



WALES **AUDIT** OFFICE
SWYDDFA **ARCHWILIO** CYMRU

Councils' response to the financial challenges

Key messages from the Wales Audit Office preliminary corporate assessments October 2010



I have prepared this report under paragraph 21 of Schedule 8 to the Government of Wales Act 2006, drawing on work done under section 18 of the Local Government (Wales) Measure 2009

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

The Auditor General and his staff together comprise the Wales Audit Office. For further information about the Wales Audit Office please write to the Auditor General for Wales at the address above, telephone 029 20320 500, email: info@wao.gov.uk, or see web site www.wao.gov.uk.

© Auditor General for Wales 2010

You may re-use this publication (not including logos) free of charge in any format or medium. You must re-use it accurately and not in a misleading context. The material must be acknowledged as Auditor General for Wales copyright and you must give the title of this publication. Where we have identified any third party copyright material you will need to obtain permission from the copyright holders concerned before re-use.

Contents

Summary	4
All councils have identified the potential scale of the financial challenges they face	6
Most councils are making reasonable progress with financial planning for budget reductions but a minority have considerable progress to make	6
Workforce planning is underdeveloped and represents a major risk as councils reduce staff numbers without a well-evidenced strategic approach	10
Collaboration is gathering pace in response to the financial challenges, but there is a lack of evidence about cost and the impact for citizens	12
Councils generally do not yet have the performance information they need to help understand and manage the impact of reduced funding on citizens	14

Summary

- 1** Councils in Wales face major financial challenges over the next few years, with significant reductions in public spending. The recent recession has meant that the UK Government, like other governments across the world, has built up a large debt, which it now intends to pay off. In the June 2010 Emergency Budget, the UK Government announced its intention to pay off the deficit within the lifetime of the current Parliament. It intends to fund repayment through a combination of tax rises and reductions in public spending.
- 2** The precise level of funding cuts for individual councils or local government as a whole is unclear at present. The UK Government will set out the funding reductions, including the reduction in the Welsh block grant, when it publishes the Comprehensive Spending Review on 20 October 2010. Following the Comprehensive Spending Review, the Assembly Government will then produce its own draft budget, which will set out the funding for local government. It is only at that point that there will be certainty about council funding.
- 3** In advance of the final budget, there is also uncertainty about funding streams linked to Assembly Government programmes and strategies. As well as providing the main revenue grant for councils, the Assembly Government also provides separate funding for specific programmes, for example for school refurbishment. The Assembly Government also provides a national strategic direction on policy areas that impact on local budgets. Councils will not have clarity about the future of those programmes until the Assembly Government determines the budget and the strategic direction for those policy areas.
- 4** Although the precise funding level and environment is uncertain, it is clear that councils will have to manage with less. We have considered councils' preparedness for these impending financial challenges as part of our preliminary corporate assessment of each of the 22 councils in Wales. In particular, we looked at each council's:

 - a** work to identify the scale of the funding gap;
 - b** financial planning to deal with likely reductions in funding;
 - c** workforce planning for reduced staff costs;
 - d** collaboration with others to improve services and make cost savings; and
 - e** use of performance information to monitor cost-effectiveness.
- 5** The pace of change and planning is likely to increase as the scale of the financial challenges become clearer. We intend to produce a more detailed assessment of our work across local government later this year. But we thought it would be helpful to summarise the key findings emerging from our preliminary corporate assessments, so that councils

(and public services generally) could learn lessons as they go forwards. We reviewed all of the 22 corporate assessments, to examine whether councils are well placed to respond effectively to the financial challenges and identify the key lessons.

- 6** Our work shows that while many councils are becoming reasonably well placed to respond, almost all need to make progress with detailed financial and workforce planning to reduce costs and a few need urgent improvement in key areas. We reached this conclusion because:
- a** all councils have identified the potential scale of the financial challenges they face;
 - b** most councils are making reasonable progress with financial planning for budget reductions but a minority have considerable progress to make;
 - c** workforce planning is underdeveloped and represents a major risk as Councils seek to reduce staffing costs without a well-evidenced strategic approach;
 - d** councils have a clear commitment to collaboration, and regional collaboration is gathering pace in response to the financial challenges, but there is a lack of evidence about cost and the impact for citizens; and
 - e** councils generally do not yet have the performance information they need to understand and manage the impact of reduced funding on citizens.

- 7** As well as describing the current situation, this briefing identifies good or promising practice in some of the key areas related to the financial challenges. It is not our intention to highlight these as actions that all councils should start to copy. And we are not implying that these examples represent the best practice and the rest are not as good. Rather, we aim to point to potential examples that may be of interest to other councils. They can then decide for themselves whether there are any aspects they could adopt to inform and develop their own approach. We intend to provide more detail on the examples in here and additional examples on our Good Practice Exchange (www.wao.gov.uk/goodpracticeexchange.asp) in the coming months.

All councils have identified the potential scale of the financial challenges they face

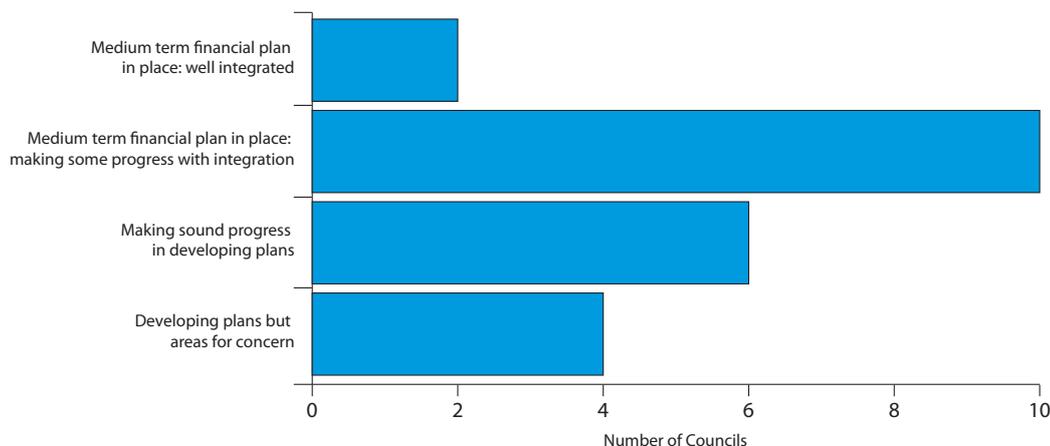
- 8 There is considerable uncertainty about the scale of the financial challenges facing individual councils. Nevertheless, it is important that public bodies look at the likely levels of funding, in order to start planning where and how they might make cost reductions. The danger with waiting to see is that councils may run out of time and have to take short-term decisions to reduce funding without sufficient analysis of the long-term consequences for citizens and the delivery of local priorities.
- 9 We found that all councils have done some basic forecasting of the possible funding gap. Some have used the Assembly Government's prediction of a three per cent cash reduction¹ in revenue budgets and 10 per cent reduction in capital budgets. Some may have used their own figures, drawing, for example, from HM Treasury data, analysis from organisations like the Institute for Fiscal Studies, SOLACE or the Auditor General's report A Picture of Public Services.
- 10 The analysis shows that all councils face significant and rising funding gaps. Because of the different calculations used, it is not possible to produce a consistent comparison of the funding gaps, at this stage. The forecasts range from around £3 million to around £23 million, year-on-year reductions over the next three to four years.

Most councils are making reasonable progress with financial planning for budget reductions but a minority have considerable progress to make

- 11 Part of our corporate assessment work involved looking at how well councils are preparing themselves for the impending financial challenges through medium-term financial planning. Good medium-term financial planning involves matching financial resources with the plans and priorities for the council as a whole, and individual services. It is important to stress that medium-term financial planning is a process not a single document. We were not concerned solely with whether there is a document called a Medium Term Financial Plan (MTFP) (although such a plan can be helpful in communicating and developing a shared understanding). We looked at the quality of the evidence and thinking that informs councils' planning for the medium term, and their ability to respond to any changes along the way.
- 12 We found that just two councils had MTFPs that link to wider corporate and service planning (Figure 1). Even in those examples, both councils recognised there was a need for further work to refine plans to bridge the likely funding gap. Ten other councils had a formal MTFP. However, those plans tended to just describe the likely budgets for the medium term. None of the ten plans showed in any detail how the councils would address the likely funding gaps.

¹ A cash terms reduction means that inflation has not been factored in.

Figure 1 - Progress with medium term financial planning



13 Regardless of whether they had a formal MTFP, almost all councils were carrying out further detailed financial analysis and planning to address their funding gaps. We found that councils were at different stages in the process. Some councils were focusing specifically on developing and refining savings plans to bridge the financial gap. Others were carrying out council-wide financial planning alongside wider service planning and developing council priorities.

14 All councils still needed to make progress in working out how they will fully bridge the likely funding gap over the medium term and how they will sustain and improve services, and deliver priorities, with fewer resources. Nonetheless, based on their track record of financial management and progress to date, we can be reasonably confident that most councils are likely to take an appropriate approach to financial planning for the medium term.

15 There are specific challenges for four councils currently developing their plans. Two do not have a good track record of linking financial plans with corporate and service priorities. One has had longstanding weakness in corporate arrangements that may

inhibit its planning, although recent improvements suggest grounds for optimism. In one, we have longstanding concerns about the lack of medium-term financial planning, which we have reported to the council on several occasions in the past. That council is now starting to make progress with a financial strategy, but needs to make considerable progress to link it to clear priorities and service plans.

16 Making significant financial savings is not simply a technical matter of financial planning. There is a clear leadership challenge for councils in terms of making tough decisions to set clear priorities and potentially change, reduce or even cease some services. To date, councils' approaches have varied. In some councils, senior officers have taken a lead on identifying areas for savings. In some, there has been a strong political lead with the lead party or cross-party groups setting the direction. In some, there has been a mix that includes engagement with operational staff and local people to identify areas for making savings. We intend to keep track of councils' progress in delivering savings over the coming years.

Good or promising practice

Rhonda Cynon Taf focus on financial management. One key way in which firm and focused leadership is supporting the council to achieve its objectives is in the creation of a well-developed MTFP. The council recognises that the 2011-12 and future financial settlements are likely to present many challenges. Cabinet members in particular have a very good appreciation of the financial planning work that has been undertaken and of its importance in maintaining the council's financial integrity.

RCT develops its MTFP through a robust planning process, based on a three-year rolling period and is considering extending this to a five-year period. The financial planning work is ensuring that the council can fund its activities in the Corporate Plan by allocating appropriate resources to services although there is scope to make this allocation process more rigorous. The council is beginning to make the necessary links between financial planning and the management of other resources, such as estates and ICT, but recognises that it needs to strengthen these links further.

The MTFP process is also a testament to the council's effective financial management support services and strong financial management capacity. These arrangements are both driving and supporting planning for service delivery and improvement. While many improvement actions are cost neutral, the council assesses the financial consequences robustly and incorporates them into business plans, the MTFP and the three-year capital programme as appropriate.

Cardiff City Council Strategic Change programme. Cardiff City Council embarked on a strategic change programme, now known as 'Shaping the Future' in 2008, following earlier work that identified a need for new ways of working. The programme has focused on re-shaping the councils services in light of the known and predicted financial pressures and the impact of rising demand across a range of service areas. The programme has helped the council prepare itself for the possibility of having to make cuts earlier than planned. It has identified potential savings of £14 million, against a predicted funding gap of £17.5 million for 2010-11.

Newport City Council's Efficiency Unit. Newport City Council has set up Business Efficiency Unit to project manage reviews of efficiency across services. They have looked primarily at:

- a school catering, savings of c800,000 per annum expected;
- b travel and subsistence rates have been reduced to yield savings of £150-£300,000;
- c use of professional services;
- d building services; and
- e use of voluntary sector grants.

Good or promising practice

Gwynedd Council was among the first in Wales to plan in detail its response to the anticipated reduction in revenue support grant. Members have agreed a range of measures comprising service cuts, efficiency savings and increased income targets to deliver the first stages of a £16 million budget reduction strategy over three years. The measures agreed for implementation in 2010-11 have been subject to careful scrutiny by cross-party workshops of elected members, and their implications fully considered. They have deferred further proposals pending more detailed planning, and they have rejected some proposals at this stage.

Monmouthshire County Council has managed its budget well in recent years with balanced budgets achieved at both directorate and corporate level. The budget is set annually and follows a robust process which links to the MTFP. Directors are required to undertake an annual service assessment which identifies future budget pressures based on population changes, identified risks and the impact of national and local policy decisions as well as options for efficiency gains. This approach is subject to significant member challenges in shaping and agreeing the final budget. Bi-monthly budget management reports are produced and include information on performance by directorates highlighting whether spend is over or under budget and identifying future financial pressures.

The council is in the process of determining a strategy which sets out how it will address the £15.5 million deficit in its entirety with further work required to identify options to secure efficiency savings and reduce revenue spend. One of the key policy shifts being proposed by the cabinet and corporate management team is the alignment of budget and resources with agreed corporate priorities. This change will require political agreement and recognition by the council that it will not be able to fund all its services to consistently deliver improvement year in year. The debate on shifting resources to support corporate priorities has only just begun, but it does offer some opportunities to manage a reduction in revenue spend whilst maintaining and improving performance in respect of the council's key priorities.

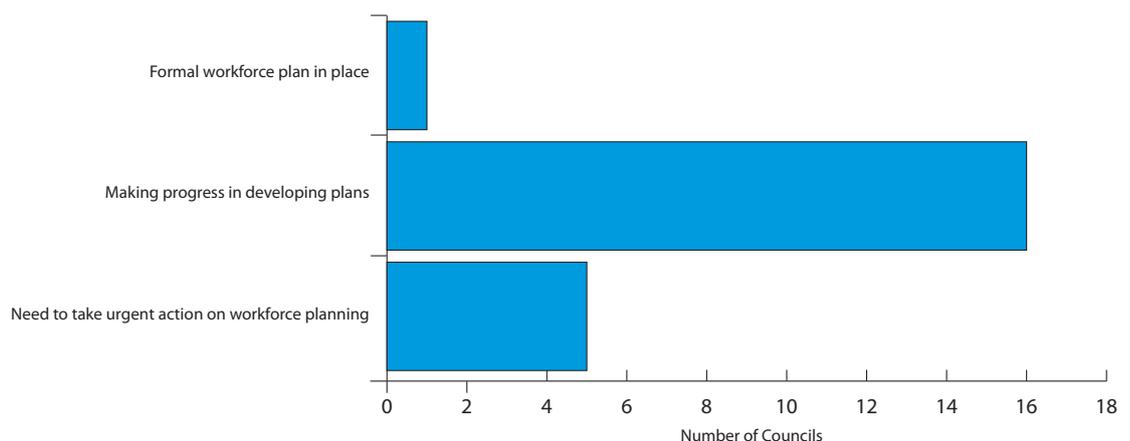
Workforce planning is underdeveloped and represents a major risk as councils reduce staff numbers without a well-evidenced strategic approach

17 The workforce is both the main asset and the main cost for councils. Our report *A Picture of Public Services* noted that public services would need to look at innovative ways of reducing their staff costs. Reducing staff cost is not simply a matter of reducing headcount by making people redundant or having a freeze on recruitment. Workforce planning is not just about numbers: it is about making sure councils have the right people, with the right skills, in the right place, at the right time. Achieving that balance while also reducing cost is a major challenge for councils over the coming years.

18 As with financial planning, workforce planning is a process rather than a document. Planning needs to take account of issues such as job evaluation and equal pay, which most councils have not yet completed. Other crucial factors include the staffing implications of wider transformation of public services, for example through agile and flexible working, re-shaping of business processes and service models, shared services and potential outsourcing of some services. There is a significant risk that, without a robust approach to workforce planning, councils will end up cutting staff and posts without a clear understanding of the impact on services, their users and citizens.

19 We found that only one council actually had a formal workforce plan linked to its financial plans and priorities for services (**Figure 2**). It had explicit goals of reducing the number of staff in a managed way over the medium term. One council has a workforce strategy that aims to reduce the number of posts, but it had not sufficiently linked the strategy to service and financial plans.

Figure 2 - Progress in workforce planning



- 20** The vast majority of councils were in the process of developing workforce plans. One of these councils is putting workforce plans in place across all services. Four of these councils are making progress in some departments and services, notably social services, rather than across the whole council. Others are at varying stages, with some developing principles and tools or focusing on particular aspects, such as flexible working, in the short term.
- 21** There are five councils where our corporate assessments expressed concerns about workforce planning. These five have made little progress over recent years and do not have a clear approach that will enable them to get a firm understanding of likely workforce requirements in light of the financial situation.

Good or promising practice

Cardiff City Council's People Strategy was established in 2007 and sets out how the council intends to reduce its workforce. The strategy provides a structured approach, using a range of different initiatives, including the use of people and resource plans that identify the intended reductions and the timescale for achievement.

Rhondda Cynon Taff County Borough Council is making good progress with workforce planning. Its baseline assessment of staff capacity, capability and likely demand going forward is a sound starting place and has resulted in a position where every role has been categorised according to its nature. The council is managing recruitment very carefully on a day-to-day basis to maximise redeployment opportunities and secure efficiencies as vacancies arise. In order to ensure the correct staff mix and numbers are in place to deliver quality services, the council is in the process of putting workforce plans in place across all services that integrate with business plans.

Flexible working: Torfaen County Borough Council has developed alternative, more flexible approaches to working over a number of years. A cross-organisational project team oversees the development of a number of pilot studies and, more recently, the first successful large-scale roll-out, which involved around 70 staff. There will be an expectation that the whole of the organisation will begin the process of moving towards new, more flexible ways of working and in particular the 7 desks:10 officer ratio.

Collaboration is gathering pace in response to the financial challenges, but there is a lack of evidence about cost and the impact for citizens

22 Under the Local Government Measure (2009) all councils have a duty to collaborate. Collaboration covers a wide range of activity: from information sharing between two organisations to formal sharing of services across a whole region. As councils try to manage reductions in funding, it is important that they consider opportunities to collaborate with other councils, other public services and the voluntary and private sectors in order to improve or maintain services and reduce costs. In particular:

- a** Without working together, different organisations risk duplicating activity and competing to deliver similar services to the same group of people.
- b** Service users often have to go to several service providers to get the service they want. If people cannot get the services they want first time, they have to keep going back; creating extra work and cost. So collaboration is needed to make sure those services to the citizen are as seamless as possible.
- c** HM Treasury has identified scope for public services to make financial savings by collaborating to share services, particularly back-office services.

23 Our work found that all councils have a commitment to collaboration and partnership working. In practice, some councils' approach is clearer than others. The clearest councils tended to have a hard-headed approach, which meant they would only involve themselves in collaboration where they perceived benefits from doing so. Some councils tended to be less clear about the purpose of collaboration. As a result, they were involved in various partnerships and initiatives without a clear idea as to why or what they wanted to achieve.

24 We found evidence of greater regional collaboration between councils in light of financial challenges. Regional collaboration between councils features strongly in our reports in North Wales, with all councils in that area contributing positively to a range of initiatives aimed at improving efficiency and making cost savings. We found similar commitment to regional collaborative initiatives in some parts of South East Wales, notably around the Gwent area, where some councils were exploring options to merge services such as internal audit, benefits processing and adoption services. We found fewer examples of regional collaborative working between councils in the south west of Wales.

25 We found several examples where councils are working with other service providers to share services or staff. These include joint appointments between health and councils' social services. There were also examples of sharing of buildings between organisations, including shared facilities with the police service. For many councils, the Local Service Board (LSB) is key to collaboration in their area. Most councils have a clear commitment to the LSB, although in some areas there is a need for greater clarity as to its direction.

26 While there is a clear commitment to collaboration and lots of activity, the impact remains unclear. We found limited evidence that councils routinely monitor the impact of collaboration, in terms of outcomes and cost. Many councils have assumed that increased collaboration will lead to improvement and significant cost savings, but generally do not have an evidence base to show how their own collaboration to date has delivered such results.

Good or promising practice

North Wales Regional Partnership Board (NWRPB) involves all of the North Wales councils. NWRPB, has a 'vision' and programme for change that the councils intend will simultaneously deliver service improvement and efficiencies, and cashable savings. The NWRPB has established four programme boards to focus on education, social care and health, environment and regulatory services, and other services (including support services). The work will include consideration of:

- a** alternative service delivery models;
- b** partnership with external bodies including the private sector;
- c** collaborative service delivery with other local authorities;
- d** user-controlled services;
- e** business process re-engineering and lean review of services;
- f** sharing of best practice;
- g** joint procurement/commissioning; and
- h** succession planning for joint senior appointments which will provide a framework for developing shared services.

The programme boards are in place and they have identified work streams and set target levels of savings.

Gwent Frailty. The five local authorities in Gwent recognised that health and social care needed to change in order to meet increasing demand with a diminishing public purse. The components of system change include:

- a** letting acute hospitals do what they are good at, rather than become the default location for, in particular, older people who have more generalised needs;
- b** using the resource within the health and social care systems in a more coherent, effective and integrated way;
- c** providing a less complex and confusing experience for the person at the centre so that the focus is on their regaining and maintaining independence; and
- d** treating the person and their carer with respect and dignity, and as an active participant in the care process.

Good or promising practice

Newport Face-2-Face involves multi-agency face-to-face centres whose objectives are improving services and reducing costs through effective partnership. It involves key partners who come together to join up services for the most vulnerable. The overall governance for the Face-to-Face multi-agency project is the responsibility of the LSB, One Newport. A Face-to-Face project group comprising of health, the council, citizens advice bureau and police representatives report to the LSB.

Pembrokeshire County Council has recently arranged an innovative joint secondment of its Director of Social Care with the Local Health Board (LHB) as both partners are focused on strengthening the services they deliver to the people they both serve. This is an experimental approach and both the council and the LHB are aware of the importance of establishing appropriate governance arrangements while at the same time encouraging and supporting innovation. There is a commitment to continuously review and learn from this arrangement and an appetite to share this learning. Although the secondment is in its infancy, there are indications that the arrangement is starting to deliver positive service improvement intentions.

Councils generally do not yet have the performance information they need to help understand and manage the impact of reduced funding on citizens

27 It remains unclear how possible cuts in council funding will affect the quality of local services and what impact this will have on service users and the public in general. It is important that councils have reliable information about service quality and outcomes in order to make decisions about priorities and funding. It is also important that they use such quality and outcome measures to monitor the impact of any funding reductions and respond accordingly.

28 Our corporate assessment work found that councils generally did not have robust performance information on quality and outcomes. Most councils relied on national performance

indicators instead of using their own measures. While national indicators provide a helpful overview of key areas, they do not necessarily reflect local priorities or provide sufficiently detailed management information. The indicators and measures that councils used often focused on process and levels of activity (for example, numbers of people using a service) rather than the quality of that service.

29 We could only find isolated pockets where councils measured outcomes for service users and the wider community. Nevertheless, there are positive signs. Most councils have recognised that they need to develop outcomes measures and many are in the process of developing them. Several have started to explore the Results Based Accountability (RBA) approach (see case study box below) as a way of focusing on improving the impact of services for the local population.

30 One concern that emerges from some of our reports is that some councils tend to use performance information mainly to report how well they are doing rather than to manage their services. In a few councils we have reported concerns about lots of information being presented, for example to scrutiny committees, with little critical analysis of what it actually means. With tighter budgets, it is important that councils make full use of performance information to manage and improve services. In particular, councils will need to use high-quality information to identify and manage any negative impacts on service users as a result of reduced spending.

Good or promising practice

The City and County of Swansea is currently reviewing the range of indicators it collects and RBA model to help support the move from a measurement to a management culture.

RBA sets out a broad framework to enable organisations to focus on delivering better results. The approach distinguishes between population results and performance results. Population results cover outcomes for the population, such as happy children, independent older people, or a prosperous society. One organisation or agency cannot deliver such results alone. It is therefore counter-productive to make any single organisation accountable for results it cannot deliver. The RBA approach proposes that organisations need to agree a common approach to achieving shared population results. This approach requires a common understanding of the current position and a shared plan for moving towards the desired population result. Individual organisations then focus on managing and improving their contribution to population results. In particular, they use performance management to measure and improve the impact of their services on service users.