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Financial Sustainability Assessment – **Ceredigion County 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 Jeremy Evans, Jason Blewitt and Eleanor Bowdler 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 £144 million



The Council employs around 4000 people



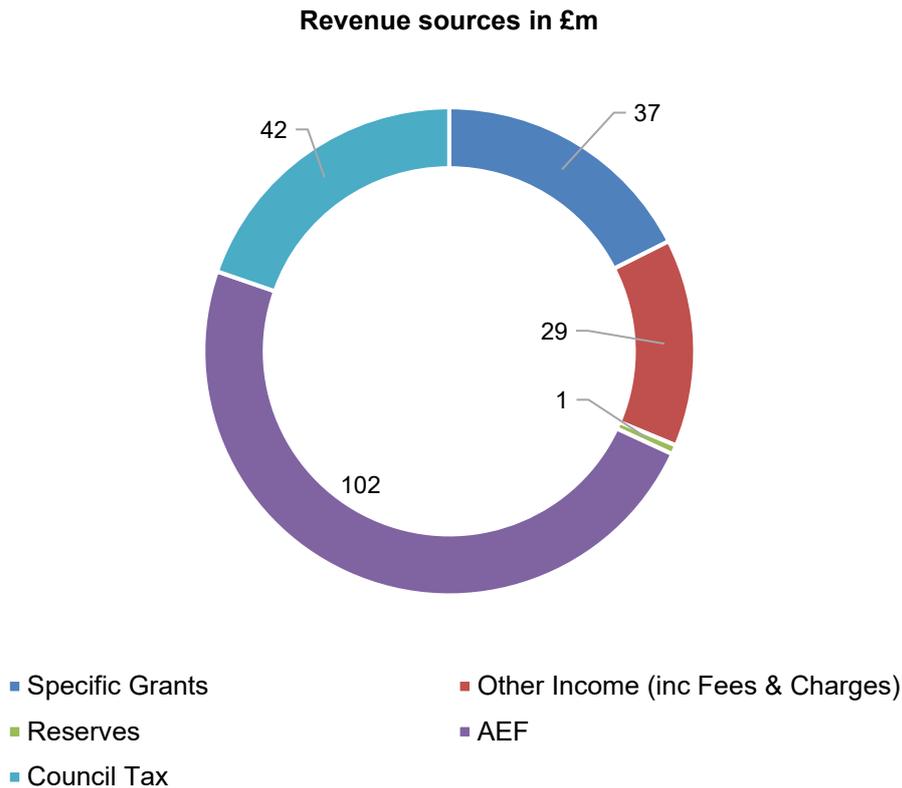
The Council's fixed assets as at 31 March 2019 were £362 million

Source: Ceredigion County Council 2018-19 Statement of Accounts

- 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



Source: Ceredigion County Council

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 clear approach to financial management that is serving it well and helping it to remain financially sustainable. We reached this conclusion because:
- the Council has a clear financial strategy over the medium term supporting it to remain financially sustainable;
 - the Council has delivered to its planned budget overall in recent years, despite significant overspends in Adult Social Care; however, the Council is taking steps to address this;
 - the Council has a track record of delivering planned savings, however, in common with other councils, identifying and delivering savings will be more challenging going forward;

- the Council has not made any unplanned use of reserves to fund revenue budget pressures and its level of usable reserves has increased in recent years;
- the Council has a good track record of collecting council tax; and
- the Council's borrowing costs have not increased significantly in recent years and it has no plans to increase its borrowing costs over the next few years.

Detailed report

The Council has a clear approach to financial management that is serving it well and helping it to remain financially sustainable

The Council has a clear financial strategy over the medium term supporting it to remain financially sustainable

Why strategic financial planning is important

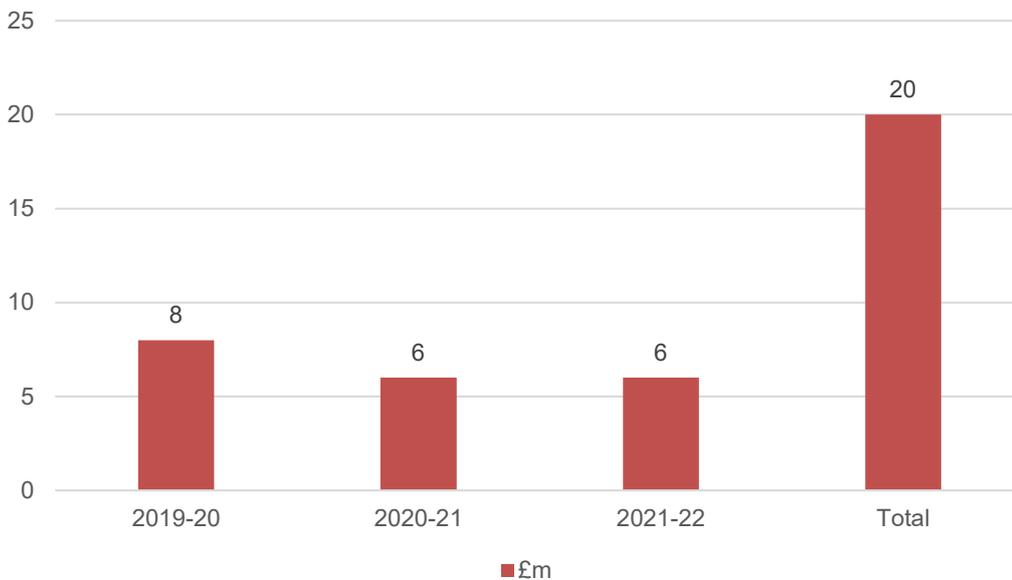
- 6 A clear and robust financial strategy is important to identify the likely level of funding available to a council, as well as the anticipated level of demand for, and cost of, providing services. Given the recent and anticipated funding pressures facing all councils it is also important to identify how it intends to respond to those pressures, and particularly how they will meet projected funding gaps.

What we found

- 7 The Council has a clear approach to financial planning and a clear financial strategy over the medium term. We reached this conclusion because the Council:
- has a Medium Term Financial Strategy (MTFS) covering 2017-18 to 2020-21, approved by Council in February 2018. The MTFS forms the basis of the annual budgets set and approved each year. The MTFS will be revisited in 2020 to cover the next four years.
 - knows the projected funding gaps for the period of the MTFS (see [Exhibit 4](#));
 - is in a stable financial position with strong reserves and low levels of borrowing. The Council feels this is due to their ability to get corporate 'buy-in' for savings schemes as a result of a centralised structure now in place following a Council re-structure in 2018.
 - recognises that there are areas to further strengthen their position. For example:
 - working on a ten-year Capital Strategy which will link to a three to five year Capital Programme;
 - looking to develop a Carbon and Economic Development Strategy which they hope will identify further Transformation Efficiencies, Invest to Save schemes and income streams and tie into the Mid Wales Deal;
 - looking to better integrate Revenue and Capital; and
 - trying to make better use of Data for decision making.
 - has zero based parts of its budget – developing this would strengthen budget setting further.

Exhibit 4: projected funding gap

The following graph shows the funding gap that the Council has identified for this year, and the following three years.



Source: Ceredigion County Council – MTFS

The Council has delivered to its planned budget overall in recent years, despite significant overspends in Adult Social Care; however, the Council is taking steps to address this

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 has delivered its planned budgets in recent years and is taking steps to address overspends in Adult Social Care. We reached this conclusion because the Council:
- has delivered its planned budget in each of the last three years (see [Exhibit 5](#)), delivering small surpluses;

- is aware that Adult Social Care has overspent over several years (projected £2 million in 2019-20, £2 million in 2018-19 and £0.080 million in 2017-18) despite the Council delivering its budget overall;
- knows the reasons why Adult Social Care has overspent (non-delivery of planned savings and increased costs/demand);
- is reviewing the budget to help address this going forward via a planned approach which includes:
 - an additional £1 million budget for 2019-20 to relieve some of the immediate pressures;
 - corporate review of the operating model for Adult Social Care to move to a more centralised approach (especially for Commissioning and Out of County placements), consistent with how other areas of the Council now operate; and
 - linking the budget more to demand levels arising from the new approach to Commissioning to zero base more of the budget.

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 30 June 2019 (position against profiled budget as at 30 June 2019).

	Original Budget net revenue budget	Actual Outturn net revenue budget	Amount of overall surplus/overspend	Percentage difference from net revenue budget
2017-18	£135.2m	£134.7m	£0.5m surplus	0.38% surplus
2018-19	£140.24m	£140.21m	£0.03m surplus	0.02% surplus
2019-20	£82.5m	£81.8m	£0.7m surplus	0.81% surplus

Source: Ceredigion County Council budget reports to Cabinet

The Council has a track record of delivering planned savings, however, in common with other councils, identifying and delivering savings will be more challenging going forward

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 a track record of delivering the savings it has identified. We reached this conclusion because:
- the Council has delivered a high percentage of its planned savings in recent years:
 - 2017-18 = £3.6 million of the £3.7 million required savings delivered (97%);
 - 2018-19 = £5.6 million of the £6.2 million required savings delivered (90%); and
 - 2019-20 = £5.6 million of the £5.9 million required savings delivered as at 30 June 2019 (95%).
 - the Council is aware that Adult Social Care has struggled to deliver the savings it has identified. This has partly contributed to service overspends in recent years. Plans are in place to address this as noted above.
 - where areas have struggled to achieve savings, the Council has achieved overall financial balance in recent years mainly through additional savings and mitigating factors (MRP, pension contribution reductions and extra council tax collection). The Council recognises this approach may not be sustainable and is looking to develop further strategies as noted previously to seek to identify wider transformation efficiencies.

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.

£6.2m	£5.6m	£0.6m	90%
Total planned savings	Planned savings delivered	Planned savings not delivered	Percentage savings achieved

Source: Ceredigion County Council – Financial Sustainability Self-Assessment

The Council has not made any unplanned use of reserves to fund revenue budget pressures and its level of usable reserves has increased 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 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.

What we found

- 13 We found that the Council has not made any unplanned use of reserves to fund revenue budget pressures and its level of usable reserves has increased in recent years. We reached this conclusion because the Council:
- has a Reserves Policy in place; and has no plans to use general reserve balances to fund revenue budgets other than to fund exceptional and agreed priority one off items.
 - has not made any unplanned use of reserves to fund revenue budget pressures in recent years;
 - has increased its useable reserves in recent years (from £19.4 million in 2017-18 to £22.3 million in 2018-19).
 - intends to build its reserves further over the next few years as part of its development of a ten-year Capital Strategy and Carbon and Economic Development Strategy. The Council intends to fund a large proportion of these strategies from reserves rather than incur additional borrowing.

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 – Ceredigion County Council self-assessment

The Council has a good track record of collecting council tax

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 a good track record of collecting council tax. We reached this conclusion because:
- council tax represents an increasing amount of total income and is now 20% of the Council's income. The Council has generally increased its council tax by 5% annually, although last year it increased by 7%.
 - it has achieved good council tax collection rates in recent years (97.3% in 2017-18 and 97.2% in 2018-19).

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 **£41.2m** (97.2%) against a collectable debit of **£42.4m**

Source: Ceredigion County Council

The Council's borrowing costs have not increased significantly in recent years and it has no plans to increase its borrowing costs over the next few 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 borrowing costs have not increased significantly in recent years, the Council has no plans to increase its borrowing costs over the next few years. We reached this conclusion because:
- the Council has not borrowed significantly in recent years and its cost of borrowing as a proportion of its net revenue budget is relatively low and has not increased significantly in recent years. This has been a conscious decision by the Council to ensure stable finances by minimising the levels of borrowing costs; and
 - the Council has not borrowed to fund commercial investments. It has plans for commercial investment in the future once it has finalised its Carbon and

Economic Development Strategy but intends to fund this by building up reserves rather than increasing borrowing.

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



4%

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

Source: Ceredigion County Council Statement of Accounts 2018-19

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