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Financial Sustainability Assessment – Carmarthenshire County Council

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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 fixed assets.



The Council's net revenue budget for 2019-20 was £351m



The Council employs around 9,000 people



The Council's fixed assets as at 31 March 2019 were £1,366m

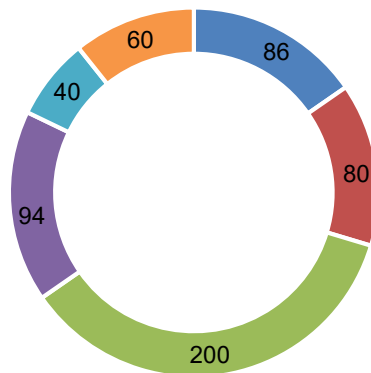
Source: Carmarthenshire County Council website

- 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.

Revenue sources in £m



- Council tax
- Fees, charges and other income
- Revenue Support Grant from Welsh Government
- Specific Grants
- Housing Rents
- Non-Domestic Rates

Source: Carmarthenshire County Council

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

What we found

5 Overall we found that: **The Council has maintained a sustainable financial position to date but will need to continue to develop its approach to delivering savings in light of anticipated budget pressures.** We reached this conclusion because:

- the Council's strategy has helped it to maintain a strong financial position to date;
- in recent years the Council has reported overspends in some departments and schools which have been addressed through the use of departmental reserves but in 2019-20 is predicting a significant overspend against its overall net revenue budget;

- the Council delivered most of its planned savings for 2017-18 and 2018-19 but is projected to deliver less of its planned savings for 2019-20;
- the Council has a high level of useable reserves that have increased in recent years but it plans to reduce these significantly over the next two years to fund its capital programme;
- council tax collection rates have improved and council tax as a percentage of gross revenue budget has generally increased in recent years; and
- the Council's capital interest costs as a percentage of net revenue budget are predicted to increase as the Council plans to borrow funds to support its capital programme.

Detailed report

The Council has maintained a sustainable financial position to date but will need to continue to develop its approach to delivering savings in light of anticipated budget pressures

The Council's strategy has helped it to maintain a strong financial position to date

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

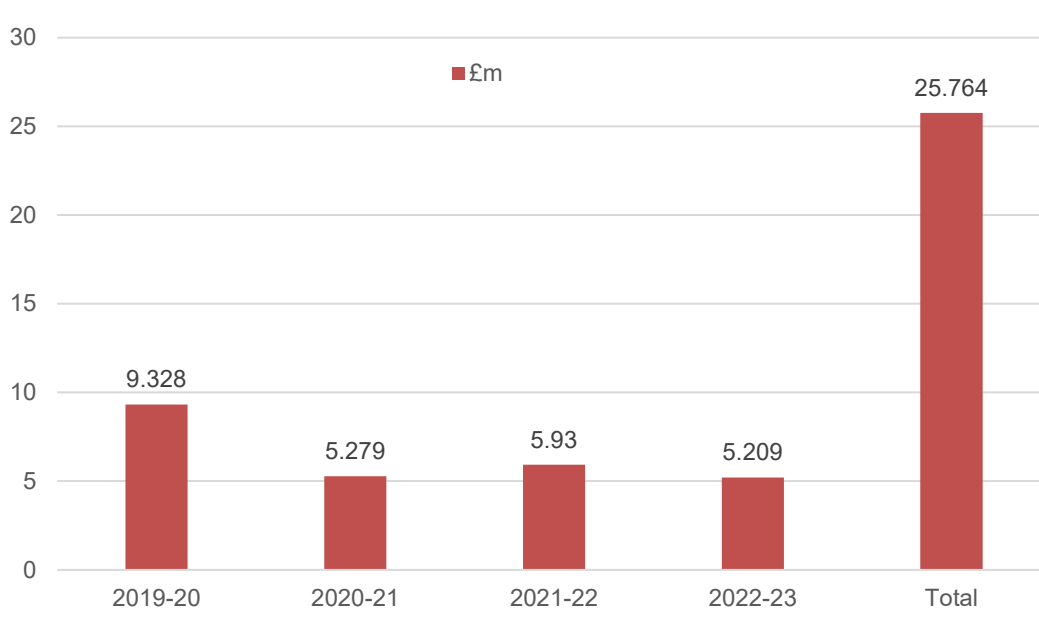
- 7 We found that the Council's strategy has helped it to maintain a strong financial position to date. We reached this conclusion because:
- the Council's budget strategy is to allow for funding of necessary pressures/forecast changes in demand to develop a 'budget gap' which is then addressed through a mix of efficiencies, service reductions/closures, income generation or increases in council tax.
 - in December 2019 the Welsh Government announced a 4.4% increase to the Council's revenue support grant for 2020-21. The Council updated its Medium Term Financial Plan in January 2020 to take account of this improved settlement.
 - the Council has identified a funding gap of £16.4 million up until 2022-23. This gap assumes an annual increase in Welsh Government Funding of 2% per annum from 2021-22. This has reduced by £8.7 million from previous predictions as a result of the improved settlement received for 2020-21.
 - the 2020-21 proposed budget includes £7.4 million for departmental growth bids. However, as at January 2020 departments have submitted growth bids amounting to £12 million. The Council will need to prioritise the bids received in allocating the available funding to departments.
 - 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.

- the Council allows individual departments to keep 50% of any in-year underspends to encourage prudent financial management.

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: Carmarthenshire County Council.

2019-20 figures from Report to Council, 20 February 2019 – Revenue Budget Strategy 2019-20 to 2021-22.

2020-21 figures from report to Executive Board 6 January 2020 – Revenue Budget Strategy 2020-21 to 2022-23.

In recent years the Council has reported overspends in some departments and schools which have been addressed through the use of departmental reserves but in 2019-20 is predicting a significant overspend against its overall net revenue 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 reported overspends in some departments and schools which have been addressed through the use of departmental reserves but in 2019-20 is predicting a significant overspend against its overall net revenue budget. We reached this conclusion because:
- in 2017-18 and 2018-19 the Council has reported small underspends against its overall net revenue budget.
 - there have been overspends in some departments which have used departmental reserves to address them.
 - generally overspends have been seen in some demand led services.
 - in 2019-20 the Council is currently predicting a departmental expenditure deficit of £5 million. £4 million of this deficit relates to Education and Children's services with schools' delegated budgets due to overspend by £3 million. The Council is currently working with many schools in an attempt to identify the root causes of predicted overspends and developing financial recovery plans for individual schools where needed.

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 30 September 2019.

	Original Budget net revenue budget	Actual Outturn net revenue budget	Amount of overall surplus/overspend	Percentage difference from net revenue budget
2017-18	£334.2m	£333.5m	£0.7m underspend	0.2% underspend
2018-19	£345.8m	£345.2m	£0.6m underspend	0.08% underspend
2019-20	£351.3m	£355.0m	£3.7m overspend	1.0% overspend

Source: Carmarthenshire County Council – Budget monitoring reports

The Council delivered most of its planned savings for 2017-18 and 2018-19 but is projected to deliver less of its planned savings for 2019-20

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 The Council delivered most of its planned savings for 2017-18 and 2018-19 but is projected to deliver less of its planned savings for 2019-20. We reached this conclusion because:
- in 2017-18 the Council delivered £5.6 million of savings against a target of £6.9 million.

- in 2018-19 the Council delivered £7.392 million of savings against a target of £8.046 million.
- the Council is predicting that it will achieve £5.8 million of savings against a target of £8.9 million. Of the projected undelivered savings £2.1 million are from the schools delegated budget and £391,000 are from the Communities Directorate budget.

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.

£8.046m	£7.392m	£0.654m	91.8%
Total planned savings	Planned savings delivered	Planned savings not delivered	Percentage savings achieved

Source: Carmarthenshire County Council Financial Sustainability Self-Assessment

The Council has a high level of useable reserves that have increased in recent years but it plans to reduce these significantly over the next two years to fund its capital programme

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.

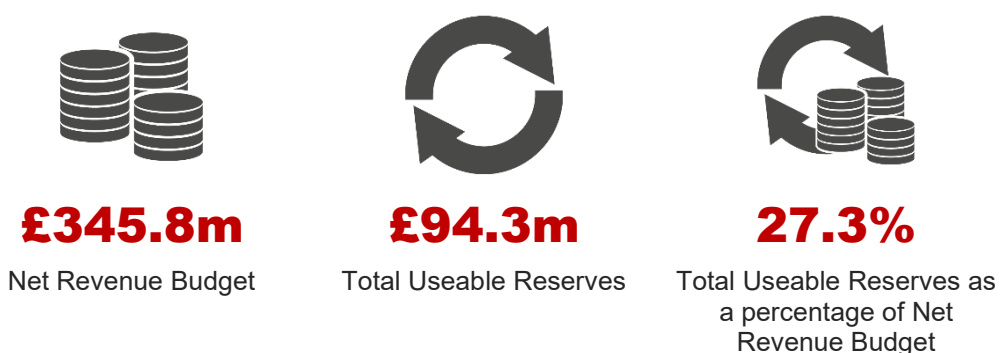
What we found

- 13 We found that the Council has a high level of useable reserves that have increased in recent years, but it plans to reduce these significantly over the next two years to fund its capital programme. We reached this conclusion because:
- the Council has £94.3 million of useable reserves including a General Fund Reserve of £10.4 million as at 31 March 2019.

- the Council's useable reserves, including its General Fund Reserve, have increased from £74.9 million to £94.3 million between 1 April 2016 and 1 April 2019.
- the Council's general reserve fund was £8.8 million as at 31 March 2016. Between 1 April 2016 and 31 March 2019 this has increased to £10.4 million although it is expected to reduce to £9.9 million as at 31 March 2020. It is planned that this reserve will remain at this level for the next two years.
- School Balances amounted to £3.7 million as at 31 March 2016. Between 1 April 2016 and 31 March 2019 this has reduced to a deficit position of £400,000 because of the need to fund unplanned overspends on the delegated schools' budget. A further deterioration of £3 million is expected in this reserve by 31 March 2020. The Council plans to reduce the expected deficit reserves by £1 million in 2020-21 and 2021-22.
- the Council plans to use a high percentage of its earmarked reserves to help fund its capital programme. The Council is predicting that earmarked reserves will reduce to £20.6 million by 31 March 2022.
- the Council does not have a track record overall of making unplanned use of reserves to fund revenue expenditure.
- the Council allows departments to keep 50% of any departmental underspends in a departmental reserve. Some services have used departmental reserves to balance their budgets in 2018-19.

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: Carmarthenshire County Council Financial Sustainability Self-Assessment

Council tax collection rates have improved and council tax as a percentage of gross revenue budget has generally increased in recent years

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 Council tax collection rates have improved and council tax as a percentage of gross revenue budget has generally increased in recent years. We reached this conclusion because:
- council tax collection rates for the Council have improved from 97.1% in 2016-17 to 97.6% in 2018-19;
 - council tax as a proportion of gross revenue budget was 16.02% in 2017-18, 16.82% in 2018-19 and 17.3% in 2019-20; and
 - Revenue Support Grant as a proportion of gross revenue budget was 49.2% in 2017-18, 50.7% in 2018-19 and 49.7% in 2019-20.

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 **£93.128m** (97.6%) against a collectable debit of **£95.375m**

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

The Council's capital interest costs as a percentage of net revenue budget are predicted to increase as the Council plans to borrow funds to support its capital programme

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 capital interest costs as a percentage of net revenue budget are predicted to increase as the Council plans to borrow funds to support its capital programme. We reached this conclusion because:
- total borrowing for the Council amounted to £416.1 million of which £8.4 million has less than one year to be repaid at 31 March 2019;
 - during 2018-19 the Council took out £20 million of new borrowing: 98.2% of total borrowing is at a fixed rate;
 - the Council's authorised borrowing limit stands at £536 million, as at 31 March 2019 the Council had borrowed a total of 77.6% of its borrowing limit;
 - the Council's Capital Programme includes plans to borrow a further £77.3 million over the period 2019-20 to 2021-22; and
 - the Council predicts that its capital interest costs as a proportion of its Net Revenue Budget are predicted to rise from 5.1% in 2019-20 to 6.3% by 2021-22.

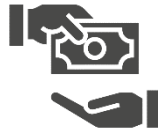
Exhibit 8: Council borrowing

The exhibit below shows 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



5.15%

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

Source: Carmarthenshire County Council Treasury Management Policy and Strategy 2019-20, Report to Council 21 February 2018, Appendix D.

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