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Savings Planning – **Bridgend County Borough Council**

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Summary report

Summary

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

- 7 During 2015-16 the Wales Audit Office undertook work at all councils to assess the adequacy of their financial planning, control and governance arrangements. Local reports were issued and a national summary report published in August 2016. The national summary report concluded that **strategic planning arrangements are improving but councils have difficulty in developing and delivering the savings and changes to services at the pace required to ensure future financial resilience.**
- 8 In this assessment, undertaken during the period June to September 2016, we have focused on work to identify, plan for and deliver savings. We examined the extent to which Bridgend 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, 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 **whilst the Council faces some significant financial challenges, its current arrangements for achieving financial resilience are sound.**
- 13 In this review we concluded that **whilst the Council has a sound financial planning framework underdeveloped savings plans may not fully support future financial resilience.**

- 14 The Council is experiencing difficulty achieving its in year savings plans. Whilst the source of the saving was known over half the savings plans in 2016-17 were still in development when the annual budget was agreed. The Council is also forecasting that approximately £1.1 million of the brought forward unachieved 2015-16 savings plans of £1.9 million will not be achieved in 2016-17.

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 that savings proposals are fully developed and include realistic delivery timescales prior to inclusion in the annual budget; and
 - identifying indicative savings proposals over the period of the MTFP.

Detailed report

Whilst the Council has a sound 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.

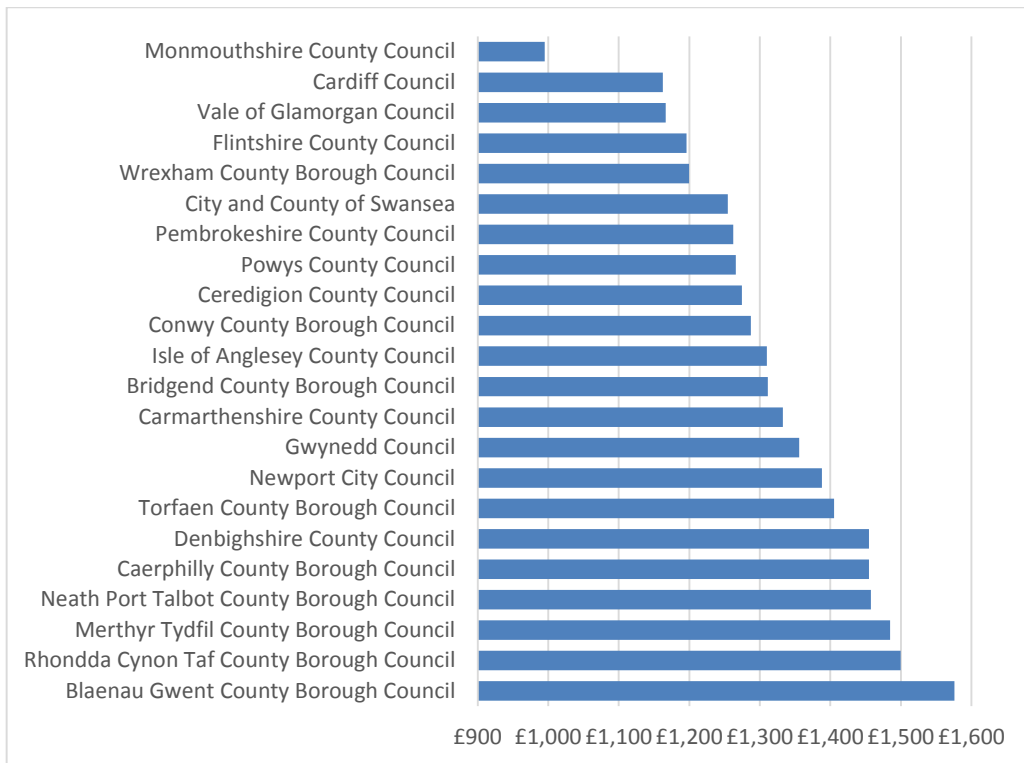
¹ Comparing core funding (Aggregate External Finance (AEF)) across the period 2013-14 to 2016-17 is complicated for two main reasons. Firstly, the Welsh Government has incorporated into core funding grants that were previously provided separately. While this 'de-hypothecation' of grants results in an 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 £187.5 million in support from Welsh Government in 2016-17. This represents £1,311 per person in the county, about the average for Wales but a real-terms reduction of 8.98%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 83% 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 budget setting and monitoring process at the Council was well developed and effective and helps to underpin a strong track record of spending to budget.
- 21 In this review we found that the Council achieved 83% of its 2015-16 savings plans in-year. The Council planned to make savings of £11.22 million and has carried forward unachieved savings of £1.91 million to 2016-17. The Council's budget monitoring report at 30 September 2016 forecasts that £1.17 million of these savings will not be achieved by 31 March 2016 and intends to mitigate £333,000 of the undelivered savings by using its MTFs budget contingency.
- 22 Savings plans are embedded in the base budget and services are responsible for delivering their savings plans. If savings plans cannot be progressed in the planned timescale, services are expected to take mitigating in year actions to compensate. The unachieved savings plans for 2015-16 were mainly mitigated in-year through managing staff vacancies and offsetting underspends from elsewhere in the budget.
- 23 We found that a number of the unachieved savings plans were either not achieved or only partially achieved in-year because insufficient time had been allowed for public consultation and contract negotiations, for example, changes to the school transport routes and waste management contract. In other cases, service reviews had not been started or were insufficiently developed when the budget was approved, for example, remodelling services in Adult Social Care.
- 24 The Corporate Resources and Improvement Overview Committee at its meeting in September 2016 expressed concern over the ongoing budget reductions not achieved from 2015-16. It was specifically concerned about those in relation to the implementation of charging Blue Badge Holders for parking, and the review of staff car parking charges. The Committee recommended that a decision be made as to

whether these proposals are going to be progressed and, if so, that they be actioned within the current financial year.

- 25 The Council reported an underspend on its 2015-16 revenue budget of £10.94 million. This included an underspend on directorate service budgets of £1.19 million, an underspend on corporate wide budgets of £7.55 million and a council, tax income surplus of £1.75 million.
- 26 The Council's planned budget strategy did not include the use of reserves or a specific contingency fund to support the 2015-16 revenue budget. The Council has a protocol for reviewing reserves. At year end the Council prudently reviewed its earmarked reserves and used £9.6 million of the 2015-16 underspend to create or enhance existing corporate earmarked reserves. These reserves will be used to meet the costs of future service reconfiguration, severance costs, transformation programme costs and capital investment required to mitigate health and safety risks. The Council also transferred £1.19 million to directorate service reserves to mitigate future identified budget pressures. The balance of £154,000 was transferred to the general reserve.

Financial planning arrangements

The Council has an effective corporate framework for financial planning, but indicative savings plans lack detail.

What good looks like

- 27 The MTFs is a key component of an effective, integrated corporate planning framework. Good medium-term financial planning and annual budgeting should reflect a council's strategic objectives and priorities for the year, and over the longer term. MTFs typically span a three-to-five year period and should identify how resources will be allocated to both the delivery of services and a council's priorities. The impact on citizens and other stakeholders should also be considered.
- 28 Good MTFs 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. Councils 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.
- 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 MTFs.

- 30 Councils should demonstrate that they understand sources of income and the risks arising from these, and that they have reviewed their approach to fees and charges for services, to achieve value for money.

What we found

- 31 In our 2015-16 review we found that the Council had an effective corporate framework for financial planning.
- 32 In this review we found that the Council has strengthened its arrangements for reporting on use of reserves but its approach to developing savings plans weakens arrangements. Over half of the savings plans are insufficiently well developed when setting the annual budget to ensure delivery in planned timescales and indicative savings plans for future years lack detail.
- 33 The Council reviewed its Corporate Plan and MTFs in March 2016. The Council clearly sets out the links between its MTFs and its improvement priorities. The MTFs sets out how much of the Council's budget has been allocated toward improvement priorities, as well as how much is for 'Core Services and Statutory Functions.'
- 34 The Council reviews its MTFs regularly as evidenced by various reports to Cabinet and Council. The MTFs is rolled forward annually and approved by Council as part of the annual budget setting process. The MTFs covers a four-year period, 2016-17 to 2019-20 and the forecast budget gap for this period based on a most likely case scenario is £35.5 million. The Council has not identified savings proposals to fully fund the budget gap. The Council identified savings proposals of £17 million, of which it classifies £4 million as 'proposals which are developed and deliverable' and £13 million as "proposals in development but include delivery risk' The Council did not report on any savings proposals to fund the remaining budget gap of £18.5 million. But, it has told us that a significant number of proposals are being considered internally but were not sufficiently well advanced for inclusion in the public report.
- 35 The Council has also identified a need to improve its approach to scenario planning, as well as planning the delivery of savings at an earlier stage as part of its budget setting process for 2017-18. .
- 36 Service directorates complete a savings template form for each budget savings proposal which identifies the savings value, the steps needed to deliver the saving, resources required, the risks of delivery and the impact of the proposal on service delivery or corporate resource capacity. The savings proposals are validated by the finance section prior to consideration by Corporate Management Team but there was little evidence to indicate how robustly these are challenged.
- 37 The Council has recognised the need to strengthen the challenge provided to Directorates by the corporate finance function regarding the deliverability and timescales associated with savings plans and the need to improve their approach to scenario planning. The Council plans to review and challenge savings proposals at an earlier stage in its 2017-18 budget setting process.

- 38 The Council carries out a joint consultation process on its Corporate Plan and MTFS. Equality Impact Assessments are carried out following the external consultation on the MTFS as a whole.
- 39 The MTFS is 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.
- 40 The Council has a policy of maintaining the working balance in its general reserve at around £7 million. The Council has a protocol for reserves and balances which includes principles to assess the adequacy of reserves, rationale for establishing reserves and the monitoring of the reserves. The funding of the MTFS is not underpinned by the use of reserves, but the Council has MTFS/Transformation reserves of approximately £8 million. The Council can use this money to support invest to save projects and severance costs. Also, it can help the Council meet costs associated with providing corporate capacity to progress planned developments that are linked to achieving budget reductions and transformational change 'as articulated in the MTFS and the Bridgend Change Programme'.
- 41 The Council developed a corporate income generation and charging policy in 2015-16. A key principle of the policy is that where a decision has been taken to charge for a service, the Council will aim for full cost recovery, 'except where there is a conscious decision which is consistent with Council priorities, recognising that the service would then be subsidised by council'. However, the Council does not maintain a corporate register of fees and charges and there is no evidence to support proactive application of the income generation and charging policy to maximise income generation opportunities.
- 42 The Council has sound budget monitoring arrangements with budget monitoring reports submitted to Cabinet on a quarterly basis and also considered and challenged by Scrutiny Committees. The reports include a summary of the Council's financial position; update on the projected year end outturn figures; monitoring of savings plans which include a Red/Amber Green (RAG) status for each savings plans and a commentary on the budget position for each main service area. Monthly budget monitoring reports are also submitted to Corporate Management Team.

Savings Plan 2016-17

Some of the Council's approved savings plans for 2016-17 are not well developed and lack sufficient detail, increasing the risk that they will not be delivered

What good looks like

43 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

- 44 In our 2015-16 review we found that current year savings proposals were specific and measurable.
- 45 In our 2016-17 review we found that the Council identified specific savings proposals to meet the 2016-17 budget reduction requirement of £7.48 million. The Council's 2016-17 budget report showed that £3.45 million of the savings proposals were 'developed and deliverable' and £4.03 million were 'in development but included delivery risk'.
- 46 The Council classifies its budget reduction proposals into four categories: Smarter Best Use of Resources; Managed Service Reductions; Collaboration and Transformation and Policy Changes. In 2016-17, approximately 58% of the savings will be achieved through Smarter Best Use of Resources.
- 47 The Council's savings plans are specific and measurable. At the end of September 2016 the Council reported that £4.94 million (66%) of its 2016-17 savings plans have been achieved, £1.34 million (18% – are likely to be achieved but still at risk and £1.2 million (16%) will not be achieved before year end. The achievement rate of in year savings plans is similar to that of 2015-16.
- 48 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:
- ASC21 – Transfer Family Care Service to the Community Hubs;
 - CH9 – School Transport Route Efficiencies; and
 - RES29 – Rationalise the core office estate – leasing of Raven's Court.
- 49 We found that MTFP proposal/summary templates were submitted to the corporate finance team for each savings proposal but not all of the savings proposals were supported by fully costed business cases (where appropriate) and delivery plans

when the annual budget was agreed. The business case for RES 29 was considered in June 2015. At the 30 September the Council projects that:

- for ASC21 - full year savings unlikely but plans progressing to achieve a part year saving;
- for CH9 the Council projects that none of the £200,000 saving for 2016-17 will be delivered; and
- for RES29 the Council projects that none of the £195,000 saving will be achieved in 2016-17 as external factors have impacted on project delivery.

50 The Council acknowledged in its budget monitoring report at 30 June 2016 that some savings plans were unlikely to be delivered either in part or in full. This indicates that the Council is unable to progress and deliver savings plans at the pace required to ensure delivery in the planned timescale.

51 The Council is likely to face continued reductions in its funding in the medium term. It will be important for the Council to review the appropriateness of its arrangements for identifying, testing and developing savings plans going forward. It is our view that improving the robustness of savings plans would also improve the transparency of arrangements and reduce the risk that approved savings plans will not be implemented in planned timescales.

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