Financial Sustainability Assessment – Flintshire County Council

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Contents

Summary report

What we looked at and why

1 We undertook this assessment as financial sustainability continues to be 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 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. We undertook a similar project in 2019-20, before the COVID-19 pandemic.

2 Our 2020-21 assessment on councils' financial sustainability was in two phases. Phase 1 was a baseline assessment of the initial impact of COVID-19 on local councils' financial position. Phase 1 drew on: the year-end position for 2019-20; the position at the end of quarter 1 for 2020-21; and projections for quarter 2 for 2020-21. Following Phase 1, in October 2020 we published a national summary report – **Financial Sustainability of Local Government as a result of the COVID-19 Pandemic**[1]. We found that councils and the Welsh Government have worked well together to mitigate the impact of the pandemic to date, but the future sustainability of the sector is an ongoing challenge.

3 The pandemic has had an immediate and profound effect on public sector finances as a whole and, as a consequence, on councils' financial position. The summary report set a high-level baseline position, including the reserves position of local councils before the pandemic. It also set out the initial financial implications of the pandemic for local councils and the scale of the anticipated challenge going forward.

4 This report concludes phase 2 of our financial sustainability assessment work during 2020-21. As part of this we are producing a local report for each of the 22 principal councils in Wales.

5 We undertook this assessment during March 2021.

[1] Audit Wales, Financial Sustainability of Local Government as a Result of the COVID-19 Pandemic, October 2020.

Detailed report

The Council's focus is on improving its financial resilience by addressing budgetary pressures in key demand-led service areas

The immediate impact of COVID-19 on the Council's financial sustainability has been mitigated by additional Welsh Government funding

6 This section sets out the impact that COVID-19 has had to date on the Council's financial position and the extent to which this has been mitigated by additional funding from the Welsh Government.

7 We found that:

- the Council estimates that most of its COVID-19 related expenditure and lost income in 2020-21 is covered by Welsh Government funding.
- the Council has estimated that about £0.6 million of additional COVID-19 related expenditure and £0.3 million of income loss during 2020-21 will not be covered by the additional funding from the Welsh Government.
- the Council recognises there will be a continued impact of the pandemic on specific service areas during 2021-22.
- the Council anticipates a fall in council tax collection rates (98.7% in 2021-22) due to the decreasing numbers of furloughed and an increase in newly unemployed residents as a direct result of the pandemic. The Council has budgeted for a reduction of 0.2% in its council tax collection rate for 2021-22, which equates to £0.180 million in cash terms to recognise the anticipated impact.

Exhibit 1: the cost to the Council of COVID-19 in 2020-21[2]

The table below shows the Council's estimated additional expenditure and lost income in 2020-21 as a result of COVID-19 and how much of this was mitigated by extra funding from the Welsh Government[3].

The additional amount the Council estimates it will have spent as a result of COVID-19 over 2020-21.	£14 million
The amount of income the Council estimates it will have lost as a result of COVID-19 over 2020-21.	£4.5 million
The amount of additional funding the Council estimates it will receive from the Welsh Government over 2020-21 to mitigate the impact of COVID-19. Additional funding from Welsh Government to cover "savings not achieved" and "digital transformation.	£18.1 million £2.4 million
The cost to the Council of COVID-19 over 2020-21 after extra funding from the Welsh Government is taken into account.	£0.9 million

The Council has a clear, well communicated financial strategy; it is focused on improving its resilience by addressing budgetary pressures in key demand-led service areas

Why strategic financial planning is important

8 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.

9 Public services have been significantly impacted by the pandemic and, in this context, mitigating the impact on councils will not only depend on the actions that

[2] Source: Flintshire County Council self-assessment to Audit Wales. March 2021

[3] In July 2021 the Council still has a number of claims not confirmed by the Welsh Government.

they are able to take, but also to a large degree on the amount of resources allocated by governments. We recognise that a key issue for councils in trying to financially plan over the medium term remains uncertainty around both the level of funding they will receive from government, and their own income streams, such as council tax and fees and charges.

10 We found that:

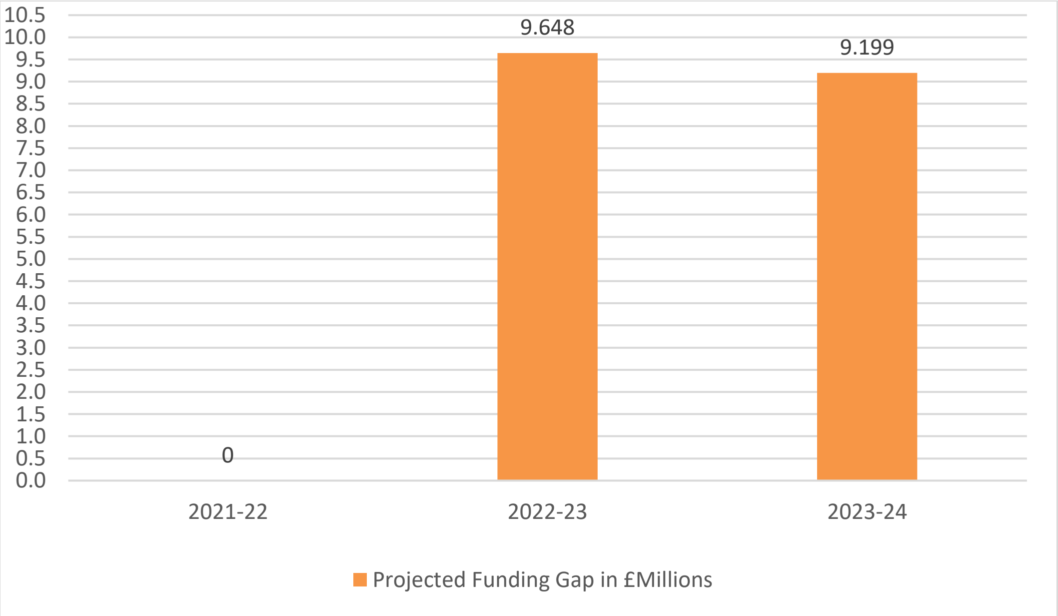
- the Council has a clear and well-articulated medium term financial strategy for the period 2021-2024 but its reliance on lobbying Welsh Government for improved funding in order to set a balanced budget remains a high risk approach. The Council's stated policy remains that it is not prepared to compromise the range, quality, or safety of services to deliver a balanced budget. 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.
- the Council has not made any major changes to its approach to developing the Medium-Term Financial Strategy (MTFS) in 2021 as it has been focussed on managing the pandemic. The current MTFS clearly set out a funding gap, relative to its 2019-20 net cost of services, of £16.75 million. The combined forecast for the next two years is just under £19 million. The Council recognises that longer-term projections would be useful in helping it to plan further ahead and is in the process of refreshing its MTFS.
- the Council is focused on improving its resilience by addressing budgetary pressures in key demand-led service areas such as education and out of county placements. In the 2021-22 budget the Council plans to make a significant investment in education and schools with a funding increase of 3.6%. To address the cost of out of county placements and improve its service, the Council is planning to develop its own residential care home provision for children and young people over the next three financial years through the delivery of a range of projects. These included new emergency provision to enable an effective response to crisis situations and small group homes to enable children to live within their local community.
- the Council has a good track record of collecting council tax but performance declined from 98.2% in 2018-19 to 97.9% in 2019-20 although it remains in the top quartile for performance in Wales[4]. Council tax income in Flintshire has increased from 23% of net revenue sources in 2010-11 to 31% in 2019-20.

[4] Source: Statistics for Wales – council tax collection rates in Wales 2019-20

- the Council has undertaken other significant service transformation to improve productivity in several areas by implementing new service delivery models (leisure, libraries and facilities) and has realised some additional income. During the period 2021-24 the Council plans to continue to take a multistrand approach through the following initiatives:
  – further reshaping of services/modernisation programmes;
  – exploring benefits arising from regional/collaboration programmes;
  – making changes to fees, charges and income generation; and
  – considering alternative delivery models.

Exhibit 2: the Council projected funding gap for the years 2021-24

This graph shows the funding gap that the Council has identified for the following years.



The Council’s usable reserves have increased in 2020-21 but in the previous years the use of reserves to help balance the budget has decreased their levels which the Council recognises significantly limit its resilience to service risk

Why sustainable management of reserves is important

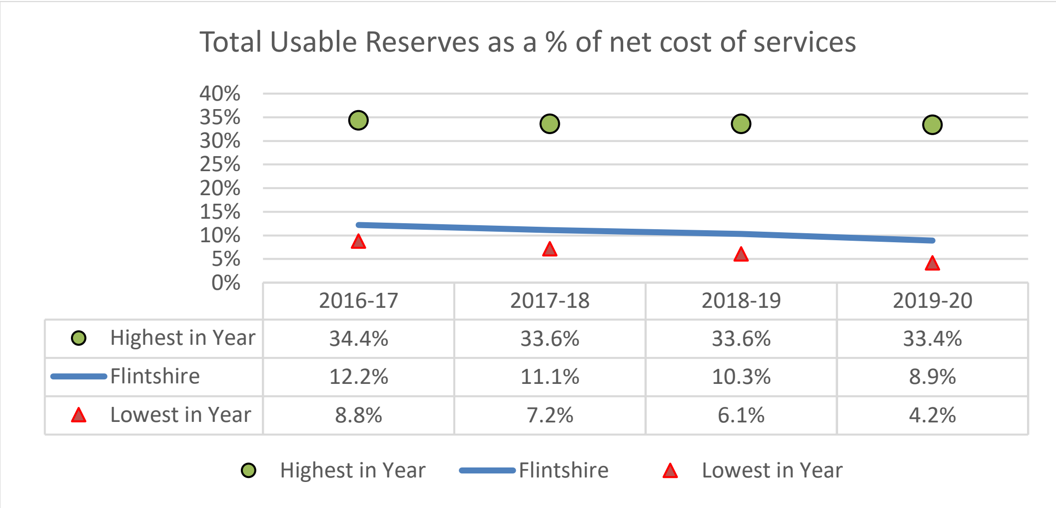
11 Healthy levels of useable reserves are an important safety net to support financial sustainability. As well as being available to fund unexpected funding pressures, useable reserves can also be an important funding source to support ‘invest to save’ initiatives designed to reduce the ongoing cost 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.

12 We found that:

- the Council’s policy on reserves sets out how the Council manages and reviews its reserves position. Cabinet and Overview and Scrutiny receive information via the regular budget monitoring reports.
- over the three years 2016-18 to 2018-19 the planned use of £6.5 million of reserves has been used to help set a balanced budget.
- the Council’s useable reserves have increased to around £38.5 million in March 2021 from £24.3 million in March 2020.
- the Council acknowledges that using reserves in setting a balanced budget will ‘significantly limit the Council’s resilience to service risk’ and its overall sustainability.

Exhibit 3: amount of reserves vs annual budget

This exhibit shows the amount of usable reserves the Council had during 2020-21 and the previous four years as a proportion of the net cost of the services the Council delivers.



	2016-17	2017-18	2018-19	2019-20	2020-21
Net Cost of Services in £ millions [5]	258.2	258	265.5	273.3	
Total Useable Reserves in £ millions [6]	31.5	28.6	27.3	24.3	
Total Useable Reserves as a % of net cost of services [7]	12.2	11.1	10.3	8.9	
Comparison with the other councils of Wales	16	17	16	21	not available

[5] Value used is the net cost of services charged to the general fund from the Expenditure Funding Analysis, less any Housing Revenue Account cost of services, plus precepts, levies and debt interest. Source: Statement of Accounts

[6] By usable reserves we mean the total general fund balance, together with earmarked reserves that councils are not legally prevented from redirecting to use for another purpose. Source: Statement of Accounts

[7] Audit Wales calculation.

The Council has a track record of keeping closely to its planned budgets in most areas

Why accurately forecasting expenditure is important

13 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

14 We found that:

- in the two years from 2018-19 to 2019-20, the Council has kept closely to its planned budgets in most areas, delivering 98% of its planned savings in both years.
- although in December 2020 the Council was anticipating an overall revenue overspend in 2020-21 due to the impact of the pandemic, additional Welsh Government support in the Spring 2021 allowed the Council to keep to its planned budget. The Council does not anticipate an overall overspend in 2020-21 once final payments are received from the Welsh Government.
- in 2021-22 the Council foresees possible areas of risk for potential overspends due to unknown pay rises, social care pressures, and demand-led services. In 2021-22 a total of £2.363 million budget efficiencies reduction is planned for all services, except schools, and the Council recognise the need for regular specific monitoring and reporting of budget delivery.

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 four years and also the year to date as at 4 March 2021.

	2016-17	2017-18	2018-19	2019-20	2020-21
Original Net revenue budget £ millions [8]	251.99	255.16	264.39	271.35	285.98
Actual Net Revenue Outturn [9]	249.95	253.05	263.72	270.91	285.06
Amount of overall underspend [10]	2.04	2.11	0.67	0.44	0.92
Percentage difference from net revenue budget	0.81%	0.83%	0.25%	0.16%	0.32%

The Council has a 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

15 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.

We found that:

- the Council has an improving track record in delivering the specific savings it has identified. In 2015-16 the Council reported that it achieved 83% of its planned savings. Over successive years the Council has improved its position, delivering 98.1% of its planned savings in 2019-20.

[8] Value used is the net cost of services charged to the general fund from the Expenditure Funding Analysis, less any Housing Revenue Account cost of services, plus precepts, levies and debt interest. Source: Statement of Accounts

[9] By usable reserves we mean the total general fund balance, together with earmarked reserves that councils are not legally prevented from redirecting to use for another purpose. Source: Statement of Accounts

[10] Audit Wales calculation.

- this improvement has been reflected in the performance targets the Council sets itself within its MTFS.

Exhibit 5: savings delivered during 2019-20 to 2020-21 as a percentage of planned savings

The following exhibit sets how much money the Council intended to save from its savings plans during 2018-19 and 2019-20 and how much of this it actually saved as well as estimated figures for 2020-21.

	2018-19	2019-20	2020-21 estimate
Total planned savings in £ millions [11]	5.51	6.82	5.21
Planned savings achieved in £ millions [12]	5.41	6.13	5.36
Planned savings not achieved in £ millions	0.10	0.69	(0.15) above target
Percentage of savings achieved	98%	90.0%	103%

The Council's liquidity ratio has been at the same level for the last three years

Why the Council's liquidity position is important

16 Why gauging current assets to current liabilities (liquidity) is important:

- an indicator of how a council manages its short-term finances.
- while it is commonly used to examine whether organisations are able to pay their debts in the short term, this is unlikely to be a risk for councils given their ability to take short-term borrowing. It does also, however, act as an indicator of how a council manages its short-term finances.
- councils with low liquidity ratios should ensure they have arrangements in place to meet their liabilities.

[11] Value used is the net cost of services charged to the general fund from the Expenditure Funding Analysis, less any Housing Revenue Account cost of services, plus precepts, levies and debt interest. Source: Statement of Accounts

[12] By usable reserves we mean the total general fund balance, together with earmarked reserves that councils are not legally prevented from redirecting to use for another purpose. Source: Statement of Accounts

- there may be additional costs for councils that rely on short-term borrowing to pay debts.
- councils with very high liquidity ratios should consider whether they are managing their current assets in the most effective way.

17 We found that:

- the Council has maintained the same liquidity ratio over the last three years.
- the Council has a Treasury management strategy is in place that sets out arrangements to meet liabilities. The strategy is reviewed annually and is subject to scrutiny by the Audit Committee.

Exhibit 6: working capital ratio 2015-16 to 2019-20

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 estimate
Current Assets [13]	65	52.5	78.8	76.3	86	N/A
Current Liabilities [14]	36.8	51.9	94.1	91.6	104.3	N/A
Working Capital Ratio	1.8	1.0	0.8	0.8	0.8	N/A

[13] Current Assets, includes: Short Term Investments; Assets held for sale; Inventories; Short Term Debtors; and Cash and equivalent

[14] Current Liabilities, includes Short Term Borrowing; Short Term Creditors; and Provisions due in one year.

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Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.