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Auditor General for Wales

# Savings Planning – Gwynedd Council

Audit year: 2016-17

Date issued: March 2017

Document reference: 686A2016



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The team who delivered the work comprised Sian Clark, Nick Rayner 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 Gwynedd 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's financial management arrangements are sound and it is well placed to tackle future challenges.**
- 13 In this review we concluded that **the Council has an effective and well-considered savings planning approach, which is supporting future financial resilience.**
- 14 **This is a continued strong position from 2015-16** – The Council has well-established and clear policies around its financial planning arrangements.

## 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 delivery timescales in business cases are robust; and
  - establishing a more corporate approach to identifying income opportunities.

# Detailed report

## The Council has an effective and well-considered savings planning approach, which is supporting 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.

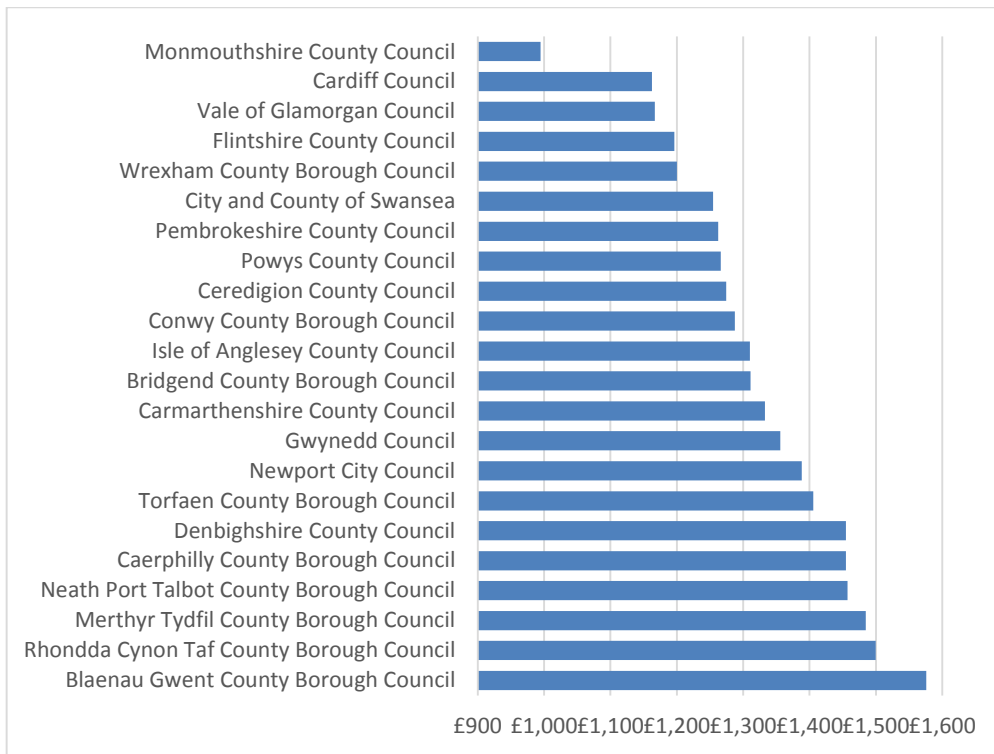
<sup>1</sup> Comparing core funding (Aggregate External Finance (AEF)) across the period 2013-14 to 2016-17 is complicated for two main reasons. Firstly, the Welsh Government has incorporated into core funding grants that were previously provided separately. While this 'de-hypothecation' of grants results 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 £166.9 million in support from Welsh Government in 2016-17. This represents £1,356 per person in the county, above the average for Wales but a real-terms reduction of 10.66%<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 91% 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 an effective framework for financial planning with established clear policies in respect of financial planning arrangements with a good track record of identifying and delivering a programme of savings.
- 21 In our 2016-17 review we found that the Council's financial planning arrangements remained effective.
- 22 The Council identified savings proposals of £8.6 million to help meet its 2015-16 budget gap. The Council achieved 91% of its planned savings. Any shortfall resulting from unachieved savings were met from reductions in departmental budgets or from balances. The Council carries forward unachieved savings to future years and it is departments' responsibility to ensure that they are achieved. The remaining savings from the 2015-16 savings plan are expected to be delivered during 2016-17.
- 23 The Council considered the savings made in 2015-16 to be 'service efficiencies' as opposed to 'service cuts'. Each element of the savings plan was monitored and risk assessed for achievement during the year. Of the savings not achieved, the majority related to a single department and were partly mitigated through transfers within budget headings and re-profiling. During the year the Council reviewed progress regularly and reported performance against the savings plans to relevant Achievement Panels. The Corporate Organisation Achievement Panel received overview reports of all Panels' savings plans. Quarterly monitoring reports on the revenue budget, which included a narrative on progress against departmental savings plan, were presented to Cabinet.
- 24 The Council has highlighted the financial role of Cabinet Members in recent years. Cabinet Members are now aware that they have clear responsibility to ensure that savings within their portfolio areas are delivered in full and on time.

Cabinet Members report to Cabinet on their portfolios on a regular cycle. This report includes an update on the progress of profiled savings plan (both efficiencies and cuts).

- 25 Following recent changes to the Council's performance management framework, every nine weeks portfolio holders and corporate directors review and challenge departments' delivery of the savings plan. A recent development, in order to improve understanding and avoid duplication, has been to include some scrutiny Members in those meetings.

## Financial planning arrangements

### The Council has strong financial planning arrangements in place supported by well-considered savings plans

#### 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. 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.
- 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's financial management arrangements were sound and it was well placed to tackle future challenges.

- 31 In our 2016-17 review we found that the Council has a clear Medium Term Financial Strategy, set for four years, extending to 2019-20. It is kept under review and updated as necessary, to take account of changes in key variables and assumptions. The MTFP identifies the potential budget shortfall for each year within the four year period. The Council has developed comprehensive plans for meeting this shortfall for both 2016-17 and 2017-18. It will further refine its approach to meeting the funding gap for 2018-19 and 2019-20 as the financial position becomes clearer.
- 32 To inform the MTFP, the Council estimates unavoidable commitments for the next four years, taking into account the full range of cost pressures on services including: inflation (pay and other), national insurance changes, pensions, interest, and demography. The Council has modelled three scenarios in respect of possible future Welsh Government support and taken a considered approach to its future financial position.
- 33 During 2015 the Council undertook a comprehensive consultation programme, 'Gwynedd Challenge'. This sought public and stakeholder views on potential cuts in services. The Gwynedd Challenge consultation was effective, with over 2100 responses. Equality Impact Assessments are undertaken for the majority of savings strands in advance of the budget setting process.
- 34 The Council holds approximately £5.5 million as a working balance in its general reserve. The Council has a reserves policy and both reserves and provisions are regularly and thoroughly reviewed. As part of setting its budget for 2016-17, the Council agreed to release £871,000 from reserves and released a further £1.14 million following a review of provision requirements to support its 2016-17 Financial Strategy. The Council has approved the use of this £2.1 million as a funding 'bridge' as it assessed that it would not be possible to implement all the cuts required in the 2016-17 financial year.
- 35 There are fees and charging arrangement in place which set out the process to be followed when planning an increase or introducing charging for services. It recognises there are differences in approach depending on whether the service is statutory or discretionary. Services' income targets are included in the budget setting process. Information relating to fees and charges is publicly accessible. However, the Council's approach to identifying opportunities for increasing income through charging for services is inconsistent.
- 36 The objectives and priorities in the Council's 2013-17 Strategic Plan provide a clear framework for its financial planning and have been considered within the context the Council's overarching aim of: 'putting the people of Gwynedd at the heart of all the Council does'.

## Savings Plan 2016-17

### The Council has detailed savings plans and is forecasting that 93% of its 2016-17 savings plan will be achieved

#### What good looks like

37 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

38 In our 2015-16 review we found that the Council's savings plans were specific and measurable and that the Council has a good track record of delivering the majority of its savings plans.

39 In our 2016-17 review we found that the Council had identified a financial gap of £11.2 million for 2016-17 which would be met through efficiency savings, implementing service cuts and use of the £2.1 million funding bridge. The Council has a fully costed savings plan to deliver £6.6 million during 2016-17 (more than was profiled) and a programme of cuts to deliver £2.6 million; the combined plans for 2016-17 equate to £9.2 million.

40 At the end of quarter two, the Council forecast that 93% of the savings plan for 2016-17 will be achieved. The Council is taking mitigating action to reduce the savings gap.

41 Internal monitoring arrangements are robust and the Council is able to measure achievement against each specific saving. Savings strands (for both efficiencies and cuts), are regularly monitored during the year. Each savings strand has a short description of the saving, the amount to be saved, together with the likely quarter and year of achievement (if there are multiyear savings attached to the savings strand). In addition the plan provides a summary of progress of each strand together with a cumulative total of achievement. Mitigating actions are also included. Progress made against previous years 'unachieved savings are also closely monitored.

42 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:

- pest control – as an example of income generation;
- libraries – as an example of part year savings; and
- waste services – Garden Waste Collection – an example of 2017-18 savings brought forward.

- 43 The review of the sample tracer savings proposals showed that the business cases were robust with well-developed assumptions, costings and delivery timescales, but that opportunities to identify further potential income generation could be missed.

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