

# Financial Sustainability Assessment – Blaenau Gwent County Borough Council

Audit year: 2020-21

Month/Year issued: July 2021

Document reference: 2511A2021-22

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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 the 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**<sup>1</sup>. 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 February 2021 and March 2021.

<sup>1</sup> 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.

Proposals for improvement	
P1	<p>To ensure its Medium Term Financial Strategy predicts future funding requirements as accurately as possible, the Council should:</p> <ul style="list-style-type: none"><li>regularly review its cost pressure estimates for years two to five to ensure they are reasonable and reflect recent levels of cost pressures.</li></ul>
P2	<p>To bridge its estimated future funding gap and contribute to strengthening its financial sustainability the Council should:</p> <ul style="list-style-type: none"><li>continue to develop and deliver new proposals under its Bridging the Gap programme.</li></ul>

Improved financial planning and better-than-expected Welsh Government settlements mean the Council is better placed to maintain its financial sustainability over the short term but challenges remain to fully close budget gaps over the medium term

### 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.

#### What we found

- 7 The Council estimates that it will incur additional costs of £8 million and income losses of £3 million in 2020-21 due to the pandemic. The Council anticipates that most of these costs will be funded by the Welsh Government's Hardship Fund.
- 8 Further to this, the Council also received additional Welsh Government funding in relation to council tax support and a range of further COVID-19-related grants were awarded shortly before the year-end.
- 9 In total, the Council anticipates it will receive approximately £12.2 million of additional funding from the Welsh Government in 2020-21. This is set out in **Exhibit 2** below. The total excludes funding where the Council acts as an agent, distributing funds from the Welsh Government to third parties.

#### Exhibit 2: the cost to the Council of COVID-19 over 2020-21<sup>2</sup>

The table below shows the Council's estimated 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 estimates it will have spent as a result of COVID-19 over 2020-21.	£8.4 million
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<sup>2</sup> Source: provided by the Council June 2021

The amount of income the Council estimates it will have lost as a result of COVID-19 over 2020-21.	£2.3 million
The amount of additional funding the Council estimates it will receive from the Welsh Government over 2020-21 to mitigate the impact of COVID-19: <ul style="list-style-type: none"> <li>• Hardship fund – £10.4 million</li> <li>• Other COVID-19-related grants – £1.8 million</li> </ul>	£12.2 million
The cost to the Council of COVID-19 over 2020-21 after extra funding from the Welsh Government is taken into account.	£0.3 million

- 10 In June 2020, the Executive Committee received a report on the impact of the pandemic on the Council’s financial position and its Bridging the Gap programme. Since then, the Council has continued to review the financial risks of the pandemic and this is reflected in the Medium Term Financial Strategy (MTFS), budget monitoring reports for 2020-21 and the budget setting papers for 2021-22.
- 11 The Council has begun considering the impact of the pandemic on local residents and businesses and how this could affect some council services. For example, the Council has modified the forecast savings and timeframe for maximising income from its industrial units given the impact of COVID-19 on local businesses. The Council has also considered residents’ ability to pay more for council services when considering fees and charges increases for 2021-22.

## **The Council continues to develop a more sustainable approach to financial planning and recognises the need to understand the ongoing financial impact of the pandemic**

### **Why strategic financial planning is important**

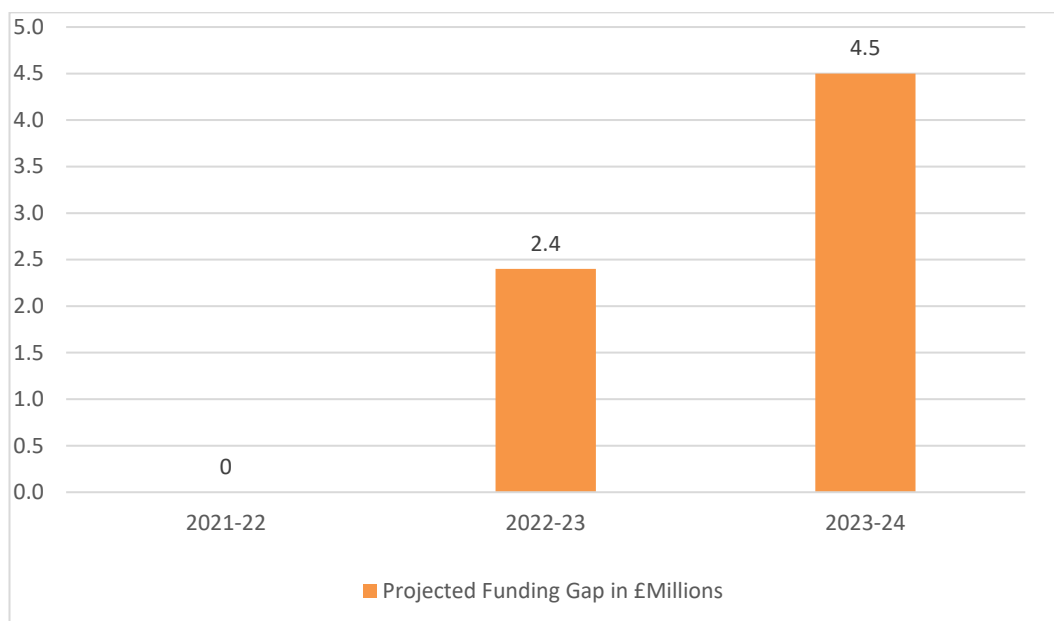
- 12 A clear and robust financial strategy is important to identify the likely level of funding available to a council, as well as the anticipated level of demand for, and cost of, providing services. Given the recent and anticipated funding pressures facing all councils it is also important to identify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

## What we found

- 13 Last year, we found that the Council was developing a more sustainable financial strategy, but it was too early to assess whether this would strengthen financial resilience over the medium term.
- 14 The Council has a well-developed MTFS which sets out the forecast funding gap for 2021-22 through to 2025-26. **Exhibit 3** shows that the Council has no forecast funding gap for 2021-22 (it estimates a surplus of £1.3 million) but there remains a £2.4 million gap for 2022-23 and £4.5 million for 2023-24.

### Exhibit 3: the Council has a total projected funding gap for the three years 2021-22 to 2023-24 of £6.9 million

This graph shows the funding gap that the Council has identified for the following three years<sup>3</sup>.



- 15 The latest MTFS and budget papers contain detailed forecasts for financial pressures in 2021-22, but only limited cost pressures have been identified for the remaining four years of the MTFS. The MTFS includes a provision of £1 million a year for unidentified pressures from 2022-23. However, in recent years, cost and growth pressures identified as part of the budget setting process have exceeded £1 million, ranging from £1.5 million to £2.1 million. It would be prudent, therefore, for the Council to review this estimate each year to ensure it reflects recent levels of cost pressures.

<sup>3</sup> Source: Revenue Budget 2021-22 report presented to the Council on 4 March 2021



- 16 The Council undertakes more detailed work to identify the extent of cost pressures through the annual budget process. This work considers the:
- likely continuation of existing cost pressures into the following year;
  - portfolios' ability to mitigate the pressures within existing budgets;
  - impact of COVID-19;
  - changes in demand for services; and
  - cost pressures experienced by other local authorities.
- 17 Pressures that cannot be managed within the portfolio are considered as part of the budget setting process and undergo challenge from both officers and members. Where deemed necessary, the Council adjusts base budgets to respond to budget pressures.
- 18 To inform financial planning and identify their projected funding gaps, all councils make assumptions about factors that will impact on the amount of funding they will have available in future years. The Council's assumptions in its MTFS provide a balanced forecast at the time of its publication when compared with the assumptions made by all councils across Wales.
- 19 The Council regularly reviews and challenges the assumptions in its MTFS. Officers broadly adopt a prudent approach and are able to explain the reasoning behind the assumptions. However, the funding gap may increase if cost pressures in future years exceed the £1 million estimate included in the MTFS and are not entirely offset by some of the other, more prudent, assumptions.
- 20 The Council has identified some changes in demand for services during the pandemic – an increase in community meals, for example – but has not yet completed a systematic review of the impact of COVID-19 on future demand for services. As the Council's focus shifts towards recovery from the pandemic, it plans to review the impact of COVID-19 on its communities and the future impact this is likely to have on services. This will help ensure that the MTFS reflects the ongoing financial impact of the pandemic.
- 21 Bridging the Gap remains the Council's main method of closing future funding gaps over the medium to long term. However, the Council has not been able to take forward all the Bridging the Gap savings and income generation initiatives intended in 2020-21 due to COVID-19. As a result, the Council has had to revise the amount of savings included for future years of the MTFS and now expects to achieve a minimum of £0.8 million to £1.1 million of new savings each year. The funding gap in **Exhibit 3** is the residual gap remaining once the minimum level of Bridging the Gap savings has been applied.
- 22 Further work is therefore required to identify additional savings to close the funding gap. The Council acknowledges that additional savings proposals may be required if existing Bridging the Gap proposals are insufficient to fully close the gap. However, the Council prefers to focus on long-term approaches to close the remaining gap rather than reinstating annual Financial Efficiency Projects. The Council has additional Bridging the Gap proposals to take forward and the

pandemic has presented other opportunities for savings. For example, changes to working arrangements as a result of the pandemic have accelerated the Council's plans to vacate the Civic Centre. In March 2021, the Council agreed to change its operating model and working arrangements, including permanently vacating the Civic Centre. This is expected to save the Council around £1.5 million over five years and will further reduce the forecast budget gap.

- 23 In addition, the Council is establishing an earmarked reserve using forecast budget surpluses to help mitigate against financial challenges in later years of the MTFS.

## The Council is increasing its useable reserves and remains committed to doing so over the medium term

### Why sustainable management of reserves is important

- 24 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

- 25 Last year, we found that the Council's general fund was in line with its reserves strategy and that the Council was taking steps to increase its level of useable reserves following unsustainable use in previous years.
- 26 In 2018-19, using contributions agreed as part of the budget setting process and from windfall payments, the Council added £0.4 million to its General Fund. In 2019-20, it added a further £0.5 million to the Fund, taking it to £6.4 million, an increase of 16% over two years.
- 27 **Exhibit 4** below sets out the Council's strengthening total useable reserves position. Although the Council's balances remain lower than the Wales average, its position has improved from the lowest in Wales in 2016-17 and 2017-18 to the sixth lowest in 2019-20.

#### Exhibit 4: amount of reserves versus 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 <sup>4</sup>	146.2	147.0	146.3	148.2	145.8
Total Useable Reserves in £ millions <sup>5</sup>	12.9	10.6	12.7	14.7	28.6
Total Useable Reserves as a percentage of the net cost of services <sup>6</sup>	8.8%	7.2%	8.7%	9.9%	19.6%
Comparison with the other councils of Wales	22	22	21	17	

- 28 The Council expects to add a further £1.4 million to the General Fund in 2020-21. The Council is also committed to strengthening its reserves over the medium term and its MTFS includes a £0.2 million contribution to the General Fund each year until 2025-26.
- 29 Further to this, the Council is also taking steps to strengthen its useable earmarked reserves. A report to elected members in March 2021 forecast a useable earmarked reserves balance of £9.2 million at the end of 2020-21 – up £0.9 million on the previous year. However, following additional year-end funding from the Welsh Government, the Council now expects to add £12.5 million to earmarked reserves. The final budget proposals for 2021-22 also include a £1.1 million contribution to earmarked reserves.
- 30 As well as increasing its low reserves balances, the Council recognises the need to effectively manage their use to ensure that reserves are not used in an unplanned manner or to support revenue budgets.
- 31 The Council's proactive actions to strengthen its useable reserves balances will place it in a stronger position to meet future financial challenges. This is particularly important given the uncertainty over Welsh Government funding for COVID-related

<sup>4</sup> 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: 2016-17 to 2019-20: Statement of Accounts; 2020-21: provided by the Council

<sup>5</sup> 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: 2016-17 to 2019-20: Statement of Accounts; 2020-21: provided by the Council

<sup>6</sup> Audit Wales calculation.

costs over the medium term and the potential ongoing impact the pandemic may have on achieving Bridging the Gap savings.

## **The Council's overall performance against budget is improving and, whilst some service areas continue to overspend, the Council is taking steps to help address some of these budget pressures**

### **Why accurately forecasting expenditure is important**

- 32 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**

- 33 Last year, we found that the Council had a recent history of overspending against its budget, but the amount of year-end overspends was reducing.
- 34 In 2019-20, the Council subsequently delivered a £0.5 million (0.3%) surplus.
- 35 The Council's month-9 budget monitoring report forecasts a £0.55 million underspend in 2020-21 once COVID-related costs and funding are accounted for. However, at the time of our fieldwork, the Council had received notification from the Welsh Government of additional COVID-19-related grant funding. This has resulted in a year-end surplus of £9.2 million. The Council plans to use this surplus to increase its useable reserves balances to provide it with greater financial resilience.

## 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 five years.

	2016-17	2017-18	2018-19	2019-20	2020-21
Original Net revenue budget £ millions <sup>7</sup>	137.5	144.6	145.4	147.3	152.1
Actual Net Revenue Outturn <sup>8</sup>	137.4	145.3	145.5	146.8	142.9
Amount of overall surplus/overspend <sup>9</sup>	0.07	(0.7)	(0.1)	0.5	9.2
Percentage difference from net revenue budget	0.05%	(0.5%)	(0.01%)	0.3%	6.4%

- 36 We reported last year that underspends in some service areas balanced overspends in other areas. This remained the case in 2019-20 and a similar position is forecast for 2020-21.
- 37 Many cost pressures and overspends in 2020-21 are related to additional expenditure or lost income caused by COVID-19. However, some Council services have recurring overspends which pre-date the pandemic. These include:
- Children's Services, particularly costs relating to looked after children; and
  - Community Services, particularly costs related to waste services.
- 38 In response to ongoing pressures in Children's Services, the Council implemented a range of preventative initiatives which has helped to reduce the number of looked-after children. Legal fees relating to looked-after children remain a key cost pressure and the Council is exploring options for collaborative legal services provision with neighbouring local authorities.
- 39 Overspending portfolios must develop action plans to mitigate forecast cost pressures, and, where possible, contain the overspend within the portfolio. For example, regular overspends in the looked-after children budget have been offset by underspends elsewhere in Social Services resulting in a net underspend.
- 40 Other portfolios, such as Environment (which includes Community Services), have not been able to completely offset overspends within the portfolio and so these overspends impact on the Council's overall budget position.

<sup>7</sup> Source: Council Outturn reports for 2016-17 to 2019-20 and 2020-21 figures provided by the Council

<sup>8</sup> Source: Council Outturn reports for 2016-17 to 2019-20 and 2020-21 figures provided by the Council

<sup>9</sup> Audit Wales calculation

- 41 A Cost Pressure Subgroup meets quarterly to challenge and assess progress against overspending portfolios' action plans. Cost pressures and mitigating actions are also reported in quarterly budget monitoring reports to the Joint Budget Scrutiny Committee and Executive Committee. However, not all quarterly updates to the action plan clearly demonstrate progress and the lack of timescales makes it difficult to determine whether actions are on track. The Council should consider adjusting the format of the action plan so that it more clearly demonstrates mitigating actions against each individual cost pressure, the timescale for completion, and progress that has been made in each quarter. The Council should also ensure that there is sufficient challenge where action plans are not being properly updated or where mitigating actions are not working.

## **The Council has developed a more sustainable approach to savings planning but further challenges remain to identify sufficient savings to fully close the estimated medium-term funding gap**

### **Why the ability to identify and deliver savings plans is important**

- 42 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 overspend that requires 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**

- 43 Last year, we found that the Council had a good track record of delivering planned savings but was shifting its approach to identify more sustainable long-term savings through Bridging the Gap programme.
- 44 In 2019-20, the Council continued to achieve most of its planned savings – 98% of the £3.3 million planned.
- 45 In previous years, the Council's approach to savings planning focussed on identifying high numbers of individual financial efficiency projects on an annual basis. The Council has a good track record of delivering these savings, as shown in **Exhibit 6** below.

## Exhibit 6: savings delivered as a percentage of planned savings

The following exhibit sets out how much money the Council intended to save from its savings plans between 2017-18 and 2019-20, and how much of this it actually saved as well as estimated figures for 2020-21.

	2017-18	2018-19	2019-20	2020-21 estimate <sup>10</sup>
Total planned savings in £ millions <sup>11</sup>	4.8	3.8	3.3	1.5
Planned savings achieved in £ millions <sup>12</sup>	4.7	3.5	3.3	1.2
Planned savings not achieved in £ millions	0.4	0.3	0.07	0.25
Percentage of savings achieved	98%	91%	98%	83%

- 46 Following a better-than-expected settlement from the Welsh Government for 2020-21, the Council was able to close its budget gap using savings identified through the Bridging the Gap programme. As a result, it did not need to implement any financial efficiency projects.
- 47 The planned Bridging the Gap savings for 2020-21 totalled £1.5 million and were made up of savings and increased income. However, the pandemic has impacted on the Council's ability to implement all the planned savings. At the end of December 2020, the Council forecast that it would achieve 83% (£1.2 million) by the year-end. Most of the shortfall is due to the Council not being able to take forward new income generation initiatives during the pandemic. The Council understands that the Welsh Government funding will now cover this shortfall.
- 48 The Council has revised the forecast savings for future years to reflect the ongoing impact the pandemic is likely to have, for example, on local businesses, and this is reflected in the MTFS. The latest forecast position suggests total cumulative savings of £12.9 million will be achieved between 2021-22 and 2025-26. Based on current assumptions, this leaves a cumulative budget gap of £21.6 million over the same period. Over the coming years, the Council plans to develop new proposals under the Bridging the Gap programme to help it close the remaining forecast budget gap.

<sup>10</sup> Source: Month-9 budget monitoring report

<sup>11</sup> Source: Council's Outturn reports to the Joint Budget Scrutiny Committee

<sup>12</sup> Source: Council's Outturn reports to the Joint Budget Scrutiny Committee

## The Council's liquidity position remains the lowest in Wales

### Why the Council's liquidity position is important

- 49 Why gauging current assets to current liabilities (liquidity) is important:
- it is 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.

### What we found

- 50 The Council's liquidity ratio has consistently been the lowest in Wales over the last five years, ranging between 0.3 and 0.5.
- 51 **Exhibit 7** below shows that the Council's current liabilities increased by £33.5 million (62%) between 2015-16 and 2019-20. Over the same period, the Council's current assets increased by £4.3 million (15%).
- 52 The projected liquidity ratio for 2020-21 is 0.8.
- 53 The Council has chosen to hold its assets in short-notice accounts, which means it can access its assets quickly if needed. The Council also told us it chooses to pay its creditors promptly in order to support local businesses, even though this impacts on the balance between current assets and liabilities because the Council pays its creditors more quickly than it receives money from its debtors.



**Exhibit 7: working capital ratio 2015-16 to 2020-21<sup>13</sup>**

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 estimate
Current Assets <sup>14</sup>	27.9	24.2	24.6	28.9	32.2	126.5
Current Liabilities <sup>15</sup>	54.3	65.2	86.8	89.8	87.8	161.3
Working Capital Ratio	0.5	0.4	0.3	0.3	0.4	0.8
Working Capital Ratio ranking across all Welsh councils	22nd	22nd	22nd	22nd	22nd	

<sup>13</sup> Source: 2015-16 to 2019-20 – Statement of Accounts; 2020-21: provided by the Council

<sup>14</sup> Current Assets includes: Short Term Investments; Assets held for sale; Inventories; Short Term Debtors; and Cash and equivalent.

<sup>15</sup> Current Liabilities includes: Short Term Borrowing; Short Term Creditors; and Provisions due in one year.



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