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# Financial Sustainability Assessment – **Pembrokeshire County 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 Alison Lewis, Jeremy Saunders and Tim Buckle under the direction of Huw Rees.

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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 Pembrokeshire County Council's (the Council) 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 £221.5 million**



**The Council employs around 5,700 people**



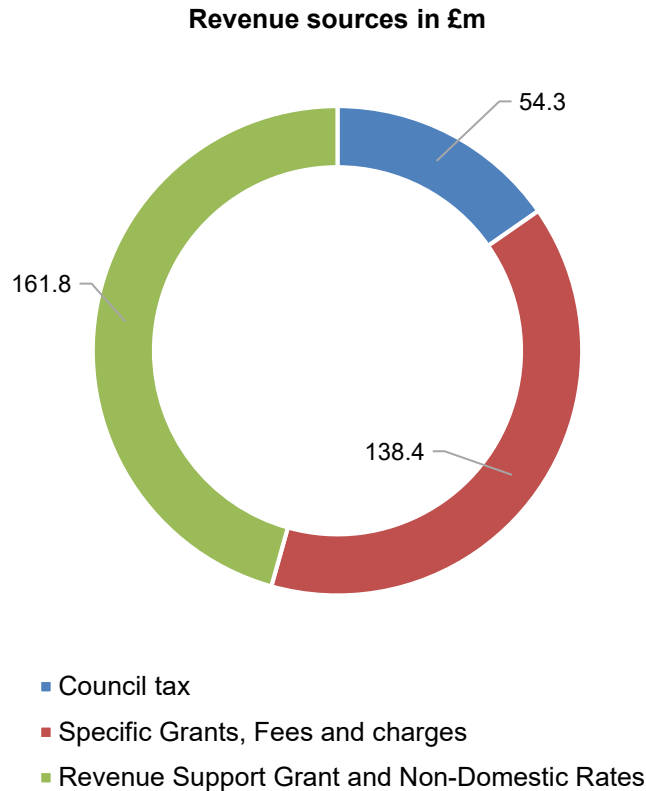
**The Council's fixed assets as at 31 March 2019 were £732 million**

Source: Pembrokeshire County Council Financial Sustainability Self-Assessment/  
Pembrokeshire County Council Annual Financial Report Including Statement of Accounts 2018-19

- 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: Figures derived from percentages provided by Pembrokeshire County Council as part of the Financial Sustainability Self-Assessment

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

## What we found

- 5 Overall we found that **the Council has managed its resources to cope with its financial pressures to date but faces significant challenges to meet its anticipated funding gap going forward**. We reached this conclusion because:
- the Council has a strategy to identify and address its financial challenges but this strategy will potentially become more challenging to deliver year on year;
  - in recent years the Council has reported relatively small overspends against its overall net revenue budget but there were significant overspends in some service areas;
  - the Council has had mixed success in delivering its planned savings;

- the Council's useable reserves have remained relatively stable and the Council does not have a track record of unplanned use of reserves to fund revenue expenditure;
- the Council has continued to achieve relatively high levels of council tax collection despite significant recent increases in council tax levels; and
- the Council's borrowing as a proportion of its net revenue budget has risen slightly in recent years and is projected to rise slightly again in 2020-21.

# Detailed report

The Council has managed its resources to cope with financial pressures to date but faces significant challenges to meet its anticipated funding gap going forward

The Council has a strategy to identify and address its financial challenges but this strategy will potentially become more challenging to deliver year on year

## Why strategic financial planning is important

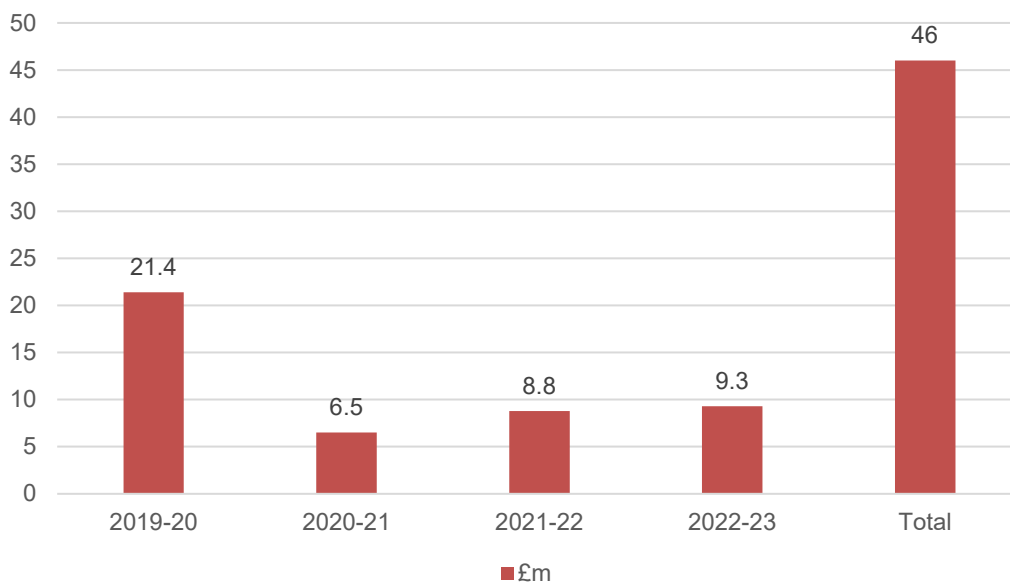
- 6 A clear and robust financial strategy is important to identify the likely level of funding available to a council, as well as the anticipated level of demand for, and cost of, providing services. Given the recent and anticipated funding pressures facing all councils it is also important to identify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

## What we found

- 7 We found that the Council has a strategy to identify and address its financial challenges but this strategy will potentially become more challenging to deliver year on year. We reached this conclusion because:
- the Council has identified a funding gap of £39.8 million up until 2022-23.
  - the Council has managed financial pressures to date without negatively impacting on its level of general fund reserves.
  - the Council has a Medium Term Financial Plan (MTFP) that identifies the Council's anticipated funding gap over next few years and which is based on reasonable assumptions.
  - the Council's intended approach from 2020-21 is to ask all services to absorb demand and inflationary pressures year on year, with the opportunity for services to make growth bids. Some services will also be asked to make additional savings of at least 20% as part of the Council's Service Prioritisation exercise. This is against a backdrop of an increasing number of services reporting overspends.
  - in common with other councils some service areas have seen significant real-terms reduction in their budget in recent years. The capacity of these service areas to continue to make year-on-year savings in real terms whilst continuing to deliver services is likely to be a major challenge for the Council.

### 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 based on a 4.9% increase in aggregate external funding for 2020-21 and a 2% increase for each of the following two years.



Source: Figures provided for 2019-20 – Financial Sustainability Self-Assessment, Pembrokeshire County Council

Figures for 2020-21, 2021-22 and 2022-23 from Pembrokeshire County Council, County Council Budget 2020-21 Summary Medium Term Financial Plan (Mtfp) 2020-21 to 2023-24, Report to Council 27 February 2020.



## In recent years the Council has reported relatively small overspends against its overall net revenue budget but there were significant overspends in some service areas

### 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 reported relatively small overspends against its overall net revenue budget, but there were significant overspends in some service areas. We reached this conclusion because:
- the Council has been able to achieve this position by collecting more council tax than it has budgeted for, securing additional funding from Welsh Government and through achieving savings in areas other than those that were planned.
  - there is an increasing trend of more departments overspending in recent years. This suggests that departments are finding it more difficult to manage ongoing real-terms reductions in funding for services and/or increasing demand pressures for some services.
  - there is a track record of overspends in the Education Services budget. For 2018-19 the Education Services budget was overspent by £1.7 million.
  - during 2018-19 there were also overspends in other service areas including:
    - Highways and Transportation Services;
    - Culture and Related Services; and
    - Planning and Development Services.

#### 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 also the year to date as at 4 November 2019.

Year	Original net revenue budget £m	Actual outturn net revenue £m	Amount of overall surplus/overspend £m	Percentage difference from net revenue budget
2017-18	204.8	204.8	0.05m surplus	0.02% surplus
2018-19	215.5	216.1	0.6m deficit	0.25% deficit
2019-20	221.5	223.2	1.7m deficit	0.79% deficit

Source: Pembrokeshire County Council Financial Sustainability Self-Assessment/Budget Monitoring Report – Period 5 2019-2020 Report to Cabinet, 4 November 2019

## The Council has had mixed success in delivering 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 the Council has had mixed success in delivering its planned savings. We reached this conclusion because:
- the Council's MTFP is predicated on the Council achieving 80% of planned savings;
  - the Council did not meet its savings target in 2017-18;
  - the Council delivered against its 80% savings targets in 2018-19 achieving 83.5%;
  - in some service areas there were significant levels of undelivered savings in 2018-19 including Adult Social Care, Planning and Development Services,

Environmental Services and Other Central, Corporate and Democratic Services; and

- the Council is predicting that it is unlikely to meet its savings target for 2019-20. For 2019-20 the Council predicts that of £15.7 million planned savings, £3.0 million (19.4%) will not be achieved with a further £5.9 million (37.6%) projected to be only partially achieved.

#### 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 actually saved.

<b>£11.6m</b>	<b>£9.7m</b>	<b>£1.9m</b>	<b>83.5%*</b>
Total planned savings	Planned savings delivered	Planned savings not delivered	Percentage savings achieved

(\*The Council set itself a target to deliver 80% of its planned savings during 2018-19)

Source: Pembrokeshire County Council Financial Sustainability Self-Assessment

### The Council's useable reserves have remained relatively stable and the Council does not have a track record of unplanned use of reserves to fund revenue expenditure

#### 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.

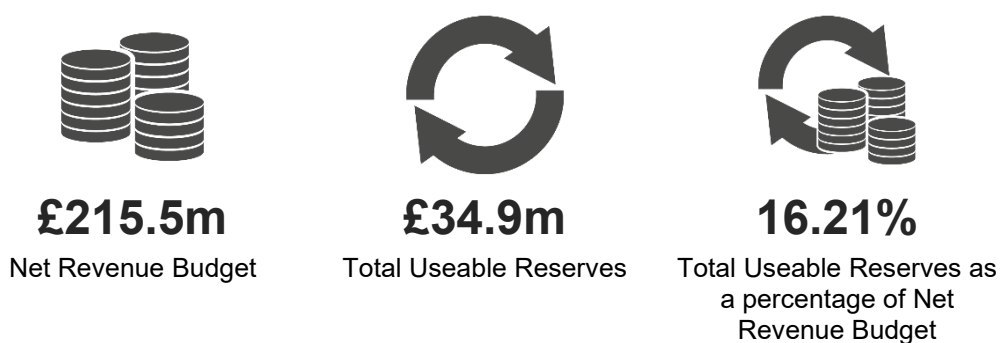
#### What we found

- 13 We found that the Council's useable reserves have remained relatively stable and the Council does not have a track record of unplanned use of reserves to fund revenue expenditure. We reached this conclusion because:
- the Council has useable reserves of £34.9 million at March 2019, this was equivalent to 16.21% of its net revenue budget;
  - the Council's general reserve fund was £7 million at March 2019 and has remained at £7 million since 2016-17;

- the Council plans to increase reserves to £38.2 million by March 2020, including a substantial increase in its Transformaion Reserve from a VAT refund and NNDR rebate during 2018-19;
- whilst the level of reserves has remained stable, the ratio of useable reserves has declined by a small margin in recent years due to increases in the Council's revenue budget; and
- the Council has a track record of not relying on unplanned use of reserves to fund revenue expenditure although it did make make a planned use of additional funding from its second homes council tax premium to balance its budget during 2017-18.

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

### The Council has continued to achieve relatively high levels of council tax collection despite significant recent increases in council tax levels

#### 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 continued to achieve relatively high levels of council tax collection despite significant recent increases in council tax levels. We reached this conclusion because:
- the Council has a good track record of collecting council tax and for 2017-18 and 2018-19, although the collection rate for 2018-19 (97.9%) was slightly lower than for 2017-18 (98.3%).
  - for 2018-19 the Council increased council tax by 12.5%, and for 2019-20 it was increased by 9.92%.
  - council tax has increased as a percentage of the Council's revenue income since 2008-09 whilst the the amount of Revenue Support Grant as a percentage of the Council's income has declined.
  - the Council has introduced a second homes council tax premium. Part of the income raised from this was used to increase the Council's revenue budget for 2017-18 and part of it was allocated for the provision of affordable housing. In future years the Council intends to allocate the income to affordable housing (50%) and community enhancement (50%) rather than use it to fund revenue expenditure.
  - the Council has adopted a full-cost recovery policy for fees and charges across all services.

## Exhibit 7: Council tax collection rates

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



Income collected from council tax at 31 March 2019 was 97.9% against a collectable debit of £63.0m

Source: Council Tax Collection Rates in Wales: 2018-19, Statistics for Wales, Welsh Government, 11 June 2019

## The Council's borrowing as a proportion of its net revenue budget has risen slightly in recent years and is projected to rise slightly again in 2020-21

### 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 borrowing as a proportion of its net revenue budget has risen slightly in recent years and is projected to rise slightly again in 2020-21. We reached this conclusion because:
- the Council used a significant proportion of its capital reserves to fund Band A of its 21st Century Schools' programme. Band B of the programme and the Council's ambitions in relation to regeneration will require prudential borrowing.
  - recognising the need for a prudent approach to borrowing the Council has adopted a capital financing costs cap of £14 million per annum.
  - the Council has not undertaken any borrowing to fund commercial investments.

### 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



**4.59%**

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

Source: Pembrokeshire County Council Financial Sustainability Self-Assessment

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