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# Financial Sustainability Assessment – **Vale of Glamorgan Council**

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This document is also available in Welsh.

The team who delivered the work comprised Steve Wyndham, Ian Phillips and Gareth Rees under the direction of Huw Rees and Anthony Veale.

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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 £226.1m**



**The Council employs around 4,855 people**

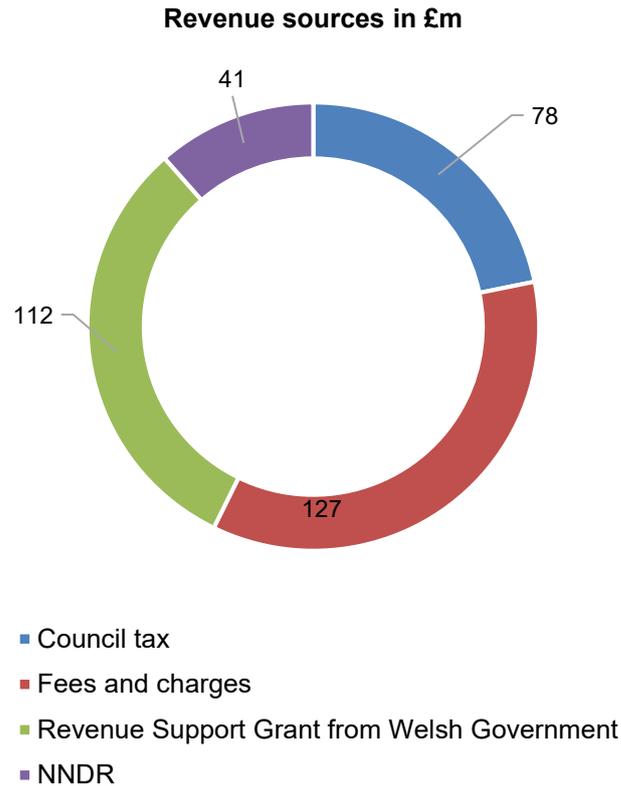


**The Council's fixed assets as at 31 March 2019 were £662.9m**

- 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 received from different funding sources during 2018-19



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

## What we found

- 5 Overall, we found that: The Council has a strong financial position, but aspects of its financial planning could be strengthened. We reached this conclusion because:
- the Council's medium-term financial could be more comprehensive;
  - while the Council underspends its overall revenue budget, there are some growing overspends in certain service areas;
  - the Council has not achieved its recent savings targets;
  - the Council has a high level of useable reserves;
  - the Council has a good track record in collecting its council tax; and
  - the Council takes a prudent approach to borrowing.

# Detailed report

## The Council has a strong financial position, but aspects of its financial planning could be strengthened

### The Council's medium-term financial plan could be more comprehensive

#### 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

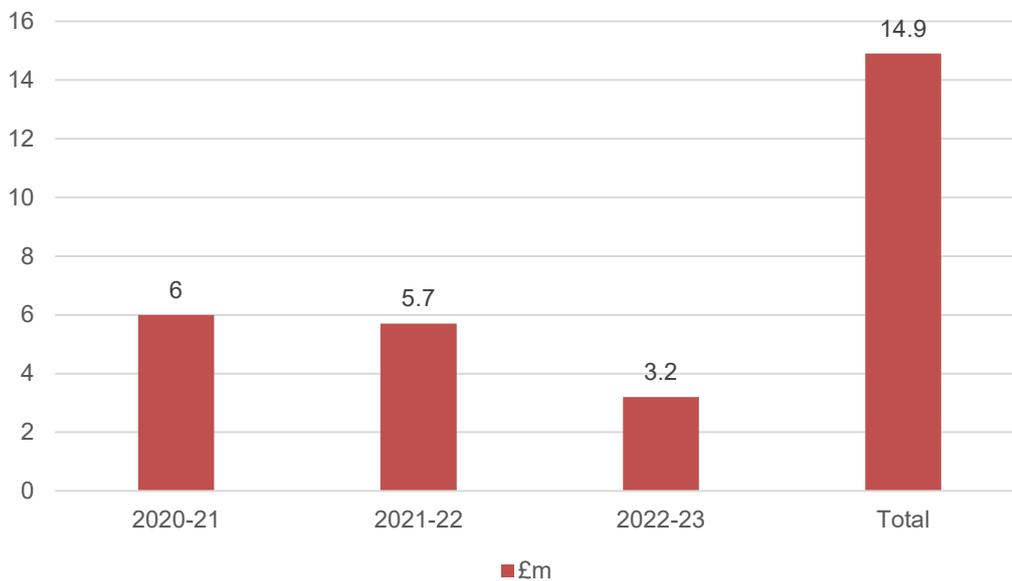
- 7 We found that the Council's medium-term financial plan could be more comprehensive. We reached this conclusion because:
- the Council produces and revises its Medium Term Financial Plan (MTFP) on an annual basis and a further update is issued to members at the time of the annual budget setting process.
  - the MTFP was updated during October 2019 for the period 2019-20 to 2022-23, projecting a budget shortfall of up to £14.9 million over the four-year period. The projection will be affected over that period by actual council tax rises, use of reserves, Welsh Government (WG) settlements, and the savings identified and achieved.
  - the Council has made a number of assumptions in calculating this shortfall. For example, it has been assumed that there will either be no increase or a 1% reduction in the value of the settlement from the WG year on year over the period.
  - the MTFP is supplemented by an Income Generation Strategy, which is due for review in 2020.
  - we found that the MTFP is mainly used by the Council to set out the projected medium-term financial position and the options available to deal with the funding gap. It is also used to help inform the annual revenue budget setting process.
  - the MTFP could be more explicit in detailing the various tools and options available to the Council to deal with the funding gap. For example, a range of outcomes could be included, from best to worst estimated outcomes, that take account of the uncertainty in regard to cost pressures and WG funding

together with the various solutions to bridge the funding gap, including the use of reserves, council tax income, income generation opportunities and savings plans.

- the Council does not model into its budget or MTFP any additional council tax income, and associated expenditure increases, arising from the planned new builds within the Council's area. The additional income/expenditure could be considerable given the scale of new residential building developments across the Vale of Glamorgan. For example, the Local Development Plan monitoring report to Cabinet in October 2019 confirms that there are 6,195 approved dwellings yet to be built.
- the 2020-21 provisional settlement announced by the Welsh Government in December 2019 gave the Council a 4.9% increase to its revenue budget. Initial calculations by the Council indicate that this will reduce the projected shortfall to £10.596 million from £14.9 million.

### Exhibit 3: Projected Funding Gap

The following graph shows the funding gap that the Council has identified for this year, and the following three years. The figure for 2020-21 does not reflect the updated figure following the provisional settlement announced in December 2019.



## While the Council underspends its overall revenue budget, there are some growing overspends in certain service areas

### 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 while the Council underspends its overall revenue budget, there are some growing overspends in certain service areas. We reached this conclusion because:
  - the Council achieved revenue budget underspends of £5.836 million in 2018-19 and £6.71 million in 2017-18.
  - the Council has overspent its revenue budgets for children's social services and waste services. These overspends have been more than offset by budget underspends elsewhere, by higher than budgeted council tax receipts (£1.7 million in 2018-19 and £1.5 million in 2017-18), and by a lower than budgeted cost of borrowing (£3.0 million in 2018-19 and £3.2 million in 2017-18).
  - the aggregate value of these underspends over the last two financial years exceeds £5 million per annum. Given this and the likely challenges ahead, the Council will need to satisfy itself that the budgets set for these areas of over and underspend are robust and based on realistic assumptions.
  - the month 5 revenue budget monitoring report projected an overspend of £4 million for 2019-20, although no account or commentary has been included in the report of any possible favourable outcome in regard to council tax collection and borrowing costs, nor of any additional in-year potential WG funding that could reduce or negate this projected overspend position. The Council's month 9 monitoring report to Cabinet does however include reference to this additional WG income and the projected favourable outturns regarding capital charges and council tax forecast a revenue underspend of some £2.8 million for 2019-20.

#### 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 31 December 2019.

|         | <b>Original Budget net revenue budget</b> | <b>Actual Outturn net revenue budget</b> | <b>Amount of overall surplus/overspend</b> | <b>Percentage difference from net revenue budget</b> |
|---------|---|--|--|--|
| 2017-18 | £215.7m                                   | £209.0m                                  | £6.7m surplus                              | 3.1% surplus   |
| 2018-19 | £222.1m                                   | £216.3m                                  | £5.8m surplus                              | 2.6% surplus   |
| 2019-20 | £226.1m                                   | £223.3m                                  | £2.8m surplus                              | 1.2% surplus   |

## The Council has not achieved its recent savings targets

### 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 not achieved its recent savings targets. We reached this conclusion because:
- the Council has not met its annual savings targets for each of the last two financial years:
    - 2018-19 – £5.172 million of savings achieved against a planned savings target of £6.298 million (17.9% shortfall); and
    - 2017-18 – £3 million of savings achieved against a target of £4.017 million (25.3% shortfall).
  - the Council set a savings target of £3.020 million for 2019-20. The Council currently projects that it will achieve savings of £2.434 million (a 19.4% shortfall).

- while budget underspends in other service areas have helped the Council achieve a favourable financial position, given the likely financial challenges ahead it is important that realistic savings targets are set and achieved.
- 12 Whilst some £10.6 million of savings will have been either achieved or projected to be achieved over the 2017-18 to 2019-20 period, we found that:
- some savings are short-term windfalls. For example, the Council changed its Minimum Revenue Provision (MRP) accounting policy which reduced 2018-19 revenue costs by £1.6 million, which was 31% of that year's achieved savings.
  - some savings are budget cuts within service areas rather than savings achieved by delivering services differently and more efficiently, albeit the Council's view is that the approach to managed budget reduction in some areas would be considered savings, if the level of output and quality is not adversely affected.

#### 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.

|                       |                           |                               |                                 |
|-----------------------|---------------------------|-------------------------------|---------------------------------|
| <b>£6.3m</b>          | <b>£5.2m</b>              | <b>£1.1m</b>                  | <b>17.9%</b>                    |
| Total planned savings | Planned savings delivered | Planned savings not delivered | Percentage savings not achieved |

## The Council has a high level of useable reserves

### Why sustainable management of reserves is important

- 13 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.

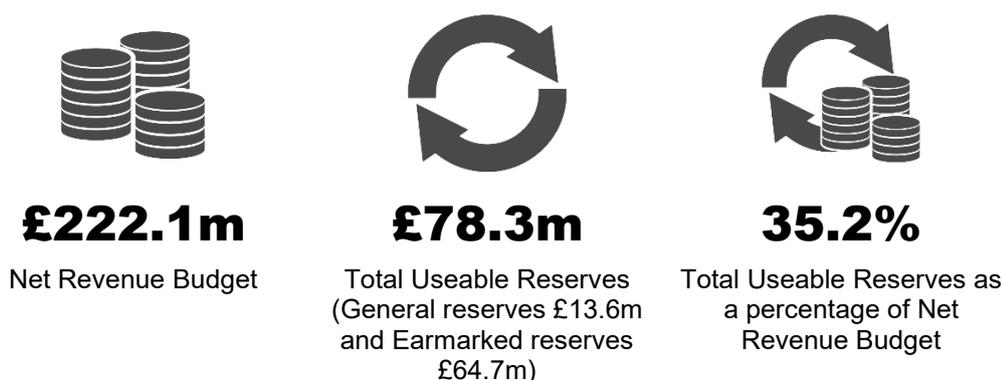
### What we found

- 14 We found that the Council has a high level of useable reserves. We reached this conclusion because:
- the Council's useable revenue reserves have increased over recent years and at 31 March 2019 were £78.3 million.

- general reserves at 31 March 2019 were £13.6 million, exceeding the Council’s set prudent level of £10 million, as determined by the Section 151 Officer.
- the Council plans to use £2 million of general reserves in 2019-20 and a further £1 million in 2020-21 to address financial pressures and balance its budget.
- in addition, the Council plans to use some £20 million of its earmarked reserves in 2019-20. This mainly relates to the use of capital reserves to fund capital expenditure within the Education and Waste service areas. This is expected to reduce the overall earmarked reserves balance to £44.9 million.

#### Exhibit 6: Amount of Reserves vs Annual Budget, 2018-19

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



## The Council has a good track record of collecting its council tax

### Why council tax collection rates are important

- 15 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

- 16 We found that the Council has a good track record in collecting its council tax.
- 17 The Council collects the vast majority of its council tax debt. For 2018-19 the Council collected 97.7% of council tax, which was higher than the budgeted collection rate of 97.5%.

## 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 £76.2m ([97.7%]) against a collectable debit of £78m

## The Council takes a prudent approach to borrowing

### Why maintaining sustainable levels of borrowing is important

- 18 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

- 19 We found that the Council takes a prudent approach to borrowing. We reached this conclusion because:
- the Council undertakes no borrowing to finance any commercial activities; and
  - the total level of borrowing as at 31 March 2019 was some £156 million.

### 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



**3.52%**

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

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