

Financial Sustainability Assessment – **Caerphilly County Borough Council**

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

The team who delivered the work comprised Martin Gibson and Mark Jones programme managed by Non Jenkins under the direction of Huw Rees and Richard Harries.

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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 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.

Exhibit 1: about the Council

This exhibit sets out some background information on the Council's net revenue budget, the number of staff it employs and the value of its assets



The Council's net revenue budget for 2019-20 was £337.7Million¹



The Council employs around 8,400 people²



The Council's long term assets as at 31 March 2019 were £1.2Billion³

- 3 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 councils in Wales, and the general trend of decreasing resources for local government combined with rising demand for some services.

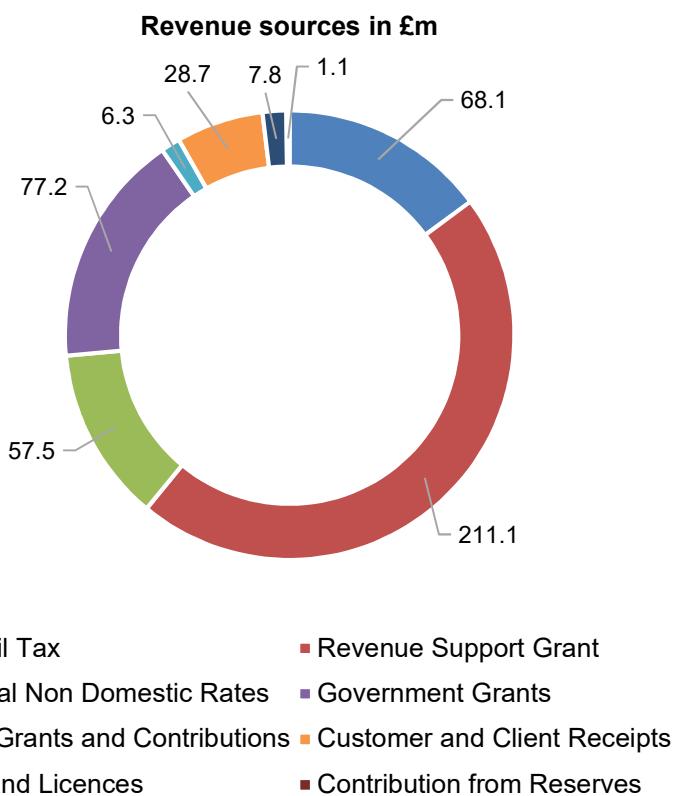
¹ Source: Net Revenue Budget for 2019-20 approved by Council on 21 February 2019.

² Source: Caerphilly County Borough Council., Annual Performance Report 2018-19 <https://www.caerphilly.gov.uk/CaerphillyDocs/Council-and-democracy/AnnualPerformanceReport1819.aspx>.

³ Source: Caerphilly County Borough Council's 2018-19 statement of accounts.

Exhibit 2: the Council's sources of revenue⁴

The chart below shows how much money the Council estimated it would receive from different funding sources during 2019-20.



4 We undertook the review during the period July 2019 to January 2020.

What we found

- 5 Overall we found that: **The Council has a strong financial position, with an increasingly high level of usable reserves, a relatively stable level of borrowing, and significant budget underspends in recent years.** We reached this conclusion because:
- the Council's medium term financial plan does not fully reflect its record of significant underspending nor fully reflect its transformation plans;
 - in recent years the Council has underspent both its revenue and capital budgets and it expects to underspend its 2019-20 budget;

⁴ Source: Caerphilly County Borough Council, December 2019.

- the Council has a good track record of achieving almost all its planned savings in the last two years and expects to do so again in the current year;
- the Council has an increasingly high level of usable reserves, partly because of its continued revenue and capital underspends;
- the Council has a good track record of collecting its council tax; and
- the Council's level of borrowing has remained relatively stable, over the last four years.

Detailed report

The Council has a strong financial position, with an increasingly high level of usable reserves, a relatively stable level of borrowing, and significant budget underspends in recent years

The Council's medium term financial plan does not fully reflect its record of significant underspending nor fully reflect its transformation plans

Why strategic financial planning is important

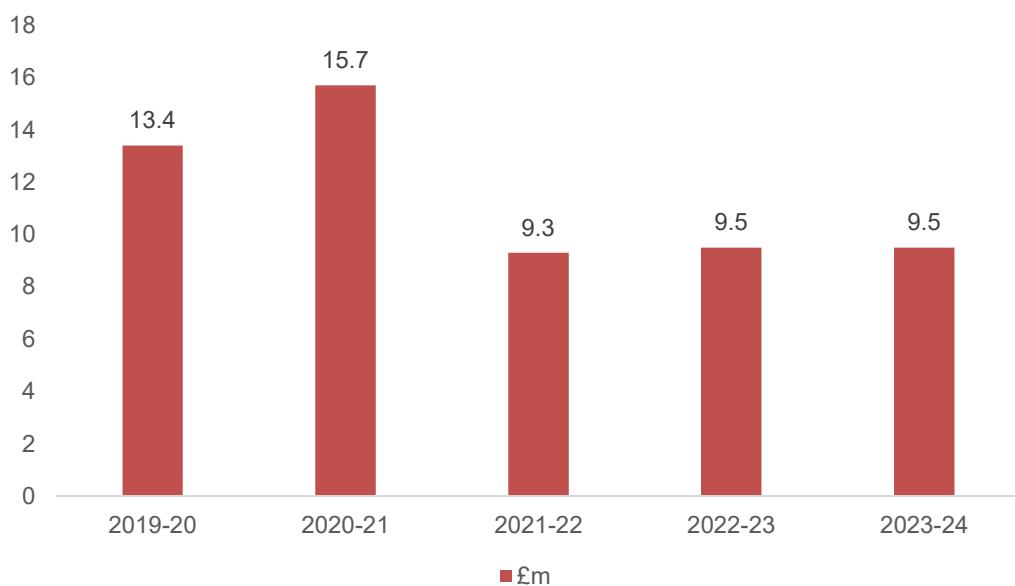
- 6 A clear and robust financial strategy is important to identify the likely level of funding available to a council, as well as the anticipated level of demand for, and cost of, providing services. Given the recent and anticipated funding pressures facing all councils it is also important that every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

What we found

- 7 We found that the Council's medium term financial plan does not fully reflect its record of significant underspending nor fully reflect its transformation plans. We reached this conclusion because:
- The Council has a Medium Term Financial Plan (MTFP) which covers the period 2019-2024, which it set in February 2019. At the time of our fieldwork the Council was reviewing the MTFP which was due to be considered by the Council in February 2020.
 - The Council has repeatedly underspent both its revenue and capital budgets for the last few years which has contributed to its increasing level of usable reserves to over £119 million, most notably in the current financial year 2019-20, where these reserves have increased by £20.7 million.
 - When calculating the budget in the Council's MTFP, the budget for the previous year is used as a base to forecast the budget needed for the future year. The Council does not fully consider the previous year's actual net expenditure to inform its budget-setting process.
 - The Council's MTFP estimates a funding gap of £57.4 million in revenue income against planned expenditure from 2019-20 to 2023-24.

Exhibit 4: projected funding gap⁵

The following graph shows the revenue funding gap that the Council has identified for each of the five years 2019-20 through to 2023-24, totalling £57.4 million.



- The Council's MTFP is modelled on a rise in Council Tax of 6.95% in 2019-20 and then 4.52% increase each year to 2023-24.
- In June 2019, Cabinet agreed a transformation programme, known as '#teamcaerphilly – Better Together', which is an integrated programme of social, economic and environmental regeneration projects that aim to reshape the Borough. The programme, however, when published in June 2019 contained only high level links with its financial plans. Council officers told us that as the programme develops it will include more detailed information relating to financial benefits linked to the MTFP.
- In December 2019 the Welsh Government announced a 4.1% increase in the Council's Revenue Support Grant for 2020-21.
- Cabinet and Full Council considered the implications of the 4.1% increase during February 2020, as part of the approval of the 2020-21 budget.

⁵ Source: Caerphilly County Borough Council's Medium Term financial Plan 2019/20 to 2023/24 – February 2019.

In recent years the Council has underspent both its revenue and capital budgets and it 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.

What we found

9 We found that, in recent years, the Council has underspent both its revenue and capital budgets and it expects to underspend its 2019-20 budget. We reached this conclusion because:

- For the three financial years to 2018-19 the Council has underspent its revenue budget totalling £31.1 million ([Exhibit 5](#)). Over the same period the Council underspent its capital budget by £90 million.
- The Council reported to the January 2020 meeting of its Policy and Resources Committee a forecast for 2019-20 of:
 - a £2.1 million underspend on its net revenue expenditure; and
 - a £54.6 million (77%) underspend on its £71.15 million planned capital expenditure.
- Whilst the report to the Policy and Resources Committee gave an update on each directorate's progress in delivering their programme of planned savings, this was in narrative form and it was not possible to evaluate an overall position with any certainty.

Exhibit 5: amount of overspend/underspend relative to total net revenue budget

	Original Budget net revenue budget (£Million)	Actual Outturn net revenue (£Million)	Amount of overall (underspend) / overspend (£Million)	Percentage (underspend) /overspend
2016-17	324.391	313.689	(10.7)	(3.3)%
2017-18	325.431	316.748	(8.7)	(2.7)%
2018-19	332.043	320.309	(11.7)	(3.5)%
2019-20 ⁶	337.745	335.633	(2.1)	(0.6)%
Total	1,319.610	1,286.379	(33.2)	(2.5)%

The Council has a good track record of achieving almost all its planned savings in the last two years and expects to do so again in the current year

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 the Council has delivered almost all its planned savings in the last two years and it expects to do so again in the current year. We reached this conclusion because:
- the Council has a robust and detailed process for devising and monitoring the delivery of its programme of planned savings; and
 - the Council has reported the following planned savings:
 - in 2017-18, £8.9 million (98.5%) of the planned £9 million;

⁶ Source: the forecast underspend of £2.1 million, per the Council's Revenue Budget Monitoring Report to its Policy and Resources Committee in January 2020.

- in 2018-19, £6.4 million (94.3%) of the planned £6.8 million;
- in 2019-20, £13.2 million (95%) is forecast of the planned £13.9 million; and
- in 2020-21 the Council plans to make savings of £15.7million⁷.

Exhibit 6: savings delivered during 2018-19 as a percentage of planned savings

£6.8m	£6.4m	£0.4m	94%
Total planned savings	Planned savings delivered	Planned savings not delivered	Percentage savings achieved

The Council has an increasingly high level of usable reserves, partly because of its continued revenue and capital underspends

Why sustainable management of reserves is important

- 12 Healthy levels of usable reserves are an important safety net to support financial sustainability. As well as being available to fund unexpected funding pressures, usable 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 the Council has an increasingly high level of usable reserves, partly because of its continued revenue and capital underspends. We reached this conclusion because:
- The Council has a reserves strategy and presents updates on the use of its reserves to scrutiny and Cabinet prior to the final agreement of its annual budget.
 - The Council categorises its usable reserves into:
 - General Fund Balance.
 - Service Area Balances.
 - Usable Capital Receipts.
 - Capital Grants Unapplied.
 - DLO / DSO Reserves.

⁷ Source: Caerphilly County Borough Council's Medium Term Financial Plan, February 2019.

- Capital Earmarked Reserves.
- Other Earmarked Reserves.
- School Earmarked Reserves.
- Insurance Earmarked Reserves.
- Council officers told us that while the rationale for these categories aids their financial management, ultimately, the use of the balances is interchangeable.

Exhibit 7: year-end usable reserves⁸

	Value of usable reserves at year end (£Million)	Value of increase (£Million)	Percentage increase in year	Usable reserves as a percentage of net revenue budget
2015-16	82.2			
2016-17	89.0	6.8	8.3%	27.4%
2017-18	91.6	2.6	2.9%	28.1%
2018-19	98.3	1.9	2.1%	29.6%
2019-20	119.0	20.7	21.1%	35.2%

- We understand that in recent years the Council has used internal borrowing to cover the costs of some capital projects. A report to the Council's Policy and Resources Committee in January 2020⁹ stated that unless the policy is prudent, the Council will no longer adopt the policy of internal borrowing..

⁸ Source: mid-year update on Reserves to Policy and Resources Committee on 14 January 2020.

⁹ Source: Treasury Management Annual Strategy, Capital Finance Prudential Indicators and Minimum Revenue Provision Policy for 2020/21 report to the Policy and Resources Committee on 14 January 2020.

Exhibit 8: amount of reserves vs annual budget, 2018-19



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 the Council has a good track record of collecting its council tax. We reached this conclusion because:
- The Council agreed an increase of 6.95% for council tax for the 2019-20 financial year. Its Medium term Financial Plan contains a planning assumption of an annual increase of 4.52% for each of the following four years. The Council sets the increase in council tax each year.
 - The Council has maintained a low amount of council tax written off as a percentage of total council tax debt since 2014-15.
 - Since 2012-13, the Council has seen a gradual reduction in the value of council tax arrears brought forward at 1 April each year. At the start of 2012-13, the actual arrears value was near £4 million and for 2018-19 the value of arrears had reduced to £3.3 million.
 - Collectable council tax is higher than the Council's budgeted council tax income because it sets an element of anticipated non-payment within its budgeted revenue. The Council's net revenue budget for 2019-20, in its MTFP, February 2019, valued this council tax contingency for non-payment at £1.05 million.

Exhibit 9: council tax collection rates



Cash collected from Council Tax at 31 March 2019 was **£64.5m** (97%) against a collectable debit of **£66.5m¹⁰**

The Council's level of borrowing has remained relatively stable, over the last four years

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's level of borrowing has remained stable over the last four years. We reached this conclusion because:
- **Exhibit 10** below shows that the Council's total level of borrowing has remained relatively stable over the past four years. This level of borrowing is within the limits set according to the Local Government Act 2003 and the CIPFA Prudential Code.
 - The Council does not have any commercial investments income funded by borrowing.
 - As part of its Transformation Strategy, the Council is developing a Commercial & Investment Strategy. This will set out a new approach to commercialisation as a means to increase income to support the Medium

¹⁰ Source: Welsh Government, Stats Wales - Council Tax Collection Rates in Wales: 2018-19.

Term Financial Plan and may help discretionary services, in particular, remain financially resilient.

- The Council has reviewed its portfolio of investments to achieve a higher rate of return. The Council has invested £20m into long-term Strategic Pool Funds with the aim of generating additional annual investment income of £718k.

Exhibit 10: Council borrowing¹¹

Financial year	Long term borrowing as at 31 March (£million)	Short term borrowing as at 31 March (£million)	Total (£million)
2015-16	287.5	7.7	295.2
2016-17	282.3	14.1	296.4
2017-18	279.4	10.8	290.2
2018-19	277.1	6.5	283.6

¹¹ Source: Caerphilly County Borough Council's annual statement of accounts.

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