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Financial Sustainability Assessment – Bridgend County Borough Council

Audit year: 2019-20

Date issued: February 2020

Document reference: 1696A2020-21



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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 some key financial indicators of each council's financial position in relation to:
 - performance against budget;
 - delivery of savings plans;
 - use of reserves;
 - council tax; and
 - borrowing.
- 3 We undertook the review during November and December 2019.

Exhibit 1: about the Council



The Council's net revenue budget for 2019-20 was £270.809m¹



The Council employs around 6,000 people²



The Council's fixed assets as at 31 March 2019 were £534.538m³

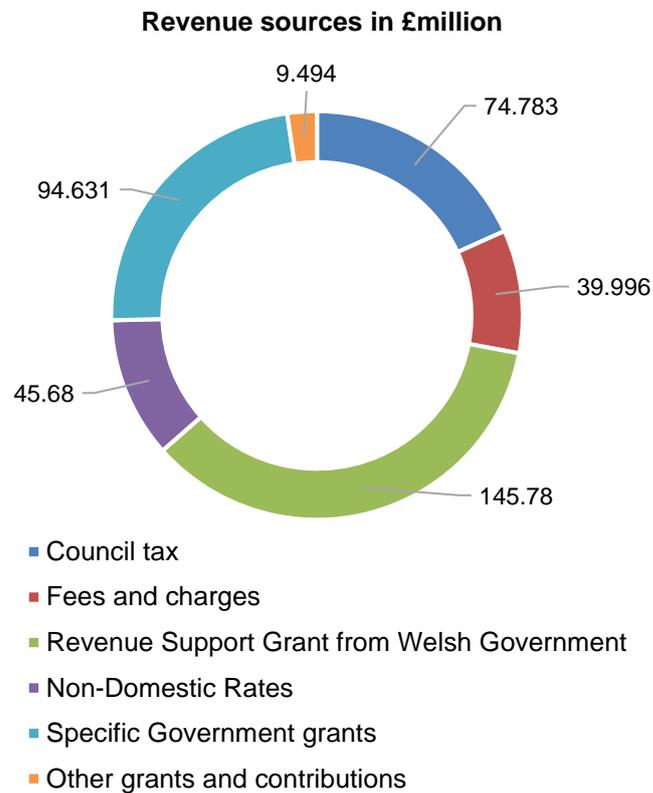
- 4 We undertook this assessment because we identified financial sustainability as a risk to councils putting in place proper arrangements to secure value for money in the use of resources. In part, this was informed by the recent experiences of some councils in England, our knowledge of the financial situation in Welsh councils, and the general trend of decreasing resources for local government combined with rising demand for some services.

¹ Source: the Council's approved budget.

² Source: the Council's 2018-19 statement of accounts.

³ Source: the Council's 2018-19 statement of accounts.

Exhibit 2: the Council's sources of revenue⁴



What we found

- 5 Overall, we found that the Council has a strong financial position, but aspects of financial planning and its Medium Term Financial Strategy would benefit from strengthening. We reached this conclusion because:
- The Council's Medium Term Financial Strategy would benefit from strengthening in some important areas.
 - In recent years the Council has underspent all its annual budgets and it also expects to underspend its 2019-20 budget.
 - The Council has a good track record of achieving most of its planned savings.
 - The Council has a high level of useable reserves.
 - The Council has a good track record of collecting its council tax.
 - The Council has a relatively low level of borrowing and interest costs and has not sought any new long-term loans since 2012.

⁴ Source: the Council's 2018-19 statement of accounts.

Detailed report

The Council has a strong financial position, but aspects of financial planning and its Medium Term Financial Strategy would benefit from strengthening

The Council's Medium Term Financial Strategy would benefit from strengthening in some important areas

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, a financial strategy is also important to identify how a council intends to respond to those pressures, and particularly how it will meet any projected funding gaps.

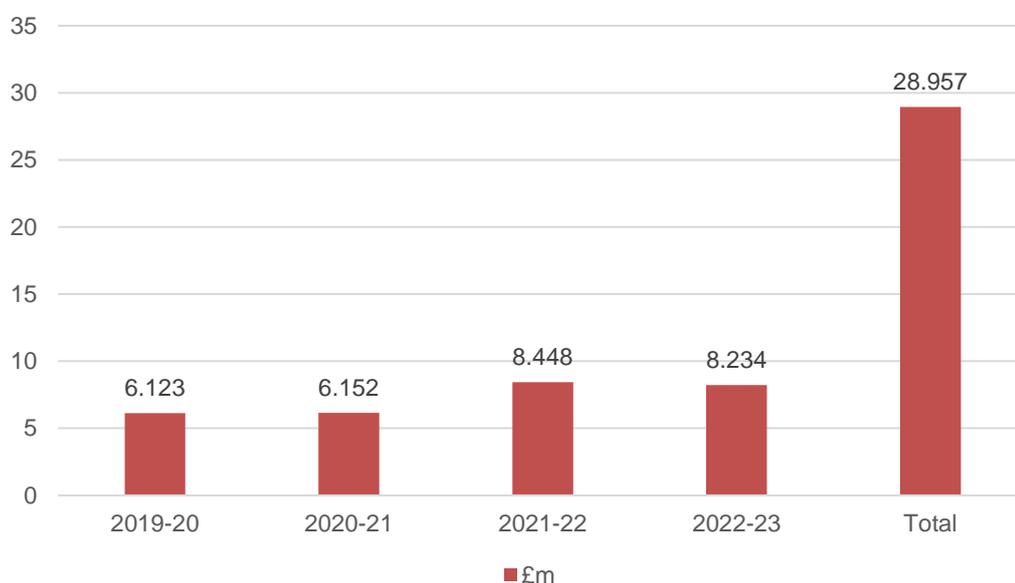
What we found

- 7 We found that:
- The Council has an approved Medium Term Financial Strategy for 2019-20 to 2022-23 (MTFS), which provides a high-level assessment of the financial challenges over that period.
 - The MTFS is updated annually, being approved in February.
 - While the current MTFS provides commentary on certain spending pressures, it only includes a schedule of cost pressures for 2019-20.
 - The MTFS does not provide detailed activity and expenditure projections for the four years to 2023.
 - The MTFS does not evaluate past financial performance, such as budget underspends and the lower-than-forecast use of its reserves, both of which the Council has experienced (see paragraphs 9 and 14).
 - For the four years to March 2023, the MTFS sets out savings requirements (or a funding gap) of between £32.4 million (best case scenario) and £43.3 million (worst case scenario).
 - Since the approval of the current MTFS, as part of this audit review the Council provided us with a self-assessment, which provides revised figures that show a funding gap of £28.9 million (see [Exhibit 3](#)).
 - The MTFS states that for 2019-20 the Council would raise its chargeable fees by inflation plus 1%. The Council has not secured new income streams in recent years, which we understand it is exploring for 2020-21.

- In December 2019 the Welsh Government announced a 4.7% increase in the Council's Revenue Support Grant for 2020-21. This settlement far exceeds the best-case settlement scenario in the Council's current MTFs.
- The implications of the 4.7% increase will be considered by the Cabinet and full Council during February 2020, as part of the approval of the 2020-21 budget.

Exhibit 3: projected funding gap

Source: ⁵.



In recent years the Council has underspent all its annual budgets and it also expects to underspend its 2019-20 budget

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.

⁵ Source: the Council's self assessment.

What we found

9 We found that:

- For the four years to 31 March 2019, the Council has underspent its revenue budget by £35.399 million and it expects to underspend the 2019-20 revenue budget by £5.189 million (see [Exhibit 4](#)). Officers told us that a significant proportion of the Council's underspends had been due to the receipt of unexpected additional grant monies from the Welsh Government. The Council has tended to receive such receipts towards the end of a financial year. For example, the 2019-20 projected underspend of £5.189 million includes £2.6 million of unexpected grant funding, which the Council would have been unaware of when setting and approving its 2019-20 budget.
- For the four years to 31 March 2019, the Council has underspent its capital budget by £17.479 million and it expects to underspend the 2019-20 capital budget by £20.771 million. We understand that these underspends have been largely due to slippage in the delivery of certain capital projects, with costs, and therefore the budget, transferring into subsequent financial years.
- Once a financial year has passed, the outturn-to-budget report is considered by the Cabinet and then by the Corporate and Overview Scrutiny Committee. However, while full Council approves the annual budget for the year ahead, it does not receive the annual outturn-to-budget report.

Exhibit 4: amount of overspend/underspend against the approved revenue budgets⁶

REVENUE (NET)

Financial year	Original Budget net revenue budget (£million)	Actual Outturn net revenue budget (£million)	Amount of (underspend) /overspend (£million)	Percentage (underspend) /overspend
2015-16	252.210	243.009	(9.201)	(3.6)
2016-17	254.891	243.000	(11.891)	(4.7)
2017-18	258.093	251.639	(6.454)	(2.5)
2018-19	265.984	258.131	(7.853)	(2.9)
2019-20 ⁷	270.809	265.620	(5.189)	(1.9)
Total	1,301.987	1,261.399	(40.588)	(3.1)

⁶ Source: the annual outturn-to-budget report presented annually to the Cabinet in June.

⁷ Source: the forecast year-end position reported to the Cabinet on 21 January 2020.

The Council has a good track record of achieving most of its planned savings

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:
- In September 2019 we published our [Savings Planning Follow Up Report](#).
 - The report concluded that: 'The Council has strengthened arrangements to develop and achieve savings plans, but further work is needed to develop a deliverable medium-term financial strategy'.
 - The Council has a generally good track record of meeting most of its planned savings, albeit in recent years the annual savings targets have been reduced and are some £5 million lower than those set for 2015-16.

Exhibit 5: savings delivered during 2018-19 as a percentage of planned savings

£6.123m	£5.615m	£0.508m	91.7%
Total planned savings	Planned savings delivered	Planned savings not delivered	Percentage savings achieved

The Council has a high level of useable reserves

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:

- Based on 2018-19 figures, the Council's useable revenue-reserves represent a relatively high percentage of the net revenue budget, at 28.7% (see [Exhibit 6](#)).
- For the four years to 31 March 2019, the Council's useable revenue-reserves have increased from £50.5 million to £57.7 million (see [Exhibit 7](#)).
- For the four years to 31 March 2019, the Council's capital receipts reserve has fallen slightly from £18.3 million to £17.9 million (see [Exhibit 7](#)).

Exhibit 6: level of revenue reserves compared to the net revenue budget



Exhibit 7: year-end useable reserves

Source: ¹⁰.

Financial year	Reserves balance as at 31 March (£million)*	Capital receipts reserve balance at 31 March (£million)	Total (£million)
2015-16	50.546	18.352	68.898
2016-17	58.436	21.364	79.800
2017-18	56.350	21.161	77.511
2018-19	57.751	17.922	75.673

*The reserves balance included in [Exhibit 7](#) includes a capital programme contribution reserve to fund specific capital projects. At 31 March 2019 the balance on this reserve was £14.072 million.

⁸ Source: the Council's approved budget.

⁹ Source: the Council's 2018-19 statement of accounts (excluding capital receipts reserve and school reserves).

¹⁰ Source: The Council's statement of accounts (excluding reserves held by schools).

The Council has a good track record of collecting its 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:
- For 2018-19 the Council had collected 96.8% of the £76.2 million that was collectable (see [Exhibit 8](#)).
 - For the four years to 31 March 2019 the Council has collected £3.99 million more council-tax income than it had budgeted to receive (see [Exhibit 9](#)). This revenue is in addition to the revenue underspends set out in [Exhibit 4](#).
 - Collectable council tax ([Exhibit 8](#)) is higher than the Council's budgeted council-tax income because it sets an element of anticipated non-payment within its budgeted revenue.

Exhibit 8: council tax collection rates¹¹



Income collected from council tax at 31 March 2019 was 96.8% of the collectable debit of £76.2 million

¹¹ Source: Stats Wales.

Exhibit 9: amount of council tax collected in excess of the budgeted receipts, overspend/underspend against the approved revenue and capital budgets¹²

Financial year	Council tax income in excess of budgeted income (£million)
2015-16	1.752
2016-17	0.974
2017-18	0.594
2018-19	0.670
Total	3.990

The Council has a relatively low level of borrowing and interest costs, and has not sought any new long-term loans since 2012

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 last obtained a new long-term loan in March 2012. The Council's level of long-term borrowing is relatively low.
- The Council's short-term borrowing has increased by some £1.5 million in the last couple of years.
- The Council's interest costs are low as a percentage of its net revenue budget, at 2.2%.
- The Council has no commercial investments and therefore none of its borrowing is used to support such investments.

¹² Source: the annual outturn-to-budget report presented annually to the Cabinet in June.

Exhibit 10: Council borrowing¹³



£0m

Amount of borrowing to fund commercial investments



2.2%

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

Exhibit 11: Council borrowing¹⁴

Financial year	Long term borrowing as at 31 March (£million)	Short term borrowing as at 31 March (£million)	Total (£million)
2015-16	97.434	0.960	98.394
2016-17	97.432	0.952	98.384
2017-18	97.412	2.623	100.035
2018-19	97.412	2.551	99.963

¹³ Source: the Council's statement of accounts.

¹⁴ Source: the Council's statement of accounts.

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