



The Chartered Institute of
Public Finance & Accountancy

FM Code - Workshop

Spelthorne Borough Council

Agenda

- Overview of the code, the principals and standards
- FM Concerns
- A Focus on key areas and demonstrating compliance
 - VFM
 - Governance and financial management styles
 - Financial resilience and financial sustainability

The CIPFA FM Code

- The CIPFA FM Code identifies the risks to financial sustainability and introduces an over arching framework of assurance which builds on existing financial management good practice.
- For the first time it sets out explicit standards of financial management



Aims of the FM Code - Building on good practice



A bit more detail.....

- The CIPFA Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability
- Introduced because the exceptional financial circumstances faced by local authorities has revealed fundamental weaknesses in the financial management of a few organisations.
- It applies a principles-based approach, it is not prescriptive, these principals are translated into FM standards
- The Code is consistent with other successful CIPFA codes and statements
- Each LA (and those bodies designated to apply the Code) must demonstrate that the requirements of the Code are being satisfied.

Is this legislation?

- Intention - will have the same scope as the Prudential Code for Capital Finance in Local Authorities- so although the FM Code does not have legislative backing, it applies to all local authorities, including police, fire, combined and other authorities
- Code recognises that some organisations have different structures and legislative frameworks. Where compliance with this code is not possible adherence to the principles is appropriate.
- The Codes FM standards set out the professional standards to be met if a LA is to meet the minimal standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders.
- Since these are minimum standards, CIPFA's judgement is that compliance with them is obligatory if a LA is to meet its statutory responsibility for sound financial administration.

Supported by Statutory Requirement



Preparation for Implementation

2019

Code released
Opportunity to read and reflect
Guidance
Workshops
Support
Questions

2020/2021

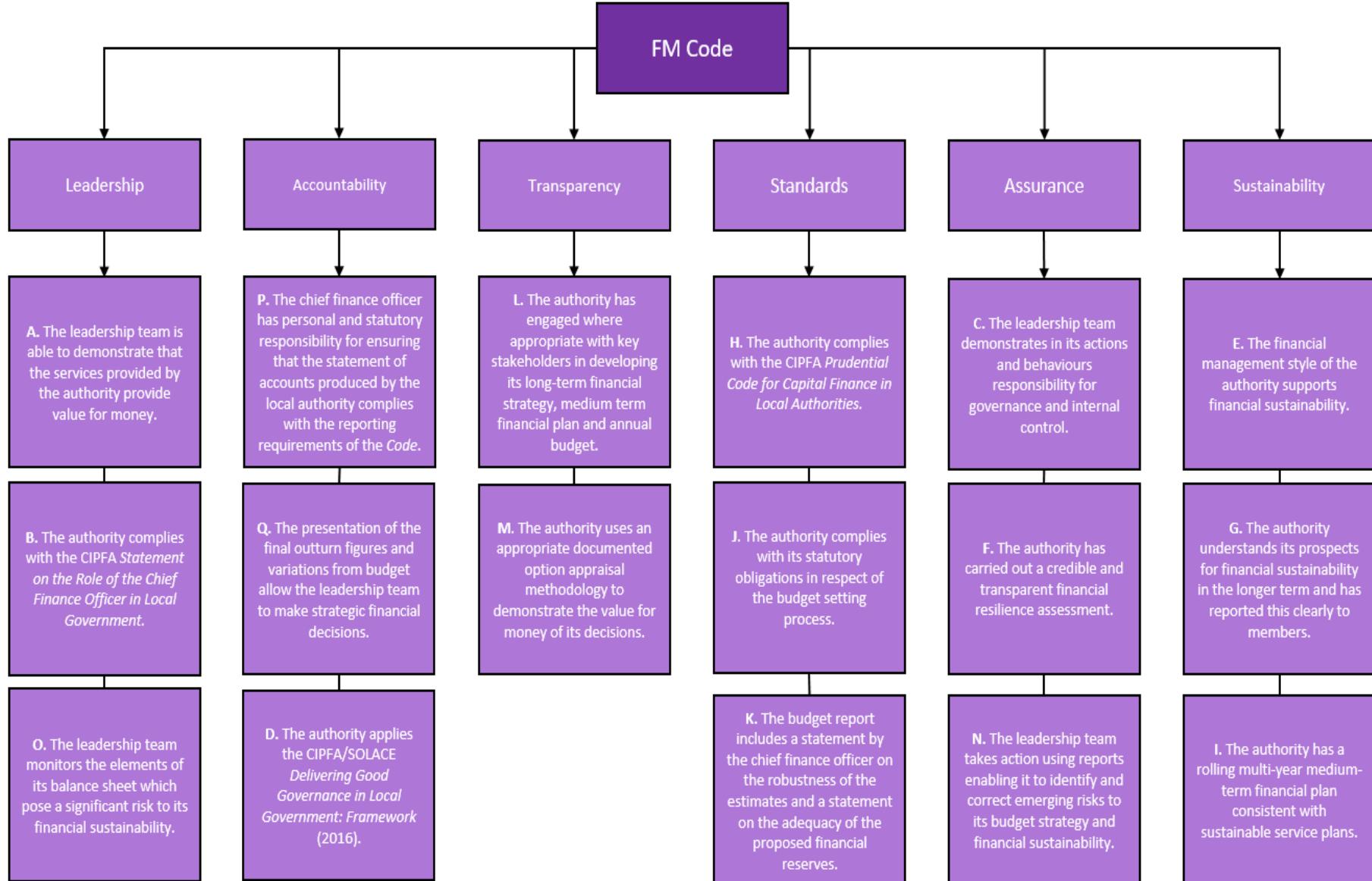
Assessment of elements of the code
Reflection on position against the standards
Awareness within the organisation
By 31 March 2021 demonstrate working towards

2021/2022

First full year of compliance

Six key principles of good FM

- Organisational **leadership** – clear strategic direction, FM is embedded into organisational culture.
- **Accountability** – based on MTFP which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- **Transparency in** FM, using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- Adherence to professional **standards** is promoted by the leadership team and is evidenced.
- Sources of **assurance** recognised as an effective tool mainstreamed into financial management and includes political scrutiny and the results of external audit, internal audit and inspection.
- The long term **sustainability** of local services is at the heart of all financial management process and is evidenced by prudent use of public resources.



Section 1 The Responsibilities of the Chief Finance Officer and Leadership Team

- A The leadership team is able to demonstrate that the services provided by the authority provide value for money
- B The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government

Section 2 Governance and Financial Management Style

- C The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control
- D The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016)
- E The Financial Management Style of the authority supports financial sustainability

Section 3 Long to Medium Term Financial Management

- F The authority has carried out a credible and transparent Financial Resilience Assessment
- G The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to Members
- H The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities
- I The authority has a rolling multi-year Medium Term Financial Plan consistent with sustainable service plans

Section 4 The Annual Budget

- J The authority complies with its statutory obligations in respect of the budget setting process
- K The budget report includes a statement by the Chief Finance Officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves

Section 5 Stakeholder Engagement and Business Plans

- L The authority has engaged where appropriate with key stakeholders in developing its long term financial strategy, medium term financial plan and annual budget
- M The authority uses an appropriate documented option appraisal methodology to demonstrate the VFM of its decisions

Section 6 Monitoring Financial Performance

- N The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability
- O The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability

Section 7 External Financial Reporting

- P The Chief Finance Officer has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the Code of Practice on Local Authority Accounting in the United Kingdom
- Q The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions

Key deliverables and expectations

- Sections 1 and 2 of the FM Code address important contextual factors - most challenging to codify as they largely concern 'soft skills' and behaviours.
- A '*tick box*' *compliance with these standards alone will not however be sufficient if they do not promote the behaviours necessary for good financial management.*
- Sections 3 to 7 address the requirements of the financial management cycle

The primary purpose of the FM Code is to establish how the CFO – regardless of whether or not they are a CIPFA member – should demonstrate that they are meeting their statutory responsibility for sound financial administration

Context must be right

- For good financial management to exist the context needs to be right
 - Responsibilities of the CFO and the leadership team
 - Governance and financial management style
- Often more difficult to codify
- Behaviours
- Recognised standards of best practice exist
- Set an organisational culture

FM CONCERNS

Symptoms of financial stress- CIPFA FM Code

- **Running down reserves** – Using the authority's financial reserves to finance a deficit or to avoid difficult decisions around spending cuts provides temporary relief, but is *not sustainable in the long term*.
- **Failure to address financial pressures** – *Refusing to make difficult decisions* about how to reconcile funding and service pressures, *or not recognising that such decisions need to be made*, is likewise merely storing up trouble for the future.
- **Shortened planning horizons** – Long-term planning is more difficult in times of uncertainty, but it is still important. Perhaps even more so than in more stable circumstances. *A failure to plan is indicative of a lack of strategic thinking and an unwillingness to make difficult decisions*.
- **Gaps in savings plans** – Knowing that savings are required is helpful, but knowing how these savings are going to be achieved is critical. *Hoping that 'something will turn up' is not an acceptable strategy* for financial resilience.
- **Unplanned overspends** -No budget is going to be absolutely spot-on. But *overspending against the budget is simply rolling over this year's problems into next year*. And it is a clear sign that the authority is failing to turn its financial policy decisions into action on the ground.

Four pillars of resilience

These drive the ability of the authority to withstand financial pressures. These should be considered as part of any Financial Resilience assessment

- **Getting routine financial management right** – ensure basic financial management systems are working effectively.
- **Benchmarking** – making good use of benchmarking data.
- **Clear plans for delivering savings** – each authority needs a single, consolidated, living document that tracks its savings plans.
- **Reserves** - to manage a clear and transparent savings programme over the medium term - not to avoid another cut in service level

ERP, Reports,
Challenge, Apathy,

Aspirational must
be 'robust'.
Pressures &
interdependencies
must be
recognised

Key problem areas CIPFA have identified

- The position of Finance at the top table
- Influence of finance / audit committees
- The skills of the Finance team –commercial, communication and other softer skills, confidence to challenge
- The financial reporting process : timeliness, the ERP reporting and investigation function
- Understanding by budget holders of their responsibilities
- Understanding by budget holders of Finance's role and service offer
- Understanding by Finance of what budget holders value
- Understanding by Finance of the business (service areas, capital projects, contractor issues)
- Capacity and capability of both budget holders and Finance
 - People are reactive rather than proactive
 - Value added activity is always a 'bonus'

FM review findings

- Causes or drivers of variances are not understood, not identified, not reported or impact not projected forward
- Revenue consequences of capital decisions not always highlighted
- Operational performance takes priority over financial performance
- Savings / efficiencies are not robust. Aspirational but not challenged
- Commercial support from Finance limited (global issues, funding announcements, new delivery models)
- Lack of understanding from members / SLT on impact of non-compliance with new regulations ie Environment agency, social care and welfare issues
- Inflexible processes ie staff salary grades. Therefore can recruit and end up paying higher agency staff (often ex Council employees)

Comments from LA's FM reviews

- Invest to save ideas not considered due to immediacy of financial problems
- Transparency, detail and access of financial reports. Budget holders cannot access granular detail for their own budgets
- Top slicing budgets -applied as a blanket policy – used as a proxy for efficiency savings. Does not recognise individual needs and those who have more /less capacity to reduce
- Poor compliance with processes ie PO input, follow up, debt collection overview
- Interdependencies not understand ie impact on demand of raising fees.
- Bureaucracy hampers innovation
- Commercial activity 'amateur' compared to private sector
- Processes over complicated ie codes created by Finance for each business unit, therefore need to raise 12 'jobs' for one building to change the lightbulbs!

Difficult decisions

NAO Report January 2019

- LA responses to the challenges they face have tested local governance arrangements. Specific challenges include elected members in some authorities having to take more locally contentious decisions to deliver savings, sometimes weighing statutory service requirements against local priorities
- Savings programmes can force members to make difficult and potentially contentious decisions that can be challenged legally, for example where they decide to cut back certain services. From 2010-11 to 2016-17 the number of libraries reduced by 10.3% and the number of households receiving at least a weekly domestic waste collection service fell by 33.7%.
- As demonstrated by Northamptonshire County Council, poor governance can make the difference between coping and not coping with financial and service pressures.

Going back to the principles....

“If any doubt arises as to whether or how the FM Code should be applied then reference should be made to these principles”

***leadership, accountability, transparency
standards, assurance , sustainability***

“A practice that conflicts with these principles will not be acceptable practice”

What can be done?

Strengthen financial resilience through action:

- No funding gaps - identified savings plans- not top slicing.
- Robust scrutiny & challenge of savings plans, budgets & options analysis
- Understand why specific decisions are made- greater recognition of interdependencies and challenges
- Commitment to the difficult / unpalatable decisions- the impact to be recognised- and the change supported
- Investment in upskilling staff (skills audit needed)
- Full engagement at all levels in the budget monitoring process – especially budget holders. Promote and embed accountability
- Maximise current income sources – Regular review of Sales, Fees and Charges BUT be aware of impact.
- Identify new/alternative income streams/ ways of working (as per MTFP)
- Encourage flexibility and innovation
- Flexible use of capital receipts extended to 2021/22

What can be done - Good practice Ideas

- Realism about the achievability of savings
- Rebasing /challenge of budgets to recognise future pressures and better reflect changing demand?
- The creation of a budget resilience reserve ? (usable but earmarked)
- Actively looking to capitalise expenditure where possible and appropriate to do so
- An earlier start to business planning for the MTFP
- Commitment to plans- variance in scope must be costed and mitigated. The emotive challenges cannot be deferred and backtracked without alternatives.
- Cultural change programme
- Enhanced communication and transparency around context and decisions (top down and bottom up)

What can be done - Member specific action

- Ensure that the S151 officer has seat at the top table and a voice in the decision making process- and retain focus
- Be fully aware of the key issues, particularly for your own areas
- Develop an effective Councillor/Officer relationship
- Provide effective and constructive scrutiny and challenge
- Manage the expectations of constituents (understand why service changes / decisions made)
- Remain committed to the decisions made
- Remain strategic

What can be done – Accountability ?

Culture change to strengthen accountability

- Accountability means responsibility
- Clearly and concisely articulate the vision and intention
- Establish a culture of accountability to drive performance, increase individual growth and make the organisation a good place to work.
- Envisioning something is not the same as doing something
- Need to manage the culture of accountability – beware the smouldering ember.

Accountability considerations

Embedding accountability

- The two biggest reasons that we resist holding other people accountable are because we're uncomfortable doing it and because we forget to do it.
- Need to give regular constructive feedback
- Procrastinating feedback only makes things worse
- Make accountability a habit
- Keep track of commitments and hold each other accountable

Consequences of lack of accountability

- When people are not accountable, one person's delay becomes the team's delay. One shortfall snowballs into bigger shortfalls.
- Tolerating missed deadlines, lack of punctuality and unfinished work has the tendency to make this behaviour "no big deal."
- Causes frustration and disengagement with the rest of the team.

Compliance with the Code ?

This would not have complied with the Code in many areas: For example:

FM Standard F:

As a minimum to ensure compliance with this element of the Code, the authority should:

- have in place robust arrangements for processing and recording income and expenditure in a timely manner;
- prepare and agree an annual budget that breaks down income and expenditure targets to the level of individual services and budget holders;
- provide budget holders with regular reports on their performance against their budget allocations and follow up promptly any significant deviations from budget; and
- prepare regular, timely, accurate and comprehensible reports on the authority's financial performance and position for the leadership team.

Section 4 The Annual Budget

J The authority complies with its statutory obligations in respect of the budget setting process

K The budget report includes a statement by the Chief Finance Officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves

Standard J Key Questions

- Is the authority aware of its statutory obligations in respect of the budget-setting process?
- Has the authority set a balanced budget for the current year?
- Is the authority likely to be able to set a balanced budget for the forthcoming year?
- Is the authority aware of the circumstances under which it should issue a Section 114 notice and how it would go about doing so?

Standard I Key Questions:

- Does the authority have in place an agreed medium-term financial plan?
- Is the medium-term financial plan consistent with and integrated into relevant service plans?
- Has the medium-term financial plan been prepared on the basis of a robust assessment of relevant drivers of cost and demand?
- Has the medium-term financial plan been tested for resilience against realistic potential variations in key drivers of cost and demand?

| | |
|---|---|
| A | The leadership team is able to demonstrate that the services provided by the authority provide value for money. |
| B | The authority complies with the CIPFA Statement on the Role of the Chief finance officer in Local Government |

RESPONSIBILITIES OF THE CFO AND LEADERSHIP TEAM

FM Standard A :The leadership team is able to demonstrate that the services provided by the authority provide VfM

- The delivery of VfM will ultimately be dependent on decisions made by elected members. It is the responsibility of the senior officers within the management team to ensure this can be enacted.
- **Robust and timely data needed**
- **Understanding by members of the decision and its impact**

- Statutory responsibility for the FM of the authority rests with the CFO, BUT the CFO is reliant on the actions of the leadership team both collectively and individually as elected members and senior officers.
- **Communication and exploration of options required**
- **When CFO is forced to act in isolation –this is characteristic of authorities in which financial management had failed and financial sustainability is threatened.**

Key Questions- FM Standard A

- Does the authority have a clear and consistent understanding of what value for money means to it and to its leadership team?
- Does the authority have suitable mechanisms in place to promote value for money at a corporate level and at the level of individual services?
- Is the authority able to demonstrate the action that it has taken to promote value for money and what it has achieved?

In order to achieve compliance with the Code, consideration of VfM should be an integral feature to the decisions made by the leadership team, especially those relating to the allocation of resources or to the delivery of services.

Unlawful spending at two councils exceeds £290,000

6 Nov 2019 - 9:00am

Significant deficiencies in procurement arrangements and governance found at two councils



Two councils have incurred unlawful expenditure of over £290,000, according to reports issued today (6 November 2019) by the Auditor General for Wales. In both reports, significant deficiencies in procurement arrangements were found, with neither council having in place proper arrangements to secure economy, efficiency nor effectiveness in their use of resources.

Pillars of VfM- A delicate balance

Example: A highways development scheme

| Economy | Efficiency | Effectiveness | Equity |
|--|---|--|---|
| <ul style="list-style-type: none">• Spending less• <i>Procure resources at lowest unit cost</i> | <ul style="list-style-type: none">• Spending well• <i>minimise the volume of resources required to construct each mile of road</i> | <ul style="list-style-type: none">• Spending wisely• <i>have a clear rationale for the road under construction and will construct the right road, in the right place and at the right time.</i> | <ul style="list-style-type: none">• Spending fairly• <i>be accessible to all forms of traffic – including pedestrians and cyclists</i> |

Ensuring VfM

Reviewing explicitly the ways in which these services are delivered

- Efficiency reviews
- Benchmarking
- Peer review

Consider effectiveness of services via:

- Monitoring of performance data
- Service reviews
- User surveys
- Ext assessments

Consider quality via:

- Equality impact assessments
- Engagement with service users and voluntary sector

Demonstrate by
overview of arrangements
and providing details of reviews,
surveys
& achievements

Proactive communication to
stakeholders:
AGS/ Narrative in y/e Accs
VfM report
Website narrative
Integrated reporting

| | |
|---|--|
| C | The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control. |
| D | The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016) |
| E | The Financial Management Style of the authority supports financial sustainability |

GOVERNANCE AND FINANCIAL MANAGEMENT STYLE

Example of this section and standards

Governance and financial management style

C / The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control

D. The authority applies the CIPFA/Solace Delivering Good governance in Local Government : Framework

E. The financial management style of the authority supports financial sustainability

Financial Management Standard C: The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control

- **Key Questions**
- Does the leadership team espouse the Nolan principles?
- Does the authority have in place a clear framework for governance and internal control?
- Does the leadership team espouse high standards of governance and internal control?
- Does the leadership team nurture a culture of effective governance and robust internal control across the authority?

What evidence might look like for Standard C

The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control

Establish a clear governance and FM framework across the authority

Constitution

Transparent governance structures

Terms of reference and meeting conduct

Clear delegation of decision making

Exhibit high standards in activities

Code of conduct
Compliance with Nolan principles
Register of interests
Constructive challenge
Balanced decision making

Organisational culture

Tone at the top
Reward good behaviours
Participation in quality development opportunities
Response to inspection / review

Financial Management Standard D: The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016)

Key Questions

- Is the authority aware of the provisions of the CIPFA Delivering Good Governance Framework?
- Has the authority sought to apply the principles, behaviour and actions set out in the Framework to its own governance arrangements?
- Does the authority have an established and effective audit committee?
- Does the authority have an internal audit function that is compliant with Public Sector Internal Audit Standards?

The CIPFA/SOLACE Delivering Good Governance in LG Framework is based on the CIPFA/IFAC International Framework on Good Governance in the Public Sector.

Behaviours – Good governance

These behaviours underpin good governance

- *Ethics, Integrity, Transparency and Accountability*, together with concern for the public good, are fundamental principles of good governance,
- The ethical culture of an organisation is influenced by its governors and other leaders, who set the “tone at the top”. Others within that organisation are influenced by what they perceived to be the ethical values and conduct of their leaders
- CIPFA *Role of the CFO- Personal skills and professional standards*
“Comply with the IFAC Code of Ethics for Professional Accountants.. as well as other ethical standards ie as a member of CIPFA”. The fundamental principles set out in the Code are integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour

In 2016, an NHS hospital finance director wrote anonymously to the Public Accounts Committee to blow the whistle on the pressure being applied within the sector to improve reported position.....*The Independent., Feb 2016 – finance directors are being leant on to “cook the books”*

Financial Management Standard E: The Financial Management Style of the authority supports financial sustainability

- **Key Questions**
- Does the authority have in place an effective framework of financial accountability?
- Is the authority committed to continuous improvement in terms of the economy, efficiency, effectiveness and equity of its services?
- Does the authority's finance team have appropriate input into the development of strategic and operational plans?
- Do managers across the authority possess sufficient financial literacy to deliver services cost-effectively and to be held accountable for doing so?
- Has the authority sought an external view on its financial style, for example through a process of peer review?

Hierarchy of FM Styles



Four attributes: **leadership, people, processes and stakeholders**

Code sets out the attributes at each level of the financial management hierarchy - to demonstrate that an appropriate financial management style has been developed and embedded in the way in which the authority operate

An assessment of an authority's financial management style can best be undertaken by means of peer review

Attributes of *Enabling transformation*

Leadership: The authority's leadership team integrates financial management into its strategies to meet future business needs. Its financial management approach supports the change agenda and a culture of customer focus, innovation, improvement and development.

People: The authority develops and sustains its financial management capacity to help shape and support its transformational programme.

Enabling transformation

Process: The authority's financial management processes support organisational change.

Stakeholders: The authority is responsive to its operating environment, seeking and responding to customer and stakeholder service and to spending priorities that impact on its financial management.

How much of this can you confidently say you do well?

| | |
|---|--|
| F | The authority has carried out a credible and transparent Financial Resilience Assessment |
| G | The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to Members |
| H | The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities |
| I | The authority has a rolling multi-year Medium Term Financial Plan consistent with sustainable service plans. |

LONG TO MEDIUM TERM FINANCIAL PLANNING

Financial Management Standard F: The authority has carried out a credible and transparent Financial Resilience Assessment

Key Questions

- Has the authority undertaken a Financial Resilience Assessment?
- Has the Assessment tested the resilience of the authority's financial plans to a broad range of alternative scenarios?
- Has the authority taken appropriate action to address any risks identified as part of the Assessment?

The reality is that austerity is changing behaviour in many authorities

- Greater use of trading powers (ASDV)
- Closer scrutiny of fees & charging options
- Treasury Management (financial investment)
- Capital Investment (pushing Prudential regime)
- Partnership, transformation expectations
- More aggressive savings 'assumptions'
- Less rigour on service spend areas (and some extension of optimism bias)
- **Not all have gone down well. Concerns around legitimacy and sustainability of finances from NAO; PAC; Treasury; MHCLG & CIPFA**

What is financial resilience

- A definition
 - Financial resilience describes the ability of local authorities to remain viable, stable and effective in the medium to long term in the face of pressures from growing demand, tightening funding and an increasingly complex and unpredictable financial environment.
- Alternatively
 - Organisational capacity to recover from crises and to reduce risks/threats

How resilience works in organisations

- Situation awareness
 - The extent to which an organisation has a clear understanding of the organisational operating environment
- Management of key vulnerabilities
 - The way the organisation manages itself to reduce the susceptibility of the organisation to shocks
- Adaptive capacity
 - The extent to which the organisation has the resources and competencies to respond to shocks.

Adapted from Iris Saliterer et al, 2017

Financial resilience only part of the picture

- Not looking at service failure
- But financial risk interacts with service delivery risk
 - Poor service delivery may lead to higher costs (inspection)
 - Positive service delivery often linked to strong financial management

Vulnerability, anticipatory and coping capacities

- Key concepts when looking to assess resilience
- Vulnerability
 - The level of exposure to a specific shock
 - Income loss, expenditure demand and so on
- Anticipatory capacity
 - The availability of tools and capabilities enabling organisations to manage vulnerabilities and recognise potential shocks
- Coping capacities
 - Resources available to face shocks and vulnerabilities

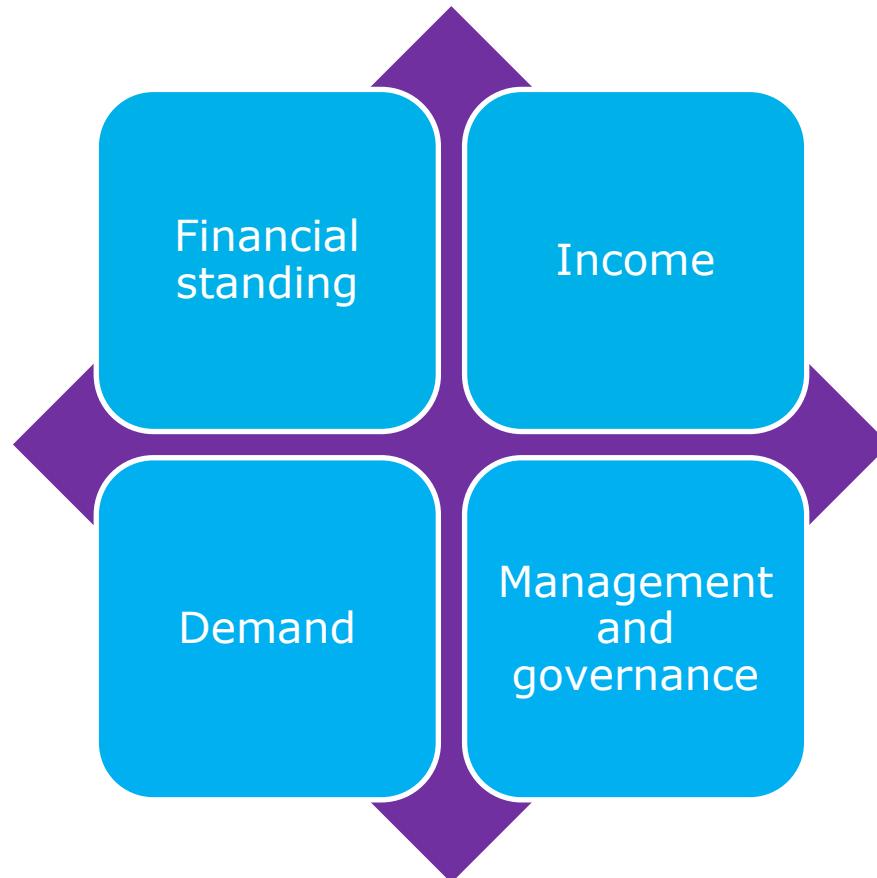
Stress factors

Code: Running down reserves, failure to plan & deliver savings, short planning horizons, gaps in saving plans, unplanned overspends and / or undelivered savings

BUT others can include.....

- the dependency on external central financing
- the proportion of non-discretionary spending – eg social care and capital financing - as a proportion of total expenditure
- an adverse (inadequate) judgement by Ofsted on Children's services
- changes in accounting policies (including a change by the council of their minimum revenue provision)
- poor returns on investments
- low level of confidence in financial management.

A framework for measurement – four dimensions of resilience



Measurement is difficult

- Dependent on local context (and to some extent choices)
- Financial standing – reserves, debt
- Income – diversity of sources, future security, control
- Demand – able to cope with changes in demand
- Management and governance – absolutely key and incredibly hard to measure.

Financial Management Standard G: The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to Members

Key Questions

- Does the authority have a sufficiently robust understanding of the risks to its financial sustainability?
- Does the authority have a strategic plan and long-term financial strategy that address adequately these risks?
- Has the authority reported effectively to the leadership team and to members its prospects for long-term financial sustainability, the associated risks and the impact of these for short- and medium-term decision making?

Consideration of how financial resilience is integrated into its strategic plan and into the financial strategy associated with the delivery of this strategic plan.

Can be achieved in an uncertain and dynamic operating environment through the use of scenario planning

FM Standard G:

Factors that influence the authority's long-term financial success.

- the nature, level and balance of the authority's sources of income;
- the authority's exposure to volatile income streams;
- the authority's cost base, especially its overhead costs;
- the financial structure and staffing of the authority;
- the authority's financial management policies, systems and processes; and
- the authority's relationships with key financial stakeholders.

FM Standard G

Consideration of how financial resilience is integrated into its strategic plan and into the financial strategy associated with the delivery of this strategic plan.

Can be achieved in an uncertain and dynamic operating environment through the use of scenario planning

In contrast to forecasts, scenarios are not predictions of the future, but distinct but still plausible visions of that future.

Scenario planning moves beyond sensitivity analysis and similar techniques by describing alternative, internally-consistent, possible future economic and political environments, together with the resource and regulatory implications that are likely to flow from them.

What is scenario planning ?

- **Scenario planning**, also called **scenario thinking** or **scenario analysis**, is a strategic planning method that some organizations use to make flexible long-term plans
- The original method was that a group of analysts would generate simulation games for policy makers. The methods combine known facts about the future, such as demographics, geography, military, political, industrial information, and mineral reserves, with key driving forces identified by considering social, technical, economic, environmental, and political (STEEP) trends.
- Scenario planning may involve aspects of systems thinking, ie the recognition that many factors may combine in complex ways to create sometime surprising futures (due to non-linear feedback loops). The method also allows the inclusion of factors that are difficult to formalize, such as novel insights about the future, deep shifts in values, unprecedented regulations or inventions
- EG Royal Dutch/Shell, scenario planning was viewed as changing mindsets about the exogenous part of the world, prior to formulating specific strategies.^[1]

Why scenario planning

- Complex and rapid change means reliance on trend analysis no longer guarantees future success.
- Oxford Scenarios Programme (OSP) names this the 'contextual' environment and describes 'TUNA conditions', meaning *turbulent, uncertain, novel, and ambiguous*.
- Scenarios are best suited to highly complex situations with many unquantifiable factors, highly uncertain situations or situations where there is little or no reliable data for quantitative models.
- It is a collaborative intervention that organizations can use to help make sense of a rapidly changing environment and to anticipate plausible shifts in conditions, thereby increasing preparedness for the future.
- Allows exploration of >1 future scenario