

Financial Sustainability Assessment – Isle of Anglesey County Council

Audit year: 2020-21

Month/Year issued: August 2021

Document reference: 2442A2021-22

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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 March 2021.

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

Recommendation

Exhibit 1: recommendation

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

Recommendation
Asset Management Strategy
R1 The Council's Asset Management Plan needs to be updated and approved.

Detailed report

The Council has a good understanding of its financial position and currently delivers services within overall budget, but several financial challenges remain

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:
- the Council considered the financial impact of the pandemic with a detailed report to the Executive Committee on 13 July 2020: 'Financial Impact of the COVID-19 Pandemic' which considered the impact in 2020-21 and on the medium-term.
 - the Council will incur about £6.2 million of additional COVID-19 related expenditure and £2.4 million loss of income during 2020-21.
 - the Council has incurred £0.1 million additional expenditure and income loss that has not been covered by additional funding.
 - the Council assumes that Welsh Government will continue to compensate additional costs and loss of income in the next financial year.
 - the Council have assumed that there is no change in demand for services nor a reduction in income generating activities arising from dealing with the pandemic in setting its Medium-Term Financial Strategy and Budget.

Exhibit 2: the cost to the Council of COVID-19 over 2020-21

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 will have spent as a result of COVID-19 over 2020-21.	£6.2 million
The amount of income the Council will have lost as a result of COVID-19 over 2020-21.	£2.4 million

The amount of additional funding the Council will receive from the Welsh Government over 2020-21 to mitigate the impact of COVID-19.	£8.5 million
The cost to the Council of COVID-19 over 2020-21 after extra funding from the Welsh Government is taken into account.	£0.1 million
Additional funding from Welsh Government to cover 'savings not achieved' and 'digital transformation'.	£1.3 million

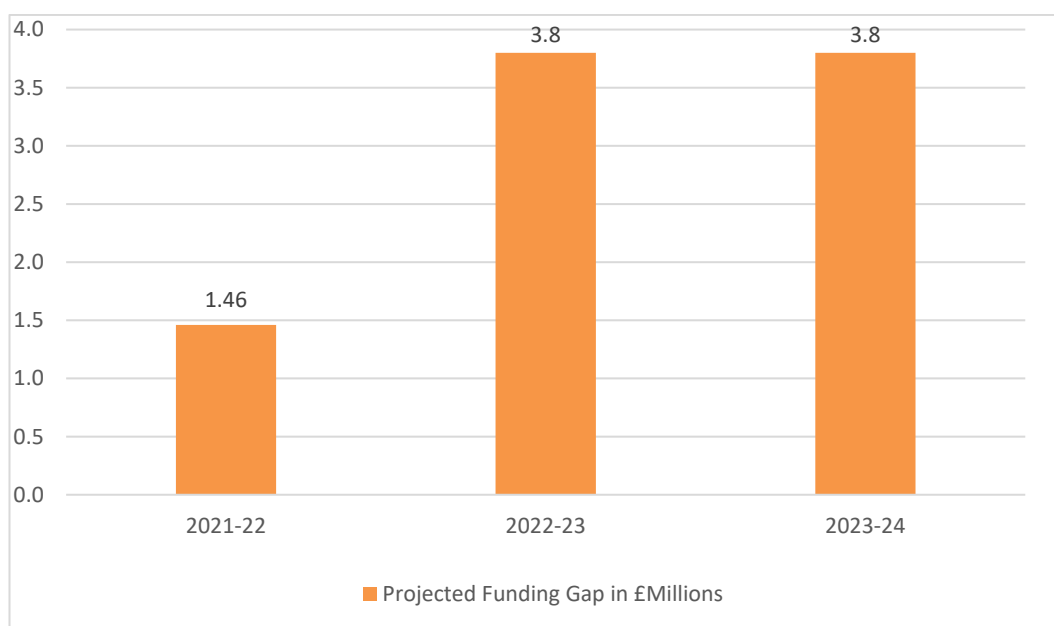
Increasing budgets of demand led services has enabled the Council to deliver services within overall budget, but several financial challenges remain

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.
- 9 We found that:
- the Council has allocated additional resources to budgets to key demand services as part of setting the budget in 2019-20 and 2020-21.
 - the Council uses service demand information to allocate additional resources to services.
 - the Councils Medium Term Financial Plan projects the standstill budget to give a funding gap before any increase in Aggregate External Financing and Council Tax. The Council has difficulties in estimating with any degree of certainty what future levels of Aggregate External Financing will be before the announcement of the draft settlement in December. The practice leads to the presentation of a significant aggregate funding gap in the Medium-Term Financial Plan.
 - the Council's Corporate Asset Management Plan for Land & Buildings for the period 2015-2020 is out of date and needs to be updated.
 - the Council, along with many other Councils in Wales, has limited access to capital funding which reduces its capacity to undertake capital investment.

Exhibit 3: the Council has a total projected funding gap before changes to Aggregate External Finance and Council Tax for the three years 2021-22 to 2023-24 of £9.06 million

This graph shows the funding gap before changes to Aggregate External Finance and Council Tax that the Council has identified for the following three years.



The Council’s financial strategy has restored the general fund to target level, but the Council continues to use reserves to balance the budget, this is not sustainable

Why sustainable management of reserves is important

10 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.

11 We found that:

- the Council’s Usable Reserves decreased significantly in 2017-18 and has remained around £16 million for the next two years, rising to £29.7 million in on 31 March 2021.
- the Council had £16 million of useable reserves on 31 March 2020, which is 11.6% of net cost of services.

- the Council's level of usable reserves increased to £29.7 million by the end of 2020-21, which is 20.6% of the net cost of services.
- the combined schools reserves balance of the 46 Anglesey Schools is £197,000 as at 31 March 2020, and comprises 33 schools with a surplus of £1.42 million offset by 13 schools with a deficit of £1.227 million. The number of schools with a deficit balance was much improved by 31 March 2021 with one primary, one secondary and one special school in a deficit position by the year end².
- the Council utilised £300,000 of reserves to fund the 2021-22 budget which allowed for a 0.75% reduction in council tax. Funding baseline commitments from one-off funding sources is not sustainable and leads to unresolved funding pressure in future years budget.

Exhibit 4: amount of reserves vs annual budget

This exhibit shows the amount of usable 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
Net Cost of Services in £ millions ³	136.1	138.3	140.9	143.7	137.7
Total Useable Reserves in £ millions ⁴	23.8	16.4	15.3	16.0	29.7
Total Useable Reserves as a % of net cost of services ⁵	17.5%	11.9%	10.8%	11.1%	21.6%
Comparison with the other councils of Wales	13/22	15/22	15/22	14/22	-

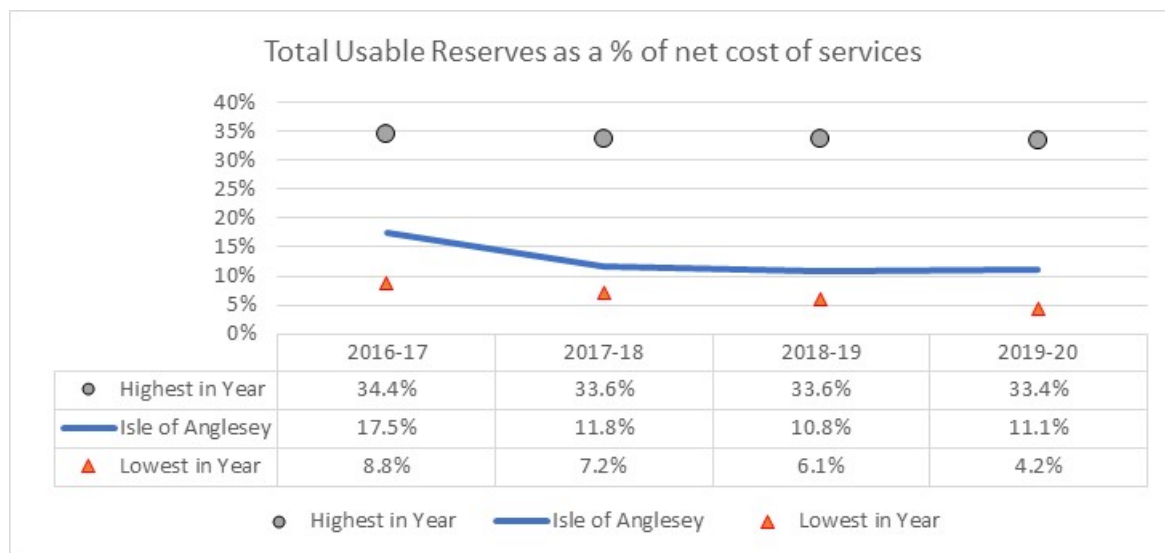
² Draft Statement of Accounts 2020/21

³ 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

⁴ By usable 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

⁵ Audit Wales calculation.

Exhibit 5: Total Usable Reserves as a percentage of Net Cost of Services of principal councils in Wales 2019-20



The Council has delivered services within budget in 2019-20 and 2020-21 after deficits in the two preceding years

Why accurately forecasting expenditure is important

- 12 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.
- 13 We found that:
- the Council had an overall budget deficit in 2017-18 and 2018-19 which was funded from the Council Fund Balance.
 - demand in Adult and Children Services were the greatest cause of deficit, and the Council increased budgets in Children's (2019-20) and Adults Services (2020-21).
 - the Council delivered services within budget in 2019-20 and 2020-21.

Exhibit 6: 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 four years and the year to date as at quarter 2 Revenue Budget Monitoring reported to the audit committee in November 2020.

	2016-17	2017-18	2018-19	2019-20	2020-21
Original Net revenue budget £ millions ⁶	124.0	126.2	130.9	135.2	142.1
Actual Net Revenue Outturn ⁷	123.6	127.8	131.5	134.9	137.9
Amount of overall (surplus)/overspend ⁸	-0.4	1.6	0.6	-0.3	-4.2
Percentage difference from net revenue budget	-0.3%	1.3%	0.5%	-0.2%	-3.0%

Identifying and delivering savings will be more challenging going forward

Why the ability to identify and deliver savings plans is important

- 14 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.
- 15 What we found:
- the Council delivered 86% of the planned savings in the 2019-20 budget, £2.2 million of £2.56 million.
 - the Council has delivered 79% of the planned savings in the 2020-21 budget, £244,000 of £307,000.

⁶ 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.

⁷ By usable 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.

⁸ Audit Wales calculation.

- failure to deliver savings can have its greatest impact when planned individual savings areas were high monetary value, as was the case in the four previous years.
- the Council is of the view that whilst there are limited opportunities to deliver efficiency savings, the need to deliver a substantial amount of savings quickly will effectively mean cuts in services.

Exhibit 7: savings delivered during 2020-21 as a percentage of planned savings

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

	2016-17	2017-18	2018-19	2019-20	2020-21
Total planned savings in £ millions ⁹	3.060	2.444	2.522	2.561	0.307
Planned savings achieved in £ millions ¹⁰	2.544	1.704	2.064	2.205	0.244
Planned savings not achieved in £ millions	0.516	0.740	0.458	0.356	0.063
Percentage of savings achieved	83.1%	69.7%	81.8%	86.1%	79.5%

The Council's liquidity after a period of decline has recently stabilised

Why the Council's liquidity position is important

16 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.

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.

¹⁰ By usable 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.

- 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.

17 We found that:

- Anglesey Council's liquidity reduced from 1.8 to 1.0 over the period 2016 to 2018 and recovered to 1.4 by the 31 March 2020, rising again to 1.8 by the 31 March 2021; and
- the Council have not projected liquidity over 2021-22 and 2022-23.

Exhibit 8: working capital ratio 2015-16 to 2020-21

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Current Assets ¹¹	47.8	39	34.7	47.3	56.7	66.3
Current Liabilities ¹²	26.0	28.9	35.3	28.9	39.7	37.0
Working Capital Ratio	1.8	1.4	1.0	1.6	1.4	1.8

Source: Statement of Accounts

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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