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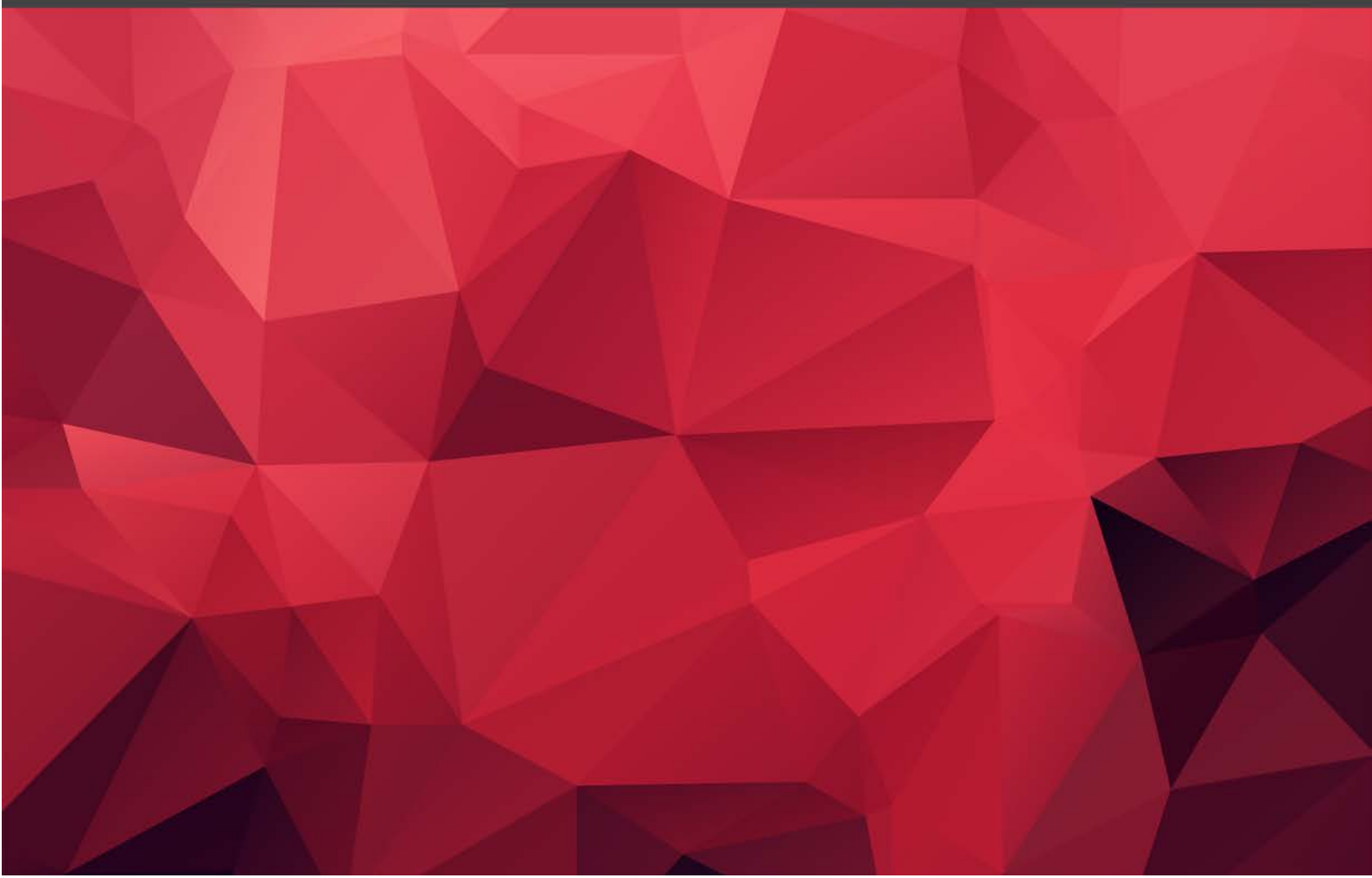
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Auditor General for Wales

Savings Planning – **City of Cardiff Council**

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The team who delivered the work was Chris Pugh, 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 Cardiff City 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 had improved its arrangements for financial planning and has sound financial control and governance arrangements, but needed to develop robust plans to support the timely delivery of its savings proposals.**
- 13 In this review we concluded that **the Council has a transparent and effective savings planning approach which supports financial resilience.**
- 14 **This is an improved position from 2015-16, but there are further improvements required** – the Council has strengthened links between its Organisational Development Programme and savings proposals are improving, but further work is required to fully align the two. The Council has also strengthened the links between its MTFP and its service plans. However, some savings proposals continue to be under developed when the budget is set.

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 all savings proposals are fully developed prior to the start of the year with realistic timescales when the annual budget is set;
 - developing an Income Generation/Charging Policy; and
 - continuing to develop links between the Organisational Development Plan and annual savings.

Detailed report

The Council has a transparent and effective savings planning approach which supports 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.

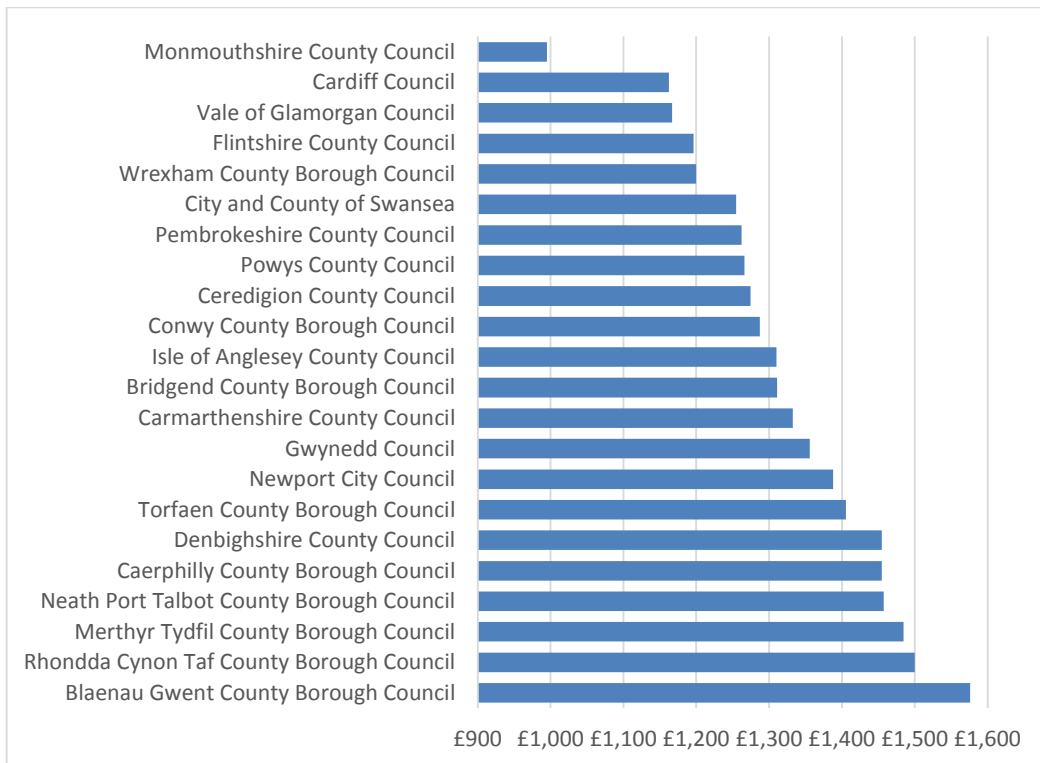
¹ Comparing core funding (Aggregate External Finance (AEF)) across the period 2013-14 to 2016-17 is complicated for two main reasons. Firstly, the Welsh Government has incorporated into core funding grants that were previously provided separately. While this 'de-hypothecation' of grants results in an 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 percent or more in real terms since 2013-14.
- 18 The Council received £426.3 million in support from Welsh Government in 2016-17. This represents £1,162 per person in the county, below the average for Wales and a real-terms reduction of 7.2%³ 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)

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 80 % of its planned 2015-16 savings in year and can demonstrate that individual savings have been achieved

What good looks like

- 19 Councils that have a good track record of delivering the majority of planned in-year savings should have well developed savings and delivery plans in place which are underpinned by robust monitoring processes. These councils do not have to continually bridge the gap year on year, by identifying alternative savings, using unplanned one-off funding from earmarked reserves, general reserves, contingency funds or fortuitous unplanned income received during the year.

What we found

- 20 The Council achieved 80% of its 2015-16 planned savings of £32.473 million. The unachieved savings in respect of 2015-16 were mitigated by the Council's planned contingency provision and elsewhere in service's base budgets. The Council reviewed its savings plans at year end and determined which savings plans should be carried forward to future years.
- 21 The Council's budget report to Cabinet in February 2015 risk assessed its 2015-16 savings proposals in terms of both residual risk and achievability, and assigned a Red/Amber/Green (RAG) status as defined in the Council's Risk Management Policy, Strategy and Methodology document⁴. Of the total savings of £32.473 million in respect of 2015-16 the Council classified them as follows in terms of achievability:
- Red – £2.828 million
 - Red/Amber – £7.602 million
 - Amber/Green – £16.733 million
 - Green – £6.167 million
- 22 The Council's budget report to Cabinet in February 2015 also provided information on the planning stage of its proposals, on an overall basis. The savings were categorised as:
- General planning – £5.954 million
 - Detailed planning – £24.828 million
 - Realised – £1.691 million

⁴ Risk Management Policy, Strategy and Methodology

- 23 The Council achieved an overall surplus on its 2015-16 revenue budget of £1.686 million after contributions to and from earmarked reserves and the funding of voluntary severance costs.
- 24 The Council's planned budget strategy for 2015-16 included the use of £595,000 from general reserves and a base budget contingency provision of £4 million to mitigate the impact of savings proposals not being achieved as planned. The Council determined the value of its reserves and general contingency required on past experience and a risk assessment of the value and stage of development of its savings proposals.

Financial planning arrangements

The Council has effective financial planning arrangements

What good looks like

- 25 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.
- 26 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.
- 27 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.
- 28 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

- 29 The Council's MTFP covers a rolling four year basis (currently 2016-17 to 2019-20). Planned and reactive refresh of the MTFP takes place during the year and updates are discussed with Cabinet Members and Senior Leadership team.

- 30 The Council's MTFP includes sensitivity analysis and is modelled on base, most likely and worst case scenarios. The 2017-18 to 2019-20 forecasts within the MTFP are based on a most likely case scenario of a reduction in revenue support of 1%. In addition, the Council's MTFP also sets out that it has in place a provision of £4 million within the base budget to mitigate a further 1% reduction in revenue support grant. The MTFP also reflects the impact of macro -economic and other key variables such as pay awards, price inflation, impact of demographic changes, increased demand on the cost of services and impact of interest rates on borrowing repayments.
- 31 The Council considers its MTFP at the weekly officer Budget Strategy Team meetings. The Council also provides a financial snapshot of key financial ratios which may impact the Council's financial resilience in its quarterly financial monitoring reports to Cabinet.
- 32 The Council's MTFP forecasts a net budget gap of £75.297 million for the period 2017-18 to 2019-20 and it states it will be met from a combination of directorate savings, council tax increase, addressable spend savings, a cap on schools growth and use of earmarked reserves.
- 33 The Council's strategy for holding and utilising reserves is set out in its Financial Procedure Rules and it reviews its usable reserves as part of its budget setting process. The Council's policy on reserves does not set out a definitive level of reserves. However, Members, following advice provided by the Section 151 Officer, consider both the level of reserves held and whether any amounts should be used to support the budget setting process each year.
- 34 The Council holds a working balance in its general reserve of £15.255 million. The Council plans to use £2 million of the general reserve to support the 2016-17 budget but it does not plan any further use of the general reserve beyond this date. The Council also forecasts the use of £4.5 million of earmarked reserves to support the budget for the period 2017-18 to 2019-20.
- 35 The Council does not have a corporate income generation/charging policy, but the annual budget report includes a comprehensive schedule of fees and charges including any proposed changes for the following financial year. The Council has identified income and charging as a key delivery strand within its savings proposals. As part of the Organisational Development Programme each directorate has been provided with guidance to inform the development of income generation/charging options which will form part of its income generation/charging delivery strand.
- 36 In our 2015-16 Financial Resilience Assessment we included a proposal for improvement stating that the Council should strengthen the links between its MTFP, its service plans and its improvement planning arrangements. During our 2016-17 Financial Resilience Review we identified that the Council has improved the links between its MTFP and its service plans. The Council's 2016-17 Directorate Delivery Plans include the directorate savings and provide appropriate narrative to support this.

- 37 The Council's Corporate Plan 2016-18 has a clear overall vision with key priorities and recognises that the implementation of strategic priorities and improvement objectives needs to be achievable within the resources for 2016-17 and set out in the Medium Term Financial Plan. The Council's MTFP is aligned with the Corporate Plan and other key strategies such as the Organisational Development Plan and workforce planning but the MTFP is not explicit that budgets are prioritised and no information is provided on the budget allocation for corporate priorities.

Savings Plan 2016-17

The Council forecasts it will achieve 80% of its 2016-17 planned savings and has contingencies in place to mitigate insufficiently developed plans

What good looks like

- 38 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

- 39 The Council strengthened the process by which it developed its 2016-17 Budget Strategy by engaging in earlier and more collaborative target setting. The Council is improving the way it addresses future financial challenges through the more strategic and medium to longer term budget approach it is taking.
- 40 The Council carries out extensive consultation on its budget proposals with the public and other stakeholders. Equality Impact Assessments have been carried out for all proposals.
- 41 The Council's Organisational Development Plan is its transformation/change management plan and a key driver in reviewing the shape and scope of the organisation and the way in which it delivers services. The Organisational Development Plan is a three year programme which provides a model to implement fundamental changes needed to ensure services are sustainable. Savings targets which may result from the Organisational Development Plan are not included in the budget until business cases, underpinned by robust costings, have been fully developed.
- 42 In our 2015-16 Financial Resilience Assessment report we included a proposal for improvement stating that the Council should ensure that savings proposals owned by directorates should be linked to the Organisational Development Plan where

relevant and are fully costed and that delivery is driven by the Organisational Development Programme Board. The Council made a conscious decision in 2015-16 not to link projects and savings plans in the Organisational Development Plan. The primary aim of the Organisational Development Plan was, initially, to promote accountability and ownership for organisational change within services. However, the Council informed us that from 2016-17, as projects are developed, they will, where appropriate, be linked to savings plans.

- 43 Our 2016-17 review identified that while links between the Organisational Development Plan and savings proposals are improving, further work is required.
- 44 The Council approved total savings proposals for £28.835 million for 2016-17 in March 2016. The savings are detailed on a line by line basis and are accompanied by appropriate narrative.
- 45 In our 2015-16 Financial Resilience Assessment report we included a proposal for improvement stating that the Council should ensure that savings plans are fully developed and with realistic timescales, when the budget is set. In our 2016-17 Financial Resilience Review we have identified that the position remains unchanged and that not all savings proposals are fully developed with realistic timescales when the budget is set.
- 46 The Council risk assessed the achievability of its 2016-17 savings proposals using a Red/Amber/Green (RAG) rating when setting its annual budget in February 2016. Of the total savings approved for 2016-17, £2.740 million of savings were risk assessed as red in terms of achievability. The Council also classified £2.752 million of its 2016-17 savings as being at a general planning stage.
- 47 The Council monitors the achievement of its savings proposals as part of its quarterly budget monitoring to Cabinet. The Council's savings monitoring report includes a brief commentary on savings achieved, those likely to be achieved and those which will not be achieved. However, mitigation for non-achievable individual savings proposals is not specified in the monitoring reports.
- 48 The Council's quarter one monitoring report to Cabinet in September 2016 shows that directorate savings of £7.297 million had been achieved, along with £2.895 million of Council wide savings. The Council forecasts that £5.462 million of the 2016-17 savings (20%) are unlikely to be achieved. In the first instance services will be expected to identify compensating budget reductions or alternative savings to meet any shortfall. The Council will use its £4 million contingency fund to mitigate any remaining shortfall. The Council does not have contingency plans to support individual savings plans. The Council reviews its unachieved savings plans at year end and rolls forward to the following year those which are achievable.
- 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:
- youth services – £650,000;
 - arts venues – review of costs, income and service delivery in Arts Venues. £430,000; and

- new operating model for leisure centres: Council to progress a procurement exercise to see how a new operating model for leisure centres will be tested against in house provision - £850,000.

50 Of the three savings proposals we reviewed, we identified that the underpinning assumptions were realistic and they had detailed plans in place for delivery. However, two of the proposed savings could not be fully delivered in the planned timescales due to changes in the planned service delivery models and procurement approach Both of the savings that will not be delivered in 2016-17 had a risk rating of red against achievability when the Council agreed its budget in February 2016. These savings proposals will be rolled forward to 2017-18.

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