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Financial Sustainability Assessment – **Isle of Anglesey 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 Alan Hughes and Jeremy Evans 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 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 £135m



The Council employs around 3,200 people



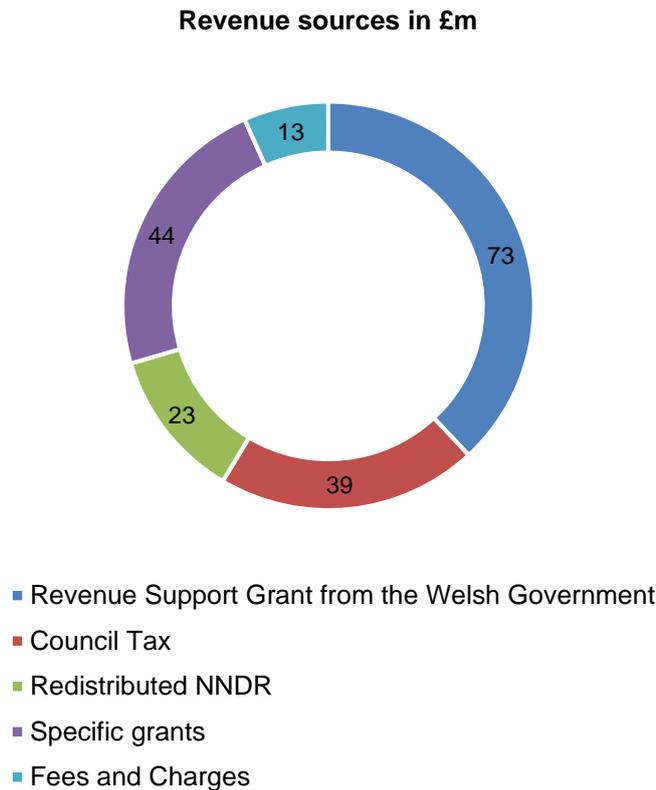
The Council's fixed assets as at 31 March 2019 were £396m

Source: Isle of Anglesey 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.



Source: Isle of Anglesey County Council

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

What we found

- 5 Overall, we found that: the continual funding of unrealised savings and year-end overspends from general reserves is not sustainable, the Council needs to develop a more sustainable financial strategy to deliver services within available funding whilst building usable reserves to improve its resilience. We reached this conclusion because:
- the Council needs to review its financial strategy to deliver services within available funding whilst building usable reserves to improve its resilience;
 - the Council has had an overall overspend in recent years and is allocating significant additional resources to fund the increased pressure in key services;

- the Council has a track record of delivering a substantial element of planned savings, but undelivered savings create additional financial pressure; the Council is likely to find identifying and delivering savings increasingly challenging going forward;
- the Council's continued use of reserves to fund year end deficits and planned revenue expenditure is not sustainable;
- council tax collection rates have remained stable and council tax as a proportion of the Council's income has grown over the last decade; and
- the Council has no purely commercial focused projects and overall borrowing is set to increase.

Detailed report

The continual funding of unrealised savings and year-end overspends from general reserves is not sustainable, the Council needs to develop a more sustainable financial strategy to deliver services within available funding whilst building usable reserves to improve its resilience

The Council needs to review its financial strategy to deliver services within available funding whilst building usable reserves to improve its resilience

Why strategic financial planning is important

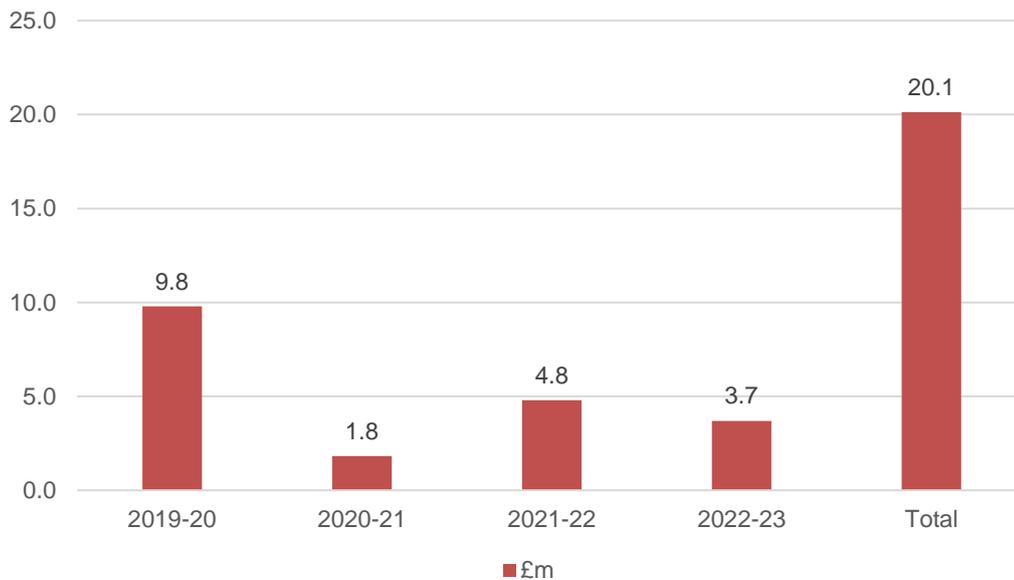
- 6 A clear and robust financial strategy is important to identify the likely level of funding available to a council, as well as the anticipated level of demand for, and cost of, providing services. Given the recent and anticipated funding pressures facing all councils it is also important to identify 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 needs to review its financial strategy to deliver services within available funding whilst building usable reserves to improve its resilience. We reached this conclusion because:
- the Council's Medium-Term Financial Strategy 2019-20 to 2021-22 assumes a funding gap range of £12.3 million to £14.7 million over the three-year period prior to increasing council tax and implementing savings.
 - demand and cost pressures within key services budgets, and failure to deliver all planned savings resulted in individual service budgets and the Council's budget as a whole ending recent financial years in a deficit position. The Council's year-end overspends have in turn led to a reduction in general reserves which is not sustainable.
 - the Council has prioritised service delivery in recent years, and as recently as 2018-19 has funded new initiatives from general balances which is not sustainable.

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: Isle of Anglesey County Council

(Medium Term Financial Plan 2020-21 – 2022-23 and 2020-21 Budget)

The Council has had an overall overspend in recent years and is allocating significant additional resources to fund the increased pressure in key services

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 the Council has had an overall overspend in recent years and is allocating significant additional resources to fund the increased pressure in key services. We reached this conclusion because:

- there have been significant overspends in some service areas in recent years which have been partly offset by underspends in areas such as Corporate Finance and central budgets.
- the Council has good service level information and consequently, in response to increased service pressures, it has allocated additional resources to some services. For example, Children’s and Families (2019-20: £1.34 million). Looking forward, the Council plans to increase the Adult Services 2020-21 budget by £0.98 million.
- the Council has also reviewed its school transport (taxis) budget and revised the amount of funding available although this has not resolved the position as school transport is predicting an overspend of £359,000 in the current year.
- the Council is predicting overspends in 2019-20 in some service areas including the Adult Services (£1.0 million) and Corporate Finance (including Benefits Granted) of £0.40 million. Indicating that the Council budgets still face significant pressures. Continued funding of overspends from reserves is not sustainable.
- whilst the three-year actual outturn to net revenue budget overspends in **Exhibit 4** suggest that the Council’s budget may have experienced differing degrees of pressure over the period, it is worth noting that the reduced deficit in 2018-19 was in part due to an adjustment to the Council’s Minimum Revenue Provision (MRP) Policy which changes the profile of the cost of funding debt repayment, and masks an element of the departmental overspends.

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 year to date as at the end of 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	£126.16m	£127.79m	£1.63m overspend	1.29% overspend
2018-19	£130.95m	£131.58m	£0.63m overspend	0.48% overspend
2019-20	£135.21m	£137.15m	£1.25m overspend	1.43% overspend

Source: Isle of Anglesey County Council

The Council has a track record of delivering a substantial element of planned savings, but undelivered savings create additional financial pressure; the Council is likely to find identifying and delivering savings increasingly 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. Undelivered savings plans 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 undelivered 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 historically the Council has a track record of delivering a substantial element of planned savings, but undelivered savings create additional financial pressure; the Council is likely to find identifying and delivering savings increasingly challenging going forward. We reached this conclusion because:
- the Council has an established record of delivering savings but has been unable to realise all planned savings within the financial year which leads to an underlying deficit within the annual budget.
 - we reported in Savings Planning in March 2017 'The Council is forecasting that 83% of its 2016-17 savings plans will be achieved but some saving plans lack detail and realistic delivery timescales'. The Council's in-year achievement of savings plans (current year 82.8%) has not improved, and the Council needs to urgently review under-delivery and slippage to identify robust learning opportunities from unsuccessful plans.
 - undelivered savings in 2019-20 are estimated to amount to £427,000, and in 2018-19 undelivered savings amounted to £458,000. The Council goes on to achieve additional elements of the planned savings in subsequent years.
 - there is a recognition amongst councils that identifying and delivering savings is becoming more challenging.
 - the Council has evidence that increasing fee levels does not always lead to a corresponding increase in income level, as changes affect individuals' behaviours, thus a percentage increase in any given area does not necessarily translate to a similar uplift in the level of income collected.

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.

£2.33m	£1.93m	£0.40m	82.8%
Total planned savings	Planned savings delivered	Planned savings not delivered	Percentage savings achieved

Source: Isle of Anglesey County Council

The Council's continued use of reserves to fund year-end deficits and planned revenue expenditure is not sustainable

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.

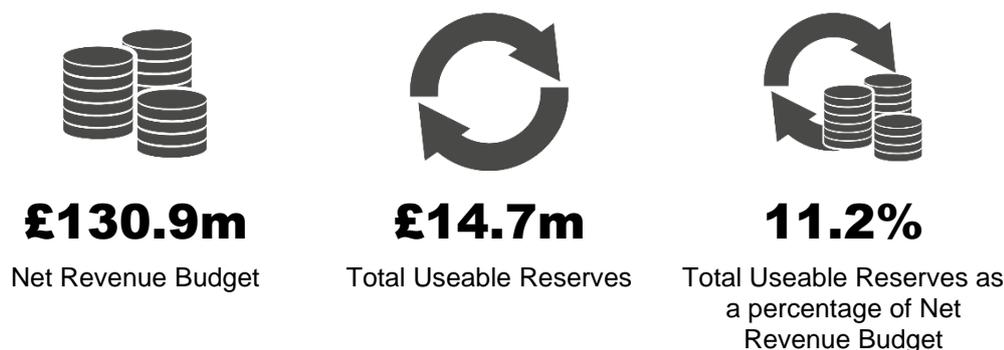
What we found

- 13 We found that the Council's continued use of reserves to fund year-end deficits and planned revenue expenditure is not sustainable. We reached this conclusion because:
- the Council has funded planned revenue expenditure from general reserves in 2018-19 and has required the use of general reserves to fund overspends in the three years 2016-17 to 2018-19. The Council is forecasting to use general reserves to fund the current (2019-20) year-end overspends.
 - the General Fund Balance has reduced from £8.36 million at the end of March 2017 to an estimated (at the end of December 2019) level of £4.60 million at the end of March 2020, earmarked reserves will have fallen from £10.46 million to £8.55 million over the same period, and total reserves have reduced from £18.82 million to £13.15 million.
 - whilst the total useable reserve as a percentage of net revenue budget is 11.2% as per [Exhibit 6](#), current year end outturn estimates suggest that the percentage could fall to 9.7%.
 - the Council needs to concentrate on its financial performance as well as on service performance and will need to ensure that savings plans are delivered

in year and all budgets are realistic, as the current pattern of funding deficits from general reserves is not sustainable.

Exhibit 6: amount of reserves vs annual budget, 2018-19

This exhibit shows the amount of usable reserves the Council had at the end of March 2019 compared with its net revenue budget for the same year.



Source: Isle of Anglesey County Council

Council tax collection rates have remained stable and council tax as a proportion of the Council's income has grown over the last decade

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 council tax collection rates have remained stable and council tax as a proportion of the Council's income has grown over the last decade. We reached this conclusion because:
 - council tax collection rates remain stable; and
 - council tax income in the Isle of Anglesey has increased from 22% of net revenue sources in 2010-11 to 29% in 2019-20 (Non-Domestic Rates, Revenue Support Grant and Council Tax). A similar shift in funding from Revenue Support Grant to Council tax is evident in other Welsh councils.

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 £38.716m (97.3%) against a collectable debit of £39.634m

Source: www.statswales.gov.uk

The Council has no purely commercial focused projects and overall borrowing is set to increase

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 no purely commercial focused projects and overall borrowing is set to increase. We reached this conclusion because:
- the Council's Treasury Management Strategy is to use its own cash balances first (internal borrowing) to fund capital expenditure and only to externalise borrowing as and when required to maintain enough cash balances to meet day-to-day costs. As at 31 March 2019 the Council's Capital Financing Requirement (including Housing Revenue Account) stood at £138.7 million with external debt standing at £132.5 million. As a result, £6.2 million of the Capital Financing Requirement has been funded by internal borrowing.

- the Council's strategy is not to actively borrow in order to develop commercial income. Overall, borrowing has been stable at around 3.5% of net revenue budget but the Council is projecting that this will increase to 7.7% in 2020-21 and 9.7% the year after.

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



5.0%

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

Source: Isle of Anglesey County Council

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