ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO:	AUDIT COMMITTEE
DATE:	15 March 2016
SUBJECT:	FINANCIAL RESILIANCE ASSESSMENT – ANGLESEY COUNTY COUNCIL (WALES AUDIT OFFICE - JANUARY 2016)
PORTFOLIO HOLDER(S):	COUNCILLOR HYWEL EIFION JONES
HEAD OF SERVICE:	MARC JONES
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LOCAL MEMBERS:	**n/a**

A - Recommendation/s and reason/s

1.1 The Wales Audit Office (WAO) carried out an 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.

1.2 The work focused on answering the following question: Is the Isle of Anglesey County Council managing budget reductions effectively to ensure financial resilience? In thie report they also considered whether:

- financial planning arrangements effectively support financial resilience;
- financial control effectively supports financial resilience; and
- financial governance effectively supports financial resilience.

1.3 The assessment concluded that whilst the Council faces some significant financial challenges, our current arrangements for achieving financial resilience are appropriate and continuing to improve.

1.4 Wales Audit Office came to this conclusion based on their findings in relation to financial planning, financial control, and financial governance arrangements.

1.5 WAO rated the risk to the Council's delivery of its financial plan for each of these elements as follows:

- Financial planning - Low risk
- Financial control - Low risk
- Financial governance - Low risk

1.6 As such, there were no recommendations or proposals for improvement as the report concluded that the Council is aware of the need to strengthen some of its arrangements and that we have already done so in several areas.

RECOMMENDATIONS

1.7 The Committee is asked to accept the findings of the financial resilience assessment report and note the conclusion as to the overall low risks to the council, as well as acknowledge that the council continues to address the proposals for improvement contained in the local review of financial management arrangements, as reported by the Wales Audit Office in February 2015

B -	**What other options did you consider and why did you reject them and/or opt for this option?**	
	n/a	
C -	**Why is this a decision for the Executive?**	
	This matter is delegated to the Executive	
CH -	**Is this decision consistent with policy approved by the full Council?**	
	Yes	
D -	**Is this decision within the budget approved by the Council?**	
	Yes	
DD -	**Who did you consult?**	**What did they say?**
1	**Chief Executive / Strategic Leadership Team (SLT)** (mandatory)	
2	**Finance / Section 151** (mandatory)	
3	**Legal / Monitoring Officer** (mandatory)	
4	**Human Resources (HR)**	
5	**Property**	
6	**Information Communication Technology (ICT)**	
7	**Scrutiny**	
8	**Local Members**	
9	**Any external bodies / other/s**	
E -	**Risks and any mitigation (if relevant)**	
1	**Economic**	
2	**Anti-poverty**	
3	**Crime and Disorder**	
4	**Environmental**	

5	**Equalities**	
6	**Outcome Agreements**	
7	**Other**	

F - Appendices:

F
- Financial Resilience Assessment – Isle of Anglesey County Council (January 2016)

FF - Background papers (please contact the author of the Report for any further information):

- Financial Management Arrangements at Anglesey County Council Wales Audit Officer (February 2015)
- 'The financial resilience of councils in Wales' – Wales Audit Office (April 2015)

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WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Financial Resilience Assessment

Isle of Anglesey County Council

Audit year: 2015-16

Issued: January 2016

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Status of report

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

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The team who delivered the work comprised Fflur Jones and Andy Bruce

Contents

Whilst the Council faces some significant financial challenges, its current arrangements for achieving financial resilience are appropriate and continuing to improve

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 make 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 delivery of 2014-15 savings plans, and the 2015-16 financial planning period.

7. The work focused on answering the following question: **Is the Isle of Anglesey County 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 that **whilst the Council faces some significant financial challenges, its current arrangements for achieving financial resilience are appropriate and continuing to improve.** We came to this conclusion based on our findings in relation to financial planning, financial control, and financial governance arrangements.

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:

Low risk	Arrangements are adequate (or better) with few shortcomings in systems, process or information. Impact on the authority's ability to deliver its financial plan may be minimal.
Medium risk	There are some shortcomings in systems, process 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, process 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 to the Council's delivery of its financial plan for each of these elements as follows:

Low risk	Financial planning
Low risk	Financial control
Low risk	Financial governance

11. As well as drawing conclusions on financial planning, control and governance, Appendix 1 sets out the authority's performance against some key financial indicators. No conclusion is intended to be drawn from these indicators, however they are an important consideration in financial strategy and planning and provide useful context. The key financial indicators are:

- **budgetary performance** – reviewing the history of spending against revenue budgets and an assessment of whether the balance sheet has remained healthy;
- the level of useable **reserves** providing sufficient cover for any future slippage on revenue expenditure, and whether school balances are being maintained and any school deficits managed;
- gearing – long-term **borrowing** is linked to the value of property plant and equipment;
- **liquidity** – an analysis of whether there are sufficient current assets available to cover short term liabilities and working capital requirements and whether the liquidity position has declined as a result of the gearing policy adopted; and

- **workforce** data such as staff numbers, use and costs of agency staff and sickness absence performance.

12. Our April 2015 national report 'The financial resilience of councils in Wales' was based on the 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 2.

Recommendations/proposals for improvement

There are no recommendations or proposals for improvement as the Council is aware of the need to strengthen some of its arrangements and has already done so in several areas. Our local review of financial management arrangements, reported in February 2015, contained four proposals for improvement, which the Council is continuing to address, improving its arrangements.

Detailed report

Whilst the Council faces some significant financial challenges, its current arrangements for achieving financial resilience are appropriate and continuing to improve

Financial planning

The Council has developed an appropriate corporate framework for financial planning, but could improve the links between its Corporate Plan and Medium Term Financial Plan

13. There have been significant improvements in recent years in the way in which the Council manages its financial planning at both corporate and service levels.

14. The Council's vision is clearly expressed in both its Corporate Plan 2013-17 and Transformation Plan 2013-16. There is a framework to deliver the Council's improvement objectives, which are linked to service delivery plans and financial plans.

15. The Council's Medium Term Financial Plan (MTFP) is annually updated and provides extensive information on the Council's financial planning strategy. Although the Council has a number of policies supporting its financial planning arrangements, the MTFP does not explicitly link to the delivery of its Corporate Plan and aims, neither does it include any specific Key Performance Indicators (KPIs).

16. Each Council service is required to produce an annual service delivery plan, based on an analysis of its performance, their role in contributing to the Corporate Plan, and an analysis of any potential risks. However, the quality of annual service delivery plans can vary and the Council recognises a more consistent approach is needed to feed into the financial planning process. To help improve consistency, the Council has adopted a new approach, where heads of services must align their service priorities with corporate objectives and service delivery planning to the budget-setting process.

17. Council services are required to conduct two annual self-assessment reviews. The first focuses on their financial position, which helps inform the MTFP and budget setting process. The second review focuses on the service's annual performance, which helps inform the priorities for the following year. All service review self-assessments are challenged by an appropriate group of officers and members, including the Council Leader, relevant Cabinet, Shadow Cabinet and Scrutiny members.

18. Historically, the Council has a reasonable record of meeting its budgeted targets. It achieved underspends of £1.1 million and £1.2 million in 2012-13 and 2013-14 respectively, although individual services have not always delivered their planned savings. Shortfalls in savings have been mitigated to achieve the final result for the year through savings in other areas above and beyond those identified in savings plans. The Council again delivered a small underspend on its 2014-15 budget of £0.6 million, representing about 0.5 per cent of the budget.

19. The final 2015-16 budget presented to the Council included £4.3 million of savings to meet the budget gap for the 2015-16 revenue budget. The Finance Department, as part of the service challenge process, scrutinised the historical performance of services in meeting their budgets, and challenged the spending plans of those with a track record of spending below budget. Contingency funds have been removed from individual services' budgets and centralised to be used should the need arise.

20. In a change from previous years, services will not be permitted to change their savings plans other than by a formal re-budgeting process. This will help provide greater clarity over whether the Council is successfully delivering its savings plans rather than, as has sometimes been the case in the past, by finding cost savings in areas it had not anticipated. Where savings plans are not simple one-off items, budget managers will be required to comply with project management principles to ensure that savings become firmly embedded year-on-year.

21. Despite a challenging grant settlement from the Welsh Government, the Council set a balanced budget for 2015-16 by identifying £4.3 million in savings from its services, along with a 4.5 per cent Council Tax increase.

22. The Council's 2015-16 budget takes appropriate and relevant account of the future financial pressures the Council faces. Assumptions made by the Council in identifying the shortfall were comprehensive, reasonable and were supported by robust data.

23. The Council remains under significant financial strain and is aware that slippage against current and future budgets will place it under pressure to find additional savings. Approximately £10 million of additional savings are required for the 2016- 17 and 2017-18 budgets, and the Council is approaching the limit of the savings that may be achieved through incremental cost reduction without impacting on its ability to deliver current services effectively. Difficult decisions will be required to secure the savings necessary to meet future years' budgets.

Financial control

The Council has greater stability within its finance department and its arrangements for financial control have improved, including; processes for budget setting, consultation with services, councillors and the public.

24. As we reported in the 2014 Annual Improvement Report, the Council's budget-setting process significantly changed for its 2015-16 budget. The process saw a move away from savings targets driven by the Finance Department to a comprehensive process involving consultation with services, councillors and the public. Both officers and members were highly supportive of these changes and the way it enhanced shared understanding and ownership within the budget-setting process.

25. Further changes have been introduced for the 2016-17 budget-setting process, termed 'Cyllid Mon 2016-17'. The changes include, challenging every budget line on its needs and estimates, based on the service being statutory or non-statutory. In addition, services are challenged to look at new ways of delivering its provision. The process began during summer 2015 when services were asked to submit formal proposals with efficiencies, which in turn, would be subject to service challenges and an assessment of their feasibility by Service Accountants. The proposals have subsequently been submitted for member workshops and public consultation.

26. The Council has established a number of policies to help control its finances, which clearly outline details of the responsibilities, timelines and guidance. Some initiatives were introduced during 2014-15, such as holding services to account for their savings plans and centralising individual services' contingency funds to be used as and when necessary following approval by the Finance Department. The relaunch of the Council's general ledger system, Civica, after a difficult first year of implementation, has been successful and there is now greater confidence in the financial information available to the Council's services.

27. Steps have recently been taken to address issues of inconsistency among individual services applying the Council's authority-wide policy on income generation and charging. The new charging procedure ensures a schedule of all Council fees and charges is included and reviewed as part of the budget-setting process. The schedule is managed by the Finance Department to ensure controls are upheld effectively and consistently.

28. The Council manages its useable reserves prudently, and is taking constructive steps to ensure school reserves and balances are being maintained and any school deficits managed. The reserves policy is clear and comprehensive and was last reviewed by the Executive in November 2014.

29. Over the previous five years the Council's Finance Department had been led by four different individuals, two of whom were appointed on an interim basis. Key positions in the department had historically been filled on a temporary or agency basis because of a high level of staff turnover and difficulties in recruitment. The temporary status of staff in the Finance Department has impacted adversely on the Council's capacity to develop financial management expertise among its service managers and pursue its stated aim of 'growing its own'.

30. However, during 2015, the Council has taken positive steps to reduce the Finance Department's reliance on agency staff through the recruitment of a permanent

Section 151 Officer and by using agency staff to help support and mentor permanent Council finance staff in key positions. The Council has also recruited two finance trainees to start the process of building knowledge and experience in the department using locally-based staff, and to increase its resilience to staffing changes.

31. The Council's 2015-16 savings and efficiencies plans are being effectively managed and are likely to be achieved. The plans were developed across all services and departments and their feasibility was tested through rigorous challenge from individual departments, service accountants, finance managers and the Section 151 Officer. The plans clearly describe where savings will be made, including realistic part year assumptions, costings and savings from transformational change. The plans will be monitored during 2015-16 by the Corporate Scrutiny's Outcome Panel to assess progress and any reasons for slippages or missed targets.

Financial governance

The Council has strengthened its governance arrangements in holding services to account for any variances on financial performance, and the Audit Committee is increasingly effective in challenging officers to provide regular updates on progress

32. The Council has improved its arrangements for reporting and reviewing financial performance and has systems in place for holding under performance to account. Quarterly budget reports are submitted to the Executive and Corporate Scrutiny Committee on the budgetary performance of the Council.

33. The Council intends to hold services more closely to account for their 2015-16 savings plans than has been the case in previous years. Services will be required to report on progress against their stated savings plans to the finance team and to the Senior Management Team and will be held to account for significant variances.

34. Senior managers, members of the Executive and scrutiny representatives take part in regular service challenges, reviewing the performance of each service against its business and financial plans and reinforcing the accountability of heads of service.

35. We also identified that progress in implementing some internal audit recommendations has been slow and that there remains a backlog of recommendations rated as high to medium risk that have not been implemented since 2012. The Council's Audit Committee is increasingly aware of this issue and regularly challenges officers to address recommendations in a timely manner and provide regular updates on progress made.

36. The Council has no system to record that staff have read, understood and complied with policies and procedures. There have been instances of non-compliance in important areas such as corporate procurement and information security, even though both internal and external reports have highlighted issues with compliance since 2011. Without any records of compliance, it is difficult to show that the relevant policies have been appropriately circulated or understood by staff. The Council is aware of this issue and is considering options to introduce an electronic system to update staff on corporate policies, verify they have understood and are applying procedures, and providing an e-learning facility. The Council has also restructured its procurement team and processes to address and comply with issues highlighted in previous reports.

37. The Council's Internal Audit function was managed in-house under an external contractor until March 2015 when the contract expired. The Council subsequently reviewed a number of options and procured new service arrangements from a neighbouring council. Under the new arrangements, Internal Audit will continue to submit progress reports to the Audit Committee, but will also inform the Council's Senior Leadership Team of any potential high level risks that need to be addressed.

Appendix 1

Performance against key financial indicators

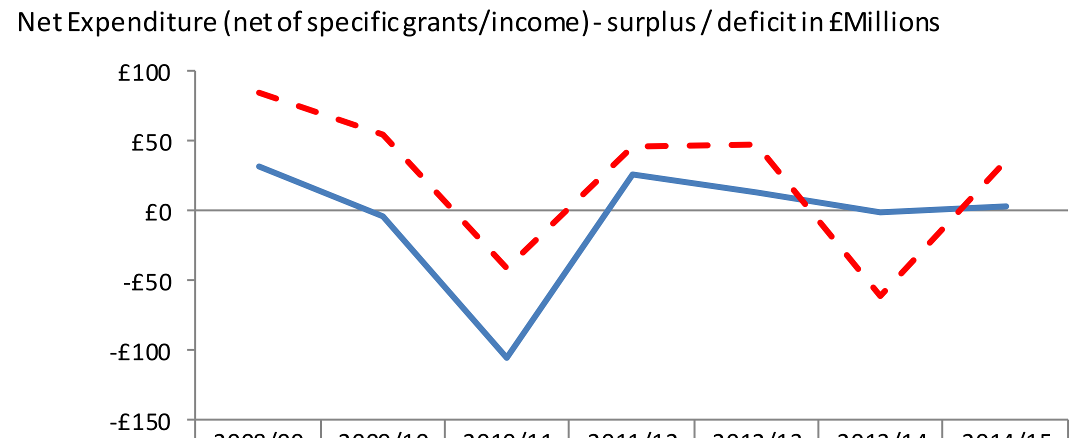
38. The use of key financial indicators within medium-term financial planning provides insight into the effectiveness of financial management arrangements and financial resilience, particularly for important issues such as liquidity, gearing, return on investments and borrowing levels. As part of our financial resilience work we have collated data from the Council's own statement of accounts and also used data from the Welsh Government.

Performance against budget

39. We looked at the history of underspends or overspends against revenue budgets and performance on the outturn of net revenue expenditure. This helps validate both the strength of planning arrangements and the effectiveness of financial control. A good track record of delivering expenditure and savings in line with the approved budget is a strong indicator of whether future financial plans, including large savings, can be delivered.

40. Councils that continue to deliver revenue budget overspends in demand-led services, such as adult and children's social care, are likely to face financial difficulties in the future. Councils are performing well when they have minimised net budget deficit (or achieved a slight surplus) and delivered a favourable net out-turn position. The following indicators are useful to understand performance:

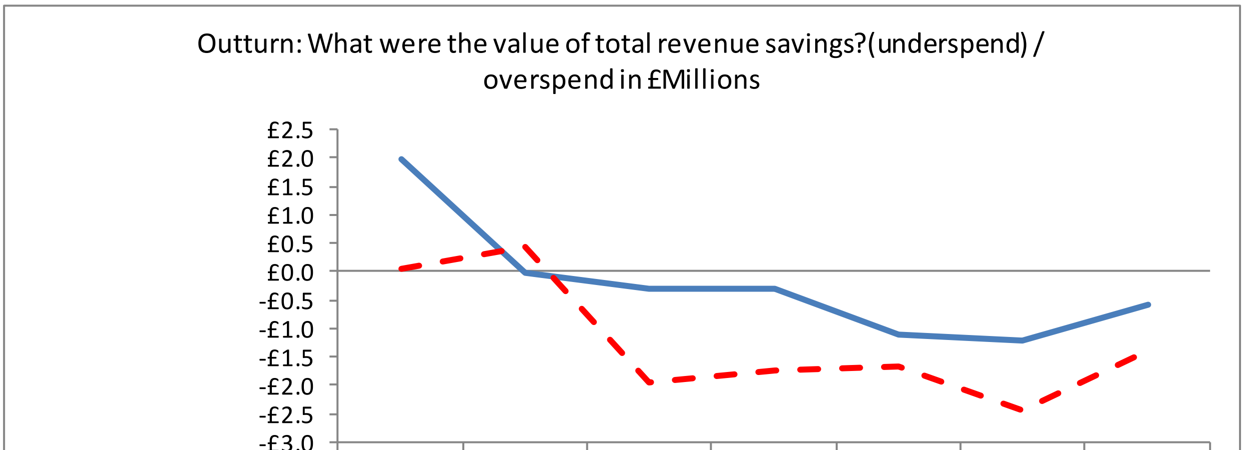
Appendix 1, Figure 1: Net (surplus)/deficit on income and expenditure



	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Anglesey	31.574	-4.219	-106.374	25.557	13.135	-1.613	2.762
Average for Wales	84.525	54.55	-41.608	46.083	47.495	-60.869	35.983

Appendix 1, Figure 2: The value of total revenue savings?

An underspend is shown as negative; an overspend is shown as a positive

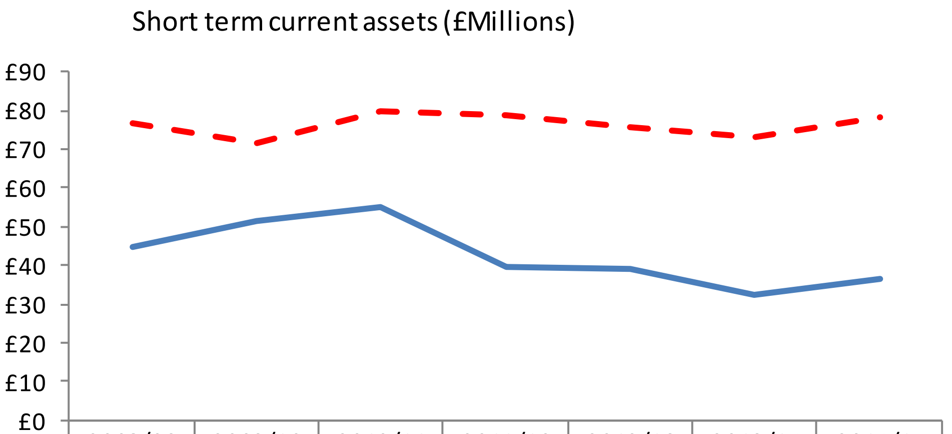


	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Anglesey	1.977	-0.03	-0.3	-0.3	-1.1	-1.217	-0.599
Average for Wales	0.055	0.433	-1.953	-1.75	-1.674	-2.462	-1.384

Liquidity (short term current assets divided by short term current liabilities)

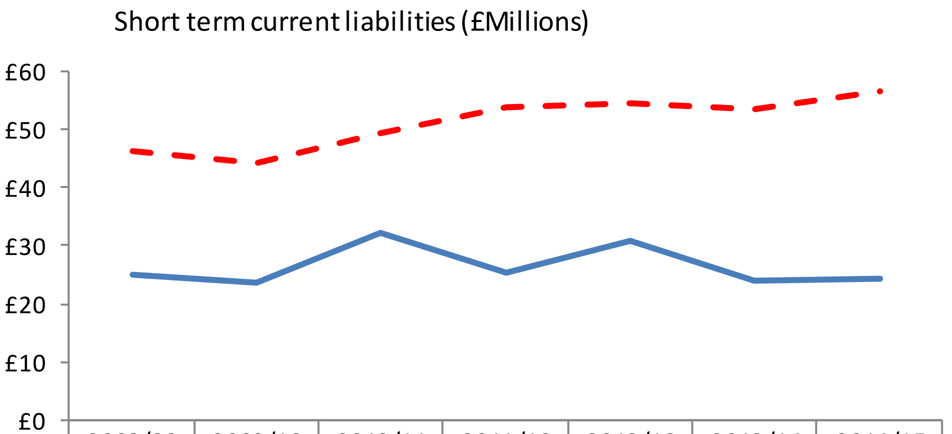
41. This indicator determines whether there are sufficient assets to cover short term liabilities. The ‘current ratio’ of assets (assets that are readily convertible to cash) to liabilities (short term liabilities that require prompt payment) gives an indication of liquidity. Liquidity is important as it provides an indication of how easy it is to easily convert assets to cash in a short period of time, which gives the owner of the asset greater financial freedom.

Appendix 1, Figure 3: Short term current assets in £Millions



	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Anglesey	45.0	51.3	55.1	39.4	38.9	32.6	36.3
Average for Wales	76.7	71.3	79.9	78.7	75.9	72.9	78.1

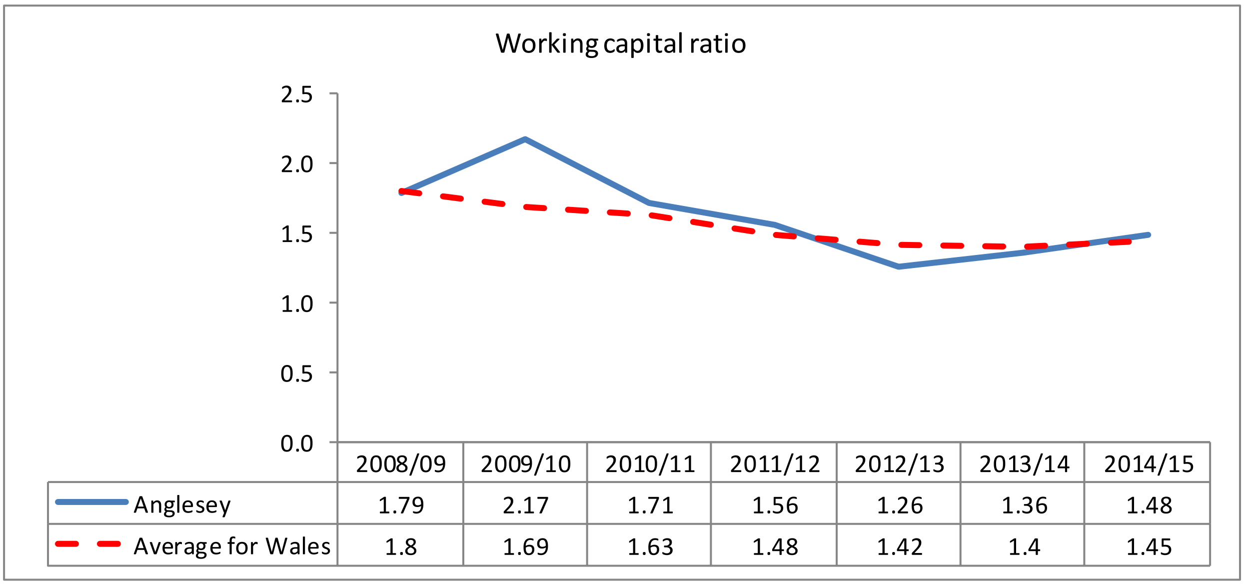
Appendix 1, Figure 4: Short term current liabilities in £Millions



	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Anglesey	25.11	23.62	32.23	25.24	30.93	23.98	24.47
Average for Wales	46.37	44.39	49.27	53.84	54.48	53.48	56.70

42. The working capital ratio is calculated by dividing the short term current assets by short term current liabilities. Any ratio below 1:1 is very poor and ideally should be above 1.5 to provide a suitable buffer to cover working capital needs. A working capital ratio value of less than 1:1 suggests that the Council will have liquidity problems in the future, while a ratio in the vicinity of 1:5 or higher represents good short term liquidity.

Appendix 1, Figure 5: Working capital ratio



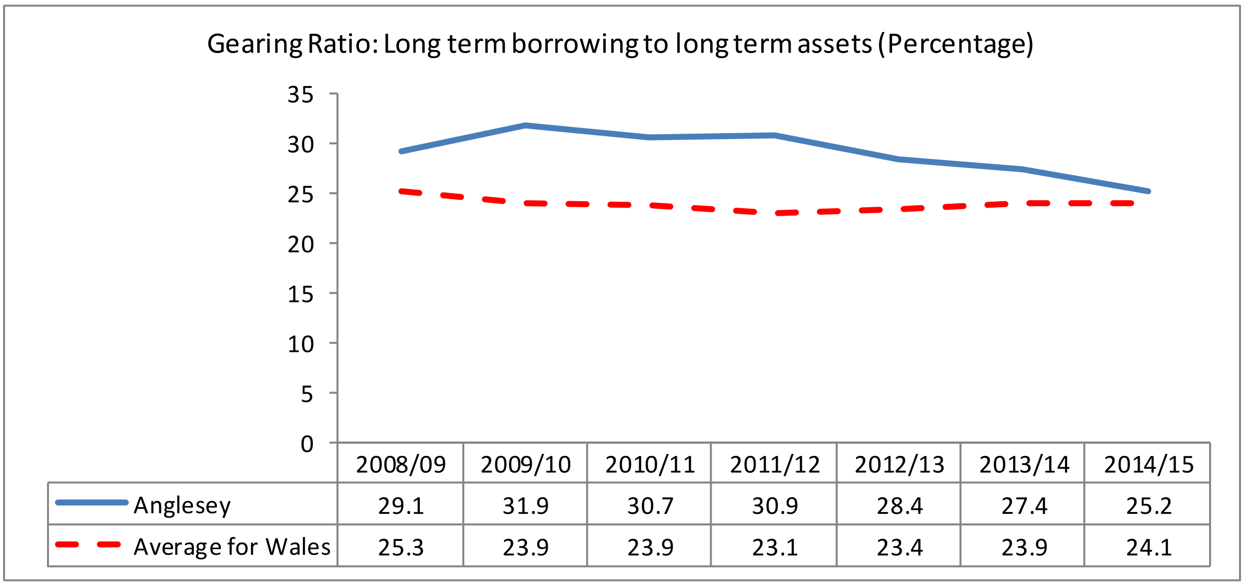
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Anglesey	1.79	2.17	1.71	1.56	1.26	1.36	1.48
Average for Wales	1.8	1.69	1.63	1.48	1.42	1.4	1.45

Borrowing

43. This indicator looks at long-term borrowing (Figure 7) as a proportion of long term assets (Figure 8). This is known as the 'gearing ratio'.

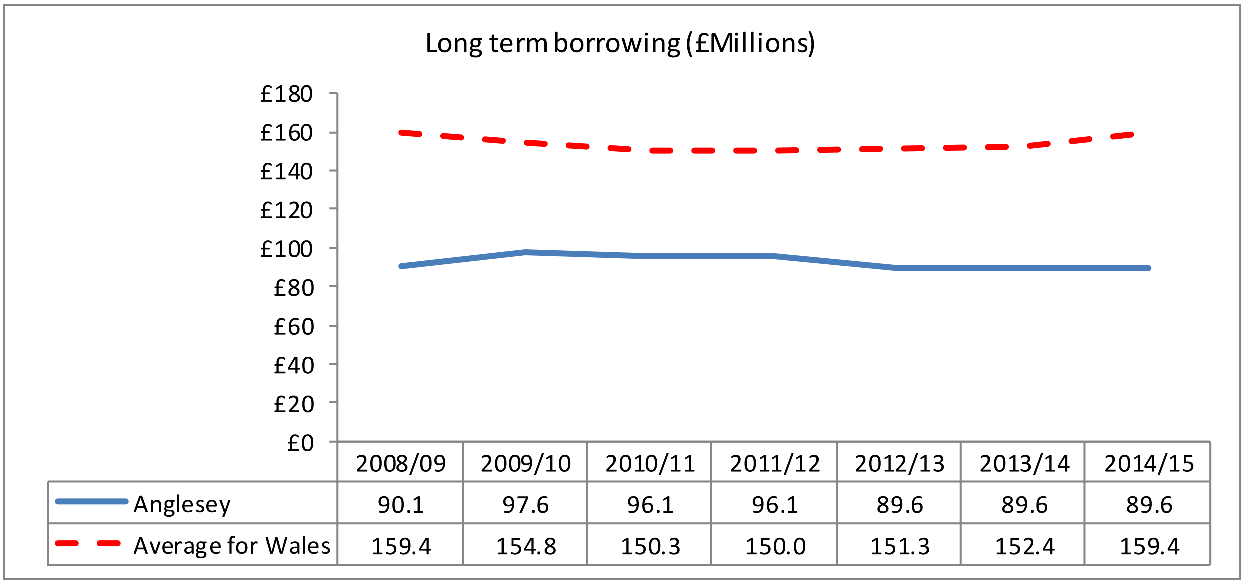
44. A low gearing ratio indicates that a council is financially stable and can generally borrow more freely as it will be better placed to pay the interest than those with higher ratios. Gearing is therefore a useful measure of corporate financial health as it allows a comparison between council funds and borrowed 'debt'. Gearing should generally be around 25 per cent unless liquidity (shown in Figure 5) is very strong.

Appendix 1, Figure 6: Gearing Ratio, long term borrowing as a percentage of long term assets



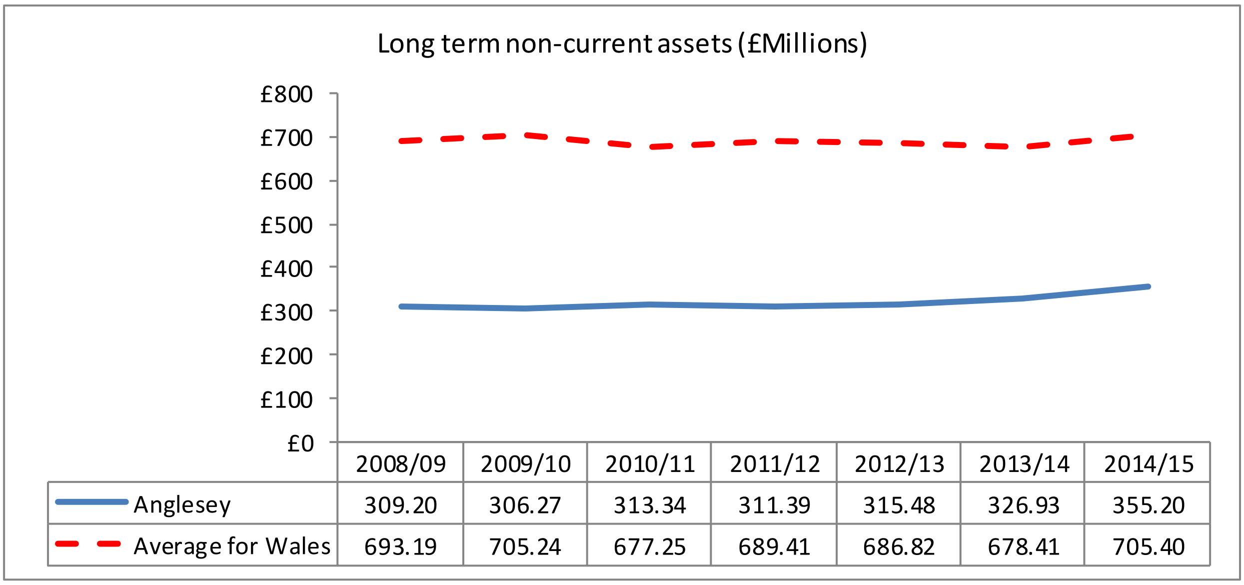
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Anglesey	29.1	31.9	30.7	30.9	28.4	27.4	25.2
Average for Wales	25.3	23.9	23.9	23.1	23.4	23.9	24.1

Appendix 1, Figure 7: Long term borrowing in £Millions



	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Anglesey	90.1	97.6	96.1	96.1	89.6	89.6	89.6
Average for Wales	159.4	154.8	150.3	150.0	151.3	152.4	159.4

Appendix 1, Figure 8: Long term non-current assets in £Millions



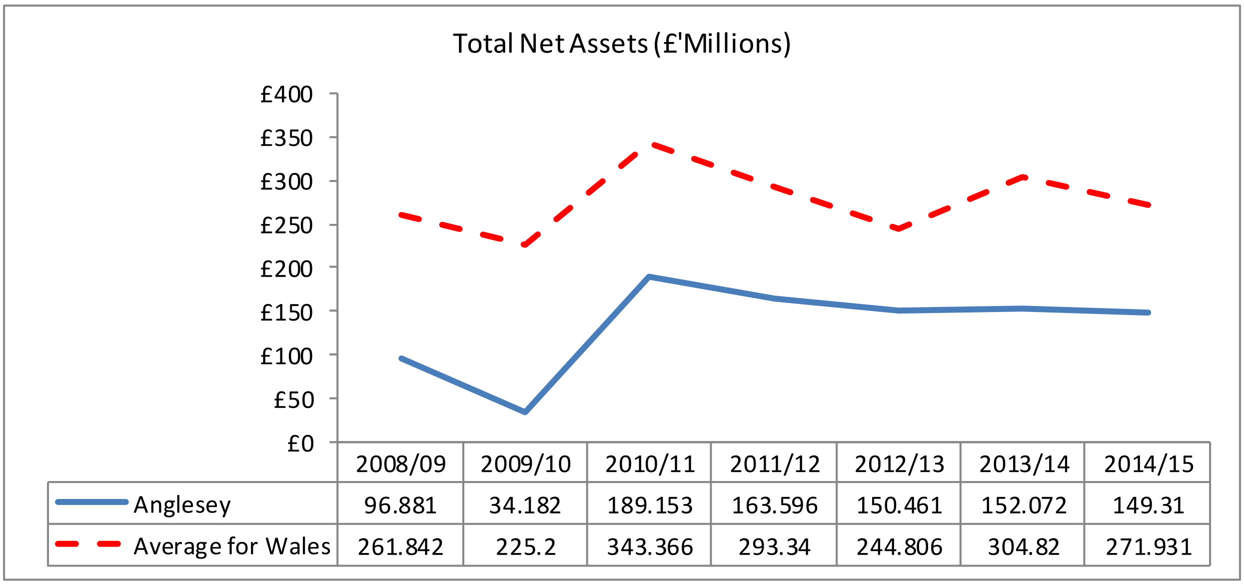
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Anglesey	309.20	306.27	313.34	311.39	315.48	326.93	355.20
Average for Wales	693.19	705.24	677.25	689.41	686.82	678.41	705.40

Reserves

Net assets/liabilities

45. This indicator examines the net position of total assets and total liabilities; and ensures they agree to the total of reserves. A net liability is a sign of very poor financial standing. Total Net Assets includes: Short term current assets, Long term non-current assets, Short term current liabilities, Long term borrowing and other long term non-current liabilities.

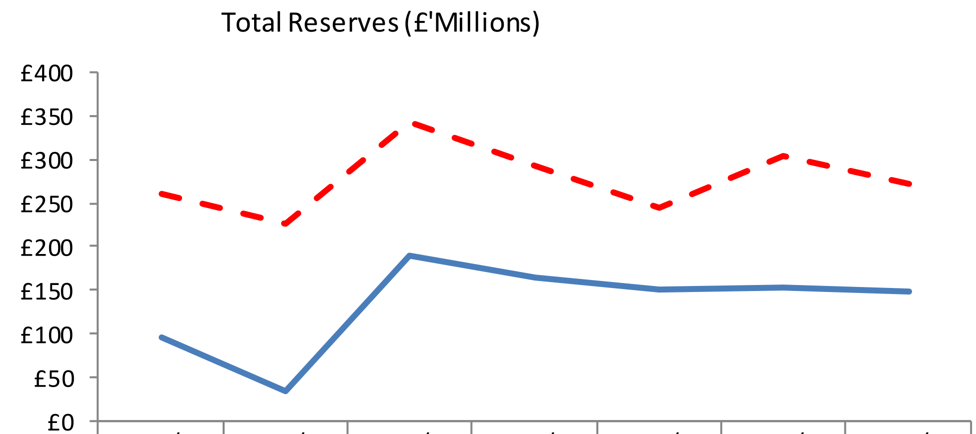
Appendix 1, Figure 9: Total Net Assets in £Millions



	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Anglesey	96.881	34.182	189.153	163.596	150.461	152.072	149.31
Average for Wales	261.842	225.2	343.366	293.34	244.806	304.82	271.931

46. Total reserves includes: General Fund, Earmarked Reserves, School Balances, Other Useable Reserves and Unuseable Reserves.

Appendix 1, Figure 10: Total Reserves in £Millions

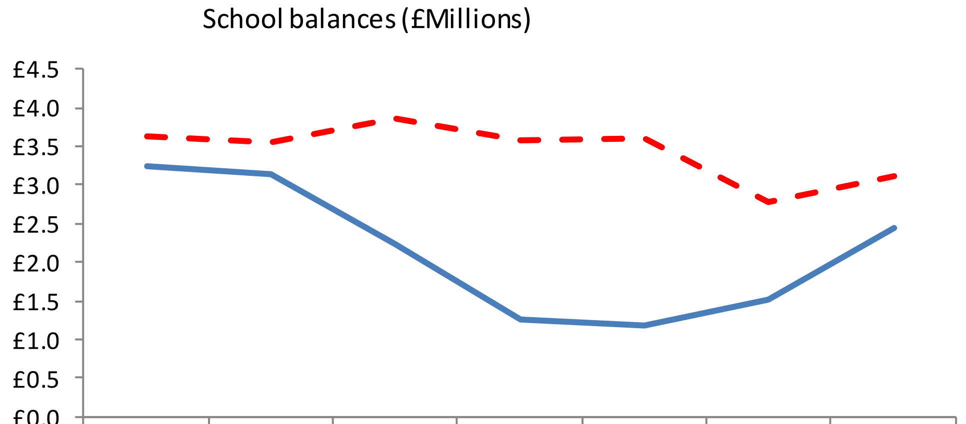


	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Anglesey	96.881	34.182	189.153	163.596	150.461	152.072	149.310
Average for Wales	261.842	225.200	343.366	293.340	244.806	304.817	271.931

School balances (Council run schools only)

47. This indicator examines whether net school balances are being maintained with deficits. School balances form part of useable earmarked reserves on the balance sheet and have been extracted from the notes to the accounts which show the movements during the year.

Appendix 1, Figure 11: School Balance Reserves in £Millions

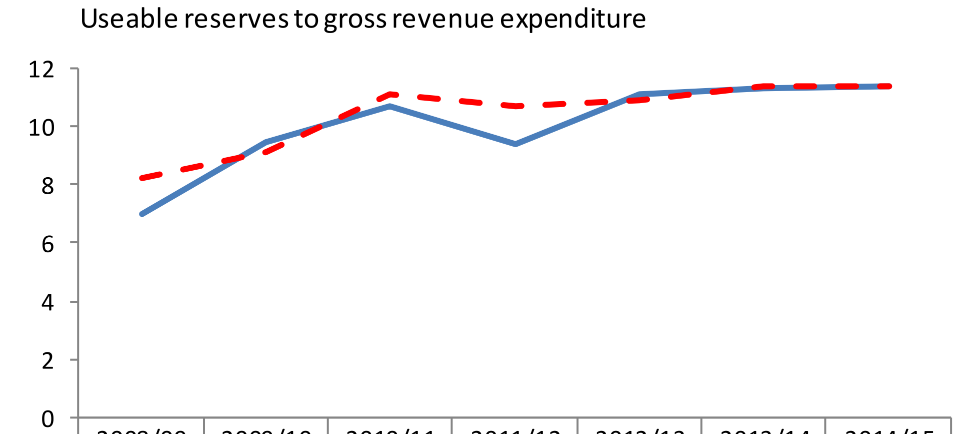


	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Anglesey	3.25	3.15	2.25	1.25	1.18	1.52	2.44
Average for Wales	3.63	3.56	3.87	3.58	3.60	2.77	3.11

Useable reserves

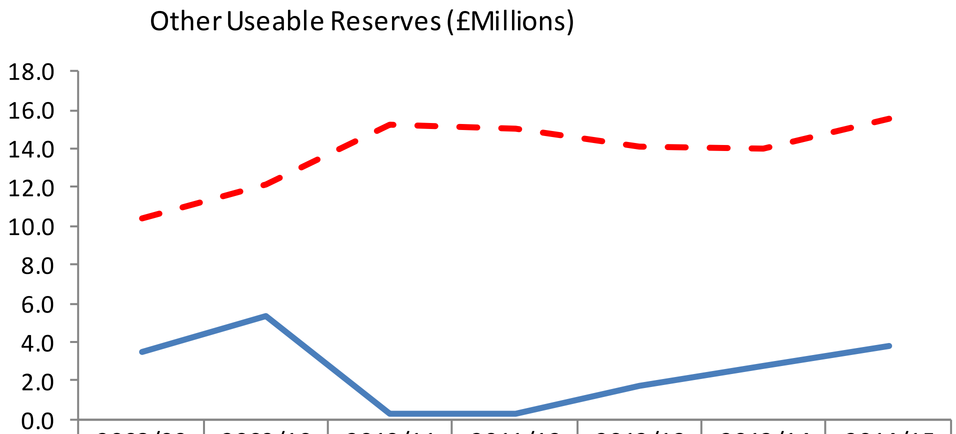
48. The indicator used here is, 'Total usable reserves as a percentage of Gross Revenue Expenditure'. This includes 'General Fund' and earmarked reserves. The total of useable reserves is divided by total Gross Expenditure, and provides a ratio which shows the buffer available to cover future spend. Anything above 10 per cent is a good indicator of reserve strength. However this does not mean that levels below this indicate weakness either. Councils should consider and agree an appropriate level of reserves for their own circumstance, based on recommendation from S151 Officer.

Appendix 1, Figure 12: Useable Reserves as a percentage of Gross Revenue Expenditure



	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Anglesey	7	9.5	10.7	9.4	11.1	11.3	11.4
Average for Wales	8.2	9.1	11.1	10.7	10.9	11.4	11.4

Appendix 1, Figure 13: Useable Reserves in £Millions



	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Anglesey	3.495	5.301	0.255	0.247	1.774	2.73	3.837
Average for Wales	10.38	12.147	15.213	15.006	14.09	14.007	15.57

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.
The authority gives due regard to its ability to deliver its statutory responsibilities when considering its short, medium and long term financial 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 is 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 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 sets and monitors challenging targets for the collection of material categories of income and arrears based on age profile of debt. Where targets are not being met, appropriate corrective action is taken during the year to achieve the targets.
The authority does not write off significant levels of debt as uncollectable.
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 chief financial officer is a key member of the leadership team, being actively involved in all business decisions, and promoting and delivering 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 considers the financial skills required for different tiers of management and staff throughout the organisation, and actively develops financial literacy and skills.
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.
The authority has an objective, knowledgeable and effective audit committee that provides effective challenge across the authority and assurance on the arrangements for risk management, maintaining effective internal control, and reporting on financial and other performance.
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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