Financial Sustainability Assessment – Ceredigion County Council

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Contents

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**[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.

Proposal for improvement

Exhibit 1: proposal for improvement

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

Proposal for improvement
Proposal for improvement P1 To ensure the Council meets its future financial challenges, the Council should: • continue to monitor the significant overspends in Social Care; and • ensure that the Social Services Transformation Project is driving improvement.

The Council remains financially stable and is focussed on future challenges

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

7 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.

8 We found that:

- the Council has managed the costs of COVID-19 on a Council-wide basis, so that individual services are not in a position where they either 'gain' or 'lose' significantly as a direct result of the financial consequences of COVID-19.
- in 2020-21, the Council initially earmarked a reserve of £1.6 million from existing resources to meet the potential cost of COVID-19. However, the Council is not anticipating using this reserve in 2020-21 because the Welsh Government has met the majority of COVID-19 additional costs to date and additional savings estimated at £1.1 million have been achieved as a result of reduced running costs in providing some services.
- as shown in **Exhibit 1**, the Council has so far received funding of £12.9 million from the Welsh Government for hardship costs, Council Tax Reduction Scheme pressures and loss of income. Total costs net of savings achieved are estimated to be £13.2 million. Whilst Council Tax collection rates suffered earlier in the financial year, they have since improved and the Council expects that any losses at the year-end will be minimal.
- additional funding has also been received from HMRC, the Health Board and a number of other miscellaneous grants are also expected by the year-end in 2020-21.
- as part of its budget setting for 2021-22, the Council has retained a reserve of £1 million in earmarked reserves to cover a potential shortfall in COVID-19 funding going forward. Any surplus income received over and above expenditure will be transferred to earmarked reserves.
- the Council acknowledges there will be a longer-term impact of the COVID-19 pandemic on its overall strategy, the way it provides services and its financial position.

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

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 and expected savings due to the operational impact of COVID-19 on service provision.

The additional amount the Council estimates it will have spent as a result of COVID-19 over 2020-21.	£(8.7) million
The amount of income the Council estimates it will have lost as a result of COVID-19 over 2020-21.	£(5.6) million
Estimated savings achieved due to the operational impact of COVID-19 on service provision	£1.1 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.	£12.9 million
The estimated cost to the Council of COVID-19 over 2020-21 after extra funding from the Welsh Government is taken into account.	£(0.3) million

Source: information provided by Ceredigion County Council

The Council has a clear financial strategy over the medium term

Why strategic financial planning is important

9 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 important to identify how the Council intends to respond to those pressures and how it is planning to meet projected funding gaps.

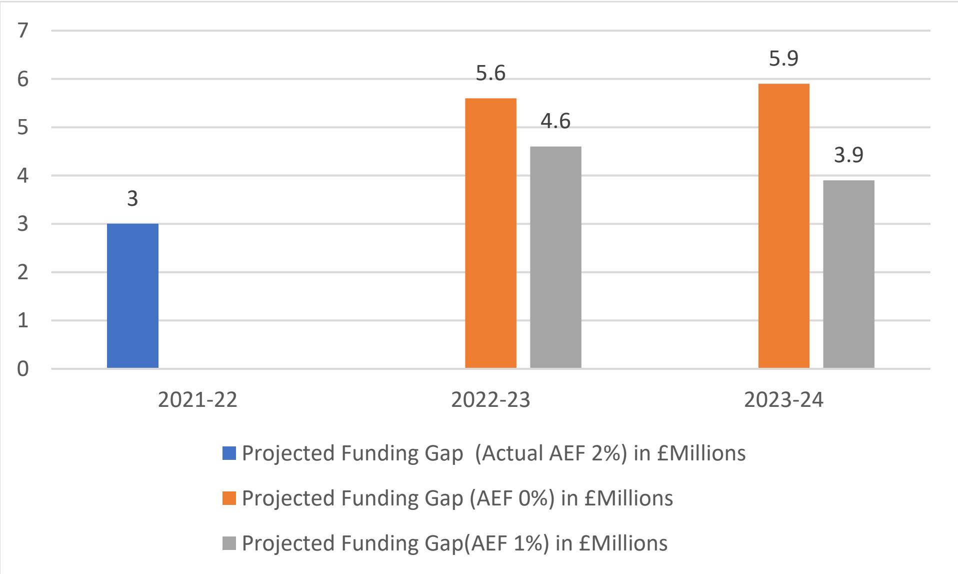
We found that:

- the Council's Medium Term Financial Plan (MTFP) 2021-22 to 2023-24 supports financial sustainability by identifying key financial challenges, expected funding gaps and an assessment of how to fund these gaps over the next three years.

- the projected funding gap over the three-year period is between £11.5 million (based on an assumption of a 1% annual increase for AEF) or £14.5 million (based on an assumption of a zero increase in AEF) as shown in **Exhibit 3**.
- the Council has made a number of other assumptions in identifying the funding gap which have a direct impact on the estimations of the savings requirement each year. These include the effects of re-pricing the base budget, Council Tax base changes and the potential ongoing impact of Brexit, but exclude the possible financial impact of the COVID-19 pandemic from 2022-23 onwards.
- one of the main financial risks is a continuing overspend in Social Services.
- the Council has an extensive road network which needs maintaining and the Council is aware that this is an ongoing financial pressure.
- the Council has ambitious plans for regeneration and is setting aside money to achieve these.
- council tax collection rates were under pressure in early 2020-21 due to COVID-19, but these have improved towards the year-end and its active debt collection has contributed to this.

Exhibit 3: the Council has a total projected funding gap for the three years 2021-22 to 2023-24 of between £11.5 million and £14.5 million dependent on different assumptions of levels of AEF funding

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



The Council has continued its record of not making unplanned use of reserves to fund revenue expenditure, and usable reserves have increased in recent years

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:

- usable reserves have increased in recent years and the Council has continued its record of not making unplanned use of reserves to fund revenue expenditure. The Council has a Reserves Policy in place and has no plans to use general reserve balances to fund revenue budgets other than for exceptional and agreed priority one-off items.

- usable reserves have increased steadily during the period between 2016-17 and 2019-20 from £20.2 million to £27.7 million as shown in **Exhibit 4**.
- in 2019-20, usable reserve balances were 17.8% of the net cost services the Council delivers. This compares to the equivalent figures across Welsh councils of 33.4% being the highest and 4.2 % the lowest. (As shown in **Exhibit 5**.)
- with the exception of COVID-19 pressures, movements in the balance of reserves for 2020-21 are largely in line with those planned at the 2020-21 initial budget setting stage, with balances expected to rise to £28.2 million.
- funding of MTFP projects in 2021-22 is forecast to reduce planned usable reserves by £4 million (14%) to £24.2 million.
- earmarked reserves are intended to assist in funding the Council's long-term capital strategy and priorities in its economic and education plans.

Exhibit 4: amount of reserves versus annual budget

This exhibit shows the amount of usable reserves the Council had during 2019-20 and the previous three years as a proportion of the net cost of the services the Council delivers.

	2016-17	2017-18	2018-19	2019-20
Net Cost of Services in £ millions [2]	£147.6m	£147.2m	£151.8m	£155.8m
Total Useable Reserves in £ millions [3]	£20.2m	£21.5m	£24.2m	£27.7m
Total Useable Reserves as a percentage of net cost of services [4]	13.7%	14.6%	15.9%	17.8%

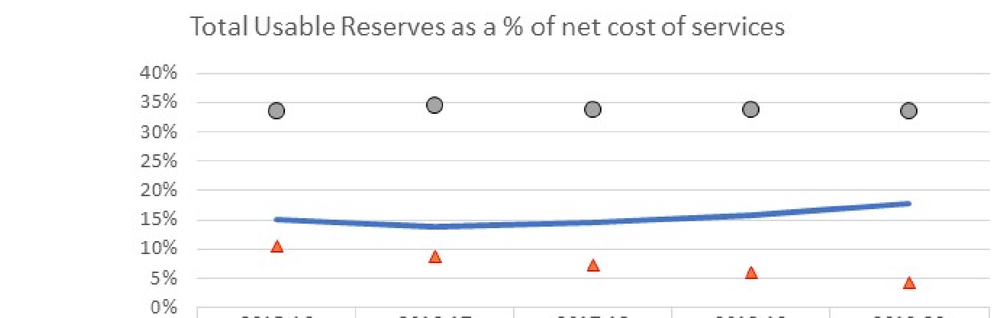
Source: audited statements of account 2016-17 to 2019-20

[2] 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

[3] 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

[4] Audit Wales calculation.

Exhibit 5: comparison with all Welsh councils – Total Useable Reserves as a percentage of the net cost of services



	2015-16	2016-17	2017-18	2018-19	2019-20
Highest in Year	33.5%	34.4%	33.6%	33.6%	33.4%
Ceredigion	15.1%	13.7%	14.6%	15.9%	17.8%
Lowest in Year	10.4%	8.8%	7.2%	6.1%	4.2%

The Council has a good track record of meeting its overall annual budget, although there continues to be significant overspends in Social Care

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:

- robust financial management is serving the Council well and helping it to remain financially sustainable.
- the Council has achieved small budget surpluses in recent years and is forecasting an overall year-end underspend of £0.3 million in 2020-21 as shown in **Exhibit 6**. This excludes direct COVID-19 financial elements which are managed on a corporate basis and reported separately.
- as in previous years, there are continued and significant cost pressures within Social Care budgets. with an expected overspend in 2020-21 of £1.5 million.

- the Council has task and finish groups, spend review panels and budget performance challenge meetings to monitor the Social Services overspend.
- the transformation project within Social Services is ongoing.

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 also the latest estimated outturn for 2020-21 as reported to the Council's Cabinet **16 March 2021**.

	2016-17	2017-18	2018-19	2019-20	2020-21
Original Net revenue budget £ millions	£132m	£135.2m	£140.2m	£143.6m	£151.2m
Actual Net Revenue Outturn	£131.9m	£134.7m	£140.2m	£143.6m	£150.9m
Amount of overall surplus/overspend	£0.1m	£0.5m	£0	£0	£0.3m
Percentage difference from net revenue budget	0.08%	0.4%	0%	0%	0.2%

Source – Budget setting and outturn reports to Cabinet and Council 2016-17 to 2019-20 and estimated outturn report to Cabinet for the year to date 2020-21

The Council has a good track record of meeting savings targets, however, delivering the required 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 We found that:

- the Council has a good track record of delivering a high percentage of its planned savings.
- in 2018-19, the Council achieved 90% (£5.6 million) of its savings target and 90% (£5.4 million) of its target in 2019-20. (As shown in **Exhibit 7**.)

- for 2020-21, all of its planned savings of £0.7 million are expected to be fully achieved. Additional savings of £1.1 million, due to the impact of COVID-19 for reduced running costs, are also anticipated, although these are not currently considered a key part of its long-term savings plans.
- the Council's MTFP 2021-22 to 2023-24 has set two potential future savings targets over three years of either £11.5 million or £14.5 million subject to future AEF funding levels being confirmed.

Exhibit 7: savings delivered during 2019-20 as a percentage of planned savings

The following exhibit sets out how much money the Council intended to save from its savings plans during 2018-19 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
Total planned savings in £ millions	£3.7m	£6.2m	£6m	£0.7m
Planned savings achieved in £ millions	£3.6m	£5.6m	£5.4m	£0.7m
Planned savings not achieved in £ millions	£0.1m	£0.6m	0.6m	£0m
Percentage of savings achieved	97%	90%	90%	100%

Source: budget setting and outturn reports to Cabinet and Council 2017-18 to 2019-20 and estimated outturn report to Cabinet and MTFP 2021-22 to 2023-24 for the year to date 2020-21

The Council has maintained favourable liquidity levels over recent years

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.
- 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:

- the Council has maintained favourable liquidity levels over recent years which are supporting its financial position.
- as an indicator of the Council's liquidity position, we reviewed working capital ratios and found that these have remained relatively stable over the five-year period to 31 March 2020 ranging between 1.0 and 1.7 and averaging at 1.4 per annum. See **Exhibit 8**.

Exhibit 8: working capital ratio 2015-16 to 2019-20

	2015-16	2016-17	2017-18	2018-19	2019-20
Current Assets [5]	£35.8m	£28.7m	£32.8m	£38.7m	£45.1m
Current Liabilities [6]	£22.7m	£27.4m	£23.2m	£23.2m	£29.2m
Working Capital Ratio	1.6	1	1.4	1.7	1.5

Source: audited accounts 2015-16 to 2019-20

[5] Current Assets includes: Short Term Investments; Assets held for sale; Inventories; Short Term Debtors; and Cash and equivalent.

[6] Current Liabilities includes: Short Term Borrowing; Short Term Creditors; and Provisions due in one year.

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