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Financial Sustainability Assessment – **Blaenau Gwent County Borough 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

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 £143.9m[1]

The Council employs around 3500 people[2]

The Council's fixed assets as at 31 March 2019 were £265m[3]

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.

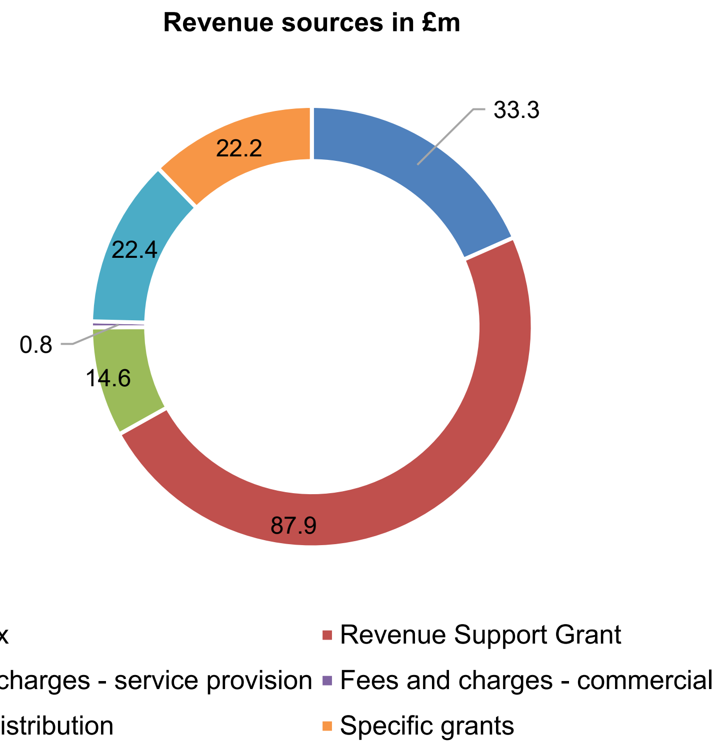
[1] Source: Revenue Budget 2019/20 Report to Council in February 2019

[2] Source: Blaenau Gwent County Borough Council

[3] Source: Blaenau Gwent County Borough Council 2018-19 Statement of Accounts

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[4]



4 We undertook the review during the period October 2019 to January 2020.

What we found

5 Overall we found that: Despite a history of service overspending, the Council has recently taken steps to increase its level of useable reserves and is developing a more sustainable financial strategy.

We reached this conclusion because:

- The Council is developing a more sustainable financial strategy but it is too early to assess whether this will strengthen financial resilience over the medium term
- The Council has a recent history of overspending against its budget but the amount of year end overspends is reducing
- The Council has a good track record of delivering planned savings but is shifting its approach to identify more sustainable long-term savings

[4] Source: Council self-assessment

- The Council's general fund is in line with its reserves strategy and the Council is taking steps to increase its level of useable reserves following unsustainable use in previous years
- Council tax accounts for a relatively small proportion of the Council's income but the Council is exploring ways to improve its in-year collection rates
- The Council does not have high levels of borrowing and does not currently have any commercial investments, but as it explores its future approach to commercial activity the Council should ensure it considers and manages the associated risks.

Detailed report

Despite a history of service overspending, the Council has recently taken steps to increase its level of useable reserves and is developing a more sustainable financial strategy

The Council is developing a more sustainable financial strategy but it is too early to assess whether this will strengthen financial resilience over the medium term

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

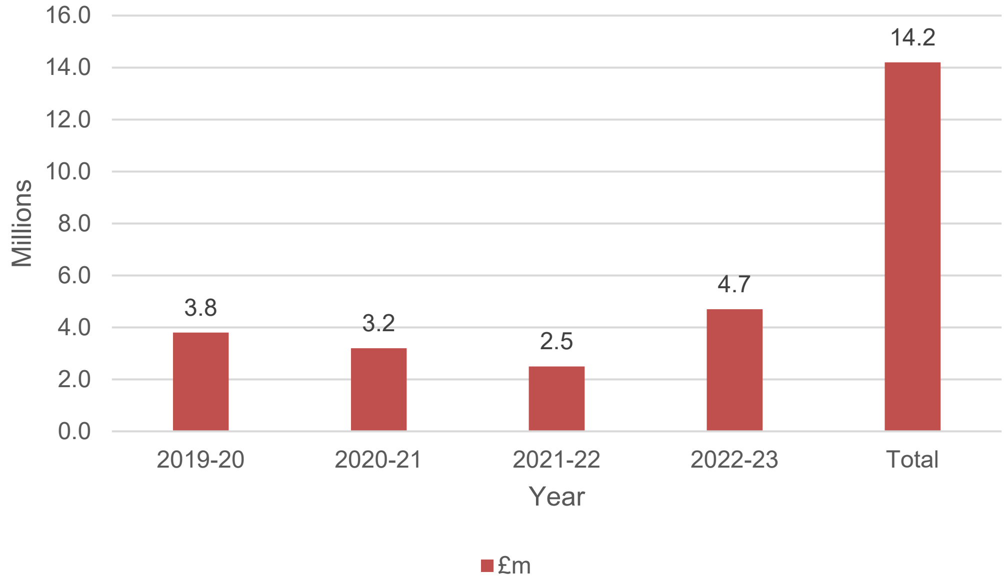
7 We found that the Council is developing a more sustainable financial strategy but it is too early to assess whether this will provide strengthen financial resilience over the medium term.

8 We reached this conclusion because:

- The Council has a Medium Term Financial Strategy (MTFS) which is revised annually. The current MTFS was updated in December 2019 and provides a high level summary of the financial challenge facing the Council between 2020-21 and 2024-25. Over this period, the Council projects an overall deficit of £16.2m.
- Exhibit 3 below sets out the Council's projected funding gap between 2019 and 2023, assuming cash flat settlements from Welsh Government.

Exhibit 3: projected funding gap

The following graph shows the funding gap that the Council identified for this year, and the following three years.[5]



- The Council's MTFS is based on a range of reasonable assumptions.
- The Council's provisional RSG settlement from Welsh Government for 2020-21 is 3.9%, equating to a £4.3m cash increase on the 2019-20 settlement. However, some of this increase includes amounts previously provided by Welsh Government, such as specific grants for teacher pay and pensions and social services.
- The Council's Bridging the Gap strategy aims to take a more transformative and sustainable approach to financial planning.
- The Council has traditionally closed the budget gap through a range of Financial Efficiency Projects (FEPs), identified on an annual basis. Going forward, the Council aims to close the majority of its budget gap through savings identified as part of the Bridging the Gap programme. To date, the programme has identified between £5.4m and £7.9m of savings over the period of the MTFS, with further savings expected as the programme progresses.
- The provisional local government settlement has closed the Council's predicted funding gap for 2020-21 and enabled it to allocate money to:

[5] Source: 2019-20 funding gap: Medium Term Financial Strategy 2019/2020 – 2021/2022; 2020-21 – 2022-23 funding gap: Medium Term Financial Strategy 2020/21 – 2024/25 (prior to provisional local government settlement announcement).

  - additional cost pressures identified for 2020-21; and
  - a transformation budget which will reduce the need to draw on earmarked reserves to fund transformational projects;
- The local government settlement will also reduce the funding gap identified for future years in exhibit 3.
- The council is currently undertaking a strategic review of fees and charges, aimed at ensuring that fees and charges are set based on full cost recovery where appropriate, and are subject to agreed uplifts. It also aims to identify new opportunities to charge for goods and services. The review has so far identified an additional £0.2m of income for 2020-21 and £0.1m for subsequent years of the MTFS.
- The Council is undertaking a strategic business review on income recovery. This aims to review the Council's current income recovery practices and ensure they are appropriate, efficient and maximise income collection.
- Whilst the Bridging the Gap programme provides a more sustainable financial strategy, any new approach presents risks. It is currently too early to assess whether the programme will deliver its aims and achieve the identified savings in full and within the estimated timescales.

The Council has a recent history of overspending against its budget but the amount of year end overspends is reducing

Why accurately forecasting expenditure is important

9 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

10 We found that the Council has a recent history of overspending against its budget, but the amount of year end overspends is reducing.

11 We reached this conclusion because:

- In recent years the Council has overspent against its budget, however overspends are reducing, as set out in Exhibit 4 below.

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 the year to date as at October 2019.

	Original Budget net revenue budget	Revised Budget net revenue budget[6]	Actual Outturn net revenue budget	Amount of overall surplus/overspend	Percentage difference from net revenue budget
2017-18[7]	£140.5m	£144.6m	£145.3m	£0.7m overspend	0.5% overspend
2018-19	£141.9m	£145.4m	£145.5m	£0.01m overspend	0.01% overspend
2019-20 as of end of September 2019[8]	£143.9m	£147.3m	£147.3m	£0.007m overspend	0.005% overspend

- Underspends, including in corporate services, have balanced overspends in other areas. For example, in 2018-19, underspends of £0.61m in Corporate Services, Social Services, Economy and Planning helped balance out overspends of £0.68m in Education, Environment and Licencing.
- An increase in the number of placements for looked after children (LAC) has been a key cost pressure in recent years. Underspends within Adult Services in 2018-19 contributed to a net underspend in Social Services. In 2019-20, the Council is mitigating the LAC cost pressure through a £762k Sustainable Social Services Grant and the emerging benefits of preventative initiatives such as My Support Team and Supporting Change projects implemented during 2018-19 and early 2019-20.
- Other cost pressures expected to impact on the 2019-20 year end variance are:
  - education costs for LAC; and
  - waste service costs in relation to new vehicles, increased contract costs, and reduced grant funding.

[6] The revised net revenue budget, as reported in the Council's monitoring and outturn reports, is the original net revenue budget figure less capital adjustment plus pension adjustment.

[7] 2017-18 and 2018-19 data taken from Revenue Budget Outturn Reports presented to Executive Committee each year.

[8] 2019-20 data taken from Revenue Budget Monitoring Report as at 30 September 2019 to Executive Committee in November 2019.

The Council has a good track record of delivering planned savings but is shifting its approach to identify more sustainable long-term savings

Why the ability to identify and deliver savings plans is important

12 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

13 We found that the Council has a good track record of delivering planned savings but is shifting its approach to identify more sustainable long-term savings.

14 We reached this conclusion because:

- To date, the Council's approach to savings planning has focussed on identifying high numbers of individual financial efficiency projects on an annual basis. The Council has a good track record of delivering these savings.
- Exhibit 5 sets out that the Council achieved 91% of its planned savings in 2018-19.

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.[9]

£3.8m	£3.5m	£0.3m	91%
Total planned savings	Planned savings delivered	Planned savings not delivered	Percentage savings achieved

[9] Source: Revenue Budget Outturn Report presented to Executive Committee in July 2019

- 65% of the £0.3m of undelivered savings in 2018-19 related to an unachieved financial efficiency project to reduce placements for looked after children (LAC).
- 98% of planned savings were achieved in 2017-18 and 100% in 2016-17.
- In 2019-20, the Council forecasts that it will deliver 97% (£3.3m) of total planned savings of £3.4m. The majority of undelivered savings relate to the delayed operation of machinery at a waste transfer station resulting in a lower than forecast income from recyclates.
- The Council recognises that its annual approach to savings identification is unsustainable and is beginning to identify long-term savings opportunities, potential cost avoidance and new revenue streams. If achieved, these will help strengthen the Council's financial sustainability and reduce its reliance on annual identification of savings to balance the budget.

The Council's general fund is in line with its reserves strategy and the Council is taking steps to increase its level of useable reserves following unsustainable use in previous years

Why sustainable management of reserves is important

15 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

16 We found that the Council's general fund is in line with its reserves strategy and the Council is taking steps to increase its level of useable reserves following unsustainable use in previous years.

17 We reached this conclusion because:

- The Council has a reserves protocol and its strategy for reserves is set out in its MTFS. This includes a target level for general reserves of 4% of the last reported actual net revenue expenditure[10]. The Council also intends to increase the overall level of reserves over time to support the Council's financial resilience.
- The Council has no plans to use the general reserve to balance the annual budget during the life of the MTFS. A proposed budget contingency within

[10] Net revenue expenditure figure taken from the latest statutory revenue outturn return.

the annual budget aims to avoid the need to draw on reserves for unforeseen overspends and, if not required, will be used to build up the general reserve.

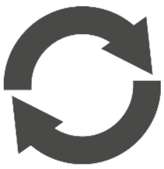
- Exhibit 6 below sets out the Council's level of usable reserves against its annual budget in 2018-19.

Exhibit 6: amount of reserves vs annual budget, 2018-19[11]

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

£141.9m

Net Revenue Budget



£11.7m

Total Useable Reserves[12]

8%

Total Useable Reserves as a percentage of Net Revenue Budget

- At 31 March 2019, the Council held £11.7m in useable reserves, consisting of:
  - £5.89m in General Fund;
  - £5.80m in useable earmarked reserves balances.
- This is an 11% increase from 2017-18, when the Council held useable reserves of £10.5m (7% of net revenue expenditure). However, the Council forecasts that total useable reserves will fall to £9.5m by the end of 2019-20. This would equate to 7% of net revenue expenditure.
- In recent years, the Council has taken steps to increase its General Fund using contributions agreed as part of the budget setting process and from windfall payments. During 2018-19 it added £0.41m and in 2019-20 it expects to add a further £0.25m to the Fund, taking it to £6.14m (4.6% of net revenue expenditure). Going forwards, the MTFS includes a £0.2m contribution to the General Fund each year and the Council recently approved the transfer of excess Bridging the Gap savings to reserves.

[11] Source: Council self-assessment and 2018-19 Statement of Accounts

[12] The Council excludes from its definition of useable reserves any ring-fenced earmarked reserves that have been established for specific reasons and cannot be flexibly reassigned

Council tax accounts for a relatively small proportion of the Council's income but the Council is exploring ways to improve its in-year collection rates

Why council tax collection rates are important

18 Council tax is a key source of funding for councils in Wales. 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.

What we found

19 We found that council tax accounts for a relatively small proportion of the Council's income but the Council is exploring ways to improve its in-year collection rates.

20 We reached this conclusion because:

- The percentage of total gross revenue budget funded by council tax in 2019-20 is 19%. In comparison, the percentage of total gross revenue budget funded by Welsh Government's Revenue Support Grant is 48%.
- Council tax increased by 4.9% in 2019-20 and the MTFS assumes annual increases of 4% over the remaining years of the strategy.
- The Council predicts that its council tax base may increase in future as a result of new properties to be built by 2023 and the potential removal of council tax discounts for empty properties.
- As part of its Bridging the Gap programme, the Council is looking at maximising its income and developing its commercial activities. If successful, this will affect the proportion of gross revenue budget funded by council tax.
- Since 2016-17, the Council's in-year collection rates have remained steady at just below 94%. The Council is reviewing its recovery and enforcement processes to identify opportunities for improvements.

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 **£28.3m** (93.7%) against a collectable debit of **£30.2m**[13]

The Council does not have high levels of borrowing and does not currently have any commercial investments, but as it explores its future approach to commercial activity the Council should ensure it considers and manages the associated risks

Why maintaining sustainable levels of borrowing is important

21 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

22 We found that the Council does not have high levels of borrowing and does not currently have any commercial investments, but as it explores its future approach to commercial activity the Council should ensure it considers and manages the associated risks.

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

23 We reached this conclusion because:

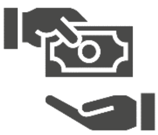
- The Council had £158m of loan debt at the end of 2018-19; this is within the authorised limit for external debt set by the Council.
- The Council takes a low risk approach to both borrowing and investment. The Investment Strategy prioritises capital protection and liquidity over maximising returns on investment. The Treasury Management Strategy restricts exposure to variable rate interest borrowings and sets limits for the maturity structure of its borrowings. This provides the Council with more certainty over its interest payments and enables it to manage the period over which borrowings mature.
- Interest payable on borrowing amounted to £4.4m in 2018-19. A further £0.6m was set aside for principal repayments of external loans as part of the Council's minimum revenue provision. The Council's borrowing is not used to fund commercial investments.

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[14]



3.5%

Cost of total borrowing as a proportion of net revenue budget 2018-19[15]

- As part of the Bridging the Gap programme, the Council is exploring its future approach to commercial investments and activity. A strategic business review will seek to identify potential commercial and investment opportunities. In developing a more commercial outlook, the Council should ensure it manages the associated risks.

[14] Source: Council's self-assessment

[15] Source: 2018-19 Statement of Accounts – interest payable and MRP. Revenue Budget 2018/2019 report to Council, February 2018 – net revenue budget

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