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Savings Planning – Carmarthenshire County 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 Carmarthenshire County 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 the Council's medium-term financial planning could be improved, but management arrangements are sound and financial governance is good.**
- 13 In this review we concluded that **whilst the Council has sound savings planning arrangements, which support future financial resilience, some lack of transparency in financial reporting remains.**

- 14 The Council plans to align its service, financial and improvement planning in its 2017-18 budget process, it also has a draft reserves strategy which is not yet approved and is developing an income generation/charging policy.

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:
- developing explicit links between the MTFP and the Council's corporate planning processes;
 - including savings plans monitoring reports with the publicly available quarterly financial monitoring reports;
 - ensuring that delivery timescales in business cases are robust;
 - finalise and approve the income generation/charging policy; and
 - approving the developed reserves strategy.

Detailed report

Whilst the Council has sound savings planning arrangements, which support future financial resilience, some lack of transparency in financial reporting remains

Context

- 15 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.
- 16 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.

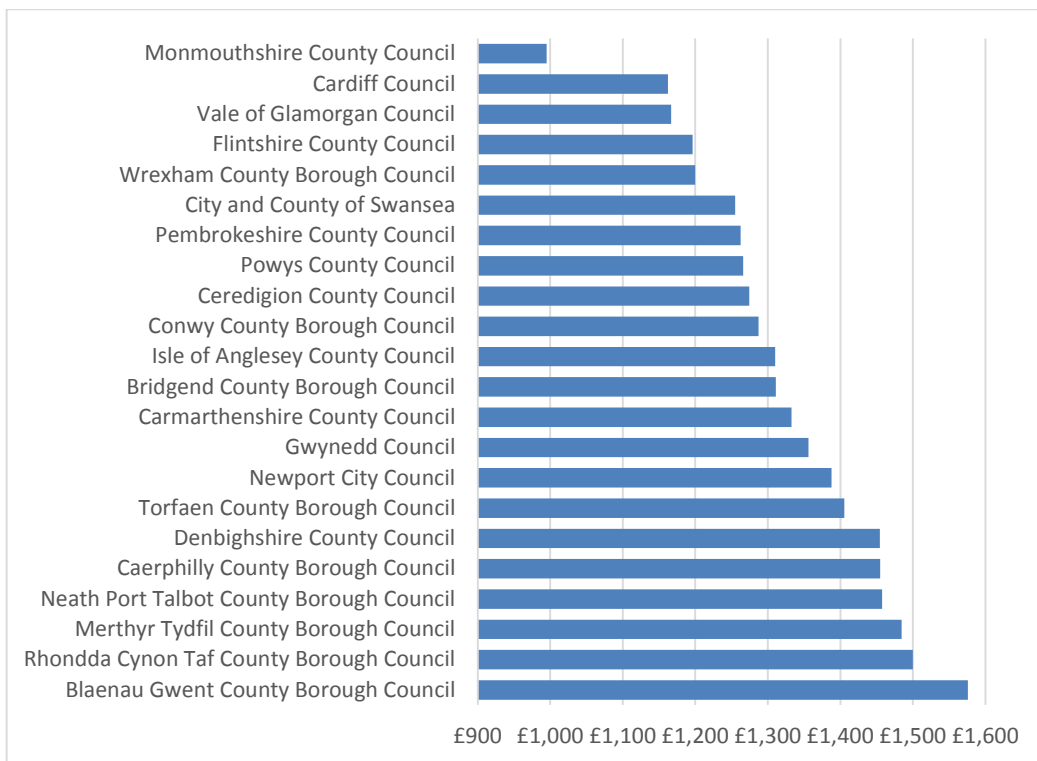
¹ Comparing core funding (Aggregate External Finance (AEF)) across the period 2013-14 to 2016-17 is complicated for two main reasons. Firstly, the Welsh Government has incorporated into core funding grants that were previously provided separately. While this 'de-hypothecation' of grants results in an 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

- 17 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 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.
- 18 The Council received £251.7 million in support from Welsh Government in 2016-17. This represents £1,333 per person in the county, above the average for Wales but a real-terms reduction of 9.67%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 82% of its planned 2015-16 savings in year and is able to demonstrate that individual savings have been achieved

What good looks like

- 19 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

- 20 The Council identified savings proposals of £12.640 million to meet its 2015-16 budget gap and achieved 82% of its planned savings. The Council divides its savings into managerial savings (£7.552 million) and policy savings (£5.088 million). Unachieved savings have to be met from elsewhere in the department's budget or from departmental earmarked reserves. The Council carries forward unachieved savings to future years and it is the department's responsibility to ensure they are achieved.
- 21 Savings plans are embedded in the base budget. The Council reviews progress on its savings plans on a monthly basis and reports progress on a bi-monthly basis to its Programme Executive Board (PEB) and Corporate Management Team (CMT). However, the quarterly budget monitoring reports to Executive Board do not include a comprehensive report on progress on savings plans or efficiency savings. Consequently, Members do not have sufficient detailed information to challenge unachieved savings plans. A proposal for improvement in our 2015-16 review was to improve the transparency of reporting for individual savings plans. Whilst the Council has taken action to address this for internal monitoring purposes, published Executive Board reports on savings achievements still lack transparency.
- 22 The Council achieved an overall surplus on its 2015-16 revenue budget of £1.366 million. There was a collective net overspend on departmental budgets, mainly relating to the Education and Environment departments. Overspends on department budgets were mainly met from departmental reserves. There was underspend on the capital financing budget of £1.399 million. The Council prudently transferred the majority of the surplus to its major development reserve which is used to support the implementation of service changes. The balance of £280,000 was transferred to its general reserve.

Financial planning arrangements

The Council has a sound financial planning framework but links between corporate and financial planning processes and reporting to Members is limited

What good looks like

- 23 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.
- 24 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.
- 25 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.
- 26 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

- 27 In our 2015-16 review we found that the Council's ability to respond to future financial challenges could be hampered as service and financial planning and performance are not clearly linked. We proposed that the Council should develop more explicit links, between the MTFP and the Council's improvement planning, and set out the impact that financial constraints are having on outcomes for citizens.
- 28 In our 2016-17 review we found that the links between the MTFP and the Council's key plans remain limited. The 2016-17 budget report states that 'the budget has been prepared having regard for the Council's Corporate Strategy 2015-20'. But, the report does not explain how the budget is linked to the Council's key plans or how resources are being allocated to support Council priorities. Nor does it explain the impact on services. The Council has told us that it plans to strengthen these

links in its 2017-18 planning process. The intention is to align the publication of performance, business and budget plans so scrutiny committees and Council can consider them simultaneously.

- 29 The Council carries out extensive budget consultation with citizens, partners and other stakeholders. It conducts Equality Impact Assessments for policy type savings plans.
- 30 The Council has a Medium Term Financial Plan (MTFP). Medium term financial planning assumptions are kept under review. A formal update rolling the budget forecast forward is provided to Members in July and again following the announcement of the provisional settlement. Internal updates on MTFP assumptions taking account of changes in key variables and any other emerging issues are provided to the Corporate Management Team on a more frequent basis.
- 31 The MTFP forecasts cover a three year period. The MTFP forecasts are comprehensive and include sensitivity analysis and are modelled on most optimistic, less favourable and more pessimistic scenarios. The MTFP 2017-18 to 2019-20 identifies a budget gap of £30 million. The Council has identified indicative savings over the period of £21 million, leaving a budget gap of £9 million. At the time of our review the majority of this £9 million was in 2019-20 and work was on-going to identify further savings. The MTFP includes the planned use of £200,000 from earmarked reserves to support the base budget for 2016-17 and 2017-18, but no planned use of the general reserve beyond this.
- 32 The MTFP is also underpinned by reasonable and appropriate assumptions for key variables such as pay awards, price inflation, and funding and council tax levels. The impact of demographic changes, changes in demand and inescapable pressures is also assessed.
- 33 The Council holds approximately £8 million as a working balance in its general reserve and a further £98 million in earmarked reserves. The Council does not have a reserves policy but the general fund reserve level is reviewed when finalising the annual budget and statement of accounts and the annual budget report includes a high level forecast of the change in use of earmarked reserves over the term of the MTFP. For example, the Council reviewed its earmarked reserves when setting its 2016-17 budget and identified that around £20.5 million could be released over the MTFP period for investment in the Council's capital programme. However, a weakness is that the annual review is not sufficiently detailed to enable Members to fully understand the purpose of the earmarked reserves. Whilst a full appraisal of the purpose of all reserves is also provided annually within the Statement of Accounts Members do not have this level of detail available when agreeing the annual budget and MTFP. The Council has developed a draft Reserves Strategy but at the time of our review had not approved it.
- 34 The Council does not have a current corporate policy on income generation/charging but it does have a fees digest. The level of fees and charges is determined in the annual budget in line with the Council's budget strategy and agreed annually by Council. The risk arising from the dated policy is partly mitigated by departments keeping individual registers of fees and charges and there is some evidence that income generation opportunities have been

considered in the MTFP indicative savings proposals. Changes are also debated by scrutiny committees. However, the lack of a corporate approach to income generation potentially weakens the financial arrangements and means that opportunities could be missed. The Council has told us that it is developing an Income Generation/Charging policy.

Savings Plan 2016-17

The Council is forecasting that 86% of its 2016-17 savings plans will be achieved but savings plans lack detail and realistic delivery timescales

What good looks like

- 35 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

- 36 In our 2015-16 review, we found that current year savings plans were specific but financial monitoring reports did not report on the achievement of specific savings plans, although non delivery of savings plans was referred to in routine budget monitoring reports
- 37 In our 2016-17 review we found that that the Council has identified savings plans of £12.9 million to meet the 2016-17 savings requirement. The MTFP includes specific indicative savings to meet the majority of the budget gap for 2017-18 and 2018-19. At the point of our review departments had been asked to identify indicative savings proposals to meet the forecast budget gap for 2019-20. The Council's quarter one financial monitoring report forecasts that 86% of savings planned for 2016-17 will be achieved.
- 38 The Council has classified its savings plans into managerial savings and policy savings. Managerial savings have no perceivable impact on the overall level of service delivery or Council policy whilst policy savings relate to efficiency or service rationalisation which will directly affect service delivery. These savings are further divided into sub strands one of which is transform services. The Council estimates that its transformational savings plans amount to 82% of planned savings.
- 39 The Council does not risk assess the achievability of its savings plan when setting the annual budget, but the robustness of savings proposals is challenged internally and at Member seminar sessions before inclusion in the budget. As a consequence, when setting the annual budget, departments anticipate that they will achieve all their savings plans. If savings are not achieved the service is

required to meet the shortfall from elsewhere in its budget. The Council does have departmental reserves which, subject to approval, could be drawn on if necessary. This Council routinely monitors progress of all its savings plans internally during the year.

- 40 The Council carries out extensive consultation on its annual budget, which includes seminars, budget roadshows, online surveys, social media and stakeholder meetings with town and community councils, youth council and unions. Scrutiny committees challenge the proposed budget. The Council considers consultation responses about savings plans before the budget is approved.
- 41 The Council's savings plans are specific. A schedule of all savings plans for 2016-17 and indicative savings plans for future years is included with the annual budget setting report and MTFP. The proposals are categorised between managerial and policy type savings plans and itemised on a line by line basis.
- 42 Managerial type savings are considered to have no direct impact on citizens or stakeholders and do not usually require Equality Impact Assessments. However, Equality Impact Assessments are carried out for all policy type savings proposals.
- 43 The Council monitors savings proposals on a line by line basis internally and reports progress to PEB. However, the financial monitoring reports to Executive Board do not include a savings monitoring report and do not make it clear to Members if savings are being achieved. In our 2015-16 review we proposed 'Monitoring and reporting on individual savings targets to ensure that areas of over and under achievement are explicitly identified enabling effective challenge and remedial action'. The Council has still not responded to this proposal for improvement. It is our view that the lack of transparency in reporting arrangements weakens accountability.
- 44 The Council's quarter one financial monitoring report forecasts a net overspend on its revenue budget of £1.898 million. The internal savings monitoring report forecasts that £1.865 million (14%) of savings plans savings will not be achieved, of which £1.625 million are managerial type savings.
- 45 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:
- Community Services: Local Authority Residential homes for older people (£200,000);
 - Community Services: Mobile Libraries (£92,000); and
 - Environment: Highways Lighting (£196,000 in 2016-17).
- 46 Our review of this sample of savings plans showed that that not all business cases were sufficiently well developed when the annual budget was agreed and whilst the assumptions underpinning the costings were reasonable, delivery within the planned timescales was variable.

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