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Savings Planning – Conwy County Borough Council

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Summary report

Summary

- 1 Good financial management is essential for the effective stewardship of public money and the continual delivery of efficient public services. The current financial climate and the reduced settlements for local government mean that good financial planning, with well-considered savings plans, is critical to financial resilience.
- 2 This review focuses on answering the following question: **Do the council's financial savings planning arrangements support financial resilience?**
- 3 Good financial planning:
 - helps councils take the right decisions for the short, medium and long term;
 - helps councils 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.
- 4 Financial planning for the medium to long term involves understanding future demand, assessing the impact of probable changes, reviewing the gaps between funding needs and possible income and, where necessary, developing appropriate savings strategies.
- 5 A council's strategic priorities and its financial health should be the basis for deciding what is practicable. 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 encourages an incremental and process-driven approach that is too inflexible in a period of rapid external change.
- 6 Councils receive about 80% of their net income from Welsh Government, the exact amount is only known 4-5 months before the start of the financial year. Whilst this has an impact on financial planning councils can use a range of information to anticipate changing circumstances, set priorities, make choices and manage service delivery. They can calculate how much they would need to deliver services (at current or future prices) and review alternative income and spending scenarios to identify gaps and prepare for the future by investigating different approaches.

- 7 During 2015-16 the Wales Audit Office undertook work at all councils to assess the adequacy of their financial planning, control and governance arrangements. Local reports were issued and a national summary report published in August 2016. The national summary report concluded that **strategic planning arrangements are improving but councils have difficulty in developing and delivering the savings and changes to services at the pace required to ensure future financial resilience.**
- 8 In this assessment, undertaken during the period June to September 2016, we have focused on work to identify, plan for and deliver savings. We examined the extent to which Conwy County Borough Council (the Council) achieved its 2015-16 savings plans, the quality of its medium term financial plans and the robustness of its 2016-17 savings plans.
- 9 We sampled three savings proposals for 2016-17 and looked at the underlying assumptions and whether there are adequate mechanisms to ensure they can be delivered in the planned timescale.
- 10 We followed up our 2015-16 work to determine what the Council did as a consequence of what it learnt and how it has responded to our proposals for improvement in relation to financial planning if we made any.
- 11 In this report we have described some key characteristics of effective financial planning – **What good looks like**. Auditors have used these and other factors to reach a balanced view on the effectiveness of a council's financial planning arrangements and to evaluate the ability of a council to deliver its Medium-Term Financial Plan (MTFP) and planned savings.
- 12 In our 2015-16 review we concluded that **although the Council has low levels of reserves it continues to have appropriate financial management arrangements with no immediate shortcomings.**
- 13 In this review we concluded that **the lack of transparent monitoring and reporting of the delivery of savings plans means that the Council's arrangements may not fully support future financial resilience.**

Proposals for improvement

Exhibit 1: proposals for improvement

It would be unusual if we did not find things that can be improved and, where we do, The Auditor General can take a variety of steps. In this case a proposal for improvement has been made and we would expect the Council to do something about it.

Proposals for improvement

- | | |
|----|---|
| P1 | Strengthen financial planning arrangements by: <ul style="list-style-type: none">• include progress against planned savings in budget monitoring reports; and• developing an Income Generation/Charging Policy |
|----|---|

Detailed report

The lack of transparent monitoring and reporting of the delivery of savings plans means that the Council's arrangements may not fully support future financial resilience

Context

- 14 Since 2010, the UK government has reduced spending on public services as part of its plan to reduce the deficit. With cuts to its budget, the Welsh Government has had to make difficult choices as to how to allocate those funding cuts across devolved public services. As a result, the amount of core funding made available by the Welsh Government to local councils has reduced each year. So far, most local councils have managed to reduce expenditure and balance budgets, but the scale of annual reductions is likely to continue. Our analysis shows that between 2013-14 and 2016-17, there is a real-terms reduction of £483 million (10.9%) in this core funding¹.
- 15 The impact of the decision to leave the European Union may represent a threat to local councils and the wider public sector in Wales. In the immediate aftermath of the decision there was reaction across financial markets resulting in volatility in, for example, share prices, currency exchange rates, oil prices and bond yields, and the UK continues to face a great deal of uncertainty on top of significant questions regarding future economic and trading relationships with Europe. The Welsh Local Government Association (WLGA) has expressed concerns over the implications of the European Union referendum outcome, calling it a 'seismic change in UK public policy'² especially as local councils are collectively the largest employer in Wales and the deliverer of many important public services.

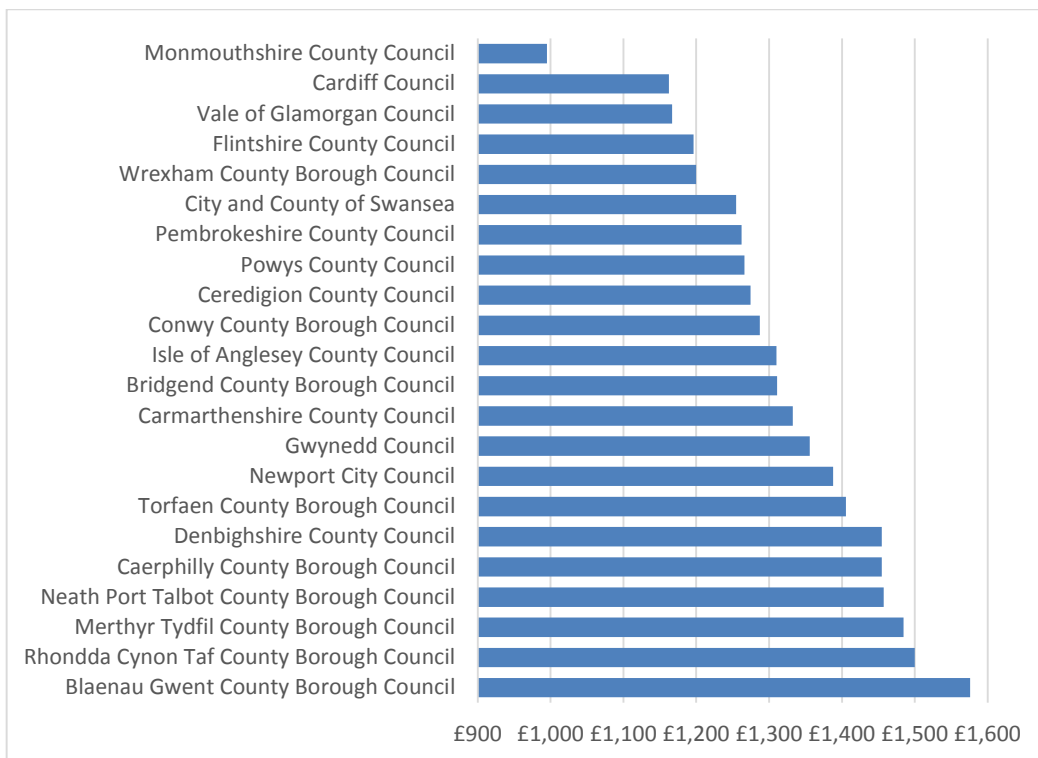
¹ Comparing core funding (Aggregate External Finance (AEF)) across the period 2013-14 to 2016-17 is complicated for two main reasons. Firstly, the Welsh Government has incorporated into core funding grants that were previously provided separately. While this 'de-hypothecation' of grants results in an increase in core funding, it is not necessarily a net increase in funding. The net value of grants incorporated into core funding since 2013-14 is around £76 million in real terms (adjusted for inflation).

² Welsh Local Government Association, **Councils voice concern over service impacts of EU referendum**, 24 June 2016

- 16 Whilst the overall Welsh Government funding has reduced, councils have been expected to protect schools and social care from the bulk of the pressures. Social care in particular has struggled even with this protection as for example demographic changes have led to increased demand. However, this does mean that other services have borne the majority of the cuts and have seen reductions in budgets of 30% or more in real terms since 2013-14.
- 17 The Council received £149.4 million in support from Welsh Government in 2016-17. This represents £1,287 per person in the county, below the average for Wales and a real-terms reduction of 11.23%³ per head since 2013-14. There are other key issues that impact on any councils overall financial position, for example the overall Council tax base, the ability to generate income locally and the levels of deprivation.

Exhibit 2: Welsh Government support (£ per head) in 2016-17

The graph below illustrates the amount of money each council gets per head of population from the Welsh Government.



Source: Stats Wales (www.statswales.gov.wales)

³ The percentage reduction per head figure varies from the 2013-14 core funding reduction due to population variation over the same period.

Savings achievement 2015-16

The Council has reported achievement of all of its planned 2015-16 savings, but is unable to demonstrate that individual savings have been delivered

What good looks like

18 Councils that have a good track record of delivering the majority of planned in-year savings should have well developed savings and delivery plans in place which are underpinned by robust monitoring processes. These councils do not have to continually bridge the gap year on year, by identifying alternative savings, using unplanned one-off funding from earmarked reserves, general reserves, contingency funds or fortuitous unplanned income received during the year.

What we found

- 19 In our 2015-16 review we found that the Council had a good track record of delivering identified savings within year against its planned actions.
- 20 In our 2016-17 review we found that the Council achieved its planned savings total for 2015-16, but it is unclear whether this was through planned or alternative savings proposals.
- 21 The Council achieved a small surplus on its 2015-16 budget. Despite overspend in Social Services, there was a collective net underspend on service budgets. Higher than expected council tax collection also provided additional income and the resulting surplus was transferred to the Council's Demand Led Risk Reserve – a contingency fund for unforeseen events and demand led pressures.
- 22 The Council's planned budget strategy included the use of its Revenue Budget Support 2015-16 reserve to underpin the base budget. During the year, the Council also drew on its Demand Led Risk Reserve to finance Social Service overspends that could not be contained within the service. The transfer of service underspends and additional council tax income noted above enabled the Council to offset the majority of the funds utilised. Funding of the Council's base budget is not underpinned by use of the general reserve.
- 23 The Council reports that it achieved its 2015-16 savings plans in full. This is due to the fact that the Council builds budget savings into its base revenue budget once the savings have been developed and approved. Services are then responsible for operating within the revised budget. By delivering a balanced budget, it is therefore assumed that the savings have been achieved in full. However, it isn't clear if the value of savings achieved has come from planned savings or alternative savings and spending cuts made during the year. Budget monitoring reports to Members report on progress against base budgets and do not provide information on progress against savings plans. We are therefore unable to verify what proportion

of planned savings were achieved in 2015-16. The Council categorises its savings into efficiency type savings, service cuts or changes, income, demand management and other.

Financial planning arrangements

The Council has a generally sound financial planning framework but its current use of reserves is unsustainable

What good looks like

- 24 The MTFP is a key component of an effective, integrated corporate planning framework. Good medium-term financial planning and annual budgeting should reflect the council's strategic objectives and priorities for the year, and over the longer term. MTFPs typically span a three-to-five year period and should identify how resources will be allocated to both the delivery of services and the council's priorities. The impact on citizens and other stakeholders should also be considered.
- 25 Good MTFPs include consideration of key financial risks together with their mitigation. Councils have to make assumptions around inflation, income levels, demographics, future demand for services and the costs of delivering services, and these need to be based on reasonable predictions. The council should also use financial modelling to assess the likely impacts on financial plans and required savings for a range of different scenarios and risks. The MTFP should be frequently reviewed and updated to reflect changes in assumptions and risks.
- 26 Councils should operate 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. Councils should include details on how reserves will be used over the period of the MTFP.
- 27 The council must demonstrate that it understands its sources of income and the risks arising from these, and that it has reviewed its approach to fees and charges, for its services, to achieve value for money.

What we found

- 28 In our 2015-16 review, we found that the Council had an effective corporate framework for financial planning but that it did not have an authority-wide policy on income generation.
- 29 In our 2016-17 review, we found that the Council continues to have robust financial arrangements but still lacks a corporate income policy.
- 30 There are strong links between the Council's Corporate Plan and its Medium Term Financial Strategy (MTFS). The Corporate Plan focuses on the Council's priorities: eight Citizen Outcomes which aim to support the people of Conwy to have better

lives. The Outcomes were developed by the Local Service Board and they form a framework which all Board partners are working towards. The MTFS is set in the context of the Corporate Plan and the budget setting process supports the delivery of activities aligned to the Council's priorities. The Council reviews its plans regularly; both the MTFS and Council Plan are reviewed annually.

- 31 Although the current MTFS does not refer to the Wellbeing of Future Generations (Wales) Act 2015, the Council is taking steps to embed the requirements of the Act into its business processes. Work is under way to review the MTFS and Financial Regulations and members have received training on how the Act impacts on decision making and scrutiny.
- 32 Medium term financial planning assumptions reflected in the MTFS are kept under review and a formal update rolling the budget forecast forward is approved each year as part of the budget setting process. Regular updates on MTFS assumptions, to take account of changes in key variables and other emerging issues, are provided to Members and budget holders.
- 33 The MTFS covers a rolling four-year period. Its forecasts are comprehensive and sensitivity analysis is undertaken to assess the impact of a range of scenarios on the budget shortfall. The MTFS 2017-18 to 2019-20 identifies a budget gap of nearly £30 million. The Council has identified indicative savings over the period of £26.4 million, leaving a budget shortfall of £3.5 million.
- 34 The MTFS is also underpinned by reasonable assumptions for key variables such as pay awards, price inflation, Welsh Government funding and council tax levels. The impact of the economy, demographic changes, changes in demand and unavoidable major service pressures is also assessed.
- 35 A Reserves and Balances Policy summarises the Council's reserves and links to other corporate policies, such as the MTFS and Financial Regulations, which detail the Council's processes and intentions for the use of reserves. The Council undertakes an annual review of its reserve levels and scrutinizes reserves during the budget setting process. Reserves held by services are also reviewed and challenged on an ongoing basis by the Strategic Director for Finance and Efficiencies and the Portfolio Member for Finance and Resources.
- 36 Both the MTFS and Reserves and Balances Policy note the Council's intention to use reserves to underpin the base budget up to 2016-17 but not beyond. Appropriately, the Council recognises that this use of reserves is not sustainable in the longer term and it refers to its use of reserves in 2016-17 as 'buying time' whilst services modernise following restructure. At the end of 2015-16, the Council's General Fund stood at approximately £2.5 million and the MTFS suggests it is expected to remain at this level going forward.
- 37 A continuing weakness in the Council's approach is the lack of a corporate policy on income generation/charging. Despite this, the Council has a robust approach to income generation and its processes suggest many of the components we would expect to see in a corporate policy are already in place. Although responsibility for charges is devolved to services, there is strong corporate steer and support in relation to income generation, and expectations in relation to full cost recovery and

maximising income are well communicated. The Council has an income register which identifies all sources of income. Managers review charges during the annual budget setting process and any increases are reviewed and challenged by the Strategic Director for Finance and Efficiencies and the relevant Head of Service and Portfolio Member. Some services have their own policy for charging – leisure services, for example, and there is evidence that Cabinet considers the charging policies of individual services, for example Adult Care and Support Services. However, not every service has a specific charging policy and opportunities for income generation could be missed without a corporate policy in place to formalise existing arrangements and ensure consistency of approach.

- 38 The need for an income generation policy is now greater given the Council's requirements under the Wellbeing of Future Generations (Wales) Act 2015. A corporate policy will help ensure that the Council's approach to income generation takes into account the Act's five ways of working.
- 39 The Council has effective arrangements in place to regularly report its performance against budget to Members, but does not report progress against achievement of savings plans to them. The MTFs is regularly updated to ensure assumptions are relevant and up to date.

Savings Plan 2016-17

The Council has well considered and detailed savings plans in place but where planned savings have not been achieved, mitigating actions lack transparency and accountability

What good looks like

- 40 Councils that deliver savings effectively have well-considered savings plans that sit within longer-term savings strategies which are underpinned by well-developed fully costed individual savings and delivery plans aligned with the MTFP. Savings proposals should be specific and risk assessed in terms of likelihood of achievement.

What we found

- 41 In our 2015-16 review, we found that savings plans were specific, measurable, achievable, relevant and timely and arrangements to deliver them were fit for purpose.
- 42 In our 2016-17 review, we found that the Council has robust savings plans in place but there is a lack of transparency in the way achievement of savings is reported.
- 43 The Council has identified savings plans to meet the savings required for 2016-17 and is currently identifying savings to meet the 2017-18 budget shortfall. Services identify, plan and develop savings and the Council's Budget Consultation Group

enables effective Member involvement in the process. Task and Finish Groups and Service Budget and Efficiency Groups provide further opportunities for Members to take an active role in identifying and scrutinising savings. The MTFs includes future indicative savings from reshaping services, income generation, school efficiency targets, treasury management and spend to save projects, but the Council has not yet fully identified how it will meet the total forecast budget gap over the life of the MTFs.

- 44 The Council has appropriately classified its costed savings plans into efficiencies; income generation; demand management; service redesign/reduction/cut; restructure; and collaboration.
- 45 The Council has effective processes to risk assess the deliverability of savings. Each savings initiative is assessed at service level before being reviewed corporately. The assessment is then included in the savings plan for Members to consider. The 2016-17 Budget Report to Council highlighted the risk that some savings may not be achieved, particularly those in Environment, Roads and Facilities identified as likely to encounter public and political opposition. Task and Finish groups were set up to consider concerns around these savings proposals in more detail.
- 46 Equality Impact Assessments are carried out for savings proposals which impact on the public, although quality of completion is inconsistent. The Council consults with citizens and other stakeholders when deemed necessary, for example a consultation was recently held on plans to implement car parking charges.
- 47 Savings plans are specific and measurable: individual savings projects and their value are listed by service area. The Council has robust budget monitoring and control processes in place. Monthly monitoring of savings and budgetary targets takes place between the Finance department and service areas.
- 48 Regular budget monitoring reports are presented to the Principal Overview and Scrutiny Committee (POSC) and Cabinet but the Council does not specifically report on achievement of savings proposals. Savings are subsumed within services' base budgets for reporting purposes, which, as noted above, makes it difficult to assess whether it is planned or alternative savings that have been achieved. Services are expected, where possible, to contain overspends or non-achieved savings through alternative spending cuts or savings.
- 49 Budget monitoring reports do highlight where variances against budget are caused by non-delivery of savings and the Council identifies and addresses significant changes to savings proposals as and when they arise. For example, Members were informed of the delay to implementation of car parking savings and the service has identified alternative methods to balance the budget. The Task and Finish group set up to examine parking savings was also tasked with considering alternative ways to achieve the saving target.
- 50 However, the current approach lacks transparency as alternative savings are not routinely approved by all Members or subject to the same rigorous and democratic process as those savings approved as part of the budget. Formal reporting of progress against planned savings in budget monitoring reports would strengthen

arrangements and provide improved transparency and accountability around savings.

- 51 The three savings proposals for 2016-17 we sampled to test the underlying assumptions and whether there are adequate mechanisms to ensure they can be delivered in the planned timescale were:
- remodelling CCTV – £143,000 (efficiency saving);
 - parking income – £186,000 (income generation); and
 - refuse collection – £500,000 (service cut).
- 52 In each case, we found that options appraisals were underpinned by reasonable assumptions and the proposals were supported by appropriate approval and consultation processes. Although original delivery plans had clear timescales, both the refuse collection and parking income savings have been delayed due to Member decisions to trial proposed changes or undertake further public consultation.

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