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# Financial Sustainability Assessment – **Cardiff Council**

Audit year: 2019-20

Date issued: March 2020

Document reference: 1827A2020-21



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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 Phil Pugh, Sara-Jane Byrne and Jon Martin 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
  - Borrowing

**Exhibit 1: about the Council [sources: 2018-19 statement of accounts and 2019-20 budget]**

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 £623.589m**



**The Council employs around 11,994 people (5344 FTEs and 6600 school-based employees)**

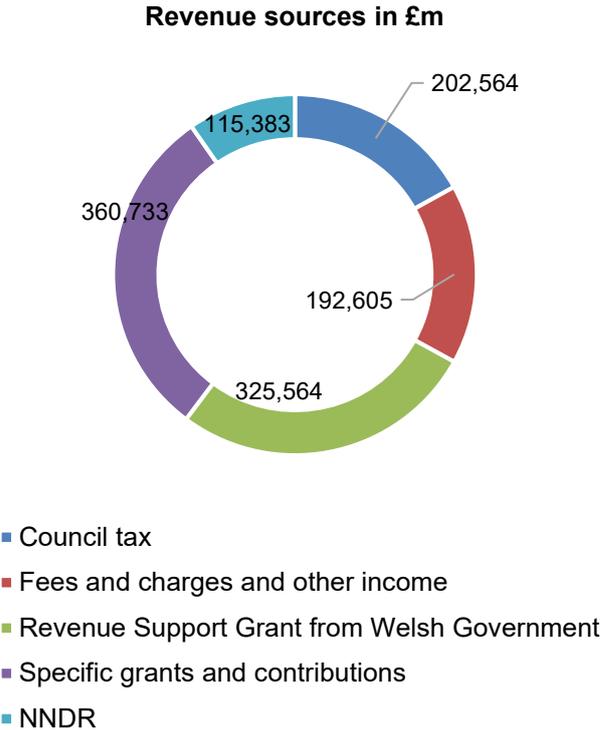


**The Council's Plant, Property & Equipment and Investment Property assets as at 31 March 2019 were £1,867m**

- 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 – source – Council's financial sustainability self-assessment**

The pie chart below shows how much money the Council received from different funding sources during 2018-19



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

**What we found**

5 Overall, we found that: Currently, we have no major concerns about the Council's financial resilience. However, the Council continues to face significant financial challenges over the medium term given the level of savings required, and the Council needs to have more of a focus on how it will narrow the gap over the medium term, including improving its savings planning.

- 6 We reached this conclusion because:
- The Council has a medium term financial plan based on reasonable assumptions but needs to consider how it is going to meet its longer-term funding gap, including strengthening the links between its transformation programme and its medium-term financial plan.
  - Overall, the Council has managed its spend within budget but there is a pattern of overspending in some service areas

- The Council has a track record of achieving the majority of its overall savings, but it will become increasingly challenging to deliver them in the future and the Council needs to strengthen its savings planning process.
- The Council has not made any unplanned use of reserves to fund its revenue budget and its level of useable reserves has generally increased over time.
- Council tax collection rates have generally improved over the past few years.
- The Council's capital city status and major capital programme mean that it has a relatively high level of borrowing.

# Detailed report

Currently, we have no major concerns about the Council's financial resilience. However, the Council continues to face significant financial challenges over the medium term given the level of savings required, and the Council needs to have more of a focus on how it will narrow the gap over the medium term, including improving its savings planning

The Council has a medium term financial plan based on reasonable assumptions but needs to consider how it is going to meet its longer-term funding gap, including strengthening the links between its transformation programme and its medium-term financial plan

Why strategic financial planning is important

- 7 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

- 8 The Council has a medium term financial plan based on reasonable assumptions but needs to consider how it is going to meet its longer-term funding gap, including strengthening the links between its transformation programme and its medium term financial plan.

We reached this conclusion because:

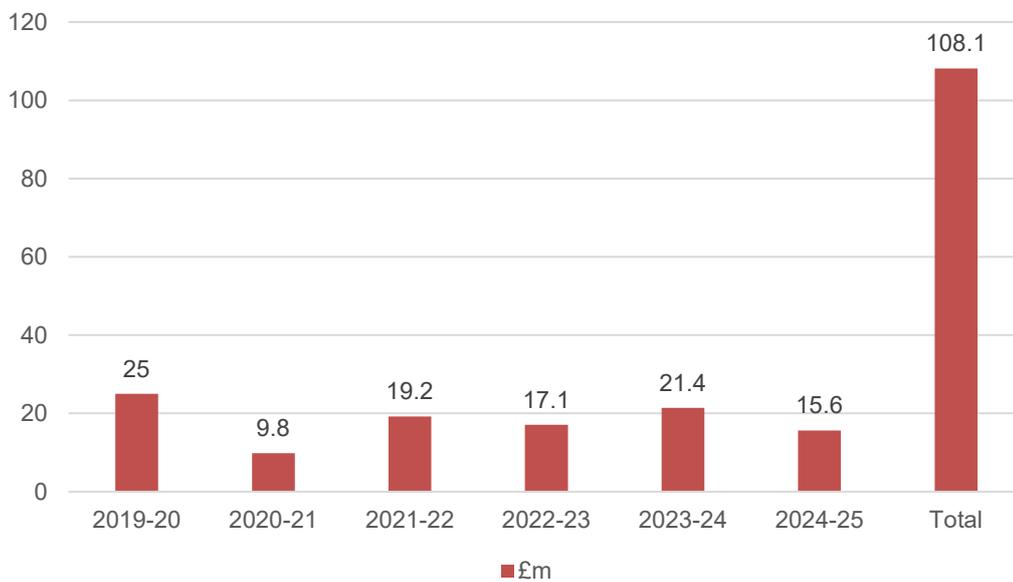
- 9
  - the Council has already made £220 million savings over the past 10 years and has reduced its non-school staff by about 20%.
  - the Council's medium-term financial plan 2020-21 – 2023-24 agreed in July 2019 was based on reasonable assumptions. It identified a budget gap of £101m.
  - the Welsh Government's provisional settlement issued in December 2019, indicated that for 2020-21, the Council is likely to receive an increase of 4.1% as opposed to the 0.5% reduction anticipated in the medium term financial plan. After an assumed Council tax increase of 4.5% in 2020-21 therefore, the Council needs to find £9.8 million savings rather than the £18.5 million forecast in July 2019. In February 2020, the Council updated its

medium term financial plan for 2021-22 and beyond to reflect this more positive settlement.

- as the Council's reports to Cabinet on 19 December 2019 and 20 February 2020 recommend, whilst this is a more positive position, the Council must use the opportunity to strengthen its financial resilience and build a robust position from which to move forward recognising the medium and longer term challenges.
- the Council intends to meet its budget gap over the period of the MTFP through a combination of:
  - efficiency savings;
  - service change/transformation;
  - increases to fees and charges/income opportunities; and
  - increases in Council tax
- the Council's focus is mainly on addressing the annual budget gap for the immediate financial year but it needs to determine how it will address the budget gap over the medium to longer term.
- in addressing the funding gap identified in the MTFP, the Council aims to maintain the delivery of its services where possible but recognises that this will become increasingly difficult.
- the Council recognises a need to make significant efficiency savings over the medium-term but intends to make the majority of these savings from services other than education and social services. The Council is considering reducing the level of savings it will seek from the education and social services departments in future years due to funding pressures and difficulties in meeting previous savings targets. As these services account for two thirds of the Council's budget, it will be increasingly challenging to find the equivalent savings from other areas without making significant changes to the way the services are delivered.
- the Council has implemented a range of alternative delivery mechanisms and continues to explore options to address its budget gap. For example, it has outsourced eight leisure centres and it is transferring the running of the New Theatre to a partner provider.
- the extent to which the Council's transformation programme will contribute to achieving the required savings required remains unclear.
- the Council does not have a corporate strategy for income generation despite us raising this as a proposal for improvement in our Savings Planning report issued to the Council in March 2017. There is no consistent approach to fees and charges. For example, charges for some services have remained at the same level for a number of years.
- the Council has included a contingent liability for landfill tax in its financial statements since 2017-18. This remains an ongoing matter with HMRC and the extent of any potential liability is as yet unknown. We will continue to monitor the position.

Exhibit 4: projected funding gap [sources – Budget report 2019-20, Budget report 2020-21 February 2020 and Council's medium term financial plan 2021-22 – 2024-25, February 2020]

The following graph shows the funding gap that the Council has identified for this year, and the following five years as identified in its medium term financial plan agreed in February 2020.



Overall, the Council has managed its spend within budget but there is a pattern of overspending in some service areas

## 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.

### What we found

11 Overall, the Council has managed its spend within budget but there is a pattern of overspending in some service areas. We reached this conclusion because:

- overall the Council delivered a balanced outturn position. However, there has been a trend of overspending in some key services: social services, education and waste.
- the Council is continuing to take action to address and understand these overspends, such as re-basing its social services budgets.

Exhibit 5: amount of overspend/underspend relative to total net revenue budget [sources – Council’s financial sustainability self-assessment, annual outturn reports and month 6 report 2019]

The following exhibit shows the amount of overspend or underspend for the council’s overall net revenue budget for the last two years and the year to date as at month 6 September 2019.

	<b>Original Budget net revenue budget</b>	<b>Actual Outturn net revenue budget</b>	<b>Amount of overall surplus/overspend</b>	<b>Percentage difference from net revenue budget</b>
2017-18	£586,984m	£586,984m	0	0%
2018-19	£608,913m	£608,913m	0	0%
2019-20	£623,589m	£623,803m	£214,000 overspend	0.03% overspend

## The Council has a track record of achieving the majority of its overall savings, but it will become increasingly challenging to deliver them in the future and the Council needs to strengthen its savings planning process

### 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.

### What we found

- 13 The Council has a track record of achieving the majority of its overall savings, but it will become increasingly challenging to meet them in the future and the Council needs to strengthen its savings planning process. We reached this conclusion because:
- the Council has a track record of meeting the majority of its overall savings but is predicting that it will not deliver £6.200 million of savings out of a total of £19.157 million in 2019-20.
  - Underachievement of savings is a common theme within most directorates. The fact the Council has managed in recent years to balance its outturn position overall is as a result of several factors. For example, this includes achieving additional savings elsewhere or from underspends in other services. This approach is unlikely to be sustainable.
  - Robustness of savings plans remains an issue despite us raising related proposals for improvement in our previous financial resilience reports. For 2019-20, for example, about £3.5 million of savings were still at the planning stage at the time the annual budget was agreed. The Council is now addressing this by ensuring that from 2020-21 onwards, no savings are included in the budget unless they are supported by detailed savings plans, which have been subject to scrutiny and challenge.
  - The Council does not undertake an annual lessons learnt exercise highlighting the key reasons why savings plan have not been achieved in order to learn lessons and inform future plans.

Exhibit 6: savings delivered during 2018-19 as a percentage of planned savings [source – Council’s financial sustainability self-assessment]

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

**£14,296m   £10,207m   £4,089m   71.4%**

Total planned savings	Planned savings delivered	Planned savings not delivered	Percentage savings achieved
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The Council has not made any unplanned use of reserves to fund its revenue budget and its level of useable reserves has generally increased over time

### Why sustainable management of reserves is important

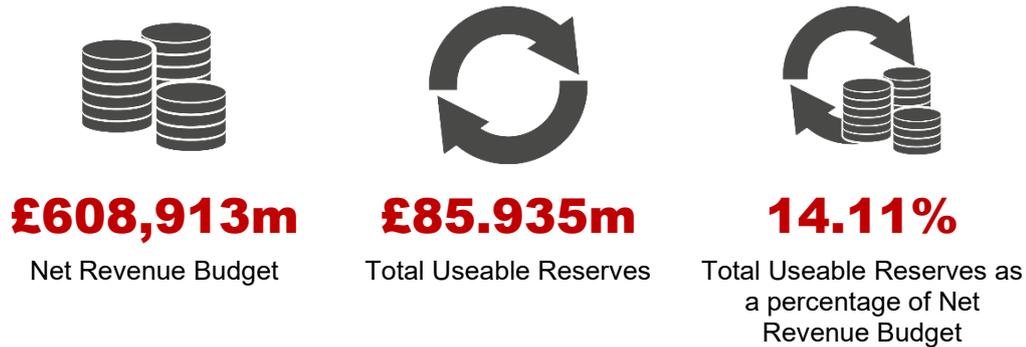
14 Healthy levels of useable reserves are an important safety net to support financial sustainability. As well as being available to fund unexpected funding pressures, useable reserves can also be an important funding source to support ‘invest to save’ initiatives designed to reduce the on-going cost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

- 15 The Council has not made any unplanned use of reserves to fund its revenue budget and its level of useable reserves has generally increased over time. We reached this conclusion because:
- the Council’s level of useable reserves (which includes earmarked reserves) has increased throughout the period 2014-15 (£57.579 million) to 2018-19 (£85.935 million).
  - the Council’s general fund reserves has remained static at about £14.25 million since 31 March 2017.
  - the Council has adopted a relatively prudent approach to managing its reserves. It has a number of contingency budgets and strategic earmarked reserves, such as the Strategic Budget Reserve, Financial Resilience Mechanism, General Contingency budget and looked after children reserve. These provide the Council with options to respond to budget pressures.
  - the Council has used its reserves in a planned way to help it balance its budget and intends to use £5.75 million of its Strategic Budget Reserve to support the budget over the period.

Exhibit 7: amount of reserves vs annual budget, 2018-19 [Source: Balance sheet as at 31 March 2019 insert source]

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



## Council tax collection rates have generally improved over the past few years

### Why council tax collection rates are important

- 16 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

- 17 Council tax collection rates have generally improved over the past few years. We reached this conclusion because:
- Council tax accounts as a proportion of the Council's funding annually has increased over time – from 14.7 % in 2017-18 to 16% in 2019-20.
  - Council tax collection rates have been between 97% and 97.7% over the past five years, having increased from 94.5% in 2010-11.

### Exhibit 8: council tax collection rates [source: StatsWales]

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 **£168.455m** ([97.4%]) against a collectable debit of **£172.908m**

## The Council's capital city status and major capital programme mean that it has a relatively high level of borrowing

### Why maintaining sustainable levels of borrowing is important

- 18 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

- 19 The Council's total borrowing as at 31 March 2019 was £731m. Total borrowings have increased by approximately 8% since 2016 (31 March 2016 £676 million). The Council's total borrowings are the highest in Wales, but this is not unexpected given the Council's capital city status, its significant capital programme and the fact that it retains its housing stock.
- 20 The Council's borrowings mainly consist of Public Works Loan Board loans (PWLBs) and Lender Option Borrowing Options loans (LOBOs) – £669 million and £52 million respectively as at 31 March 2019.
- 21 The level of the Council's PWLB loans is the highest in Wales and LOBOs are the 4<sup>th</sup> highest in Wales.
- 22 The Council has recently purchased a commercial property as part of its plan to develop a new indoor arena which will require additional borrowing.

23 Interest and similar charges payable on the Council's borrowings totalled £32.176 million in 2018-19 which represented 5.3% of the Council's 2018-19 Net Revenue budget.

**Exhibit 9: Council borrowing [source: 2018-19 statement of accounts]**

The exhibit below shows the cost of all the borrowing that the Council has as a proportion of its net revenue budget.



**5.28%**

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

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