Financial Sustainability Assessment – Powys County Council

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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
- Bullet

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 £185.425m (excluding Schools)

The Council employs around 6000 people

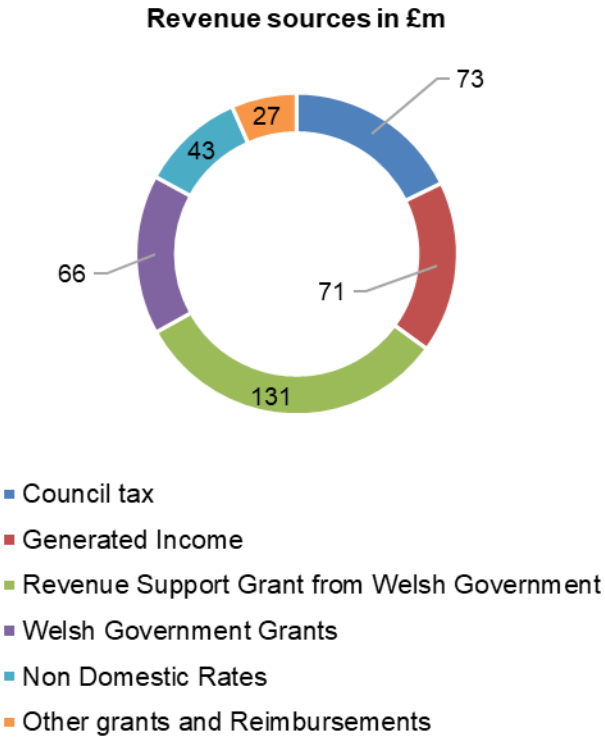
The Council's fixed assets as at 31 March 2019 were £837m

Source: Powys County Council Financial Sustainability self-assessment / Powys Vision 2025 (2019) / Powys County Council's Statement of Accounts 2018/19

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 budgeted to receive from different funding sources during 2018-19



Source – Council self-assessment

4 We undertook the review during the period between October 2019 to January 2020 and our review covers information relating to the financial years 2014-15 to 2024-25.

What we found

5 Overall, we found that due to the considerable challenges the Council has faced over recent years its financial performance has not been sustainable, however the Council understands the significant financial challenges it faces over the medium term and is working to strengthen its overall financial resilience. We reached this conclusion because:

- The medium term financial strategy for 2020 to 2025 identifies significant funding gaps for future years (based on a number of scenarios) and the recently introduced integrated business planning process together with the transformation programme are key to the Council meeting these gaps.

- The Council has overspent in key service areas against its budget in recent years.
- The Council does not have a track record of delivering the totality of its planned annual savings targets.
- Although the level of the Council’s general fund has remained stable over recent years, its level of earmarked reserves has declined.
- Council Tax income collection rates have been largely stable as the amount of Council Tax income increases
- The Council’s level of borrowing has increased in recent years and is forecast to increase further but remains within its Capital Finance Requirement

Detailed report

Due to the considerable challenges the Council has faced over recent years its financial performance has not been sustainable, however the Council understands the significant financial challenges it faces over the medium term and is working to strengthen its overall financial resilience

The medium term financial strategy for 2020 to 2025 identifies significant funding gaps for future years (based on a number of scenarios) and the recently introduced integrated business planning process together with the transformation programme are key to the Council meeting these gaps

Why strategic 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.

7 The medium term financial strategy for 2020 to 2025 identifies significant funding gaps for future years (based on a number of scenarios) and the recently introduced integrated business planning process together with the transformation programme are key to the Council meeting these gaps. We reached this conclusion because:

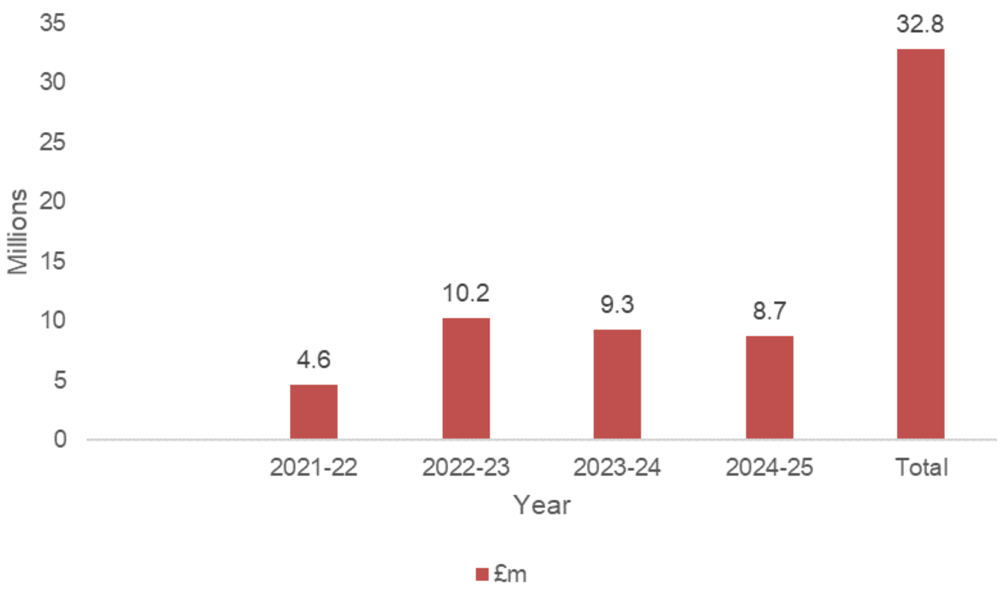
- in April 2019, the Council asked CIPFA to undertake a Financial Management Capability Review. One of the key conclusions was that although the then Medium Term Financial Strategy (MTFS) was 'a highly considered plan, it required greater integration with underpinning service planning and the underlying assumptions appeared to be highly aspirational/expectational'.
- responding to these challenges, the Council recently introduced Integrated Business Plans (IBP). The new process aims to ensure that the resources available are prioritised to deliver the outcomes defined in the Council's Vision 2025, strengthening the links between the transformation programme and the MTFS going forward. The 2020-23 IBPs that have been produced

provide better linkage between the Council's priorities and delivery of budgets.

- as the introduction of IBPs is a new initiative it will take time for these to embed fully across all services. The Council aims to develop and strengthen these plans through monitoring, challenge and scrutiny of the content and quality.
- the Council has taken a prudent approach in its MTFS 2020-2025 (presented to Council in February 2020), with the worst-case scenario identifying a £32.8 million funding deficit from 2021-22 to 2024-25. In addition to this, the level of planned savings required for 2020-21 is £10.8 million.

Exhibit 3: projected funding gap

The following graph shows the funding gap that the Council has identified for the next four years based on a worst-case scenario and taking account of budget reductions already identified. This information has been updated to reflect the draft Local Government settlement announcement in December 2019



Source: draft Medium Term Financial Strategy (MTFS) 2020-25

The Council has overspent in key service areas against its budget in recent years

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 We found that the Council has overspent in key service areas against its budget in recent years. We reached this conclusion because:

- in the last three financial years, the Council has had difficulty staying within its annual revenue budget for some key service areas, eg Children's Services, & Highways Transport & Recycling experiencing significant financial pressures and resultant overspends. Children's Services has overspent by in excess of £5.5 million in each of 2017-18 and 2018-19 and it is forecasting a deficit out-turn position of £4.9 million for 2019-20.
- additional Welsh Government grants awarded late in the financial year, the use of specific reserves and other accounting adjustments (eg the change in the Council's policy for its Minimum Revenue Provision) has helped to significantly reduce the forecast level of in-year predicted overspends or ensuring that predicted overspends did not occur.
- the Council continued to face budget pressures in 2019-20 as highlighted in the November 2019 Financial Overview and Forecast Report, which forecasted a potential year-end deficit of £1.765 million, if budget reductions were not delivered. The report said sufficient budget reductions were assured to deliver a balanced budget for the year.

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 its forecast end of year position for 2019-20 as at October 2019

	Original Budget net revenue budget	Actual Outturn net revenue budget	Amount of overall surplus/overspend	Percentage difference from net revenue budget
2017-18	£164.5m	£160.9m	£3.7m underspend	2.2% underspend
2018-19	£171.7m	£172.4m	£0.7m overspend	0.4% overspend
2019-20 (as of end of November 2019)	£185.4m	£187.2m	£1.8m overspend	0.95% overspend

Source: Powys County Council self-assessment

The Council does not have a track record of delivering the totality of its planned annual savings targets

Why the ability to identify and deliver savings plans, cost or budget reduction programmes 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 We found that the Council does not have a track record of delivering the totality of its planned annual savings targets. We reached this conclusion because:

- The Council has been unable to deliver the totality of its planned savings targets in recent years.

Financial Year	Planned Savings Target £m	Savings Delivered £m	% of Planned Savings Delivered savings
2014-15	17.6	14.0	80%
2015-16	12.8	9.7	76%
2016-17	12.1	9.6	79%
2017-18	11.8	8.3	71%
2018-19	12.3	6.5	53%
2019-20	21.7	16.4m (estimated)	76%

- The level of required planned savings for the 2019-20 financial year is £21.7 million. This figure comprises budget reductions and risks to be offset by services. This is considerably more than previous years.
- November 2019 management reports highlight that the quantum of savings that the Council anticipates achieving for 2019-20 is higher than in recent years, with £14.0 million achieved to date and a further £2.4 million estimated to be achieved by year-end, with the savings anticipated to be 76% of the target.
- Despite making incremental improvements to the rigour and challenge to savings proposals provided by service areas prior to the 2019-20 budget being set, some £5.3 million of the required planned savings in 2019-20 are unlikely to be achieved. The council recognises that service budgets have to be re-based to remove these gaps and the budget for 2020-21 addresses this.
- Fully embedding the integrated business planning approach within the directorates and service areas, together with strengthened scrutiny processes should further help the Council to better plan and deliver its savings target going forward.
- As a result of the better than anticipated local government settlement, whilst still a challenge, the level of planned savings required for 2020-21 of £10.8 million is less than in the preceding financial years.

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

£12.3m	£6.5m	£5.8m	53%
Total planned savings	Planned savings delivered	Planned savings not delivered	Percentage savings achieved

Source: Powys County Council's self-assessment

Although the level of the Council's general fund has remained stable over recent years, its level of earmarked reserves has declined

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 We found that although the level of the Council's general fund has remained stable over recent years, its level of earmarked reserves has declined:

- although the Council's General Fund Reserve has remained fairly constant since 31 March 2017, its earmarked reserves have fallen by £10.3 million in the same period.

- since 31 March 2016 the Council's overall level of useable reserves (as defined for this study)[1] have reduced by approximately 29% (31 March 2016 £38.3 million, 31 March 2019 £27.1 million). In 2018-19 on an exceptional basis and in immediate response to improve the Council's Social Services provision following an inspection, the Council used useable reserves to

[1] As defined by the scope of this review, usable reservices are general fund reserves plus any appropriate earmarked reserves (excluding capital receipts, schools' reserves, Housing Revenue Account reserves)

manage the investment required. The Council acknowledges that this was a one-off provision and that it cannot continue to utilise its reserves to manage in year pressures in this way.

- the Financial Overview and Forecast Report as at 31 November 2019 indicates that the Council plans to use an additional £1.256 million of its earmarked useable reserves in 2019-20 to support specific areas of expenditure, excluding Schools.

- the Schools Delegated Reserves are also under pressure, with a current forecast deficit reserve balance of £2.195 million at 31 March 2020. The draft budget 2020-21 includes funding to help meet the 2020-21 pressures faced by schools with the aim of helping to stabilise schools' budgets. Following the Post Inspection Improvement Conference on 28 November 2019, Estyn have recommended that the Council continues to improve the quality of financial management in schools and take appropriate action to address schools with significant deficit budgets.

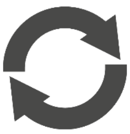
- the Council has agreed the principle, set out in its 2020-25 MTFS that reserves will not be used to fund recurrent budget pressures. The recently introduced Integrated Business Plans process should strengthen links between the transformation programme and the MTFS going forward and will be key to ensure that realistic budgets can be set and delivered without the need to draw on reserves.

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

£184m

Net Revenue Budget (excluding Schools)



£27.1m

Total Usable Reserves at 31 March 2019[2]

15%

Total Usable Reserves as a percentage of Net Revenue Budget

Sources: Powys County Council's Statement of Accounts and self-assessment

[2] As defined by the scope of this review, usable reservices are general fund reserves plus any appropriate earmarked reserves (excluding capital receipts, schools' reserves, Housing Revenue Account reserves)

Council Tax income collection rates have been largely stable as the amount of Council Tax income increases

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 We found that Council Tax income collection rates have been largely stable as the amount of Council Tax income increases:

- Council Tax collection rates in the last four years have ranged between 97.3% and 98.9%. These rates are the same as or higher than the average of all the Welsh Councils
- The amount of Council Tax income has increased by 18% in the last four years
- The Council estimates that Council Tax as a proportion of revenue funding will increase over the next five years from 31.7% in 2019-20 to 39.6% by 2024-25.

Exhibit 7: council tax collection rates

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

Income collected from Council Tax at 31 March 2019 was 97.3% against a collectable debit of **£83.6m**

Source: Stats Wales Council Tax Collection Rates in Wales: 2018-19

The Council's level of borrowing has increased in recent years and is forecast to increase further but remains within its Capital Finance Requirement

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 We found that the Council's level of borrowing has increased in recent years and is forecast to increase further, but it remains within its Capital Finance Requirement:

- to date the Council has adopted a relatively low-risk borrowing strategy and its approach to capital investment is primarily focused on renewing and improving its existing assets as opposed to borrowing to support commercial investments or activities.

- since 31 March 2016, the Council's overall level of borrowing has increased by approximately 32% from £230 million to £303 million as at 31 March 2019. The Council has maintained an under-borrowed position against its Capital Finance Requirements as part of its Treasury Management Strategy.

- the draft MTFS 2020-25 and draft 2020-2021 Budget and Capital Programme presented to Cabinet in January 2020 indicates that long-term borrowing is likely to increase further in the medium term. Long-term borrowing is predicated to be approximately £445 million as at 31 March 2023. This represents a further increase in borrowings of 46%.

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	4.4%
Amount of borrowing to fund commercial investments	Cost of total borrowing as a proportion of net revenue budget 2018-19

Source: Powys County Council's self-assessment

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We welcome correspondence and telephone calls in Welsh and English.
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