

Audit and Risk Management Committee Monday, 28 January 2019

REPORT TITLE:	FINANCIAL RESILIENCE PLAN: PROGRESS UPDATE
REPORT OF:	Director of Finance and Investment (S151)

REPORT SUMMARY

This report discusses progress on the financial resilience plan that is part of the Council's Medium Term Financial Strategy (MTFS) 2019/20 to 2022/23 and was agreed at Cabinet on the 16 July 2018. The plan sets out how the approach to improving and managing financial sustainability.

RECOMMENDATIONS

That the Committee:

1. Notes the progress to date on Financial Resilience Plan Programme 2018/19.
2. Agrees to regular updates being present to the Committee.

SUPPORTING INFORMATION

1.0 REASONS FOR RECOMMENDATION/S

- 1.1 Audit & Risk Management Committee has responsibility for reviewing governance and that effective processes are in place in the Council, making necessary recommendations to Cabinet where effectiveness needs to improve. Part of this includes seeking assurances that the Council has sufficient financial resilience to mitigate and manage its future financial risks. The Financial Resilience Plan is being presented to the Committee as the main element of the Council's approach to improving financial resilience

2.0 OTHER OPTIONS CONSIDERED

- 2.1 The financial resilience plan highlights a series of actions that will be tested to ensure we can demonstrate a high level of financial management and control, effective leadership and decision making and ensuring evidence is available to prove that we are providing value for money for our local taxpayers. The actions are vital for the Council's future development and no other options were considered.

3.0 BACKGROUND INFORMATION

- 3.1 The financial position for local councils continues to be challenging. Since 2010 all councils have faced the following:
- Reductions in Central Government Funding.
 - The effects of increased financial pressures in a number of core services such as social care.
 - The impact of business rates retention including the responsibility for payment of appeals.
 - New financial responsibilities for Councils for areas previously under central government control such as Council Tax Benefit.
- 3.2 To respond improving and maintaining financial resilience has been incorporated into the MTFS. Essentially, It is about coping with the financial shocks and unpredictable events that take place. There are a number of ways of building resilience:
- Management of Spare resources.
 - Use of Reserves.
 - Income Generation.
 - Forecasting and management of expenditure.

- Developing a holistic view of expenditure and spending.
- Rethinking the way services are delivered.
- Anticipating what is going to take place.

However of these, two emerge as the main ones as follows

- Improved Internal Financial Management - A major aspect of financial resilience is managing in a changing conditions and contexts.
- Increased Income- Diversification of income through various Council approaches such as regeneration and commercialisation. Ensuring there is greater financial self sufficiency.

3.3 Review of Financial Resilience 2018/19

During the early part of 2018 a review of the Council's Financial Resilience and Financial Management has occurred with the aim of making this a key part of the delivery of the MTFS to 2023. This was instigated for the following reasons:

- Increasing Financial Pressures on local government raising the profile of the strength of financial resilience in the sector. High profile examples such as Northamptonshire County Council demonstrate that the sector is facing a number of stresses and strains following austerity programme that commenced in 2010.
- Wirral financial performance and resilience changing over the last two years. The council has faced increasing financial pressures in both 2016/17 and 2017/18. While the overall outturn for the Council for both years has been favourable there has been a reliance on one off funding such as balances and in year solutions to mitigate and put in place actions to resolve adverse financial pressures that developed in major service areas part way through both financial years. Linked to this the following has been identified:
 - A clear reduction in the level of earmarked reserves. There has been an increasing use of earmarked reserves as temporary budget funding while budget proposals are implemented.
 - Short term financial planning. The budget for 2018/19 was for one year only rather than across a wider MTFS timeframe. There has been limited planning for future years savings and increased additional income.
 - An increasing tendency for services to have unplanned overspends and/or carry forward the implementation of financial proposals from one year to the next.

- Increasing size of the budget gap with a higher proportion of the solutions being found from one off funding if no specific savings and additional income had been identified.
- Organisational changes and a new senior management structure. A new structure presents an opportunity to review financial roles and responsibilities to ensure that there is appropriate management of budgets and understanding of roles and responsibilities.
- A new approach to budget preparation and management through greater Member involvement via portfolio responsibilities.

3.4 **Building Financial Resilience: Review Findings and Actions**

A combination of financial pressures in the last few years combined with increasing challenges in future years plus organisations changes make it an important priority to refresh and renew the Council approach to its financial resilience. Building financial resilience is a key part of the MTFS planning for our finances. A major part of this is getting the basics of financial management right especially given the pressures and changes that have occurred over recent years.

The review has been undertaken in the early part of the 2018 by CIPFA and a group of officers lead by the Director of Finance and Investment. The CIPFA FM Model was used to assess the financial management arrangements in the operation and its findings are summarised in the points below:

Strengths

The high level strengths identified included:

- The outcomes based focus of the Wirral Plan demonstrates a willingness by Members and the Senior Leadership Team to be open to new ideas on how services might be delivered in future.
- The determination and commitment of the Senior Leadership Team and the Cabinet to instil a culture of financial discipline throughout the organisation.
- A budgeting process for 2018/19 and 2019/20-2022/23 that was becoming more grounded and rigorous.
- There are pockets of good practice in the Council.
- The Director of Finance has begun to raise the influence and profile of the Finance team on strategic issues.

Development areas

The areas that must be developed included:

- There is a pressing need to agree a Medium Term Financial Strategy and associated transformation plan to address the projected spending gap.

- The future delivery of the Medium Term Financial Strategy and transformation plans are dependent on changing the existing culture within the Council.
- Members and senior officials need to more explicitly set a tone that financial discipline is important.
- Refocus and reprioritise the finance and audit functions.
- Putting in place the enablers that provide effective financial management.

In the light the outcomes of the work undertaken a financial resilience programme has been developed to build financial resilience and has taken forward the specific areas that it is recommend need to be developed further.

It incorporates the development of a new MTFS (agreed by Cabinet in summer 2018) including an approach to benchmarking and financial and the use of reserves. In addition the programme also contains the details of a move away from a transactional finance processing approach to finance support to a more dynamic Finance Business Partnering role with finance advising services in challenging times.

The programme has 4 elements being the 4 elements for financial resilience:

- Getting routine Financial Management Right.
- Benchmarking – making this routine.
- Clear plans for the delivering savings.
- Prudent use of reserves.

- 3.5 Financial resilience is a challenge for the Council and it is at the core of the MTFS. The actions have been progressed through the governance of finance by the Cabinet Member for Finance and Income and by the Director of Finance and Investment with support from the Councils Senior Leadership Team. Financial resilience is an area where the room for error is small. As has been seen in the MTFS and recent year's financial performance the financial pressures continue and are not ending. The decisions made in one year can lead to difficulties in the years following. This highlights the critical importance of getting basic financial management right. It is the foundation on which resilience is built.
- 3.6 Appendix 1 Contains details of the programme and actions undertaken to the end of December 2019. Financial resilience covers a number of actions including internal financial management, income generation, developing the ability to plan for events in the future and management of reserves. It involves developing new skills and a whole Council view of Finance.

4 FINANCIAL IMPLICATIONS

4.1 There are none arising directly from this report.

5 LEGAL IMPLICATIONS

5.1 There are none arising directly from this report.

6 RESOURCE IMPLICATIONS

6.1 There are none arising directly from this report.

7 RELEVANT RISKS

7.1 The council faces financial challenges across the MTFS period as it seeks to increase income, reduce costs whilst transforming its approach to services. There is a risk in future years that the Council does not achieve a planned approach. The Financial Resilience Plan and its development will mitigate an element of this risk.

8 ENGAGEMENT/CONSULTATION

8.1 There are none arising directly from this report.

9 EQUALITY IMPLICATIONS

9.1 There are none arising directly from this report.

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APPENDIX

SUBJECT HISTORY

Council Meeting	Date
Cabinet Medium Term Financial Strategy 2019/20-2022/23	16 July 2018

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Financial Resilience Programme 2018/19

The detailed content of the programme and the approach to its development and delivery is set out below.

1. Getting Routine Financial Management Right

Pillar of Financial Resilience	Matter	Actions progressed and planned for 2018/19
<u>Getting routine Financial Management Right</u> – Elected Members	Develop the engagement of elected members on budget management, preparation and complex financial issues, through better presentation of information, member development and communication.	<ol style="list-style-type: none"> 1. Establishment of the Finance & Income Portfolio Board led by Portfolio Holder for Finance & Income, meeting monthly to challenge other Portfolio holders. 2. New monthly reporting to SLT & Cabinet/SLT of predicted outturn, savings achievement, capital receipts, capital programme progress & update on MTFS. 3. ARMC refresher training for existing and new members of the committee.
<u>Getting routine Financial Management Right</u> Change & challenge the financial culture of front-line services, helping them to be more effective in financial planning, financial management and budget ownership.	Prioritise spending to ensure VFM, link to outcomes and 20 Pledges.	Spending scrutinised, through spending freeze to determine whether VFM is being provided and is in line with priority outcomes. This will incorporate a vacancy and agency freeze.

	Improvement of financial management across the Council through the implementation of effective conditions and compliance.	<ol style="list-style-type: none"> 1. Use of CIPFA FM Model diagnostic tool to provide baseline assessment of financial management across the Council. 2. Improve compliance with policies and procedures through a working group and workshop. Result would be effective use of resources and conditions through greater compliance. 3. New monthly reporting to SLT & Cabinet/SLT of predicted outturn, savings achievement, capital receipts, capital programme progress & update on MTFS.
	Improve managers and budget holders' capacity and capability to manage their own budgets effectively through a number of tools and knowledge.	<ol style="list-style-type: none"> 1. Improved financial management information with reporting that is easy to use to enhance forecasting of outturn positions. 2. Development of enhanced mandatory financial training to budget holders before management of 2019/20 budget. 3. Budget roles and responsibilities refreshed to align with the new Council organisational structure including the Growth Company and the Wirral Plan 2020 pledges before management of 2019/20 budget.
	Demand pressures in Adults and Children's Social care and Health have been a financial pressure for a number of years. These have in part been mitigated within the Councils overall budget however future pressures might not be contained.	Adult Social Care review to take place into contracts and spending. This is to identify baseline of spend against future demand plus activity levels.
Getting routine Financial Management Right Change the culture and focus of the	Development of Finance Team to support services in financial management and	<ol style="list-style-type: none"> 1. Finance Business Partner role to be developed to enable embedding of strong and robust financial management in all parts of the Council. Staff will focus on delivery of in year financial performance and implementation of future financial performance. New FBP structure aligns to the Councils Management Structure.

finance team.	Transformation.	2. Development of effective financial analytical skills in the finance team, including the financial projections, understanding of unit costs, options appraisal, managing contracts and alternative delivery models.
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2. Benchmarking – Making this Routine

Pillar of Financial Resilience	Matter	Actions
<u>Benchmarking – Making this routine</u>	Improved understanding of how costs and income compare to other Councils. This to assist in the determination of future service delivery and income generation.	Purchase of CFO Insights modelling tool being led by Business Intelligence and Finance functions to dovetail into and complement current information and analysis. CFO Insights is an online analysis tool that gives access to insight on the financial performance, socio-economic context and service outcomes of theirs and every other council in England, Scotland and Wales. The tool provides a three-dimensional way in which to understand council income and spend by category, the outcomes for that spend and the socio-economic context within which a council operates. This enables comparison against others, not only nationally, but in the context of their geographical and statistical neighbours.

3. Clear Plans for the Delivering Savings

Pillar of Financial Resilience	Matter	Actions
<u>Clear Plans for the Delivering Savings</u>	Production of MTFS for 2019/20-2022/23.	Cabinet in July 2018 agreed MTFS 2019/20/2022/23 comprising of the following: <u>Outward MTFS</u> to achieve the outcome of the Wirral Plan to achieve the outcome of the Wirral Plan <u>Inward Medium Term Financial Plan</u> to containing the Financial Resilience Plan and the detailed background to the MTFS. The MTFS will provide a clear position statement from the coming 4 years. It provides the

		<p>context in which the 2019/20 and future years budget preparation will take place. Over the period this will incorporate the following:</p> <ol style="list-style-type: none"> 1. Move towards allocation of budget to priority outcomes. The result is the alignment of budget to target outcomes to ensure the most effective and economic way to achieve the outcome. This will result in the development of planned approach to realignment. 2. Establishment of a Strategic Risk Register and Departmental Risk Registers to contain details of change projects. The outcome of this will be a process to risk assess and manage all risk associated with new savings plans.
<u>Clear Plans for the Delivering Savings</u>	<p>Saving plans that link to budget and MTFS. Timescales and investment from change need to be realistic. Plans and projects including those for Transformation need to be coordinated with clear outputs that align to Wirral Plan and MTFS objectives. Projects to be supported by the appropriate business case.</p>	<ol style="list-style-type: none"> 1. Establishment of the Investment & Change Board to make decisions and early sight and sign off to ensure all decisions are linked to priority outcomes. 2. All relevant projects will have business cases that will identify rationale for the project, outcomes, resource requirements, timelines and benefits. A minimum standard of qualitative and quantitative measures has been developed and tested, with the output deliverables redesigned to present this information in a meaningful (and standardised) manner. The information includes alignment to portfolio owner, transparent, testable financial information, detailed risk matrices and alignment to Wirral 2020 plan. There is a general level of required sensitivity modelling designed to enhance intelligence based decision making at all hierarchies in the organisation 3. Improved budget scrutiny arrangements with more comprehensive and detailed information out in advance for more effective challenge and scrutiny of suggested proposals
	<p>Develop strong commercial skills and awareness including in investments in the finance team and other services. This</p>	<ol style="list-style-type: none"> 1. Fostering of a commercial mind set and culture through information sharing, training and networking. The aim is to develop commercial capacity, capability and direction in all services. The result would be additional income from new and existing activities. 2. Businesses Cases for new commercial ideas to be progressed to and supported if

	includes the dissemination to services of knowledge, including an understanding of various commercial models.	approved by the Investment and Change Board. 3. Commercial Strategy approved by Cabinet in 2018
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4. Prudent use of reserves

Pillar of Financial Resilience	Matter	Actions
<u>Clear Plans for the Delivering Savings</u>	Reduce the use of reserves to support the budget. Ensure sufficient levels of reserves are maintained to manage risk and projects in future years.	Reserves Policy reviewed for 2019/20 to ensure clear guidance on why and when reserves are held. Reserves reviewed in line with revised policy to determine whether they should still be held or can be recalled.

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