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# Savings Planning – Powys County Council

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The team who delivered the work comprised Janet Smith 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 Powys 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, 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 continues to develop and refine its long-term approach to financial planning, working to integrate and align it with its corporate change and improvement planning.**
- 13 In this review we concluded that **whilst the Council is strengthening its arrangements for developing savings plans, some are insufficiently developed and have unrealistic delivery timescales which may not fully support future financial resilience.**

- 14 Whilst the Council has made improvements to its corporate financial planning processes the Council experiences difficulty in meeting in year service savings targets and some service savings plans are insufficiently well developed and lack realistic delivery timescales.

## 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 the service savings targets set for third party spend, income and cost improvement opportunities can be achieved in planned timescales;
  - ensuring that all savings plans are sufficiently well developed for inclusion in the annual budget; and
  - forecasting the use of reserves over the MTFP period.

# Detailed report

**Whilst the Council is strengthening its arrangements for developing savings plans, some are insufficiently developed and have unrealistic delivery timescales which may not fully support future financial resilience**

## Context

- 15 Since 2010, the UK government has reduced spending on public services as part of its plan to reduce the deficit. With cuts to its budget, the Welsh Government has had to make difficult choices as to how to allocate those funding cuts across devolved public services. As a result, the amount of core funding made available by the Welsh Government to local councils has reduced each year. So far, most local councils have managed to reduce expenditure and balance budgets, but the scale of annual reductions is likely to continue. Our analysis shows that between 2013-14 and 2016-17, there is a real-terms reduction of £483 million (10.9%) in this core 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.

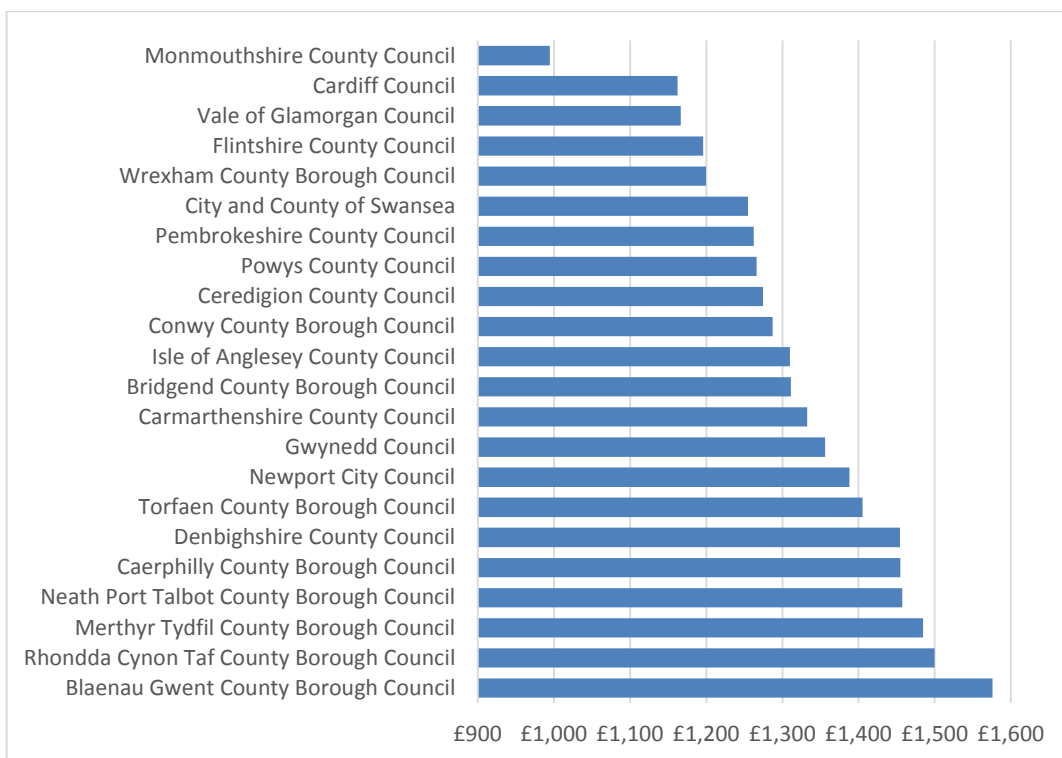
<sup>1</sup> Comparing core funding (Aggregate External Finance (AEF)) across the period 2013-14 to 2016-17 is complicated for two main reasons. Firstly, the Welsh Government has incorporated into core funding grants that were previously provided separately. While this 'de-hypothecation' of grants results 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 £170.4 million in support from Welsh Government in 2016-17. This represents £1,266 per person in the county, above the average for Wales but a real-terms reduction of 13.22%<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 76% 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 a sound process for identifying and monitoring savings and a track record of delivering its annual budget.
- 21 In this review we found that the Council achieved 76% of its 2015-16 savings plans in year. It is Council policy to carry forward unachieved savings plans to following years and the Council has previously managed to deliver the majority of carried forward savings in the following financial years. For example, only £51,000 of the 2014-15 savings remained outstanding at 31 March 2016 and these have subsequently been delivered.
- 22 The unachieved savings plans for 2015-16 amounted to £3.05 million, of which approximately £1.8 million related to savings targets set for third party spend on goods and services. The Council reviewed the position at year end and reduced the carried forward savings for third party spend to £1.2 million and carried forward unachieved savings plans of £2.53 million to 2016-17. The financial monitoring report at 30 September 2016 states that that £402,000 of the savings brought forward have been achieved which means that £2.13 million (approximately 84%) of the savings plans for 2014-15 remain outstanding.
- 23 Savings plans are embedded in the base budget and services are responsible for delivering their savings plans. If savings plans cannot be progressed in the planned timescale, services are expected to take mitigating in-year actions to compensate and still deliver unachieved savings plans in the following year. Any difficulties in achieving savings plans are identified in budget monitoring reports which include a savings monitoring report. The projected position only reflects savings when delivered to avoid year-end issues and clearly show any service areas which have yet to deliver their planned savings. If services could not progress a planned saving in the current or future years an alternative would need to be identified for which Cabinet approval would be required.

- 24 The Council achieved a surplus on its 2015-16 budget. There was an overall net overspend on directorate service budgets of £2.6 million. This included a significant overspend on the People Services budget of £1.8 million, of which £1 million related to unachieved savings plans and a £800,000 overspend on the home care services. The overall directorate service overspend was offset by an underspend on corporate budgets resulting from an approved change to the Council's Minimum Revenue Provision (MRP), reducing the 2015-16 MRP by approximately £3 million. The Council also received approval from Welsh Government to capitalise £1.6m of revenue expenditure in respect of Change Management costs.
- 25 The Council's planned budget strategy did not include using reserves or a specific contingency fund to support the 2015-16 revenue budget. However, at year end the Council prudently agreed transfers to earmarked reserves and its budget management reserve to support future spending pressures and mitigate unplanned and unforeseen changes which may impact budget achievement in future years. The Council also increased the balance on its general reserve by £1.2 million.

## Financial planning arrangements

**The Council is strengthening its financial planning arrangements but some savings proposals are not sufficiently well developed prior to inclusion in the MTFP**

### What good looks like

- 26 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.
- 27 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. Councils should also use financial modelling to assess the likely impacts on financial plans and required savings for a range of different scenarios and risks. The MTFP should be frequently reviewed and updated to reflect changes in assumptions and risks.
- 28 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.

- 29 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

- 30 In our 2015-16 review we found that the Council continues to improve and refine its long-term approach to financial planning, working to integrate and align it with its corporate change and improvement planning.
- 31 In this review we found that the Council continues to strengthen its long term approach to financial planning and has developed three year balanced budgets which include indicative savings proposals for future years and considers the links between revenue expenditure, capital expenditure and reserves. However, not all in-year savings plans are sufficiently well developed when setting the annual budget to ensure delivery in planned timescales.
- 32 The Council reviewed its Corporate Plan in June 2016. It focuses on four priorities: remodelling council services to respond to reduced funding; supporting people within the community to live fulfilled lives; developing the economy; and improving learner outcomes, minimising disadvantage. The Corporate Plan is set in the context of the 2016-19 MTFP, underpinned by established budget principles, which are key for shaping decisions on resource allocation to deliver the Council's priorities and achieve efficiency targets and service changes.
- 33 The Council's 'Statement of Intent' captures the financial, regulatory and policy drivers affecting the Council and sets the direction and approach for its Medium Term Financial Strategy which has been developed as part of the overall strategic planning process. The Financial Resourcing Model (FRM) identifies the budget shortfall up to March 2020. This approach enables the Council to plan better for future service changes required in the context of delivering balanced budgets over the medium to longer term. The FRM is supported by a comprehensive MTFP which is modelled on a most likely case scenario over a three year period. The MTFP forecast budget gap for the period 2016-17 to 2018-19 is £29.8 million. The Council has identified savings proposals for 2016-17 and indicative savings proposals and targets to fund the budget gap for 2017-18 to 2018-19.
- 34 However, there are examples of savings proposals being included in the MTFP that do not have realistic timescales for delivery, or are included too early in their development. A notable example is the savings plans for Reconfiguration of day time opportunities for Older People. This was originally included in the MTFP in 2014 with planned savings of £250,000 in 2014-15, £300,000 in 2015-16 and £450,000 in 2016-17. The detail of the savings have been changed and unachieved savings carried forward. Savings for 2015-16 have not been delivered and are not likely to be achieved in the current year because full consultation with clients on the options is required and the Cabinet report seeking approval to consult on the options was not presented until 26 July 2016. The Cabinet report explains that there has been a comprehensive review and consideration has been given to a number of different delivery models including third sector partnering and

a move away from just closing and disinvesting in day centres. Whilst the revised approach may bring better outcomes for service users it raises the issue that the original savings proposal was not sufficiently well developed when it was included in the MTFP or when the budget was approved which indicates that savings were unlikely to be delivered in the planned timescale.

- 35 Third party spend and income generation savings are included in the MTFP as target assumptions based on potential projects which could deliver the savings. The projects are worked up during the year but sometimes projects cannot be identified to meet the targets. For example, the Council reduced the carried forward target saving for 2015-16 by approximately £600,000 and in the People and Place services the savings brought forward from 2015-16 for third party spend are forecast as not being achievable because 'no projects' have been identified. The Council has told us that these matters are being considered by the Procurement and Commissioning Board.
- 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 MTFP is rolled forward annually. The MTFP is a 'living document'. It is reviewed internally on a monthly basis by the S151 officer and usually amended to reflect changes in policy direction and revised assumptions in key variables in the autumn of each year. Significant budget issues which impact the MTFP are considered by Cabinet during the year. The Finance Scrutiny Panel considers the MTFP and reports its findings to Cabinet.
- 38 The Council has considered the impact of its budget proposals on citizens and stakeholders. An Impact Assessment (IA) is completed for each savings plan which includes an assessment of impact on the Council's strategic vision and priorities; Risk management; Equalities; Welsh Language; Wellbeing of Future Generations (Wales) Act 2015; Sustainability; communication and engagement; corporate parenting and community cohesion. Extensive consultation is carried out with the public, partners and stakeholders during the budget process. The IA's are also reviewed by Cabinet.
- 39 The Council has a reserves policy which establishes the framework within which decisions relating to reserves are made. The Council holds approximately £10 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 term of the MTFP. However, the transformation reserve and other earmarked reserves will be used when required to support the delivery of savings proposals, particularly those which require major service changes, for example, Adult Social Care. The Council held an earmarked reserve of £8.6 million at 31 March 2016 to support Invest to save and corporate initiatives. The Council plans to use £500,000 from contingency to fund its 2017-18 and 2018-19 budgets.

- 40 The Council has an Income and Cost Improvement policy which sets the framework for maximising income generating opportunities and full cost recovery. The Council reviews its fees and charges on an annual basis using benchmarking information to ensure that fees and charges are commensurate with other providers. Income targets are set as part of the budget setting process. For example, following a review of income generation and cost reduction opportunities the 2016-17 budget includes the allocation of a £600,000 target across service areas together with an additional target of £400,000 for 2017-18 and 2018-19. Corporate Management Team and Cabinet consider new income proposals prior to inclusion in the budget. All income is monitored as part of the routine budget monitoring and savings monitoring process.
- 41 Financial reporting is well established, including updates on the use of reserves in year. Although the MTFP assumptions are reviewed during the year there is no evidence that the overall MTFP performance is monitored in-year.

## Savings Plan 2016-17

**The Council has achieved 73% of its 2016-17 original planned savings but some savings plans are not sufficiently well developed when the annual budget is agreed and have unrealistic delivery timescales**

### 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 In our 2015-16 review we found that current year savings plans were specific and underpinned by well-developed processes and the Council adopted a focused approach in the development of its 2016-17 savings plan.
- 44 The Council identified savings proposals to meet the 2016-17 savings requirement of £10 million. The savings plans are a mixture of specific service savings plans and cross-cutting efficiency savings targets set for income generation and cost recovery. The Council reviewed its savings targets in September 2016 and reduced the 2016-17 savings requirement to £9.55 million. The financial monitoring report at 30 September states that this is because 'a number of savings plans originally included in the Highways, Transport and Recycling (HTR) services have been resolved through the allocation of additional resources as they are not

achievable'. This has reduced the overall savings requirement for 2016-17 by £450,000.

- 45 At 30 September 2016 the Council had achieved £7.34 million of its 2016-17 savings plans. This equates to 73% of the original savings requirement of £10.004 million or 77% of the reduced savings requirement of £9.55 million.
- 46 The Council is forecasting an overspend on its revenue budget at 30 September 2016 of £5.5 million which includes undelivered savings proposals of £4.34 million of which £2.21 million relate to 2016-17 and £2.13 million to 2015-16.
- 47 The Council risk assesses its specific savings proposals in terms of achievement when setting the annual budget. The Council applies an Impact Assessment (IA) to most savings proposals. This identifies the deliverability of the saving, along with the likely impact on service delivery and other services. Five proposals were assessed as high risk when the budget was approved. These proposals were a mixture of remodelling services, efficiency and income generation proposals. Significant risks are included in the corporate risk and services registers.
- 48 The Council's specific service savings plans are measurable and itemised on a line by line basis. The cross cutting efficiency savings targets for income generation have been allocated to specific services. The Council provides a summary report on progress on savings plans in its Cabinet financial monitoring reports. A more detailed savings monitoring report is provided to Corporate Management Team and Cabinet portfolio holders which includes a detailed savings tracker with a Red/Amber/Green (RAG) status for all savings plans. The savings tracker is updated by services each month and progress on delivery is reviewed and challenged by Corporate Management Team and the relevant Cabinet portfolio holder.
- 49 The Council reports on savings plans actually achieved and profiles the expected delivery of its savings plans over each quarter of the year. The internal management savings monitoring report at 31 July 2016 showed that approximately half of the savings not achieved at that point are profiled to be achieved in quarter four. Looking at these specifically, a number relate to the income generation savings targets set for 2016-17 but the savings monitoring report highlights that these are red, so unlikely to be achieved in 2016-17. Another relates to People services which still has to deliver approximately £1 million of savings unachieved brought forward from 2015-16, the majority of which is profiled for achievement in quarter four of 2016-17. There are also a number of savings plans in the Highways, Transport and Recycling services which cannot be fully achieved mainly because of delays in implementation, for example; the Logistics Project, waste contract savings and permit charging.
- 50 The financial monitoring report states that the delivery of savings is essential to reduce the projected overspend and that any overspend will have to be met from the general fund reserve which will have a significant impact on the overall level of reserves held.
- 51 The Cabinet Portfolio Holder for Finance briefed Cabinet on the budget outturn position at 30 September 2016. The financial monitoring report states that 'In light

of the forecast overspend position Cabinet has requested that the Chief Executive and his Management Team prepare a budget recovery plan for consideration by Cabinet'.

- 52 We sample tested three savings plans for 2016-17 to test underlying assumptions and determine whether there are adequate mechanisms in place to ensure they can be delivered in the planned timescale. The savings plans we tested were:
- replacement telephony VOIP – £90,000 – ICT;
  - removing funding for breakfast clubs (£460,000) – schools; and
  - options review for domestic waste collection – 3 weekly collections. (£250,000).
- 53 Our review found that for these savings plans, whilst option appraisals were supported by reasonable assumptions and appropriate approval and consultation processes, there was some slippage on the delivery timescales for two of the three savings plans, although the Council is confident that they will be delivered in full within a longer timeframe.

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