

# Financial Sustainability Assessment – Bridgend County Borough Council

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## 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 the 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**<sup>1</sup>. 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.

<sup>1</sup> Audit Wales, [Financial Sustainability of Local Government as a Result of the COVID-19 Pandemic](#), October 2020.

## Proposals for improvement

### Exhibit 1: proposals for improvement

The table below sets out the proposals for improvement that we have identified following this review.

#### Proposals for improvement

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**P1 Accurate forecasting of expenditure**

Officers should provide full Council with its annual outturn to budget report to improve transparency and provide members with opportunities to compare and challenge budget to outturn.

## The Council has maintained a strong financial position during the pandemic, but there is scope to strengthen its Medium Term Financial Strategy

### 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:

- overall, the majority of the Council's COVID-related expenditure and lost income was covered by Welsh Government and UK funding. The Council has estimated that about £0.5 million of additional expenditure/income loss during 2020-21 will not have been covered by the additional funding.
- the Council has made specific budgetary changes to reflect the impact of the pandemic for the short and medium term. It has set up an earmarked reserve specifically for COVID-19 recovery costs in 2021-22 of £3 million.
- in 2018-19 and 2019-20, the Council achieved a high rate of council tax collection (in 2018-19 at 96.8% and 2019-20 at 96.3% of the collectable debit). The Council now anticipates a fall in council tax collection rates due to increasing numbers of furloughed and newly unemployed residents as a direct result of the pandemic and changes in legislation regarding collection methods. The Council has budgeted for a 0.5% reduction in the collection rate for 2021-22 to recognise the expected impact.
- the Council recognises in its Medium Term Financial Strategy (MTFS) that there will be a medium-term impact of the pandemic in specific service areas. In particular, on levels of income from leisure, car parking and rental income. The Council has also identified that the sustainability of services such as homelessness and social care will be challenging.

**Exhibit 2: the estimated cost to the Council of COVID-19 over 2020-21**

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

The additional amount the Council estimates it will have spent as a result of COVID-19 over 2020-21.	£15 million
The amount of income the Council estimates it will have lost as a result of COVID-19 over 2020-21.	£6.5 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.	£21 million
The cost to the Council of COVID-19 over 2020-21 after extra funding from the Welsh Government is taken into account.	£0.5 million

## The Council has strengthened its Medium Term Financial Strategy to better reflect medium-term budget pressures and forecast changes in demand for services

### 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.

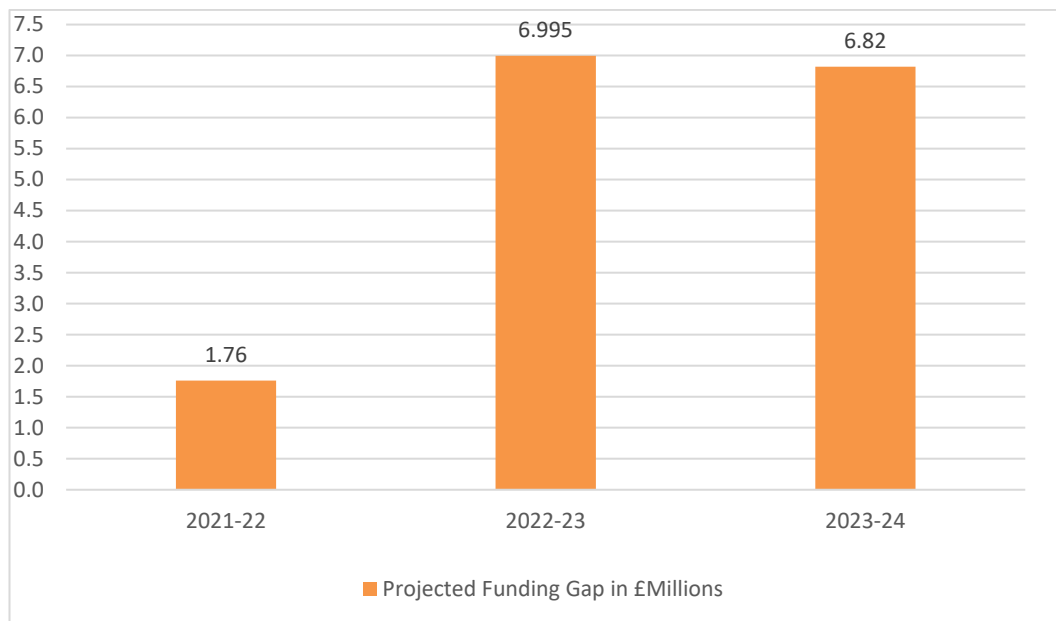
We found that:

- the Council has an approved MTFS for 2021-22 to 2024-25, informed by the latest corporate risk assessment which provides a high-level assessment of the financial challenges over that period. The MTFS is updated annually, with approval in February each year.
- the MTFS sets out 13 principles against which members are invited to assess the robustness of the strategy. These include its financial control system as key to support the delivery of financial plans and mitigate corporate risks, and capital investment decisions which mitigate any statutory risks taking account of return on investment and sound option appraisals. Further, the MTFS considers the risk of budget reduction proposals not being successful and risks of future COVID-19 costs not being covered by Welsh Government funding.
- the Council has projected it will have a £15.575 million budget gap over the next three years. The MTFS is based upon reasonable assumptions and an assessment of future settlements from the Welsh Government using best, worst and most likely scenarios. Both in 2020-21 (4.7% £9.18 million) and 2021-22 (4.3% £9.064 million) the Council has received more generous settlements than anticipated, relieving some budget reduction pressures.
- following our comments made last year, the Council has further developed its MTFS in 2021-22. We were assured that the budget was examined in detail and scrutinised by members, and we note that areas for improvement have been addressed as follows:
  - estimates of the potential impact of changes in demand for services have been built into any revisions of base budgets. For example, projections for demographic changes, including an ageing population and an increasing number of young people with complex disabilities living into adulthood, will add progressively to the demand for care.
  - evaluations of past financial performance, such as budget underspends and the lower-than-forecast use of its reserves.



**Exhibit 3: the Council has a total projected funding gap for the three years 2021-22 to 2023-24 of £15.575 million**

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



**There are no apparent risks to the Council’s financial sustainability in relation to its use of useable reserves which continue to be at a comparatively high level**

**Why sustainable management of reserves is important**

9 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.

We found that:

- the Council’s useable revenue reserves represent a relatively high percentage of the net revenue budget at 20.5% in 2019-20, this ranks Bridgend as having the seventh-highest percentage in Wales.
- for the four years to 31 March 2020, the Council’s useable revenue reserves have increased from £59.1 million to £64.6 million.

- for the four years to 31 March 2020, the Council's capital receipts reserve has fallen slightly from £18.3 million to £17.9 million.
- as shown in **Exhibit 4**, the Council's level of useable reserves has remained relatively stable over the past four years, but it has increased its total useable reserves in 2020-21 by just over £27 million. This is primarily due to the receipt of some additional grant funding from the Welsh Government at the end of the financial year.

#### **Exhibit 4: the net cost of services versus amount of useable reserves**

This exhibit shows the amount of useable 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 <sup>2</sup>	284.7	299.1	300.4	315.0	310
Total Useable Reserves in £ millions <sup>3</sup>	59.1	56.4	56.9	64.6	92.3
Total Useable Reserves as a percentage of the net cost of services <sup>4</sup>	20.8%	18.9%	18.9%	20.5%	29.8%
Comparison with the other councils of Wales	8/22	9/22	8/22	7/22	N/A

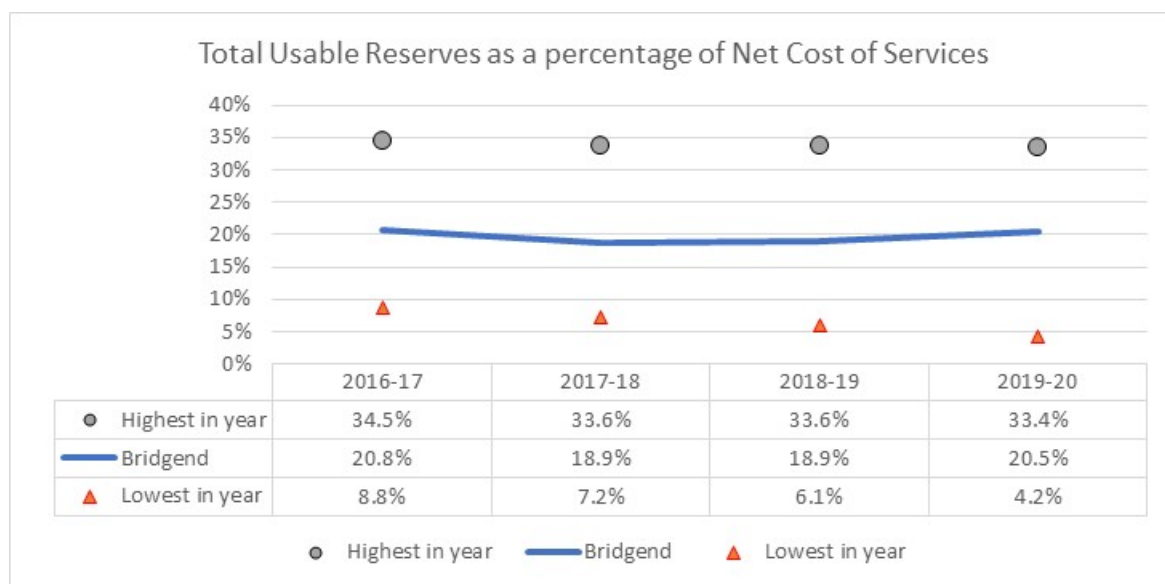
<sup>2</sup> Value used is the net cost of services charged to the general fund from the Expenditure Funding Analysis, less any Housing Revenue Account cost of services, plus precepts, levies and debt interest. Source: Statement of Accounts

<sup>3</sup> By useable 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

<sup>4</sup> Audit Wales calculation.

### Exhibit 5: total useable reserves as a percentage of net cost of services

The Council has maintained a level of total useable reserves of between 18.9% and 20.8% of the net cost of services.



Source: Audit Wales analysis

## In recent years the Council has consistently underspent its annual budget and expects to underspend again in 2020-21

### Why accurately forecasting expenditure is important

- 10 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.
- 11 What we found
  - the Council has underspent against its revenue budget in each of the four years to 31 March 2020, with a total underspend over this four-year period of £35.653 million. It also projects an underspend in the 2020-21 revenue budget of £6.490 million (see **Exhibit 6**), impacted by significant additional funding from the Welsh Government (see **Exhibit 2**).
  - even though there is an overall underspend, this has masked routine overspends in Education and Family Support and Social Services and Wellbeing. For example, in 2020-21, as at quarter three the Council projects to overspend by £1.327 million and £0.812 million respectively.

- officers have previously explained that a significant proportion of the Council's underspends each year is due to the receipt of unexpected additional grant monies from the Welsh Government, which tend to be received towards the end of a financial year and are therefore difficult to budget for. This was also the case in 2019-20 and 2020-21.
- for the four years to 31 March 2020, the Council has underspent against its original approved annual capital budgets by £24.143 million. As at the end of quarter 3 (31 December 2020) the Council is underspent on the 2020-21 original approved capital budget by £43.859 million. We understand that these underspends are historically due to slippage in the delivery of certain capital projects, with costs, and therefore the budget, transferring into subsequent financial years. The underspend to 31 December for 2020-21 is again due to slippage, the underspend being more significant than in recent years, predominantly as a result of the impact of COVID-19 on the ability to progress capital projects as planned.
- our 2019-20 financial sustainability assessment noted that once a financial year has passed, the outturn-to-budget report is considered by the Cabinet and then by the Corporate and Overview Scrutiny Committee. However, while full Council approves the annual budget for the year ahead, it does not receive the annual outturn-to-budget report. This would provide Council members with the full picture of financial performance to allow them to make more informed decisions. This is the case again for 2020-21.

#### **Exhibit 6: 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 (taken from the annual outturn-to-budget report presented annually to Cabinet in June) and also the projected year-end position for 2020-21 reported to Cabinet as part of the 2020-21 quarter 3 budget monitoring position on 19 January 2021.

	2016-17	2017-18	2018-19	2019-20	2020-21 (projected)
Original Net revenue budget £ millions	254.891	258.093	265.984	270.809	286.885
Actual Net Revenue Outturn	243.000	251.639	258.131	261.354	280.395
Amount of overall (underspend)/overspend	(11.891)	(6.454)	(7.853)	(9.455)	(6.490)
Percentage difference from net revenue budget	(4.7%)	(2.5%)	(2.9%)	(3.5%)	(2.3%)

## The Council has a track record of delivering the majority of its in-year planned savings. However, in common with other councils, identifying and delivering future savings will be more challenging

### Why the ability to identify and deliver savings plans is important

- 12 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.
- 13 What we found:
- the Council continues to have a good track record of meeting most of its in-year planned savings, albeit in recent years the annual savings targets have been reduced and are some £5 million lower (in 2019-20) than those set for 2015-16'.
  - the outturn for 2019-20 and projected year-end position for 2020-21 (see **Exhibit 7**) demonstrates that the Council is delivering most of its planned savings, for example, in 2018-19 £5.615 million (92%) and 2019-20 £6.815 million (89%) of planned savings were achieved.
  - the total annual savings target has reduced significantly for 2020-21 at £2.413 million and 2021-22 at £1.76 million. This reflects the favourable funding settlements received from the Welsh Government for these periods (see financial strategy section).
  - projected savings targets detailed within the 2021-22 to 2024-25 MTFS illustrate a reversal of the above trend where annual targets for 2022-23 to 2024-25 are in the region of £7 million. This reflects the uncertainty of future funding from the Welsh Government due to the pandemic. These increased targets will present increased challenges for the Council going forward.

## Exhibit 7: savings delivered as a percentage of planned savings

The following exhibit sets out how much money the Council intended to save from its savings plans and how much of this it actually saved from 2016-17 as well as estimated figures for 2020-21.

	2016-17	2017-18	2018-19	2019-20	2020-21 estimate
Total planned savings in £ millions	7.477	5.852	6.123	7.621	2.413
Planned savings achieved in £ millions	5.632	4.012	5.615	6.815	1.923
Planned savings not achieved in £ millions	1.845	1.840	0.508	0.806	0.490
Percentage of savings achieved	75%	69%	92%	89%	80%

Source – 2016-17 to 2019-20 annual outturn-to-budget report presented annually to the Cabinet in June, 2020-21 forecast year-end position reported to the Cabinet on 19 January 2021.

## The Council has a positive liquidity ratio placing it in a good position to meet its current liabilities

### Why the Council's liquidity position is important

- 14 Why gauging current assets to current liabilities (liquidity) is important:
- it is 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.
  - 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.

15 We found that:

- the Council has maintained a good liquidity ratio over the period from 2015-16 to 2019-20 (see **Exhibit 8**). A liquidity ratio of between 1 and 3 is considered healthy and indicates that the Council is in good financial health, having the ability to pay off current debt obligations.
- the Council's liquidity ratio has exceeded the average across all Welsh Councils over the five-year period 2015-16 to 2019-20 (see **Exhibit 8**), indicating that it is in a comparatively strong financial position.

**Exhibit 8: liquidity (working capital) ratio 2015-16 to 2019-20**

	2015-16	2016-17	2017-18	2018-19	2019-20
Current Assets <sup>5</sup>	£53.5m	£59.9m	£57.8m	£56.7m	£68.3m
Current Liabilities <sup>6</sup>	£34.9m	£29.5m	£36.9m	£36.3m	£36.4m
Liquidity Ratio (LR)	1.5	2.0	1.6	1.6	1.9

<sup>5</sup> Current Assets, includes: Short Term Investments; Assets held for sale; Inventories; Short Term Debtors; and Cash and equivalent

<sup>6</sup> Current Liabilities, includes Short Term Borrowing; Short Term Creditors; and Provisions due in one year.



Audit Wales  
24 Cathedral Road  
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: [info@audit.wales](mailto:info@audit.wales)

Website: [www.audit.wales](http://www.audit.wales)

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