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# Financial Sustainability Assessment – **Denbighshire 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 Gareth Evans, Dave Wilson and Jeremy Evans under the direction of Huw Rees.

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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 £199m**



**The Council employs around 4,300 people**



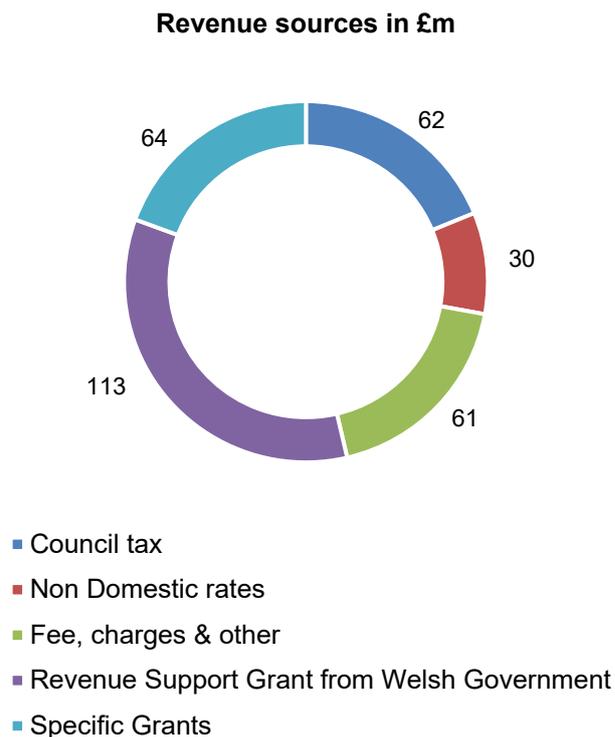
**The Council's fixed assets as at 31 March 2019 were £537m**

Source: Denbighshire County Council audited 2018-19 Statement of Accounts and Approval of the 2019-20 Budget report to Council, 29 January 2019

- 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: Denbighshire County Council audited 2018-19 Statement of Accounts

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

## What we found

- 5 Overall we found that: the Council is in a relatively strong financial position, but needs to strengthen its Medium Term Financial Strategy and control some service overspending to support future financial sustainability. We reached this conclusion because:
- the Council's Medium Term Financial Strategy does not set out how it will meet the projected cumulative deficit of £30 million between 2020-21 and 2022-23;
  - although the Council underspent its overall revenue budget in 2017-18 and 2018-19, significant service overspends were offset by underspends in other areas, and the 2019-20 revenue budget is forecast to overspend;

- the Council has a good track record of delivering planned savings although it is finding this more challenging as the balance shifts from making efficiencies to more impactful service change;
- the Council uses its reserves strategically, retains healthy balances, and some important earmarked reserves are almost fully used as planned;
- the Council has had historically higher than average income from Council Tax and collection rates are good; and
- the Council has a prudent approach to borrowing and does not borrow to fund commercial investment.

# Detailed report

## The Council is in a relatively strong financial position, but needs to strengthen its Medium Term Financial Strategy and control some service overspending to support future financial sustainability

The Council's Medium Term Financial Strategy does not set out how it will meet the projected cumulative deficit of £30 million between 2020-21 and 2022-23

### 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

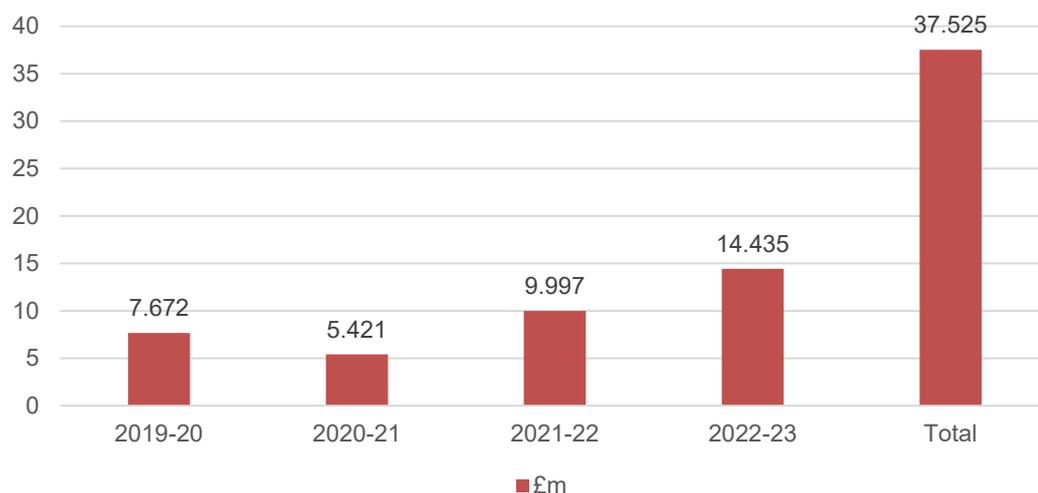
- 7 We found that the Council's Medium Term Financial Strategy does not set out how it will meet the projected cumulative deficit of £30 million between 2020-21 and 2022-23. We reached this conclusion because:
  - The Council's published Medium Term Financial Strategy (MTFS) 2019-2023, assumes no increase in Revenue Support Grant and National Non-Domestic Rates (NNDR) in 2020-21 but reflects reductions of 1.5% in 2021-22 and 2022-23, and 3.8% increases in Council Tax for 2020-21, 2021-22 and 2022-23. This identifies an income to the Council of around £199 million for the latter three years with no planned use of reserves.
  - The MTFS assumes that with pay and inflation increases and additional service pressures, there is a funding shortfall over the three years 2020-2023 of almost £30 million.
  - To date, the Council has managed within its reduced funding levels without significant cuts in services but realises that this approach is unsustainable. It has established a corporate 'Reshaping the Council Budget Board' to set the strategic direction that determines the shape and size of the Council at the end of 2022-23.
  - The Council is also in the early stages of developing a 'commercialisation' strategy which it hopes will help the Council operate more efficiently and effectively. Whilst there is an appetite for collaborative working and service

remodelling, there are currently no firm proposals to meet the scale of the challenge and contribute to financial sustainability and resilience.

- At this stage the MTFS is incomplete. Whilst it identifies the gap between assumed funding and likely expenditure, it does not reflect how spending will change over the coming years until the Reshaping the Council Budget Board completes its work and it is clear how the commercialisation strategy will contribute to closing the gap.

### 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: Denbighshire County Council – Medium Term Financial Strategy 2019-2023 published February 2019

**Although the Council underspent its overall revenue budget in 2017-18 and 2018-19, significant service overspends were offset by underspends in other areas, and the 2019-20 revenue budget is forecast to overspend**

### 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 Although the Council underspent its overall revenue budget in 2017-18 and 2018-19, significant service overspends were offset by underspends in other areas, and the 2019-20 revenue budget is forecast to overspend. We reached this conclusion because:

- In 2017-18, the Council experienced sizeable variations in spending against revenue budgets and underspent its budget overall by approximately £1.2 million. Significant overspends in Community Support Services, Education & Children's Services and Highways & Environment were offset by savings in other services, most notably Schools and Corporate services which underspent by over £0.7 million and £0.9 million respectively.
- In 2018-19, the sizeable variations continued and the Council underspent its revenue budget overall by approximately £0.5 million. Significant overspends in Community Support Services, Education & Children's Services and Highways & Environmental Services amounted to approximately £4.3 million.
- During 2018-19, the Council allocated additional funding from planned earmarked reserves of approximately £2.6 million resulting in an overall unplanned overspend in these services of approximately £1.7 million. This was offset by underspends in other services totalling approximately £0.3 million and corporate savings of approximately £2.7 million which included a variance between the estimated and actual pension contribution recovery rates. Schools underspent their budgets by approximately £0.2 million.
- The budget monitoring report in December 2019 forecasts an overall overspend of nearly £1.7 million at 31 March 2020, indicating that the budget is still not aligned with operational activity. Forecast overspends are noted in Community Support Services (£0.7 million), Education & Children's Services (£1.4 million) Planning & Public Protection (£0.7 million) and Highways, Facilities & Environmental Services (£0.5 million).

### 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 November 2019.

	<b>Original Budget net revenue budget</b>	<b>Actual/forecast Outturn net revenue budget</b>	<b>Amount of overall surplus/ overspend</b>	<b>Percentage difference from net revenue budget</b>
2017-18	£189.3m	£188.1m	£1.2m surplus	0.6% surplus
2018-19	£194.4m	£193.9m	£0.5m surplus	0.3% surplus
2019-20	£198.5m	£200.2m	£1.7m overspend	0.9% overspend

Source: 2017-18 & 2018-19 Final Outturn Reports and Finance Report to Cabinet, 17 December 2019

## The Council has a good track record of delivering planned savings although it is finding this more challenging as the balance shifts from making efficiencies to more impactful service change

### 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 good track record of delivering planned savings although it is finding this more challenging as the balance shifts from making efficiencies to more impactful service changes. We reached this conclusion because:
- In 2018-19 the Council approved savings totalling £4.6 million split between savings of £0.4 million, efficiencies of £1.2 million, corporate savings of £1 million and changes to the minimum revenue provision of £2 million. Many of these savings and efficiencies were relatively small scale and the Council advises that it delivered the savings target in total.
  - In 2019-20 the revenue budget assumed savings of £5.7 million as follows; corporate savings (£0.5 million), Schools savings (£1.3 million) and service efficiencies and savings (£3.9 million).
  - In December 2019, the Council reported that £0.6 million of these savings (almost 11%) would need to be funded by the Savings Achievement Contingency<sup>1</sup>. The Council therefore expects to deliver almost 89% of its planned savings in 2019-20.

<sup>1</sup> The Savings Achievement Contingency is a base budget contingency that is retained corporately until required to fund in year non-achievement of efficiencies

### Exhibit 5: savings delivered during 2018-19 as a percentage of planned savings

The following exhibit shows how much money the Council intended to save through planned savings during 2018-19 and how much of this it actually saved.

<b>£4.6m</b>	<b>£4.6m</b>	<b>£0</b>	<b>100%</b>
Total planned savings	Planned savings delivered	Planned savings not delivered	Percentage savings achieved

Source: Finance Report to Cabinet, 25 September 2018 and 2018-19 Final Outturn report.

### The Council uses its reserves strategically, retains healthy balances, and some important earmarked reserves are almost fully used as planned

#### 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 uses its usable reserves strategically, retains healthy balances, and some important earmarked reserves are almost fully used as planned. We reached this conclusion because:
- The Council has maintained an overall healthy level of reserves, using these in a planned way as part of its financial management. At the 31 March 2019, the Council held approximately £38 million of usable reserves.
  - The Budget Mitigation earmarked reserve reduced from £3.6 million at 31 March 2018 to £3.1 million at 31 March 2019 and is planned to reduce further to £1.1 million by 31 March 2020.
  - Schools balances reduced from £0.3 million at 31 March 2018 to a deficit of £0.2 million at 31 March 2019. The position has further deteriorated during 2019-20 with the Council projecting, in November 2019 a deficit of £1.3 million to be carried forward into 2020-21.
  - The Adult Social Care reserve, set up to provide the service with resilience and cope with in-year budget pressures, reduced from £1.6 million at 31 March 2018 to £0.8m at 31 March 2019.

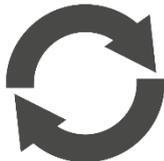
### Exhibit 6: amount of reserves vs annual budget, 2018-19

This exhibit shows the amount of usable reserves the Council had during 2018-19 compared with its net revenue budget for the same year.



**£194.4m**

Net Revenue Budget



**£38.0m**

Total Useable Reserves



**19.6%**

Total Useable Reserves as  
a percentage of Net  
Revenue Budget

Source: Denbighshire County Council audited 2018-19 Statement of Accounts.

### The Council has had historically higher than average income from Council Tax and collection rates are good

#### 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 The Council has had historically higher than average income from Council Tax and collection rates are good. We reached this conclusion because:
- The Council has the 7th highest Council Tax band “D” amount in Wales and Council Tax represents 17% of its total income. Whilst the Council has often increased its Council Tax by a lower percentage than other councils, it has consistently generated higher actual income than most other councils in Wales.
  - The Council collected 97.7% of Council Tax in 2018-19 and its Council Tax arrears level has remained around £2.5 million for the last four years, with below average write off of arrears.

## 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 £51.3m (97.7%) against a collectable debit of £52.5m

Source: statswales.gov.wales

## The Council has a prudent approach to borrowing and does not borrow to fund commercial investment

### 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 The Council has a prudent approach to borrowing and does not borrow to fund commercial investment. We reached this conclusion because:
- The Council approved its Treasury Management Strategy Statement 2019-20 and Prudential Indicators 2019-20 to 2021-22 in February 2019. It plans to borrow £45 million over the next three years on a reducing scale - £26 million, £15 million and £4 million. This is mostly to fund its 21st century schools programme. It has also borrowed 100% of the funding for its flood defence scheme that Welsh Government has agreed to reimburse at 75% through Revenue Support Grant over the next 25 years. The Council continues to benefit from current low interest rates.

- The Council does not borrow to fund commercial investment.

### 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



**6%**

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

Source: Denbighshire County Council audited 2018-19 Statement of Accounts.



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