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Savings Planning – Denbighshire County Council

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The team who delivered the work comprised 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 Denbighshire 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 **the Council had appropriate financial management arrangements but needed to strengthen its approach to income generation.**
- 13 In this review we concluded that **the Council has an effective and well-considered savings planning approach, which is 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 planning arrangements by:
- developing an Income Generation/Charging Policy; and
 - formally risk rating savings according to achievability and identify sustainable mitigating actions for those classified as high risk.

Detailed report

The Council has an effective and well-considered savings planning approach, which is 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.

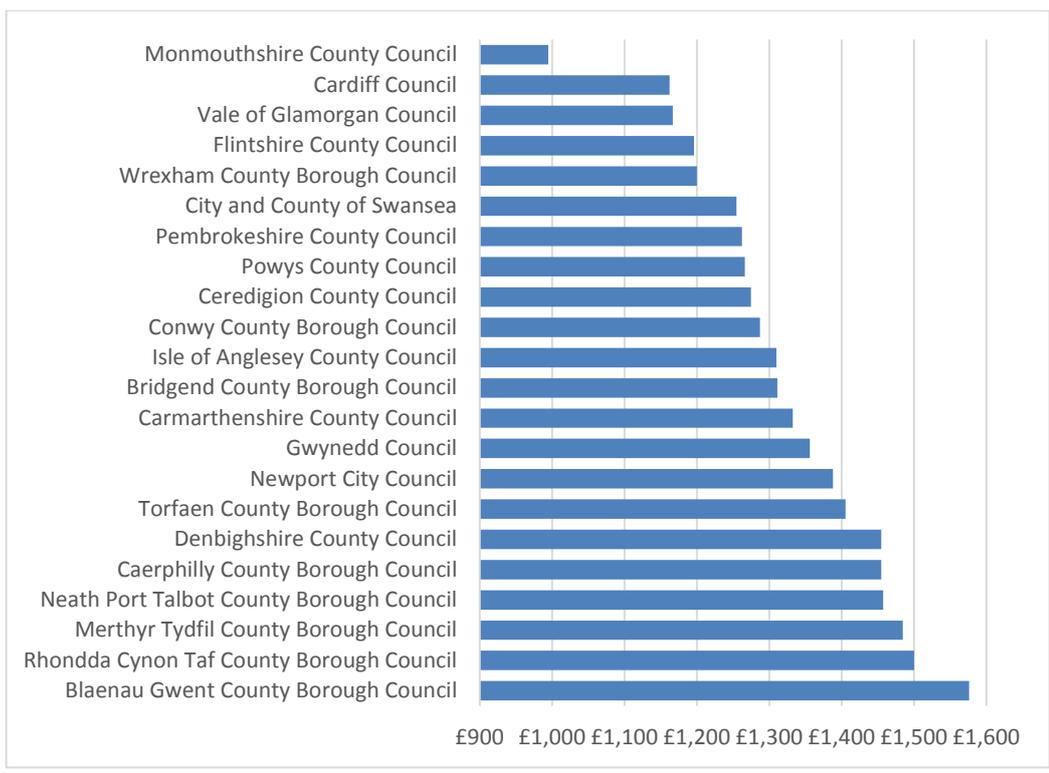
¹ Comparing core funding (Aggregate External Finance (AEF)) across the period 2013-14 to 2016-17 is complicated for two main reasons. Firstly, the Welsh Government has incorporated into core funding grants that were previously provided separately. While this 'de-hypothecation' of grants results in an 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 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.
- 17 The Council received £140 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 10.9%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 91% 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 achieved approximately 99% of its planned savings in 2014-15.
- 20 In our 2016-17 review we found that achievement of planned savings is lower than in previous years. Our findings are detailed below.
- 21 The Council delivered a net overspend of £25,000 on its 2015-16 budget and achieved 91% of its planned savings. Although there was a collective net underspend of £1.6 million on service and corporate budgets, there was a significant overspend of nearly £2 million on schools' delegated budgets. School reserves were used to fund the school overspend, enabling the Council to transfer service and corporate underspends to earmarked reserves.
- 22 The Council's planned budget strategy for 2015-16 included the use of £500,000 from general balances. However, the Council did not need to utilise these balances, which will instead be used as part of the planned budget strategy for 2017-18.
- 23 The Council achieved 91% of its 2015-16 savings plans and expects to achieve the majority of the remaining 9% in 2016-17. Savings plans are embedded in the base budget and form part of the budget monitoring process. Regular budget monitoring reports to Cabinet include a section on achievement of savings, and where problems with achieving savings proposals are identified, further narrative is provided.
- 24 The Council's process for identifying savings is evolving and a new approach that increased member involvement was taken for the 2015-16 plan. The Freedoms and Flexibilities programme identified savings for a two year period by focusing on what a service does, analysing its expenditure, and identifying whether service provision is statutory, aligned to a corporate priority, or discretionary.

Financial planning arrangements

The Council has an effective financial planning framework but it still needs to develop a corporate approach to income generation

What good looks like

- 25 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.
- 26 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.
- 27 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.
- 28 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

- 29 In our 2015-16 review, we found that the Council had effective controls in place to ensure its financial processes and management were robust, but it needed to strengthen its approach to income generation.
- 30 In our 2016-17 review, we found that the Council continues to have an effective financial planning framework but it still has no formal income generation policy.
- 31 There are good links between the Council's corporate and medium term financial planning processes. The Corporate Plan sets out the Council's priorities and identifies how they will be funded. The Council's Medium Term Financial Plan (MTFP) links to service and corporate plans and priorities set out during the budget planning process.

- 32 The MTFP demonstrates some of the ways the Council is considering the long term impact of its budgetary decisions, eg impact assessments and monitoring the impact of budget decisions post-implementation.
- 33 The Council's MTFP is up to date. A formal update rolling the MTFP forward is approved by Cabinet every autumn. Medium term financial planning assumptions are regularly reviewed and communicated to take account of changes in key variables and other emerging issues.
- 34 The MTFP covers a four year period. The MTFP forecasts are comprehensive and include sensitivity analysis and are modelled on a range of scenarios. The MTFP 2017-18 to 2019-20 identifies a budget gap of £26 million. The Council has identified indicative savings over the period of £3.6 million and plans to use £3.5 million of general reserves, leaving a budget gap of £19 million.
- 35 The MTFP includes some indicative savings for the remainder of the MTFP term, but the Council has not yet fully identified how it will meet the total forecast budget gap.
- 36 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 known commitments are also assessed.
- 37 At the end of 2015-16, the Council held approximately £7.6 million as a working balance in its general reserve. Reserves and balances are reviewed annually as part of the budget setting process and both the annual budget report and MTFP set out planned use of reserves over the term of the MTFP.
- 38 The Council does not have a standalone reserves policy but its reserves protocol is clearly set out within the Council's Financial Regulations and reserves are regularly reviewed. The Council's budget strategy since 2015-16 includes the planned use of general balances; the Council did not make use of the additional funds in 2015-16 and will instead use these unused balances as part of its 2017-18 budget strategy. During 2015-16, the Council established a budget delivery contingency reserve of £1.5 million. Almost £500,000 of this reserve is available to mitigate against delays in achieving proposed savings in 2016-17.
- 39 As reported in 2015-16, the Council lacks a corporate policy on income generation and charging. Responsibility for assessing and setting charges is devolved to Heads of Service and although fees and charges are reviewed as part of the budget process, opportunities could be missed without a corporate policy in place. The Council is taking steps to ensure there is a more consistent approach between services by collating fees and charges data as part of the 2017-18 budget process.
- 40 The Council has robust arrangements in place to report progress against budget, but monthly finance reports could be strengthened by including updates on the use and level of reserves. This would enable members to have sight of reserves levels, and the opportunity to challenge them, throughout the year.

Savings Plan 2016-17

The Council forecasts that it is likely to achieve 70% of its 2016-17 savings targets in year and appropriate monitoring arrangements are in place, contingency savings proposals are prepared should they be required

What good looks like

41 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

42 In our 2015-16 review we found that the Council's future plans and arrangements to deliver savings were fit for purpose and were being effectively managed.

43 In our 2016-17 review we found that the percentage of savings likely to be achieved in year is falling, suggesting a weakness in assessing deliverability risks, although monitoring arrangements remain robust. The Council has alternative savings proposals in hand. Our findings are detailed below.

44 The Council has identified savings plans to meet the savings required for 2016-17 and it has classified its costed savings plans into efficiencies and technical budget reductions which have no impact on services or the public; alternative delivery, commissioning and procurement; service level changes (including reduction or withdrawal); and increased income. The Council's emphasis to date has been on efficiency savings, limiting the impact of cuts on service users. As efficiency savings become increasingly difficult to find, adequate levels of transformational savings will help the Council develop sustainable approaches to service delivery that provide ongoing savings.

45 The latest financial monitoring report to Cabinet forecasts that only 70% of the Council's savings plans for 2016-17 will be achieved in-year; a further 25% are delayed and will be achieved in 2017-18.

46 In September, Cabinet approved the use of reserves and corporate budget underspends to mitigate against the impact of savings identified as deferred and unachievable. Although the Council has sufficient reserves and available corporate budget to fund the savings shortfall in 2016-17, there is an expectation that the short fall could be covered by service underspends. Furthermore, if required the Council has alternative savings proposals in place that it could use to replace the original planned savings. The Council will decide whether it needs to use any of the savings proposals as the year progresses.

- 47 The Council's savings proposals are risk assessed as part of the budget setting process and during in-year monitoring. Although risks relating to the deliverability of proposed savings are discussed as part of the process for identifying and approving savings, there is no formal procedure to risk rate savings plans according to achievability. There is scope, therefore, for the Council to strengthen its approach by incorporating a formal risk rating process to identify those savings which carry a greater risk of delay or non-achievement and sustainable mitigating actions.
- 48 Equality Impact Assessments are carried out for all savings proposals that impact on citizens or stakeholders, but the quality of completion is inconsistent. A new web-based impact assessment tool addresses the Council's duties under the Wellbeing of Future Generations (Wales) Act 2015. The Council has further strengthened its processes by assessing the impact of selected savings proposals on the public following implementation.
- 49 The Council's savings plan is specific, listing individual savings projects by service area. The plan is supported by more detailed, underlying plans.
- 50 Effective monitoring arrangements are in place to manage savings. Monthly reports to Cabinet set out whether each saving has been achieved, is in progress or has been deferred or not achieved. Where savings will not be achieved in year, a brief narrative is provided detailing the proposed mitigating actions.
- 51 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:
- CCTV service – £200,000 (service reductio/withdrawal);
 - better take Up of green waste scheme – £75,000 (income generation); and
 - accommodation strategy – £258,000 (efficiency saving).
- 52 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. The Accommodation Strategy saving has been delayed but the Council is confident that the saving will be achieved in full in 2017-18.

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