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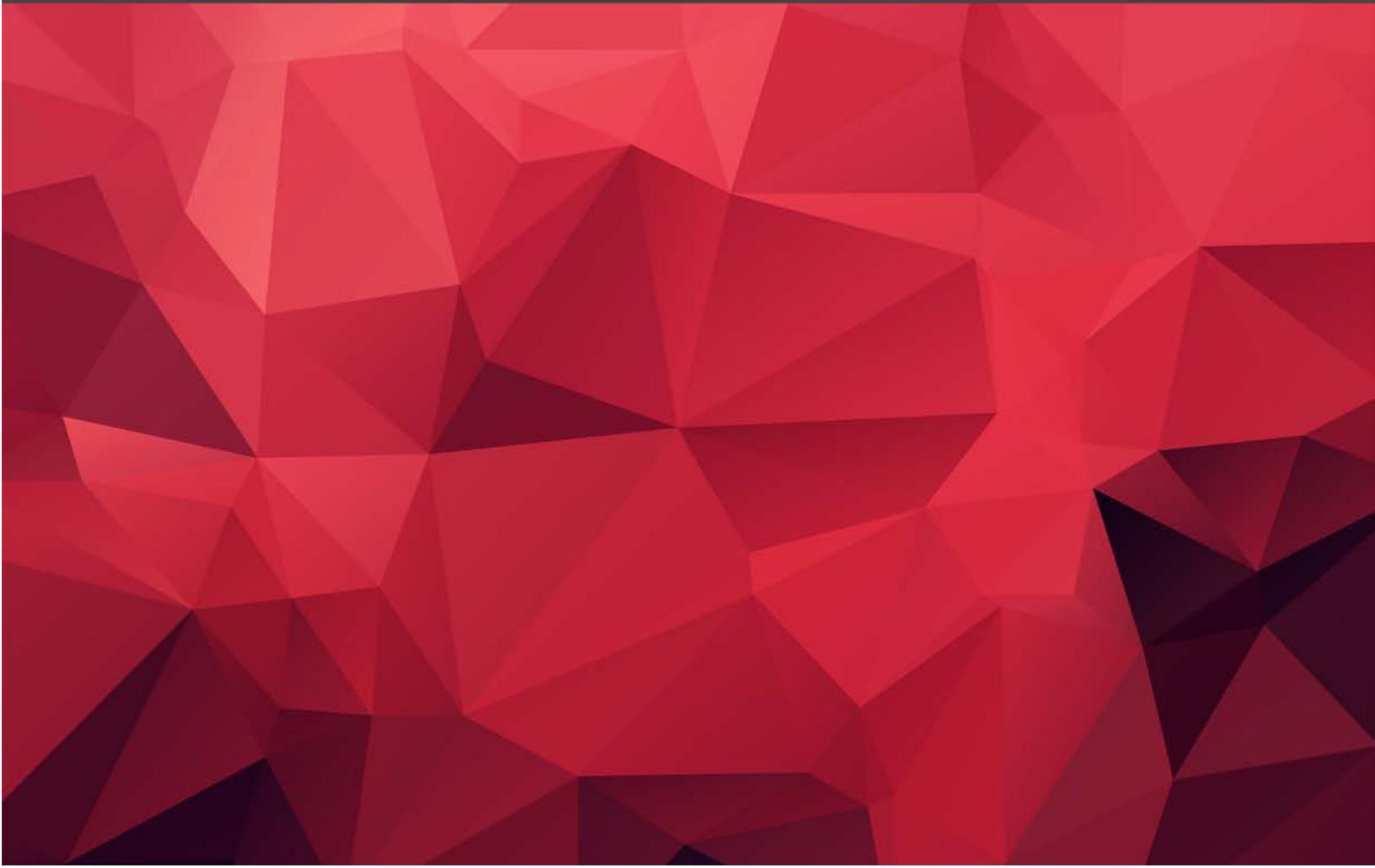
Archwilydd Cyffredinol Cymru
Auditor General for Wales

Savings Planning – **Wrexham County Borough Council**

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The team who delivered the work comprised of Charlotte Owen and Jeremy Evans under the direction of Alan Morris

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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 Wrexham 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 **whilst the Council faces significant financial challenges, its arrangements for managing budget reductions effectively support financial resilience.**
- 13 In this review we concluded that **the Council continues to have an effective savings planning approach, supporting 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 monitoring arrangements by: <ul style="list-style-type: none">• including progress against planned savings in budget monitoring and control reports. |
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Detailed report

The Council continues to have an effective savings planning approach, supporting 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.

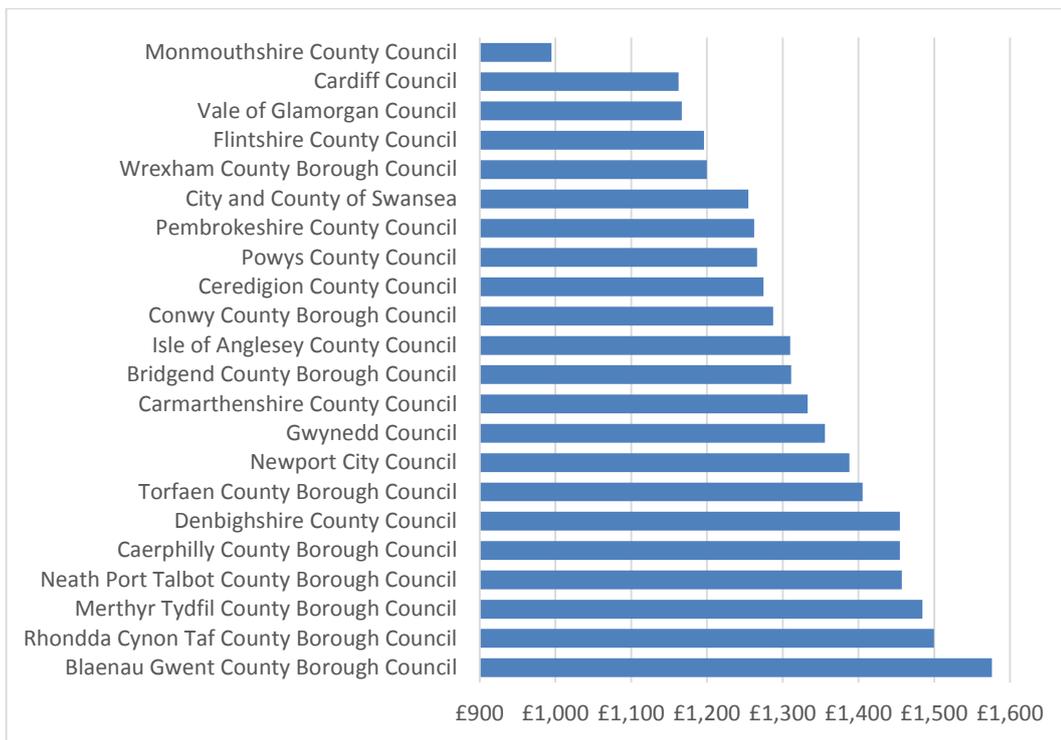
¹ Comparing core funding (Aggregate External Finance (AEF)) across the period 2013-14 to 2016-17 is complicated for two main reasons. Firstly, the Welsh Government has incorporated into core funding grants that were previously provided separately. While this 'de-hypothecation' of grants results in an 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 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 £169.8 million in support from Welsh Government in 2016-17. This represents £1,200 per person in the county, below the average for Wales and a real-terms reduction of 8.9%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 98% of its planned 2015-16 savings in year and can 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 its savings plans and of underspending against its overall budget.
- 20 In 2015-16, the Council achieved a surplus of £3.9 million on its budget and delivered most of its planned savings. There was a collective net underspend on service, corporate and central budgets and the Council's income was higher than expected. This surplus was transferred to earmarked reserves. The Council made planned use of earmarked reserves in 2015-16 but the budget strategy did not include the use of the general reserve.
- 21 The Council achieved 97.5% of the total value of its 2015-16 savings plans. Of this total, 91% were planned savings and a further 6.5% were alternative savings identified to replace planned savings that were unachievable in year. This ability to source alternative savings rather than rely on reserves demonstrates good financial resilience.
- 22 Savings are embedded in the base budget and form part of the budget monitoring process. In 2015-16, the Council's Senior Leadership Team monitored savings plans on a monthly basis and regular budget monitoring reports highlighted the impact of any delayed or unachieved savings on service budgets.

Financial planning arrangements

The Council has effective financial planning arrangements

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 financial planning arrangements were robust.
- 28 In our 2016-17 review we found that the Council continues to have robust arrangements in place and is developing its policies in line with incoming legislative requirements.
- 29 We found that there are clear links between the Council's improvement objectives and financial plans. The Council Plan focuses on four priorities: Economy; People, Place, and Organisation. The Medium Term Financial Plan (MTFP) is set in the context of the Council Plan and ensures that the Council's resources are aligned to its priorities. The Council reviews its plans regularly; both the MTFP and Council Plan are reviewed annually.
- 30 Medium term financial planning assumptions reflected in the MTFP 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 internal updates on MTFP assumptions, to take account of changes in key variables and other emerging issues, are provided to Members and the Senior Leadership Team.

- 31 The MTFP covers a four year period. Its forecasts are comprehensive and are modelled using a range of scenarios. The MTFP 2017-18 to 2019-20 identifies a budget gap of £27 million. Although the MTFP does not specifically detail how the budget gap will be filled, it claims that the Council's Reshaping Programme will produce target savings of over £21 million a year.
- 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 unavoidable commitments is also assessed.
- 33 A reserves policy sets out the Council's approach to reserves and Members undertake an annual review of the adequacy of reserves. This is supported by bi-monthly updates on reserves as part of the budget reporting process.
- 34 The Council holds approximately £7 million as a working balance in its general reserve. Wrexham has a sustainable approach to reserves: general reserves are not currently used to balance base budgets, instead the Council uses savings to plug budget gaps identified in the MTFP. In addition, the Council uses budgetary underspends to replenish reserves.
- 35 The Council has a robust approach to managing fees and charges. A fees and charges register is in place and its cost recovery policy was recently updated to reflect work undertaken as part of the Council's Reshaping Programme on income generation and cost recovery. The policy clearly sets out the corporate approach to income and any changes to fees and charges are made in consultation with the relevant Lead Member. A group was recently set up to review and manage income across the Council and ensure transparency and consistency of approach in relation to fees and charges.
- 36 The Council has effective arrangements in place to regularly report its performance against budget and the MTFP is regularly updated to ensure assumptions are relevant and up to date.

Savings Plan 2016-17

The Council has effective savings plans and it forecasts that it will achieve its 2016-17 savings targets, however reporting of savings to Members is insufficiently detailed

What good looks like

- 37 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

- 38 In our 2015-16 review we found that the Council had effective budget setting and budget monitoring arrangements.
- 39 In our 2016-17 review we found that the Council continues to have effective budget setting and monitoring processes but it does not regularly report progress against savings to Members.
- 40 The Council has identified savings plans to fully meet the savings required for 2016-17. Some specific savings have been identified for future years and the MTFP indicates that the Council's Reshaping Programme will produce sufficient ongoing savings to meet the forecast budget gap. The Council forecasts that it is likely to achieve its 2016-17 savings targets.
- 41 The Council recently worked with an external partner on its Reshaping Programme to transform the way services are delivered and generate ongoing savings. As a result, two-thirds of the Council's planned savings for 2016-17 come from transformational type projects.
- 42 Savings proposals are risk assessed as part of the budget setting process. The process is coordinated by Internal Audit and challenge is provided by Heads of Departments from elsewhere in the Council. Savings identified as high risk are highlighted in the budget report and the Council has effective systems in place to monitor progress and ensure alternative savings are available if required.
- 43 Equality Impact Assessments are carried out for all savings proposals that impact on citizens or stakeholders. The Council is further strengthening its arrangements, whilst also addressing the requirements of the Wellbeing of Future Generations (Wales) Act 2015, by assessing the long term impact of potential 2017-18 savings proposals.
- 44 Budget consultation responses received on savings proposals from citizens, stakeholders and other partners are considered before the budget is approved. If deemed appropriate, changes are made, eg following consultation, the savings proposal for a review of sheltered accommodation was removed.
- 45 The Council's savings plan is specific, listing individual savings projects by service area. The plan is supported by more detailed, project specific plans.
- 46 Bi-monthly budget monitoring tracks and measures service performance against savings and budgetary targets but the Council no longer specifically reports on achievement of savings proposals. Savings are subsumed within services' base budgets for reporting purposes so savings targets are not measured separately from service's overall budgetary performance. Underachievement of savings that impact on a service's budget would be included in the Council's bi-monthly budget monitoring and control reports to Members and Senior Leadership Team.

Whilst these reports are concise and informative, they do not provide Members with sufficient detail to challenge progress against savings plans.

- 47 We sampled three savings proposals for 2016-17 to test the underlying assumptions and whether there are adequate mechanisms to ensure they can be delivered in the planned timescale. The proposals were:
- Telecare Charging Review – £65,000 (Transformation Type Saving);
 - Management Structure Review (Housing, Public Protection and Environment) – £319,000 (Transformation Type Saving); and
 - Reshaping Education Enrichment and Intervention Service – £158,000 (Transformation Type Saving).
- 48 In each case we found that options appraisals were underpinned by reasonable assumptions, delivery plans had clear timescales and the proposals were supported by appropriate approval and consultation processes.

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