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Savings Planning – **City and County of Swansea**

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info.officer@audit.wales.

The team who delivered the work comprised Janet Smith and Jeremy Evans, under the direction of Alan Morris

Contents

Whilst the Council has a sound financial planning framework it recognises the delay in delivering savings plans to required timescales presents risks to its financial resilience.

Summary report

Summary	4
Proposals for improvement	6

Detailed report

Whilst the Council has a sound financial planning framework it recognises the delay in delivering savings plans to required timescales presents risks to its financial resilience	7
Context	7
Savings achievement 2015-16	9
The Council has reported achievement of 84% of its planned 2015-16 savings in year and can demonstrate that individual savings have been delivered	9
Financial planning arrangements	10
Whilst the Council has an effective financial planning framework and a proactive approach to income generation, future savings plans are underdeveloped	10
Savings Plan 2016-17	
With some savings plans lacking detail, ownership and realistic delivery timescales, the Council is forecasting that only 65% of its 2016-17 savings plans will be achieved	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 the City and County of Swansea 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 has improved medium term financial planning, but the pace at which planned savings are being achieved is too slow and accountability for delivering all savings proposals has yet to be resolved.**
- 13 In this review we concluded that **whilst the Council has a sound financial planning framework it recognises the delay in delivering savings plans to required timescales presents risks to its financial resilience.**
- 14 **There is limited improvement from 2015-16** – the Council has strengthened links between its key plans but some savings plans are not fully developed when the budget is agreed and the pace at which in year planned savings relating to the Sustainable Swansea Programme are being delivered remains slow.

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 plans are sufficiently well developed and risk assessed before inclusion in the budget;
- assigning responsibility for the delivery of all planned savings to specific managers' services.

Detailed report

Whilst the Council has a sound financial planning framework it recognises the delay in delivering savings plans to required timescales presents risks to its 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.

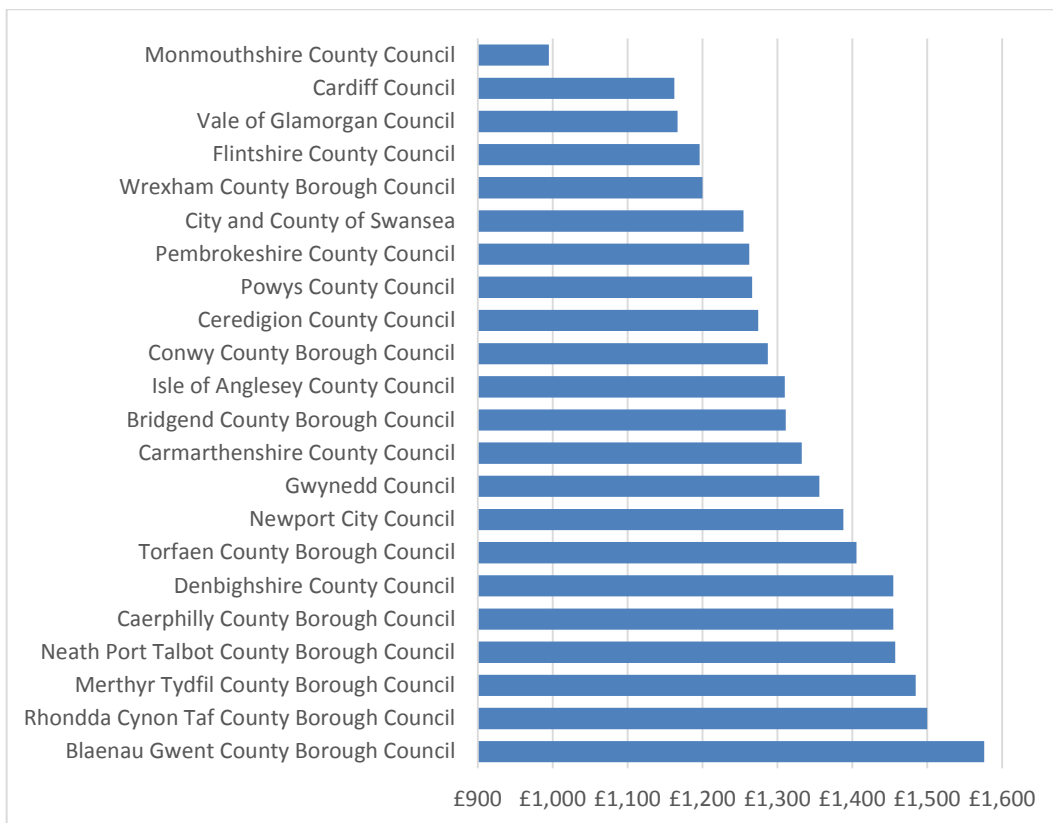
¹ Comparing core funding (Aggregate External Finance (AEF)) across the period 2013-14 to 2016-17 is complicated for two main reasons. Firstly, the Welsh Government has incorporated into core funding grants that were previously provided separately. While this 'de-hypothecation' of grants results in an 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 £307.8 million in support from Welsh Government in 2016-17. This represents £1,255 per person in the county, above the average for Wales but a real-terms reduction of 8.6% 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)

Savings achievement 2015-16

The Council has reported achievement of 84% 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 Council had improved medium-term financial planning arrangements and understood the overall financial savings required but was not achieving specific savings as quickly as planned.
- 21 In our 2016-17 review we found that the Council is still not achieving savings as quickly as planned and the level of savings achievements in 2015-16 was slightly lower than in 2014-15. The main issues are detailed below:
- 22 The Council achieved a surplus on its 2015-16 budget and delivered 84% of its planned savings, compared to 87% in 2014-15. Unachieved savings were offset from a combination of restrictions in spend on other budgets, some alternative savings, and underspends on corporate wide budgets. There was a collective net underspend on service budgets of £1.1million, after taking into account overspends in Adult Social Care and Education Services which were offset by underspends in other services. The surplus was transferred to earmarked reserves.
- 23 The Council's planned budget strategy included the use of a contingency provision of £5.4 million set aside to fund early retirement and voluntary redundancy costs, a transfer of £1.7 million to its transformation reserve and £1.2 million from its general reserve to fund the base budget. The outturn position shows that the Council did not have to draw on its general reserve to fund the budget.
- 24 In line with good practise the Council reviewed delivery of its 2015-16 savings plans and identified that 16% were not achieved. The Council uses a Red/Amber/Green (RAG) status to monitor and report monthly progress on savings plans to its Budget Performance Review Group.
- 25 The Council classifies its savings into four categories; service savings; staff savings; delivery strand; and other, which tend to be of a corporate nature.
- 26 Non achievement of savings proposals mainly related to service changes in adult social care and targets set for the 'delivery strands' in the Sustainable Swansea

Programme which were not disaggregated to specific managers' service budgets when the budget was approved.

- 27 The non-achievement of savings plans is partly due to the slow pace of completion of commissioning reviews in the Sustainable Swansea Programme. Resulting in global savings targets being included in the budget which are not underpinned by sufficiently robust and timely delivery plans. In addition the delivery of savings proposals are not risk rated when the savings plan is approved.

Financial planning arrangements

Whilst the Council has an effective financial planning framework and a proactive approach to income generation, future savings plans are underdeveloped

What good looks like

- 28 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.
- 29 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.
- 30 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.
- 31 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

- 32 In our 2015-16 review we found that the Council had effective arrangements for medium term financial planning but a lack of clarity about responsibility for delivering some savings targets weakened overall control.
- 33 In our 2016-17 review we found that whilst the Council has assigned responsibility for delivery of the majority of its savings plans, similar to last year, £2 million remains unallocated as a global target which is not supported by a robust delivery plan.
- 34 The Council's Medium Term Financial Plan (MTFP) is integrated with the Council's corporate planning framework. The Council's Statement of Medium Term Budget Priorities sets out its views on service and budget priorities in the context of the delivery of the Sustainable Swansea Programme and the MTFP. The Council reviews its plans regularly. The Corporate Plan 2015-17 is being reviewed and the refreshed Corporate Plan will be effective from April 2017 and supported by the updated MTFP.
- 35 A weakness is that whilst there are links between the MTFP and the Sustainable Swansea Strategy the links between service and financial plans are less explicit.
- 36 The Council's MTFP financial planning assumptions are good and kept under review. The Council formally reviews and updates its MTFP bi-annually and usually issues a Mid Term Budget Statement in the autumn. In addition, internal reports on changes in assumptions of key variables or emerging issues and risks are provided more frequently.
- 37 The MTFP forecasts over 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 forecast MTFP 2017-18 to 2019-20 identified a budget gap of £55 million. The Council has not identified specific savings proposals to meet this gap but has calculated indicative global service savings targets. From 2017-18 onwards the Council has stated that the service savings proposals will be more strategic in nature driven by cross cutting and thematic commissioning reviews with the bulk of the savings being achieved from work stream and delivery strand projects in the Sustainable Swansea Programme.
- 38 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, inescapable pressures and legislation changes is also assessed.
- 39 The Council holds approximately £12 million as a working balance in its general reserve. The general fund reserve level is reviewed when finalising the annual budget and statement of accounts but the annual budget report does not include a comprehensive statement of planned use of reserves over the period of the MTFP.
- 40 The Council does not have a reserves policy, but in line with good practice the Council reviews its reserves regularly. For example, the Council reviewed its earmarked reserves in 2015-16 resulting in the reclassification and consolidation of

some reserves into its transformation reserve to support its change programme. A further review of earmarked reserves is planned for October 2016.

- 41 In line with good practice, the Council has an Income and Generation Policy. Its objectives are; increase/maximise /introduce charges; full cost recovery (including services to schools); reduce public subsidy; create and utilise surplus capacity. The Council has a composite list of fees and charges which records annual charges and new charges to enable changes in income from existing and new sources to be measured over time. The Council has identified a number of new income streams.
- 42 In year financial and performance reporting is well established including updates on the use of reserves. Although the MTFP assumptions are reviewed during the year there is no evidence that MTFP performance is monitored in year.

Savings Plan 2016-17

With some savings plans lacking detail, ownership and realistic delivery timescales, the Council is forecasting that only 65% of its 2016-17 savings plans will be achieved

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 made a proposal for improvement to 'Ensure timescales for the delivery of specific savings proposals are realistic and act to drive delivery.'
- 45 In our 2016-17 review we found that whilst the processes to support the development of proposals has improved, some proposals are insufficiently well developed when the budget is agreed to ensure delivery within planned timescales. Our findings are detailed below.
- 46 The Council has identified how it will meet the savings required for 2016-17. However, the Council has only identified global savings targets over the remaining period of the MTFP and has not identified indicative savings proposals to meet the budget gap going forward. The Council's quarter one financial monitoring report forecasts that 65% of its savings plans for 2016-17 will be achieved.
- 47 The Council classifies its savings into four categories: service savings; staff savings; delivery strand (Sustainable Swansea Programme); and other, which tend

to be of a corporate nature. The Council classifies its Sustainable Swansea Programme savings proposals as transformational.

- 48 The Council does not include a risk assessment of specific savings proposals in its budget report, but service proposals are challenged prior to inclusion in the budget and there is an underlying assumption that savings proposals included in the agreed budget will be achieved. The budget report refers to general financial risks and a contingency fund is held in the base budget to mitigate general risk. In line with good practice the Council uses a risk based approach for tracking progress and reporting on savings proposals during the year.
- 49 Service savings proposals are developed in the context of the Council's top five priorities and service business plans in the context of the criteria of investing, maintaining or reducing services. Sustainable Swansea Programme savings proposals include delivery strand proposals relating to targets identified from commissioning reviews. Equality Impact Assessments have been carried out for all service change design proposals.
- 50 Budget consultation responses received on savings proposals from citizens, stakeholders and other partners etc are considered before the budget is approved and if deemed appropriate changes are made.
- 51 The Council's savings plan is not specific enough. For 2016-17, 59% of savings will be met from specific service savings and are supported by well considered savings plans. 41% will be met from work streams and delivery strands in the Sustainable Swansea Programme, the bulk of which relate to changes in employee terms and conditions, third party spend and a senior staff review. These savings have been allocated on an agreed pro rata basis to services but were not underpinned by specific plans when the budget was agreed. However, approximately £2 million of target savings which relate to stopping services remain unallocated. The Council's quarter one financial monitoring report forecasts that 65% of the savings plan for 2016-17 will be achieved and delivery of the planned savings from the commercial savings delivery strand in the Sustainable Swansea Programme is limited.
- 52 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:
- Residential Placements – £400,000 (Service Specific saving)
 - Review on Building and Property services – £650,000 (Commissioning review – (Sustainable Swansea)
 - Implement outcomes of agreed Leisure commissioning reviews – £286,000 – (Sustainable Swansea)
- 53 We found that whilst the proposals are mainly underpinned by realistic financial assumptions and appropriate approval and consultation processes, some elements of the proposals had not been fully developed when the annual budget was agreed which puts the delivery of savings in the planned timescale at risk.

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone : 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

Swyddfa Archwilio Cymru
24 Heol y Gadeirlan
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn testun: 029 2032 0660

E-bost: post@archwilio.cymru

Gwefan: www.archwilio.cymru