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# Savings Planning – Vale of Glamorgan County Borough Council

Audit year: 2016-17

Date issued: March 2017

Document reference: 673A2016



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The team who delivered the work comprised Janet Smith, Catryn Holtzinger 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 the Vale of Glamorgan 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 **overall the Council's financial arrangements are effective but savings plans for future years need to be developed in more detail.**
- 13 In this review we concluded that **whilst the Council lacks some indicative savings plans for future years it has a sound financial planning framework which supports future financial resilience.**

- 14 **There is little change from 2015-16** – the Council has aligned its corporate and financial planning processes. Whilst lack of detail in some savings plans, indicative savings plans for future years and a strategic approach for income generation weakens arrangements, the Council has already agreed to develop its approach to future years savings plans and strategic income generation.

## 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 indicative savings plans to cover the period of the MTFP;
  - developing a strategic approach to income generation; and
  - ensuring all savings plans included in the annual budget are fully developed when the budget is agreed

# Detailed report

## Whilst the Council lacks some indicative savings plans for future years it has a sound financial planning framework which supports 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 funding<sup>1</sup>.
- 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'<sup>2</sup> especially as local councils are collectively the largest employer in Wales and the deliverer of many important public services.

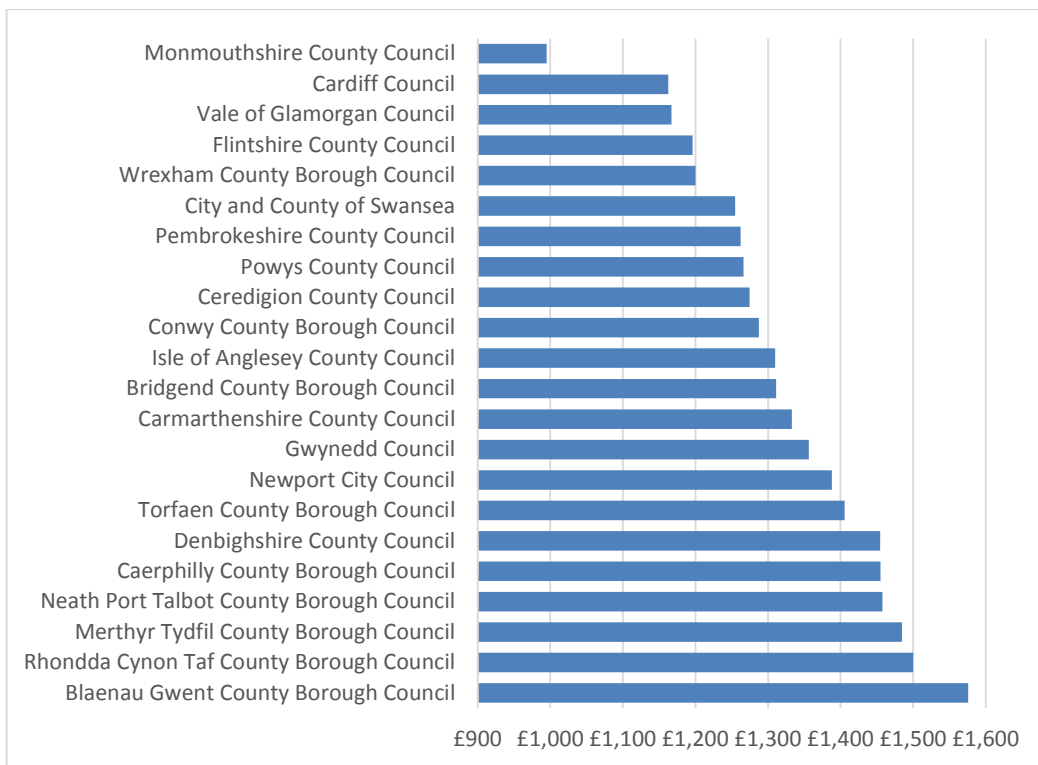
<sup>1</sup> Comparing core funding (Aggregate External Finance (AEF)) across the period 2013-14 to 2016-17 is complicated for two main reasons. Firstly, the Welsh Government has incorporated into core funding grants that were previously provided separately. While this 'de-hypothecation' of grants results 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).

<sup>2</sup> 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 £150.4 million in support from Welsh Government in 2016-17. This represents £1,167 per person in the county, above the average for Wales but a real-terms reduction of 11.5%<sup>3</sup> 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](http://www.statswales.gov.wales))

<sup>3</sup> 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 87% 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's planned budget for 2015-16 included savings plans of £6.8 million. The Council exceeded its overall savings requirement for 2015-16 by £300,000. However, the Council only achieved 87% of its original savings plans. The majority of unachieved savings plans were in the Visible Services directorate and not achieved because savings plans had not been fully developed prior to inclusion in the annual budget. The over achievement of savings related to the early renegotiation of the waste disposal contract
- 21 The Council reviews and carries forward any savings plans which can still be achieved to the following year. The Council reviewed its savings plans at the end of 2015-16 and determined that some 2015-16 unachieved savings plans and some brought forward from previous years could not be delivered. These mainly related to savings plans in the Visible Services directorate, for example changes in car parking policy. The main reason for non-achievement of the savings plans and not progressing the plans is that they were insufficiently well developed when the annual budget was agreed.
- 22 The Council's planned budget strategy included the use of £2.5 million from its general reserve to fund recurring expenditure. The use of reserves has been a feature of the Council's planned budget strategy since 2013-14. It is integral to the Council's Reshaping Services programme and is designed to smooth the impact of services delivering savings plans over the medium term. The planned budget also includes planned use of the Social Services recovery reserve.
- 23 The Council achieved a small surplus on its 2015-16 budget which included the planned use of its general reserve of £2.5 million. All services achieved an overall breakeven position, but there were spending variations within and across service areas.

## Financial planning arrangements

### The Council has an effective corporate framework for financial planning but lacks indicative savings plans for future years

#### 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 The Council's Corporate Plan has been influenced by the required outcomes of the Well-being of Future Generations (Wales) Act 2015 and developed to demonstrate the Council's contribution to the well-being goals identified in this Act. The Corporate Plan 2016-20 has four well-being outcomes each of which is supported by two well-being objectives.
- 29 The Corporate Plan contains actions aligned to well-being outcomes which will be delivered through a range of funding sources. However, the funding sources could be affected by future reductions in funding. Key to ensuring that the financial position is monitored in the context of other corporate planning activities is the establishment of the Insight Board, which will streamline current arrangements and amalgamate existing groups into one Board.

- 30 One of the Insight Board's priorities is to review corporate plans and strategies including the Medium Term Financial Plan (MTFP). Through projecting and understanding the financial position of the Council, issues can be identified and appropriate remedial actions taken in a timely manner
- 31 The MTFP is also supported by appropriate human resource related policies, such as redeployment, flexible retirement and redundancy policies and an asset management strategy.
- 32 The Council carried out a combined consultation on its Corporate Plan 2016-20 and Budget 2016-17 which included consultation with citizens, partners, stakeholders and protected groups. Equality Impact Assessments are carried out for savings proposals which impact the public.
- 33 The MTFP forms an integral part of the Council's corporate planning framework. The MTFP and budgets are set in line with corporate priorities within the resources available. The MTFP is rolled forward annually in the summer of each year and incorporates the Budget Strategy for the next financial year.
- 34 The MTFP forecasts cover a three year period. The MTFP forecasts are comprehensive and include sensitivity analysis and are modelled on best, most likely and least optimistic scenarios. The MTFP 2017-18 to 2019-20 identifies a budget gap of £24 million. The Council has identified some indicative savings over the period of £8 million, leaving a budget gap of £16 million.
- 35 The Council recognises that some savings plans have long lead in times and started to look at Tranche 3 of its Reshaping services Programme in March 2016, with a view to developing savings plans for delivery in 2018-19. The Council may need external support to progress savings plans and this will be brought in as and when required.
- 36 The MTFP 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.
- 37 The Council holds approximately £10 million as a working balance in its general reserve and £65 million in earmarked reserves to fund specific revenue and capital projects, service changes and potential future financial risks. The Council does not have a reserves policy but as is good practice reviews and reports on reserve levels when setting the annual budget and closing the annual statement of accounts. The Council's budget strategy over the period 2013-14 to 2016-17 included the planned use of the general reserve to underpin the revenue budget and the Council plans to use £1.5 million from its general reserve in 2016-17. The Council anticipates that further use of reserves may be required over the period of the MTFP but has not specified the value of these. These will be determined when finalising the annual budget strategy and updating the MTFP.
- 38 The Council does not have a strategic approach to income generation but general guidance on the level of fees and charges is given when setting the annual budget. However, the Reshaping Services Programme includes a work stream to review income generation. The outcome of this review will inform the future development

of a corporate charging policy and shape the Council's approach to income generation. However, despite the lack of a corporate approach to income generation, some of the 2016-17 savings plans result from income generation opportunities.

- 39 Integrated quarterly in-year financial and performance reporting is well established, including updates on the use of reserves and savings plans. Although the MTFP assumptions are reviewed during the year there is no evidence that MTFP performance is monitored in year.

## Savings Plan 2016-17

The Council has generally detailed savings plans for 2016-17 and it forecasts that 93% of its 2016-17 savings plans will be achieved

### What good looks like

- 40 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

- 41 In our 2015-16 review we found that current year savings plans were specific and underpinned by well-developed processes. The Council retains a focused approach in the development of its 2016-17 savings plan; each savings plan being considered in the context of corporate and service priorities.
- 42 The Council has identified savings proposals to meet the 2016-17 savings requirement of £9.3 million. The savings plans are a mixture of specific service savings plans and global savings targets allocated to directorates from the Reshaping Service Programme.
- 43 The Council does not formally risk assess its individual savings proposals when setting the budget. However, savings proposals are validated and challenged by officers and members in terms of achievement prior to setting the annual budget and only those deemed to be achievable are included in the final budget. The budget report refers to general financial risks and the Council holds a specific earmarked reserve to facilitate the delivery of savings plans in its Reshaping Services Programme.
- 44 The savings plan is specific. There is a brief description against specific service savings plans and savings targets relating to specific reviews in the Reshaping

Services Programme are allocated to services. Reshaping Services savings plans are monitored and considered in detail by the Reshaping Services Programme Board/ Budget Working Group.

- 45 The savings plan is measurable. Quarterly budget monitoring reports include a savings monitoring appendix which reports on savings progress. The Council uses a Red/Amber/Green (RAG) status for the internal monitoring of savings plans in its Reshaping Services Programme. In our 2015-16 financial resilience report we identified lack of detail in reporting on savings monitoring as a proposal for improvement. The Council has told us that it plans to adopt the reporting format used for savings plans in its Reshaping Services Programme for all Scrutiny Committee savings monitoring reports from November 2016.
- 46 The Council is forecasting that 93% of its 2016-17 savings plans will be achieved. The main reasons for non-achievement are that some proposals started later than intended whilst others were modified. For example, the proposal to turn off some street lights was changed to the installation of LED lights, which will not start until January 2017. However, savings not achieved in 2016-17 will be carried forward to 2017-18 and services will need to mitigate these during the year by reducing expenditure or identifying alternative savings proposals.
- 47 The Council explained that it develops business cases proportionate to the savings required. Small value savings or general type efficiency savings do not usually warrant business cases but full option appraisals are carried out for all larger value and major service change savings proposals, particularly those in the Reshaping Programme. These type of savings plans are monitored by project boards.
- 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:
- adult social care – residential services £300,000
  - reshaping services target – tranche 1 – visible services £300,000
  - transport review – (directorate wide cross cutting savings) – £1.049 million.
- 49 Our review found that whilst appropriate approval processes supported the savings plans two of the three savings plans are unlikely to be achieved in full within the planned timescales. The Council forecasts that £300,000 of the transport review and car mileage savings and £100,000 of the residential care savings may not be achieved in-year. Services will be expected to identify alternative savings to meet the projected shortfall. The main reason for projected non achievement is that these savings plans were not fully developed when the annual budget was calculated.

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