

**FINANCIAL RESILIENCE 2017/18**

**REPORT OF THE CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 5.2**

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**Reason for this Report**

1. Financial resilience can be defined as the ability of the Council to meet unexpected or known demands on resources, in the short, medium and long-term.
2. This report provides Audit Committee Members with various items of information and benchmarking data on the Council's Financial Resilience. This includes the items below:
  - Financial Resilience Snapshot - Month 6 2017/18
  - Financial ratios derived from Statement of Accounts on an All Wales basis for 2013/14, 2014/15 and 2015/16 as calculated and published by Welsh Government
  - The Earmarked Reserves protocol for the Council which includes earmarked reserves balances at 31 March 2017.

**Issues**

**Financial Resilience Snapshot – Month 6**

3. The financial pressures facing local authorities since 2010 have been well documented. The reductions in funding have created financial risks and uncertainty for local authorities. Whilst a robust financial governance framework exists in local government, the recent economic situation has meant local authorities having to look at financial governance in new ways.
4. There has been an emphasis on raising the profile of financial resilience including briefings and training sessions for both Members and Officers. The Council regularly prepares Financial Resilience Snapshots which are designed to give an overview of the financial health of the Council at intervals throughout the year. A snapshot is currently produced as part of the :-
  - Budget Proposals report in February each year and
  - Budget Strategy report in July each year

5. The above reports are considered by Cabinet and Council while a mid year update of the snapshot is also considered by Audit Committee.
6. The snapshot aims to provide an overall view of performance and enable emerging issues and trends to be identified by using past, present and future information. The Month 6 snapshot is included at **Appendix 1**.
7. The information in the Financial Resilience Snapshot is broken down into three parts:
  - The left hand column focusses on historic information taken from the Council's Statement of Accounts 2016/17 and prior years.
  - The middle column provides forecast information for the current financial year at a point in time, in this case the Budget Monitoring Report for Month 6 as at 30 September 2017.
  - The right-hand column includes tables, charts and figures taking a forward look and projections of the financial situation in future years.

### **Left-Hand Column: Historic Information taken from the Council's Statement of Accounts**

#### Council Fund and Earmarked Reserves

8. This chart shows the amount of Earmarked Reserves and the Council Fund balance held at the end of the financial years from 2013/14 to 2016/17; in quantum, as well as a percentage of the Council's net budget. In 2016/17, Earmarked Reserves increased by £7.754 million to £59.391 million and as planned in the 2016/17 budget, the Council Fund Balance decreased by £1 million to £14.255 million. This has been previously reported in the Statement of Accounts and Outturn Report for the year. The year end outturn position provided the opportunity to increase the level of reserves for use in connection with future demands, in turn improving the Council's financial resilience position.

#### Historic Cumulative Budget Savings

9. Recent years have seen increasing austerity requirements coupled with increasing demands on services. This chart shows both the individual savings required from 2012/13 to 2017/18 and the cumulative effect of these savings. This shows £180.903 million of savings have been required to be made by the Council over the last six years.

#### Actual Revenue Funding Split

10. This chart provides a breakdown of the sources of funding for the Revenue Outturn position for that year between the Revenue Support Grant, Council Tax, Non-Domestic Rates and other income. The Revenue Support Grant from Welsh Government decreased by £2.542 million to £320.309 million between 2015/16 and 2016/17. Distributed Non Domestic Rate (NDR) income increased by £4.741 million in 2016/17 to £105.994 million. The chart shows the continuing dependency on Central Government funding, reductions to which can only be met from savings or increasing Council Tax.

11. Council Tax increased by £5.744 million between 2015/16 and 2016/17 with an outturn of £149.806 million. Council Tax as a percentage of revenue funding is just below 26%.

#### Financial Ratios

12. Whilst ratios determined from local authority accounts can be used to support benchmarking, scrutiny and challenge of authority finances, there are significant risks to such comparison. They should not be used as measures of good or bad performance. Balance sheet data is at a point in time and there are drawbacks to the ratios themselves. There are also accounting and other balances within a Council's accounts which can skew comparisons significantly. Accordingly, comparison should be undertaken with care.
13. The ratios provided in the Month 6 snapshot for Cardiff are based on its single entity Statement of Accounts for 2016/17. **Appendix 2** gives a definition of each of the ratios along with commentary on each measure.

#### *Working Capital as % of Gross Revenue Expenditure*

14. At 31 March 2017, Cardiff had a working capital ratio of 7.02% which is an increase of 1% from the previous year. The reason for this is that the current assets have increased slightly by £7.885 million and at the same time current liabilities have decreased by £1.300 million. This could be because of a number of variables, but the inference is that the Council is now in a better position to cover day to day expenditure.

#### *Usable Reserves as % of Gross Revenue Expenditure*

15. At 31 March 2017, Cardiff had Usable Reserves of 11.50%, which was a 1.19% increase on the previous year. This reflects the increase in reserves indicated earlier.

#### *Earmarked Reserves as % of Gross Revenue Expenditure*

16. Cardiff's ratio at 31 March 2017 was 7.00%, which was an increase of 0.59% on the previous year, and this follows the increasing trend over the past three years.

#### *Unallocated / General Reserves*

17. A favourable revenue outturn position in 2015/16 allowed the Council to increase the General Balance resulting in an increase of this ratio. Of the increase in that year, £1 million was to be used in setting the Council's budget for 2016/17 which was approved by Council in February 2016.

#### *Long-term Borrowing to Long-term Assets*

18. The ratio for Cardiff at 31 March 2017 remained the same as for 2015/16 at 0.35. This plateau follows an increase in 2015/16 as a result of additional borrowing to undertake the Housing Subsidy budget.

### *Long-term Borrowing to Taxation and Aggregate External Finance*

19. The long-term borrowing to taxation and non-specific grants ratio for Cardiff for at 31 March 2017 was 1.10, which remains the same as last year. The increase in 2015/6 in borrowing was as a result of the Housing Subsidy Buyout.

### *Council Tax as % of Taxation and Non-Specific Grant Income*

20. At 31 March 2017, Cardiff had a ratio of 26.01% which was an increase of 0.8% from the previous year's ratio of 25.21%. This ratio aims to determine the percentage of the net revenue budget that is paid for by Council tax, but it can be influenced by changes into and out of the settlement determined by WG each year.

### **Middle Column: Forecast information for the current financial year**

#### Revenue Month 6 Projected Position

21. The Month 6 Budget Monitoring report was considered by Cabinet on 16 November 2017 and the forecasts included in the snapshot are consistent with that report. In total the Directorates collectively have a projected outturn over budget on revenue expenditure by 0.91% although the overall position is projected to be in balance.

#### Revenue Savings Achieved and Unachieved as at Month 6

22. This shows the total level of savings for 2016/17 which were £25.892 million. Out of this 93.1% were achieved and 6.9% were unachieved. In 2017/18, the total £14.157 million to be achieved shows that 86.2% of these have been achieved so far.
23. The unachieved savings for both years are broken down by Directorate. For 2016/17, Education and Lifelong Learning had the highest level of unachieved savings at £560,000. The projection for 2017/18 shows that only Social Services have projected unachievable savings over £1 million. Monitoring of savings is a regular consideration at Senior Management Team and at timetabled discussions with Cabinet Members.

#### Capital Month 6 Projected Position

24. This table reflects projections in the Month 6 Budget Monitoring report. The largest variance of £4.589 million relates to Education & Lifelong Learning and primarily to timing of costs expected in relation to the 21<sup>st</sup> Century Schools Programme.

### **Right-Hand Column: Financial Snapshot of Future Performance and Estimates**

#### *Medium Term Financial Plan*

25. This table outlines the budget reduction requirement that the Council is facing over the medium term, along with a summary of the strategy proposed to address this. The budget reduction requirement is the sum of the financial pressures facing the Council and the projected funding reduction for each year. In order to address the gap, budget strategy assumptions are added to total projected savings. Any remaining gap which is still to be addressed is shown in the final row of the table.

### *Capital Expenditure & Capital Financing Requirement*

26. This table sets out the estimates for capital expenditure and historic capital expenditure incurred but not yet paid (the Capital Financing Requirement) for the next three years. Figures for 2018/19 onwards are those included in the Budget report for 2017/18. At its meeting of November 2016, Audit Committee considered the Council policy for the prudent repayment of historic capital expenditure (debt).

### *Affordability Indicator – Capital Financing Costs as a % of Controllable Budget*

27. Capital financing costs include external interest payable and prudent revenue provision for the repayment of debt. The affordability indicators were established in 2011/12 and the percentages for that year are used as a base for determining the increase in this ratio over a period. Future years' projections are those currently included in the Budget report for 2017/18.

### **Financial Ratios – WG Comparative Data**

28. Welsh Government publish reports on Local Authority Financial Indicators. An extract of the financial indicators for 2013/14, 2014/15 and 2015/16 for all Local Authorities in Wales are shown in **Appendix 3** with the full report for 2015/16 shown in **Appendix 4**. Data using 2016/17 accounts are yet to be published by Welsh Government.
29. It should be noted that the All Wales ratios are based on the audited Whole of Government Accounts submissions whereas the information included in the Council's snapshot are based on the Council's single entity accounts. Accordingly the ratios will differ, however trend analysis will be a useful indicator. Comments on the ratios in **Appendix 2** should be noted.
30. The table below shows the financial indicators for Cardiff from the Welsh Government report for 2015/16 and ranks each indicator in relation to the other Welsh authorities and the average for Wales:

<b>Financial Indicator Ratio</b>	<b>Welsh Average</b>	<b>Cardiff</b>	<b>Rank (1= Best Performing; 22 = Lowest Performing)</b>
Working Capital to Gross Revenue Expenditure	7.4%	6.0%	10
Reserves to Gross Revenue Expenditure	17.8%	9.10%	21
Earmarked Reserves to Gross Revenue Expenditure	12.4%	6.4%	19
Unallocated/General Reserves to Gross Revenue Expenditure	10.8 Days	7.2 Days	18
Long-Term Borrowing to Long-Term Assets	0.31:1	0.36:1	17
Long-Term Borrowing to Taxation & NS Grants	0.80:1	1.08:1	21
Council Tax to Taxation & NS Grants	26%	28%	5

31. The trend analysis in respect to these ratios published by WG show that the relatively low level of reserves and relatively high levels of long term borrowing, put the Council at the bottom of the range of these indicators in Wales. The dangers of using ratios as

comparators was highlighted above and often requires further detailed analysis. The Figures for long term borrowing for Cardiff above include £187 million of borrowing undertaken in 2015/16 to exit the housing subsidy system.

### **Earmarked Reserves Protocol**

32. Reserves are amounts set aside for specific policy purposes or for general contingencies and cash flow management. They may be earmarked or general reserves.
33. Reserves enable Councils to:
  - Create a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
  - Create a contingency to cushion the impact of unexpected events or emergencies. This also forms part of general reserves.
  - Creates a means of building up funds, often referred to as earmarked reserves, as defined above, to meet known or predicted liabilities.
34. CIPFA recommended accounting practice requires the S151 officer to create a protocol for reserves and balances for each reserve established. This should set out the purpose, usage and the approval processes for transfers in and out of reserves. This needs to be clearly defined, along with the processes for determining whether the intended use of the reserve is still valid. The current protocol used by the Council is included in **Appendix 5** and has previously been considered by Audit Committee in November 2016. **Appendix 6** shows the position for all earmarked reserves at 31 March 2017, as contained in the audited Statement of Accounts 2016/17.
35. The annual Budget Report to Council includes an assessment by the Section 151 Officer of the adequacy of reserves. The statement included in the 2017/18 report was that “the judgement of the Council’s Section 151 Officer, taking into account the budget monitoring forecast as at 31 December 2016, the corporate budget position, the General Reserve, as well as the General Contingency budget of £3 million is that the projected level of both general and earmarked reserves up until 31 March 2018, is adequate when considering the 2017/18 budget”.

### **Reason for Recommendations**

36. To allow Audit Committee to consider a range of performance and benchmarking information.

### **Legal Implications**

37. No direct legal implications arise from this report.

### **Financial Implications**

38. There are no direct implications arising from this information report.

## **RECOMMENDATIONS**

39. Audit Committee is requested to :-

- To note the financial resilience snapshot provided as at Month 6
- To note the data produced and published by WG on Financial Indicators for 2013/14, 2014/15 and 2015/16
- To note the Earmarked Reserves Protocol.

**CHRISTINE SALTER**  
**COROPORATE DIRECTOR RESOURCES**  
**17 November 2017**

The following appendices are attached:

Appendix 1 – Finance Snapshot - Month 6

Appendix 2 – Financial Ratios – Definitions and Drawbacks

Appendix 3 – Financial indicators for 2013/14, 2014/15 and 2015/16 for all Local Authorities in Wales (Welsh Government Data)

Appendix 4 – Local Authority Financial Indicators, Wales 2015-16 (Welsh Government)

Appendix 5 – Earmarked Reserves Protocol

Appendix 6 – Earmarked Reserves Balances 2016-17