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Savings Planning – **Pembrokeshire County Council**

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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 Pembrokeshire 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 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 **there is considerable scope to improve the Council's financial planning, management and decision-making arrangements if they are to continue to serve the Council well in addressing the financial challenges it faces for 2015-16 and beyond.**
- 13 In this review we concluded that **whilst the Council is improving its financial planning framework, the pace of developing savings plans may not support future financial resilience.**

- 14 **This is an improved position from 2015-16** – The Council has developed a MTFP covering the four-year period from 2016-17 to 2019-20, has initiated a Transformation Programme in 2016-17, set up reserves to fund implementation costs, developed an Income Generation and Charging Policy and has revised its Reserves Strategy. However, future savings proposals lack detail and the links between corporate and financial plans are not yet sufficiently robust.

Proposals for improvement

Exhibit 1: proposals for improvement

The Council has shown signs of improvement since our last review but there remain areas for improvement as detailed below:

Proposals for improvement	
P1	Strengthen financial planning arrangements by: <ul style="list-style-type: none">• ensuring there are robust savings proposals to cover the period of the MTFP; and• undertaking monitoring of the MTFP and reporting performance in year.

Detailed report

Whilst the Council is improving its financial planning framework, the pace of developing savings plans may not 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 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.
- 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.

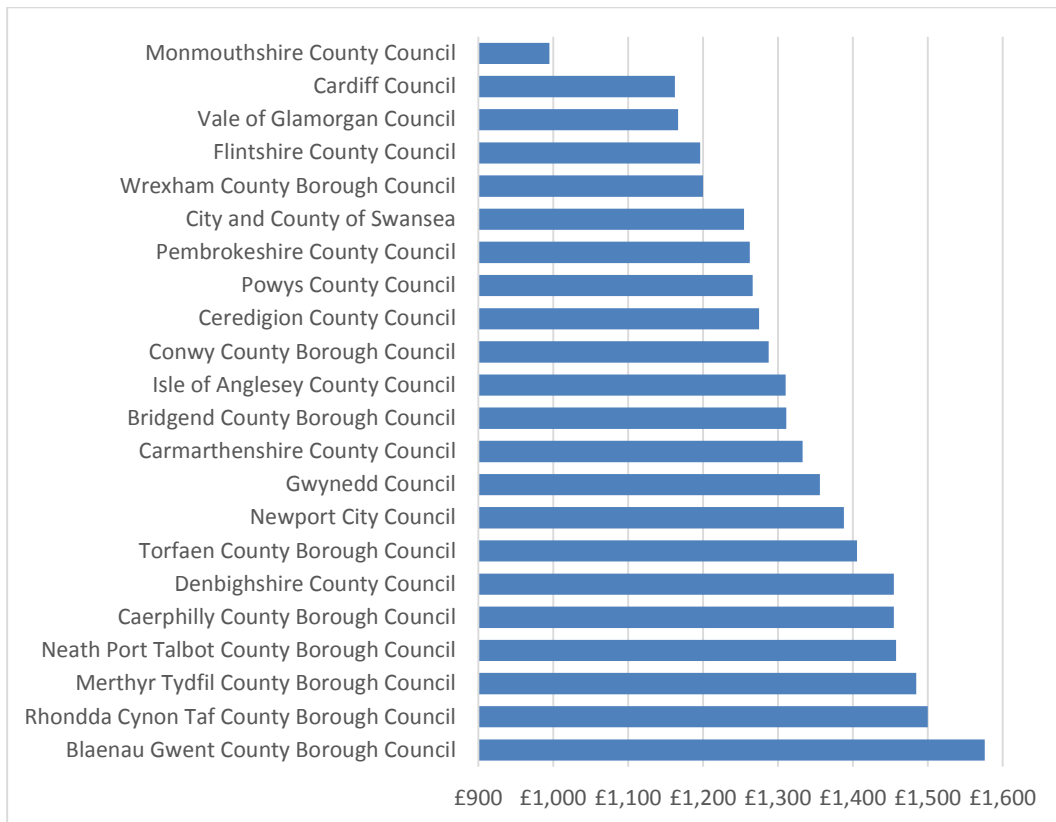
¹ Comparing core funding (Aggregate External Finance (AEF)) across the period 2013-14 to 2016-17 is complicated for two main reasons. Firstly, the Welsh Government has incorporated into core funding grants that were previously provided separately. While this 'de-hypothecation' of grants results in an 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

18 The Council received £156.9 million in support from Welsh Government in 2016-17. This represents £1,262 per person in the county, below the average for Wales and a real-terms reduction of 14.9%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 84% 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 Through this review we found that the Council has improved on its previous year's position in a number of areas, as detailed below.
- 21 The Council achieved 84% of its planned savings in 2015-16. The funding gap identified by the Council was £12.3 million. This was split between a council tax increase and a cost reduction target. The cost reduction target was set at £10.07 million. Of this target, £8.44 million was achieved (84%). This means that £1.63 million (16%) of the cost reductions/efficiencies was not achieved.
- 22 The biggest gap was in Adult Social Care. Adult Social Care was also the only directorate to be given a red RAG rating for overspending.
- 23 The MTFP states that the Council achieved the required monetary value of cost reductions/efficiencies in 2013-14, 2014-15 and 2015-16, though this was not always by delivering the original proposal. Unachieved savings were offset by 'cost reductions/efficiencies in respect of capital financing costs and a change in the way the council calculates its minimum revenue provision for the Council fund'. A proportion of unachieved saving were rolled forward to 2016-17 and included in the budget as a cost pressure.
- 24 The Council's net revenue expenditure was lower in 2015-16 than the previous year, at £202.7 million compared to original and revised estimates of £202.8 million. The Council also generated more income than originally forecast in 2015-16.

Financial planning arrangements

Whilst the Council has begun to address weaknesses in its financial planning framework the achievability of future savings proposals is unclear

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 In our 2015-16 review, we found that 'while the Council's Summary MTFP is broadly fit for purpose in identifying the budget 'gap', the Council has yet to develop a long-term vision and strategy to support the radical changes in service delivery necessary to reflect anticipated reductions in local government finances'. Since our last review the Council has sought to develop its financial planning arrangements, as summarised below.
- 30 The Council has now developed a MTFP covering the four-year period from 2016-17 to 2019-20. It identifies the Council's projected funding gap of £52.5 million over the four-year period. It includes a worst case scenario, based on a 4.5% reduction and a best case scenario based on a 2.5% reduction in Welsh Government support. The MTFP assumes the worst case scenario.

- 31 The Council classified its savings for 2016-17 as 'cost reduction/efficiencies'. However, the MTFP states that during the 2015-16 budget setting exercise it became apparent that applying a uniform percentage savings cut to all directorates to efficiencies was 'no longer an efficient or effective mechanism' and 'full scale transformation' was needed to deliver the level of savings required for future years.
- 32 The Council engaged PricewaterhouseCoopers (PwC) to undertake a review of how it operates and develop a programme of transformation opportunities to make savings over the next five years. PwC identified total potential gross savings of between £30.6 million and £51.3 million. £30.6 million of the savings identified have been incorporated into the MTFP from 2016-17 to 2019-20. These are to be delivered under the Transformation Programme the Council is initiating over the period of the MTFP. Combined with already identified cost reduction/efficiencies of £19.5 million and additional Council Tax income of £9.7 million, the Council estimates this would result in an over-achievement of total savings and a surplus of £7.3 million by 2019-20.
- 33 The Council has decided to pursue many of these opportunities in-house. The MTFP states that fully detailed business cases will be developed for each and the Council is now putting arrangements in place to support delivery. While it may be understandable that full business cases have not yet been developed, we do not know how much detailed work has been done to assess and scrutinise the viability of these savings at this stage.
- 34 Savings plans are risk rated during the year and in the outturn report using a 'red, amber, green' or 'RAG' status. In order to provide assurance that savings plans (including income generation elements) are reliable, realistic and deliverable in the intended timetable the Council should introduce the requirement for all savings plans to be risk rated when the MTFP and budget are approved. This process will provide a baseline to assess progress from the inception of the saving plan, and establish whether or not alternative savings need to be identified earlier on in the financial year.
- 35 The Council has also revised its Strategy for Holding and Utilising Reserves for 2016-17, responding to our previous Financial Resilience report. The new strategy sets out further information on how reserves will be managed and reported and sets out a protocol for the establishment of new earmarked or ring-fenced reserves. The Council also reviewed and realigned some earmarked reserves during 2015-16 to support funding of implementation costs associated with its Transformation Programme.
- 36 More generally, the MTFP states that the 'Council does not plan to use any of its realigned Earmarked Reserves or Working Balance to balance the budget during this four year period of the MTFP'. This is an ambitious target since the majority of savings plans are not yet in place.
- 37 The Council has developed an Income Generation Strategy (the Strategy) and now maintains a register of fees and charges. The strategic approach to Income Generation and Charging is in the early stages of development and the Strategy focuses on what the Council will do to make progress.

- 38 We have previously identified that the Council has lacked a clear vision for service delivery and financial decisions have not been guided by clear corporate priorities. We found that the Council has been applying a uniform percentage savings cut to all directorates, meaning service areas have to undertake their own prioritisation and risk analysis when identifying their specific savings schemes. The Council has recognised this lack of alignment and has developed a planning timetable for 2017-18 that sets out corporate planning elements (including the development of well-being objectives), and financial elements alongside each another. The Council has also introduced a service prioritisation matrix to inform the budget for 2017-18. The aim is to encourage a broader consideration of how services can make savings, including through reducing expenditure, generating income, agile working or commissioning. The Council will need to ensure there is a strong connection between the service prioritisation exercise and the vision and well-being objectives going forward.
- 39 The Council described its MTFP as a 'live document,' which will undergo both informal updates and a formal annual review. The current MTFP will reach its first anniversary on 31 March 2017 and no monitoring or review of the MTFP as a complete document has taken place so far. However, below this the Council has taken steps to improve the regular reporting of information on spend and savings, having recognised that information in management reports is often out of date by the time it is considered by Cabinet. The Council is introducing 'rolling budgets', which will provide projected outturn for the year at any given time and will include progress on cost reduction measures. The approach is intended to highlight any likely overspends or underachievement in savings and improve transparency.

Savings Plan 2016-17

The Council has forecast that it will achieve 93% of its 2016-17 planned savings, but some savings plans lack detail

What good looks like

- 40 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

- 41 The Council has identified savings of £13.78 million for the 2016-17 financial year out of a total budget of £202.14 million (savings are therefore 6.8% of the total net budget requirement). Quarter two budget monitoring shows a projected overall overspend of £1.222 million (0.6%) including an underachievement on savings of

£980,000 (£13,782 required, £12,802 projected). This equates to an achievement of 93% of planned savings.

- 42 For 2016-17 as for previous years, all savings have been categorised as cost reduction/efficiency related. The Transformation Programme will make the distinction between transformational savings and cost reduction/efficiency sourced savings from 2017-18 onwards.
- 43 The Council undertook an 'Integrated Impact Assessment' (IIA) of the 2016-17 budget. The IIA sought to take account of potential impacts relating to equality, sustainability, health and the Welsh Language. Individual equality impact assessments have been undertaken on some specific proposals, though this is not the case for all. The Council has further developed its equality impact assessment process this year, so that individual service changes are also assessed in the context of broader legislative requirements, including the Well-being of Future Generations (Wales) Act 2015 and Welsh Language Standard Regulations.
- 44 The Council made the budget the main focus of its 'PCC is Changing – Community Engagement Events'. These events were held between the end of September and end of November 2015 to consult on the Council's budget for 2016-17. A variety of stakeholders were involved, including Town and Community Council representatives, citizens, partner organisations, members, employees, head teachers, the Pembrokeshire Business Panel and Pembrokeshire Voices for Equalities. It then undertook a formal budget consultation from November 2015 to January 2016. The formal consultation was specific and directly linked to savings proposals and the results were used to inform the IIA. The Council began undertaking budget consultation four years ago and has sought to learn and continue developing its approach.
- 45 Scrutiny committees considered the proposed budget at their meetings in January 2016. Since that time the Council has restructured its scrutiny arrangements and is seeking to increase the amount of pre-decision scrutiny undertaken. The Council will need to further consider how it promotes effective scrutiny of the budget within the context of the new arrangements, ensuring there is time for detailed scrutiny which can inform the budget setting process.
- 46 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:
- adult and community education – rationalisation and review of fees and charges. £242,000 savings target for 2016-17;
 - residential care home placements – Review of packages of care and review of Residential Care Homes. £922,000 savings target for 2016-17; and
 - library service – restructuring of service, Community managed libraries, new fees and charges, reductions to book fund and bank holiday closures. £114,000 savings target for 2016-17.
- 47 The Council recognises that savings plans should be in place before the annual budget is approved to ensure there is adequate time for implementation and to

increase the likelihood of making the full year savings. For the examples we reviewed, preparatory work had been undertaken, with recommendations being approved by Cabinet prior to the budget being set. However, there were some substantial elements that were originally intended to be delivered in 2015-16 but were delayed due to planning and implementation issues.

- 48 The Residential Care Home and Placements savings target included a substantial carry forward from 2015-16 of £226,000. The total savings target for Adult Social Care for 2016-17 is nearly £4 million. In 2015-16 the service did not achieve over £1 million of its savings and was overspent. At quarter two 2016-17, the service is projecting that £250,000 of cost reduction/efficiencies will slip into 2017-18 and an unspecified proportion of savings being found through alternative means. The Council recognises there is a high risk associated with delivering adult social care savings and has put in place dedicated financial support, including employing officers to help deliver continuing healthcare savings.
- 49 There is some inconsistency between how the delivery of savings are planned for and subsequently managed. However, we saw evidence of the use of a project management approach in one of the savings proposals selected. Developing this project management approach further would help the Council plan for the long lead-in times associated with more complicated savings plans and ensure that key elements, such as consultation and impact assessment, are undertaken appropriately.

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