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# Financial Resilience Assessment

## City and County of Swansea

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# Status of report

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The team who delivered the work comprised Steve Barry, Samantha Clements and Janet Smith.

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# Summary report

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## Summary

1. Good financial management is essential for the effective stewardship of public money and the delivery of efficient public services. Good financial management:
  - helps authorities take the right decisions for the short, medium and long term;
  - helps authorities deliver services to meet statutory obligations and the needs of local communities;
  - is essential for good corporate governance;
  - is about managing performance and achieving strategic objectives as much as it is about managing money;
  - underpins service quality and improvement;
  - is the basis of accountability to stakeholders for the stewardship and use of resources; and
  - is a key management discipline.
2. Long-term financial management is not about predicting the future; it is about preparing for it. Authorities need to understand future demand, assess the impact of probable changes, review the gap between funding needs and possible income, and develop appropriate savings strategies.
3. Well-considered and detailed long-term financial strategies and medium-term financial plans can ensure the delivery of strategic priorities by enabling appropriate financial choices. Conversely, short-term annual budget planning alone encourages an incremental and process-driven approach that can be ineffective in a period of rapid external change.
4. Financial resilience is achieved when an authority has robust systems and processes to effectively manage its financial risks and opportunities, and to secure a stable financial position.
5. Given the continuing pressures on funding, in this review we have considered whether the 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.
6. We undertook our assessment during the period May to October 2015, and followed up issues highlighted in the 2014-15 financial position work. The focus of the work was on the delivery of 2014-15 savings plans, and the 2015-16 financial planning period.

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7. The work focused on answering the following question: **Is the City and County of Swansea Council (the Council) managing budget reductions effectively to ensure financial resilience?** In this report, we also consider whether:
- financial planning arrangements effectively support financial resilience;
  - financial control effectively supports financial resilience; and
  - financial governance effectively supports financial resilience.
8. Overall we concluded: **‘The Council has improved medium-term financial planning, but the pace at which planned savings are being achieved is too slow and accountability for delivering all savings proposals has yet to be resolved.’** We came to this conclusion because:
- the Council has improved medium-term financial planning arrangements and understands the overall financial savings required but is not achieving specific savings as quickly as planned;
  - controls are in place for managing most of the Council’s financial activity but a lack of clarity about responsibility for delivering some savings targets weakens overall control; and
  - financial governance arrangements are in place but weakened by the lack of accountability for delivery of some savings targets.
9. This report gives a risk rating for each aspect: financial planning, financial control and financial governance. The descriptors for risk ratings are set out below.

<b>Low risk</b>	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.
<b>Medium risk</b>	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.
<b>High risk</b>	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.

10. We rate the risk for each of these elements as follows.

<b>Medium risk</b>	Financial planning
<b>Medium risk</b>	Financial control
<b>Medium risk</b>	Financial governance

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## Proposals for improvement

P1 Ensure timescales for the delivery of specific savings proposals are realistic and act to drive delivery.

P2 Ensure responsibility for delivery of planned savings is assigned to specific managers' services.

# Detailed report

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The Council has improved medium-term financial planning, but the pace at which planned savings are being achieved is too slow and accountability for delivering all savings proposals has yet to be resolved

## Financial planning

The Council has improved medium-term financial planning arrangements and understands the overall financial savings required but is not achieving specific savings as quickly as planned

11. The Council has a corporate planning framework which supports the delivery of its priorities. The Corporate Plan 2015-17 provides the overall vision and aims of the Council which will be delivered through its strategic framework Sustainable Swansea – fit for the future. The Council’s Statement of Medium Term Budget Priorities sets out its views on service and budget priorities in the context of the delivery of Sustainable Swansea and the Medium Term Financial Plan (MTFP).
12. The MTFP covers the period 2016-17 to 2018-19. It is rolled forward annually and a mid-year update is also provided to take account of revised assumptions. The funding gap for this period is estimated to be £110.6 million. The MTFP includes an overview of the financial planning environment for future years, detailed spending and resources forecasts based on best and worst-case scenarios, the reserves position, budget risks and the revised future savings requirements.
13. The MTFP is comprehensive and identifies the total cash value of savings required. However, when setting the annual budget not all savings proposals, indicating the specific action necessary to achieve a saving, had been identified. In 2014-15 approximately £3 million of savings proposals were not delivered.
14. The Council has a track record of balancing its budget but not necessarily by means of delivering the specific in-year savings originally planned. In 2014-15 the shortfall of £3 million (13 per cent of the savings requirement) mainly related to cross-cutting savings targets set as part of the work stream savings within the Sustainable Swansea programme which were not sufficiently well developed when the budget was set.
15. The Council took in-year remedial action to mitigate this and compensating in-year savings were identified. The overall budget was subsequently balanced through a combination of savings in other activities, one-off savings, or income received together with a moratorium on in-year spend. Whilst this was achievable in 2014-15, it may not be the case in future years. Where feasible, the Council rolls forward unachieved in-year savings to future years.

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16. For 2015-16, the Council identified the need for cash value savings of £21 million. These savings are intended to be achieved from service-specific savings of £14.1 million (70 per cent), efficiencies in delegated schools budgets of £4.1 million and £3 million to be met from delivery strands within the Sustainable Swansea Delivery Programme. However, the £3 million from delivery strands was not allocated to specific service areas when setting the budget because work stream commissioning reviews had either not been started or completed.
  17. The first quarter budget monitoring report for 2015-16 forecast a net overspend on directorate budgets of £8.056 million which included a forecast that £6.5 million of planned in-year savings may not be achieved. Whilst the projected net overspend on directorate budgets for quarter three had reduced to £2.517 million, the forecast for unachieved planned savings was £6.870 million. The projected savings shortfall mainly relates to assumed work stream savings targets which had not been fully costed or allocated to specific service areas when the budget was approved and under developed savings plans.
  18. Given the scale of the financial challenges which lie ahead, the delivery of savings proposals will be key to the Council achieving a balanced MTFP. Whilst the Council has made improvements to its financial planning arrangements, it now needs to increase the pace of completing the proposed reviews in the Sustainable Swansea programme to ensure that savings targets are disaggregated and allocated to specific service areas which are underpinned by robust action plans to support delivery of the planned savings.

## Financial control

### Controls are in place for managing the Council's financial activity but a lack of clarity about responsibility for delivering some savings targets weakens overall control

19. The Council has a clear framework for managing the Council's financial affairs. The Council's constitution sets out the policies on financial and budget management, which define the roles and responsibilities of members and officers.
20. Budgets are prepared in a timely manner, and are monitored at an officer and member level and subject to scrutiny. Financial forecasting is well developed and forecasts are subject to regular review together with the level and planned use of general and earmarked reserves. The Budget Review Steering Group that comprises the Chief Executive Officer, Leader of the Council, Head of Finance, Director of Corporate Resources and Cabinet portfolio holder for Finance considers budget monitoring and savings reports on a monthly basis. Directorate management teams also receive monthly budget monitoring reports, and quarterly budget monitoring reports are presented to Cabinet. The Budget Review Steering Group also meets weekly between September and March to determine the forthcoming annual budget and MTFP.



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- 21.** The Council has a budget tracking framework which provides monthly reports on the progress of savings plans. The savings tracker also provides an indicative forecast of likely achievement before the year-end or, in the case of longer-term proposals, the appropriate timescale. Savings proposals, other than those relating to savings targets in the Sustainable Swansea programme, where reviews have not been completed, are assigned to service areas, and accountability for delivery rests with heads of service and ultimately directors.
  - 22.** It has been suggested that specific savings targets cannot be identified within the Sustainable Swansea programme until certain reviews are completed. It is our view that financial control would be strengthened by fully allocating all in-year savings proposals to specific service areas at an early stage.
  - 23.** Performance monitoring reports are used alongside financial budget monitoring reports, and there is some evidence that the impact of financial decisions on performance is considered. However, performance and financial reporting mechanisms are not yet integrated to routinely illustrate a whole-authority view of both performance and finance. For example, for each directorate the range and trend of performance indicators, and scale and achievement of financial savings targets. Doing so would promote a clear understanding of the impact of financial decisions/performance on service performance for the Council.
  - 24.** The Council does not use any explicit key performance indicators to monitor the MTFP and associated performance. The Council does not report and monitor key financial comparators for current, past and future years. Examples of such indicators used by other councils include working capital and gearing ratios. The Council does not formally benchmark its financial performance with other councils.
  - 25.** Whilst the Council does not have a reserves policy its planned use of reserves is clearly set out in its MTFP, mid-term MTFP updates and budget monitoring reports. The Council holds earmarked reserves for specific purposes, together with a level of general reserves available to support overall Council expenditure. The holding or release of reserves is in accordance with the principles underpinning best practice as issued by the Chartered Institute of Public Finance and Accountancy and based on the advice from the S151 officer. The Council is of the view that due to the nature, size and complexity of the Council's operations, and in particular the potential for short-term volatility in terms of elements of income and expenditure, that it is prudent for the Council to maintain a level of general reserves sufficient to meet anticipated and known financial risks. The Council Fund balance reduced from £13.1 million to £12.3 million between 2013-14 and 2014-15. The 2015-16 budget assumes that £1.2 million of general reserves will be used to fund the budget but no further use is planned beyond this to fund the MTFP.
  - 26.** The Council has an overarching Income Generation and Charging Policy which is one element of the income and trading delivery strand in the Sustainable Swansea Strategy. Its objectives are to increase/maximise/introduce charges, full cost recovery (including services to schools), reduce public subsidy, and create and utilise surplus capacity.

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## Work carried out by internal and external audit during the year did not identify any significant weaknesses in the key financial systems

### Financial governance

#### Financial governance arrangements are in place but weakened by the lack of accountability for delivery of some savings targets

27. The Council's Corporate Management Team clearly grasps the financial climate and the challenges the Council faces. The Council's Section 151 Officer provides briefings and budget strategy updates to directors and members on the financial challenges facing the Council, and financial planning is led by the Budget Review Steering Group and formalised departmental meetings. The Budget Review Steering Group provides a challenge forum and reports to Cabinet.
28. Directors are ultimately responsible for the financial performance of their services, and are accountable through the various reporting and scrutiny processes. Progress against budget and savings plans is reviewed regularly. The Council manages its finances transparently and takes proactive steps to deal with potential budget issues. For example, in September 2015, the S151 Officer reported to Cabinet that £6.5 million of savings for 2015-16 were at risk and spending restrictions were put in place to mitigate this alongside increased challenge of progress on savings proposals.
29. In spite of the monitoring arrangements in place, accountability for achieving the delivery strand savings in the Sustainable Swansea programme is less clear. The third quarter revenue monitoring report on the 2015-16 savings states that: 'Much stronger work needs to be done challenging and assuring the Delivery Strands (the cross authority streams not yet built into service budgets) in terms of taking cash off budgets. This continues to be progressed but is not yet complete. There have been delays in assuring and validating savings in the Delivery Strands. Delivery Strands are identifying opportunities particularly in third-party spend, but only in-year, cashable, non-Housing Revenue Account and non-schools savings can actually be 'banked'. Total efficiencies unequivocally identified by procurement amount to over £3 million, but no more than £700,000 is cashable and just over £400,000 is currently considered firm. Many savings are proving to be only cost avoidance or contributing only to existing service savings strategies.' This has been an issue since the inception of the Sustainable Swansea programme in July 2014 which the Council has not resolved.



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