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# Financial Sustainability Assessment – **Conwy County Borough Council**

Audit year: 2019-20

Date issued: March 2020

Document reference: 1795A2020-21



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The team who delivered the work comprised Jeremy Evans and Amanda Hughes 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
  - Borrowing

#### Exhibit 1: about Conwy County Borough Council

This exhibit sets out some background information on Conwy County Borough Council's (the Council's) net revenue budget, the number of staff it employs and the value of its fixed assets.



The Council's net revenue budget for 2019-20 was £220 million



The Council employs around 5,200 people



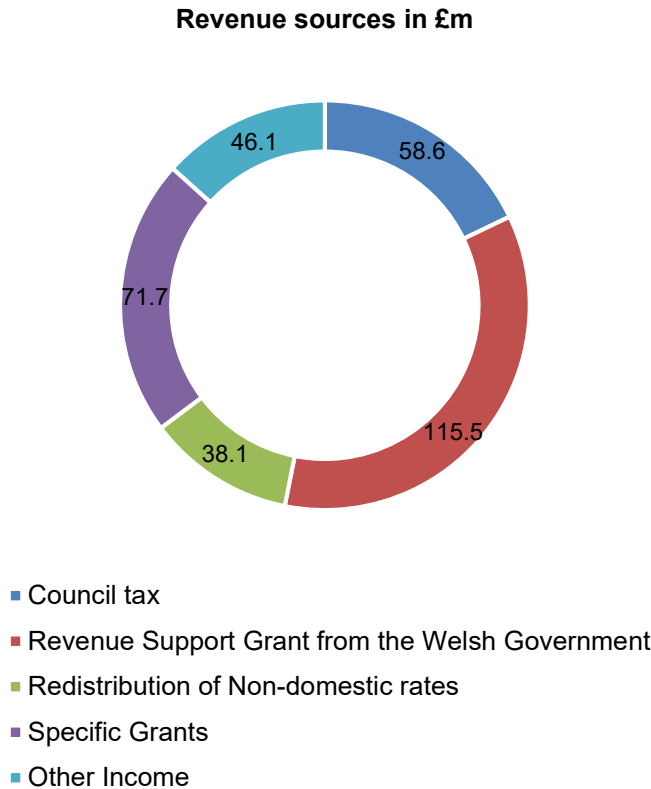
The Council's fixed assets as at 31 March 2019 were £437 million

Source: Conwy County Borough Council

- 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.

## Exhibit 2: the Council's sources of revenue

The pie chart below shows how much money the Council received from different funding sources during 2018-19.



Source: Conwy County Borough Council

4 We undertook the review during the period July to November 2019.

## What we found

- 5 Overall, we found that: In recent years the Council's use of reserves to fund its revenue budget has reduced their levels significantly; the Council recognises this is unsustainable and has taken steps to improve its budget outturn position and savings delivery. We reached this conclusion because:
- the Council has a clear financial strategy, but needs to plan more for the longer term and focus on improving resilience by building its reserves;
  - the Council has overspent its planned budget in some areas, common to other councils; however, whilst it has taken steps to understand and contain this overspend, key demand-led service areas will remain a challenge;

- 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;
- the Council's use of reserves to fund revenue expenditure has reduced its reserves, the Council's resilience to service risk and its overall sustainability;
- council tax collection rates remain strong and council tax as a proportion of the Council's revenue budget has increased over time; and
- the Council has no commercially focused projects and as such no associated borrowing and overall borrowing remains stable.

# Detailed report

In recent years the Council's use of reserves to fund its revenue budget has reduced their levels significantly; the Council recognises this is unsustainable and has taken steps to improve its budget outturn position and savings delivery

The Council has a clear financial strategy, but needs to plan more for the longer term and focus on improving resilience by building its reserves

## Why strategic financial planning is important

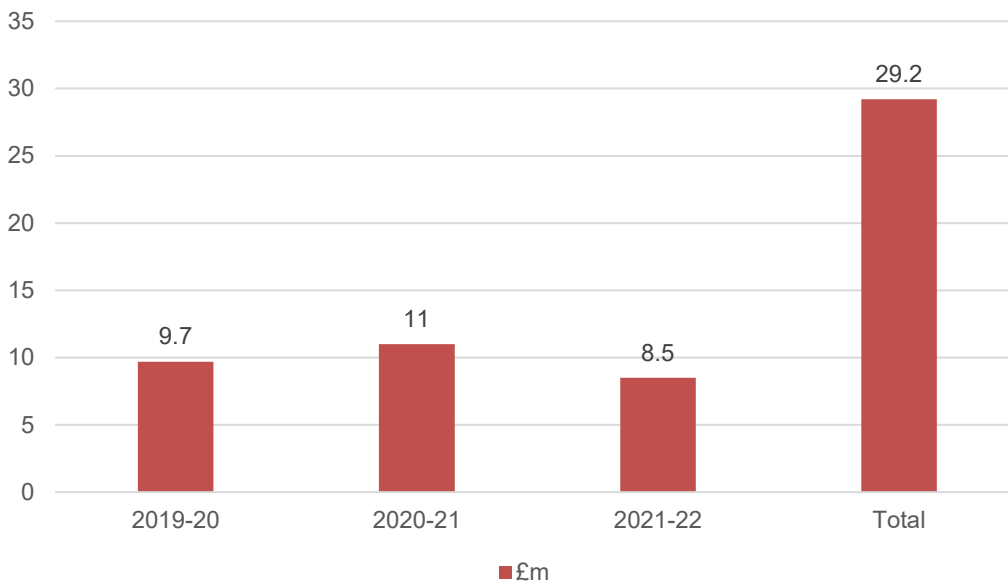
- 6 A clear and robust financial strategy is important to identify the likely level of funding available to a council, as well as the anticipated level of demand for, and cost of, providing services. Given the recent and anticipated funding pressures facing all councils it is also important to identify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

## What we found

- 7 The Council has a clear and well-articulated short/medium-term financial strategy. The Council needs to plan further ahead and focus on improving its resilience. We reached this conclusion because:
  - prior to the provisional settlement the Medium-Term Financial Strategy (MTFS) 2020-21 clearly set out a budget gap of £12.1 million. The forecast for the following year is just over £10 million. Longer-term projections would be useful in helping the Council to plan further ahead.
  - the Council is predicting 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 multi-strand 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.

### Exhibit 3: projected funding gap

The following graph shows the funding gap that the Council has identified for this year, and the following two years.



Source: Conwy County Borough Council MTFS

**The Council has overspent its planned budget in some areas, common to other councils; however, whilst it has taken steps to understand and contain this overspend, key demand-led service areas will remain a challenge**

#### 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 and manage a balanced budget. Significant patterns of overspending and underspending may be reducing the ability of a council to deliver its key objectives or meet its statutory responsibilities.



## What we found

- 9 Overall 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. We came to this conclusion because:
- overall the Council has had small net overspends over the last three years, brought about by service pressures. 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.
  - in the current year (2019-20) pressures have been identified in key areas such as specialist education services, out-of-county placements (Children's Social Care) and Adult Social care. In September 2019 the Council highlighted the potential of a £1.8 million overspend for 2019-20. The Council has developed a recovery plan designed to protect services from further in-year budget reductions/cuts.

### Exhibit 4: 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 two years and the projected year-end outturn position as at 30 November 2019.

	<b>Original Budget net revenue budget</b>	<b>Actual Outturn net revenue budget</b>	<b>Amount of overall surplus/ overspend</b>	<b>Percentage difference from net revenue budget</b>
2017-18	£206.1m	£206.4m	£0.3m overspend	0.1% overspend
2018-19	£212.1m	£212.5m	£0.4m overspend	0.2% overspend
2019-20	£220.0m	£220.5m	£0.58m overspend	0.2% overspend

Source: Conwy County Borough Council revenue budget monitoring reports

## The Council's delivery of its planned savings has improved but identifying and delivering savings will be more challenging going forward

### 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 an improving track record in delivering the specific savings (budget reductions) it has identified. However, should the need to reduce budgets continue, identifying and delivering these will become more challenging. We reached this conclusion because:
- the Council has applied budget reductions of £51.9 million over the last six years. In 2015-16 the Council reported that it achieved all its planned savings, but it could not explicitly demonstrate this. However, over successive years 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 it anticipates delivering 95% of its 2019-20 planned savings. This improvement has been reflected in the performance targets the Council sets itself within its MTFS.
  - in common with other councils, identifying and delivering savings is becoming more challenging.

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

The following exhibit sets how much money the Council intended to save through planned savings during 2018-19 and how much of this it saved.

<b>£6.15m</b>	<b>£5.65m</b>	<b>£0.5m</b>	<b>92%</b>
Total planned savings	Planned savings delivered	Planned savings not delivered	Percentage savings achieved

Source: Conwy County Borough Council Revenue budget monitoring 2018-19 outturn

## The Council's use of reserves to fund revenue expenditure has reduced its reserves, the Council's resilience to service risk and its overall sustainability

### 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 the Council has reduced its dependency on reserves but still used reserves to fund revenue budget pressures in the past year, which is not sustainable. The Council's low reserve level weakens the ability of the Council to deal with unforeseen budget pressures in future years. We reached this conclusion because:
- over the last two years, planned use of £6.3 million of reserves has helped 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.
  - the Council's projected year-end position will result in the unplanned use of £1 million of reserves. If not mitigated by other sources of income, this will reduce the Council's reserves to around £10 million (4.5% of NRB) of which unearmarked reserves are expected to be around £1 million at the end of March 2020 (0.5% of NRB). The Council acknowledges that using reserves in this way will again limit the Council's resilience to service risk and its overall sustainability.
  - 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 6: amount of reserves vs annual budget, 2018-19

This exhibit shows the amount of usable reserves the Council had during 2018-19 compared with its net revenue budget for the same year.



Source: Conwy County Borough Council Financial Sustainability Self-Assessment

### Council tax collection rates remain strong and council tax as a proportion of the Council's revenue budget has increased over time

#### 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 council tax with performance increasing over a 15-year period. We reached this conclusion because:
- the Council has achieved good council tax collection rates in recent years, with 2018-19 performance being the best for 15 years at 97.8%; and
  - council tax income in Conwy has increased from 22% of net revenue sources in 2010-11 to 30% in 2019-20 (Redistribution of Non-Domestic Rates by the Welsh Government, Revenue Support Grant and Council Tax).

## Exhibit 7: council tax collection rates

This exhibit shows the percentage of council tax due that the Council collected during 2018-19.



Cash collected from council tax at 31 March 2019 was £64.08 million (97.8%) against a collectable debit of £65.55 million

Source: Statistics for Wales – council tax collection rates in Wales 2018-19.

## The Council has no commercially focused projects and as such no associated borrowing and overall borrowing remains stable

### 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 has only limited commercial income and associated borrowing. Other borrowing is affordable. We reached this conclusion because:

- the Council has not borrowed to fund commercial investment.
- the Council has an approved Treasury Management Strategy and has set Prudential Indicators 2019-20. The council continues to benefit from low interest rates.
- the Council is not taking any long-term borrowing, except in respect of Local Government Borrowing Initiative Schemes (LGBI) and has repaid borrowing out of investments in order to reduce its exposure and to reduce interest costs.

- total borrowing at 31 March 2019 was £178 million. The Council can raise additional finance if required.

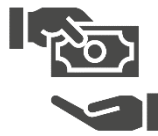
### Exhibit 8: Council borrowing

The exhibit below shows the total amount of money that the Council has borrowed to fund commercial investments, as well as the cost of all the borrowing that the Council has as a proportion of its net revenue budget.



**£0m**

Amount of borrowing to fund commercial investments



**6%**

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

Source: Conwy County Borough Council's Financial Sustainability Self-Assessment and statement of accounts 2018-19.



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