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Financial Resilience: Savings Planning – **Ceredigion County Council**

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The team who delivered the work comprised Jason Blewitt and Jeremy Evans, under the direction of Huw Rees.

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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 cannot accurately forecast the proportion of their income that relies on the Welsh Government beyond the current settlement. However, they can use 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 Ceredigion County Council (the Council) achieved its 2015-16 savings plans, the work it has done to ensure financial resilience during the 2016-17 financial planning period and the robustness of its 2016-17 savings plans.

9 We sampled three savings proposals for 2016-17 and looked at the underlying assumptions, 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 Strategy (MTFS) and planned savings.

12 In our 2015-16 review we concluded that **overall the Council has had a prudent approach to managing its finances but could improve financial resilience by better aligning medium-term financial planning and corporate planning arrangements.**

13 In this review we concluded that **the Council has an improving financial planning framework but reducing the use of global targets would enable its savings planning approach to better support future financial resilience.**

14 **The Council has improved since 2015-16.** The Council's updated MTFS has identified the budget gap and high-level savings targets for 2016-17 to 2018-19. However, links between the Council's corporate and financial planning processes are not explicit. The MTFS lacks indicative savings plans for future years and some current-year savings plans are not well developed.

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: • ensuring all savings targets included in the annual budget are supported by fully developed, risk-assessed savings plans when the budget is agreed; and • continuing to develop, integrate and embed financial and corporate planning processes.

Detailed report

The Council has an improving financial planning framework but reducing the use of global targets would enable its saving planning approach to better support future financial resilience

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 funding[1].

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 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).

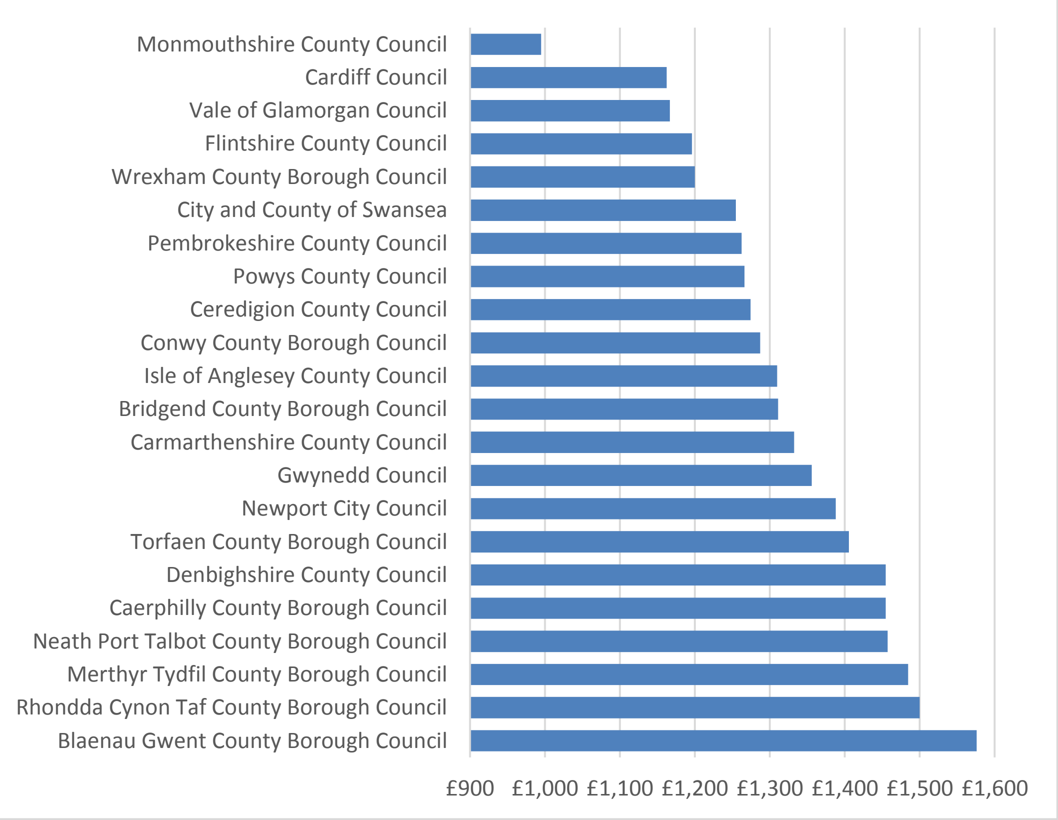
[2] Welsh Local Government Association, **Councils voice concern over service impacts of EU referendum**, 24 June 2016

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 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.

18 The Council received £97 million in support from Welsh Government in 2016-17. This represents £1,274 per person in the county, below the average for Wales but a real terms reduction of 13.48%[3] per head since 2013-14.

Exhibit 2: Welsh Government support 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

[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 can demonstrate that it achieved 73% of its planned 2015-16 savings in year

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 In our 2015-16 review we found that the whilst the Council had a track record of managing its finances prudently its medium-term financial planning arrangements were not sufficiently developed to provide assurance that it would achieve the scale of future savings needed at the pace required. We also noted that whilst there were targets for savings delivered through service redesign, detailed plans to deliver savings were developing slowly.

21 The Council's net revenue budget for 2015-16 was £131.9 million. The Council identified a budget gap of £10.972 million for 2015-16. The Council met £3.105 million of the budget gap through reviewing and reducing proposed budget allocations for pay and price increases, top slicing revenue budgets, using general reserves and increasing council tax. The Council identified savings proposals of £7.69 million to close the remaining budget gap. The savings proposals included specific service savings plans of £4.37 million and corporate savings targets of £3.5 million. The corporate savings targets included global targets of £2 million from management and staff restructures and £1.5 million from service reviews.

22 Service base budgets are reduced by the value of specific savings plans at the start of the financial year and services are responsible for delivering their savings plans. The global corporate saving targets are disaggregated to service budgets during the year when reviews are completed and agreed.

23 The Council reported in its 2015-16 outturn statement that it had substantially achieved its savings target but acknowledged that this was not as originally planned. The Council's mitigating actions included an approved change to its Minimum Revenue Policy (MRP) in November 2015 which resulted in a reduction in expenditure of £1.4 million for 2015-16. The Council also required services to identify further in-year budget reductions and used earmarked reserves.

24 We calculated from the Council's savings monitoring report that the Council achieved 73% of its original savings plans of £7.87 million which meant that mitigating proposals of £2.1 million were required in year to meet the planned savings shortfall. We noted that the Council experienced particular difficulty in achieving the global corporate savings targets for service reviews.

25 The Council reviewed its savings plans at the end of 2015-16 and carried forward £2 million of the 2015-16 unachieved savings plans to 2016-17. Services are responsible for ensuring that undelivered savings plans carried forward are delivered in the following year. Savings plans are tracked and monitored on a regular basis by the Leadership Group and the Transformation Panel.

26 The Council achieved a surplus of £570,000 on its 2015-16 revenue budget. There was a net overall underspend of £200,000 on service budgets. There were variations in spend within and across all services with larger overspends reported in the Families and Children service, Adult Social Care and Lifestyle services, which were mitigated by the use of earmarked reserves. The balance of £370,000 related to additional council tax income received in year. The Council transferred the surplus of £570,000 to its general reserve.

27 The Council was successful in its application to Welsh Government for a capitalisation direction of £2.4 million which enabled the Council to treat service reform costs as capital expenditure, which otherwise would have been charged to the revenue budget.

Financial planning arrangements

Whilst the Council has updated its MTFS, its use of some global targets puts at risk delivery of milestone annual targets

What good looks like

28 The MTFS 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. MTFS typically spans 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.

29 Good MTFS includes 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 MTFS should be frequently reviewed and updated to reflect changes in assumptions and risks.

30 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 MTFS.

31 The Council must demonstrate that it understands its sources of income and the risks arising from these; and that is has reviewed its approach to fees and charges, for its services, to achieve value for money.

What we found

32 In our 2015-16 review we found that the Council's medium-term financial planning arrangements were not sufficiently developed to provide assurance that it will achieve the scale of future savings needed at the pace required. We also reported that financial and corporate planning processes should be further integrated and embedded.

33 In our 2016-17 review we found that the Council had reviewed and updated its MTFS. The Council's Corporate Strategy 2013-17 and its Annual Improvement Plan identifies the strategic priorities and objectives for the Council. The MTFS references the Council's five strategic priorities for Ceredigion and states that these are 'budget priorities and whilst these priorities will be used to direct resources, it should be recognised that they are 'balanced' in the sense that there is not a relative priority indicated'. Whilst the MTFS recognises the Council's priorities, at the moment there are few explicit links between the corporate and financial planning processes and the approach to setting across the board service savings targets does not enable resources to be allocated in line with Council priorities, however the Council is actively working on this and aims to have more explicit links in subsequent plans.

34 The MTFS, approved in February 2016, covers a three-year period and forecasts a budget gap of £23.2 million for the period 2016-2019, with savings required of £8.7 million for 2016-17 and £15.5 million for 2017-2019. The budget gap was based on a worst-case scenario of a reduction in funding from Welsh Government of 4.5% for each year and council tax increases of 3% for 2016-17 and 5% for 2017-18 and 2018-19.

35 In November 2016, following the Local Government Provisional Settlement announcement for 2017-18, the Council revised its MTFS assumptions estimating a budget gap of £12 million for 2017-18 to 2019-20 based on an increase in funding from Welsh Government for 2017-18 of 0.8%, a reduction in funding of 2% per annum for 2018-19 and 2019-20 and council tax increases of 5% per annum. This reduces the savings requirement for 2017-18 to 2018-19 from £15.5 million to £8 million.

36 The MTFS forecast incudes assumptions about pay and price increases, which the Council assures us includes the impact of demographic change; the potential impact of changes in interest rates and reductions in funding.

37 The Council has developed a three-year savings plan for the period 2016-17 to 2018-19 which identifies high-level indicative savings targets for 2017-18 to 2018-19 and more specific savings plans and global savings targets for 2016-17. The main focus of the savings plan is to implement the savings identified resulting from the Risk and Reward contract the Council commissioned with an external contractor to support its transformation programme.

38 The Council's MTFS states that 'the strategy for the savings plan each year is to provide flat budget allocations to services, which therefore need to meet their increased costs from service efficiency and change within the service area as a whole. The overall reduction to the Council's budget from reduced funding is to be met from transformational change, service reviews and third party expenditure reductions'.

39 During the annual budget setting process service areas submit business plans and savings plans showing how services will be managed within the allocated flat budget allocations. Global savings targets are set for transformational change and service reviews. The targets are disaggregated to service budgets during the year once service reviews have been completed and agreed by the Benefits Realisation and Programme Boards. The global savings targets are not supported by detailed specific savings plans when the annual budget is agreed.

40 The Council carries out general public consultation in its annual budget and more specific consultation on savings plans which directly impact the public. Members consider savings proposals in workshops and through scrutiny committees. Reponses from the consultations are considered as part of the Council's budget setting process. Integrated Impact Assessments (Equalities and Diversity, Welsh Language and Sustainable Development) are carried out for savings plans.

41 The Council holds approximately £4.6 million as a working balance in its general reserve. The Council has a reserves policy and, as is good practice, reviews and reports on reserve levels when setting the annual budget and finalising its statement of accounts. The Council's MTFS includes projections for the planned use of the general reserve for the period 2016-17 to 2018-19, but a comprehensive statement on the planned use of earmarked reserves is not included. The Council's MTFS is not underpinned by the use of its general reserve.

42 The Council has an income management and service cost recovery policy. The Council's budget strategy includes target savings for income management and cost recovery. The Council anticipates that its corporate strategic approach to income generation and cost recovery will assist the Council in identifying opportunities to generate additional income which will contribute to future years' savings targets.

43 Quarterly in-year financial reporting is well established and Cabinet financial monitoring reports highlight non-achievement of savings plans. The MTFS assumptions are reviewed during the year.

Savings Plan 2016-17

The Council is reporting that 65% of its 2016-17 savings plans will be achieved in year, but through the use of alternative savings the Council is confident that it will achieve its savings target

What good looks like

44 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

45 In our 2015-16 review we found that current-year savings plans were not sufficiently well developed, when the annual budget was agreed, to provide assurance that they could be delivered in the planned timescales.

46 In our 2016-17 review we found that the Council has identified savings plans to meet the savings required of £8.67 million. Service specific savings plans aim to realise £5.73 million, are a mixture of efficiency and service change plans. There is a global target of £2.93 million for transformational change, service reviews, a transport review and a reduction in third party expenditure. The global savings target will not be disaggregated to service budgets until reviews have been completed and agreed by the Benefits Realisation and Programme Boards.

47 The Council does not formally risk assess its individual savings proposals when setting the budget. However, officers and Members review savings proposals prior to setting the annual budget. The budget report refers to general financial risks but the Council does not hold a specific earmarked reserve to fund investment to facilitate the delivery of its specific savings plans or global savings targets relating to service reviews or cross-cutting savings.

48 The Council uses a Blue/Red/Amber/Green (BRAG) status for reporting in-year progress on savings plans. The BRAG status indicates the extent to which savings plans have been completed in year. The Council also uses a risk rating of Low, Medium, High (L/M/H) to forecast the achievability of specific savings plans in year.

49 The Council's savings plan is partly specific and measurable. Specific service savings plans are identified on a line-by-line basis. Whilst progress on all savings plans and targets is monitored on a line-by-line basis it is not evident, from Cabinet financial monitoring reports or internal savings progress reports provided to us, how the global savings targets will be achieved. Quarterly financial monitoring reports only highlight savings plans which are unlikely to be achieved within specific services. The reports do not include a summary report of the impact of non-achievement of savings plans across the whole Council.

50 The Council explained that it develops business cases proportionate to the savings required. Small-value savings or general-type efficiency savings do not usually warrant business cases but full option appraisals are carried out for all larger value and major service change savings proposals, particularly those in the Transformation Programme. These type of savings plans are monitored by the Transformation Panel.

51 The Council's Transformation Panel considers budget updates and progress reports on the delivery of savings contained in the Strategic Plan and Transformation Programme and the impact of savings on service delivery standards and performance. The Council has told us that it has revised the Transformation Panel's terms of reference and invited, as observers, the Chairs of the Overview and Scrutiny Committees to sit on the Transformation Panel. The minutes of Transformation Panel meetings will be reported to Cabinet and available for public scrutiny.

52 The Council is reporting that on 30 September 2016 it only expects to achieve £5.6 million (65% of its 2016-17 savings plans), leaving a shortfall of £3 million. The Council has identified underspends of £800,000 from service areas to partly mitigate the shortfall. The Council is forecasting overspend of £2.2 million on its revenue budget and states that slippage in some of the savings plans and service transformation targets have contributed to the forecast overspend. The Council also states that 'savings need to be implemented at a faster pace and/or mitigated with alternative savings. Mitigation with alternative savings was an extremely successful approach last year which helped deliver a balanced budget.'

53 The Council has reported that approximately £1.3 million of the global savings targets of £2.9 million for transformational change, service reviews, transport review and third party spend reductions will not be achieved in 2016-17. Savings plans for Adult Social Care Services amounted to £2.1 million for 2016-17 and the service forecasts that £600,000 of savings will be delivered in 2016-17. Whilst £300,000 has been mitigated with alternative savings, this leaves a projected shortfall of £1.2 million for 2016-17.

54 The three savings plans for 2016-17, which we sampled to test the underlying assumptions and whether there are adequate mechanisms to ensure they can be delivered in the planned timescale, were:

- L1 – ICT and Customer Transformation (saving of £140,000)
- L17 – Technical Services Transformation (Grounds Maintenance) (saving of £141,000)
- Leisure – cost recovery (saving of £226,000)

55 The review of our sample tracer savings plans showed that the costings underpinning the savings plans were reasonable. However, none of the savings plans will be achieved in full in 2016-17. This is mainly because the detailed savings plans were not developed early enough and had not received Member approval prior to inclusion in the budget. As a result insufficient time was allowed for consultation, slowing the start of projects.

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