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Savings Planning – Rhondda Cynon Taf County Borough Council

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

The Council has a largely effective and improving savings planning approach, which supports future financial resilience.

Summary report

Summary	4
Proposals for improvement	6

Detailed report

The Council has a largely effective and improving savings planning approach, which supports future financial resilience	7
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Context	7
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Savings achievement 2015-16	9
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The Council has reported achievement of all of its 2015-16 savings plans in year, and can demonstrate that individual savings have been delivered	9
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Financial planning arrangements	10
---------------------------------	----

The Council has an effective corporate framework for financial planning but lacks indicative savings plans for future years	10
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Savings Plan 2016-17	
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The Council has a well-considered and detailed plan for 2016-17 and is forecasting that all planned savings will be achieved	12
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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 (MTFPs) 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 Rhonda Cynon Taf 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 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 MTFP and planned savings.
- 12 In our 2015-16 review we concluded that **the Council has a robust corporate framework for financial planning; however, there remains scope to enhance the links between the Council's corporate and medium-term financial planning processes.**
- 13 In this review, we concluded that **the Council has a largely effective and improving savings planning approach which supports future financial resilience.**

- 14 **This is an improved position from 2015-16.** The Council has increased investment in its corporate priorities by reviewing and releasing earmarked reserves. It has also developed an MTFP document which encompasses all medium-term financial planning assumptions and is developing an income generation policy.

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	<p>Strengthen financial planning by:</p> <ul style="list-style-type: none"> • finalising the development of an income generation approach; and • developing savings plans to cover the funding gap identified in the MTFP.

The Council has an effective and improving savings planning approach 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 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 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.

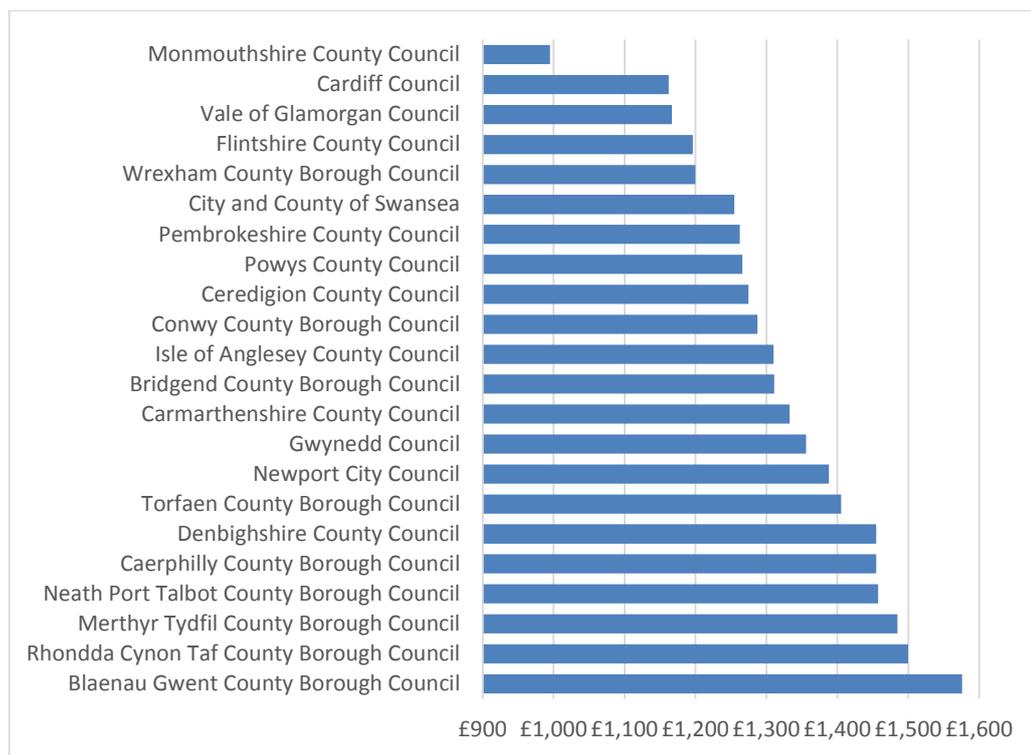
¹ Comparing core funding (Aggregate External Finance (AEF)) across the period 2013-14 to 2016-17 is complicated for two main reasons. Firstly, the Welsh Government has incorporated into core funding grants that were previously provided separately. While this de-hypothecation of grants results in an increase 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 £353.8 million in support from the Welsh Government in 2016-17. This represents £1,500 per person in the county, above the average for Wales but a real-terms reduction of 9.1%³ per head since 2013-14. There are other key issues that impact on any council's 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](#)

³ The percentage reduction per head figure varies from the 2013-14 core funding reduction due to population variation over the same period.

Savings achievement 2015-16

The Council has reported achievement of all of its 2015-16 savings plans 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 robust process for identifying savings and only builds them into its base revenue budget once business cases have been developed, and the relevant details agreed. The Council has a strong track record of delivering its annual budget and managing overspends and underspends in-year.
- 21 In our 2016-17 review we found that the Council had improved on its previous year's position in a number of areas; these are detailed below.
- 22 The Council achieved a surplus on its 2015-16 budget including the delivery of all planned savings. The surplus was transferred to earmarked reserves. The Council's strategy is to achieve additional in year savings, where possible, and use these to top up the Medium Term Financial Planning and Transformation Reserve or for investment opportunities.
- 23 The Council's 2015-16 out-turn report showed there was a collective net underspend on directorate budgets which mainly related to Community and Children's Services. This underspend resulted from the Council's proactive approach in progressing more preventative strategies in these services.
- 24 The Council's planned budget strategy included the use of transitional one-off funding from its Medium Term Financial Planning and Service Transformation Reserve to fund the part-year impact of some savings proposals which straddle financial years. It also included a planned transfer from its general reserve to replenish the Medium Term Financial Planning and Service Transformation Reserve. Appropriately, funding of the Council's base budget is not underpinned by use of the general reserve.
- 25 The Council achieved its 2015-16 savings plans in full. This achievement is in part due to the fact that the Council only builds budget savings into its base revenue budget once business cases have been developed, and the relevant

details agreed. This approach provides the assurance that the saving will be achieved in year.

- 26 The Council divided its savings into efficiency type savings and service changes. All efficiency type savings are identified in advance of setting the following year's annual budget.
- 27 Savings plans are embedded in the base budget and form part of the budget monitoring process. Problems with achieving savings plans would be identified in the regular budget monitoring reports.
- 28 The Council has a track record of delivering its in-year savings plans. The Council is confident that all in-year savings plans will be achieved without having to identify alternative savings proposals.
- 29 The Council ensures that the consultation process required for any service change proposals is completed in advance of the annual budget being agreed.

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

- 30 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.
- 31 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.
- 32 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.
- 33 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

- 34 In our 2015-16 review we found that the Council had effective arrangements for medium-term financial planning but these were not supported by an MTFP document, reserves policy or comprehensive income generation/charging policy.
- 35 In our 2016-17 review we found that the Council had improved on its previous year's position in a number of areas; these are detailed below.
- 36 The Council reviews its plans regularly; for example, it reviewed its Corporate Plan in February 2016. This plan now focuses on three priorities: economy, people and place. The Corporate Plan is set in the context of the 2016-17 budget setting process and is a key component of the Council's budget and business planning process. It states that the Council will meet the financial challenges ahead through a commitment that the Council lives within its means. The Corporate Plan builds on, and links well to, the medium-term financial efficiency principles previously established and will have the same focus going forward. Since 2015 the Council has invested approximately £30 million in Corporate Plan priorities, some of which will release revenue savings in future years.
- 37 The annual budget and medium-term financial planning assumptions for 2016-17 referred to the Corporate Plan but no other corporate strategies; however, in September 2016 the Council developed an MTFP document which refers to key strategies, such as office accommodation and digitisation of services, which will be developed to release savings over the period of its MTFP.
- 38 The Council's MTFP is good. Medium-term financial planning assumptions are kept under review. A formal update rolling the budget forecast forward is provided to members in July and updated following the announcement of the provisional settlement. Regular internal updates on MTFP assumptions to take account of changes in key variables and any other emerging issues are provided to the Leader, Cabinet and Senior Management Team following good practice.
- 39 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 for funding from Welsh Government. The MTFP 2017-18 to 2019-20 identifies a budget gap of £62 million based on a least optimistic scenario. The Council has identified indicative savings over the period of £23 million, leaving a budget gap of £39 million.
- 40 The MTFP is also underpinned by reasonable and appropriate assumptions for key variables such as pay awards, price inflation, and funding and council tax levels. The impact of demographic changes, changes in demand and inescapable pressures is also assessed.
- 41 The Council holds approximately £11 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. The annual budget report does not include a comprehensive statement of planned use of reserves over the term of the MTFP and the Council does not have a reserves policy. However, the Council reviews and reports in year on the use of reserves.. For example, the Council reviewed its

earmarked reserves in 2015-16 and identified that around £19 million could be released for investment in the Council's priorities.

The Council's budget strategy since 2014-15 includes the planned use of its Medium Term Financial Planning and Transformation Reserve to smooth the part-year effect of savings proposals which straddle financial years. Appropriately, the Council recognises that this is not sustainable in the longer term and the amount used to fund the annual budget has reduced by 50% since 2014-15. The Council has partially replenished this reserve at year-end.

- 42 The Council does not have a corporate policy on income generation/charging or a corporate fees and charges register. However, the level of fees and charges is agreed by Cabinet on an annual basis and feeds into the Council's annual budget strategy. There is some evidence that income generation opportunities are considered, eg charging for sports pitches but opportunities could be missed without a corporate policy in place. The Council recognised this risk and is at the early stages of developing an income generation/charging policy.
- 43 Integrated, quarterly, 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

The Council has a well-considered and detailed plan for 2016-17 and is forecasting that all planned savings will be achieved

What good looks like

- 44 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

- 45 In our 2015-16 review we found that current-year savings plans were specific and underpinned by well-developed processes but there was scope to improve alignment with its medium-term financial planning processes.
- 46 In our 2016-17 review we found that the Council is improving on its previous year's position but its MTFP still lacks indicative savings plans for future years. Our findings are detailed below.
- 47 The Council has identified savings plans to meet the savings required for 2016-17. The MTFP includes indicative global savings from general base budget efficiencies over the MTFP term but it has not identified any other indicative savings proposals to meet the forecast budget gap going forward. The Council's quarter one financial monitoring report forecast that all savings plans for 2016-17 will be achieved.
- 48 The Council has appropriately classified its costed savings plans into general base budget efficiencies (no impact on services or the public); Social Care Transformation Programme; management restructure; and service change design. Savings plans deemed to be transformational amount to 35% of costed savings plans.
- 49 Following good practice, the Council's savings proposals are risk assessed throughout the year prior to being included in the following year's budget and finance officers work with service managers to test the robustness of proposals. Only savings proposals which are assessed as being achievable are included in the annual budget. Service changes proposals are subject to options appraisals and appropriate consultation prior to inclusion in the budget.
- 50 General base budget efficiencies are considered to have nil impact on citizens or stakeholders and do not usually require impact assessments. Equality impact assessments are carried out for all other savings proposals.
- 51 Budget consultation responses on savings proposals received from citizens, stakeholders and other partners etc. are considered before the budget is approved, and if deemed appropriate, changes are made, eg following consultation the savings proposal for supported bus routes was removed.
- 52 The Council's savings plans are specific. General base budget efficiencies are included as a global target sum but no specific detail is in the public domain because these efficiencies are deemed to have no impact on service users or stakeholders and are business-as-usual efficiency reductions. However, a schedule of general base budget efficiencies is tracked and monitored internally, and progress on proposals is risk assessed throughout the year using a Red/Amber/Green (RAG) status prior to inclusion in the following year's annual budget. Service change and transformation proposals are identified separately.

- 53 The Council does not specifically monitor the general base budget efficiency savings proposals because these are stripped out at the start of the year and the impact of non achievement monitored within base budgets. The Council would identify and address significant impacts resulting from savings proposals as and when they arise. For example, the member decision not to proceed, after the annual budget was agreed, with the home-to-school transport savings proposal for 2016-17 was reported to Council and alternative savings were identified and approved. Savings proposals for less significant amounts form part of the quarterly budget monitoring process and any underachievement would be addressed as part of this process. The Social Care Transformation Programme savings proposal is monitored separately on a monthly/quarterly basis.
- 54 We sampled three savings proposals for 2016-17 to test the underlying assumptions and whether there are adequate mechanisms to ensure they can be delivered in the planned timescale. The proposals were:
- social care transformation: £2.985 million (transformation type saving);
 - libraries – service change: £186,000 (service change options); and
 - day care nursery provision: £125,000 (service change options).
- 55 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.

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