



# Financial Resilience Assessment

## **Powys County Council**

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# Status of report

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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 a council 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 Council 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 Council over an annual cycle, financial pressures impact beyond the current settlement period. We have considered evidence of the Council's approach to managing its finances in the recent past and over the medium term when reaching our view on the Council's financial resilience.
7. 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 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 Powys County 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.**
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 council'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 council'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 council's financial plan not delivering the desired outcomes.

10. Overall we concluded that **the Council is improving its financial management arrangements with the benefit of increasingly rigorous internal scrutiny and challenge, but recognises that it needs to better align and monitor service and financial performance if it is to be confident of achieving its priorities with the resources at its disposal.** We came to this conclusion based on our findings in relation to financial planning, financial control, and financial governance arrangements. We rate the risk to the Council's delivery of its financial plan 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

# Detailed report

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The Council is improving its financial management arrangements with the benefit of increasingly rigorous internal scrutiny and challenge, but recognises that it needs to better align and monitor service and financial performance if it is to be confident of achieving its priorities with the resources at its disposal

## Financial planning

The Council continues to develop and refine its long-term approach to financial planning, working to integrate and align it with its corporate change and improvement planning

11. The Council continues to develop its strategic financial planning arrangements, taking an appropriate longer-term approach to forecasting changes to its budget. This is achieved by means of its Financial Resource Model (FRM) which is updated and 'rolled forward' each year. The Council's FRM 2015 identified the budget shortfall for 2015-16 and for the next four financial years to 31 March 2020 (See [Exhibit 1](#)). By taking this approach the Council is better able to plan to meet the budget challenges that it faces. For example, service transformations that may take longer than one year to deliver are better reflected over this planning horizon.

Exhibit 1: Powys County Council Five Year Cost Reduction/Efficiency Requirements

Year	Cost Reduction/Efficiency Required (£ million)
2015-16	11.634
2016-17	10.073
2017-18	8.428
2018-19	8.463
2019-20	8.538
<b>Total</b>	<b>47.136</b>

Source: Powys County Council – Financial Resource Model February 2015

12. The Council followed the improved template it used last year to produce a line-by-line savings plan for 2015-16 that identifies savings to the value of £12.8 million. The plan lists each saving proposal by directorate and service area and highlights the target value to be achieved.

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13. In addition to the FRM, a comprehensive Medium Term Financial Strategy (MTFS) has been developed as part of the overall strategic planning process within the Council, and this commits the Cabinet to providing a balanced three-year financial plan.
  14. For 2015-16 the Council developed its budget within the framework established by the Statement of Intent. The Statement of Intent aims to bring together in one place information on financial, regulatory and policy drivers affecting the Council and helps the Cabinet form its approach to setting the budget and improvement objectives. The Council also considered a range of issues including community needs and residents' views, financial and inflationary pressures, performance and regulatory reviews from Wales Audit Office, Estyn and the Care and Social Services Inspectorate Wales (CSSIW). The MTFS was presented alongside the budget for 2015-16 and the Capital Programme 2015-20.
  15. Last year we highlighted that the Council needed to be clear about how it would resource its identified corporate priorities (set out in the Statement of Intent and One Powys Plan). Also that it should be clear how it would ensure its corporate and strategic financial plans were sufficiently aligned. The Council acknowledged that its financial planning should begin earlier and the initial work for the 2015-16 budget began in May 2014. Budget planning followed an approach which aimed to provide greater clarity on the budget process and timing for Members than previously.
  16. To inform decision-making on the Council's budget for 2016-17, the Finance Team has provided members with details of the specific savings proposals to achieve the cost reductions required, for 2016-17 and for the subsequent two financial years. This forward identification of savings proposals over a three-year period is a positive development, building greater awareness of future service changes and allowing a longer timeframe for planning.
  17. Each of the savings proposals has been subject to a Single Integrated Impact Assessment (SIIA) to help the Council understand their potential impact and identify and mitigate risks associated with their achievement. The Assessment considers the Council's strategic vision and priorities, Wales' Wellbeing goals, sustainable development principles, equalities, the Welsh language, and risk management. The SIIAs are prepared by Heads of Service, approved by Strategic Directors/Portfolio Holders and signed off by Cabinet.
  18. To deliver its vision the Council has created a new operating model which will seek to commission future services based upon the following priorities:
    - remodelling Council services to respond to reduced funding;
    - supporting people within the community to live fulfilled lives;
    - developing the economy, and
    - improving learner outcomes for all, minimising disadvantage.
  19. It is the Cabinet's intent that these priorities will help deliver the necessary changes and that, to maintain services, the Council will support communities and citizens to do more for themselves and encourage its staff to work in new ways and to take on new responsibilities.

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20. For the future, the Council's vision 'Stronger Communities for the Green Heart of Wales' envisages the Council operating at much lower cost, securing cost effective services which are focused on core outcomes for residents, businesses and communities and delivered by the most effective provider.
  21. The Council recognises it cannot reduce costs on the scale needed through an annual budget process that sets target savings for services. It is developing a continuous process, to incorporate a clear cost improvement strategy. The Council accepts that this will require it to gain a better understanding of each service's cost base and to develop a model of key cost cutting themes for consistent and coherent action.
  22. Work in developing the strategy has begun under the Council's Organisational Development Programme (ODP) – Cost Improvement. The objective of the cost improvement strategy is:
    - to set out the financial gap between demand and funding;
    - identify additional cross-council approaches that help services improve cost;
    - collate an overall cost improvement programme and help stakeholders to prioritise and commit;
    - provide rigorous processes for benefit management and for understanding and managing cost; and
    - challenge to ensure robust and reliable benefit delivery and to track that delivery.
  23. Our review of the arrangements in place and their implementation for the 2015-16 Budget identified that the Council's strategic financial plans and corporate change and improvement plans are developed in parallel and that each informs the other. The Council's future intent and work in progress described above should lead to fuller integration and alignment of its strategic planning arrangements, and enhance the Council's ability to progress towards achieving its stated vision and priorities.
  24. The Council recently combined the Portfolios of Finance and Performance to help facilitate integration and alignment of strategic planning. To further strengthen financial scrutiny, the Council intends to build into its forward work programmes scrutiny of the links between the proposed budget, the MTFS, the Statement of Intent and the One Powys Plan. This initiative is designed to help ensure that the financial resources are in place to deliver the Council's aims.

## Financial control

**Whilst the Council's overall financial control arrangements are adequate, arrangements for the combined scrutiny of service and financial performance remain less than effective**

25. In July 2014 the Finance Team moved to a business partnering model in response to staff reductions and the need to make processes more efficient. Following a visit to the BBC Finance Centre of Excellence in Cardiff the Finance Team plans to use their model of business partnering and develop lean systems reviews. The team has



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already reduced the time between monthly closure and budget reporting to 13 days by completing a lean systems review. Finance Business Partners support budget holders, Heads of Service and Strategic Directors on all financial matters offering advice, guidance and challenge. All budget holders have specific budgets to manage and control. Each cost centre has a single named manager, determined by the relevant Strategic Director, Director or Head of Service.

- 26.** There are, however, capacity issues within the Finance Department. Major restructuring has taken place in the last few years and the Finance Department has seen an approximate 20 per cent reduction in its staff numbers, which has affected the capacity of the team. Some vacancies remain but the Council has experienced difficulties in recruiting to all but the junior accountant positions.
- 27.** The Council has a clear framework for managing its financial affairs. The Financial Procedure Rules (FPRs) provide detailed guidance on various aspects of the process including delegation for financial controls. In addition, there are various instructions/manuals that support this framework and provide the detailed processes and actions required.
- 28.** The Council's budget monitoring arrangements are regular and comprehensive. Budgets are monitored at least once a month as part of the month-end procedures and budget holders have access to financial information at any point via the Finance Business Partners. Budget managers regularly report any significant variances from approved budgets to their line managers.
- 29.** The financial position is reported monthly across the Council at all levels. Cabinet and the Financial and Performance Working Group (of the Audit Committee) now receive a more comprehensive monthly report (Financial Overview and Forecast Report prepared by the Portfolio Holder for Finance). The report updates the forecast outturn position for each service area (both for revenue and capital budgets); records the level of achievement of targeted savings/efficiencies by service; highlights the budgeted and forecasted outturn, and notes the potential impact on the reserves position.
- 30.** Financial and performance data are not reported together in this new report format. The Council has recognised this as a weakness and is looking to establish a Business Intelligence Unit with the aim of better linking finance and performance data. This approach is currently being trialled with Children's Services information. In the meantime, the Financial and Performance Working Group receives and reviews quarterly service performance information alongside the Financial Overview and Forecast. However, in reporting its progress to the Audit Committee in November 2015, the Working Group were concerned that the performance data provided was inadequate and access to information was still too slow. The Group also reported that, whilst scrutiny had participated in challenging the emerging Service Improvement Plans, it still considered that targets were insufficiently clear or relevant. The Group asked that the Joint Chairs Steering Group give further consideration to the scrutiny of performance.
- 31.** Over previous years, the Council has had a variable track record of delivering its overall budget. Its budget was underspent in both 2011-12 and 2012-13. The budget

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- for 2013-14 was overspent by £0.8 million, which the Council met by utilising its reserves.
- 32.** For 2014-15, the revenue budget for the Council was approved at £242.4 million and the reported spend was £249.7 million. The difference of £7.3 million was funded from specific and ring-fenced reserves. This approved use of reserves, either planned in budget-setting or made by virement during the year, includes voluntary severance. After including approved reserve transfers, the service performance against budget reported a year-end underspend of £2.0 million (excluding Schools Delegated budgets and the Housing Revenue Account). This underspend figure includes £1.7 million of capitalisation of revenue funding at the year-end. The Council took the opportunity to capitalise revenue expenditure held within Highways, Transport and Waste in order to reduce the impact on revenue as a one-off saving. Prior to capitalisation the underspend was £282,000 after excluding Schools Delegated budgets and the Housing Revenue Account. The Council used the opportunity presented by its improved revenue position, particularly the additional capitalisation, to transfer this funding into a specific reserve to mitigate potential pressures in the next financial year.
  - 33.** For 2015-16, the Cabinet met in January 2016 to consider the Financial Overview and Forecast as at 30 November 2015. This report projected a forecast for the revenue budget to overspend by £3.7 million at the year-end, representing a projected 2.2 per cent overspend of the Council's approved budget. This projection includes savings that have been achieved. The projected position only reflects savings when delivered in order to ensure transparency, avoid year-end issues and clearly show any service areas which have yet to deliver their planned savings. Of the revenue savings of £12.8 million agreed as part of the 2015-16 budget, £6.9 million (53.8 per cent) had been achieved in the first eight months of the year. £5.9 million of savings remain to be achieved, 87 per cent of which are profiled for delivery during quarter four.
  - 34.** The Portfolio Holder for Finance and the Section 151 Officer make clear within the report that Directorates need to ensure that savings are delivered. This is in order to balance the budget and ensure reserves are not depleted beyond the planned level. However, the high level of savings profiled for delivery in quarter four is a potential risk as there will be little time to develop and implement alternative savings proposals if planned savings cannot be realised. The Council recognises this risk and has recently published a balanced three-year financial plan which is intended to help improve its profiling of future savings.
  - 35.** The Council achieved 80 per cent of the savings it identified for 2014-15 (delivering £14.02 million of savings from a required total of £17.58 million). The £3.56 million of unachieved savings were carried forward for delivery in the current year. Of these, £1.14 million was allocated to specific service areas. Of the remaining £2.42 million, £2.16 million (89 per cent) had been achieved by 30 November 2015.
  - 36.** The Council improved its approach to monitoring savings delivered in 2014-15 by recording achievement against savings targets on a 'line by line' basis. A detailed savings tracker (with RAG status) is updated by services each month and progress on delivery is reviewed and challenged by Corporate Management Team and the relevant Cabinet portfolio holder. An Income Board is also in place to review and challenge

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progress in income generation, this includes the Section 151 Officer and the Portfolio Holder for Finance and Performance.

- 37.** The Council has also strengthened its management of reserves. It has recently adopted a reserves policy<sup>1</sup> establishing a framework within which decisions relating to reserves will be made. All reserves are now corporate with the exception of ring-fenced schools and HRA reserves. Use of reserves is approved through the budget process and virement rules during the year. Reserves are reported monthly within the budget monitoring report. The report provides a summary of the useable reserves held, including opening balances, budgeted and forecast use of reserves. There are reserves that are earmarked for specific purposes and their use is clearly defined and reported.
- 38.** The Council recognises that further work is needed to optimise its income and deliver the Council's policy of full cost recovery as outlined in the Statement of Intent 2014-17. Cabinet recently approved a new Income Management and Service Cost Recovery Policy, and the Council has set a target of generating an additional £1.5 million of income over future years. The Charges Register is in its infancy and initial targets have been set for additional income generation from 2016-17. The Council's project, initially supported by PwC, to look at income generation/charging and cost recovery has raised the profile of income generation as a Council-wide response to the financial challenge. This project has identified a number of opportunities, some of which have been acted upon by the Council. For example, in relation to highways and cemetery service charges. In November 2015, the Council increased its Cemetery Fees by 65 per cent moving them from the lowest quartile in Wales into the highest quartile. The Council recognises that such an increase in fees will only achieve the targeted saving/cost recovery if demand for its services remains at the current levels, and that demand will need continued monitoring.

## Financial governance

**The Council's developing financial governance arrangements are leading to increasingly rigorous internal scrutiny and challenge of its budget setting and financial performance**

- 39.** The Council has made progress on the work started last year with the CfPS on strengthening financial resilience through scrutiny. This work has established a dedicated Finance Scrutiny Panel (FSP) (an independent body of non-Cabinet Members). There has been a series of learning seminars for Cabinet, Scrutiny and SMT using external providers and the Council has developed a scrutiny work programme. The FSP took part in a series of financial workshops; reviewed key Council documents; and held interviews with Members of Cabinet, members of SMT,

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<sup>1</sup> Powys County Council Report to Cabinet, 11 December 2015 – Reserves Policy

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the Strategic Director Resources (S151 Officer), and the Chief Executive. The FSP then produced a report containing eight recommendations for improvement in this area.

40. To help deliver on the recommendations the Council has produced a three-year MTF. It has held a workshop for Heads of Service to agree a revised approach to savings monitoring, and reviewed the corporate planning process to look at ways in which it can become more integrated with finance. The Council has also incorporated capital planning into the budget planning cycle so that revenue, capital and reserves are considered as one, reviewed its risk reporting process and reformatted the Cabinet Work Programme.
41. The Council has actively sought to increase Member involvement in the budget process. It has run a series of budget seminars with Councillors through the year. The seminars were held to explain the updated FRM to members and present the proposed savings drawn up by each service area. The aim was to inform broad proposals for setting the three-year budget, and to receive guidance from members on policy direction so that proposals could be turned into agreed action plans. In its progress report to Audit Committee in November 2015, the FSP recognised that the budget setting process in Powys is evolving. Whilst welcoming the earlier and more detailed involvement of Members, the FSP expressed some concerns that there were still too many elements of 'salami' slicing rather than transformational change and that some of the savings proposals may not be deliverable.
42. In the current period of austerity, it is vital for the Council to subject its savings proposals to scrutiny and challenge. It must obtain an objective evaluation of their achievability, and of their potential impact on quality of service and the achievement of corporate priorities.
43. Scrutiny and challenge happen internally at various stages, undertaken by both officer and member groups from service management teams to Cabinet. It is a key role for the FSP in particular. In relation to savings proposals for the 2016-17 budget, the FSP determined that it would put a series of questions to each Head of Service. They were asked about their levels of confidence in achieving savings, the plans and processes in place to achieve them, and the impact on their services. They were also asked to identify the impact of other services' savings on their proposals. The FSP began this work by meeting with the Heads of Services and Portfolio Holders for Adult Social Care and Children's Services in November 2015 to discuss their responses. Having reviewed the record of that meeting, we conclude that business was conducted with rigour and the issues identified for action appear appropriate. The FSP are preparing a report of the findings of their work for Cabinet prior to setting the budget for 2016-17.
44. In the majority of cases, the Council expects that savings proposals, and their appropriate scrutiny and challenge can be developed internally. However, the Council recognises that in some cases, it will need additional capacity and expertise to help it reduce its operating costs.
45. For example, in November 2015, the Council decided to commission KPMG to help develop a future delivery model for the Resources Directorate and reduce operating costs by £3.5 million over three years. An internal review will consider the necessary

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design, structure and operations to deliver corporate services for a council that is in a period of change, and will lead to a new overall operating model. KPMG will act as an advisor. The Council has commissioned PwC to provide similar external capacity and expertise in relation to the remodelling of Adult Social Care.

46. The FSP, at a recent joint meeting with Cabinet (14 December 2015) presented a report with a number of observations and suggestions to further improve the budget setting process for Cabinet to consider. The work undertaken so far, building upon the support from the external specialists, has enabled some positive benefits to be derived although some arrangements are clearly developing and have yet to be fully embedded.
47. In circumstances where timescales are compressed, it is particularly important to ensure that risk is effectively managed and proper accountability arrangements are in place. We recently published a report of our **Review of the Letting of a Domiciliary Care Contract to Alpha Care Limited**<sup>2</sup>. It expresses our view that in its haste to introduce the new domiciliary care service as quickly as possible, the Council compromised the integrity of its established governance arrangements. In consequence, the Council and users of the domiciliary care service were exposed to unnecessary risk.
48. To meet the challenge of transforming service delivery with reduced financial resources and increasing demand, the Council has adopted a clearly defined commissioning and procurement strategy. Our report on the letting of the domiciliary care contract recommended that the Council consider whether the issues we have identified have wider relevance for the successful delivery of its commissioning and procurement strategy. It also recommends that the Council undertake a review of its processes for developing and letting major contracts. We emphasise the need to ensure that the governance arrangements for developing, scrutinising and approving contracting exercises are appropriate and are working.

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<sup>2</sup> Wales Audit Office, **Review of the Letting of a Domiciliary Care Contract to Alpha Care Limited**, January 2016 (via Powys County Council's website)

# Appendix 1

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## Key characteristics of good financial management

### Key characteristics of good financial planning

The council'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 council 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 council has a good track record of delivering on its savings plans.

Medium-term financial planning and annual budgeting reflect the council'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 council 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 council 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 council 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 council 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 council 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.

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### Key characteristics of good financial control

The council 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 council analyses and extrapolates relevant trends, and considers their impact on the projected final out-turn.

The council takes timely action to address any budget pressures, for example, by taking corrective action to manage unfavourable variances or by revisiting corporate priorities.

The council has a good recent record of operating within its budget with no significant overspends.

The council 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 council has a clear policy on income generation/charging. There is a register of charges across its services to help manage charges consistently. The council has corporate guidelines on how concessions should be applied. Charges are regularly reviewed and the policy updated.

The council 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 council.



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### **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 council 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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