress against individual savings targets relevant to their portfolios are considered
44. Cabinet budget monitoring does provide the opportunity for cabinet members to hold officers and each other to account. However, the reports are quite traditional with a significant level of narrative; they do not use the same dashboards used by the Change and Efficiency and Portfolio Boards, which provide a visual indication of the Council's progress in delivering its agreed savings (although recently the dashboards have started to be used to compile the cabinet reports).
45. The Cabinet budget reports provide an outline of the overall baseline position and highlight key budget pressures alongside the position against agreed savings targets. Cabinet received one budget monitoring report during 2015-16, which clearly showed the position against each agreed savings plan in 2015-16. This was in January 2016. However, in 2014-15, Cabinet received regular reports showing the position against agreed savings plans. We are reassured that this is now being addressed and its approach in 2016-17 has returned to the more regular reporting cycle.
46. The Council's progress in delivering its cross-cutting savings plans is an example where the reported position from 2014-15 to 2015-16 was not entirely clear. In the revenue budget year-end report of 8 June 2015, the Council stated that the non-delivery of corporate and cross-cutting related savings equated to £1.1 million. However, the dashboard used by the Change and Efficiency Board stated the carried-forward saving for corporate and cross-cutting related savings from 2014-15 was in the region of £0.5 million. We understand this discrepancy is due to a reallocation in the target from the 2014-15 dashboard to the 2015-16 dashboard and that the overall position for the Council's financial improvement plan did not change. Nevertheless, it is difficult to track and understand the change.
47. Furthermore, scrutiny committees do not receive budget monitoring information regularly. Monitoring budgets and position against agreed savings targets is not

included on scrutiny committees' forward work programmes. Aside from consideration of the annual budget and savings proposals, scrutiny committees do not have the opportunity to formally monitor and challenge the Executive on the Council's budget position. Mid-year and end-of-year service plan reviews do not include information relating to the service's position against the budget and savings targets. These reviews primarily focus on performance. The Council does not report financial and performance information together to members.

48. The Council operates a highly delegated model of decision-making. However, the lack of budget information to scrutiny committees does undermine their ability to make a positive impact on service performance, which is wider than just progress against performance measures and actions, and to challenge and hold officers and Cabinet Members to account.
49. The Council undertook its 'budget conversation' process in 2014-15 to inform its 2015-16 budget. Through this process, the Council asked the public which Council services mattered to them and their ideas for how the Council could save money. Staff were also asked for their ideas about how the Council could save money. The Council has identified the lessons learnt from this process but it did not undertake the 'budget conversation' process to the same degree to inform the 2016-17 budget because it felt it had already captured the relevant information. The Council developed a budget setting/consultation timetable for the 2016-17 budget process, which was shared with Cabinet and Scrutiny.
50. The Council now publishes the full detail of its savings proposals as part of its public consultation on the budget. This is more transparent than in previous years. The Council has recently consulted the public on its proposed savings plans for 2016-17. However, there was a large number and volume, with nearly 300 pages of savings proposals for the public to consider, which did not facilitate public engagement. Whilst the savings plans were split to show those that were pure efficiency savings without an impact on services and those that did impact on services, our view is that the information could have been summarised to have more impact.
51. The Council only received 230 completed responses to its budget consultation survey. It received about 3,000 responses last year. Findings from the survey showed that in response to the question 'do you think the saving proposal is clearly explained', the majority of respondents responded 'partly' or 'not at all' with less than 35 per cent of the Council's savings proposals being considered to be fully explained.
52. It is positive that the Council has again invited the Newport Fairness Commission (NFC) to review the Council's 2016-17 budget and MTFP. The NFC praised the Council for year-on-year improvements to its budget consultation process and highlighted some key questions for the Council to consider, notably the sustainability of service cuts, managing the 'trade-offs' between different levels of vulnerability and risk of cultural deprivation as cuts to services such as events and libraries are made.
53. It is evident from the updated MTFP discussed by Cabinet in February 2016 that the Council has considered the feedback it has received from its budget consultation. Although it continues to highlight the need for caution, it has removed or deferred a number of savings that would have affected service delivery and its priorities. For example, it is not going to reduce the children services' prevention team or the

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- youth services' team or cease funding for Adult Educational Needs (AEN) and city events.
- 54.** The Council held a member seminar in 2014-15 when the Welsh Government announced cuts to local government budgets. Members also had the opportunity to engage in the Council's 'budget conversation' initiative in 2014-15, which informed the 2015-16 budget. The Head of Finance presented a report to each of the three scrutiny committees in September and November 2015 outlining the 2016-17 budget process. Officers held a member training event on the Fairness and Equality Impact Assessment process in November.
 - 55.** The Council does not routinely hold members' seminars to discuss budget and savings proposals prior to formal consideration of the budget in February. Member consultation is undertaken primarily through the Cabinet and scrutiny committee process. There is scope to engage scrutiny members earlier in the financial planning process, although we recognise some of the difficulties this would cause.
 - 56.** The Council's Annual Governance Statement provides a fair reflection of the Council's governance arrangements. The Council did not raise any significant issues relating to its financial arrangements within its 2014-15 Annual Governance Statement.
 - 57.** We are pleased to report that the Council has now recruited to key posts within the finance department to strengthen capacity. However, we are aware that the Council has deleted some key posts, such as a senior grants officer role, through the savings process. The Council does have concerns about the organisation's capacity and capability to manage, drive and embed change. It has identified this as a red risk in its change and efficiency dashboard. It is not clear how the Council is mitigating this risk.
 - 58.** The Council has a Business Improvement and Change team that works closely with directorates, particularly to develop business cases. We are aware that officers hold this team in high regard. The creation of this team demonstrates the Council's commitment to driving forward its business change projects and to improving the quality of its savings proposals. Our review of the Council's savings proposals did find evidence of improvement because of the involvement of the Business Improvement and Change team and the challenge processes in place. We did also identify that there is still scope to improve the quality of the savings proposals, which is recognised by the Council.
 - 59.** The Council's Director of Place has recently signalled her intention to retire in the next six months. The Head of People and Change also left the Council at the end of March 2016 and an Interim has recently been appointed. A new Head of Street Scene is now in place. The Council's senior management has been through a considerable period of restructure over the past two years. There are new requirements in place regarding the recruitment of senior posts. This together with potential local government reorganisation provides a range of complex issues for the Council to consider.
 - 60.** As the Council's MTFP reflects, changes around demographics and a generally increasing population, notably an increasing ageing population, will put greater pressure on its services at a time when resources are likely to continue to reduce. Whilst the Council's financial position is relatively healthy, making sure that the Council has strong financial governance arrangements in place at all levels will be vital to ensure that the Council can demonstrate adherence to the sustainable development

principles outlined in the Well-Being and Future Generations Act, which came into force in April 2016.

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 good understanding and routine challenge of financial assumptions and performance, and a culture of transparency about the financial position.

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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APPENDIX TWO – ACTION PLAN FOR IMPROVEMENTS

ACTION	WHO	WHEN
FINANCIAL PLANNING		
(1) Include forecast on reserves and information on use of / contribution into reserves in all MTFP / budget papers to show clear link between reserves and budget setting.	AHoF	Sept 16
(2) Develop and agree a reserves policy	HoF	Dec 16
(3) Continue to move towards and achieve a balanced MTFP – by the on-going development of budget strategy and in particular, Newport 2020 plans and New Ways of Working project, ensuring clear linkages to Corporate Plan / Priorities (4) As Newport 2020 plans are agreed, develop a financial plan for each service area that identifies funding to support key issues within plans and one –off funding to implement.	SLT / CMT / CABINET	As Newport 2020 plans are developed
(5) Continue to assess funding sources and availability for Council's Improvement Objectives	AHoF	On-going
(6) Make explicit within Change/Efficiency business cases how each proposal meet Council priorities or at least confirms they do not have an adverse impact on priorities	BIP Service Manager	17/18 business cases
FINANCIAL CONTROL		
(7) Develop a 'fees and charges' policy	HoF	Dec 16
(8) Include forecast on 'reserves' within budget management reports to show assumptions on use of reserves and how that affects balances in going forward	AHoF	In place
FINANCIAL GOVERNANCE		
(9) Include budget management information alongside existing performance information in Scrutiny half-year and end of year reviews	HoF /	Mid- year reviews 16/17
(10) Implement a 'dashboard style' budget management format with emphasis on actions to deal with any budget issues, as needed.	AHoF	In place
(11) Include progress against savings plans and more detail in particular on delivery of 'cross-cutting' savings targets	AHoF	Sept 16
(12) Develop a Members information event on MTFP, Financial Management, Strategy and Resilience position, to support the financial strategy and position reported to Cabinet each year and work of Scrutiny	HoF	Oct 16