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Financial Sustainability Assessment – **Wrexham County Borough Council**

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This document is also available in Welsh.

The team who delivered the work comprised Jeremy Evans, Dave Wilson, Michelle Pheonix, Gareth Evans and David Catherall under the direction of Huw Rees and Richard Harries.

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Summary report

Summary

What we reviewed and why

- 1 The project sought to assess the sustainability of councils' short to medium-term financial position.
- 2 This included a focus on the financial strategy of each council as well as reviewing financial 'indicators' of each council's financial position in relation to:
 - Performance against budget
 - Delivery of savings plans
 - Use of reserves
 - Council tax
 - Borrowing

Exhibit 1: about the Council

This exhibit sets out some background information on the Council's net revenue budget, the number of staff it employs and the value of its fixed assets



The Council's net revenue budget for 2019-20 was £237m



The Council employs around 6,000 people



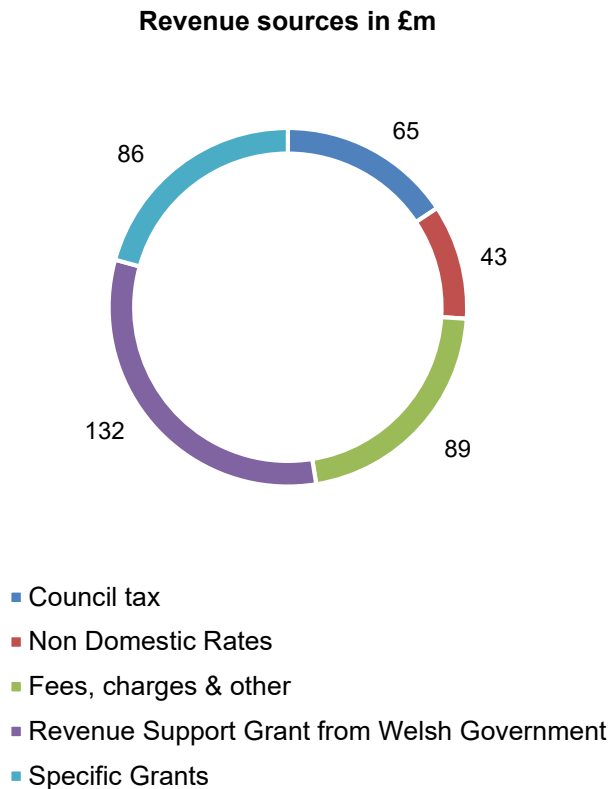
The Council's fixed assets as at 31 March 2019 were £1,084m

Source: www.wrexham.gov.uk, 2018-19 Revenue Outturn report to the Executive Board 14 May 2019 and Wrexham County Borough Council's audited 2018-19 Statement of Accounts

- 3 We undertook this assessment because we identified financial sustainability as a risk to councils putting in place proper arrangements to secure value for money in the use of resources. In part, this was informed by the recent experiences of some councils in England, our knowledge of the financial situation in councils in Wales, and the general trend of decreasing resources for local government combined with rising demand for some services.

Exhibit 2: the Council's sources of revenue

The pie chart below shows how much money the Council received from different funding sources during 2018-19



Source: Wrexham County Borough Council's audited 2018-19 Statement of Accounts

4 We undertook the review during the period July 2019 to November 2019.

What we found

- 5 Overall, we found that the Council has a good track record of managing with reduced funding levels, but will need to control service overspending if it is to continue to be financially sustainable. We reached this conclusion because:
- the Council's Medium Term Financial Strategy does not set out how it will meet the projected cumulative deficit of almost £10 million between 2020-21 and 2021-22;
 - the Council manages spending within its overall budget, but in recent years significant overspends in some services have been off-set by large underspends in others and one-off windfalls;
 - the Council has a good track record of identifying and delivering financial savings;

- the Council has not made any unplanned use of reserves to fund revenue budget pressures and its level of usable reserves has increased in recent years;
- council tax collection rates remain good and council tax income as a proportion of revenue has increased in recent years; and
- the Council has no commercial income nor associated borrowing.

Detailed report

The Council has a good track record of managing with reduced funding levels, but will need to control service overspending if it is to continue to be financially sustainable

The Council's Medium Term Financial Strategy does not set out how it will meet the projected cumulative deficit of almost £10 million between 2020-21 and 2021-22

Why strategic financial planning is important

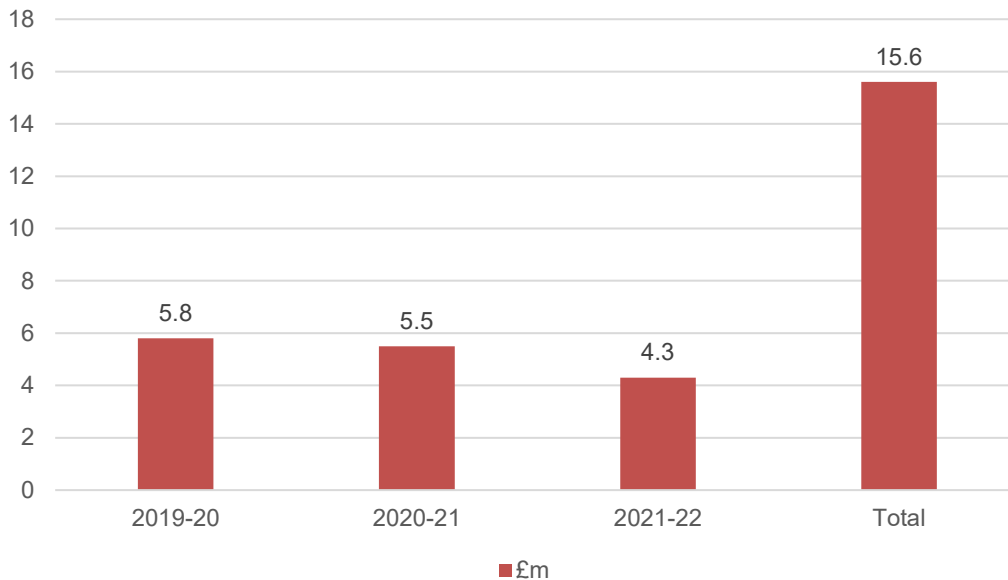
- 6 A clear and robust financial strategy is important to identify the likely level of funding available to a council, as well as the anticipated level of demand for, and cost of, providing services. Given the recent and anticipated funding pressures facing all councils it is also important to identify how it intends to respond to those pressures, and particularly how they will meet projected funding gaps.

What we found

- 7 We found that the Council's Medium Term Financial Strategy does not set out how it will meet the projected cumulative deficit of almost £10 million between 2020-21 and 2021-22. We reached this conclusion because:
- the Council's published Medium Term Financial Strategy (MTFS) 2019 –2022 assumes no increase in Revenue Support Grant and 5.5% increases in council tax in 2021-22 and 2022-23. This identifies an income to the Council of £237 million in 2019-20 rising to £244 million in 2021-22 with no planned use of reserves.
 - the MTFS assumes that with pay and unavoidable commitments, there is a funding shortfall over the two years 2020-21 to 2022 of almost £10 million.
 - to date, the Council has managed within its reduced funding levels, achieving a surplus in 2017-18 and 2018-19 but forecasts a net overspend in 2019-20 of £0.2 million. This includes forecast overspends in Environment and Technical Services and a shortfall in income from planning fees. The MTFS makes no provision for these budget pressures continuing in future years.
 - at this stage the MTFS is incomplete. Whilst it identifies the gap between assumed funding and likely expenditure, it does not reflect how spending might change over the coming years and how the identified gap could be closed.

Exhibit 3: projected funding gap

The following graph shows the funding gap that the Council has identified for this year, and the following two years.



Source: Wrexham County Borough Council's MTFP 2019-20 to 2021-22

The Council manages spending within its overall budget, but in recent years significant overspends in some services have been off-set by large underspends in others and one-off windfalls

Why accurately forecasting expenditure is important

- 8 It is important that overspending and underspending are kept under control and that actual expenditure is as close to the levels planned as possible. A council that is unable to accurately forecast and plan expenditure runs the risk of creating unforeseen financial pressures that may compromise the ability to set a balanced budget. Significant patterns of underspending may be reducing the ability of a council to deliver its key objectives or meet its statutory responsibilities.

What we found

- 9 The Council manages spending within its overall budget, but historically the budget setting process has not accurately reflected the areas of overspends and underspends. We reached this conclusion because:
- in 2017-18, the Council experienced sizeable variations in spending against revenue budgets and underspent its budget overall by approximately £1.2

million. Significant overspends in Environment and Planning of £1.5 million and Children’s Social Care of £1.2 million were offset by underspends in Adult Social Care of £0.2 million, Corporate and Central Services of £1.2 million and Schools of £0.4 million.

- in 2018-19, the sizeable variations continued, and the Council underspent its revenue budget overall by approximately £0.2 million. Significant overspends in Environment and Planning of £0.9 million and Children’s Social Services of £0.8 million and were offset by underspends in Finance of £0.3 million, Corporate and Central Services of £1.5 million, Finance and Investment of £0.3 million and Schools of £0.2 million.
- in 2019-20, as at November 2019, the Council forecast an overspend of £0.2 million with overspending in Environment and Technical Services of £0.6 million and Planning and Regulatory Services of £0.2 million being offset by underspends in Corporate and Central Services of £0.6 million.
- the Council has managed spending within its overall budget, sometimes relying on technical accounting adjustments that were not included in the original revenue budget. Although it has established and used earmarked reserves to meet anticipated budget pressures, for example its Investment and Reshaping Funds, some measures such as ‘managed vacancies’ are more reactive to events and taking advantage of opportunities as they arise.

Exhibit 4: amount of overspend/underspend relative to total net revenue budget

The following exhibit shows the amount of overspend or underspend for the Council’s overall net revenue budget for the last two years and also the year to date as at 31 August 2019.

	Original Budget net revenue budget	Actual Outturn net revenue budget	Amount of overall surplus/overspend	Percentage difference from net revenue budget
2017-18	£225.4m	£224.1m	£1.3m surplus	0.6% surplus
2018-19	£233m	£232.7m	£0.3m surplus	0.1% surplus
2019-20	£243m	£243.5m	£0.5m overspend	0.2% overspend

Source: 2017-18 and 2018-19 Revenue Outturn reports and Wrexham County Borough Council’s Financial Sustainability Assessment – self-assessment

The Council has a good track record of identifying and delivering financial savings

Why the ability to identify and deliver savings plans is important

- 10 The ability to identify areas where specific financial savings can be made, and to subsequently make those savings, is a key aspect of ensuring ongoing financial sustainability against a backdrop of increasing financial pressures. Where savings plans are not delivered this can result in overspends that require the use of limited reserves whilst increasing the level of savings required in future years to compensate for this. Where savings plans are not delivered and service areas are required to make unplanned savings, this increases the risk either of savings not being aligned to the Council's priorities, or of 'short-term' solutions that are not sustainable over the medium term.

What we found

- 11 The Council has a good track record of identifying and delivering financial savings. We reached this conclusion because:
- in 2018-19 the Council approved savings totalling £4.8 million split between service changes, income generation and cross cutting measures. Most individual savings were below £0.1 million in value. Ninety-six percent of these savings were delivered. Only four proposals amounting to £0.2 million were not met; these included savings in children's social care out of county placements, increased income, staff and Council member car parking charges, and a review of Information Communications and Technology applications.
 - in 2019-20 the revenue budget assumed savings of £6.1 million. Whilst most of these savings were below £0.1 million in value, some larger value service changes were planned around social care, education, waste management, library services and a senior management structure. This suggests that the focus of savings is shifting from efficiencies to more service reductions or doing things differently.
 - in November 2019, the Council reported in its 'Briefing note for all Members' that most of its 2019-20 savings had been achieved. Only three savings proposals had not been delivered amounting to £0.5 million (8%), most notably agreement over funding of continuing healthcare packages and finding a financially viable alternative delivery model for the Council's Information and Communications Technology service.

Exhibit 5: savings delivered during 2018-19 as a percentage of planned savings

The following exhibit sets how much money the Council intended to save through planned savings during 2018-19 and how much of this it actually saved.

£4.8m	£4.6m	£0.2m	96.2%
Total planned savings	Planned savings delivered	Planned savings not delivered	Percentage savings achieved

Source: Wrexham County Borough Council Financial Sustainability Assessment – self-assessment.

The Council has not made any unplanned use of reserves to fund revenue budget pressures and its level of usable reserves has increased in recent years

Why sustainable management of reserves is important

- 12 Healthy levels of useable reserves are an important safety net to support financial sustainability. As well as being available to fund unexpected funding pressures, useable reserves can also be an important funding source to support ‘invest to save’ initiatives designed to reduce the on-going cost of providing services. Councils that show a pattern of unplanned use of reserves to plug gaps in their revenue budget that result in reductions of reserve balances reduce their resilience to fund unforeseen budget pressures in future years.

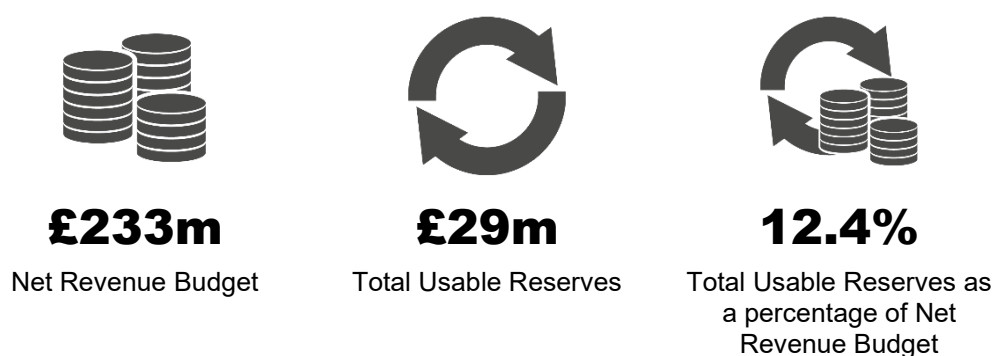
What we found

- 13 The Council has drawn on its reserves over recent years in a planned way, and keeps reserves in line with its reserves strategy. We reached this conclusion because:
- the Council has maintained an overall level of reserves in line with its reserves strategy, using them in a planned way as part of its financial management. At 31 March 2019, the Council held approximately £29 million of usable reserves (12.4% of net revenue budget).
 - the Council reviews its Reserves Strategy annually; the most recent covers the period 2019-20. The Strategy concludes that its ‘reserves are not excessive and that opportunities to boost savings from unplanned underspends are reducing, whilst risks that they will reduce as a result of unplanned overspends are increasing’.
 - the Council’s usable reserves have increased over the last six years; from £25 million as at March 2013 to £29 million as at March 2019 (16%

increase), due in the main to a technical accounting adjustment of £3 million in 2018-19.

Exhibit 6: Amount of reserves vs annual budget, 2018-19

This exhibit shows the amount of usable reserves the Council had during 2018-19 compared with its net revenue budget for the same year.



Source: Wrexham County Borough Council audited 2018-19 Statement of Accounts

Council tax collection rates remain good and council tax income as a proportion of revenue has increased in recent years

Why council tax collection rates are important

- 14 Failure to collect the amount of council tax due to the Council will result in less income. This in turn may increase the financial pressures on the Council and require it to make additional savings. Whilst council tax is not the biggest source of funding for councils in Wales, it remains a key income source.

What we found

- 15 Council tax collection rates remain good and council tax income as a proportion of revenue has increased in recent years. We reached this conclusion because:
- the Council has the 4th lowest council tax band D amount in Wales and council tax income represents 27% of its total income (Non-Domestic Rates, Revenue Support Grant and council tax) increasing from 22% in 2010-11. A broadly similar shift in funding from Revenue Support Grant to council tax is evident in other Welsh councils.
 - since 2013, the Council has increased its council tax by a lower percentage than average in Wales, it has fallen further behind the Welsh average and

- has consistently generated less actual income than most other councils in Wales; and
- the Council collected 97.4% of council tax due in 2018-19 and its council tax arrears level was £3.4 million as at March 2019. The Council is proactive in its collection and management’.

Exhibit 7: Council tax collection rates

This exhibit shows the percentage of council tax due that the Council collected during 2018-19



Cash collected from council tax at 31 March 2019 was £63.9m (97.4%) against a collectable debit of £65.6m

Source: stats.wales.gov.wales

The Council has no commercial income nor associated borrowing

Why maintaining sustainable levels of borrowing is important

- 16 Borrowing can be a valuable source of funding, for example to fund large scale capital projects such as new schools or leisure centres. However, the cost of repaying borrowing including interest costs can have a long-term impact on ongoing revenue budgets. Councils that fail to properly balance the benefits and costs of borrowing with their current and predicted revenue budgets risk reducing the amount of funding available for service delivery. Borrowing to fund commercial activity has the potential to generate additional income to fund council services, however, it can also bring significant risks that would be associated with any commercial activity.

What we found

- 17 The Council has no commercial income nor associated borrowing, and commercial activity does not currently affect the Council’s financial resilience. We reached this conclusion because:
- the Council approved its 2019-20 Capital Strategy, Treasury Management Strategy Statement and the Investment Strategy in January 2019. It plans to

borrow £46 million in 2019-20. This is mostly to fund its Welsh Housing Quality Standard programme.

- the Council does not borrow to fund commercial investment and does not own any investment properties.

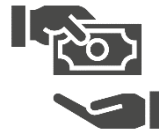
Exhibit 8: Council borrowing

The exhibit below shows the total amount of money that the Council has borrowed to fund commercial investments, as well as the cost of all the borrowing that the Council has as a proportion of its net revenue budget.



£0m

Amount of borrowing to fund commercial investments



3%

Cost of total borrowing as a proportion of net revenue budget 2018-19

Source: Wrexham County Borough Council audited 2018-19 Statement of Accounts and the Council's Financial Sustainability Assessment – self-assessment

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