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# Financial Sustainability Assessment – **Flintshire County Council**

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The team who delivered the work comprised Jeremy Evans, Matthew Edwards and Mike Whiteley 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 Flintshire County Council

This exhibit sets out some background information on Flintshire County 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 £271m**



**The Council employs around 6,000 people**



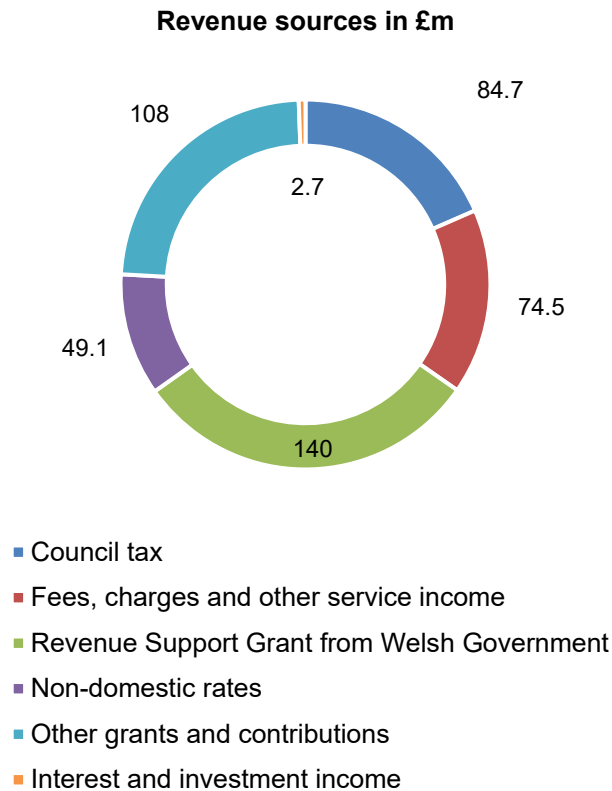
**The Council's fixed assets as at 31 March 2019 were £752m**

Source: Flintshire County 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: Flintshire County Council

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

## What we found

- 5 Overall, we found that: The Council takes a high-risk approach to its financial strategy and is not prepared to compromise the range, quality or safety of services; the resulting use of reserves to balance the budget is not sustainable. We reached this conclusion because:
- the Council has a clear, well communicated but high-risk financial strategy; it is not prepared to compromise the range, quality or safety of services to deliver a balanced budget;
  - the Council, having in the past, used a number of technical accounting adjustments and other sources of revenue to help balance the budget, is more likely to need to use reserves to offset overspends in the future, this is not sustainable;

- the Council has an improving track record of delivering planned savings, however, identifying and delivering savings will be more challenging going forward;
- reserve balances are reducing;
- council tax collection rates remain the best in Wales; and
- the Council has no commercial focused projects and overall borrowing remains low.

# Detailed report

The Council takes a high-risk approach to its financial strategy and is not prepared to compromise the range, quality or safety of services; the resulting use of reserves to balance the budget is not sustainable

The Council has a clear, well communicated but high-risk financial strategy; it is not prepared to compromise the range, quality or safety of services to deliver a balanced budget

## 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.

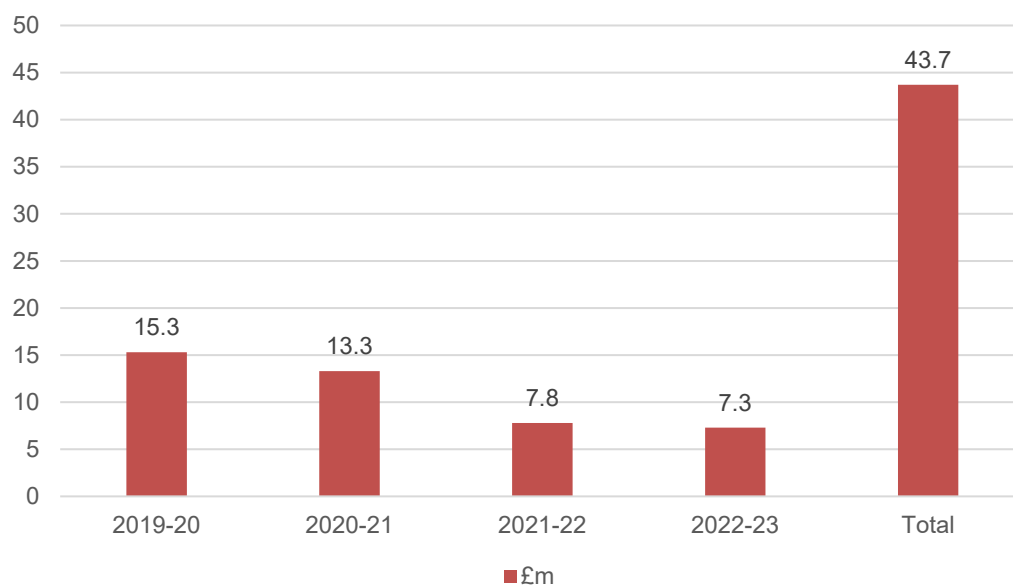
## What we found

- 7 The Council has implemented and continues to explore options to improve its financial resilience and address its significant budget gap, primarily the focus is on a detailed overview for 2020-21 with higher level forecasts for the next two years. Overall the Council has a strong approach to financial planning and clear financial strategy over the medium-term but reliance on lobbying Welsh Government for improved funding in order to set a balanced budget is high risk. We reached this conclusion because:
  - prior to the revised settlement the Medium-Term Financial Strategy (MTFS) 2020-21 clearly set out a budget gap of £13.3 million. The combined forecast for the next two years is just under £15 million;
  - the Council assesses the resilience of services to further budget reductions, this results in a risk rating that helps inform the Council's budget setting processes. The Council contends that the options to cut budgets whilst maintaining services at a level acceptable to communities and both safe and compliant with statute are now largely exhausted;
  - in addition, the Council is predicting that the projected budget gap will increase as some services such as Children's Services and school transport face significant cost pressures and cannot meet the increased demand within its set budgets. The Council has increased the budget provision in its draft budget for 2020-21;

- the Council has reduced its service budgets by a minimum of 30% over the past three years, (apart from Delegated Schools Budgets and Commissioned Social Care). Providing protection to some services means that others must absorb a greater level of budget reduction some up to 45%;
- the Council has undertaken significant service transformation to improve productivity in several areas by, implementing new service delivery models (leisure, libraries and facilities) and have realised some additional income; and
- in its MTFS the Council is clear that without additional funding there was a significant risk that it would not be able to meet its statutory obligations so set a balanced budget in 2020-21. This risk has been offset for this budget round by the increase in the settlement value announced on the 16 December 2019. Unless the settlement continues to be more favourable, there remains a risk that the Council is financially unsustainable in future years.

### Exhibit 3: projected funding gap

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



Source: Flintshire County Council MTFS



The Council, having in the past, used a number of technical accounting adjustments and other sources of revenue to help balance the budget, is more likely to need to use reserves to offset overspends in the future, this is not sustainable

#### 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 In recent years, the use of technical accounting adjustments has helped the Council generate small budget surpluses. However, in the current year significant overspends, brought about by increases in demand and market pressures, are likely to draw on reserves, weakening financial resilience. We reached this conclusion because:
- in 2017-18 the Council had a surplus of approximately £2.1 million of which £1.422 million was attributable to a gain arising from accounting adjustments. However, there were overspends in key areas such as school transport and out of county placements;
  - the Council reported a surplus of £600,000 in 2018-19 due to underspends in most service and corporate areas. However, as in the previous year the Council continued to face cost pressures resulting in overspends in school transportation and out of county looked after children placements;
  - for 2019-20 the Council is projecting an overall in-year overspend of potentially £3 million. The overspends are in the same demand led areas as previous years, school transport and out of county placements; and
  - the projected 2019-20 overspend will significantly impact on the Council's reserves position, reducing the amount of general reserves to £1.886 million (above the base level of £5.769 million).

#### 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.

	Original Budget net revenue budget	Actual Outturn net revenue budget	Amount of overall surplus/ overspend	Percentage difference from net revenue budget
2017-18	£255.1m	£253.0m	£2.1m surplus	0.8% underspend
2018-19	£264.3m	£263.7m	£0.6m surplus	0.2% underspend
2019-20	£271.4m	£273.5m	£1.9m overspend	0.7% overspend

Source: Flintshire County Council revenue budget monitoring reports

### The Council has an improving track record of delivering planned savings; however, 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 it has identified. However, should the need to reduce budgets continue, identifying and delivering these will become more challenging. We reached this conclusion because:

- in 2015-16 the Council reported that it achieved 83% of its planned savings. Over successive years the Council has improved its position, delivering 98% of its planned savings in 2018-19 and it anticipates delivering 95% of its 2019-20 planned savings. This improvement is reflected in the performance targets the Council sets itself within its MTFS; and
- 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>£5.5m</b>	<b>£5.4m</b>	<b>£0.1m</b>	<b>98%</b>
Total planned savings	Planned savings delivered	Planned savings not delivered	Percentage savings achieved

Source: Flintshire County Council Revenue budget monitoring 2018-19 outturn

## Reserve balances are reducing

### 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 on-going 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.

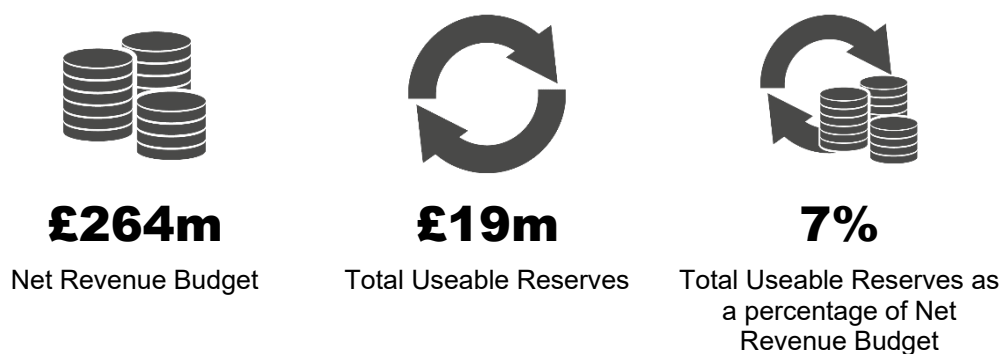
### What we found

- 13 We found that the Council has not made any unplanned use of reserves to fund revenue budget pressures in the past, however in-year overspends will result in the likely use of reserves in 2019-2020. We reached this conclusion because:
- 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 budget monitoring reports quarterly;
  - over the last three years the planned use of £6.5 million of reserves has been used to help set a balanced budget. In addition to the planned use of £2.2 million of reserves to balance the budget in 2019-20 there is likely to be a need to use reserves to cover in-year overspends;

- the Council's projected year-end position, if not mitigated by other sources of income, will reduce its general fund reserve to £1.886 million (above the base level of £5.769 million). The Council acknowledges that using reserves in this way will 'significantly limit the Council's resilience to service risk' and its overall sustainability; and
- following the revised settlement from Welsh Government, the Council is now not proposing to use reserves in its draft budget for 2020-21.

#### 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: Flintshire County Council Financial Sustainability Self-Assessment

## Council Tax collection rates remain the best in Wales

### 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 and its performance is the best in Wales. We reached this conclusion because:
- council tax income in Flintshire has increased from 23% of budget in 2010-11 to 31% in 2019-20 (Non-Domestic Rates, Revenue Support Grant and Council Tax). A broadly similar shift in funding from Revenue Support Grant to Council tax is evident in other Welsh Councils; and
  - for 2018-19 the Council maintained an in-year Council Tax collection rate of 98.2%. This is the best in-year collection rate in Wales.

## 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 £83.7m (98.2%) against a collectable debit of £85.2m

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

## The Council has no purely commercial focused projects, overall borrowing remains low

### 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 approved its Treasury Management Strategy 2019-20 and February 2019, setting out its commitment to ensure its borrowing strategy addresses the key issue of affordability without compromising the longer-term stability of its debt portfolio.
  - the Council generated income of £2.3million in 2018-19 from its longstanding commercial industrial units and its agricultural estates; and
  - the Council does not borrow to fund commercial investment but has used its borrowing powers to help it deliver its strategic objectives enabling it to

award loans to NEW Homes (the Council's housing subsidiary established for house building purposes).

### 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



**4.4%**

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

Source: Flintshire County Council Financial Sustainability Self-Assessment and statement of accounts 2018-19.



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