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# Meeting the Financial Challenges Facing Local Government in Wales



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I have prepared and published this report in accordance with the  
Public Audit (Wales) Act 2004.

The Wales Audit Office study team comprised Louise Fleet, Paul Goodlad and  
Mark Jeffs under the direction of Alan Morris

**Huw Vaughan Thomas**  
**Auditor General for Wales**  
**Wales Audit Office**  
**24 Cathedral Road**  
**Cardiff**  
**CF11 9LJ**

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<b>Summary report</b>	<b>6</b>
UK-wide economic context	6
Summary of key findings	11
Recommendations	13

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<b>1 Many councils in Wales do not have clear and realistic plans to deliver efficiency savings and improvement</b>	<b>15</b>
Most councils are clear about the level of efficiency savings they need to make, but many are less clear about their arrangements for managing with fewer resources	15
Many councils have not engaged effectively with others or have not taken appropriate account of the results of their engagement in their financial planning	17
Some councils have not taken the requirements of the Equality Act 2010 into account in their financial planning, or modified their plans to reflect the act	18
Few councils have taken appropriate account of the need for their services in the short, medium and long term	18
Councils are getting better at prioritising resources against their areas for improvement	19
Not enough councils are using a range of approaches to secure efficiencies, value for money or better levels of service	20

---

<b>2 Councils in Wales are not routinely basing their strategic plans on sound and appropriate financial information</b>	<b>22</b>
Most councils are clear about the level of reduced public funding and understand the impact this is likely to have on them	22
Few councils use financial information effectively to inform their decision making, although uncertainty over revenue settlements makes medium-term financial planning difficult	22
Many councils are not using information from external sources to inform their decision making	24
Many councils have not robustly assessed the potential impact of proposed savings or changes to services	25

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**3 To date, councils have been able to meet their financial challenges and deliver their overall plan, but more robust arrangements will be necessary as financial pressures increase 28**

Strategic plans are not always effectively supported by departmental or service plans 28

Not all councils are making the changes needed to make their services more efficient 28

Councils are not routinely considering whether other organisations or partnership arrangements could provide activities or services more effectively 29

Some councils are using or considering the use of collaboration to reduce service delivery costs 30

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**4 Not all councils are effectively monitoring and evaluating progress in delivering their strategic plans 32**

Targets and milestones are not always robustly and accurately monitored and do not routinely receive sufficient internal challenge 32

Few councils have effective arrangements to evaluate the impact of their savings plans on citizens 32

Few councils are using management information effectively to report on the impact of reduced funding or efficiency savings 34

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**Appendices**

Appendix 1 - Tools, guidance and other resources 35

# Summary report

## UK-wide economic context

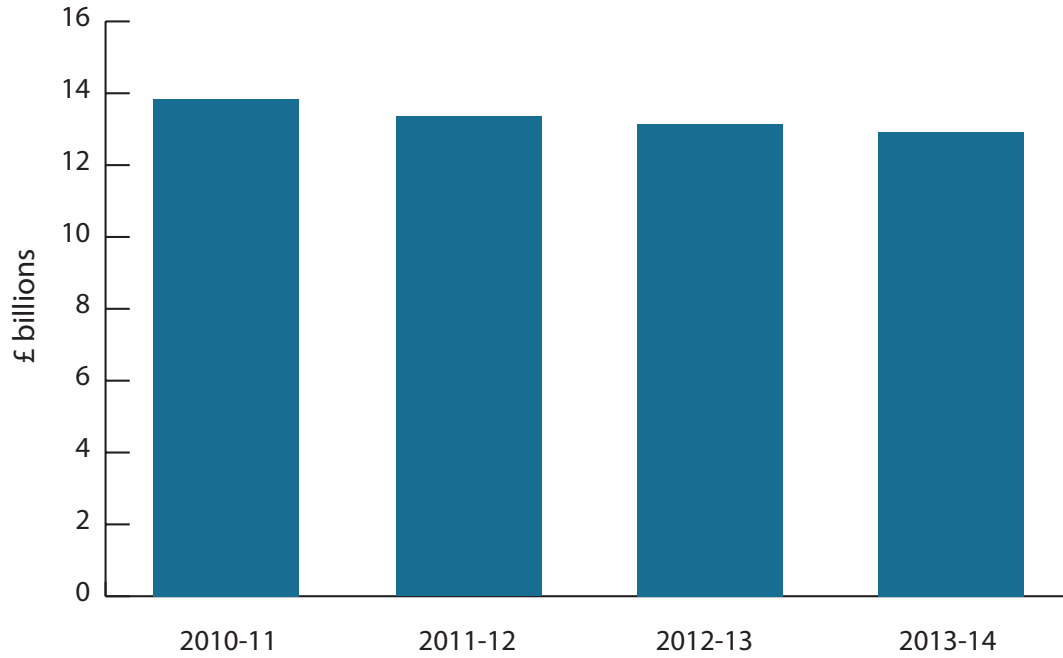
### The UK is going through an unprecedented period of fiscal austerity with significant implications for public spending in Wales

- 1 In 2008 the UK, North America and most countries in Western Europe experienced a significant economic downturn, largely due to a crisis in the financial sector. The response of the UK government, like many others, was to increase public spending in order to provide a stimulus to the economy. With the economy in decline and tax income falling, the increase in public spending was funded largely through borrowing. Public debt also increased due to the transfer of private sector banking debts on to the public balance sheet through the nationalisation of large banks.
- 2 A year into the downturn, governments became concerned about the levels of public debt. To address the UK debt issue, the main political parties entered the 2010 general election with plans to reduce public spending and raise taxes in order to start paying back the deficit. In October 2010, the UK government finalised its Spending Review and set out its budget plans for eliminating the structural deficit by 2015. The impact of the spending plans announced by the UK government was a real-terms cut to budgets for devolved Welsh public services.
- 3 Exhibit 1<sup>1</sup> shows that, between 2010-11 and 2013-14, the Welsh Government's revenue budget reduced by around £1 billion (seven per cent) in real terms (at 2010-11 prices). But, the capital budget saw much sharper reductions – in the order of 40 per cent, in real terms.
- 4 Since 2010-11, the road to economic recovery has not gone as planned. Economic growth has been weak. As a result, the UK government has had to adjust its spending plans and introduce an additional two years of public spending cuts, taking fiscal austerity up to 2017-18. The UK government has already announced spending plans, including a real cut to the Welsh Government budget, for 2015-16.
- 5 A study by the Institute for Fiscal Studies (IFS) and WPS2025 has recently considered the prospects for the Welsh Government's budget to 2025-26. The base case projections (Exhibit 2) show the Welsh Government's revenue budget recovering the lost spending power by 2023-24. In more pessimistic scenarios, budget cuts could continue beyond 2017-18 with significant impacts for public spending in Wales. UK government spending plans suggest that going forwards, having made significant reductions so far, capital funding will be protected from further cuts.

<sup>1</sup> The analysis of the financial and other pressures facing local government draws heavily on work by Wales Public Services 2025 (WPS2025), an independent programme, hosted by Cardiff Business School, looking at the implications for public services in Wales of the profound fiscal, demographic, social and environmental pressures that they face over the next decade and beyond. This analysis was carried out by a Wales Audit Office member of staff on secondment to WPS2025, funded by local government.

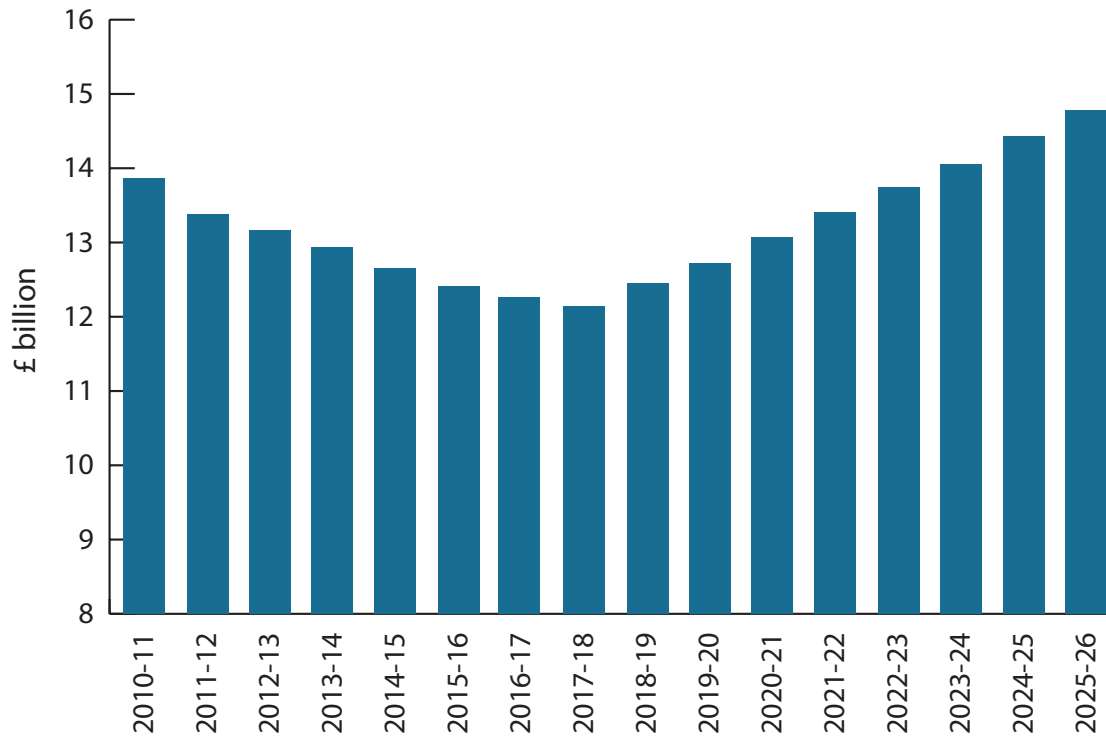


### Exhibit 1 - Welsh Government revenue



Source: WPS2025 (2013)

### Exhibit 2 - Welsh Government revenue projections



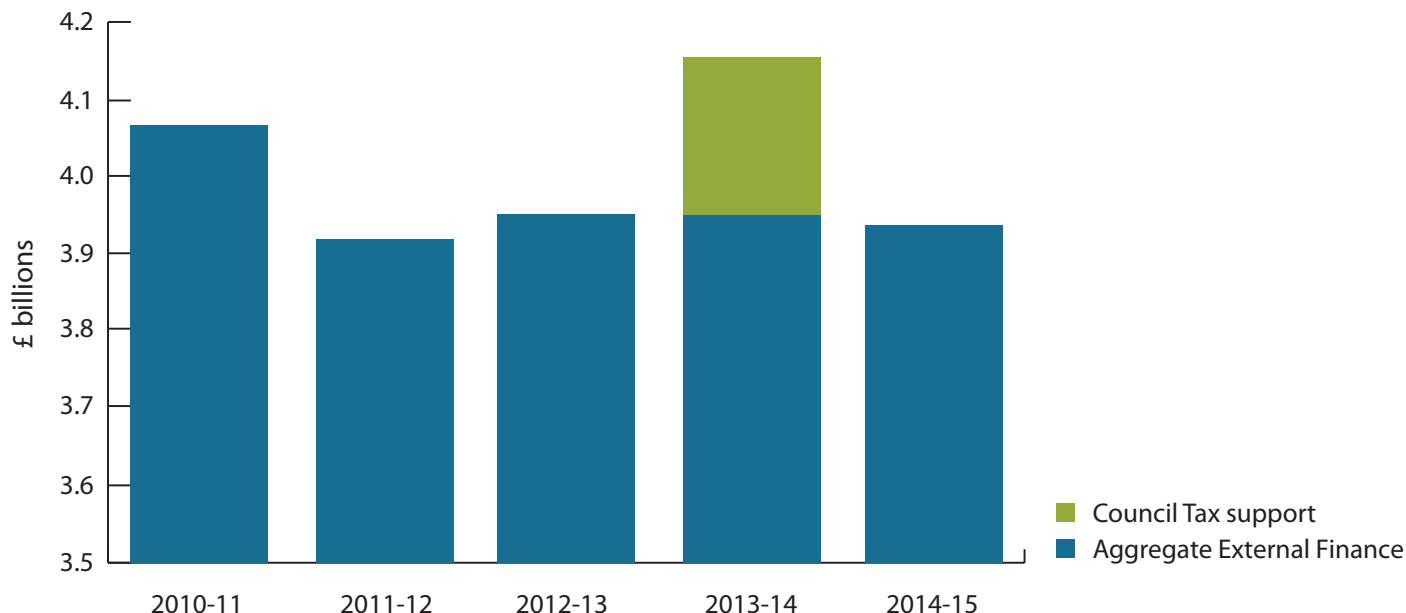
Source: WPS2025/IFS

### Local government in Wales has had a more generous settlement than in England, but now faces sharp reductions in funding

6 Since 2010, local government in Wales has faced real-terms cuts in the funding it receives from the Welsh Government. Between 2010-11 and 2013-14, the revenue settlement grant from the Welsh Government has increased by 3.1 per cent in cash terms. However, once the effects of inflation are taken into account, the amount of funding has fallen by around four per cent in real terms (Exhibit 3). Over the same period, the amount of capital funding from the Welsh Government to local government fell by 31 per cent in real terms.

7 Local government budget protection in Wales differs considerably from the situation in England, where local government experienced significantly deeper cuts – a reduction in revenue support from central government<sup>2</sup> of around 9.8 per cent between 2010-11 and 2013-14. An important factor behind the difference is the degree of protection afforded to the NHS. In England, the UK government has sought to protect spending on health in real terms. In Wales, by contrast, revenue spending on health has been cut by about 5.5 per cent in real terms.

### Exhibit 3 - Local government revenue settlement



Source: Wales Audit Office analysis

Note Council tax benefit was abolished at the end of 2012-13 and reduced funding was transferred to Wales. We have separated this funding out for 2013-14 to allow a comparison with 2012-13. For future years, funding for council tax support is absorbed into the revenue settlement.

<sup>2</sup> For the England figure, we have added together the revenue support grant and the direct support grant for school funding. While there are some differences between the functions of local government in Wales and England, we consider the figures to be cover sufficiently similar areas of responsibility to make an overall comparison.





8 The Welsh Government originally produced an indicative settlement for 2014-15, which showed a small real-term reduction of one per cent compared to 2013-14. However, its subsequent budget<sup>3</sup> includes more funding for the NHS and other priorities within its Programme for Government<sup>4</sup> than set out in indicative budget plans and a larger-than-anticipated reduction for local authorities. Local government in Wales now faces a nominal revenue reduction of 3.2 per cent for 2014-15 (five per cent in real terms); indicative budget proposals for 2015-16 show a further revenue reduction of over three per cent in real terms. Councils now face the challenging task of incorporating these unanticipated reductions into their medium-term financial plans; ongoing uncertainties about the level of funding available to deliver services means that councils cannot be sure about the level of savings they will need to make.

9 The 3.5 per cent reduction is the average across Wales. A range of factors, including the demographic, physical, economic and social characteristics of each area, influences individual council settlements; provisional reductions range from 1 per cent for Newport City Council, to 4.6 per cent for councils in Denbighshire, Ceredigion and Powys. Irrespective of the scale of reduction, these settlements will intensify the challenge facing local government and reinforce the need for effective and sustainable financial management.

### Alongside financial cuts, local government services in Wales face considerable demand and cost pressures

10 The financial pressures facing local government are only part of the story; councils also face a range of other demand-side pressures. Over the next decade or so, the population of Wales is set to grow. And the profile of the population is set to change, with a growing proportion aged 65 and over. Opinions about the scale of future pressures on local government services vary.

11 For example, in social care, WPS2025 projections suggest that real-terms spending on social care could increase by around 42 per cent between 2010-11 and 2024-25, from £1.5 billion to £2.1 billion. The main factors behind this increase are:

- a rising demand for community and residential services for older people;
- b rising demand for services for people aged 18-64 with learning disabilities and mental health issues; and
- c a significant increase in child protection and other activity related to children's social care.

12 In education, pressures arise from a combination of demography and spending policy commitments. WPS2025 projects a 10 per cent increase in school-age pupils by 2025. However, the demographic changes vary for different local authorities. Some face a very large increase in the number of children; elsewhere, particularly in some rural areas, child numbers are stable or may even reduce over the same period. The funding pressures are also dictated by policy. The Welsh

3 The Welsh Government budget announced in October 2013 sets out its spending plans for 2014-15 and provides indicative spending plans for 2015-16.

4 The Welsh Government's stated 'Priorities for Wales' are health, schools, universal benefits, protecting the vulnerable and ensuring a relentless focus on creating jobs and growth for the Welsh economy.

Government has a commitment to ensure that spending on schools remains at least one per cent above any change to the overall budget. If that policy were sustained, real revenue spending on schools would rise from £2.6 billion in 2010-11 to £3.4 billion by 2024-25.

**13** Local government faces the challenge of what has become widely known as the 'Barnet Graph of Doom'. This stems from work for Barnet Council<sup>5</sup> showing how social care pressures would end up slowly consuming almost all of the council's resources, leaving nothing left for other services. The WPS2025 work paints a similar picture of pressures in health, social care and education 'crowding out' other services.

**14** Other local government services, which face being squeezed by social care and education, themselves face significant cost and demand pressures. For example:

- a** Waste: It is difficult to predict future costs, but revenue spending on waste increased in real terms by 18 per cent between 2006-07 and 2011-12.
- b** Transport: Projections show a 25 per cent increase in road use, which will put additional pressure on maintenance budgets. Demographic changes are also likely to impact on public transport use.
- c** In addition, welfare reform could potentially influence demand for a range of housing, community development and economic regeneration services.

**15** The analysis by WPS2025 and the IFS suggests that local government services will continue to be squeezed beyond the current period of spending cuts. There is therefore

a major challenge for local government to find ways of managing increasing demand and cost pressures with much more limited resources.

**16** This report provides an overview of the extent to which councils in Wales are responding to the financial pressures they face. It explores the effectiveness of their financial planning, their approach to financial decision making and the actions they are taking to minimise the impact of significant budget cuts. It also considers the extent to which councils understand the impact of their actions and provides some early thoughts on the implications of the 2013 Spending Review for local government in Wales.

**17** The report is a by-product of our routine audit work during 2012 and 2013, supplemented by the local knowledge and experience of our local audit teams. It also draws heavily on recent studies and analysis carried out by other regulators and a wide range of public sector specialists. The report provides examples of good or promising practice. In most cases, these are not isolated examples. Unfortunately, the examples of weaker practice we have used are also not isolated cases; there are many similarities but some significant differences in the effectiveness of the approaches adopted by the 22 unitary authorities in Wales.

**18** **Appendix 1** provides details of useful guides and checklists to help council officers and elected members evaluate their local arrangements, offer constructive challenge and identify any significant gaps in their approach to tackling financial challenges.

<sup>5</sup> The graph was part of a video produced to support Barnet Council's 2012-13 budget consultation, seeking feedback from residents about their spending priorities. The graph has since been quoted widely by the media and by local government pundits. The original consultation exercise and video are at [www.engage.barnet.gov.uk/consultation-team/corporate\\_plan-consultation](http://www.engage.barnet.gov.uk/consultation-team/corporate_plan-consultation).



**19** Overall, we conclude that many councils in Wales do not have clear and realistic plans to deliver efficiency savings and do not routinely base their strategic plans on sound financial information. Although not all councils are effectively monitoring and evaluating the delivery of their strategic plans, they have been able to meet their financial challenges – but cracks are beginning to show. As financial pressures continue to grow, councils will be increasingly reliant on having robust and appropriate arrangements in place.

## Summary of key findings

### Many councils in Wales do not have clear and realistic plans to deliver efficiency savings

**20** **Most councils are clear about the level of efficiency savings they need to make, but many are less clear about their arrangements for managing with fewer resources.** Although councils are getting better at explaining their ambitions and priorities, they are often less effective at developing sustainable approaches to finance their priorities.

**21** **Many councils have not engaged effectively with others or have not taken appropriate account of the results of their engagement in their financial planning.** Ineffective stakeholder engagement means that some councils may not be adequately reflecting the needs, priorities and expectations of their citizens.

**22** **Some councils have not taken the requirements of the Equality Act 2010 into account in their financial planning, or modified their plans to reflect the act.** Councils run the risk of alienating some sections of their communities and of failing to deliver services in line with people's needs if they have not considered the Equality Act 2010 during their planning processes.

**23** **Few councils have taken appropriate account of the need for their services in the short, medium and long term.** Councils have generally focused on the short-term rather than developing longer-term sustainable solutions, often justifying this on the basis of significant uncertainties beyond the current year.

**24** **Councils are getting better at prioritising resources against their areas for improvement.** Greater emphasis on the links between resource allocation and local priorities suggests an increased awareness about the potential benefits from adopting this approach.

**25** **Not enough councils are using a range of approaches to secure efficiencies, value for money or better levels of service.** The longer lead time necessary to secure some types of savings may be a constraint on exploiting untapped opportunities, or used as the justification for short-term solutions.

### Councils in Wales are not routinely basing their strategic plans on sound and appropriate financial information

**26** **Most councils are clear about the level of reduced public funding and understand the impact this is likely to have on them.** Councils with a good understanding about the impact of reduced funding are better placed to plan ahead and can make better-informed decisions, especially where changes take a long time to implement.

**27** **Few councils use financial information effectively to inform their decision making, although uncertainty over revenue settlements makes medium-term financial planning difficult.** Financial information such as unit costs, activity costs and benchmarking is not always used effectively to support council financial planning. This undermines

the ability of councils to make informed decisions. However uncertainty over, and late changes to, national funding settlements make financial, workforce and service planning difficult.

- 28 Many councils are not using information from external sources to inform their decision making.** Decision making suffers when council plans are not fully informed or robustly aligned with locally based factors that affect supply and demand, such as current or future demography.
- 29 Many councils have not robustly assessed the potential impact of proposed savings or changes to services.** Councils which do not robustly assess the potential impact of proposed savings or changes to services are running the risk of achieving fewer, or different, outputs and outcomes to those originally anticipated.

**To date, councils have been able to meet their financial challenges and deliver their overall plan, but more robust arrangements will be necessary as financial pressures increase**

- 30 Strategic plans are not always effectively supported by departmental or service plans.** Although most councils are using service planning to support their efficiency and improvement plans, the links between strategic and service plans are not always clear or aligned.
- 31 Not all councils are making the changes needed to make their services more efficient.** This is an underdeveloped area across Wales; despite savings success to date, the pace of change at some councils may be insufficient to effectively deal with the increasing financial pressures.

- 32 Councils are not routinely considering whether other organisations or partnership arrangements could provide activities or services more effectively.** Some councils have been less willing to consider alternative service models or outsourcing to third-party organisations, or may have been discouraged by disappointing results from earlier attempts.
- 33 Councils are using or considering the use of collaboration to reduce service delivery costs.** Some councils in Wales are actively pursuing opportunities to collaborate – with each other and with other public sector bodies – as a way of generating efficiency savings and delivering their priorities.

**Not all councils are effectively monitoring and evaluating progress in delivering their strategic plans**

- 34 Targets and milestones are not always robustly and accurately monitored and do not routinely receive sufficient internal challenge.** The inability to robustly monitor progress is likely to affect a council's ability to make informed decisions and its capacity to tackle increasing financial pressures.
- 35 Few councils have effective arrangements to evaluate the impact of their savings plans on citizens.** Arrangements to evaluate the impact of savings plans on citizens are generally underdeveloped. This means that some councils may be delivering unsatisfactory levels of service because they are unable to promptly identify weaknesses in their arrangements.
- 36 Few councils are using management information effectively to report on the impact of reduced funding or efficiency savings.** Councils tend to use management information in a piecemeal or uncoordinated



way, which undermines their ability to robustly report on the impact of reduced funding or efficiency savings.

## Addendum

- 37** This report went to press the same week as the Commission on Public Service Governance and Delivery (the Commission) published its report on public service provision in Wales<sup>6</sup>. The timing of these reports was both coincidental and opportune. The scale and remit of this report is eclipsed by the depth, breadth and complexity of the issues explored by the Commission. Nevertheless, the reports share some similar findings, draw some parallel conclusions and, reassuringly, encourage some complementary action – albeit much more radical action in the case of the Commission.
- 38** The Commission’s overarching conclusion is the urgent need for fundamental changes to structures, roles and programmes across the Welsh public sector. But it also highlights the need to strengthen the arrangements that will be critical enablers of success, noting that “Some structural changes are, in our view, necessary and indeed urgent. But they will achieve nothing without the wider changes we propose, for instance to governance, scrutiny, accountability, leadership, culture, values and performance management. In short, there is no point in designing a new structure without also putting in place the systems, processes and people that will be needed to make it work”.
- 39** This report explores some of those enablers of success in relation to local government in Wales. But the themes we explore and the recommendations we make are likely to be equally valid to all public services.

## Recommendations

- 40** In 2010, we published a report<sup>7</sup> setting out the financial challenges facing public services and the lessons learned from our work. Many of the conclusions and points for action within that report remain valid.
- 41** No council is fully effective across all of the areas covered by this report. The more self-aware councils will already know the areas they need to strengthen; not all of the action points will apply to them. The remainder should consider the relevance of these recommendations to their individual circumstances, and take action to address the weaknesses.
- 42** The key recommendations arising from the work we carried out during 2013 – which are relevant to a greater or lesser extent, to every unitary authority in Wales – are that:

### **R1: Councils need clear strategies and plans, showing what they want to achieve and how they intend to achieve it**

Effective strategy and planning are crucial tools to help councils develop well-considered and sustainable responses to financial pressures. And services need to work out the most cost-effective ways of using the resources at their disposal to deliver their goals.

### **R2: Effective planning, based on good information is an efficient and effective way of supporting tough choices and developing clear priorities**

Councils need robust information to support the detailed analysis needed to link their vision and objectives to their delivery plans. Councils often do not have a clear understanding of the

<sup>6</sup> The Commission, established in April 2013 by the First Minister and chaired by Sir Paul Williams, was tasked with examining all aspects of public services in Wales and making recommendations on their future direction <http://wales.gov.uk/topics/improving-services/public-service-governance-and-delivery/report/?lang=en>

<sup>7</sup> *A Picture of Public Services*, Wales Audit Office, March 2010

demand for their services and the quality of their services from the users' perspective.

**R3: Council plans and strategies need closer links to longer-term financial plans**

Councils need to strengthen the links between their strategies and plans for services and their medium- and long-term financial plans. Too many financial plans are focused on short-term pressures, and do not look further ahead to the medium- and long-term to support the achievement of broader strategic goals. And, too many councils base their budgets on small, incremental annual changes, rather than fundamentally assessing the service delivery arrangements needed to deliver the desired results – and the cost of delivering those services.

**R4: Councils need to explore more opportunities to work together and with other public services, to reduce costs and deliver improved outcomes for citizens**

Collaboration is important because individual public services cannot deliver the desired improvements to the economy, health, environment and community life of Wales on their own. When public services do not work together effectively, the outcome is invariably extra costs and poorer services for service users and citizens.

**R5: Councils need robust arrangements to monitor efficiency savings and to demonstrate that services provide value for money**

Many councils do not have robust evidence of their efficiency gains. Most public bodies have developed plans for efficiency gains projects and can demonstrate cost savings. However, they are often unable to demonstrate that savings have been generated by becoming more efficient. They are also frequently unable to show that service level and quality is being maintained or, where services have been cut, that those cuts followed a rational analysis of priorities.

**R6: Councils need to strengthen their arrangements for evaluating the impact of their financial decisions – on service standards and on citizens**

Informed decision making requires good management information and effective feedback arrangements. Councils that understand the impact of the actions they take are more likely to respond effectively to emerging issues and make better decisions. This is more likely to lead to better, more efficient services, and more satisfied citizens.



## Part 1 - Many councils in Wales do not have clear and realistic plans to deliver efficiency savings and improvement

### Most councils are clear about the level of efficiency savings they need to make, but many are less clear about their arrangements for managing with fewer resources

- 1.1** Councils in Wales are generally clear about the level of savings they need to achieve. About three-quarters of councils are well prepared; the remainder are making some progress to improve the clarity of their ambitions in the context of increasing financial pressures. Most councils are getting better at explaining their ambitions and priorities for their local area, but are often less effective at developing sustainable approaches to finance their priorities.
- 1.2** A council's budget and its longer-term financial plan articulate its ambitions and should reflect its key priorities and objectives for the year and the longer term. Financial planning is much more than budget setting; it involves the whole financial process including links to other planning cycles, such as service planning, and the arrangements for monitoring financial performance. In 2005, the Audit Commission identified the features of a good financial planning process<sup>8</sup> as: focusing over the medium to long term; integrating financial and wider business and service planning; and integrating capital, revenue and treasury management planning.
- 1.3** A council should be able demonstrate (and communicate) a clear understanding of where it wants to be in the future, what it wants to achieve and what it may need to reduce or stop doing. The key mechanism for this is the corporate plan (which in turn needs to reflect the community strategy/single integrated plan) supported by a robust medium-term financial plan.
- 1.4** As well as being clear about its core purpose, a council must be clear about how it intends to reduce or withdraw from activities that do not directly support this purpose. Not all councils in Wales have achieved this level of clarity or have robustly aligned their priorities with their medium-term financial plan. For example, during early 2013, we reported that one council '...For periods beyond 2012-13, has yet to determine its priorities and evaluate their financial implications. If the medium-term financial plan is to be used as an effective financial planning tool, it will need to incorporate the results of this work and clearly identify the actions necessary to address any identified financial shortfall.'
- 1.5** After several years of dealing with budget cuts, councils recognise that income will continue to fall (in real terms) and that demands in some service areas will continue to rise. However, this recognition does not always effectively translate into planning for future change. Barriers to sound planning include financial uncertainty about the future, inadequate political engagement, weak consultation on real choices, a lack of

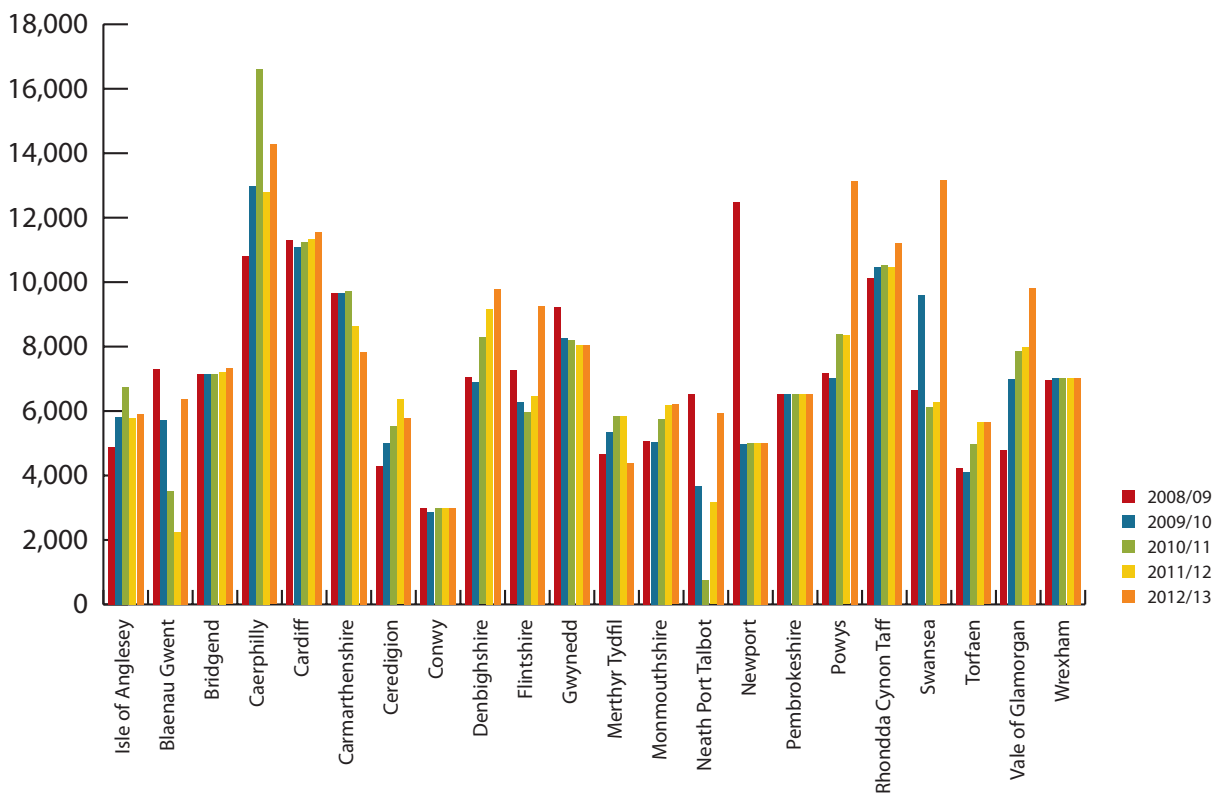
<sup>8</sup> *World Class Financial Management*, Audit Commission, 2005. A discussion paper developed to stimulate debate across public services and among finance professionals about the standards of financial management to which the public sector should aspire.

capacity and unrealistic expectations about the financial benefits of collaboration and the speed with which partnerships can deliver savings.

**1.6** A growing concern is that some authorities may be over-relying on balancing their budgets by using reserves, rather than restructuring services to reflect the budget reductions. The Local Government Finance Act 1992 requires unitary authorities in Wales to have regard to the level of reserves<sup>9</sup> needed to meet estimated spending when calculating their budget requirements.

**1.7** During 2012, we identified<sup>10</sup> significant variation in the level of reserves held by councils in Wales; **Exhibit 4** shows the variation in general fund balances and the changes over time. At face value, this variation is not a problem; authorities decide the level of reserves to hold, taking account of strategic, operational and financial risks and guided by the professional views of their chief financial officer. We also found that whilst councils had typically increased the level of earmarked reserves by over a third between 2009 and 2011 to deal with commitments such as the cost of single status agreements, the level of general reserves had remained more or less unchanged.

**Exhibit 4 - Local government general fund balances**



Source: Wales Audit Office analysis

<sup>9</sup> Reserves are held for specific projects (earmarked reserves) and as security against unforeseen expenditure (general reserves).

<sup>10</sup> Local Authority Reserves and Unsupported Borrowing, Wales Audit Office, July 2012





**1.8** Councils can use reserves to help them to balance their budgets where savings plans do not achieve the expected results or where income is less than anticipated. However, financing recurrent expenditure from reserves would not normally be appropriate. A prudent level of useable reserves is a key element of financial stability; the minimum appropriate level will vary dependent on an authority's known and potential liabilities and its spending plans. There are signs that a few councils are over-relying on general reserves to deal with budget shortfalls, rather than seeking more sustainable approaches, which often involve making unpopular decisions. To reflect the increasing risk, our audit work during 2013-14 will place greater emphasis on financial sustainability, the transparency of transfers between general and earmarked reserves, and the ways in which councils deal with the implications of the 2014-15 budget settlement.

**1.9** The Audit Commission recently<sup>11</sup> identified that councils with a below-average level of reserves relative to spending were three times as likely to feature in the group of councils where auditors raised concerns about their ability to deliver the 2013-14 budgets. We recently reviewed how some services at one council are managing with fewer resources and concluded that 'whilst the Council has continued to deliver essential services with less money, like many other councils it has increased expenditure by using General Council Fund reserves as well as implementing savings. However, with continuing demand pressures there is a risk that some services are becoming financially unsustainable. We also found that delivery of approved savings targets within services has not always been successful.'

**1.10** More encouragingly, our work over the last year has identified a number of councils that do provide clarity about their ambitions and their arrangements for delivering those ambitions. A good example of a council that does this well is Pembrokeshire County Council. During 2012-13, we found that it 'produced a plan that is straightforward and concise outlining what it wants to achieve and how it will go about it. The plan is well written and easy to understand. It has been drafted to make it as accessible as possible to a public audience, technical language is kept to a minimum and unnecessary detail is avoided.'

## **Many councils have not engaged effectively with others or have not taken appropriate account of the results of their engagement in their financial planning**

**1.11** In June 2012, we reported on public engagement by local government<sup>12</sup>. We found that authorities undertake a great deal of public engagement, some of which enables citizens to help shape services. In line with this finding, during the course of general improvement assessment work this year we have noted a growing number of examples of effective dialogue between authorities and local people about performance and improvement planning.

**1.12** However, our work during 2012-13 identified that less than half of the councils in Wales effectively engaged with stakeholders when developing budgets and activities to deliver their priorities. This means there is a danger that some councils in Wales will be taking actions that do not take appropriate account of the needs, priorities and expectations of their citizens.

<sup>11</sup> *Tough Times: Councils' responses to financial challenges from 2010/11 to 2013/14*, Audit Commission, November 2013

<sup>12</sup> *Public Engagement in Local Government*, Wales Audit Office, June 2012

**1.13** Councils that successfully respond to budget challenges are also likely to engage well with the public, service users, staff and other key stakeholders. Widespread stakeholder support will be easier to achieve if they perceive that their views and ideas are welcomed and are used to influence the future. Moreover, disengaged stakeholders are less likely to understand or approve of spending cuts that affect the level of service they receive. A recent UK-wide survey<sup>13</sup> found that whilst some councils are getting better at engaging with their communities about the difficult choices they face, there is still a wide gap between the perceptions of local authorities and their citizens' views about the quality of engagement.

**1.14** The scale of challenges ahead will require a broad base of support. Citizens are becoming increasingly aware of – and anxious about – the impact of budget and service cuts. And, many will have views about how funding reductions should be managed. Councils that engage effectively make sure they have robust information-sharing and consultation arrangements that are able to routinely capture and respond to feedback. Councils are accountable to a wide range of stakeholders who need to be confident that they can express views and ideas to the organisation and contribute to its decision making. Those councils with systematic arrangements to collect quantitative and qualitative information about the needs, aspirations and priorities of users and customers are better placed to plan, deliver or commission services that meet those needs and priorities. There are some examples of good practice in engaging with stakeholders.

#### Good or promising practice example 1: Vale of Glamorgan Council

The Council has a track record of good public engagement, and has consulted extensively in relation to the budget and priorities. Members, the public and key stakeholders have all had the opportunity to contribute and comment.

*Source: Vale of Glamorgan Council Annual Improvement Report, Wales Audit Office, 2013*

### Some councils have not taken the requirements of the Equality Act 2010 into account in their financial planning, or modified their plans to reflect the act

**1.15** Over half<sup>14</sup> of the citizens served by councils and many of the staff they employ come from groups that have traditionally suffered discrimination and disadvantage. Councils are required to engage with their local communities to gain a better understanding of their needs, and to deliver their services in line with those needs.

**1.16** Just over half of councils in Wales have taken the requirements of the Equality Act 2010 (effective from 1 April 2012) into account as part of their planning processes. Those councils which have not reflected the requirements of the Equality Act 2010 when planning future service delivery run the risk of alienating some sections of their communities and of failing to deliver services in line with people's needs.

<sup>13</sup> *The Local State We're In*, PwC's annual local government survey, 2013

<sup>14</sup> For example, gender is just one of eight protected characteristics under the Equality Act 2010. Females represent 51 per cent of the UK population and may still experience discrimination and disadvantage.



## Few councils have taken appropriate account of the need for their services in the short, medium and long term

- 1.17** Until very recently, too many councils concentrated on short-term financial planning and took limited account of changes to demand and resource constraints in the medium and longer term. Our analysis suggests that just over a quarter of councils have effectively reviewed the need for their services beyond the short-term. The remainder have tended to focus on the forthcoming year rather than trying to develop longer-term sustainable solutions, often justifying this based on significant uncertainties beyond the current year. For example, our 2013 annual improvement report for one council raised concerns that ‘the implementation of efficiency measures, particularly those that impact on service delivery, often need significant lead-in time from the decision to the saving realisation. Whilst elements of the [efficiency] programme take a medium-term view, this is not consistently the case across the wider programme, where some plans continue to primarily focus on the shorter term.’
- 1.18** An effective council is likely to have a clear long-term view of its role in supporting its citizens and its objectives for each service, focusing on the quality of outcomes it delivers for local people. Providing value for money is more important for such a council than the source of the provision. We identified effective financial planning at a few councils, including Gwynedd Council, where we reported that the ‘the Council continues to manage its resources well and plan effectively to meet future funding shortfalls over the medium-

term.....the medium-term financial plan sets out a realistic and prudent response to the financial constraints faced by the Council. It is clear that there is a good understanding of the risks to, and demands on, the budget and responsible decisions are taken to plan for a balanced budget over the medium-term, including setting prudent Council Tax rises.’

- 1.19** Short-term actions will always be necessary in responding to events as they happen, but councils must also ensure that they develop medium and long-term strategies and plans. During 2013, we reported that one council’s approach to efficiency savings ‘is to shave budgets and reduce elements of its expenditure in year and protecting frontline services wherever possible. Whilst this has addressed some of the short-term funding gaps, it does not present the fundamental review of budgets following zero-based principles and a robust examination of service delivery options that is needed to ensure the Council remains financially viable in the medium to long term. At present the Council remains over-reliant on its annual budget process.’
- 1.20** Local government leaders and managers face the challenge of planning, resourcing and implementing major long-term reforms whilst coping with real-term budget reductions. In order to ensure communities understand the reasons for their decisions, councils will need to better articulate their strategic priorities and allocate the resources necessary to deliver those priorities with more transparency.

### Good or promising practice example 2: Monmouthshire County Council

The Council has a willingness to consider a wide range of options and is transforming how it delivers services to citizens through 'Your County, Your Way'. Within the Council's financial planning framework there is evidence that high level and key strategic Welsh Government targets are factored in. [It has] a good understanding of the cost pressures it faces and has good systems in place to frequently assess and review its financial performance. Regular updates of the medium-term financial plan are made throughout each year. The Council has developed a detailed and systematic approach to reviewing revenue budgets and this has enabled it to reduce expenditure in line with reductions in central government support.

Source: *Monmouthshire County Council Annual Improvement Report, Wales Audit Office, 2013*

## Councils are getting better at prioritising resources against their areas for improvement

- 1.21** Councils are beginning to place much greater emphasis on the links between resource allocation and local priorities; just over half of councils in Wales are actively prioritising resources against their key areas for improvement. Encouragingly, this is a significant increase from the situation in 2011-12, suggesting an increased awareness about the potential benefits from adopting this approach.
- 1.22** Austerity and rising customer demand are forcing councils to focus their resources on priority areas and to make difficult decisions. These could be decisions to: stop delivering activities that do not contribute to their priorities; scale back activities that make less of an impact on their priorities; or to identify alternative and more efficient

delivery arrangements for those activities which they choose to continue or expand. By prioritising resources towards priority areas (including areas for improvement), councils can demonstrate a clear commitment to concentrating resources and energy on those actions that will make a difference.

## Not enough councils are using a range of approaches to secure efficiencies, value for money or better levels of service

- 1.23** Half of the councils in Wales are using a range of complementary approaches to secure efficiencies, value for money or better levels of services. The remainder are taking some actions but are not using the full range of approaches available to them. Some councils may have untapped opportunities for savings available to them; however, the longer lead time necessary to secure some types of savings may be a discouragement.
- 1.24** Councils are confident they can deliver further savings this year. A recent UK-wide survey of councils by PricewaterhouseCoopers (PwC)<sup>15</sup> found that both chief executives and leaders remain confident they have the capability and capacity to achieve their 2013-14 savings targets. The survey also found that councils still regard changes to their operating arrangements as the key way of securing future savings, particularly opportunities to improve service delivery processes and rationalise or improve the use of assets. However, whilst leaders saw scope for further savings from back-office changes and further management restructuring, chief executives were increasingly focused on generating savings through better demand management and changes to front-office functions.

<sup>15</sup> *The Local State We're In*, PwC's annual local government survey, 2013



**1.25** This is an area we will explore in more detail during our ongoing review of actions taken by public sector bodies to deal with austerity. We recently collaborated with Audit Scotland and the Northern Ireland Audit Office to develop a good practice checklist on improving public sector efficiency, to help public bodies to self-assess their progress and to identify opportunities for improvement. The checklist explores three key elements: priority-based budgeting and spending; improving information on productivity, efficiency and outcomes; and better collaboration and joint working. The checklist is available for download from our Good Practice Exchange<sup>16</sup>.

**1.26** Improvements to procurement and asset management arrangements can provide councils with significant cost savings. The Public Service Leadership Group (PSLG) provides national leadership for collaboration, driving the pace of improvement in services for Welsh citizens. The National Assets Working Group, established under the PSLG has helped to strengthen arrangements at some councils such as encouraging organisations to use the electronic Property Information Mapping Service (ePIMS) asset management database, developing protocols for transferring assets across the public sector, developing case studies and working with the Invest to Save team.

**1.27** Similarly, the National Procurement Service was established to set up and manage contracts for common and repetitive spend on behalf of the Welsh public sector. The National Procurement Service is tasked with delivering cost-saving efficiencies, investing in local supply chains, community benefits and the development of small business. The National Procurement Service is hosted by the Welsh Government and reports to the National

Procurement Service Board which will include sector representation and an independently appointed chair.

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<sup>16</sup> Good practice checklist on improving public sector efficiency: [www.wao.gov.uk/goodpractice/3045.asp](http://www.wao.gov.uk/goodpractice/3045.asp)

## Part 2 - Councils in Wales are not routinely basing their strategic plans on sound and appropriate financial information

### Most councils are clear about the level of reduced public funding and understand the impact this is likely to have on them

**2.1** Nearly three-quarters of councils in Wales demonstrate a good understanding of the impact of reduced public funding on their overall budget; the remainder are taking action to improve their understanding. For example, our 2013 Annual Improvement Report to Powys County Council noted that it was 'clear as to the impact of reduced public funding. Its budget-setting arrangements together with a rolling four-year medium-term financial plan identify investment priorities and efficiency savings over the medium term'. Developing a good understanding of the potential impact of reducing public funding helps councils to plan ahead and make better-informed decisions, especially where changes take a long time to implement.

**2.2** Councils are finding it increasingly difficult to absorb reductions in funding and maintain existing levels of service. A recent report by the National Audit Office<sup>17</sup> estimates that councils in England still need to find about half of the savings needed by March 2015, after considering the latest figures for inflation, council tax and government grants. Councils across Wales are likely to be in a similar position. Whilst demand for high-cost services such as adult social care and children's services is increasing, the scope for absorbing

cost pressures by reducing other, lower-cost, services is limited; invariably, councils have already reduced spending on these services. In Wales, the largest budget cuts in recent years have been to services such as planning and economic and community development, where total revenue expenditure reduced by 17 per cent between 2010-11 and 2012-13<sup>18</sup> – compared with an increase of over five per cent for social services.

### Few councils use financial information effectively to inform their decision making, although uncertainty over revenue settlements makes medium-term financial planning difficult

**2.3** It is difficult to make robust decisions about the future unless the information on which those decisions are based is also robust and reliable. Only a small minority of councils in Wales are using financial information such as unit costs, activity costs and benchmarking effectively to support their financial planning and decision making. About three-quarters of councils do use some financial performance information to support their decision making, but a minority make very limited use of such information. This suggests that decision making (and the monitoring and reporting of performance) in some councils is likely to be flawed.

<sup>17</sup> *Financial sustainability of local authorities*, National Audit Office, January 2013

<sup>18</sup> Data source: Local Government Finance Statistics, Welsh Government



- 2.4** Recent work at one council facing significant financial pressures illustrates the danger of relying on data that is not robust. On reviewing a report outlining efficiency proposals, we concluded that it ‘lacks detail and clarity, making it difficult for members to understand and make decisions. For example, the report double-counts some savings proposals and lacks information on the financial impact of others, such as changes to the redundancy policy.’ Poor-quality data is much more likely to lead to poor-quality decision making.
- 2.5** In November 2013, the Audit Commission reported<sup>19</sup> that some councils in England have found it harder to cope as funding levels have reduced. Three in 10 councils (29 per cent) exhibited some form of financial stress in 2012-13, either experiencing significant difficulties in delivering their budget, taking unplanned actions to keep finances on track, or both. Auditors were concerned about the ability of one in 10 councils in England to deliver their budget in 2013-14. A few of these have been a cause of concern in successive years. Factors giving auditors cause for concern in 2013-14 included: the risk of councils not making adequate savings; rising cost pressures; weaknesses in financial controls; and uncertain prospects for income.
- 2.6** The Audit Commission also noted that about two-thirds of councils in England were well placed, in the view of auditors, to deliver their medium-term financial plans. However, auditors have concerns about the medium-term financial prospects of one-third of councils in England. These latest Audit Commission findings emphasise the importance of good financial management.
- The City and County of Swansea is a good example of a Welsh council that continues to manage its finances well. In July 2013, we concluded (together with some words of caution) that the Council ‘has demonstrated, through the implementation of successive medium-term financial plans and annual budgets that it can make clear choices on a timely basis to maintain its financial health. This approach will need to be maintained as the Council plans how to achieve its priorities and objectives over the medium term.’
- 2.7** During austere times, councils need to maintain a firm grip on their financial position, and develop a clear understanding of costs across all service areas and how they compare with others. Councils also need to keep careful track of the savings they make and of the impact of changes on service quality and citizen outcomes. Many public sector organisations across the UK have started to utilise Results-Based Accountability (RBA), which provides a framework for a balanced set of outcome measures.
- 2.8** Developing a long-term sustainable response to financial challenges requires a comprehensive understanding of the problem. In these uncertain times, knowing the change in budgets over the past to present financial year is not enough. Effective councils adopt a fundamental ‘zero-based’<sup>20</sup> approach to financial management, with good financial information for both core business and for any subsidiary public/private partnerships. During 2012-13, we identified some councils that were using financial information effectively to inform their decision making.

<sup>19</sup> *Tough Times: Councils' responses to financial challenges from 2010/11 to 2013/14: the third and final report by the Audit Commission on councils' financial resilience since 2011*, Audit Commission, November 2013.

<sup>20</sup> Zero based budgeting prevent budgets automatically creeping up each year with inflation; resource allocation is based on need and anticipated impact, not historical precedence. It promotes effective decision making when choosing between competing claims on scarce resources.

### Good or promising practice example 3: Rhondda Cynon Taf County Borough Council

The Council is clear as to the impact of reduced public funding and has used appropriate and wide-ranging information, financial and otherwise, to inform its plans..... [It] continues to focus on stability and sustainability in terms of its finances through an effective financial management framework.

Source: Rhondda Cynon Taf County Borough Council Annual Improvement Report, Wales Audit Office, 2013

- 2.9** Councils also need a solid understanding of their income streams; this helps them to identify vulnerable income streams and those with potential to expand or develop further. However, putting these principles into practice is made more challenging when councils are faced with uncertain revenue streams and unanticipated reductions in revenue settlements. This inevitably makes it more difficult to develop robust medium-term financial plans – but also reinforces the benefits of developing effective financial planning arrangements, capable of modelling changes as they occur.
- 2.10** In September 2013, the Welsh Local Government Association and the Society of Welsh Treasurers submitted evidence to the National Assembly's Finance Committee to inform their scrutiny of the Welsh Government's 2014-15 Draft Budget Proposals. Both argued that uncertainty over, and late changes to, national funding settlements make it very difficult for councils to undertake meaningful financial planning.

- 2.11** In its evidence to the Finance Committee, the Society of Welsh Treasurers said: 'Seven months from the start of the 2104-15 financial year we still have no formal indication of what level of reduction the Welsh Government is considering for local government so that we can consider what action to take'.<sup>21</sup> In its evidence, the Welsh Local Government Association stated: 'The extent to which sensible service and workforce planning can be achieved in such a short period has to be questioned'.<sup>22</sup>

## Many councils are not using information from external sources to inform their decision making

- 2.12** Less than half of councils in Wales are using third-party intelligence about their areas to effectively support financial decision making. Just over a third of councils use some external information, but a small minority are not taking advantage of externally generated intelligence to support their decision making. This suggests that some council plans are not robustly aligned with locally based factors that affect supply and demand, such as current or future demography.
- 2.13** Some financial pressures experienced by councils are closely linked to policy changes by central government. For example, welfare reform, regeneration and housing policies linked to the recession are an immediate concern to councils. There are also demographic-related financial pressures. Audit Scotland recently reported<sup>23</sup> that demographic changes, particularly the ageing population, are likely to have significant implications for

<sup>21</sup> Response by the Society of Welsh Treasurers to the National Assembly's Finance Committee's inquiry into the Welsh Government's 2014-15 Draft Budget Proposals, September 2013

<sup>22</sup> National Assembly for Wales Finance Committee Inquiry into Welsh Government Draft Budget Proposals 2014-2015. Evidence from the Welsh Local Government Association, September 2013.

<sup>23</sup> Responding to challenges and change, Audit Scotland, March 2013





council services, such as increasing demands in key areas like home care and housing. The impact across Wales will not be uniform; the experience in Scotland suggests that rural areas are likely to experience proportionately larger increases in the number of older people. The resultant increase in demand for services will compound the challenges councils face.

#### Demographic changes increasingly contribute to financial pressures facing councils

The proportion of individuals aged 65 and over continues to increase; in 2010 over 65s made up 17 per cent of the [UK] population, and by 2051 it is expected to be 24 per cent, with nearly a third of this group over 85. The 'old age dependency ratio', which measures the number of people of state pension age for every 1,000 people of working age, is also expected to rise from 310 in 2008 to 492 in 2051. Without the recent increase in the State Pension Age, the ratio would have climbed to 492. At the other end of the age spectrum, we have seen a mini baby boom. There were nearly 17,000 more babies born in England and Wales in 2010 than 2009, the equivalent to over 650 additional classrooms when the children start school. Without offsetting tax increases or spending cuts, these demographic pressures could increase budget deficits and eventually put public sector net debt on an unsustainable upward trajectory.

Source: *The Local State We're In*, PwC's annual local government survey, 2013

**2.14** Demand for council services continues to grow as budgets are squeezed, fuelled by demographic changes and growing customer expectations. Unless councils reduce demand for their services, their costs will continue to rise regardless of how efficient they become. Demand management is becoming a more significant contributor to council savings plans. Until recently, councils have generally focused on improving the efficiency of their services – the supply side. Now, councils are becoming increasingly aware of the potential

efficiencies if they can reduce the demand for some services, on the basis that prevention is better (and ultimately cheaper) than cure. For example, councils in Wales are investing in energy-saving initiatives to reduce their carbon emissions. Wrexham County Borough Council has taken this concept one step further by installing solar PV panels on some 3,000 of its housing stock. The panels reduce the energy costs for tenants, leaving them with more disposable income and, potentially, reducing the demand for stress-related services from lower-income households. Surplus electricity exported to National Grid generates income for the council, for reinvestment in its housing stock.

## Many councils have not robustly assessed the potential impact of proposed savings or changes to services

- 2.15** Overall, councils in Wales are not robustly assessing the potential impact of proposed savings or changes to their services. About a third of councils are taking effective action to assess the impact and a further third are taking some action. Councils that do not robustly assess the potential impact of proposed savings or changes to services run the risk of achieving fewer, or different, outputs and outcomes to those originally anticipated.
- 2.16** Our recent experiences indicate that the public sector has focused on 'low-hanging fruit', typically procurement savings that represent easy savings, often with minimal impact on the citizen. However, once the easy options have been exploited, the remaining opportunities become progressively harder to implement. Ideally, efficiency actions should reduce costs without negatively affecting services or

citizens. Mark Friedman (who developed the RBA approach) suggests that the goal when making priority-based cuts should be to do the 'least harm to outcomes'. Major efficiency projects require time and investment, whereas quick savings are more likely to involve cuts to services and posts and could potentially impact adversely on outcomes.

**2.17** Almost half of local government spending goes on paying staff – so achieving efficiency savings has often involved actions to reduce the wages bill by cutting jobs and posts. There are many examples where service and corporate restructuring has been an appropriate and cost-effective response. But councils which do so need to recognise the impact of removing capacity, especially if this leads to an overreliance on external resources. One council facing significant financial pressures has recently restructured its senior management, reducing the wage bill by almost £1 million over the next five years. Whilst this restructuring will help to address the serious financial challenges the council faces, it further reduces capacity within the senior leadership group. This kind of approach is not without its risks; a lean senior leadership team may lack the capacity and leadership necessary to manage and deliver effective services and service improvement in the future. Achieving the balance required will be a significant challenge for councils.

**2.18** Councils are often one of the major employers in an area, particularly of women, and many are also in areas where the local economy is weak. Reducing the number of people employed can damage the local economy; skills and capacity are lost and redundancies are costly. As important local employers, councils rightly consider the consequences to staffing in making these decisions, but it

is also important that they think about the potential impact on outcomes for the citizen and service user.

**2.19** There may also be unintended consequences in other sectors. Obvious links are between health care and social care, and social care and housing. Reduction of services can also lead to shortages in available skills and other negative impacts on private sector growth.

**2.20** Councils need to consider the sustainability of savings options, by ensuring that economic, societal and environmental aspects are reviewed collectively. A robust risk analysis of all potential outcomes will help councils to anticipate and avoid the unintended consequences of their decisions.

**2.21** The Local Government Act 2000 provided local authorities with a discretionary power of well-being. Since 2010, Welsh Government policy has established sustainable development as the central organising principle of government in Wales. The Welsh Government has recognised the need to strengthen strategic decision making for sustainable development, at both national and local levels of government. By 2016, it intends to implement the Future Generations Bill, which will place a duty on devolved public service bodies and establish a better governance framework for Wales, founded on sustainable development principles. The conclusions of this report indicate that many of the building blocks, required to support an effective response to the proposed new duty, are either missing or need to be developed further.



**2.22** Councils will need to make full use of single integrated planning when collaborating with partners to prepare for the proposed bill. Our work shows that many councils have not adequately anticipated the implications of their strategic decisions on future generations. In this context, the new duty will present a fundamental challenge and is likely to require a clearer focus on outcomes. Councils will need to ensure that outcome-related activities take full account of their effect on economic, social, environmental and long-term well-being.

## Part 3 - To date, councils have been able to meet their financial challenges and deliver their overall plan, but more robust arrangements will be necessary as financial pressures increase

### Strategic plans are not always effectively supported by departmental or service plans

- 3.1** The majority of councils in Wales are using service planning to support their efficiency and improvement plans. Service, financial and improvement plans are well integrated across nearly three-quarters of councils. The remainder of councils are making some progress at improving the links between strategic and service plans. Until they achieve that integration, there is a danger that financial decisions taken at a service level may not align with, or support, strategic priorities.

#### Good or promising practice example 4: Pembrokeshire County Council

The Council has produced a plan that is straightforward and concise outlining what it wants to achieve and how it will go about it. The plan is well written and easy to understand. The Improvement Plan links well with both the Single Integrated Plan and the Council's Service Improvement Plans 2013-2014, with 'golden threads' running through the plans, the documents are now easy to relate to one another.

*Source: Improvement Assessment Letter 1, Wales Audit Office, August 2013*

### Not all councils are making the changes needed to make their services more efficient

- 3.2** This is an underdeveloped area across Wales. Not enough councils are taking prompt action to adapt their service delivery arrangements as a way of promoting efficiency and effectiveness. Just over a quarter are taking effective action; despite savings success to date, the pace of change at some councils may be insufficient to deal effectively with the increasing financial pressures. For example, our recent advice to one council facing very significant financial pressures was that it must 'act urgently to enable it to take informed decisions about its medium- to long-term service delivery options and requirements [and] reflect these decisions when updating and revising its Medium Term Financial Strategy'.
- 3.3** The demand for increasingly efficient council services is prompting councils to review their tried and tested service delivery models and to consider whether their role should change to that of strategic commissioners of local services. Actions to improve efficiency are important and can, if implemented successfully, deliver the same level of service at lower cost. For many councils in Wales, this has been the preferred action. However, as demand for some services continues to rise and income continues to fall, tackling inefficiency may not be enough.



- 3.4** One approach is for councils to consider solutions that require more creativity, such as demand management, prevention and rethinking service delivery, to protect their frontline services. However, significant changes invariably take time, investment and political will. Cuts can be made quickly. Delivering more for less is harder and takes longer. Improving frontline services while reducing costs requires a radical rethink of the way services are delivered. This also takes time. Some councils have invested time to plan and develop more measured (and potentially more sustainable) solutions.

**Good or promising practice example 5:  
Gwynedd Council**

The Council benefits from strong financial leadership and has been very successful in planning effectively for the future. This approach has avoided the need for rash decisions and service cuts to balance the budget, and has allowed the Council to introduce service efficiencies in a planned and structured way over a period of time.

*Source: Gwynedd Council Annual Improvement Report, Wales Audit Office, 2013*

## **Councils are not routinely considering whether other organisations or partnership arrangements could provide activities or services more effectively**

- 3.5** In most cases, councils reduced expenditure during 2012-13 by focusing on how they operate rather than on what they do. Despite extensive encouragement from the Welsh Government and others, only a minority of the savings achieved came from the introduction of shared services or by collaborating with other councils or other public service organisations. Some councils remain unconvinced about the potential for significant savings in these areas, relative to the costs and effort involved. This scepticism is sometimes fuelled by recent experiences of unsatisfactory or ineffective joint ventures or partnerships.
- 3.6** About half of the councils in Wales are actively considering whether other organisations could provide some of their activities or services more effectively. And, some councils are already outsourcing selected service areas. For example, in 2013 we reported that Bridgend County Borough Council 'delivered a range of changes to achieve its improvement objectives such as outsourcing its leisure services and, through better procurement, improving the quality of its waste and recycling service whilst also reducing the costs'.

**3.7** The remainder of councils appear less willing to consider alternative service models or outsourcing to third-party organisations, or may have had disappointing results from earlier attempts. Given the focus on achieving outcomes, those councils not already pursuing alternative delivery arrangements may find that the learning curve becomes steeper as financial pressures increase.

### **Some councils are using or considering the use of collaboration to reduce service delivery costs**

**3.8** Some councils in Wales are actively pursuing opportunities to collaborate, as a way of generating efficiency savings and delivering their priorities.

**3.9** There are also examples of ambitious cross-sector collaboration, such as the Gwent Frailty Programme. From April 2011, Aneurin Bevan Health Board and Blaenau Gwent, Caerphilly, Monmouthshire, Newport and Torfaen councils began implementing the programme, supported with £6.9 million of Invest to Save funding from the Welsh Government. The Gwent Frailty Programme's aims have significant relevance to the way in which the public sector bodies involved use their resources and are central to the delivery of improvement priorities at all agencies involved. The programme partners are currently evaluating the new integrated model to establish whether the level of savings originally anticipated is actually being achieved.

**3.10** Participating in innovative and collaborative partnerships that make the best use of technology offers councils that have already exhausted the easy-wins from efficiency savings, the potential to reduce their costs. KPMG defines a 'brilliant' council of the future as one which enthusiastically cedes control to others, including to local communities, as a critical tactic to secure better results for customers and citizens. A 'brilliant council of the future' focuses ruthlessly on outcomes for its communities and is agnostic about which part of the economy delivers service provision.

#### **Good or promising practice example 6: Ceredigion County Council**

The Council is proactive in engaging neighbouring organisations including local authorities and health bodies, developing opportunities to work together more, both operationally and strategically. It has a number of joint working arrangements with neighbouring bodies, and at a time of financial restraint, there is a greater incentive and drive to work differently to sustain service delivery. The Council's Governance of Ceredigion – Joint Programme of Work states that: '...any collaboration [with neighbouring authorities and with partners] must have a strong business case that shows it will deliver improved services at a lower cost and will not disadvantage the local economy'.

*Source: Ceredigion County Council Annual Improvement Report, Wales Audit Office, 2013*



## Recipe for a brilliant authority

The operating model in a brilliant local authority will set out a much more sophisticated picture of a mixed economy of service provision. This reflects the fact that for almost every local authority service and function there is an emerging or mature external provider market. It also will reflect an organisation that is very clear what is core and what is non-core business and structure and manage itself accordingly. Typically, it will source non-core services and activities externally to secure much better value for money and public value. The sophisticated mixed economy includes a multitude of delivery options including shared services, joint ventures, arm's length organisations as well as in-house provision and partnerships and contracts with the public, private and third sector organisations (community, voluntary and social enterprises). New vehicles will have multiple uses including direct delivery of services, re-provisioning in areas the authority has exited and providing services to multiple agencies and organisations (including the local authority).

It will have effective liaison and joint working where appropriate. It will seek to influence the use of public resources in its area where this will add public value and improve outcomes, often through co-ordinating funding, staff expertise, assets and systems. This will require strong competencies in persuasion, networking, negotiating, contracting and trading. A brilliant council will be highly enthusiastic to cede authority and control to others if that would secure better services for users. For example it may decide that the most effective and efficient means of securing adult care services would be through local health commissioning and the council transferring budget provision to support this.

A brilliant council will decide to transfer some assets to local community groups and decommission and stop some services, where outcomes have been achieved or needs or priorities have changed. The brilliant council of the future will celebrate the business process of constantly reviewing priorities and changing its activities in line with community needs, aspirations and choices.

Source: *The Brilliant Local Authority of the Future*, KPMG, 2011

## Part 4 - Not all councils are effectively monitoring and evaluating progress in delivering their strategic plans

### Targets and milestones are not always robustly and accurately monitored and do not routinely receive sufficient internal challenge

- 4.1** About half of councils in Wales have robust arrangements to monitor and challenge targets and milestones. Most of the remainder have less well-developed arrangements and a few have very limited arrangements. For example, a 2013 annual improvement report for one council noted, 'A clear framework to monitor performance is in place and performance data is widely reported, but weaknesses in the quality and evaluation of data mean that the Council is unable to robustly challenge performance and decide what it needs to do differently to improve'. The inability to robustly monitor progress and make informed decisions is likely to affect a council's capacity to tackle increasing financial pressures.
- 4.2** Effective councils understand the importance of good financial management and encourage financial literacy within all departments. They also ensure that service managers have robust arrangements to monitor performance against budgets and understand the financial implications of their decisions. Less-effective councils avoid regular reviews and forecasts of income and expenditure against budgets and medium-term financial plans and are

less likely to risk review spending plans and efficiency-related projects. Despite encouragement from a range of regulators, including ourselves, too many councils resist or avoid the opportunity to set SMART<sup>24</sup> targets and milestones – for both financial and performance outputs and outcomes.

### Few councils have effective arrangements to evaluate the impact of their savings plans on citizens

- 4.3** Nearly all councils in Wales have underdeveloped arrangements to evaluate the impact of their savings plans on their citizens. About three-quarters of councils are taking some action, or have recognised the need to strengthen their arrangements. But, a small minority are unable to identify the impact of the decisions they take and the changes they make to service delivery. This means that some councils may continue to deliver unsatisfactory services for longer than necessary, because they are unable to promptly identify weaknesses in their arrangements.
- 4.4** Not surprisingly, well-managed councils are more likely to be able to minimise the impact of budget cuts on their citizens. In 2011, an Audit Commission<sup>25</sup> review of local government responses to austerity measures in England concluded that local performance was a critical success factor, with no link

<sup>24</sup> SMART: Specific, Measureable, Achievable, Realistic, Time-related

<sup>25</sup> *Tough Times: Councils' responses to a challenging financial climate*, Audit Commission, November 2011





between the size of the budget cuts and the extent of impacts on services; some councils were just better at minimising service impacts than others.

**4.5** Although councils have generally been able to absorb the recent financial pressures, there is real and anecdotal evidence and growing concern that the actions taken are beginning to impact upon the quality of services and outcomes. Perceptions about the current and future impact on services differ. PwC has reported that the views of senior local government officers and politicians across the UK are diverging and that both views differ significantly from the views of their citizens, who are becoming increasingly concerned about the cuts they notice.

**4.6** During early 2014, we will complete the first of a series of local government studies investigating the implications and impact of delivering services with less. Our first study explores whether council environmental health services are continuing to deliver their statutory obligations with fewer resources. The main outputs from the study will be a national report on our key findings and a short summary report for each council covering the main local findings from the fieldwork; a comparison with other councils; and a central analysis of budget and performance data. Further studies, focusing on a range of council services will follow. The services selected for review will be influenced by feedback from councils.

### Confidence levels amongst council chief executives and leaders start to diverge

In last year's survey, nearly all chief executives were confident that they were going to be able to make the savings in 2012-13 and prevent a serious impact on the quality of services and outcomes. Having now completed their programmes for the year, only two thirds were able to realise that ambition in practice. This has impacted upon confidence for the year ahead, with only just over half now expressing that view. Looking at the trend over time, the surveys suggest a very cautious optimism on the part of chief executives that the actions taken to date have not adversely impacted upon services. Unlike chief executives, leaders are now more confident that the savings can be made in the year ahead without impacting the quality of service delivery and outcomes. This difference in views is likely to provide a challenge in town and county halls across the country as chief executives and leaders shape their future programmes.

This year has shown a difference in the perception of member acceptance of the savings decisions made. Whereas chief executives believe that members increasingly fully accept the savings that have been proposed and introduced, Leaders believe member support is falling sharply. The gap between the chief executives view and that of Leaders has grown from 1 per cent in 2012 to 31 per cent in 2013.

Public concern about service reductions is high. Among those members of the public who have noticed reductions in services, concern is high. While many local authorities are focused on the scale of the challenge in funding social care, our survey results show that it continues to be universal environmental services that the public are most concerned about. In short, where members of the public notice service reductions, they are almost invariably concerned about them.

Source: *The Local State We're In*, PwC's annual local government survey, 2013

## Few councils are using management information effectively to report on the impact of reduced funding or efficiency savings

**4.7** Councils in Wales are not using management information effectively to report on the impact of reduced funding or efficiency savings. About three-quarters of councils make use of some management information, but often in a piecemeal or uncoordinated way. A few councils are developing a more robust approach.

### Good or promising practice example 7: Denbighshire County Council

Each Improvement Objective is supported by a series of activities and measures that are managed and delivered by the appropriate service area and monitored throughout the year as part of the Council's performance management framework. Importantly, the Council has introduced key internal processes within this system to both challenge and manage improvement.

*Source: Denbighshire County Council Annual Improvement Report, Wales Audit Office 2013*

**4.8** Informed decision making requires robust management information. This supports the early identification of potential difficulties allowing timely intervention and positive outcomes to be rolled out more widely. Better information makes for better decisions, which leads to better and more efficient services. Councils invariably recognise this, but few extract sufficient value from the information they already hold. For example, we recently fed back to one council facing significant budgetary pressures that 'The quality of information on which major decisions have to

be made could be clearer with key information more plainly set out and proposals fully costed. This would give greater assurance that the critical decisions members are making or scrutinising are based on all the relevant data.'

### Using information to make better decisions

Councils need to extract maximum value from the data and information they hold in order to provide good local services, at a reduced cost. In straitened times, information has an even more crucial role to play in driving down costs, while maintaining high standards. At its best, exploiting information to its full potential leads to excellent services, delivered with maximum efficiency. At its worst, it not only affects the quality and cost of services – it can lead to tragic consequences. When public bodies hold inaccurate, incomplete or out-dated data, avoidable tragedies result from poor decisions.

*Source: Is there something I should know? Making the most of your information to improve services, Audit Commission, 2009*



## Appendix 1 - Tools, guidance and other resources

First, the good news. A wide range of authoritative guidance is available to help the public sector improve the way it manages its finances, achieve the required efficiency savings and deliver services during these increasingly austere times.

Now the bad news. Based on the inconsistencies and ineffective approaches we have identified, it is apparent that this guidance has not been widely embraced by those leading and managing local government in Wales. However, as financial pressures continue to affect the public sector – and those who regulate it – we will all have to raise our game. Getting the fundamentals right is crucial. So, a good starting point for local government is to better understand how to manage its finances, allocate its resources and evaluate the impact of those resource allocation decisions on citizens.

Despite their similarities, the 22 county and county borough councils in Wales also face some unique challenges. One size does not (always) fit all; solutions for tackling the financial pressures need to reflect the local circumstances. Developing a better awareness of what has not worked and what has worked well for others can pay dividends. Rather than produce yet another checklist, recycling the wisdom contained in earlier publications, we have decided instead to publicise some of what already exists and is freely available.

### Wales Audit Office tools and publications

Good Practice Exchange is a free resource, which shares relevant knowledge and innovative practices to support you and your organisation to deliver better services, available at [www.wao.gov.uk/good-practice](http://www.wao.gov.uk/good-practice).

At the Good Practice Exchange we gather and share good practice in a number of ways, such as case studies, shared learning seminars and online good practice guidance. We also collaborate with other organisations. In particular, we work in partnership with Good Practice Wales, a single access online portal to Welsh public services' good practice and knowledge. Resources available at the Good Practice Exchange include:

- a Efficiency and innovation:** Welsh public services are facing the biggest financial challenges for a generation. The efficiency and innovation good practice site supports public services in responding to those challenges, helping them identify ways to be more efficient and to find innovative ways of working, so that they can achieve more with less. This section of the Good Practice Exchange includes a comprehensive Guide to Cost Reduction, intended to help political leaders and managers responsible for managing the consequences of cuts.
- b Timely financial reporting:** This guide helps public bodies plan for, and improve, the timeliness of their financial reporting. Reporting financial results as soon as possible during the year and after the year-end contributes towards better financial management. In turn, this supports

improvements in resource management, decision making and risk management as well as supporting public bodies to respond to regulation that brings forward the financial reporting deadlines.

- c Smarter ways of working:** This good practice area aims to stimulate innovation and creative thinking as ways to promote flexible working patterns. It aims to support an overall organisational strategy of improvement, generating cost control, sustainability, and employee engagement-related benefits.
- d Managing sickness absence:** This guide sets out a comprehensive and sustainable system for managing sickness absence and promoting attendance in Wales' public services. The benefit of reducing the average number of days lost each year by just one day is the equivalent of a cash injection of £27 million to public services in Wales. Reducing the average number of days lost per year by one day would contribute an additional 50,000 person-days for local government in Wales.
- e Buildings management:** Effective management of land and buildings is fundamental to the successful delivery of public sector services in the 21st century. This guide supports improvements in service delivery, promotes flexible working arrangements for staff and helps organisations reduce costs and minimise the environmental impact of using buildings. It includes good practice examples from the public and private sectors in Wales and elsewhere.

The Wales Audit Office also offers access to a wide range of national reports, which explore arrangements to promote public sector efficiency and effectiveness. Many of these publications are directly relevant to the financial challenges facing public bodies in Wales and include:

- a Local Improvement Planning and Reporting in Wales:** This report explores the extent to which improvement authorities (defined as local councils, national parks and fire and rescue authorities) are planning, delivering and reporting their improvement effectively. It explores key aspects of authorities' arrangements to improve and makes a series of recommendations to enhance those arrangements.
- b Use of technology to support improvement and efficiency in local government:** Effective use of technology is a key enabler for transforming the delivery of public services, improving outcomes for citizens and delivering efficiency savings. This report identifies ways in which technology can support different ways of working, delivering services, engaging with citizens, and enabling authorities to deliver more for less.
- c The Procurement and Management of Consultancy Services:** Public bodies in Wales spent some £133 million on consultants in 2010-11. If used effectively, consultants' knowledge, skills and resources can help deliver new services and initiatives quickly and expertly. However, if public bodies do not manage consultancy services effectively, this report explains how they can be an expensive way to deliver public services, and how opportunities to make best use of consultants' skills and to gain new knowledge and skills might be missed.



- d Local Authority Reserves and Unsupported Borrowing:** This research paper explores the ways in which reserves can contribute towards effective financial management in local government and explains how members and chief finance officers have a key role to play in determining their level.
- e Public Engagement in Local Government:** Few councils in Wales have developed a robust, strategic and co-ordinated approach to public engagement as a way of improving their outcomes and their efficiency. This report explores current progress and provides recommendations for strengthening engagement arrangements.
- f A Picture of Public Services 2011:** A useful source of information for political and administrative leaders responsible for developing and implementing plans for managing with less. The report also offers guidance for those involved in scrutinising public services by providing insight on the key financial and delivery issues and identifying the areas to challenge public service leaders on whether they are doing enough.
- b The Agile Council:** A report by PwC, which explores why creating an 'agile' council model may be critical to the current and future success of the organisation. It explores the environment councils are operating in and offers five steps to becoming an agile organisation.  
[www.pwc.co.uk/government-public-sector/publications/the-agile-council.jhtml](http://www.pwc.co.uk/government-public-sector/publications/the-agile-council.jhtml)
- c Responding to challenges and change:** This report by Audit Scotland, explores how well councils in Scotland are responding to recent challenges. It focuses on the challenges associated with managing financial pressures, dealing with welfare reform and continuing to provide best value. Not surprisingly, many of the challenges mirror those facing councils in Wales. The report includes a useful checklist of prompts and action points to help elected members focus on the key issues.  
[www.audit-scotland.gov.uk/docs/local/2013/nr\\_130328\\_local\\_authority\\_overview.pdf](http://www.audit-scotland.gov.uk/docs/local/2013/nr_130328_local_authority_overview.pdf)
- d Striking a balance: Improving councils' decision making on reserves:** The Audit Commission's findings from research undertaken during 2012 on the level of reserves that councils hold and on related decision making. The level, purpose and planned use of reserves are important factors for elected members and council officers to consider in developing medium-term financial plans and setting annual budgets.  
[www.audit-commission.gov.uk/2012/12/striking-a-balance-improving-councils-decision-making-on-reserves/](http://www.audit-commission.gov.uk/2012/12/striking-a-balance-improving-councils-decision-making-on-reserves/)
- e Local payment by results:** An Audit Commission briefing to help those involved in commissioning and improving local services to understand what PbR entails; whether it is right for their circumstances; whether it is likely to deliver what they want; and how to

### Other reports, publications and tools

Whilst not an exhaustive directory of recent guidance, the following list provides well-considered thoughts, insight and guidance into the current challenges facing the public sector, together with a range of practical and creative solutions.

- a Under pressure, securing success, managing risk in public services:** A practical guide by PwC on how to deliver public service reform and identify, manage and avoid failure as public services open out to new and different providers.  
[www.pwc.co.uk/government-public-sector/publications/under-pressure-securing-success-managing-failure-in-public-services.jhtml](http://www.pwc.co.uk/government-public-sector/publications/under-pressure-securing-success-managing-failure-in-public-services.jhtml)

avoid pitfalls.

[www.audit-commission.gov.uk/2012/04/local-payment-by-results/](http://www.audit-commission.gov.uk/2012/04/local-payment-by-results/)

- f Work in Progress – Meeting local needs with lower workforce costs:** An Audit Commission/Local Government Association collaboration, which explores how local authorities across England are using creative solutions to reduce workforce costs. The report includes a range of diagnostic tools including guidance on how to carry out an effective pay benchmarking review.  
[www.audit-commission.gov.uk/2011/12/work-in-progress-meeting-local-needs-with-lower-workforce-costs/](http://www.audit-commission.gov.uk/2011/12/work-in-progress-meeting-local-needs-with-lower-workforce-costs/)
- g Improving council governance:** A report by Grant Thornton, which explores how effective, embedded governance frameworks will be essential if councils are to meet the challenges currently facing them, while retaining the support of all their stakeholders.  
[www.grant-thornton.co.uk/Global/Publication\\_pdf/Local-Government-Governance-Review-2013.pdf](http://www.grant-thornton.co.uk/Global/Publication_pdf/Local-Government-Governance-Review-2013.pdf)
- h Towards a tipping point?:** A report by Grant Thornton which summarises the key issues, trends and good practice arising from its second national programme of local government financial health reviews.  
[www.grant-thornton.co.uk/Global/Publication\\_pdf/towards-tipping-point-report.pdf](http://www.grant-thornton.co.uk/Global/Publication_pdf/towards-tipping-point-report.pdf)
- i New finance for a new world:** This report by BDO explores how social investment can offer local authorities a way of supporting new models of service delivery and a new source of investment in local outcomes.  
[www.bdo.co.uk/news/new-finance-for-a-new-world](http://www.bdo.co.uk/news/new-finance-for-a-new-world)
- j Managing customer demand:** A Local Government Association report exploring the ways in which changing service user behaviour can help councils to meet their financial challenges.  
[www.local.gov.uk/web/guest/publications/-/journal\\_content/56/10180/4046716/PUBLICATION](http://www.local.gov.uk/web/guest/publications/-/journal_content/56/10180/4046716/PUBLICATION)
- k Future Pressures on Welsh Public Services:** This report by the Welsh Local Government Association outlines the financial, demand and other cost pressures on Welsh public services up until 2025 and reviews options for responding to these challenges.  
[www.wlga.gov.uk/finance-publications/future-pressures-on-welsh-public-services](http://www.wlga.gov.uk/finance-publications/future-pressures-on-welsh-public-services)
- l When the salami's gone:** The SOLACE Guide to Commissioning and Sourcing provides an insider's view into what commissioning and sourcing mean to local authorities. It sets out to demystify what is still a developing field; takes a hard and dispassionate look at current trends; and provides advice on the ingredients of success.  
[https://secure.solace.org.uk/documents/when\\_the\\_salamis\\_gone.pdf](https://secure.solace.org.uk/documents/when_the_salamis_gone.pdf)