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Savings Planning – Isle of Anglesey 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 Isle of Anglesey 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 **whilst the Council faced some significant challenges, its current arrangements for achieving financial resilience are appropriate and continuing to improve.**
- 13 In this review we concluded that **whilst the Council has an improving financial planning framework, underdeveloped savings plans may not fully support future financial resilience.**
- 14 There is **some positive change** in the position from 2015-16. The Council has continued to strengthen its financial arrangements. It has reviewed and released earmarked reserves and updated its Medium Term Financial Plan. In order to bridge the future savings gap, the Council has recognised a need to change its strategic approach to financial planning and to review its approach to fees and charges.

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 an Income Generation/Charging Policy;
 - developing indicative savings plans to cover the period of the MTFP;
 - embedding the requirements of the Wellbeing of Future Generations (Wales) Act 2015
 - improving the links between its Corporate Plan and MTFP; and
 - strengthening arrangements to monitor the progress of unachieved savings in future years.

Detailed report

Whilst the Council has an improving financial planning framework, underdeveloped savings plans may not fully 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 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.

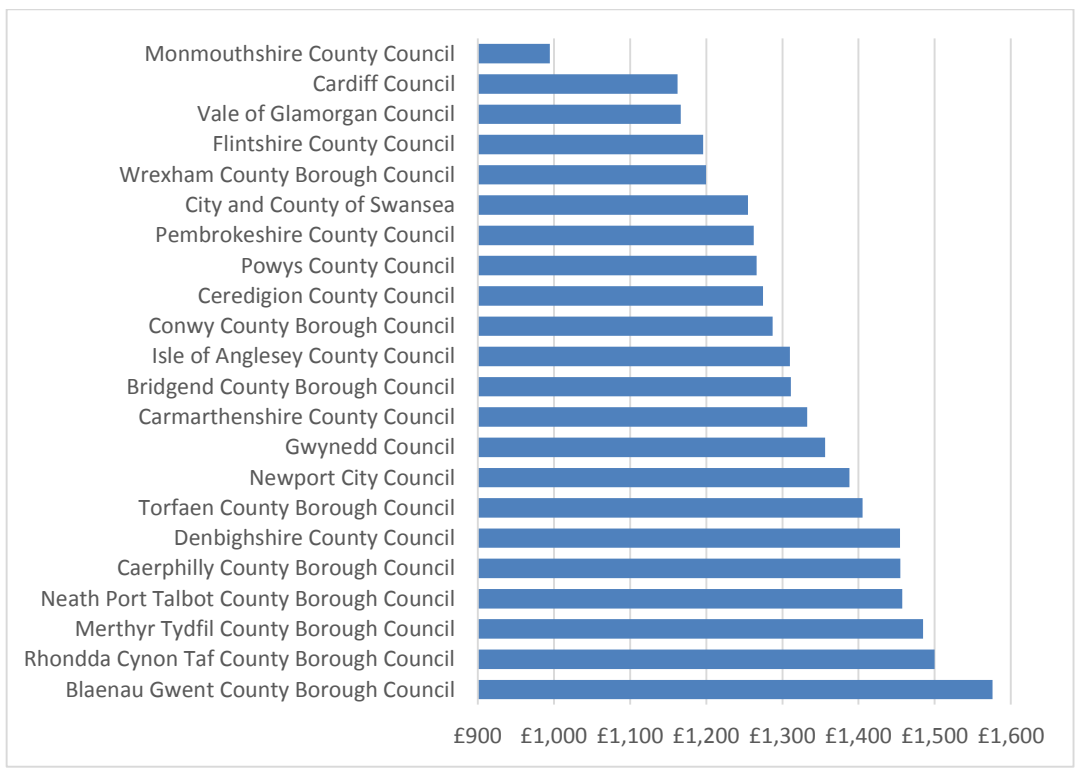
¹ Comparing core funding (Aggregate External Finance (AEF)) across the period 2013-14 to 2016-17 is complicated for two main reasons. Firstly, the Welsh Government has incorporated into core funding grants that were previously provided separately. While this 'de-hypothecation' of grants results in an 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, 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.
- 18 The Council received £91.9 million in support from Welsh Government in 2016-17. This represents £1,310 per person in the county, the average for Wales but a real-terms reduction of 10.97%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 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 can demonstrate that individual savings have been delivered

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

21 In our 2016-17 review we found that the Council set a net budget of £124.6 million for 2015-16 which included a requirement to achieve identified savings proposals of £4.33 million. The Council achieved 82% of its planned savings. The Council delivered £4.3 million of revenue savings in 2015-16 as departments were expected to meet any underachievement of savings by underspends or alternative efficiencies. Any unachieved savings were carried forward to the following financial year and were not reinstated into the budget. However, ongoing monitoring of unachieved savings into future years is not specifically undertaken.

22 A schedule of the savings proposals was set out in the 'Medium Term Financial Plan (MTFP) and 2015-16 Budget'. Against each individual saving strand was a brief description of the saving, the value of the total proposed saving and the service it related to. Each proposal was backed by a more detailed proposal which had been checked and challenged by the Finance Team. The proposed savings were incorporated into the individual service budgets.

23 The Council achieved an overall underspend on its 2015-16 revenue budget of £1.849 million. This was made up of departmental under or over spends, unused contingencies and other one off items. The value of this underspend was partly offset by the use of reserves to fund severance payments and the transfer to Children's Services of £476,000 to help fund statutory placements for looked-after-children. The net increase in general reserves for the year was £1.7 million.

24 The Council agreed, as part of its budget strategy for 2015-16, to use the following specific contingencies: £190,000 improvement; £631,000 general; £170,000

education breakfast; and £600,000 job evaluation. The Council uses contingencies to support its financial plans and they change each year.

- 25 During 2015-16 financial arrangements strengthened by moving away from savings targets driven by the Finance Department to a more inclusive process with services. A Scrutiny Outcome Panel considered in greater detail the Council's progress in achieving its efficiencies targets for 2015-16. As a result of this detailed work, scrutiny committees have access to well-defined set of questions when discussing and challenging the progress and achievement of savings. However, they are now more focused on challenging future savings before they are implemented.
- 26 Further changes introduced for the 2016-17 budget cycle have included increased and earlier internal challenge on budget lines and formal submission of efficiency proposals by services. The Section 151 and Chief Executive challenge and support services to better assess the feasibility and delivery of potential savings. The Senior Leadership Team has a strategic overview of progress against the savings plan and progress is reported to both Executive and Scrutiny Members formally on a quarterly basis.

Financial planning arrangements

The Council continues to strengthen its financial planning framework but there are insufficient links between its Corporate Plan and Medium Term Financial Plan and it lacks indicative savings plans for future years and a corporate approach to income generation

What good looks like

- 27 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.
- 28 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.

- 29 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.
- 30 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

- 31 In our 2015-16 review we found that the Council had developed an appropriate corporate framework for financial planning but could improve its links between its Corporate Plan and Medium Term Financial Plan.
- 32 In our 2016-17 review we found that the links between the Council's Corporate Plan and MTFP remained unchanged. There remains a lack of explicit links between the current MTFP and the Corporate Plans and its aims. The Council has told us that it plans to strengthen these links as part of its 2017-18 budget planning processes and has identified the need to align its financial arrangements against specific corporate priorities.
- 33 The Council's MTFP was updated in March 2016 having been approved in February 2015 and a further update covering 2017-18 to 2019-20 was presented to the Executive Committee in September 2016. The latest MTFP is a three year rolling plan which is updated annually and reviewed regularly.
- 34 The MTFP highlights national and local pressures which influence the budget. It takes account of known changes and sets out a series of reasonable and appropriate assumptions including pressures and growth in services, inflation factors, demographic changes, pay and pension costs and Welsh Government funding. The MTFP also assesses future expenditure, income and key financial risks and the robustness of estimates.
- 35 The MTFP 2017-18 to 2019-20 forecasts a savings requirement over its period of £8.13 million. This is based on the assumptions that net expenditure grows by 2% per annum; that Council Tax rises by 4% per annum and a reduction in the AEF of 2% in 2017-18, 2.6% in 2018-19 and 2.7% in 2019-20.
- 36 Following the publication of the provisional settlement in the autumn of 2016, the Council now anticipates that the funding gap for 2017-18 will be £2.9 million as opposed to the £3.49 million outlined in the September 2016 version of the MTFP. The Council has identified probable savings for 2017-18 of £2.9 million and consultation on these proposals is currently underway. Whilst the Council reports that it has started to identify indicative savings for the remaining MTFP period, these are not well-developed. The Council has recognised a need to change its strategy in order to continue to deliver savings and consideration is to be given to: alternative delivery models, transferring provision of services from the Council, use of general balances to generate future savings, stopping the provision of some non-statutory services.

- 37 As part of the budget process, services were requested to carry out initial equality impact assessments of each proposal. A short sentence summary of impact was included in the budget setting documentation, but some equality impact assessments had not been undertaken at the time that the savings proposals were agreed. In addition, the cumulative impact of savings on specific protected groups has not been considered. The financial impact of the Social Services and Well-being (Wales) Act 2014 and proposed mitigation steps were considered as part of the budget setting process.
- 38 A comprehensive General Policy on Reserves and Balances was approved by the Executive in March 2016 and a £5 million minimum level of general balances was set for 2016-17. The policy is comprehensive and sets out how reserves are to be used and managed as well as identifying the types of reserves and quantifying their requirements. The Council does not hold individual departmental reserves, but has a 'Corporate Service Reserve' to which services can submit proposals.
- 39 A review has taken place of earmarked reserves and around £30,000 was returned to general reserves. £1 million has been released from general balances to fund an 'Investment Fund' which enables investment in individual projects which will generate future efficiency savings.
- 40 The 2016-17 budget includes £1.8 million as earmarked and general contingencies to fund a range of projects. These include IT systems improvements, potential redundancy costs, specific domiciliary care costs, specific posts and projects and £310,000 as a general contingency to be used to meet any unforeseen costs which arise during the year.
- 41 An additional £2.15 million has been set aside from general reserves to cover the potential equal pay commitment. The Council plans to make sufficient savings in 2017-18 to balance the revenue budget without the need to use general reserves.
- 42 Whilst the Council does not have an overarching income generation and charging policy, the 2016-17 budget is based on securing an overall 5% increase in all non-statutory fees and charges. The schedule of fees and charges for 2016-17 was approved by Executive Committee in March 2016 and for the first time were presented in one composite schedule. An income generation target of £273,000 was included in the 2016-17 budget, which equates to 7.9% of the overall £3.4 million savings required.
- 43 From 2017-18 the increase in non-statutory income will be aligned to the assumption of the increase in council tax. A lack of a corporate approach to income generation weakens the financial arrangements and means that opportunities could be missed. However, the Council has told us that it will be developing an income generation policy.

Savings Plan 2016-17

The Council is forecasting that 83% of its 2016-17 savings plans will be delivered but some saving plans lack detail and achievable delivery timescales

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 the current year savings plans had been developed and tested through rigorous challenge. The plans were specific and measurable and were being effectively managed with the monitoring of progress undertaken by a Scrutiny Outcome Panel.
- 46 In our 2016-17 review we found that the Council had identified initial budget proposals for £3.913 million of savings. Following further assessment of risk of achievement and review of feasibility the Council identified savings plans of £3.46 million to meet the 2016-17 savings requirement. This included savings generated through voluntary redundancies and a reduction in the schools delegated budget. £400,000 of central education funding had been used to lessen the impact of the reduction in schools budget for 2016-17 which reduced the savings required to £3.06 million.
- 47 Savings implemented during 2016-17 have been classified by the Council into Generation, retendering/procurement savings, and Service Transformation.
- 48 The Council maintains suitable documentation detailing the progress against savings including an ongoing risk assessment of the achievability of each savings strands against the following categories: likely savings achievable; uncertain outcome; and likely savings shortfall. Mitigation measures are also considered. Whilst the robustness of savings proposals and their feasibility is challenged internally before inclusion in the budget, our review identified that some efficiency savings plans lacked detail. For example around the impact on corporate priorities. The Council's Senior Leadership Team routinely monitors progress of its savings plans internally during the year.
- 49 The Council carries out consultation on its annual budget which includes online surveys, drop in sessions with the Leader, focus groups, stakeholder sessions and member seminars. Specific consultation was carried out with persons under 25

years old. Budget consultation responses received on savings plans are considered before the budget is approved.

- 50 The Council's plan is specific and measurable, providing a short description of the saving and the specific amount to be achieved. A schedule of the savings plan for 2016-17 was included in the annual budget setting report and itemised on a line by line basis. The Council monitors savings proposals on a line by line basis internally and progress is reported regularly to the Senior Leadership Team. The quarterly revenue monitoring report considered by the Executive Committee and Corporate Scrutiny Committee details the forecast of achieving the 2016-17 budget savings including a commentary on savings elements that are potentially non achievable, or those that will not be achieved at all.
- 51 The Council's quarter two revenue monitoring report forecasts a net overspend on its revenue budget of £660,000. The report also forecasts that 83% of the Council's savings (based on £3.06 million) have either already been achieved or are deemed to be achievable by the end of the year. 16% of savings have been assessed as not being achievable in 2016-17, but are likely to be achieved in 2017-18; and that £42,000 of savings will not be achieved at all in the future due to market circumstances and increased legal requirements.
- 52 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:
- Waste Collection including bulky collection (£41,000 and £90,000)
 - Breakfast Club (£171,000); and
 - Voluntary Sector Payments: Adults Service (£30,000).
- 53 The review of our sample tracers' savings proposals showed that the robustness of business cases was variable and whilst in general the assumptions underpinning the costings were reasonable, the planned timescales were often unrealistic. For example in one tracer, the Council had deferred a saving from 2015-16 to 2016-17 in order that more specific consultation was carried out with affected groups on the proposed charges and in another the lateness in issuing formal notification to terminate contracts adversely affected the delivery of the planned full year savings.

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