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Financial Sustainability Assessment – **Neath Port Talbot Council**

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The team who delivered the work comprised Anthony Ford, Gillian Gillett and Colin Davies under the direction of Huw Rees and Derwyn Owen.

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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 £288m



The Council employs around 6,700 people



The Council's fixed assets as at 31 March 2019 were £705m

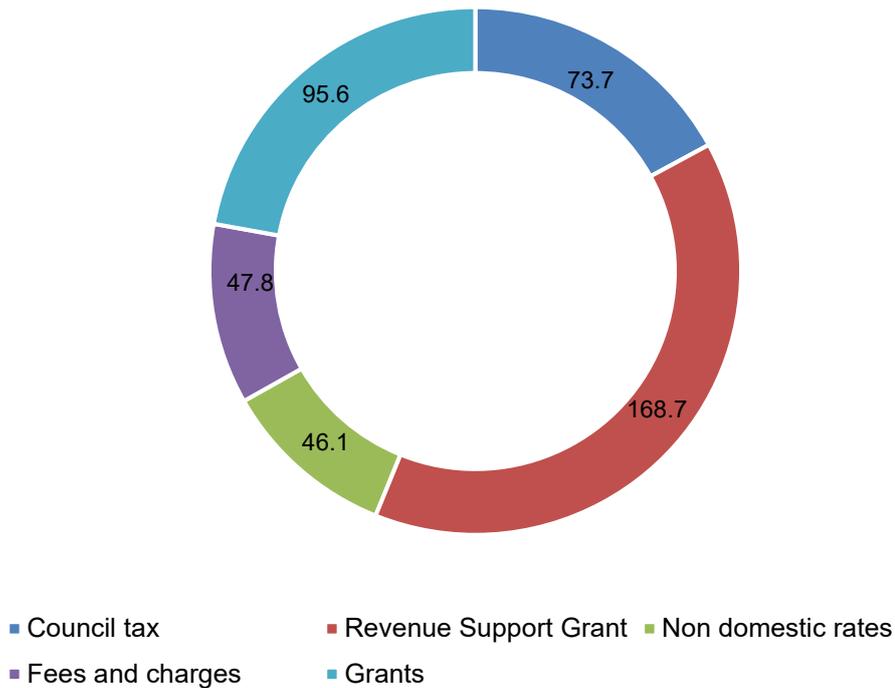
Source: 2019-20 revenue budget, 2019-20 workforce information report (employee numbers), 2018-19 statement of accounts (fixed assets)

- 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 that the Council expects to receive £431.9 million from different funding sources during 2019-20

Revenue sources in £m



Source: 2019-20 budget

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

What we found

5 Overall we found that the Council has a strong financial position and is therefore well placed to manage its financial sustainability over the medium term but some aspects of financial management could be strengthened. We reached this conclusion because:

- the Council focusses primarily on annual budgeting and does not have a published Medium Term Financial Plan;
- the Council has a good track record of delivering services within agreed budgets;
- the Council has made significant savings in recent years and achieved the majority of its planned savings;
- the Council has a healthy level of useable reserves;
- the Council collects a high proportion of council tax income; and
- the Council takes a prudent approach to borrowing.

Detailed report

The Council has a strong financial position and is therefore well placed to manage its financial sustainability over the medium term but some aspects of financial management could be strengthened

The Council focusses primarily on annual budgeting and does not have a published Medium Term Financial Plan

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

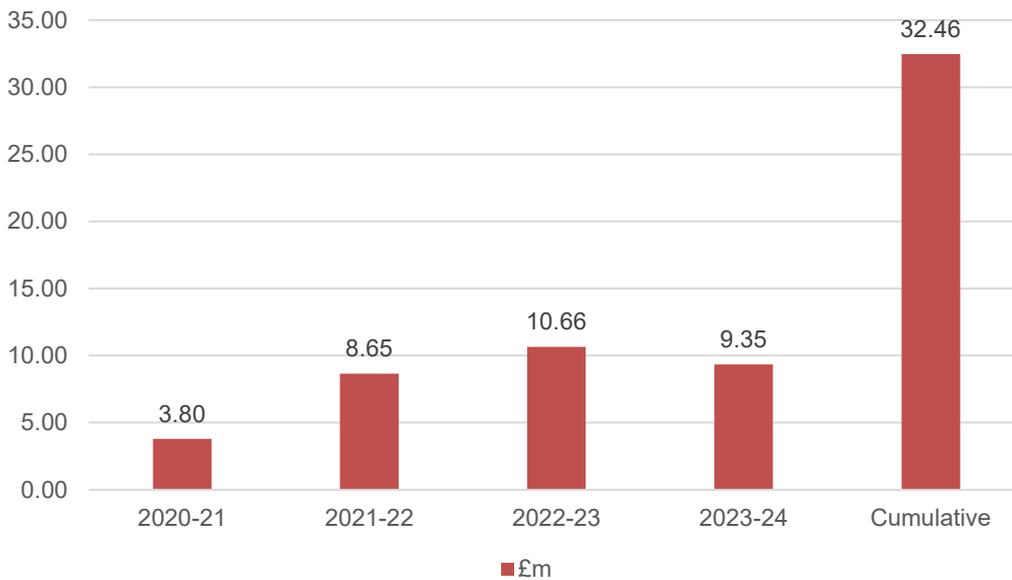
7 We found that the Council has implemented and continues to explore options to improve its financial resilience and address its significant budget gap. However, its focus is primarily on annual budgeting and the Council has scope to strengthen its medium term financial planning and its links to the achievement of its corporate objectives. We reached this conclusion because:

- the Council revises its financial plan annually which it uses to help inform the annual revenue budget setting process. The plan sets out the Council's medium term financial projections based on prudent assumptions for inflation, funding growth (including from Welsh Government) and financial pressures but it only reflects some assumptions in respect of demographic changes and service demand pressures.
- the Council does not have a published Medium Term Financial Plan (MTFP) setting out the main financial challenges it faces, the assumptions, both financial and demographic underpinning these challenges or scenario planning to consider different financial possibilities.
- the absence of a published MTFP means that the links between the Council's strategic planning process and corporate objectives and its financial planning process are not as clear as they could be, which may hamper its ability to make informed and consistent decisions.
- in February 2019, the Council projected a funding gap of £53 million over the period 2020-23. Following the Welsh Government's publication of the provisional local government settlement for 2020-21, the Council has updated and reduced this projected gap to £32 million over the next 4 years. The value of the projected gap is imprecise as it only reflects some of the

demographic changes and service demand pressures and reflects prudent assumptions for inflation, funding growth and financial pressures.

Exhibit 3: projected funding gap

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



Source: Draft budget for consultation 2020-21

The Council has a good track record of delivering services within agreed budgets

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 The Council has a good track record of financial management and has consistently delivered its services within agreed budgets although overspends in some areas are offset by underspends elsewhere. We reached this conclusion because:

- the Council achieved a revenue budget underspend of £1.08 million in 2017-18 and a balanced position in 2018-19.
- pressures and budget overspends have occurred in education (home to school transport, out of county placements), some areas of children's social

services and environmental services (refuse collection). These were however offset by budget underspends in other areas and better than budgeted council tax collection rates.

- the latest revenue budget monitoring report (month 9) projected a £0.06 million underspend for 2019-20 and comprised a number of over and underspending areas. Given the budget challenges and related difficult decisions ahead, the Council will need to satisfy itself that budgets are robust, based on realistic assumptions and that overspending areas are subject to effective scrutiny.

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 projected 2019-20 outturn as at 31 December 2019.

	Original Budget net revenue budget	Actual Outturn net revenue budget	Amount of overall surplus/overspend	Percentage difference from net revenue budget
2017-18	£274.68m	£273.60m	£1.08m surplus	0.4% surplus
2018-19	£282.86m	£282.85m	£0.01m surplus	0% surplus
2019-20	£288.17m	£288.11m	£0.06m surplus	0.02% surplus

Source: revenue outturn reports (2017-18 and 2018-19), revenue budget monitoring report 31 December 2019 (2019-20)

The Council has made significant savings in recent years and achieved the majority of 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 The Council has a track record of balancing its budgets but has not delivered all the specific savings it planned and budget underspends have been used to meet the shortfall. We reached this conclusion because:

- the Council has made £90 million savings since 2010, reducing its workforce by approximately a quarter.
- savings are identified through a process of review of current service provision and proposals are prepared in the context of the Council's corporate objectives. These are subject to consultation with the public and other stakeholders and are scrutinised by relevant committees.
- the Council set a savings target of £6.79 million in 2018-19 and £5.80 million in 2019-20. Agreed savings are removed from budgets at the start of the year and are monitored through the budget monitoring process. A number of adverse budget variances have been attributed to the non achievement of savings targets.
- the Council does not monitor the in year achievement of individual planned savings. It is assumed that most of the in year savings are delivered, but any significant variances are highlighted in the quarterly budget monitoring report to Members, together with reasons and any corrective action being taken. Budget reviews as part of setting the subsequent years budget consider the extent of savings achieved as well as demand and cost pressures.
- the Council set a savings target of £5.80 million for the current 2019-20 financial year. As at month 9, the Council has yet to achieve a small number of these savings. Whilst budget underspends in other services areas have helped the Council achieve a favourable financial position, given the financial challenges facing the Council it is important that realistic savings targets are set and are monitored to ensure they are achieved.

The Council has a healthy level of useable reserves

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 The Council does not have a history of using reserves to fund revenue budget pressures and its level of usable reserves has increased in recent years. We reached this conclusion because:
- the Council's usable revenue reserves have increased over recent years and as at 31 March 2019 stood at £59.4m, excluding school and capital balances.
 - the Council is required to retain a reasonable level of reserves. As at 31 March 2019, general reserves were £20.97 million and represented 7.4% of the Council's net revenue budget.

14 Challenges and financial pressures do however exist and in setting its 2019-20 budget, the Council planned to utilise £2.255 million of its general reserves to balance its revenue budget. The Councils draft budget for 2020-21 has been balanced with the use of a further £1.65m of general reserves. Whilst this will reduce the overall level of reserves available to the Council, these are still projected to remain at a reasonable level.

Exhibit 5: 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: 2018-19 statement of accounts

The Council collects a high proportion of council tax income

Why council tax collection rates are important

15 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

- 16 The Council has a good track record of collecting its council tax. We reached this conclusion because:
- council tax income accounts for approximately 17% of the Council’s overall funding (25% of net expenditure) and the Council has been effective in its collection. The actual recovery rate has exceeded the budgeted collection rate for a number of years, which has generated a favourable outturn position for the general fund. In 2018-19, the actual recovery rate was 98% compared to a budgeted rate of 97%, generating additional unplanned income of £0.657 million.
 - the Council’s council tax recovery rate of 98% is consistently better than the average recovery rate across Wales (97.3% in 2018-19).

Exhibit 6: 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 **£67.342m** (98%)
against a collectable debit
of **£68.648m**

Source: stats wales in-year council tax, by billing authority 2018-19 (net of council tax benefit, including amounts collected on behalf of police authorities and community councils)

The Council takes a prudent approach to borrowing

Why maintaining sustainable levels of borrowing is important

17 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

- 18 The Council adopts a prudent approach to borrowing, complying with prudential indicators and has no plans to significantly increase its borrowing costs over the next few years. We reached this conclusion because:
- the Council does not borrow to finance any commercial activities, borrowing is used for capital investment purposes and occasional short-term cash flow requirements.
 - the total level of borrowing has remained relatively stable over recent years and was £283 million as at 31 March 2019. The Council has no plans to increase this significantly in the foreseeable future.
 - the Council's capital financing costs (interest payments and the minimum revenue provision) were 6.8% of its net revenue expenditure in 2018-19. These non-discretionary costs have remained a fairly stable proportion of the

Council's net revenue expenditure in recent years and are forecast to increase to 7.1% in 2019-20.

- as well as borrowing, the Council also invests surplus funds to generate additional investment income. At 31 March 2019, the Council had investments of £55.2 million.

Exhibit 7: Council borrowing

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



£283m

Amount of borrowing



6.8%

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

Source: 2018-19 statement of accounts

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