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Financial Sustainability Assessment – **Gwynedd 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 Alan Hughes and Jeremy Evans 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 £248million



The Council employs around 3,900 people



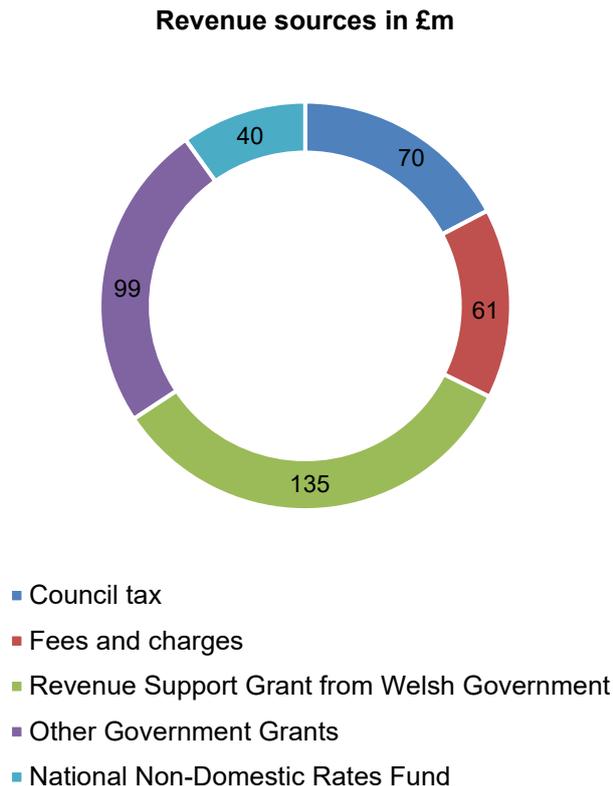
The Council's fixed assets as at 31 March 2019 were £453million

Source: Gwynedd Council Website

- 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 budgeted to receive from different funding sources during 2018-19



Source: Gwynedd Council's audited statement of accounts 2018-19

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

What we found

5 Overall, we found that: The Council's is currently in a relatively strong financial position and its overarching financial strategy has supported financial resilience well; however, some services have significant annual overspends and not all savings are realised, posing a risk to financial sustainability in the longer-term. We reached this conclusion because:

- the Council's overarching financial strategy has supported its financial resilience well, but it faces challenges in the years ahead;
- the Council manages spending within its overall budget, but in recent years significant overspends in some services have been offset by large underspends in others, in the current year this may lead to an overall overspend;

- the Council has had a good track record of delivering planned savings, but it has been less successful in the current year with some planned savings undelivered;
- the Council has a high level of useable reserves and has not had to use its reserves to fund revenue expenditure in recent years;
- council tax collection rates have reduced slightly over the last two years and council tax as a proportion of the Council's income has increased over the last decade; and
- the Council has no borrowing associated with its commercial activity and overall borrowing remains low.

Detailed report

The Council is currently in a relatively strong financial position and its overarching financial strategy has supported financial resilience well; however, some services have significant annual overspends and not all savings are realised, posing a risk to financial sustainability in the longer-term

The Council's overarching financial strategy has supported its financial resilience well, but it faces challenges in the years ahead

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.

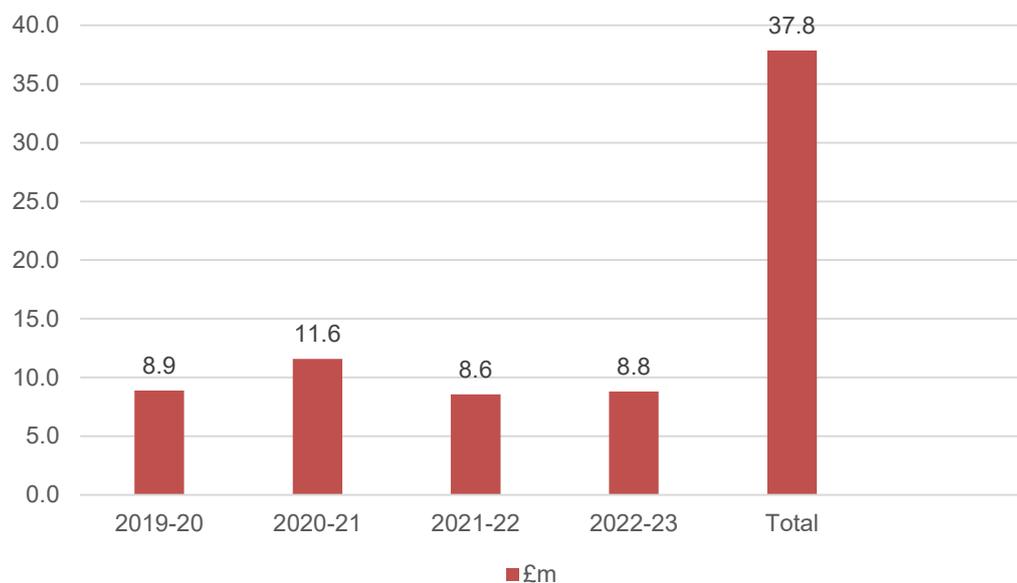
What we found

- 7 We found that the Council's overarching financial strategy has supported its financial resilience well, but it faces challenges in the years ahead. We reached this conclusion because:
 - the Council consulted widely with citizens to help shape its approach to service change. The Council followed the outcome of the consultation in determining which services to prioritise. Options for budget reductions were proposed on this basis. The Council, through its Ffordd Gwynedd initiative, has also assumed efficiency savings through a more streamlined approach, putting the citizen at the centre of everything it does.
 - the Council's Medium-Term Financial Strategy 2019-20 to 2021-22 assumes a funding gap range of £6.5 million to £15.4 million over the three-year period.
 - the Council has a good track record of estimating its likely income accurately, considering all reasonable factors. But it does not appear to have timely (non-financial) information for some of its services (for example adult social care) that would allow it to consider the underlying reason for variations. Improving the accuracy of budgets would help improve the accuracy of the funding gap faced;

- the Council has taken decisions that have reduced funding levels for both discretionary and non-discretionary services in recent years.
- the Council reviews income generation including fees and charges;
- the Council has recognised that increasing fee levels does not always lead to a corresponding increase in income level, as changes affect individuals' behaviours, thus a percentage increase in any given area does not necessarily translate to a similar uplift in the level of income collected.

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.



Source: Data supplied by Gwynedd Council in its self-assessment

The Council manages spending within its overall budget, but in recent years significant overspends in some services have been offset by large underspends in others, in the current year this may lead to an overall overspend

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 manages spending within its overall budget, but in recent years significant overspends in some services have been offset by large underspends in others, in the current year this may lead to an overall overspend. We reached this conclusion because:
 - the Council has experienced significant recurring overspends in some services which have been offset by underspends in areas such as Corporate and Central budgets. For 2019-20 the Council has projected overspends of £658,000 in the Adults Health and Well-being Department and £3.2 million in the Children and Families Department. The Council is predicting that these overspends may contribute to an overall overspend of £4.58 million (as at November 2019).
 - the Council is undertaking a detailed base level review in order to understand the reason for overspends and is taking action to try and address the projected overspends before the year-end.

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 the year to date as at November 2019.

	Original Budget net revenue budget	Actual Outturn net revenue budget	Amount of overall surplus/overspend	Percentage difference from net revenue budget
2017-18	£234.35m	£234.03m	£0.32m surplus	0.14% surplus
2018-19	£243.40m	£243.39m	£0.01m surplus	marginal surplus
2019-20	£247.70m	£252.28m (estimated)	£4.58m overspend (estimated)	1.85% overspend (est)

Source: Gwynedd Council

The Council has had a good track record of delivering planned savings, but it has been less successful in the current year with some planned savings undelivered

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 had a good track record of delivering planned savings, but it has been less successful in the current year with some planned savings undelivered; it is likely to find identifying and delivering savings increasingly challenging going forward. We reached this conclusion because:
- the Council has an established record of delivering savings and is aware that slippage within schemes can impact on the realisation of the planned saving.

- over the period 2015-16 to 2018-19 £25,487,967 (95.7%) savings schemes were delivered out of total planned savings of £26,633,718. However, in 2018-19 just over 80% of the planned 2018-19 savings were delivered in year.
- the Council has identified potential savings from 2020-21 onwards, subject to future funding levels as follows:
 - 2020-21 - £2.7million
 - 2021-22 - £1.9million
 - 2022-23 - £0.8million
 - 2023-24 - £0.02million
- the increase in Revenue Support Grant for 2020-21 government grant will potentially reduce the level of savings the Council needs to make during 2020-21.

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.

£2.45m	£1.98m	£0.47m	80.7%
Total planned savings	Planned savings delivered	Planned savings not delivered	Percentage savings achieved

Source: Gwynedd Council

The Council has a high level of useable reserves and has not had to use its reserves to fund revenue expenditure in recent years

Why sustainable management of reserves is important

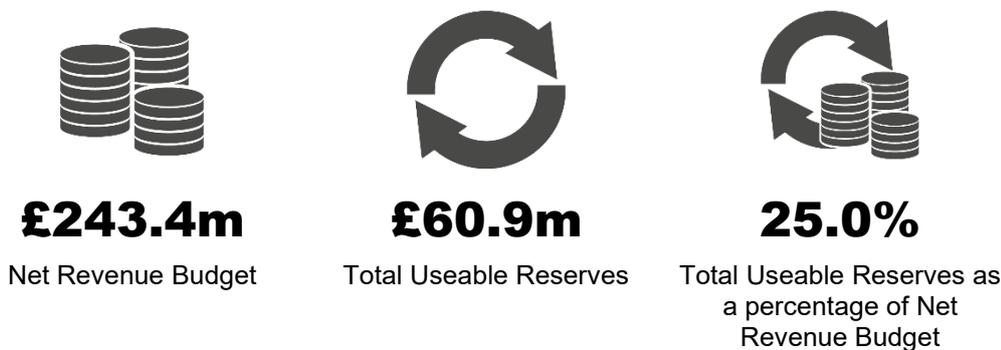
- 12 Healthy levels of useable reserves are an important safety net to support financial sustainability. As well as being available to fund unexpected funding pressures, useable reserves can also be an important funding source to support 'invest to save' initiatives designed to reduce the on-going cost 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 high level of useable reserves and has not had to use its reserves to fund revenue expenditure in recent years. We reached this conclusion because:
- the Council has not used reserves to fund revenue expenditure;
 - the Council used reserves in 2014-15 to supplement its revenue budget and was planning to do so prior to the Welsh Government's provisional local government settlement announcement for 2020-21; and
 - the Council has held usable reserves over the period 2008-09 to 2018-19, ranging from a low of £49.3 million to a high of £67.3 million. The balance of useable reserves at the end of March 2019 was £60.9 million including a General Fund balance of £6 million.

Exhibit 6: 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: Gwynedd Council

Council tax collection rates have reduced slightly over the last two years and council tax as a proportion of the Council's income has increased over the last decade

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 Council tax collection rates have reduced slightly over the last two years and council tax as a proportion of the Council's income has increased over the last decade. We reached this conclusion because:
- Council tax income in Gwynedd has increased from 22% of its income in 2010-11 to 30% in 2019-20 (Non-Domestic Rates, Revenue Support Grant and Council Tax). A broadly similar shift in funding from Revenue Support Grant to Council tax is evident in other Welsh Councils; and
 - in year Council tax collection rates have dipped slightly in 2018-19 to 96.6% from a high of 97.35% in 2016-17. The Council goes on to collect the outstanding amounts in subsequent years following its debt collection policy, which the Council states ensures it takes a sympathetic approach to debt recovery.

Exhibit 8: 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 **£74.138m**
(96.6%) against a
collectable debit of
£76.712m

Source: Stats Wales
(www.statswales.gov.uk)

The Council has no borrowing associated with its commercial activity and overall borrowing remains low

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 has no borrowing associated with its commercial activity and overall borrowing remains low. We reached this conclusion because:
- the Council has no borrowing associated with its commercial activity;
 - the cost of all Council borrowing in 2018-19 was £13.4million which is 5.5% of the net revenue budget and its forecast is for this to remain stable.

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.



£0m

Amount of borrowing to fund commercial investments



5.5%

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

Source: Gwynedd Council

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

Website: 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

Gwefan: www.archwilio.cymru