

Financial Sustainability Assessment – Conwy County Borough Council

Audit year: 2020-21

Month/Year issued: July 2021

Document reference: 2447A2021-22

This document has been prepared as part of work performed in accordance with section 17 of the Public Audit (Wales) Act 2004 (the 2004 Act) and section 18 of the Local Government (Wales) Measure 2009. It may also inform a study for improving value for money under section 41 of the 2004 Act, and/or an examination undertaken by the Auditor General under section 15 of the Wellbeing of Future Generations Act (Wales) 2015.

No responsibility is taken by the Auditor General or the staff of Audit Wales in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and Audit Wales are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to Audit Wales at info.officer@audit.wales.

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

Contents

Summary report

What we looked at and why	4
Recommendation	5
Detailed report	
Recognising that using reserves to balance its budget was unsustainable the Council has taken steps to improve its budget outturn position and increase usable reserves	6
The immediate impact of COVID-19 on the Council's financial sustainability has been mitigated by additional Welsh Government funding	6
The Council has a clear financial strategy, but needs to plan more for the medium to long-term and focus on improving resilience	7
Recognising that using reserves to balance its budget was unsustainable the Council has increased its usable reserves	9
In four of the last five years the Council has overspent its planned budget in some areas; however, whilst it has taken steps to understand and contain this overspend, key demand-led service areas will continue to be challenging	11
The Council's delivery of its planned savings has improved, but, identifying and delivering savings will be more challenging going forward	12
The Council's liquidity ratio of 0.6 has been at the same level for the last two years	14

Summary report

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 recommendation that we have identified following this review.

Recommendation

Strengthen financial planning arrangements

R1 The Council must strengthen its financial planning arrangements by:

- publishing a new Medium-Term Financial Strategy (MTFS) for the period 2022 to 2027; and
- ensure the MTFS is subject to annual review and scrutiny by Members.

Detailed report

Recognising that using reserves to balance its budget was unsustainable the Council has taken steps to improve its budget outturn position and increase usable reserves

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 has estimated that about £12 million of additional COVID-19 related expenditure and £9.2 million of income loss during 2020-21 will be covered by the additional funding from the Welsh Government.
- the Council recognises in that there will be a continued impact of the pandemic in specific service areas during 2021-22. It is anticipated that some of levels of income in leisure, car parking and event income from Venue Cymru and Parc Eirias may be a problem. The Council has also identified that the sustainability of services such as adult social care will be challenging especially after the Welsh Government Hardship Fund ends in October 2022.
- the Council has a good track record of collecting council tax with performance increasing over the last 16 years with 2019-20 at 97.8% performance being in the top quartile for councils in Wales². Council tax income in Conwy has increased from 22% of net revenue sources in 2010-11 to 30% in 2019-20.
- the Council now anticipates a fall in council tax collection rates due to decreasing numbers of furloughed and increasing newly unemployed residents as a direct result of the pandemic. The Council has budgeted for a 0.25% (£176,000) reduction in the collection rate for 2021-22 to recognise the expected impact.

² Source: Statistics for Wales – council tax collection rates in Wales 2019-20

Exhibit 2: the cost to the Council of COVID-19 over 2020-21³

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.	£12 million
The amount of income the Council estimates it will have lost as a result of COVID-19 over 2020-21.	£9.2 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.	£21.2 million
Additional funding from Welsh Government to cover 'savings not achieved' and 'digital transformation'.	£1.84 million
The cost to the Council of COVID-19 over 2020-21 after extra funding from the Welsh Government is taken into account.	Nil

The Council has a clear financial strategy, but needs to plan more for the medium to long-term and focus on improving resilience

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 Public services have been significantly impacted by the pandemic and, in this context, mitigating the impact on councils will not only depend on the actions that they are able to take, but also to a large degree on the amount of resources allocated by governments. We recognise that a key issue for councils in trying to

³ Source: Conwy County Statistics for Wales – council tax collection rates in Wales 2019-20

financially plan over the medium term remains uncertainty around both the level of funding they will receive from government, and their own income streams, such as council tax and fees and charges.

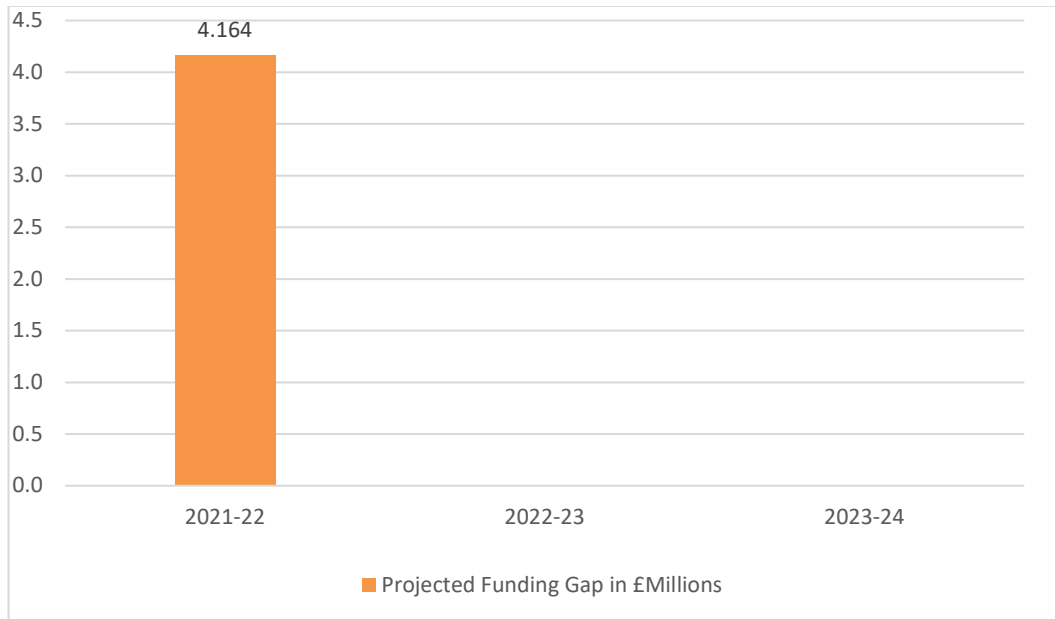
10 We found that:

- the Council has a clear and well-articulated short term financial strategy for the period 2020-2022 but recognises it needs to plan further ahead and focus on improving its resilience and 'plans in the coming months to develop a credible Medium Term Financial Strategy'⁴.
- the current Medium-Term Financial Strategy (MTFS) 2021-22 clearly set out a funding gap of £4.164 million. The Council has not made any major changes to its approach to developing the MTFS in 2021-22 since the Council has been focussed on managing the pandemic. The Council recognises that longer-term projections would be useful in helping it to plan further ahead and has yet to estimate the projected funding gap for the period 2022 to 2024.
- the Council is predicting in its current MTFS that its projected budget gap will increase as some services such as Adults and Children's and specialist education services face significant cost pressures. As a result, the Council will take a multistrand approach seeking budget reductions through the following initiatives:
 - reshaping services/modernisation programmes;
 - regional/Collaboration programmes;
 - changes to fees, charges and income generation;
 - Alternative Delivery Models; and
 - reducing lower priority services/demand management.

⁴ Source: Recommended Budget 2021/2022: Council Tax and Associated Resolutions, Conwy County Borough Council committee papers, 4 March 2021

Exhibit 3: the Council's projected funding gap for the year 2021-22

This graph shows the funding gap that the Council has identified for the following year. For 2022-24 the Council does not know the projected funding gap as it has no MTFS



Recognising that using reserves to balance its budget was unsustainable the Council has increased its usable reserves

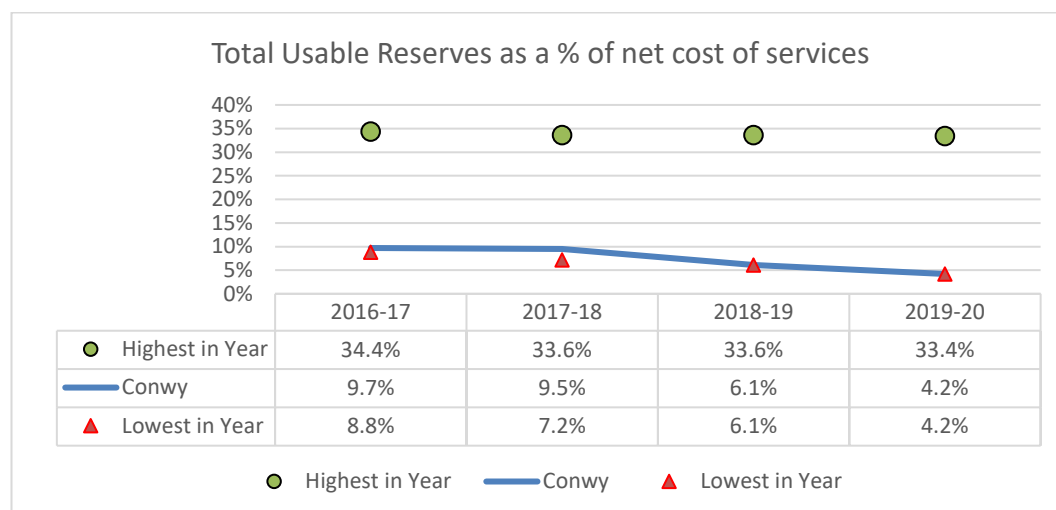
Why sustainable management of reserves is important

- 11 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.
- 12 We found that:
 - in the two years 2018-19 and 2019-20, planned use of £6.3 million of reserves has helped the Council set a balanced budget. The Council acknowledges that it needs to reduce the reliance on planned use of reserves to agree a balanced budget as this is not sustainable. As a result, it has tried to reduce its dependency on using reserves in this way and the Council's approved budget for 2020-21 is not supported by the use of balances and reserves.

- the Council's useable reserves had also slightly increased to around £11 million in March 2021 from £10 million in March 2020. However, following confirmation of the grants to be received from the Welsh government, the Council's useable reserves as at July 2021 are £26.2 million.
- the Council's useable revenue-reserves represent a very low percentage of the net cost of services revenue budget at 4.2% in 2019-20; this is the lowest percentage of any Council in Wales.
- the Council has no capital receipts reserve for the planned expenditure in the period 2020-21 to 2023-24 and plans to fund capital expenditure through a mixture of future capital receipts, Welsh Government grants, and borrowing.
- the Council's Reserves and Balances Protocol sets out how the Council manages and reviews its reserves position. Cabinet and Overview and Scrutiny receive information via the regular budget monitoring reports.

Exhibit 4: amount of reserves vs annual budget

This exhibit shows the amount of usable reserves the Council had during 2019-20 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 ⁵	219.3	218.9	232.8	237.3	-
Total Useable Reserves in £ millions ⁶	21.3	20.8	14.1	9.9	-
Total Useable Reserves as a % of net cost of services ⁷	9.7%	9.5%	6.1%	4.2%	-
Comparison with the other councils of Wales	21	21	22	22	-

In four of the last five years the Council has overspent its planned budget in some areas; however, whilst it has taken steps to understand and contain this overspend, key demand-led service areas will continue to be challenging

Why accurately forecasting expenditure is important

- 13 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. Revenue budgets that result in reductions of reserve balances reduce their resilience to fund unforeseen budget pressures in future years.
- 14 We found that:
- in the four years from 2016-17 to 2019-20, the Council has kept closely to its planned budgets in most areas, but overspends in some areas, common with other councils, continue to be a challenge. These have been offset by some underspends and by using in-year technical accounting adjustments, additional Council tax collection and one-off additional income which have helped the Council reduce its overall overspends.
 - although in January 2021 the Council was anticipating an overall maximum revenue overspend in 2020-21, due to the impact of the pandemic, of £1.84 million additional Welsh Government support in Spring 2021 allowed the

⁵ 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.

⁶ 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.

⁷ Audit Wales calculation.

Council to keep to its planned budget and there is no overall overspend in 2020-21.

- in 2021-22 the Council foresees that the possible areas of concern for potential overspends remain social care pressures, specialist education provision and support, homelessness, winter gritting, and demand-led services generally. In 2021-22 a total of £2.15 million (2%) budget reduction is planned for all services except social services (1%) and schools (0%) and the Council recognise the need during the year for regular specific monitoring and reporting of budget reduction delivery.

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 four years and also the year to date as at 4 March 2021.

	2016-17	2017-18	2018-19	2019-20	2020-21
Original Net revenue budget £ millions ⁸	202.3	206.1	214.7	220.0	229.8
Actual Net Revenue Outturn ⁹	202.8	206.4	212.5	219.2	229.8
Amount of overall overspend ¹⁰	0.5	0.3	2.2	0.8	0
Percentage difference from net revenue budget	0.2%	0.1%	1.0%	0.2%	nil

The Council's delivery of its planned savings has improved, but 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

- 15 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

⁸ 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.

⁹ 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.

¹⁰ Audit Wales calculation.

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. to fund unforeseen budget pressures in future years.

16 We found that:

- the Council has an improving track record in delivering the specific savings (budget reductions) it has identified. The Council has applied budget reductions of £60.2 million over the last six years.
- Since 2016-17 the Council has improved the information about its savings plans and information on its position, delivering 92% of its planned savings in 2018-19 and 100% in 2019-20. Due to additional unhyponthecated funding from Welsh Government in the Spring of 2021 it anticipates delivering 100% of its 2020-21 planned savings.
- this improvement has been reflected in the performance targets the Council sets itself within its MTFS.

Exhibit 6: savings delivered during 2019-20 to 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 2018-19 and 2019-20 and how much of this it actually saved as well as estimated figures for 2020-21.

	2018-19	2019-20	2020-21 estimate
Total planned savings in £ millions ¹¹	6.15	8.61	8.30
Planned savings achieved in £ millions ¹²	5.65	8.61	8.30
Planned savings not achieved in £ millions	0.50	0.00	0.00
Percentage of savings achieved	92%	100%	100%

¹¹ 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.

¹² 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.

The Council's liquidity ratio of 0.6 has been at the same level for the last two years

Why the Council's liquidity position is important

- 17 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.
- 18 We found that:
- the Council's liquidity ratio has been at the same level for the last two years.
 - The Council have a Treasury management strategy in place to meet their liabilities. The strategy is reviewed annually and is subject to scrutiny by Members of the Audit and Governance Committee.

Exhibit 7: working capital ratio 2015-16 to 2019-20

	2015-16	2016-17	2017-18	2018-19	2019-20
Current Assets ¹³	57.3	43.2	60.2	57.1	61.2
Current Liabilities ¹⁴	66.5	65.7	82.2	90.9	109.5
Working Capital Ratio	0.9	0.7	0.7	0.6	0.6

¹³ Current Assets, includes: Short Term Investments; Assets held for sale; Inventories; Short Term Debtors; and Cash and equivalent

¹⁴ Current Liabilities, includes Short Term Borrowing; Short Term Creditors; and Provisions due in one year.



Audit Wales

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

We welcome correspondence and telephone calls in Welsh and English.
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.