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Financial Sustainability Assessment – **Rhondda Cynon Taf County Borough Council**

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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 £483m

The Council employs around 9,943 people

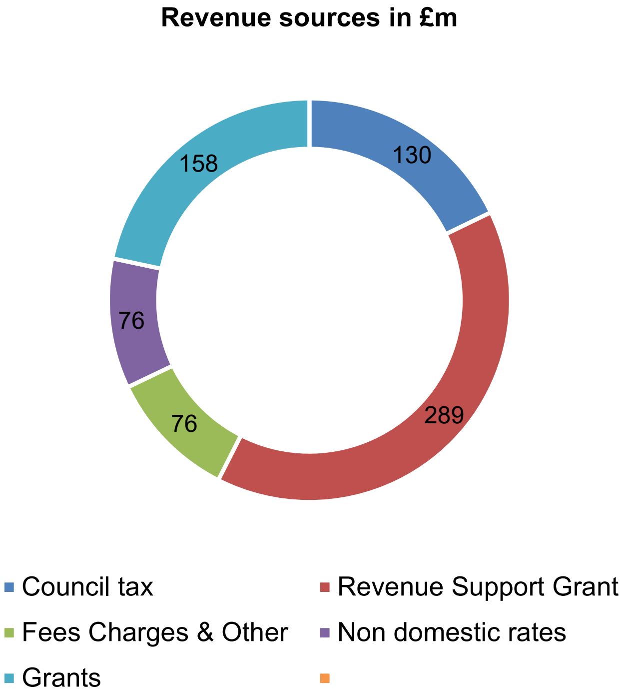
The Council's fixed assets as at 31 March 2019 were £1,138m

Source: 2019-20 revenue budget, 2018-19 statement of accounts (employee numbers and fixed assets)

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 expects to receive from different funding sources during 2019-20.



Source: 2019-20 Statement of Accounts

4 We undertook the review during the period October to December 2019.

What we found

5 Overall we found that the Council is well placed to manage its financial sustainability over the short and medium term. We reached this conclusion because:

- the Council focusses on both short term annual budgeting and medium term financial planning, which are clearly linked to supporting the achievement of corporate priorities and objectives;
- the Council has a good track record of delivering services within agreed budgets;
- the Council has made significant savings in recent years and planned savings have largely been achieved;
- the Council has a reasonable level of useable reserves;
- the Council collects a high proportion of council tax income, and
- the Council takes a prudent approach to borrowing.

Detailed report

The Council is well placed to manage its financial sustainability over the short and medium term

The Council focusses on both short term annual budgeting and medium term financial planning, which are clearly linked to supporting the achievement of corporate priorities and objectives

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

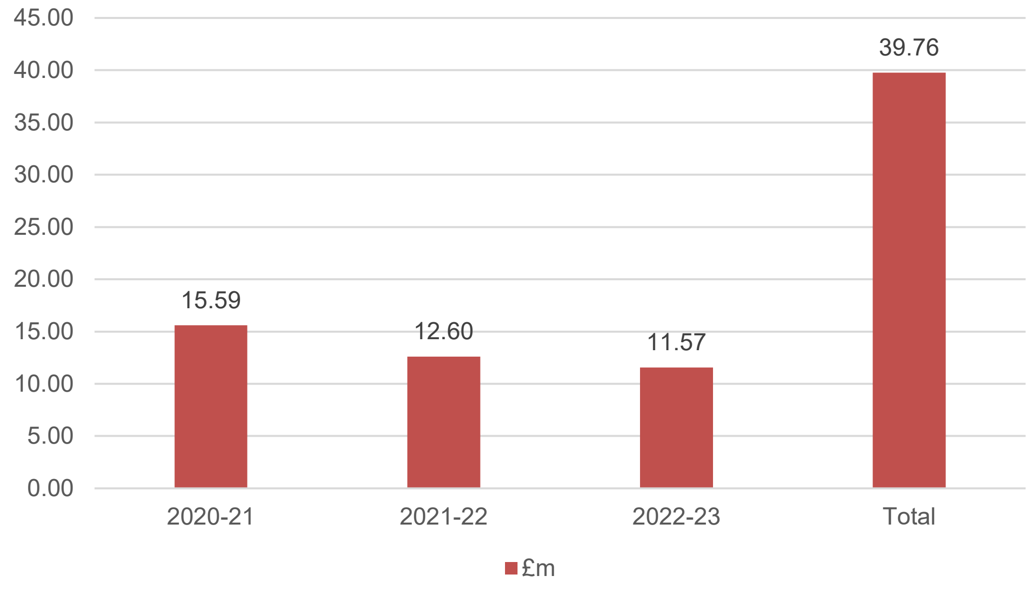
7 We found that the Council focusses on both short term annual budgeting and medium term financial planning, which are clearly linked to supporting the achievement of corporate priorities and objectives. We reached this conclusion because:

- the Council's Medium Term Financial Plan (MTFP) identifies an anticipated funding gap over the next few years, which is based on reasonable assumptions (Exhibit 3). One of those assumptions is that revenue funding from RSG will remain static year on year. Whilst for 2020-21 the MTFP identified a funding gap of £15.59 million, this gap has been significantly reduced by the more favourable settlement figure recently announced by the Welsh Government.
- the Council revises its financial plan annually which is used to help inform the annual revenue budget setting process. The budget process estimates the impact of demand changes and/or demographic changes, legislative or regulatory change, the effect of external market forces (and prices) and the financial implications of policy and service planning decisions made by the Council.
- the annual budget accounts for any budget gap in order to match the resources available to the resources required, and sets out the scale of efficiency savings which it has planned to achieve. In recent years the budget outturn has matched the resources available with only minor over/under spends.

- in recent years the Council has made use of some of its earmarked reserves. It has done so on a planned basis, and in line with the stated purpose of these reserves, rather than placing any reliance on reserves to cover unplanned revenue overspends.

Exhibit 3: projected funding gap

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



Source: Medium Term Financial Plan

The Council has a good track record of delivering services within agreed budgets

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 a good track record of delivering services within agreed budgets. We reached this conclusion because:

- the Council has a good track record of financial management and has consistently delivered its services within agreed budgets although there are inevitable minor overspends and underspends in some areas.
- the Council achieved a revenue budget underspend of £0.386 million in 2017-18 and a small overspend of £0.222 million in 2018-19.
- the Month 6 revenue budget monitoring report projected a £1.761 million overspend for 2019-20. This overspend does not take account of the additional one-off funding from the Welsh Government in respect of preparations for winter and new emergency care measures across the health and social care system, which the Council is working to secure.

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 30 September 2019.

	Original Budget net revenue budget	Actual Outturn net revenue budget	Amount of overall surplus/overspend	Percentage difference from net revenue budget
2017-18	£458.940m	£458.554	£0.386m surplus	0.08% surplus
2018-19	£471.60m	£472.962m	£0.222m overspend	0.04% overspend
2019-20	£483.469m	£485.230m	£1.761m projected overspend	0.36% projected overspend

Source: revenue outturn reports (2017-18 and 2018-19), Council performance report 21 November 2019 (2019-20)

The Council has made significant savings in recent years and planned savings have largely been achieved

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 We found that the Council has made significant savings in recent years and planned savings have largely been achieved. We reached this conclusion because:

- the Council has a good track record of delivering against a balanced budget, which includes its costed saving plans.
- savings are identified through a process of review of current service provision and proposals are prepared in the context of the Council's corporate objectives. These are subject to consultation with the public and other stakeholders and are scrutinised by relevant committees.
- the Council has made significant savings since 2015-16 and, for example, the number of employees has fallen from 10,990 to 9,943 at the end of March 2019.
- the Council set a savings target of £8.572 million in 2018-19 and £9.617 million in 2017-18. Decisions on planned and fully costed savings are taken to deliver the targets and then built into the budget at the start of the year and are monitored through the budget monitoring process. Consequently, the Council does not monitor the achievement of individual saving plans as they are part of the overall budget, and form part of the overall monthly budget monitoring reports.
- for the current 2019-20 financial year, a savings target of £12.903 m has been dealt with and built into the budgets. As reported above as at month 6, there was a projected overspend of £1.761 million, but work is ongoing to secure additional funding to cover this and managing expenditure to contribute to bringing the financial position more closely in line with budget.

The Council has a reasonable level of useable reserves

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 ongoing 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.

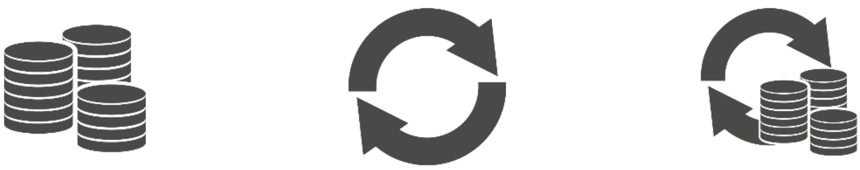
What we found

13 We found that the Council has a reasonable level of useable reserves. We reached this conclusion because:

- the Council's usable revenue reserves balance reduced from £74.8 million at the end of March 2018, to £51.6 million at the end of March 2019 as a result of planned use of earmarked reserves.
- as at 31 March 2019, the aggregate value of useable reserves of £51.6 million constituted a General Fund balance of £10.5 million, together with £41.1 million of earmarked revenue reserves. These useable reserves exclude school and capital balances and represent 10.94% of the Council's 2018-19 net revenue budget (see Exhibit 5).

Exhibit 5: 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.



£471.6m	£51.6m	11%
Net Revenue Budget	Total Useable Reserves	Total Useable Reserves as a percentage of Net Revenue Budget

Source: 2018-19 statement of accounts

The Council collects a high proportion of council tax income

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 the Council collects a high proportion of council tax income. We reached this conclusion because:

- council tax income accounts for approximately 17% of the Council's overall funding and the Council has been effective in collecting the council tax income due to it. The recovery rate for 2018-19 was 97.2%, in line with the average recovery rate across Wales of 97.3%.

Exhibit 6: 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 **£105,527m** (97.2%) against a collectable debit of **£108,546m**

Source: stats wales council tax collection rates 2018-19

The Council takes a prudent approach to 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 adopts a prudent approach to borrowing, complying with prudential indicators. We reached this conclusion because:

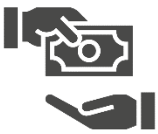
- the Council does not borrow to finance any commercial activities; borrowing is used for capital investment purposes.
- the Council utilises internal resources prior to borrowing money externally.
- the total level of borrowing was £333 million as at 31 March 2019. The borrowings at 31 March 2018 were £273 million. Borrowing fluctuates mainly due to cashflow and capital project financing. Borrowing requirements were £44 million for 2019-20.
- the Council's capital financing costs were £19.947 million of its net revenue expenditure in 2018-19, which represented 4.2% of the total revenue budget. For 2019-20, these costs are anticipated to reduce to £18.917 million which represents 3.9% of the 2019-20 total revenue budget.
- as well as borrowing, the Council also invests surplus funds to generate additional investment income. At 31 March 2019, the Council had investments of £30.583 million of short term and long term investments.

Exhibit 7: Council borrowing

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

£333m

Total amount of borrowing as at 31 March 2019



4.2%

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

Source: 2018-19 statement of accounts and Authority Wide budget as per the 2019-20 Budget Book

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