

# Financial Sustainability Assessment – City and County of Swansea

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

The team who delivered the work comprised Jason Garcia, Justine Morgan and Colin Davies under the direction of Huw Rees.

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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 £443.3 million

The Council employs around 11,050 people

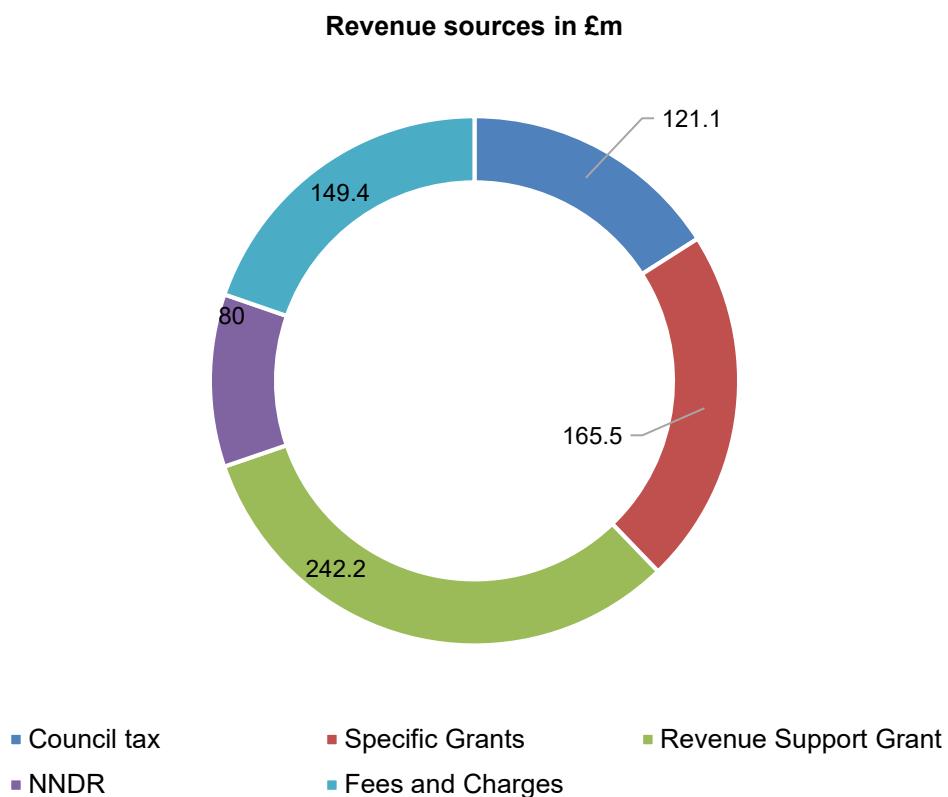
The Council's fixed assets as at 31 March 2019 were £1,380 million

Source: City and County of Swansea website and 2018-19 financial statements

- 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: Figures derived from Council's self assessment return

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

## What we found

- 5 Overall we found that the Council continues to face a significant financial challenge and needs to deliver its savings plans at the pace and scale required whilst controlling service spending within budgets, thus removing reliance on one off central financing measures to otherwise successfully balance the overall budget. We reached this conclusion because:
- the Council has developed a strategy to support financial resilience but needs to ensure it is sustainable over the medium term;
  - for the last three years the Council has not been able to maintain its cost of services within annual budgets;
  - the Council does not have a good track record of delivering planned savings, adding to in-year financial pressures;
  - the Council has a reasonable level of useable reserves, but recent unplanned use of reserves needs to be controlled to support financial sustainability;

- the Council has achieved good levels of council tax collection rates but the arrears balance is increasing, and
- the cost of funding significant additional unsupported borrowing will add additional pressures to the revenue budget position over the medium and longer term.

# Detailed report

The Council continues to face a significant financial challenge and needs to deliver its savings plans at the pace and scale required whilst controlling spending within budgets

The Council has developed a strategy to support financial resilience but needs to ensure it is sustainable 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

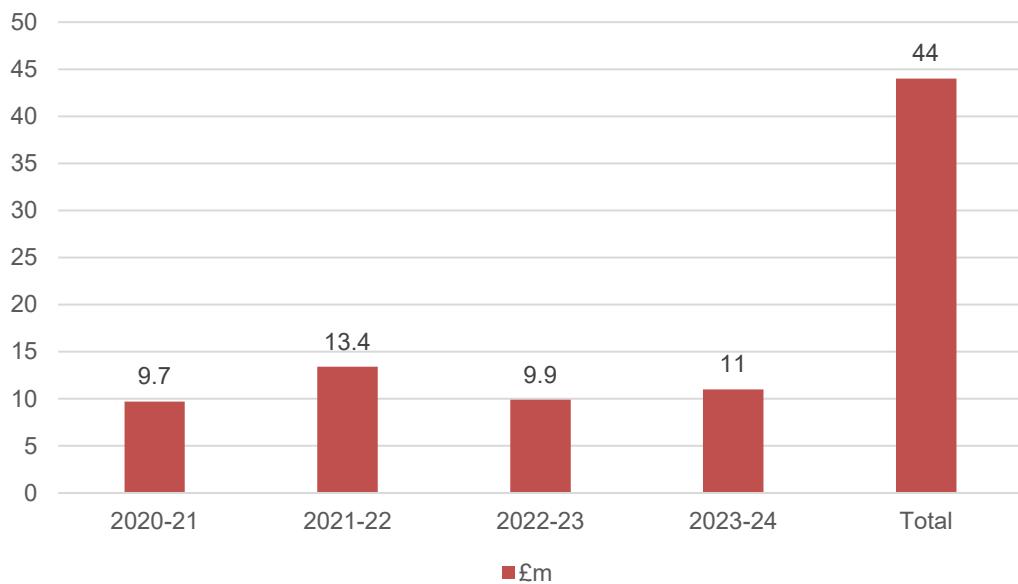
- 7 We found that the Council has developed a strategy to support financial resilience but needs to ensure it is sustainable over the medium term. We reached this conclusion because:
  - the Council's Medium Term Financial Plan (MTFP) identifies an anticipated funding gap over next few years, which is based on reasonable assumptions.
  - the Council has identified a financial deficit of £44 million to 2023-24. £9.7 million of this relates to 2020-21 and needs to be met from financial savings. The deficit for the period 2021-22 to 2023-24 totals £34.3 million and assumes an annual increase in Welsh Government Funding of 2% per annum. This deficit will need to be funded from financial savings and future increases in Council Tax.
  - for the last three years, the Council has not been able to maintain its cost of services within annual budgets and as a result has utilised some of its reserves to manage these overspends.
  - in December 2019, the Welsh Government announced a 4.2% increase to the Council's revenue support grant for 2020-21. The January 2020 Cabinet report on the Budget proposals for 2020/21 to 2023/24 sets out that this increase has, in large part, contributed to the Council's total savings requirement for 2020-21 reducing to £9.7 million.
  - in common with other councils, some service areas have seen significant real-terms reduction in their budget in recent years. The capacity of these

service areas to continue to make year on year savings in real terms whilst continuing to deliver services is likely to be a major challenge for the Council.

- the Council's 'Sustainable Swansea – Fit for the Future' programme aims to transform service delivery to improve services and outcomes for citizens and to help deliver the financial savings and income generation targets needed to meet the projected funding gap.
- a significant amount of work has been ongoing with a high number of specific service reviews being undertaken. However, this programme has yet to demonstrate that it will achieve the level of transformational change at the pace and scale needed to deliver the challenging level of efficiency savings necessary in the medium term. The Council is planning a major review of this programme in 2020 to assess how the programme should be amended to reflect current challenges.

#### Exhibit 4: projected funding gap

The following graph shows the funding gap that the Council has identified for the period 2020-21 to 2023-24.



Source: City and County of Swansea Cabinet report on budget proposals 9 January 2020

## For the last three years the Council has not been able to maintain its cost of services within annual 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 for the last three years the Council has not been able to maintain its cost of services within annual budgets. We reached this conclusion because:
- in recent years the Council has overspent at a service expenditure level against its revenue budgets and to some extent has needed to utilise reserves to fund these overspends.
  - the Council has 4 directorates. Since 2016-17, the Directorates of Resources, Social Services and Education have consistently overspent against budget. However, Poverty and Prevention (now part of Social Services) and the Directorate of Place have generally managed their annual expenditure within budgets.

### Exhibit 5: 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 December 2019.

Year	Original net revenue budget £m	Actual outturn net revenue budget £m	Amount of overall surplus/overspend £m	Percentage difference from net revenue budget
2017-18	£418.8m	£419.3m	£0.5m overspend	0.12% overspend
2018-19	£433.2m	£432.9m	£0.3m surplus	0.07% surplus
2019-20	£443.3m	£443.3m	balanced budget	n/a

Source: City and County of Swansea Budget Monitoring reports

- in 2019-20, there has been an improvement in managing expenditure within budget with all service areas with the exception of Non Schools – Education.
- despite this improved performance in 2019-20, the Council still faces significant challenges ahead in relation to how its services maintain expenditure within their budgets. Increased service demand pressures in both education and social services coupled with the need to find significant additional savings across all services adds to these challenges.

## The Council does not have a good track record of delivering planned savings, adding to in-year financial pressures

### 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 does not have a good track record of delivering planned savings, adding to in-year financial pressures. We reached this conclusion because:
- the Council has not met its savings targets in any of the last 5 years. During this time a total of £83.3 million of savings have been identified but only £62.7 million have been delivered. The Council's MTFP has generally been predicated on the Council achieving 80% of planned savings. On average over the last 5 years the Council has achieved 75.2% of its planned savings.
  - the Council is predicting that it is unlikely to meet its savings target for 2019-20. For 2019-20 the Council predicts that of £12.6 million planned savings, £2.0 million (15.9%) will not be achieved.

## Exhibit 6: 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.

<b>£16.5m</b>	<b>£10.3m</b>	<b>£6.2m</b>	<b>62.4%</b>
Total planned savings	Planned savings delivered	Planned savings not delivered	Percentage savings achieved

Source: City and County of Swansea Council self assessment

**The Council has a reasonable level of useable reserves, but recent unplanned use of reserves needs to be controlled to support financial sustainability**

### 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 The Council has a reasonable level of useable reserves, but recent unplanned use of reserves needs to be controlled to support financial sustainability. We reached this conclusion because:
- the Council has £68.4 million of useable reserves including a General Fund Reserve of £9.4 million as at 31 March 2019.
  - the Council's general reserve fund was £12.6m as at 31 March 2016. Between 1 April 2016 and 31 March 2019 this has reduced to £9.4 million because of the need to fund unplanned service overspends. It is however planned that this reserve will remain at this level for the next three years.
  - whilst the Council has predicted reserve levels up until 31 March 2021, it has been unable to provide predictions for the longer term, although it will be aiming to maintain the general reserve fund balances at the current level. It is important that the Council maximises the benefit it can obtain from its useable reserves to support the aims of the "Sustainable Swansea" project for transforming service provision and identifying further efficiency savings.

## Exhibit 7: 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: City and County of Swansea Council

**The Council has achieved good levels of council tax collection rates but the arrears balance is increasing**

### 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 has achieved good levels of council tax collection rates but the arrears balance is increasing. We reached this conclusion because:
- the Council has continued to achieve relatively high levels of council tax collection despite recent increases in council tax levels.
  - the Council has a good track record of collecting council tax and for 2017-18 and 2018-19, although the collection rate for 2018-19 (97.0%) was slightly lower than for 2017-18 (97.3%).
  - council tax has increased as a percentage of the council's revenue income over recent years and is expected to amount to 16% of income in 2019-20.
  - in October 2019 the Council decided to implement a Council Tax premium of 100% of the standard rate of Council Tax on long term empty dwellings and second homes. By 2021-22 this will provide the Council with an additional annual income of £3 million.

- as at 31 March 2018 Council Tax arrears amounted to £7.1 million. This had increased to £7.8 million by 31 March 2019.

#### Exhibit 8: 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% against a collectable debit of **£137.0m**

Source: Stats Wales

**The cost of funding significant additional unsupported borrowing will add additional pressures to the revenue budget position over the medium and longer term**

#### 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 cost of funding significant additional unsupported borrowing will add additional pressures to the revenue budget position over the medium and longer term. We reached this conclusion because:
- the Council is undertaking a capital investment programme which will require significant additional unsupported borrowing to be taken out in the next couple of years.

- since 2015-16 Council borrowing has increased from £410.8 million to £561.2 million as at 31 March 2019. This borrowing has been utilised to support the ambitious capital programme in place at the Council. Some of this borrowing has been taken in advance of need due to beneficial interest rates and this has resulted in the level of investments as at 31 March 2019 increasing to £121.9 million.
- the current capital programme is planning to spend an additional £360 million for the period to 2024-25. This includes £172.6 million for the 21st Century Schools programme and £135 million for the Swansea Central Phase 1 project. To fund this programme an additional £104.5m of unsupported borrowing is planned to be taken.
- The Council is currently predicting that at 31 March 2023 their total borrowing will be £614 million (90%) against a maximum authorised limit of £681.9 million. For 2019-20 the Council is predicting capital interest costs totalling £31.9 million. This has increased by 13.5% from £28.1 million in 2017-18 and in 2019-20 will equate to 7.25% of net revenue expenditure. The planned additional borrowing will increase this percentage further in the medium term and this will add additional pressures to the delivery of Council budgets.
- The Council has outstanding borrowing totalling £7.3 million at 31 March 2020 to fund commercial investments and these investments are expected to generate £5.3 million in 2019-20 which equates to 1.2% of the net revenue expenditure budget.
- In December 2018 the Council changed its policy in relation to minimum revenue provision moving from a 4% reducing balance method to a 2.5% straight line basis for unsupported borrowing. This has the benefit of generating approximately £2.7 million revenue savings annually for the period 2019-20 to 2022-23. Annual savings will continue to be realised until the 2028-29 financial year following which increased charges will be seen up until 2056-57.

### Exhibit 9: 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.



**£7.3m**

Amount of borrowing to fund commercial investments



**5.85%**

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

Source: City and County of Swansea Council

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