

Financial Sustainability Assessment – Vale of Glamorgan Council

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Contents

Summary report

| | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| What we looked at and why | 4 |
| Proposals for improvement | 5 |
| Detailed report | |
| The Council is well-placed to maintain its financial resilience with a healthy level of reserves and sustainable plans for their use | 6 |
| The immediate impact of COVID-19 on the Council's financial sustainability has been mitigated by additional Welsh Government funding | 6 |
| The Council is in a healthy financial position and has a sustainable financial approach over the medium-term, with a planned use of earmarked reserves | 7 |
| The Council has a healthy level of reserves and its plans to use them are generally sustainable despite some unplanned use in 2020-21 | 9 |
| The Council has a track record of achieving a surplus and transferring monies to its reserves, until 2020-21 when service overspends led to a small unplanned use of reserves | 11 |
| The Council has a mixed track record of identifying and delivering savings to support its financial sustainability | 12 |
| The Council has a strong liquidity position meaning it can meet its financial obligations as they fall due for repayment | 14 |

Summary report

What we looked at and why

- 1 We undertook this assessment as financial sustainability continues to be 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 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. We undertook a similar project in 2019-20, before the COVID-19 pandemic.
- 2 Our 2020-21 assessment on councils' financial sustainability was in two phases. Phase 1 was a baseline assessment of the initial impact of COVID-19 on local councils' financial position. Phase 1 drew on: the year-end position for 2019-20; the position at the end of quarter 1 for 2020-21; and projections for quarter 2 for 2020-21. Following Phase 1, in October 2020 we published a national summary report – **Financial Sustainability of Local Government as a result of the COVID-19 Pandemic**¹. We found that councils and the Welsh Government have worked well together to mitigate the impact of the pandemic to date, but the future sustainability of the sector is an ongoing challenge.
- 3 The pandemic has had an immediate and profound effect on public sector finances as a whole and, as a consequence, on councils' financial position. The summary report set a high-level baseline position, including the reserves position of local councils before the pandemic. It also set out the initial financial implications of the pandemic for local councils and the scale of the anticipated challenge going forward.
- 4 This report concludes phase 2 of our financial sustainability assessment work during 2020-21. As part of this we are producing a local report for each of the 22 principal councils in Wales.
- 5 We undertook this assessment during January 2021 to March 2021.

¹ Audit Wales, [Financial Sustainability of Local Government as a Result of the COVID-19 Pandemic](#), October 2020.

Proposals for improvement

Exhibit 1: proposals for improvement

The table below sets out the proposals for improvement that we have identified following this review.

| Proposal for improvement | |
|--------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| P1 | Given the anticipated funding gaps in 2022-23 and 2023-24, the Council needs to determine how it will meet those gaps, including the extent to which savings will contribute to that. |

Detailed report

The Council is well-placed to maintain its financial resilience with a healthy level of reserves and sustainable plans for their use

The immediate impact of COVID-19 on the Council's financial sustainability has been mitigated by additional Welsh Government funding

6 This section sets out the impact that COVID-19 has had to date on the Council's financial position and the extent to which this has been mitigated by additional funding from the Welsh Government.

7 We found that:

- in 2020-21, the majority of the Council's additional spend and lost income as a result of COVID-19 has been covered by Welsh Government funding (**see Exhibit 1**). Therefore, to date, the pandemic has not had a detrimental impact on the Council's financial sustainability. However, we recognise, there is a great deal of uncertainty about the duration of the pandemic and the extent of future Welsh Government funding for costs arising from the pandemic.
- the Council has included £1.050 million in its 2021-22 revenue budget for the increase in costs of the Council Tax Reduction Scheme. The pandemic has led to reduced rates of Council Tax collection and the Council's 2020-21 Quarter 3 revenue monitoring report reported that the collection rate was down 1.7% at the end of January 2021, which equates to around £1.5 million.

Exhibit 1: the cost to the Council of COVID-19 over 2020-21 {information provided by Council}

The table below shows the Council's additional expenditure and lost income over 2020-21 as a result of COVID-19 and how much of this was mitigated by extra funding from the Welsh Government.

| | |
|----------------------------------------------------------------------------------------------------------------------------------|---------------|
| The additional amount the Council spent as a result of COVID-19 over 2020-21. | £20.8 million |
| The amount of income the Council lost as a result of COVID-19 over 2020-21. | £3.6 million |
| The amount of additional funding the Council received from the Welsh Government over 2020-21 to mitigate the impact of COVID-19. | £23.7 million |
| The cost to the Council of COVID-19 over 2020-21 after extra funding from the Welsh Government is taken into account. | £1.7 million |

The Council is in a healthy financial position and has a sustainable financial approach over the medium-term, with a planned use of earmarked reserves

Why strategic financial planning is important

8 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.

We found that:

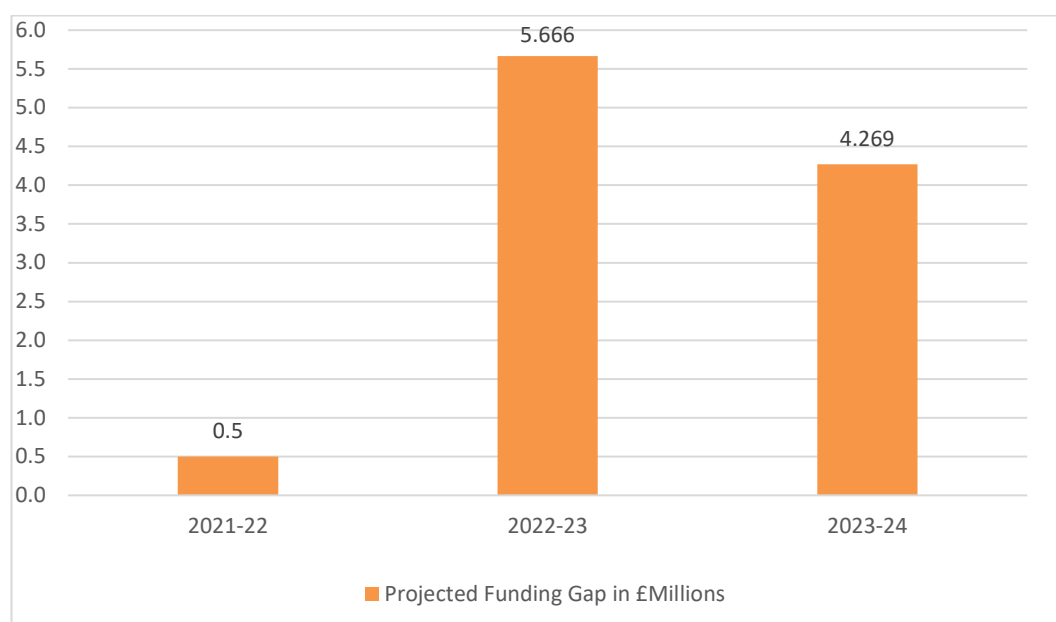
- the Council's latest Medium Term Financial Plan (MTFP) covers the period up until 2023-24. The Council revises the MTFP annually in Autumn.
- the MTFP is constructed by looking at known cost pressures, agreed savings and financial modelling. The Council takes a prudent approach to its

financial modelling, with different future settlement scenarios projected: a 1% decrease, no change and 1% increase.

- the Council has projected that it will have a £10.435 million budget gap over the next three years but has not explicitly set out how it will meet this gap over the term of the MTFP. However, the Council is in a healthy financial position and has various options at its disposal to meet those gaps. For example, it is maintaining a sustainable amount of residual reserves despite the planned use of earmarked reserves, and its current rate of Council Tax is below the Welsh average.
- the MTFP includes some evidence of alignment with the Council's strategic priorities. For example, there are earmarked reserves to support the Reshaping Services programme, including the planned use of part of the Reshaping Services reserve in 2021-22, and the planned use of the Trainee Appointments Reserve for the period up to 31 March 2024 to fund the appointment of trainees and interns to support services and the Reshaping Services Programme.

Exhibit 2: the Council has a total projected funding gap for the three years 2021-22 to 2023-24 of £10.435 million {source: 22 February 2021 Final Budget Proposals report to Cabinet}

This graph shows the funding gap that the Council has identified for the following three years.



Note: The projected funding gap is based on an assumption of a 0% settlement increase from Welsh Government for 2022-23 and 2023-24. The £0.5 million is the savings target for 2021-22.

The Council has a healthy level of reserves and its plans to use them are generally sustainable despite some unplanned use in 2020-21

Why sustainable management of reserves is important

9 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.

We found that:

- our 2019-20 Financial Sustainability report² found that the Council had a high level of useable reserves.
- our October 2020 Financial Sustainability national report³ found that at the end of 2019-20, the Council had the highest amount of useable reserves as a proportion of the net cost of services of all the Councils in Wales.
- in February 2021, the final proposals for the Revenue Budget 2021-22 Cabinet report set out that there will be a 48% fall in the Council's level of reserves in the period up to 31 March 2024. However, this is mainly in respect of the planned use of earmarked reserves and the Council considers that the level of reserves in this period will be adequate. The minimum general reserves (Council Fund Reserve) balance recommended by the Section 151 Officer is £10 million. For the period up to 31 March 2024 the Council intends to maintain this balance and is projecting a Council Fund Reserve of £10.074 million at 31 March 2024.
- as a result of additional funding received at year end, the Council were able to make a net transfer into useable reserves of £12.2 million.

² [Financial Sustainability Assessment - Vale of Glamorgan Council 2019-20](#)

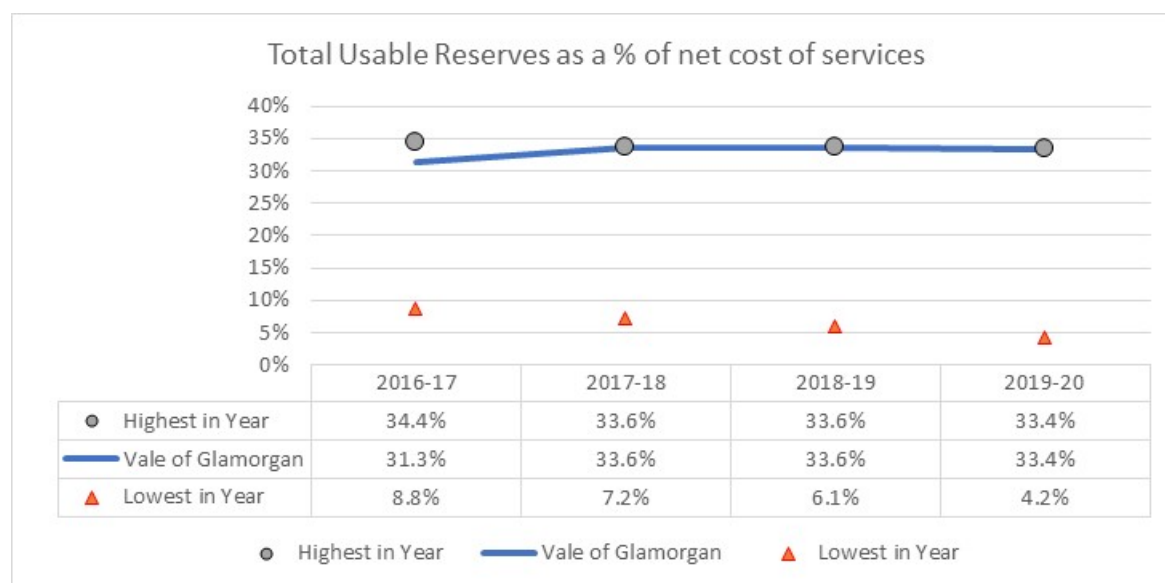
³ [Financial Sustainability of Local Government as a result of the COVID-19 pandemic](#)

Exhibit 4: amount of reserves vs annual budget [Source: statements of accounts]

This exhibit shows the amount of useable reserves the Council had during 2020-21 and the previous four years as a proportion of the net cost of the services the Council delivers.

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 ⁴ |
|--------------------------------------------------------------------|---------|---------|---------|---------|----------------------|
| Net Cost of Services in £ millions ⁵ | 245.4 | 234.4 | 241.5 | 248.6. | 256.2 |
| Total Useable Reserves in £ millions ⁶ | 76.7 | 78.7 | 81.2 | 83.0 | 92.2 |
| Total Useable Reserves as a % of net cost of services ⁷ | 31.3% | 33.6% | 33.6% | 33.4% | 36.0% |
| Comparison with the other councils of Wales | 2 | 1 | 1 | 1 | N/A |

Exhibit 5: total useable reserves as a percentage of net cost of services (source: Audit Wales analysis)



⁴ Based on 2020-21 draft financial statements

⁵ Value used is the net cost of services charged to the general fund from the Expenditure Funding Analysis, less any Housing Revenue Account cost of services, plus precepts, levies and debt interest. Source: Statement of Accounts

⁶ By useable reserves we mean the total general fund balance, together with earmarked reserves that councils are not legally prevented from redirecting to use for another purpose. Source: Statement of Accounts

⁷ Audit Wales calculation.

The Council has a track record of achieving a surplus and transferring monies to its reserves, until 2020-21 when service overspends led to a small unplanned use of reserves

Why accurately forecasting expenditure is important

10 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.

We found that:

- our 2019-20 Financial Sustainability report found that the Council underspends its overall revenue budget, but there were some growing overspends in certain service areas.
- in the period from 2016-17 to 2019-20 the Council achieved a surplus each year and transferred monies to its reserves.
- for 2020-21, there was unplanned drawdown of reserves totalling £700k.

11 Our 2019-20 Financial Sustainability report made reference to overspends in children's social services and waste services. For 2020-21, children's social services overspent by £149k, although social services as a whole underspent by £8k. The Waste Collection Service overspent by £1.4 million in 2020-21, in part due to what the Council refers to as 'one off pressures', in large part related to the roll out of the Welsh Government's Collections Blueprint. The overspend was covered by grant funding from Welsh Government.

**Exhibit 6: amount of overspend/underspend relative to total net revenue budget
{Source: annual outturn reports to Cabinet}**

The following exhibit shows the amount of overspend or underspend for the Council's overall net revenue budget for the last five years.

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 ⁸ |
|--------------------------------------------------------|---------|---------|---------|---------|----------------------|
| Original Net revenue budget £ millions ⁹ | 214.8 | 215.7 | 222.1 | 226.1 | 240.4 |
| Actual Net Revenue Outturn | 216.4 | 209.0 | 216.2 | 223.5 | 228.2 |
| Amount of overall surplus/overspend | -1.6 | 6.7 | 5.8 | 2.6 | 12.2 |
| Percentage difference from net revenue budget | -0.7% | 3.1% | 2.6% | 1.1% | 5.1% |

The Council has a mixed track record of identifying and delivering savings to support its financial sustainability

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.

We found that:

- our 2019-20 Financial Sustainability report found that the Council has not achieved its recent savings targets. The Council has made savings of £19.24 million between 2016-17 and 2019-20 (see Exhibit 7). However, our 2019-20 report found that some of the savings were not true savings but in effect in-year windfalls – for example a change to the Minimum Revenue Provision policy or budget cuts rather than transformational change.

⁸ Based on 2020-21 draft financial statements

⁹ Value used is the net cost of services charged to the general fund from the Expenditure Funding Analysis, less any Housing Revenue Account cost of services, plus precepts, levies and debt interest. Source: Statement of Accounts

- in 2020-21, the Council significantly reduced its savings targets to £247k. The rationale as set out in the final Revenue Budget 2020-21 proposals in February 2020 was 'It has become increasingly difficult for services to deliver further savings without reducing service provision following £59m being achieved in the last 10 years. It is considered that the target set for 2020/21 is at a level that can be achieved by services'. The February 2021 Cabinet report on the final proposals for the Revenue Budget 2021-22 sets out that the Council is on track to achieve the savings target of £247k.
- for 2021-22 the Council has again set a low savings target of £500k which was increased from an original target of £116k. The target was increased due to the refocus of the Reshaping Services programme and resulting efficiencies identified.
- the Council's February 2021 Cabinet report on the final proposals for the Revenue Budget 2021-22 sets out that there is a possible shortfall in funding for 2022-23 and 2023-24 totalling £9.935 million (based on a 0% increase to the annual settlement from Welsh Government). The report acknowledges that identifying savings to contribute to meeting this shortfall is becoming more challenging and that work remains to be done in order to identify efficiencies for 2022-23 and 2023-24.

Exhibit 7: savings delivered as a percentage of planned savings {Source: annual outturn reports to Cabinet}

The following exhibit sets how much money the Council intended to save from its savings plans during 2016-17 to 2019-20 and how much of this it actually saved as well as estimated figures for 2020-21.

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|--------------------------------------------|---------|---------|---------|---------|---------|
| Total planned savings in £ millions | 9.29 | 4.02 | 6.30 | 3.02 | 0.25 |
| Planned savings achieved in £ millions | 8.69 | 3.00 | 5.17 | 2.38 | 0.25 |
| Planned savings not achieved in £ millions | 0.60 | 1.02 | 1.13 | 0.64 | 0 |
| Percentage of savings achieved | 93.5% | 74.6% | 82.1% | 78.8% | 100% |

The Council has a strong liquidity position meaning it can meet its financial obligations as they fall due for repayment

Why the Council's liquidity position is important

- 13 Why gauging current assets to current liabilities (liquidity) is important:
- an indicator of how a council manages its short-term finances.
 - while it is commonly used to examine whether organisations are able to pay their debts in the short term, this is unlikely to be a risk for councils given their ability to take short-term borrowing. It does also, however, act as an indicator of how a council manages its short-term finances.
 - councils with low liquidity ratios should ensure they have arrangements in place to meet their liabilities.
 - there may be additional costs for councils that rely on short-term borrowing to pay debts.
 - councils with very high liquidity ratios should consider whether they are managing their current assets in the most effective way.
- 14 We found that:
- the Council has a stable liquidity position with current assets being consistently more than double the value of current liabilities. The Council is in a strong position to meet financial obligations as they fall due for repayment.
 - the Council takes a low risk approach to its treasury management. The Council's priorities regarding investment are security, then liquidity, and finally return.
 - the Council's liquidity ratio has, since 2015-16, ranked among the top two highest local authorities in Wales.
 - the Council's Treasury Management and Investment strategy forecasts a reduction in the level of short-term investments. This leads to a reduction in the estimated liquidity ratio to 2.0 by 2022-23. Based on historic data, a ratio of 2.0 still ranks amongst the highest Local Authorities in Wales in this measure.

Exhibit 8: working capital ratio 2015-16 to 2019-20 {Source: Annual statements of account and forecasts provided by the Council}

| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 ¹⁰ |
|-----------------------------------|---------|---------|---------|---------|---------|-----------------------|
| Current Assets ¹¹ | 110.1 | 105.4 | 115.2 | 127.0 | 134.0 | 148.7 |
| Current Liabilities ¹² | 40.0 | 42.7 | 40.4 | 49.2 | 50.4 | 67.0 |
| Working Capital Ratio | 2.7 | 2.5 | 2.9 | 2.6 | 2.7 | 2.2 |

¹⁰ Based on 2020-21 draft financial statements.

¹¹ Current Assets, includes: Short Term Investments; Assets held for sale; Inventories; Short Term Debtors; and Cash and equivalent

¹² Current Liabilities, includes Short Term Borrowing; Short Term Creditors; and Provisions due in one year.



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