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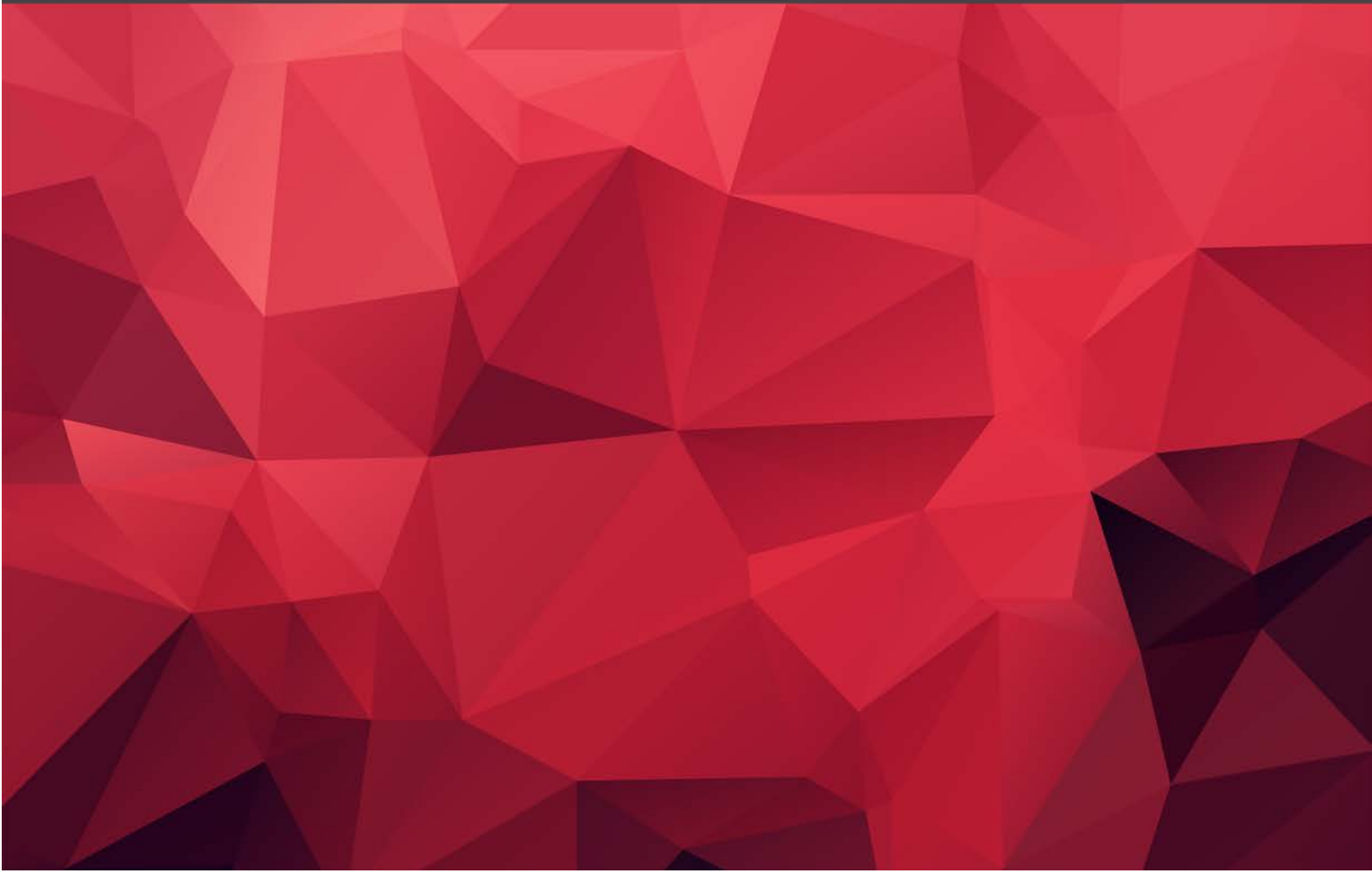
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Auditor General for Wales

# Savings Planning – Monmouth County Council

Audit year: 2016-17

Date issued: March 2017

Document reference: 690A2016



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The team who delivered the work comprised Dave Wilson, 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 Monmouthshire 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, 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 generally effective financial governance but its financial planning and control arrangements were not fully embedded or delivering effectively, in the face of some significant financial challenges. In respect of financial planning specifically we concluded that the Council's financial planning arrangements continued to improve although the medium term financial plan was not fully balanced, some budget mandates did not define how savings would be achieved and some planned savings were unlikely to deliver.**
- 13 In this review we concluded that **the Council's longer term financial planning arrangements are hampered by a Medium Term Financial Plan that is underdeveloped and may not support future financial resilience.**

- 14 **This is a slightly improved position from 2015-16.** The Council has improved the quality of information supporting budget savings mandates but the lack of a detailed MTFP to provide a clear financial planning framework and reducing reserves to provide an ongoing financial 'safety net' indicate that the Council continues to plan for the annual budget cycle instead of the longer term.

## 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:
- developing a robust Medium Term Financial Plan that incorporates its Reserves Policy, Income Generation Strategy and Future Monmouthshire project.

# Detailed report

## The Council's longer term financial planning arrangements are hampered by a Medium Term Financial Plan that is underdeveloped and 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 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.

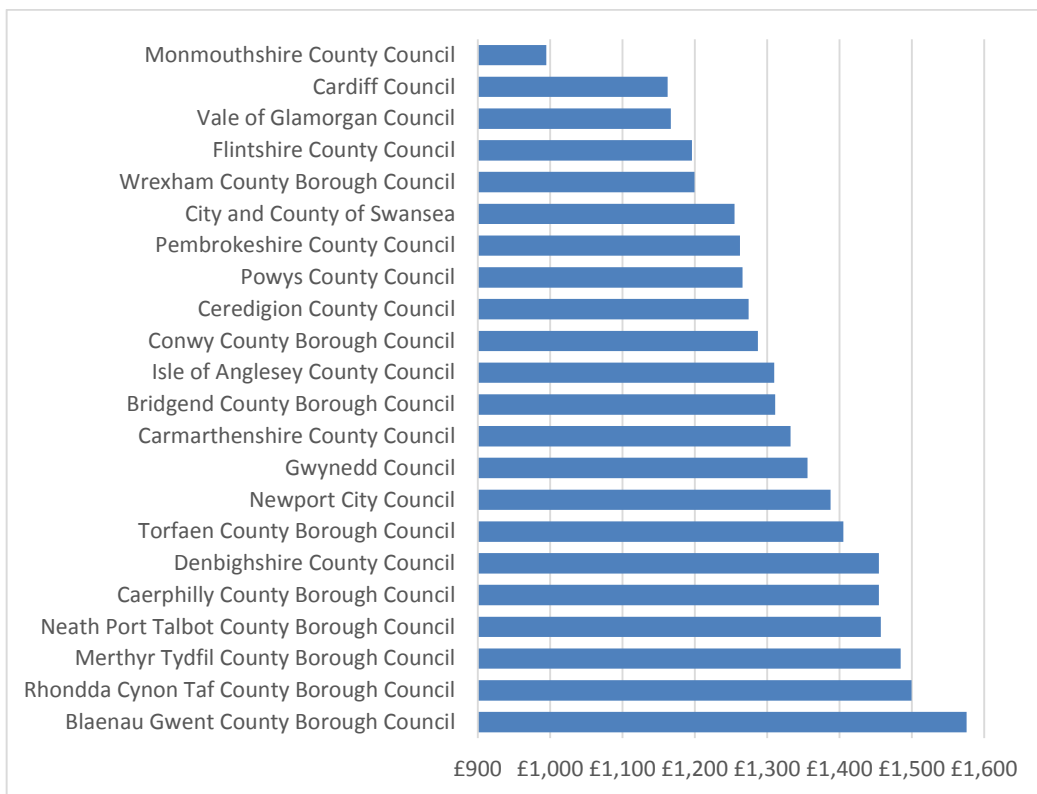
<sup>1</sup> Comparing core funding (Aggregate External Finance (AEF)) across the period 2013-14 to 2016-17 is complicated for two main reasons. Firstly, the Welsh Government has incorporated into core funding grants that were previously provided separately. While this 'de-hypothecation' of grants results 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 £91.5 million in support from Welsh Government in 2016-17. This represents £995 per person in the county the lowest in Wales and a real-terms reduction of 13%<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 89% 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 The Council contained spending within its overall 2015-16 revenue budget but spending was not as it had planned. In 2015-16, the Council achieved an overall net surplus of £0.7 million. Some directorates overspent against their budgets; for example, the Social Care and Health Directorate overspent its revenue budget by £1.28 million. This was partially offset by other directorates that managed to underspend against their revenue budgets.
- 21 The Council achieved 89% of its planned savings of £4.8 million. As officers prepared to implement the savings, they found that £300,000 of savings was unachievable and they could not deliver a further £200,000 of planned savings during 2015-16.
- 22 In addition to the planned £4.8 million saving, each year the Council reduces its revenue staffing budgets by 2% to recognise that vacancies will occur during the year. This reduction is not applied to directorate staffing budgets based on strategic workforce analysis and those directorates that fail to make the 2% saving through vacancies are required to find the equivalent amount from other budgets. This equates to a further budget saving from directorate budgets. .
- 23 As part of its 2015-16 budget strategy, the Council planned to use £1.1 million from its Earmarked Reserves and £40,000 from the Council Fund. The 2015-16 outturn position shows that the Council used £1.6 million, which was £500,000 more than planned, from Earmarked Reserves although it did not have to use its Council Fund.
- 24 The Council is starting to move away from its annual budget savings process and is adopting a more structured approach to reviewing services in the short, medium and long term. Its 'Future Monmouthshire' programme, supported by Cardiff University and a private sector provider, seeks to challenge the core purpose of its services and in the short-term identify budget savings for 2017-18. The Council

intends this approach to help it review services in a structured way to identify future operating models and quantify potential savings. The approach signals the Council's intention to move to a longer-term financial planning model.

## Financial planning arrangements

The Council has a well-structured approach to annual budget setting but longer term financial planning arrangements are hampered by a Medium Term Financial Plan that is underdeveloped

### 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 January 2016, the Council reported its reserves position, setting out how it planned to use reserves for 2016-17, and beyond up to 2019-20. The Council expects Earmarked Reserves to reduce further to £6.2 million by the end of 2016-17 and the General Reserve balance to be maintained at £7 million over the medium term.

- 30 The Council last reported its MTFP, which covered the period 2016-17 to 2019-20, to Cabinet in June 2015. The Head of Finance updates the MTFP periodically and reported the latest iteration covering the period 2017-18 to 2020-21, to the Council's Senior Leadership Team in February 2016. It showed potential gaps in funding based on best, middle and worst-case scenarios. The middle case scenario, on which the Council has based its savings targets, showed that the Council would need to identify budget savings of around £18 million over the lifetime of the Council's MTFP to deliver a balanced budget.
- 31 The Council's MTFP is underdeveloped. The MTFP includes some limited use of scenario planning around Welsh Government funding and Council Tax increases. Savings targets, to be met through a vacancy factor of 2% of staffing budgets each year, are included as assumptions, not as part of the funding gap. The MTFP assumes flat rate percentage increases in each scenario across the lifetime of the MTFP period for pay inflation, price inflation and council tax increases. Other budget pressures are not defined in the MTFP and are assumed at £5 million in the worst-case scenario, £2.5 million in the middle case scenario and zero in the best-case scenario. The forecast MTFP imbalance of around £18 million may therefore be understated because of this lack of substance and realistic modelling. The Council intends that the Future Monmouthshire project will identify opportunities to fund the shortfall identified in the MTFP; but the MTFP does not refer to the Future Monmouthshire project or assume any impact from it.
- 32 The Council's Earmarked Reserves have reduced considerably over recent years. In 2012, the Council's Earmarked Reserves stood at £18 million and it had a General Reserve of £6.2 million. The Council anticipated that by 31 March 2016, the Earmarked Reserve would reduce to £11 million and the General Reserve would be maintained at £6.2 million. However, at 31 March 2016, the Council's Earmarked Reserves had reduced to £9.2 million and the General Reserve balance had slightly increased to £7 million. The 50% reduction in earmarked reserves by £9.2 million over the last four years was to cover specific one off expenditure. Cabinet received a report on 6 July 2016 inviting Members to review and approve the level of earmarked reserves held by the Council at the 31 March 2016, the rationale for each reserve and the protocols for using them.
- 33 The Council approved its Income Generation Strategy in October 2015. This strategy seeks to identify opportunities to maximise income although it does not cover fees and charges; other than annual flat rate increases each year in line with recommendations from the Head of Finance. It is unclear how the Income Generation Strategy is supporting the MTFP. A 'final' version of the Income Generation Strategy is not available on the Council website, income generation budget mandates made no reference to the Income Generation Strategy and the MTFP reflects no direct impact from the Income Generation Strategy.
- 34 The Council makes positive links between its spending plans and delivery of its priorities. The Cabinet report in June 2015 presenting the MTFP includes reference to the Single Integrated Plan and the Council's Improvement Priorities. All budget savings mandates include a comprehensive Future Generations Impact Assessment, which includes equalities and sustainability impacts. Some strategies

refer to the MTFP, but links are not consistently clear; the cost of implementing strategies is not always fully calculated and the MTFP does not refer to the cost implications of strategies over the lifetime of the plan.

- 35 The Council monitors its budget and performance periodically during the year, highlighting key issues using colour and graphics in its reports. Although the Council does receive budget monitoring information, it does not routinely monitor performance against the MTFP during the year. For example, the updated MTFP is not routinely reported to Members as part of the budget setting process and the implications of budget pressures identified and reported through quarterly budget monitoring exercises are not reported within the context of the MTFP.

## Savings Plan 2016-17

**The Council forecasts that 83% of its 2016-17 planned savings will be achieved as delivery timescales for some savings plans are not realistic**

### What good looks like

- 36 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

- 37 The Council has a savings target for 2016-17 of £6.1 million, which it plans to meet by a change to the Council's Minimum Revenue Provision and Capital Financing changes amounting to £2.46 million and savings projects of £3.66 million.
- 38 The Council's savings position at 30 September 2016 shows that £706,000 of the planned savings will not be delivered in 2016-17 and a further £315,000 will not be delivered at all.
- 39 Managers prepare budget savings mandates, which are business cases intended to provide members with sufficient information to make robust decisions. These provide a structured approach to the development of budget savings proposals, although the quality of completion of the budget savings mandates varies. For example, neither the budget mandates for the Leadership Team Structure Review or rationalisation of Business Support provided clarity about the proposed changes.
- 40 The Council risk rated budget savings mandates before the start of the financial year and identified seven of the 23 savings proposals, amounting to £272,000, as being 'at risk'. Each budget mandate includes a risk assessment, identifies

mitigating factors and the post mitigation risk level. Completion of the 'risk' section of the budget mandates is variable in both content and quality.

- 41 Each budget savings mandate includes a Future Generations Act Impact Assessment. The form shows the implications of the proposed service change on people with protected characteristics and the action officers propose to take to minimise any negative impacts. The quality of this impact assessment varies but its inclusion in the budget mandates does show the Council's commitment to recognising the impact of proposed changes on local residents and highlighting it as part of the decision making process.
- 42 The Council proactively engages partners and stakeholders in the budget setting process. Select committees provide challenge to the budget savings proposals, often taking into account the stakeholder perspectives. For example, the town and community councils were engaged in the proposals that affected them and the Council took action to reduce the impact of funding formula changes on Mounton House School following concerns raised through the Select Committee.
- 43 The savings plan is partly measureable. Each savings proposal is qualified in financial terms so the Council can measure its overall delivery. The intended outcomes and impact on local residents is less well defined which makes it difficult for the Council to measure delivery of the savings in non-financial terms
- 44 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:
- budget mandate 13 – highways infrastructure – Income generation;
  - budget mandate 20 – Review of service provision for children with special educational needs;
  - budget mandate B21 – town and community councils.
- 45 We found that the assumptions underpinning the budget mandates were variable and two of the three savings proposals cannot be fully delivered in the planned timescales. Some budget savings proposals depended on the agreement of internal or external partners, and we found that the Council had not always secured this commitment before finalising the budget savings proposal. For example, the Planning Service insisted that some outdoor advertising hoardings be dismantled because the Council had not given planning consent and Town and Community Councils did not approve all the funding anticipated in a budget savings mandate.

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