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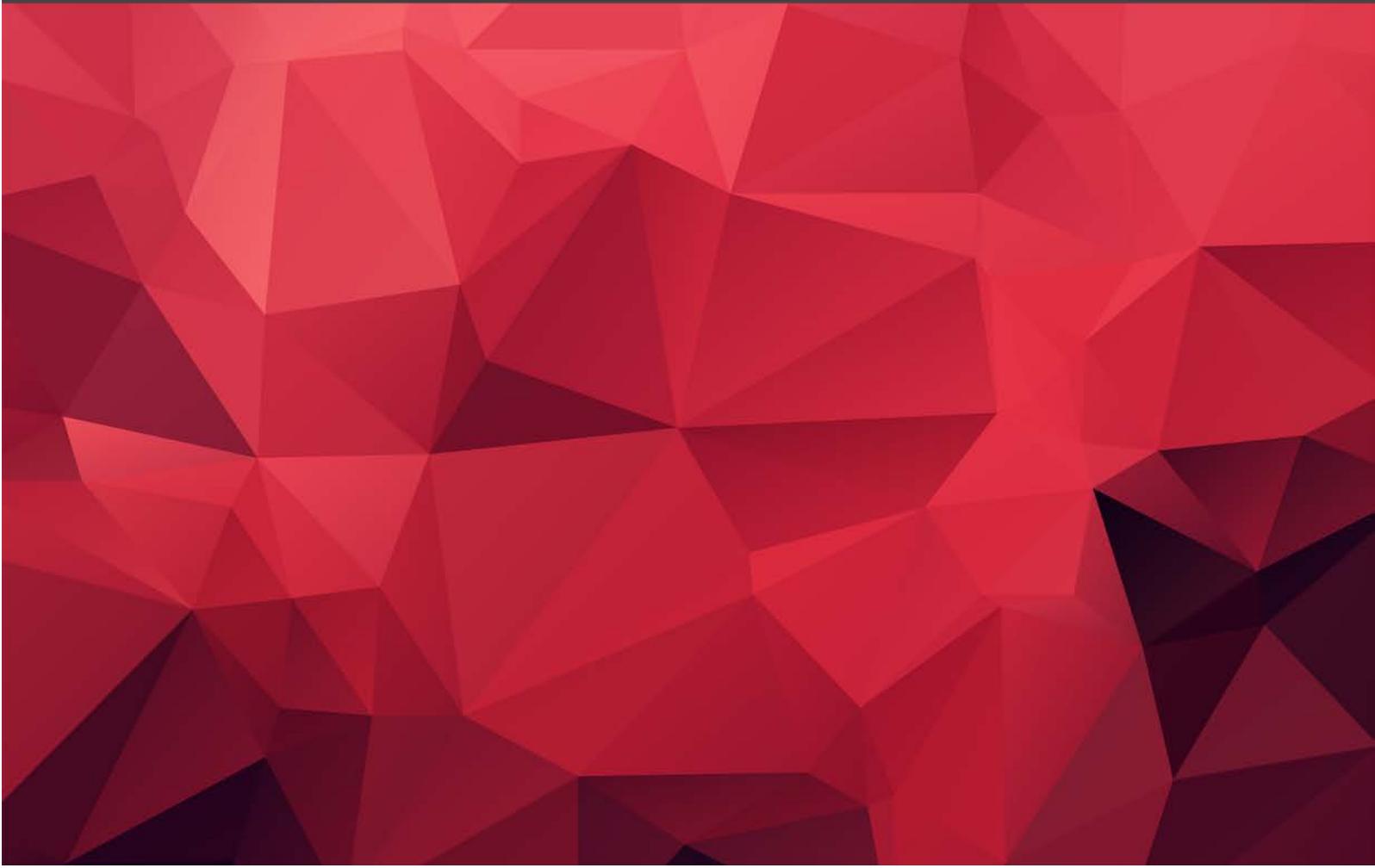
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Auditor General for Wales

# Financial Resilience: Savings Planning – **Flintshire County Council**

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The team who delivered the work comprised Charlotte Owen and Jeremy Evans, under the direction of Alan Morris.

# Contents

The Council has a sound financial planning framework and it continues to strengthen its financial planning to better support future financial resilience.

## Summary report

Summary	4
Proposals for improvement	6

## Detailed report

The Council has a sound financial planning framework and it continues to strengthen its financial planning to better support future financial resilience	7
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Context	7
---------	---

Savings achievement 2015-16	9
-----------------------------	---

The Council has reported achievement of 83% of its planned 2015-16 savings in year and can demonstrate that individual savings have been delivered	9
--	---

Financial planning arrangements	10
---------------------------------	----

The Council has an effective corporate framework for financial planning and plans to lengthen the term of the MTFs to five years to address the current lack of indicative plans for future years	10
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Savings Plan 2016-17	12
----------------------	----

The Council forecasts that it is will achieve 90% of its 2016-17 revised planned savings but some of its savings proposals are not sufficiently well developed when the budget is approved	12
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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 cannot accurately forecast the proportion of their income that relies on the Welsh Government beyond the current settlement. However, they can use 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 Flintshire County Council (the Council) achieved its 2015-16 savings plans, the work it has done to ensure financial resilience during the 2016-17 financial planning period 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 continued to improve its financial planning and control arrangements and strengthen its ability to respond to the ongoing financial challenges.**
- 13 In this review we concluded that **the Council has a sound financial planning framework and it continues to strengthen its financial planning to better support future financial resilience.**

# Proposals for improvement

## Exhibit 1: Proposals for improvement

- 14 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 all savings proposals are sufficiently developed before the start of the financial year in which they are to be implemented.

# Detailed report

## The Council has a sound financial planning framework and it continues to strengthen its financial planning to better support future financial resilience

### Context

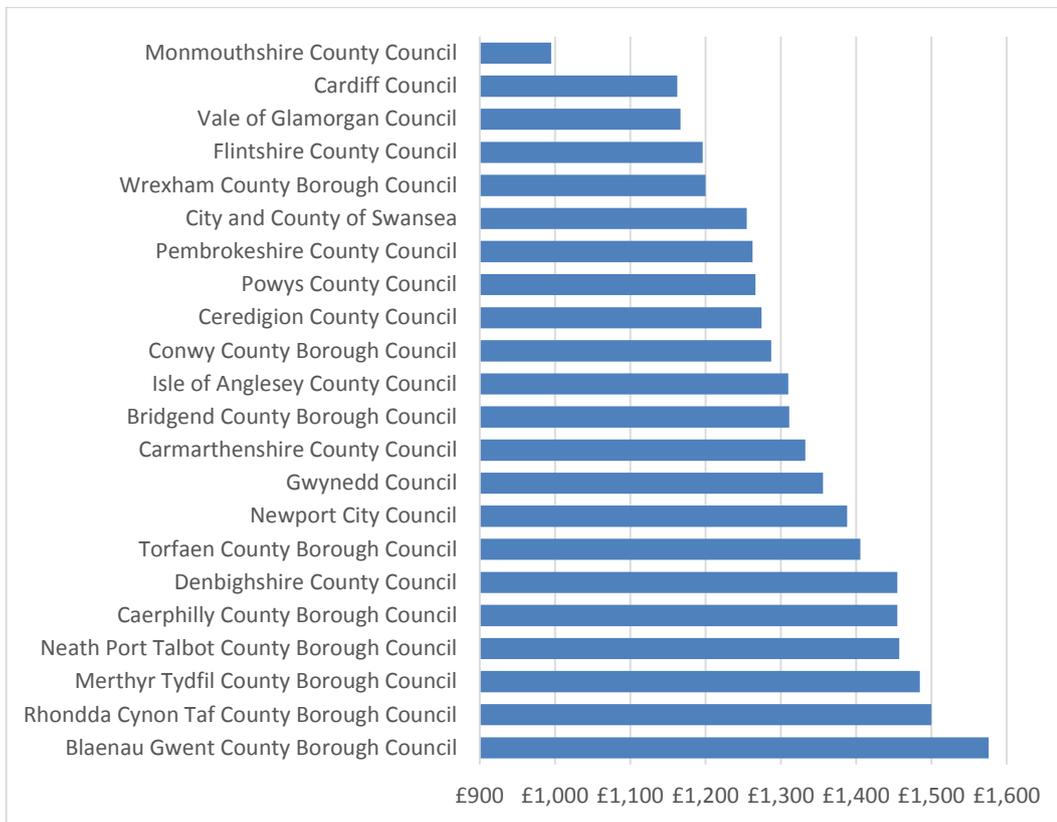
- 15 Since 2010, the UK government has reduced spending on public services as part of its plan to reduce the deficit. With cuts to its budget, the Welsh Government has had to make difficult choices as to how to allocate those funding cuts across devolved public services. As a result, the amount of core 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 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.
- 18 The Council received £185 million in support from Welsh Government in 2016-17. This represents £1,196 per person in the county, below the average for Wales and a real-terms reduction of 10.1%<sup>3</sup> per head since 2013-14.

**Exhibit 2: Welsh Government support in 2016-17**



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 83% 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 the Council reported that it achieved 87% of its planned savings in 2014-15 in year.
- 21 In our 2016-17 review we found that achievement of planned savings reduced slightly in 2015-16 to 83%. Our findings are detailed below.
- 22 The Council delivered a net underspend of nearly £1.5 million on its 2015-16 budget and reported that it achieved 83% of its planned savings. Despite some service overspends, there was a collective net underspend on service and corporate budgets and the Council's income was higher than expected.
- 23 The Council's planned budget strategy for 2015-16 included the use of £1 million from an earmarked reserve set up to help balance budgets. In year, the Council also used £1.86 million from its Contingency Reserve; it later transferred the £1.5 million year end budget surplus back to the Reserve, resulting in net use of £371,000.
- 24 The £2.2 million savings under achievement was offset by budget underspends. The Council classifies its savings according to type, for example collaboration, income generation, structural review and service efficiency.
- 25 Savings plans are embedded in the base budget and form part of the budget monitoring process. In 2015-16, the Council established Programme Boards to monitor portfolio budgets and savings. Boards meet regularly and provide senior officers and Members with the opportunity to review performance and provide challenge. Regular budget monitoring reports to Cabinet provide an update on forecast savings achievement and detail variances against target.
- 26 The Council has strengthened its approach to budget planning and savings by adopting rolling three-year business plans. These require portfolios to identify savings for a three year period. The Council expects to extend this to cover a five year period, following council elections in May 2017.

## Financial planning arrangements

The Council has an effective corporate framework for financial planning and plans to lengthen the term of the MTFS to five years to address the current lack of indicative plans for future years

### What good looks like

- 27 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.
- 28 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.
- 29 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.
- 30 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

- 31 In our 2015-16 review we found that the Council was strengthening its financial planning arrangements but its approach to setting budgets for 2016-17 was high risk.
- 32 In our 2016-17 review we found that the Council has an effective corporate framework for financial planning. There are good links between its Medium Term Financial Strategy (MTFS) and corporate priorities, and processes are supported by relevant policies. However, the Council continues to take a high risk approach to closing a proportion of its savings gap. Our findings are detailed below.
- 33 There are strong links between the Council's corporate and medium term financial planning processes. The Council's overall vision and eight strategic priorities,

which constitute its improvement objectives, are clearly articulated within its Improvement Plan. These priorities are linked to portfolio business plans and budgets are aligned to support the delivery of the Council's corporate vision, aims and priorities.

- 34 The Council is beginning to make links to new legislation in its corporate planning arrangements. The Council is also working with the local Public Service Board to develop a common approach to the Well-being of Future Generations (Wales) Act 2015.
- 35 The Council's MTFS covers a rolling three-year period. A formal update rolling the Strategy forward is approved by Cabinet each year as part of the budget setting process. Medium term financial planning assumptions are kept under review and regularly updated to take account of changes in key variables and other emerging issues.
- 36 The MTFS forecasts are comprehensive and modelling software is used to apply sensitivity analysis to projected budget shortfalls. The MTFS identifies a budget gap of nearly £21 million for 2017-18 to 2018-19. The Council has identified approximately £10 million of savings for 2017-18, and whilst the Strategy sets out the Council's approach to funding the gap, no specific detail is provided for 2018-19 as this is beyond the current MTFS date range. The Council is currently planning to extend the MTFS to cover a five-year period, which is positive. The Council's funding strategy has three parts: service reform, corporate financial stewardship and working with Welsh Government. The Council considers that its strategy in relation to securing Welsh Government funding is high risk, but the approach is endorsed by Members and the Council considers it is getting some success. The Council does consider alternative methods to meet the shortfall.
- 37 The MTFS is also underpinned by reasonable and appropriate assumptions for key variables such as grant funding, inflation and interest rates. The impact of demographic changes and the national and local economy on demand and expenditure pressures are also assessed.
- 38 The Council's Reserves and Balances Protocol was approved in September 2015 and sets out how the council determines, manages and reviews the level of its Council Fund Balance and Earmarked Reserves. The Council Fund Balance is maintained at a level equivalent to 2% of its annual budget. The balance above this base level makes up the Council's Contingency Reserve, which is used to mitigate against budget overspends. At the end of 2015-16, the Council held £10.1 million in its Council Fund Balance: £5.7 million base level and £4.4 million Contingency Reserve.
- 39 As part of the budget setting process, the Council reviews all reserves and balances and determines whether reserves are required to underpin the base budget. In 2015-16, the Council established a Budget Strategy Reserve to help balance budgets over the medium term. During the year, regular budget monitoring reports to Corporate Resources Overview and Scrutiny Committee (CROSC) and Cabinet summarise the latest position in relation to reserves.

- 40 The Council's MTF5 recognises the need to maximise income generation and develop a policy to support this aim. Our previous Financial Resilience report included a proposal for improvement that the Council should complete and implement a comprehensive Income Generation and Charging Policy in time to support the 2017-18 budget. In response to this, the Council appointed an external partner to undertake a review of fees and charges and produce a corporate income policy. This work is due to be completed during autumn 2016 and the Council plans to implement any recommendations that arise by December. As the 2017-18 budget planning process is already underway, the new policy will have limited impact on this cycle of budget planning, but should ensure a more robust and consistent approach to income generation in future years.
- 41 The Council has effective budget monitoring and reporting processes in place. Regular budget monitoring reports are detailed and informative and enable Members to scrutinise and challenge performance against budget.

## Savings Plan 2016-17

**The Council forecasts that it is will achieve 90% of its 2016-17 revised planned savings but some of its savings proposals are not sufficiently well developed when the budget is approved**

### 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 2016-17 review we found that the Council expects to achieve 90% of its revised planned savings but some savings proposals were insufficiently developed at the time the budget was set. Our findings are detailed below.
- 44 The Council expects all services other than Schools and Social Services to make savings of at least 30% (approximately £28 million) over the period 2015-2018. These savings have been developed through three-year portfolio business plans. The Council has fully identified and costed savings plans to meet the savings required for 2016-17. The MTF5 summarises £10 million of indicative efficiency options for 2017-18 and the 2017-18 budget process, currently underway, will fully identify how the remaining gap will be filled. The Council's latest financial monitoring report forecasts that 90% of its revised savings plans for 2016-17 will be achieved in year.

- 45 The Council routinely classifies its savings proposals by type. The majority are service efficiencies, followed by structural review, service reductions and income generation.
- 46 Savings proposals are effectively risk assessed as part of the budget setting process. For each proposal, the savings plan sets out the risk status for the acceptability and deliverability and the financial robustness of the underlying costings. The majority of savings proposals are well developed and financially robust, which supports the Council's forecast for in year achievement. However analysis of proposals forecast to be underachieved in 2016-17 found that 93% were categorised as not fully costed. By approving savings proposals which are not fully developed, the Council could prejudice its ability to achieve its savings target.
- 47 Equality Impact Assessments are carried out for all savings proposals that impact on citizens or stakeholders. The Council also continues to refine its approach to stakeholder engagement. Its 'This is Your Moment' consultation was used to inform the 2016-17 budget and raise public awareness of the ongoing challenges and options the Council faces.
- 48 The Council's savings plan is both specific and measurable, listing individual savings projects and their value by portfolio. The plan is also supported by portfolio business plans. The Council regularly monitors and reports on achievement of savings proposals. Programme boards monitor each portfolio's progress against savings and budgetary targets and monthly reports to Cabinet and CROSC include an update on delivery of savings plans.
- 49 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:
- construction of waste handling facility – £100,000 (Invest to Save);
  - library relocations – £30,000 (Service Reduction); and
  - in-house bailiff service – £60,000 (Income Generation).

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. Due to unforeseen delays to the construction of the waste handling facility, the Council anticipates that only £80,000 of the planned saving will be achieved in 2016-17 but a full year saving will follow in 2017-18.

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