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# Financial Sustainability Assessment – **Torfaen County Borough Council**

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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 Martin Gibson, Gareth Jones and Julie Rees that was managed by Non Jenkins, 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 £177m<sup>1</sup>**



**The Council employs around 3,240 people**



**The Council's fixed assets as at 31 March 2019 were £330m<sup>2</sup>**

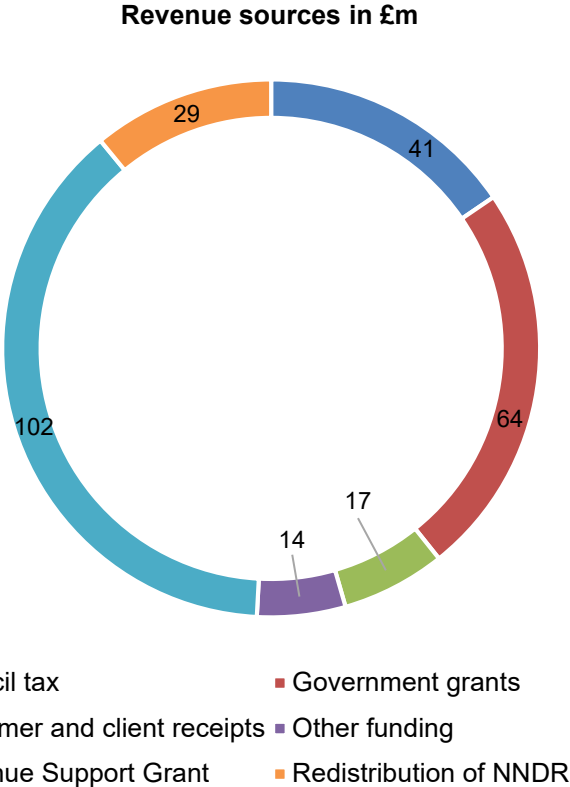
- 3 We undertook this assessment in all authorities in Wales because we identified financial sustainability as a risk to councils putting in place proper arrangements to secure value for money in the use of resources. In part, this was informed by the recent experiences of some councils in England, our 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.

<sup>1</sup> Torfaen County Borough Council, 5<sup>th</sup> March 2019 Full Council Meeting Agenda Item 9 Budget 2019/20 and Medium Term Financial Plan

<sup>2</sup> Torfaen County Borough Council Statement of Accounts 2018-19

**Exhibit 2: the Council's sources of revenue<sup>3</sup>**

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



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

**What we found**

- 5 Overall we found that: Despite a higher than expected settlement the Council's financial position remains challenging, and its historically low level of reserves means that it must achieve its spending and savings targets to ensure it maintains financial sustainability. We reached this conclusion because:
- the Council's challenge in setting a balanced budget for 2020-21 has been eased by an improved settlement from Welsh Government, and its future strategy relies upon savings from its transformation programme, which is currently being finalised;
  - in recent years overspending in some service areas has been able to be offset by underspends in others, agreed use of reserves and identified one-off windfalls;

<sup>3</sup> Torfaen Council April 2020

- over the last three years the Council has delivered nearly 80% of its planned savings however it has needed to develop alternative savings to cover the shortfall of £3 million;
- the Council's has always had a relatively low level of useable reserves that have been reducing steadily over the last few years and, whilst they are anticipated to reduce further by 2020-21, the Council recognises this is not sustainable;
- although Council Tax is an increasingly important income source for the Council, the in-year collection rate is just below the average for Welsh Councils; and
- the Council's overall level of borrowing has remained stable over the last three years.

**Despite a higher than expected settlement the Council's financial position remains challenging, and its historically low level of reserves means that it must achieve its spending and savings targets to ensure it maintains financial sustainability**

**The Council's challenge in setting a balanced budget for 2020-21 has been eased by an improved settlement from Welsh Government, and its future strategy relies upon savings from its transformation programme, which is currently being finalised**

#### **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 challenge in setting a balanced budget for 2020-21 has been eased by an improved settlement from Welsh Government, and its future strategy relies upon savings from its transformation programme, which is currently being finalised. We reached this conclusion because:
- the Council net revenue budget was:

- £168.2m<sup>4</sup> (Million) in 2017-18;
- which increased by £4.8m (2.9%) to £173<sup>5</sup>m in 2018-19;
- and then increased by £4m (2.3%) to £177m<sup>6</sup> in 2019-20; and
- which is forecast to increase by £10m (5.6%) to £187m in 2020-21<sup>7</sup>.
- an improved settlement from Welsh Government, coupled with a robust approach to budget planning has enabled investment to be made in the key areas of Children’s Services and Education. It has also meant the proposed increase in Council Tax has been reduced and the introduction of a school leaver recruitment scheme.
- the Council’s Executive and senior officers have a clear and shared understanding of the Council’s substantial current and future financial challenges.
- within the March 2019 MTFP the Council recognised growing spending pressures in its schools that are forecast to be £10.9m for the period 2020-24, yet has not currently included schools directly within the T22 transformation programme.
- in April 2019, the Cabinet agreed an updated transformation programme, known as T22, focussed on the following service areas:
  - Children’s Services
  - Customer and Digital
  - Support Service
- the Council’s future strategy relies significantly, but not exclusively, upon savings from its transformation programme (T22) the financial benefits from which are still being worked through. Therefore the Council’s financial plan is still to be finalised.

in June 2019, the Council decided to postpone the introduction of a Council-wide Fees and Charges Policy until the Spring of 2020. The implications of the revised policy are not currently included within the Council’s financial plans.
- in mid December 2019 the Welsh Government announced a 4.5% increase in the Council’s Revenue Support Grant for 2020-21. This has now been built into the Council’s budget for 2020-21.
- the Council’s Medium Term Financial Plan (MTFP) is well structured and detailed.

<sup>4</sup> Torfaen Council, Statement of Accounts 2017-18, Page 5

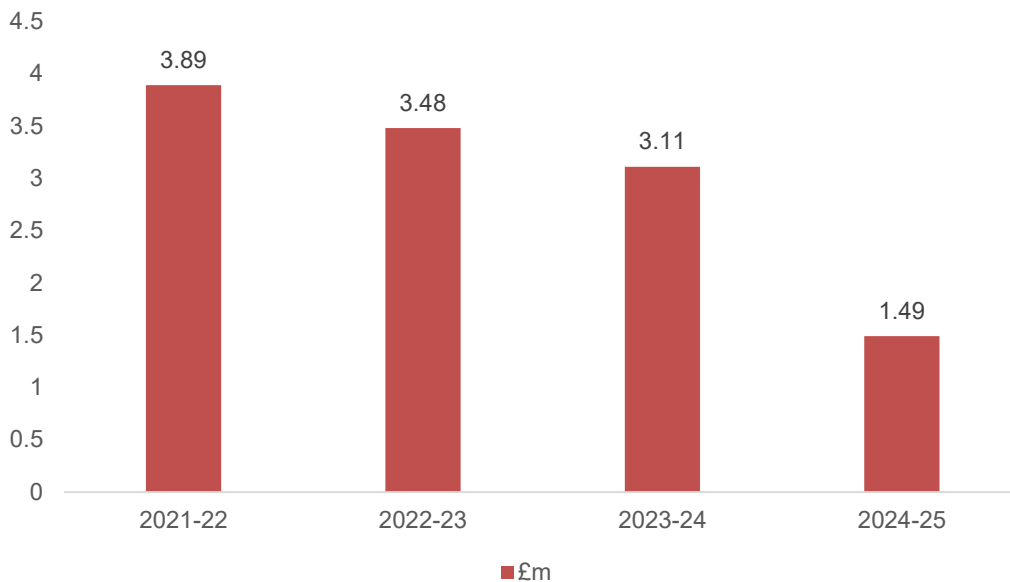
<sup>5</sup> Torfaen Council, Statement of Accounts 2018-19, Page 5

<sup>6</sup> Torfaen Council, Medium Term Financial Plan 2020-24

<sup>7</sup> Torfaen Council, report to Council on 3 March 2020 on 2020-21 budget

### Exhibit 3: Torfaen Council projects a £12 million gap in its funding from 2021-25<sup>8</sup>

The following graph shows the funding gap totalling £12 million that the Council has identified for the four years 2021-25.



### In recent years overspending in some service areas has been able to be offset by underspends in others, agreed use of reserves and identified 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 In recent years overspending in some service areas has been offset by underspends in others, use of reserves and one-off windfalls. We reached this conclusion because:
- at the end of 2017-18 the Council recorded notable underspends against its net revenue budgets in Adults Social Services (£1 million), Capital finance (£0.24 million) and Education (£0.25 million). These underspends in part

<sup>8</sup> Torfaen County Borough Council, Medium Term Financial Plan 2021-25



offset an overspend of £2.2 million on an increase in the number of Looked After Children.

- at the end of 2018-19 the Council recorded notable underspends against its net revenue budgets in Adults Social Services (£0.25 million), a VAT reimbursement from HMRC (£0.27 million) and a change to accounting standards that resulted in a one-off revenue windfall of £2.6 million. These underspends offset an overspend of £1.5 million on an increase in the number of Childrens Social Care placements and £0.4 million in Neighbourhood Services.
- for 2019-20 a projected initial £2.4 million overspend on the revenue budget was reported to September 2019 Cabinet. Notable overspends were Children Social Care (£2 million) and Neighbourhoods (£0.9 million).
- in their Medium Term financial Plan 2021-25 forecast a further £12 million after accounting for planned increases in Council Tax of 4.95% in each year.
- the Council's Children's services have a projected a £6m cumulative overspend on budgets during the period 2017-18 through to forecasted out turn for 2019-20. The Council has implemented some new initiatives in its Children's Services, whilst also investing within the service to address this substantial cost pressure. However, it is too early to evaluate if the initiatives will have the desired impact upon financial pressures.

**Exhibit 4: amount of overspend/underspend relative to total net revenue budget <sup>9</sup>**

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 October 2019

	<b>Original Budget net revenue budget</b>	<b>Actual Outturn net revenue budget</b>	<b>Amount of overall (underspend)/overspend</b>	<b>Percentage difference from net revenue budget</b>
2017-18	£168.2m	£168.2m	(£0.045m)	(0.02%)
2018-19	£173m	£170.8m	(£2.2m)	(1.3%)
2019-20* forecast at the end of October 2019	£177m	£178.6m	£1.6m	0.9%

<sup>9</sup> 2017-18 Torfaen County Borough Council Financial Results 2017-18, June 2018

2018-19 Torfaen County Borough Council Financial Results 2018-19, June 2019

2019-20 Torfaen County Borough Council March Budget monitoring report January 2020

## Over the last three years the Council has delivered nearly 80% of its planned savings, however it has needed to develop alternative savings to cover the shortfall of £3m

### 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 Over the last three years the Council has delivered nearly 80% of its planned savings however it has needed to develop alternative savings to cover the shortfall of £3 million . We reached this conclusion because:
- cabinet receive monitoring reports outlining the forecast positions and summary mitigation achievement position. As part of the out turn reporting Cabinet receive a position on the mitigations delivered and full details on the non delivered initiatives.
  - the Council has a track record of not delivering all the specific planned savings it has identified. Although over the last three years nearly 80% of savings have been achieved, a total of £3m were not achieved, adding to the financial pressures of the Council.
  - the Council's budget for 2017-18 included £4.3 million worth of savings, of which £3.3 million (77%) were achieved.
  - the 2018-19 budget included £5.7 million worth of savings, of which £4.5 million (79%) were achieved.
  - included within the Council's planned savings in 2018-19 were a suite of 'corporate savings' valued at £0.5 million that spanned multiple service areas and were additional to specific service area savings. The Council identified difficulties with clarity and accountability as contributory factors to not achieving these of corporate savings. The Council has since returned to delivering planned savings solely through service areas for 2019-20.
  - in its 2019-20 budget the Council set out £3.5 million worth of planned savings. In September 2019, Cabinet were informed that £2.7 million (77%) were forecast to be achieved.

### Exhibit 5 – The Council has delivered nearly 80% of its planned savings<sup>10</sup>

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.

**£5.7m**

Total planned savings

**£4.5m**

Planned savings delivered

**£1.2m**

Planned savings not delivered

**79%**

Percentage savings achieved

The Council's has always had a relatively low level of useable reserves that have been reducing steadily over the last few years and, whilst they are anticipated to reduce further by 2020-21, the Council recognises this is not sustainable

#### 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's useable reserves have been reducing steadily over the last few years and, whilst they are anticipated to reduce further by 2020-21 this is not sustainable. We reached this conclusion because:

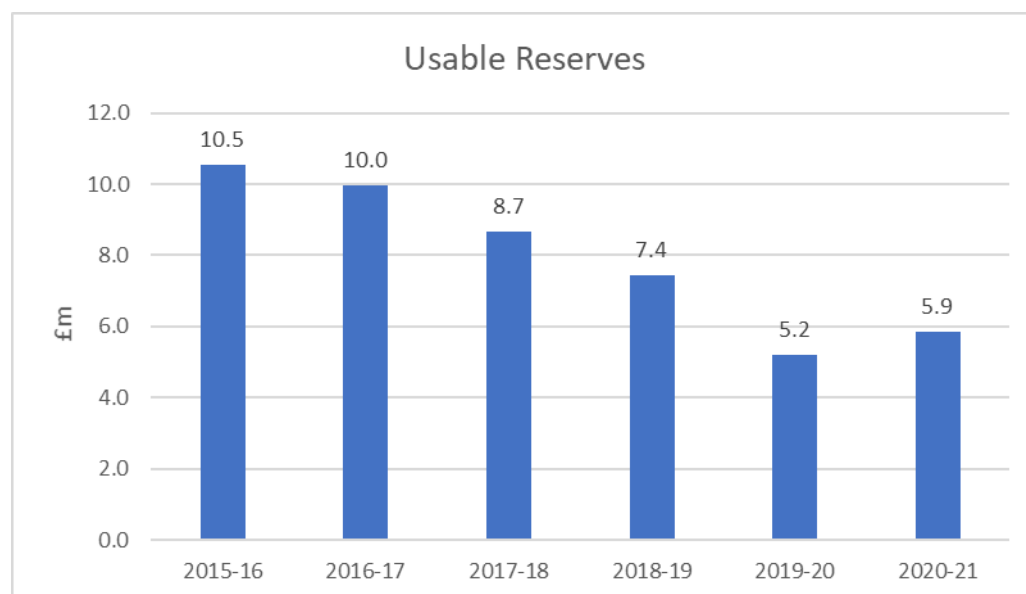
- the Council told us that it aims to hold sufficient reserves to ensure its resilience to unforeseen costs whilst also investing in its services and infrastructure across the Borough.
- however, over recent years the Council has used its (mainly service specific) reserves to offset some budget overspending and under-delivery of planned savings.
- the Councils categorises its usable reserves into
  - General Fund Balance
  - School Balances
  - Service Area Balances

<sup>10</sup>2018-19 data from Council's financial results 2018-19 report.

- Insurance Reserve and Provision
- Corporate Reserves
- whilst the rationale for these categories is helpful to the Council to manage its affairs, in effect the balances within these usable reserves<sup>11</sup> are interchangeable.
- the Council has held a comparatively low overall level of reserves. Exhibit 6 shows that the Council has reduced its General Fund and Service Area reserves each year since 2015-16 and its modelling forecasts that the 2020-21<sup>12</sup> levels will represent 3.3% of its yearly budget compared to 5.2% in 2017-18.
- the Council has a reserves policy that is clear and makes provision for the Cabinet Member for Resources, in conjunction with the Council's Section 151 Officer, to make transfers between reserves as required. The Council does not set a minimum level for its general fund and overall usable reserves.

**Exhibit 6: Torfaen Council's General Fund and Service Area reserves have been reducing and are forecast to continue to reduce (in £Millions)<sup>13</sup>**

This exhibit shows the reduction in the Council's General Fund and Service Area reserves since 2015-16



<sup>11</sup> Wales Audit Office, Local Authority Reserves and Unsupported Borrowing – Research paper for Welsh Government, July 2012

<sup>12</sup> Torfaen Council, Financial Results and MTFP 2020-24

<sup>13</sup> Torfaen County Borough Council Financial Results reports for 2015-16, 2016-17, 2017-18, 2018-19 and Medium Term Financial Plan 2020-24

- with the Council's Net Revenue budget increasing and its General Fund and Service Area reserves reducing, as a percentage of its Net Revenue Budget the Council forecasts that its own Usable Reserves will reduce from 5.2% in 2017-18 to 3.1% in 2020-21.

**Exhibit 7: amount of reserves vs annual budget, 2018-19, source: Torfaen County Borough Council Financial Results reports for 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.



**£173m**

Net Revenue Budget



**£7.45m**

Total Useable Reserves



**4.3%**

Total Useable Reserves as a percentage of Net Revenue Budget

**Exhibit 8: General Fund and Service Area reserves as a percentage of net revenue budget<sup>14</sup>**

	2017-18	2018-19	2019-20*	2020-21*
Net Revenue Budget (NRB) in £Millions	£168.20	£173.00	£177.00	£187.02
Value of General Fund and Service Area Reserves in £Millions	£8.66	£7.45	£5.19 <sup>15</sup>	£5.85
Useable Reserves as a percentage of Net Revenue Budget	5.2%	4.3%	2.9%	3.1%

\* Projected data by Torfaen Council

<sup>14</sup> Torfaen County Borough Council Financial Results reports for 2015-16, 2016-17, 2017-18, 2018-19 and Medium Term Financial Plan 2020-24

<sup>15</sup> Torfaen Council, financial report to Council on 3 March 2020, para 7.4

## Although Council Tax is an increasingly important income source for the Council, the in-year collection rate is just below the average for Welsh Councils

### 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 although Council Tax is an increasingly important income source for the Council, the in-year collection rate is just below the average for Welsh Councils. We reached this conclusion because:
- Council Tax collection is an important income stream for the Council which has continually grown in significance over the last decade as the percentage of gross revenue expenditure financed by collected Council Tax has risen from 11.1% in 2008-09 to 15.5% in 2018-19, an increase of 35%;
  - overall, the Council has increased its Band D Council Tax annual charge by 42% between 2010-11 and 2019-20;
  - the Council increased its Council Tax Band D by 4.95% in 2018-19 and 5.95% in 2019-20, increases that were lower than the average of all Welsh Councils;
  - the Council's in-year collection rates of Council Tax have been just below the average for all Welsh Councils for the last five years; however
  - the absolute collection rate is above the 99% assumed within the Council's budget.

### Exhibit 8: council tax collection rates<sup>16</sup>

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 **£41m** (96.8%) against a collectable debit of **£42.4m**

## The Council's overall level of borrowing has remained stable over the last three years

### 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 total level of borrowing has remained relatively stable over the past three years: We reached this conclusion because:
- the Council continues to operate with the limits set according to the Local Government Act 2003 and the CIPFA Prudential Code.
  - whilst the Council does have a commercial industrial portfolio which charges rentals at market rates, those assets were developed approximately fifty years ago and are not considered to be new commercial investments and the relevant assets and income streams are considered as routine business activities.

<sup>16</sup> Stats Wales, Council Tax Collection Rates in Wales: 2018-19, June 2019

Exhibit 9: Council borrowing<sup>17</sup>

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



**£125m**

Total amount of borrowing as at 31 March 2019



**4.6%**

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

<sup>17</sup> Torfaen Statement of Accounts 2018-19





Wales Audit Office  
24 Cathedral Road  
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone.: 029 2032 0660

E-mail: [info@audit.wales](mailto:info@audit.wales)

Website: [www.audit.wales](http://www.audit.wales)

Swyddfa Archwilio Cymru  
24 Heol y Gadeirlan  
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn testun: 029 2032 0660

E-bost: [post@archwilio.cymru](mailto:post@archwilio.cymru)

Gwefan: [www.archwilio.cymru](http://www.archwilio.cymru)