



CABINET – 5TH JULY 2017

SUBJECT: WAO REPORT – SAVINGS PLANNING (CAERPHILLY COUNTY BOROUGH COUNCIL)

REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES & S151 OFFICER

1. PURPOSE OF REPORT

- 1.1 To present Cabinet with the Wales Audit Office (WAO) report on its savings planning assessment of Caerphilly CBC.

2. SUMMARY

- 2.1 During the 2015/16 financial year the WAO 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 was also produced.
- 2.2 The report on the findings of the review for Caerphilly CBC was presented to Cabinet on the 27th July 2016 and concluded that: -

The Council had effective financial control arrangements and a track record of achieving savings in advance but its Medium-Term Financial Plan (MTFP) and supporting savings plans for future years were not yet fully developed and links between the MTFP and corporate priorities could be strengthened.

- 2.3 The WAO has now undertaken a further review between June and December 2016 focussing on work to identify, plan for and deliver savings. The WAO examined the extent to which the Council achieved its 2015/16 savings plans, the quality of the MTFP and the robustness of savings plans for 2016/17.
- 2.4 The WAO report detailing the findings of this latest review was issued in March 2017 and is attached as Appendix 1.

3. LINKS TO STRATEGY

- 3.1 Strong financial management is a key component in supporting the Council to deliver its strategic plans and priorities.
- 3.2 Effective financial planning and maintaining expenditure within approved budgets support the following Well-being Goals within the Well-being of Future Generations Act (Wales) 2015: -
- A prosperous Wales.
 - A resilient Wales.
 - A healthier Wales.
 - A more equal Wales.

- A Wales of cohesive communities.
- A Wales of vibrant culture and thriving Welsh Language.
- A globally responsible Wales.

4. THE REPORT

4.1 The WAO report on the outcome of the savings planning review was issued in March 2017 and is attached as Appendix 1. The main conclusions of the report are as follows: -

- The Council has an effective and improving savings planning approach, which is supporting future financial resilience.
- The Council has reported achievement of 96% of its planned 2015/16 savings in year and can demonstrate that individual savings have been delivered.
- The Council has an effective corporate framework for financial planning and whilst the Council has well considered savings plans, some savings proposals are insufficiently developed when the budget is agreed.
- The Council has detailed savings plans and is forecasting that 96% of its 2016/17 savings plan will be achieved in year.

4.2 The WAO report acknowledges that this is an improving picture, that the Council has developed a more comprehensive MTFP covering a five year period and that the Council has identified indicative high level savings plans to fill the gap for the earlier years of the MTFP.

4.3 The WAO report contains one proposal for improvement: -

Strengthen financial planning arrangements by ensuring that savings plans are underpinned by robust business cases.

4.4 The officer response to the proposal for improvement is as follows: -

A new template has been developed to capture detailed information on future savings proposals. This will ensure that all relevant information is available to assess the robustness of proposals and to aid the decision-making process. The template is structured under the following headings: -

- General information.
- Public impact analysis.
- Organisational impact analysis.
- Consultation.
- Risks and sensitivities.
- Options analysis.
- Links to policy and strategy (including WFG Act 2015).
- Other relevant information.

A guidance note has also been prepared to assist Managers in completing the template.

4.5 The new template will be used as part of the process for developing savings proposals for 2018/19 to 2021/22.

5. WELL-BEING OF FUTURE GENERATIONS

5.1 Effective financial planning and the management of expenditure within approved budgets are key elements in ensuring that the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015 are met.

6. EQUALITIES IMPLICATIONS

- 6.1 This report is for information purposes so the Council's Equalities Impact Assessment process does not need to be applied.

7. FINANCIAL IMPLICATIONS

- 7.1 There are no direct financial implications arising from this report.

8. PERSONNEL IMPLICATIONS

- 8.1 There are no direct personnel implications arising from this report.

9. CONSULTATIONS

- 9.1 There are no consultation responses that have not been reflected in this report.

10. RECOMMENDATIONS

- 10.1 Cabinet is asked to: -

10.1.1 Consider and comment upon the content of the WAO report.

10.1.2 Note the officer response to the WAO proposal for improvement as detailed in paragraph 4.4 of this report.

11. REASONS FOR THE RECOMMENDATIONS

- 11.1 To ensure that Cabinet is aware of the review work undertaken by the WAO and the resultant findings, conclusions and proposal for improvement.

12. STATUTORY POWER

- 12.1 Local Government Acts 1972 and 2003.

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Cllr David Poole, Leader
Cllr Barbara Jones, Deputy Leader & Cabinet Member for Finance, Performance and Governance

Background Papers:
Cabinet (27/7/16) – WAO Financial Resilience Assessment, Caerphilly CBC, April 2016.

Appendices:
Appendix 1 – WAO Report - Savings Planning, Caerphilly CBC, March 2017



WALES AUDIT OFFICE
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Archwilydd Cyffredinol Cymru
Auditor General for Wales

Savings Planning – **Caerphilly County Borough Council**

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info.officer@audit.wales.

The team who delivered the work comprised Alison Rees, Janet Smith, Sara-Jane Byrne and Jeremy Evans, under the direction of Alan Morris

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Savings Plan 2016-17

The Council has detailed savings plans and is forecasting that 96% of its 2016-17 savings plan will be achieved in year 12

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 Caerphilly 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 that **the Council had effective financial control arrangements and a track record of achieving savings in advance but its medium term financial plan and supporting savings plans for future years were not yet fully developed and links between its MTFP and corporate priorities could be strengthened.**
- 13 In this review we concluded that **the Council has an effective and improving savings planning approach which is supporting future financial resilience.**
- 14 This is an **improved position from 2015-16**. The Council has developed a more comprehensive MTFP which covers a five year period and identified indicative high level savings plans to fill the gap for the earlier years of the MTFP.

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: <ul style="list-style-type: none">ensuring that savings plans are underpinned by robust business cases. |
|----|--|

Detailed report

The Council has an effective and improving savings planning approach which is supporting 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.

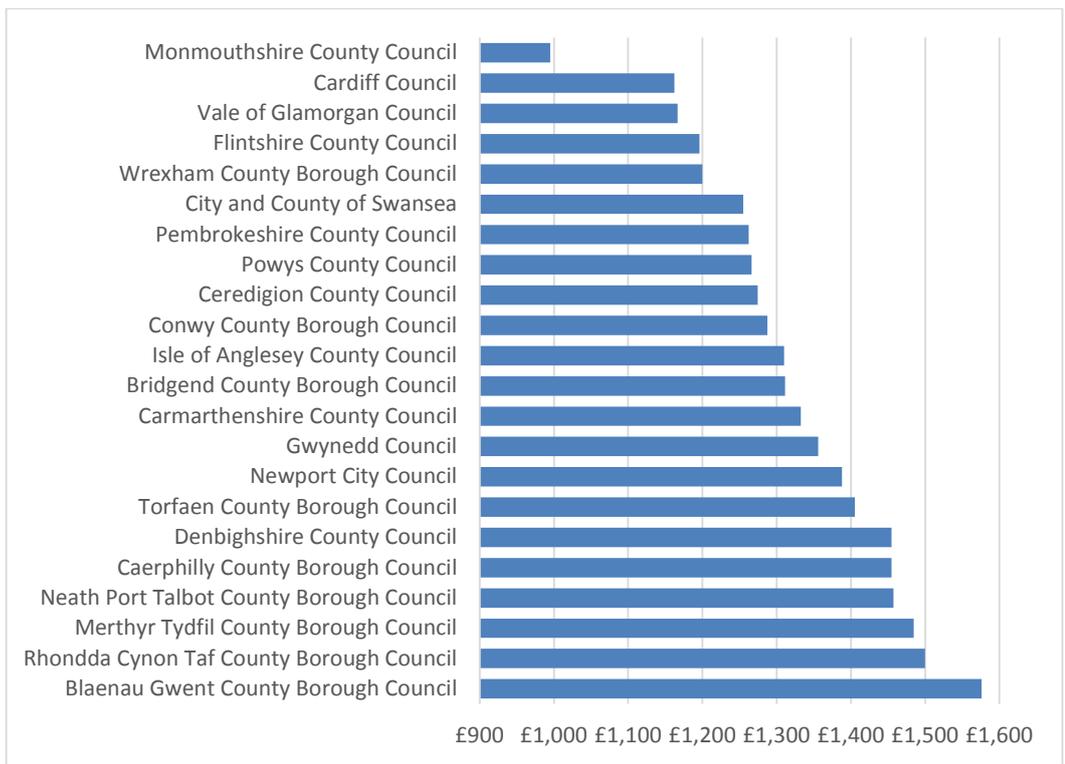
¹ Comparing core funding (Aggregate External Finance (AEF)) across the period 2013-14 to 2016-17 is complicated for two main reasons. Firstly, the Welsh Government has incorporated into core funding grants that were previously provided separately. While this 'de-hypothecation' of grants results in an 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 £263.3 million in support from Welsh Government in 2016-17. This represents £1,455 per person in the county, above the average for Wales but a real-terms reduction of 8.68%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 96% 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 The Council achieved 96% of its 2015-16 planned savings. Unachieved savings were either met from underspends elsewhere in 2015-16 service budgets or from savings achieved in advance of the following year's budget.
- 21 The Council's 2015-16 outturn report shows that the Council achieved a surplus of £10.1 million on its revenue budget. The surplus included a £6.1 million underspend on directorate budgets, £2.6 million on capital financing budgets and additional council tax income of £1.4 million. The underspend on directorate budgets was partially due to services curtailing expenditure and achieving some savings in advance to contribute to future years savings plans. In line with the Council's policy for carrying forward underspends on directorate budgets, it transferred £3.5 million to specific directorate reserves and the remaining £6.6 million to the general reserve.
- 22 The Council splits its saving plans into those which impact the public and those which do not. Savings plans which do not impact the public amount to approximately 55% of the total savings plans value. These are efficiency type savings plans which mainly comprise changes to staff structures, budget realignment and minor changes to service provision. These are included as a single amalgamated savings figure for each directorate. Service specific savings which have a public impact are identified individually.
- 23 The Council identifies and achieves a proportion of the efficiency type savings plans in advance of setting the following year's annual budget. Problems with achieving savings proposals are identified in the quarterly service budget monitoring reports. Directorates are expected to achieve all savings plans and to meet any unachieved savings from elsewhere in their base budgets.

Financial planning arrangements

The Council has an effective corporate framework for financial planning and whilst the Council has well considered savings plans, some savings proposals are insufficiently developed when the budget is agreed

What good looks like

- 24 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.
- 25 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.
- 26 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.
- 27 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

- 28 In our 2015-16 Financial Resilience Assessment, we made a proposal for improvement that the Council should strengthen its financial resilience by developing more explicit links between its MTFP and corporate priorities.
- 29 The Council's Corporate Plan covers the period 2013-17 and was refreshed in June 2016 to reflect the transition from improvement priorities to well-being objectives in preparation of the Well Being of Future Generations (Wales) Act 2015. This is the final year of the 2013-17 corporate priorities and during the next twelve months, the Council will set and define well-being objectives, which will be informed by the well-being assessment being carried out by the newly established Caerphilly Public Services Board.

- 30 Whilst links between the Council's MTFP and corporate priorities are not clearly defined, the Council has established a set of principles for formulating its savings plans, which are influenced by corporate priorities. The principles are: protecting front-line services where the Council can; reducing expenditure on management and administrative costs; increasing fees and charges where appropriate; reducing, rather than removing services where possible; focusing on priorities and looking at alternative ways of delivering services.
- 31 The Council has also recently developed a medium term financial plan savings template, which it will use for its 2017-18 savings proposals. In this template, there is a section for officers to set out links to policy and strategy including the Council's corporate priorities and improvement objectives. This requirement will help to strengthen the links between the Council's MTFP and its priorities.
- 32 In our 2015-16 Financial Resilience Assessment, we made a proposal for improvement that the Council should strengthen its financial resilience by developing a longer-term MTFP with comprehensive multi-year savings plans to cover the period.
- 33 The Council reviews its MTFP twice a year, normally in July and February but this timetable is not aligned with the review of its Corporate Plan. The Council reviewed its MTFP in February 2016 and extended its MTFP forecast from a three to a five year period. The MTFP 2016-17 to 2020-21 identifies a budget gap of £36 million. The Council has identified indicative savings over the period of £29 million, leaving a budget gap of £7 million.
- 34 The Council's MTFP forecasts are comprehensive, include sensitivity analysis, and are modelled on best, most likely and least optimistic scenarios. 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, demand changes and inescapable pressures is also assessed.
- 35 The Council rolls forward its MTFP annually and normally reports to Cabinet in July each year. In addition, Corporate Management Team receives regular updates on MTFP assumptions to take account of changes in key variables and any other emerging issues.
- 36 The Council holds approximately £10 million as a working balance in its general reserve. The general reserve level is reviewed when setting the annual budget and producing its statement of accounts. Whilst the annual budget includes a report on the projected use of the general reserve and proposals for the use of earmarked reserves, neither the annual budget report nor MFTP include a comprehensive statement on the reserves position or planned use of reserves. The Council outlined details of its useable reserves and proposals for the use of its reserves in reports to the Policy and Resources scrutiny committee in April 2015 and November 2016, and to Cabinet in December 2016,
- 37 The Council's planned budget strategy includes the use of the previous year's actual council tax surplus income to fund its base budget. For example, the surplus council tax income achieved in 2014-15 of £1.2 million was used to fund the 2015-

16 budget. The surplus council tax income is transferred into the Council's general reserve at year end. Whilst this is additional income, as it would normally be put into reserves, the Council is in effect using reserves to fund its base budget.

- 38 The Council has a reserves strategy, which Cabinet approved in July 2016. The strategy consolidates its existing arrangements for the establishment and management of the use of its reserves. The Council's reserve strategy places a 3% cap on the amount of general reserves directorates can hold from accumulated revenue budget underspends. The Council also proposes to carry out annual reviews of useable reserves, which it intends to report to its Policy and Resources Committee six months before the financial year end.
- 39 In our 2015-16 Financial Resilience Assessment, we made a proposal for improvement that the Council should strengthen its financial resilience by developing an income generation/charging policy.
- 40 During our 2016-17 Financial Resilience Assessment, we found that whilst the Council does not yet have an income generation/charging policy, it has a corporate fees and charges register. It has also identified income generation as one of the work streams of its Business Improvement Board to consider the opportunities around income generation for the Council.
- 41 The Council has set income generation targets for some discretionary service areas for 2016-17. However, the Council's mid-year budget monitoring report suggests that the Council is not meeting some of these targets and increased charges are not necessarily resulting in increased income levels. Therefore, the Council is looking to shift the focus of the income generation work stream to review current income levels against the targets set. It plans to establish what needs to be done to achieve these targets or whether alternative savings need to be identified. As part of this approach, the Council plans to review its strategy around fees, charging and income generation learning from its approach to date.

Savings Plan 2016-17

The Council has detailed savings plans and is forecasting that 96% of its 2016-17 savings plan will be achieved in year

What good looks like

- 42 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

- 43 The Council has identified savings plans of £11.1 million to meet its 2016-17 budget strategy, which includes savings achieved in advance of £1.9 million. The Council's quarter one financial monitoring report forecasts that it will achieve 96% of all savings plans for 2016-17. The Council plans to mitigate unachieved savings from other directorate budgets or from directorate reserves. Any unachieved savings plans will have to be found from elsewhere in directorate budgets or directorate reserves.
- 44 The Council classified its 2016-17 savings plans into those which have no impact on the public and service users (efficiency type savings) and those which do have an impact. The Council consults on those savings plans which have a public impact and in 2016-17 these amounted to approximately £500,000. The savings that are considered to have a public impact were also subject to an Equalities Impact Assessment.
- 45 The Council's 2016-17 savings proposals are not formally risk assessed in terms of achievability. However, prior to being included in the Council's budget, finance officers work with service managers to challenge proposals before presenting them to Members. The Council only includes savings in its annual budget if they are deemed to be fully achievable.
- 46 General efficiency type savings plans are included as a global target sum but no specific detail is made available in the public domain, because these proposals are deemed to have no impact on service users or stakeholders. However, the Council maintains and monitors a comprehensive schedule of the proposals that are included in the Council's budget.
- 47 The Council lists savings which have a public impact individually and monitors them on a line by line basis, with reports being considered by Scrutiny Committees. The Council has told us that as at the 30 September 2016 that some proposals of this type will not be achieved and will be rolled into the following year.
- 48 Previously, the Council has not regularly reported the 'Whole-Council' financial position and progress on savings plans to Cabinet during the year as on the whole, savings have been on schedule. However, the Council has now instigated 'Whole-Council' mid-year budget monitoring reports to Cabinet. These reports outline projected expenditure for the year and progress on achieving savings plans. The Council has taken this step as it recognises that the risk of non-delivery of savings has increased. Cabinet considered the first such report on 30 November 2016.
- 49 The Council's scrutiny committees consider quarterly service budget monitoring reports up to the third quarter of the year, but in 2015-16, the Council did not report the year end position on savings plans to its Scrutiny Committees or Cabinet.
- 50 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:
- reduce operational breakfast clubs by 1 hour of staffing per day;
 - countryside maintenance income; and

- customer services. Further reduction in opening hours.

51 We found that the information to support each of the 2016-17 savings we reviewed was fragmented and of variable quality. The Council recognises that as budgets reduce, the nature of the savings it will need to make will shift from base budget efficiency type savings to service change savings. These will need to be supported by more robust business cases. Therefore, the Council has developed a business case template, which it intends to introduce to support the development of future savings plans.

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