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Financial Planning Assessment **Denbighshire County Council**

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Contents

Report

Background to our work	4
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The Council has good financial management arrangements with no immediate shortcomings	5
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The Council has a good track record in delivering identified savings within year against the planned actions that it approved	5
---	---

The Council's future plans and arrangements to deliver savings are fit for purpose and are being effectively managed	5
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Proposals for improvement	5
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Appendices

Detailed results of our review	6
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Report

Background to our work

1. Good financial management is essential for the effective stewardship of public money and the delivery of efficient public services. Good financial management is also essential for ensuring authorities continue to deliver services to meet statutory obligations and the needs of local communities. Good financial management:
 - helps authorities take the right decision for the short, medium and long term;
 - 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. An authority'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 positions 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 previous financial years 2011-12 to 2013-14.
5. The work focussed on answering the following question: **Is the authority 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 authority 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 authority 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 authority has realistic plans to make the savings required for 2014-15 and is taking appropriate steps to deliver them.
6. In Denbighshire County Council (the Council), we analysed a range of data, including the Council's published accounts and its performance returns to Welsh Government and the Local Government Data Unit. We also interviewed a small number of key staff and reviewed reports that the Council and its committees have considered.

The Council has good financial management arrangements with no immediate shortcomings

7. We came to this conclusion because we found that:
- the Council has a good track record in delivering identified savings within year against the planned actions that it approved; and
 - the Council's future plans and arrangements to deliver savings are fit for purpose and are being effectively managed.
8. 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 that enables it to continue to operate going forward.

The Council has a good track record in delivering identified savings within year against the planned actions that it approved

9. The Council successfully identified, planned for and delivered a range of recurring and non-recurring savings required to meet the budget shortfall between 2011-12 and 2013-14. There were no unidentified savings that needed to be developed at the time the 2011-12, 2012-13 and 2013-14 budgets were approved and the Council's planned reductions and savings were achieved across all three years.

The Council's future plans and arrangements to deliver savings are fit for purpose and are being effectively managed

10. The Council has an effective corporate framework for financial planning and exercises effective financial management and control. It has a framework for reviewing and challenging financial performance, realistic plans to make the savings required for 2014-15 and is taking appropriate steps to deliver them.

Proposals for improvement

11. There are no proposals for improvement or recommendations arising from this review.

Appendix 1

Detailed results of our review

Key line of enquiry	Fieldwork Findings	Conclusions
Track Record 2011-12 to 2013-14	<ul style="list-style-type: none"> The Council identified a range of recurring and non-recurring savings to fully meet the 2011-12, 2012-13 and 2013-14 budget shortfalls. In 2011-12 the Council identified and fully implemented £6,359 million savings and efficiencies. In 2012-13 the Council identified and fully implemented £3.4 million savings and efficiencies. The Council achieved 99.3% of savings with the remaining savings relating to printer rationalisation deferred into the following financial year. The 2013-14 budget setting process appears robust with no unidentified areas of cost savings included in the original budget. 	<ul style="list-style-type: none"> The Council has a good track record of identifying its annual budget shortfall and achieving a range of recurring and non recurring savings and efficiencies.
Strategic Financial Planning	<ul style="list-style-type: none"> The Council developed a range of budget proposals reflecting its Council Plan and priorities. The framework involves full engagement with Members through forums such as Member Budget workshops. The Council has developed and published a Corporate Plan for 2012-2017. The Council published its Year 2 Delivery Document (the Plan), the annual review of its Corporate Plan 2012-2017 (An Excellent Council, close to the community), in April 2013. The Plan complies with the requirements of the Local Government Measure to produce an annual Improvement Plan. The Plan is clear and concise, outlining what the Council wants to achieve and how it will go about it. The rationale for why Improvement Objectives (Outcomes) have been chosen is explained briefly but clearly. The Plan also explains what the Council aimed to do during 2013-14 and the measures it would use to evaluate success in achieving its objectives. The Council has clearly stated how its Improvement Objectives link to its medium-term financial plan and individual service plans. It has identified the resources available to support the delivery of Improvement Objectives in 2013-14, from both revenue and capital funding. 	<ul style="list-style-type: none"> The Council's corporate framework for strategic financial planning is effective and supports delivery of corporate visions, aims and improvement objectives.

Key line of enquiry	Fieldwork Findings	Conclusions
	<ul style="list-style-type: none"> • The Council has a performance management framework in place which it uses to review and monitor progress against meeting the Corporate Plan priorities, the service plan priorities, key risks, performance measures, achievements and areas of improvement. • Through its annual service challenge and budget setting process budgets are set in line with Corporate Plan priorities. • The Council has a number of policies supporting its financial planning arrangements, with responsibilities set out in respect of budget setting, monitoring and reporting. • The Council has a Medium Term Financial Plan (MTFP) which is cross referenced with its Improvement Objectives. The MTFP covers a five year period. The 2014 version does detail how the remaining savings gap is to be addressed in 2015/16 and beyond although the lack of clarity by the Welsh Government on the level of budget reductions for 2015 and beyond hinders the Council in its planning process. • The Council's approach to setting its revenue budget has been to incrementally reduce costs based on saving proposals from services and corporate budgets. The process has worked well in the past but the Council recognises that this approach has now run its course. For 2015-16 services are being reviewed under Freedoms & Flexibilities programme to achieve a target of £12 million savings over the next two years. This is the most significant change to the budget process and will focus on what a service does, how much it costs and attempt to analyse whether service provision is statutory, aligned to a corporate priority or discretionary. • The MTFP is reviewed on an annual basis through its annual service challenge process and budget setting consultation. Each service is subject to an annual service challenge where the CEO, Leader, Strategic Directors and chairs of scrutiny subject each service to a fundamental challenge to the delivery and quality of services. The service challenge is a key vehicle in identifying the future direction of travel of services and the future risks. • The Council's financial planning framework involves extensive consultation with members via budget workshops. Members engage actively and challenge proposals. • There is an established process for approving a detailed budget and setting council tax for the following year. 	<ul style="list-style-type: none"> • The Council's approach to setting its revenue budget has worked well in the past but the Council recognises that this process has now run its course. For 2015-16, services are being reviewed under the Freedoms & Flexibilities programme.

Key line of enquiry	Fieldwork Findings	Conclusions
<p>Financial Management and Control</p>	<p>The Council's financial management and control arrangements are robust and are being effectively managed.</p> <ul style="list-style-type: none"> • The Council's Financial Regulations include a section on budgets, covering financial planning and budgeting; budgetary control; virement and exceptional supplementary budgets. The responsibility for setting the Authority's Budget is the sole responsibility of Members, after advice from Officers of the Council. This is a statutory responsibility. The Council must set a balanced budget; there must be sufficient funding available (to be received in the financial year concerned) to match the expected expenditure incurred. Members determine the allocation of resources between Directorates, resource centres and the associated policies. In conjunction with the Head of Finance and Assets, individual Directors are responsible for the more detailed aspects of budget setting. • The Council does not have a corporate policy on income generation/recharging but there are many examples of such policies at a service level ; • A new forecasting, monitoring and reporting system has been put in place. This is called Collaborative Planning. It ensures a more consistent approach to budgetary control across the Council by collating budgetary information onto an on line system and reducing the need for the use of differing spreadsheets within the various service departments. • A monthly budget report is sent to the Cabinet. The monitoring reports presented to Cabinet show the projected outturn for the year (rather than the position at a particular point in time) compared to the original budget. These reports contain details of any significant variation in spend coupled with corrective action. 	<ul style="list-style-type: none"> • The Council's financial management arrangements are working effectively. Arrangements are in place to ensure that the budget is effectively set, monitored and reported. • The Council does not have a corporate policy on income generation/recharging but there are many examples of such policies at a service level.

Key line of enquiry	Fieldwork Findings	Conclusions
Financial Governance	<p>The Council's financial governance arrangements to review and challenge performance are robust:</p> <ul style="list-style-type: none"> • As per the Financial Regulations there are agreed approval limits for virements, depending on amounts and whether they are within services or between services. • Heads of Service are held to account. Budget holders (Heads of Service) are held to account by the Cabinet on a monthly basis, and are required to provide monthly returns and explanations on budget over- and under-performance • Periodic management accounts (for revenue budget and capital development) are presented to both Cabinet and the Corporate Governance Committee. • The Council has a good track record of accurately reporting budget performance and delivering the savings agreed. 	<ul style="list-style-type: none"> • The Council has a robust framework for reviewing and challenging financial performance.
Current Savings Plans 2014-15	<p>The Council's current savings plans for 2014-15 are fit for purpose and are being effectively managed:</p> <ul style="list-style-type: none"> • The MTFP takes comprehensive and reasonable account of the longer term implications of interest rates, price index, and demographic allocations, policy initiatives by the Council and Government and known unavoidable commitments. The Council considers that its robust arrangements are undermined by the lack of clarity and timeliness of financial settlements in the short and medium term, from Welsh Government. • The 2014-15 Revenue Budget incorporated prudent and reasonable inflationary assumptions such as assuming pay inflation of 1.2%. • The 2014-15 savings target total of £8.5 million has been identified. Reasonable assumptions have been made in identifying the shortfall/savings target for 2014-15. • The impact of increased demand for services has been costed, especially unavoidable pressures due to increased Social Care demand. • The Council budget is monitored on a monthly basis by the Senior Leadership Team and the cabinet. 'Savings' are monitored as an expression of how much of the annual savings have been achieved to date. Over the last three years over 90% of the required savings were achieved by the end of the second quarter. Half yearly budget reports are presented to the full Council with any shortfall in savings reported by the Cabinet to the next full Council meeting. 	<ul style="list-style-type: none"> • The Council's 2014-15 savings and efficiencies plans are fit for purpose, are being effectively managed and are likely to be achieved.

Key line of enquiry	Fieldwork Findings	Conclusions
	<ul style="list-style-type: none"> • The 2014-15 Savings Plan is SMART (specific, measurable, achievable, relevant and timely): <ul style="list-style-type: none"> the 2014-15 Savings Plan is specific; it clearly explains where savings will be made and includes savings targets for each item; the 2014-15 Savings Plan is measurable; Council has assessed the impact of the savings, evaluated risks and considered mitigation plans and arrangements to measure and track savings are in place; and the 2014-15 Savings Plan is challenging but achievable. • The Council's 2014-15 Savings Plan takes appropriate and relevant account of the financial pressures it faces. Despite a very challenging grant settlement from the Welsh Government, the Council has set a balanced budget for 2014-15 which includes a 3.5 per cent increase in council tax and savings of £8.5 million. • Historical performance suggests that the Council will meet its savings target. There is no indication that the planned reduction/savings for 2014-15 are unachievable. Over the last three years over 90% of the required savings were achieved by the end of the second quarter. 	<ul style="list-style-type: none"> • The 2014-15 Savings Plan is SMART (specific, measurable, achievable, relevant and timely).

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