

THE VALE OF GLAMORGAN COUNCIL

GOVERNANCE AND AUDIT COMMITTEE: 13TH DECEMBER, 2021

REFERENCE FROM CORPORATE PERFORMANCE AND RESOURCES
SCRUTINY COMMITTEE: 21ST OCTOBER, 2021

“501 AUDIT WALES: FINANCIAL SUSTAINABILITY ASSESSMENT OF THE
VALE OF GLAMORGAN COUNCIL 2021 (MD) –

S. Wyndham and I. Phillips (representatives from Audit Wales) jointly presented the report to Committee which advised of the findings of the Auditor General for Wales' assessment of the Vale of Glamorgan's financial sustainability and the Council's response to its findings. Audit Wales' assessment of the Council's financial sustainability in 2020-21 had been undertaken in two phases. Phase 1 being a baseline assessment of the initial impact of COVID-19 on the financial position was undertaken earlier in the year alongside all Welsh Local Authorities. The findings informed the national summary report – [Financial Sustainability of Local Government as a result of the COVID-19 Pandemic](#) published in October 2020. The report highlighted that Councils and the Welsh Government had worked well together to mitigate the impact of the pandemic to date, but the future sustainability of the sector remained an ongoing challenge.

The appended local report (Appendix A) concluded phase 2 of Audit Wales' financial sustainability assessment work undertaken during 2020-21 which concluded that the Vale of Glamorgan Council was well-placed to maintain its financial resilience with a healthy level of reserves and sustainable plans for their use.

The report however, identified one Proposal for Improvement being PFI 1: Given the anticipated funding gaps in 2022-23 and 2023-24, the Council needed to determine how it would meet those gaps, including the extent to which savings would contribute to that.

In response to the findings, the report detailed that the ongoing funding gap would be considered as part of the budget setting process for 2022/2023 and this action would be incorporated within the Insight tracker and progressed by the Council. Progress would also be monitored by Audit Wales as part of the Council's annual audit work programme.

Committee Members were asked to consider the contents of both the national and local Financial Sustainability reports including the Council's response (proposed action above and detailed in 2.6 in the report) with any recommendations / comments being referred to Governance and Audit Committee and thereafter, onto Cabinet for their consideration and endorsement of the proposed action to address the Proposal for Improvement.

Councillor Dr. Johnson stated that there had been no surprises for him in the report and that it was a refreshing and transparent report. A number of the issues he said had also been identified and discussed at previous meetings that he had attended within the Council. His concerns however, related to the Council's reserves being consistently high and that in his view he considered the Council was setting itself complicated savings targets which may not be necessary as funding may come from other sources. In referring to page 15 of the Auditors report he also enquired as to the Auditor's view with regard to the substantial increase in its assets and liabilities for 2021 and whether the changes had been taken in as a result of the Council's housing building programme.

Councillor G. D.D. Carroll enquired as to the Auditors view of the Council having levels of reserves of £10 million.

The Chair in referring to the acid test ratio enquired, as to what data was available in this regard as he considered this to be a truer reflection of liquidity than the working capital ratio, the remit of the Auditor and why they had looked at some indicators as opposed to others.

In response to the above queries the Auditor stated that the basis used with regard to liquidity had been the one that had been selected by the project team who had wanted to ensure a consistent approach across Wales with all 22 local authorities. He would however, speak to the team to consider whether any further work on liquidity would be undertaken. With regard to the reserves he stated that in his view the Vale reserves were acceptable and although Audit Wales did not prescribe a minimum level of reserves they would consider the level of reserves in the context of the assets and liabilities of each Council. He further advised that the assets and liabilities reported upon related to a snapshot in time based on the balance sheet information as at 31st March, 2021 to which he added the Auditor had had no concerns in respect of liquidity. In fact, he stated the Vale was ranked as one of the highest in Wales.

In further commenting on Council reserves the Auditor advised that the Vale was not an outlier in respect of future projections and that it was indeed a prudent approach as further funding support such as that that had been received in previous years may not be forthcoming.

The Head of Finance/Section 151 Officer also commented that the funding previously received from Welsh Government had indeed been a surprise in the first instance and had been provided based on an increase in population. In summation the Head of Service added that the Council tended to be prudent in its forward planning.

In conclusion, the Chair advised that he was glad the Council had been prudent and that it had been right to be sensible. The Chair also took the opportunity to thank the Head of Service and her team for all the hard work undertaken throughout the pandemic.

RECOMMENDED –

(1) T H A T the contents of both the national and local financial sustainability reports including the key findings arising from Audit Wales' assessment of the Vale of Glamorgan's financial sustainability (Appendix A to the report) and the Council's response to the assessment findings and Audit Wales' Proposal for Improvement, be noted.

(2) T H A T the reports be referred to Governance and Audit Committee for their oversight and thereon to Cabinet for consideration and endorsement of the proposed actions to address the proposals for improvement.

Reasons for recommendations

(1) Having regard to the Committee's scrutiny and review of the findings of Audit Wales' assessment of the Vale of Glamorgan Council's financial sustainability and future local government financial sustainability challenges.

(2) To ensure the Council responds appropriately and implements areas of improvement as identified by Audit Wales."

Attached as Appendix – Report to Corporate Performance and Resources Scrutiny Committee: 21st October, 2021

Meeting of:	Corporate Performance and Resources Scrutiny Committee
Date of Meeting:	Thursday, 21 October 2021
Relevant Scrutiny Committee:	Corporate Performance and Resources
Report Title:	Audit Wales: Financial Sustainability Assessment of the Vale of Glamorgan Council 2021
Purpose of Report:	To advise Members of the findings of the Auditor General for Wales' assessment of the Vale of Glamorgan's financial sustainability and the Council's response to its findings.
Report Owner:	Rob Thomas, Managing Director
Responsible Officer:	Carys Lord, Head of Finance
Elected Member and Officer Consultation:	Regulatory reports apply to the whole authority. Progress in relation to areas for improvement arising from the Annual Regulatory Plan is reported to relevant Scrutiny Committees, Cabinet and Governance & Audit Committee for final oversight. The Insight Board's Tracker monitors progress on all regulatory recommendations/proposals for improvement on a monthly basis and reports to the Senior Leadership Team.
Policy Framework:	This is a matter for Executive decision by Cabinet.
Executive Summary:	<ul style="list-style-type: none"> ○ Audit Wales' assessment of the Council's financial sustainability in 2020-21 was undertaken in two phases. Phase 1, a baseline assessment of the initial impact of COVID-19 on our financial position was undertaken earlier in the year alongside all Welsh local authorities. The findings informed the national summary report – Financial Sustainability of Local Government as a result of the COVID-19 Pandemic published in October 2020. The report highlighted 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 remains an ongoing challenge. ○ The appended local report (Appendix A) concludes phase 2 of Audit Wales' financial sustainability assessment work undertaken during 2020-21. The report concludes that the Vale of Glamorgan Council is well-placed to maintain its financial resilience with a healthy level of reserves and sustainable plans for their use. ○ The key findings from the assessment were as follows:

- The immediate impact of COVID-19 on the Council's financial sustainability has been mitigated by additional Welsh Government funding.
- The Council is in a healthy financial position and has a sustainable financial approach over the medium-term, with a planned use of earmarked reserves.
- The Council has a healthy level of reserves and its plans to use them are generally sustainable despite some unplanned use in 2020-21.
- The Council has a track record of achieving a surplus and transferring monies to its reserves, until 2020-21 when service overspends led to a small unplanned use of reserves.
- The Council has a mixed track record of identifying and delivering savings to support its financial sustainability.
- The Council has a strong liquidity position (ranked among the top two highest local authorities in Wales) meaning it can meet its financial obligations as they fall due for repayment.
- The report identifies one Proposal for Improvement:

PFI 1: Given the anticipated funding gaps in 2022-23 and 2023-24, the Council needs to determine how it will meet those gaps, including the extent to which savings will contribute to that.

- In response to the report findings, the ongoing funding gap will be considered as part of the budget setting process for 2022/2023 and this action will be incorporated within the Insight tracker and progressed by the Council. Progress will also be monitored by Audit Wales as part of the Council's annual audit work programme.
- More recently, in September 2021, Audit Wales have published a further national summary report, [Financial Sustainability of Local Government: COVID-19 Impact, Recovery and Future Challenges](#). The report highlights key themes and findings from the financial sustainability work undertaken during 2020-21 across all 22 Welsh local authorities with some reflections on how councils' future financial sustainability could be strengthened.
- Scrutiny Committee members are being asked to consider the contents of both national and local Financial Sustainability reports including the Council's response (proposed action above and detailed in 2.6 below) with any recommendations /comments being referred to Governance and Audit Committee and thereafter, onto Cabinet for their consideration and endorsement of the proposed action to address the Proposal for Improvement.

Recommendations

1. That the Scrutiny Committee (Corporate Performance & Resources) considers the contents of both national and local financial sustainability reports including the key findings arising from Audit Wales' assessment of the Vale of Glamorgan's financial sustainability (**Appendix A**) and the Council's response to the assessment findings and Audit Wales' Proposal for Improvement.
2. That, subject to recommendation one, the reports be referred to Governance & Audit Committee for their oversight and thereon to Cabinet for consideration and endorsement of the proposed actions to address the proposals for improvement.

Reasons for Recommendations

1. To provide for scrutiny and review of the findings of Audit Wales' assessment of the Vale of Glamorgan Council's financial sustainability and future local government financial sustainability challenges.
2. To ensure the Council responds appropriately and implements areas of improvement as identified by Audit Wales.

1. Background

- 1.1 In line with the Council's Regulatory Plan for 2020, Audit Wales undertook an assessment of the Council's financial sustainability. The assessment took place in two phases. Phase 1 was a baseline assessment of the initial impact of COVID-19 on the council's financial position which, informed a national report (Financial Sustainability of Local Government as a result of the COVID-19 Pandemic) published earlier in October 2020. This set out the initial financial implications of the pandemic for local councils and the scale of the anticipated challenge going forward. The appended local report (**Appendix A**) concludes Phase 2 of the financial sustainability assessment work undertaken during 2020-21.

2. Key Issues for Consideration

- 2.1 **Appendix A** contains the Audit Wales report outlining the key findings of the assessment of the Council's financial sustainability in 2020-21.
- 2.2 Audit Wales' assessment was undertaken in two phases. Phase 1 was a baseline assessment of the initial impact of COVID-19 on our 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. This work was undertaken across all Welsh local authorities and informed national summary report – [Financial Sustainability of Local Government as a result of the COVID-19 Pandemic](#), published in October 2020. The report highlighted 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 remains an ongoing challenge.

- 2.3** The appended local report (**Appendix A**) concludes phase 2 of Audit Wales' financial sustainability assessment work undertaken during 2020-21.
- 2.4** The report concludes that, the Vale of Glamorgan Council is well-placed to maintain its financial resilience with a healthy level of reserves and sustainable plans for their use.
- 2.5** The key findings from the assessment were as follows:
- The immediate impact of COVID-19 on the Council's financial sustainability has been mitigated by additional Welsh Government funding. However, the report also highlights the uncertainty about the duration of the pandemic and the extent of future Welsh Government funding for costs arising from the pandemic.
 - The Council is in a healthy financial position and has a sustainable financial approach over the medium-term, with a planned use of earmarked reserves. The report notes that whilst the Council has projected that it will have a £10.435 million budget gap over the next three years, it has not explicitly set out how it will meet this gap over the term of the Medium Term Financial Plan. Although, the report further acknowledges that that Council is in a healthy financial position and has various options at its disposal to meet those gaps. For example, it is maintaining a sustainable amount of residual reserves despite the planned use of earmarked reserves, and its current rate of Council Tax is below the Welsh average. Furthermore, there are earmarked reserves to support the Council's Reshaping programme, including the planned use of part of the Reshaping Services reserve in 2021-22, and the planned use of the Trainee Appointments Reserve for the period up to 31 March 2024 to fund the appointment of trainees and interns to support services and the Reshaping Programme.
 - The Council has a healthy level of reserves and its plans to use them are generally sustainable despite some unplanned use in 2020-21. The minimum general reserves (Council Fund Reserve) balance recommended by the Section 151 Officer is £10 million. As a result of additional funding received at year end, the Council were able to make a net transfer into useable reserves of £12.2 million.
 - The Council has a track record of achieving a surplus and transferring monies to its reserves, until 2020-21 when service overspends led to a small unplanned use of reserves. These overspends related to Children's services and Waste Management services.
 - The Council has a mixed track record of identifying and delivering savings to support its financial sustainability. The report highlights that savings of £19.24 million were made by the Council between 2016-17 and 2019-20 although some of these were not considered true savings, for example, a change to the Minimum Revenue Provision policy or budget cuts rather than transformational change.
 - The Council has a strong liquidity position (ranked among the top two highest local authorities in Wales) meaning it can meet its financial obligations as they fall due for repayment. The report notes that current assets are

consistently more than double the value of current liabilities. The Council takes a low risk approach to its treasury management with priorities regarding investment being security, then liquidity, and finally return.

- 2.6** The report identifies one Proposal for Improvement:
PFI 1: Given the anticipated funding gaps in 2022-23 and 2023-24, the Council needs to determine how it will meet those gaps, including the extent to which savings will contribute to that.
- 2.7** In response to the report findings, the ongoing funding gap will be considered as part of the budget setting process for 2022-2023 and this action will be incorporated within the Insight tracker and progressed by the Council. Progress will also be monitored by Audit Wales as part of the Council's annual audit work programme.
- 2.8** In line with the Council's performance monitoring arrangements, progress against our key areas for improvement identified within the Insight Board's Tracker, will be monitored monthly. Members of this Committee will continue to be informed of progress against all regulatory improvement areas via the Council's performance monitoring arrangements which will be supplemented with the annual review of regulatory progress, which will be reported to Scrutiny Committees prior to reporting to the Governance and Audit Committee for final oversight.
- 2.9** More recently, in September 2021, Audit Wales have published a further national summary report, [Financial Sustainability of Local Government: COVID-19 Impact, Recovery and Future Challenges](#). The report highlights key themes and findings from the financial sustainability work undertaken during 2020-21 across all 22 Welsh local authorities with some reflections on how councils' future financial sustainability could be strengthened.
- 2.10** It is recommended that the Scrutiny Committee considers the contents of both national and local financial sustainability reports including the Council's response (proposed action outlined in 2.7 above) with any recommendations/comments being referred to the Governance and Audit Committee and thereafter onto Cabinet for their consideration and endorsement of the proposed action to address the Proposal for Improvement. Colleagues from Audit Wales (who undertook this assessment) will be in attendance at Committee and will be available to respond to Members' questions.

3. How do proposals evidence the Five Ways of Working and contribute to our Well-being Objectives?

- 3.1** Performance Management is an intrinsic part of corporate governance and integrated business planning which underpins the delivery of the Council's Corporate Plan and its Well-being Outcomes. Our Corporate Plan has been structured around the Well-being of Future Generations (Wales) Act 2015, through the development of four Well-being Outcomes and eight Well-being Objectives. By aligning our Well-being Outcomes in the Corporate Plan with the Well-being Goals of the Act, this will enable us to better evidence our contribution to the Goals.

- 3.2** External regulation is an important vehicle for driving continuous improvement across our services. Progressing the improvement areas identified by our regulators not only enables us to demonstrate our commitment to continuous service improvement, but also contributes to further strengthening our impact on the national well-being goals through the achievement of our well-being objectives.
- 3.3** The areas of improvement identified by our external regulator and the associated action plan produced by officers has been developed with the five ways of working mind. The focus of these is on developing innovative ways of working that better integrate services, whilst enabling us to work more collaboratively with our partners and citizens to involve them in improving service delivery. These improvement actions also focus on preventative actions that will enable us to sustain and future proof our services into the longer term.

4. Resources and Legal Considerations

Financial

- 4.1** The report contains proposals relating to management of council resources to support effective financial sustainability. The action plan sets out how the Council will respond to these issues. There are also a number of issues contained within the report that if not effectively managed have the potential to impact on our financial sustainability and performance overall. This may in turn impact adversely on achievement of our Well-being Objectives.

Employment

- 4.2** There are no additional employment implications arising from this report, although poor performance against the improvement areas as outlined in Audit Wales' report could have a negative impact on any future external regulatory assessments of the Council which could in turn put funding and potential employment opportunities at risk. There are also a number of issues contained within the report that if not effectively managed have the potential to impact on our staff establishment and performance overall. This may in turn impact adversely on achievement of our Well-being Objectives.

Legal (Including Equalities)

- 4.3** The Local Government & Elections (Wales) Act 2021 requires that the Council keep its performance under review and consult and report on its performance in order to secure continuous improvement and meet its performance requirements.
- 4.4** The Well-being of Future Generations (Wales) Act 2015 requires the Council to set and publish annual Well-being Objectives that maximise its contribution to achieving the Well-being goals for Wales and report its progress in meeting these.

- 4.5** The Auditor General for Wales is statutorily required under the Well-being of Future Generations (Wales) Act 2015, to examine public bodies to assess the extent to which they have acted in accordance with the sustainable development principle when setting their well-being objectives and taking steps to meet them.

5. Background Papers

[Financial Sustainability of Local Government as a result of the COVID-19 Pandemic, Audit Wales October 2020](#)

[Financial Sustainability of Local Government: COVID-19 Impact, Recovery and Future Challenges, Audit Wales September 2021](#)

Financial Sustainability Assessment – Vale of Glamorgan Council

Audit year: 2020-21

Month/Year issued: August 2021

Document reference: 2561A2021-22

This document has been prepared as part of work performed in accordance with section 17 of the Public Audit (Wales) Act 2004 (the 2004 Act) and section 18 of the Local Government (Wales) Measure 2009. It may also inform a study for improving value for money under section 41 of the 2004 Act, and/or an examination undertaken by the Auditor General under section 15 of the Wellbeing of Future Generations Act (Wales) 2015.

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

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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 January 2021 to March 2021.

¹ 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.

Proposal for improvement	
P1	Given the anticipated funding gaps in 2022-23 and 2023-24, the Council needs to determine how it will meet those gaps, including the extent to which savings will contribute to that.

Detailed report

The Council is well-placed to maintain its financial resilience with a healthy level of reserves and sustainable plans for their use

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:

- in 2020-21, the majority of the Council's additional spend and lost income as a result of COVID-19 has been covered by Welsh Government funding (**see Exhibit 1**). Therefore, to date, the pandemic has not had a detrimental impact on the Council's financial sustainability. However, we recognise, there is a great deal of uncertainty about the duration of the pandemic and the extent of future Welsh Government funding for costs arising from the pandemic.
- the Council has included £1.050 million in its 2021-22 revenue budget for the increase in costs of the Council Tax Reduction Scheme. The pandemic has led to reduced rates of Council Tax collection and the Council's 2020-21 Quarter 3 revenue monitoring report reported that the collection rate was down 1.7% at the end of January 2021, which equates to around £1.5 million.

Exhibit 1: the cost to the Council of COVID-19 over 2020-21 {information provided by Council}

The table below shows the Council's 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 spent as a result of COVID-19 over 2020-21.	£20.8 million
The amount of income the Council lost as a result of COVID-19 over 2020-21.	£3.6 million
The amount of additional funding the Council received from the Welsh Government over 2020-21 to mitigate the impact of COVID-19.	£23.7 million
The cost to the Council of COVID-19 over 2020-21 after extra funding from the Welsh Government is taken into account.	£1.7 million

The Council is in a healthy financial position and has a sustainable financial approach over the medium-term, with a planned use of earmarked reserves

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:

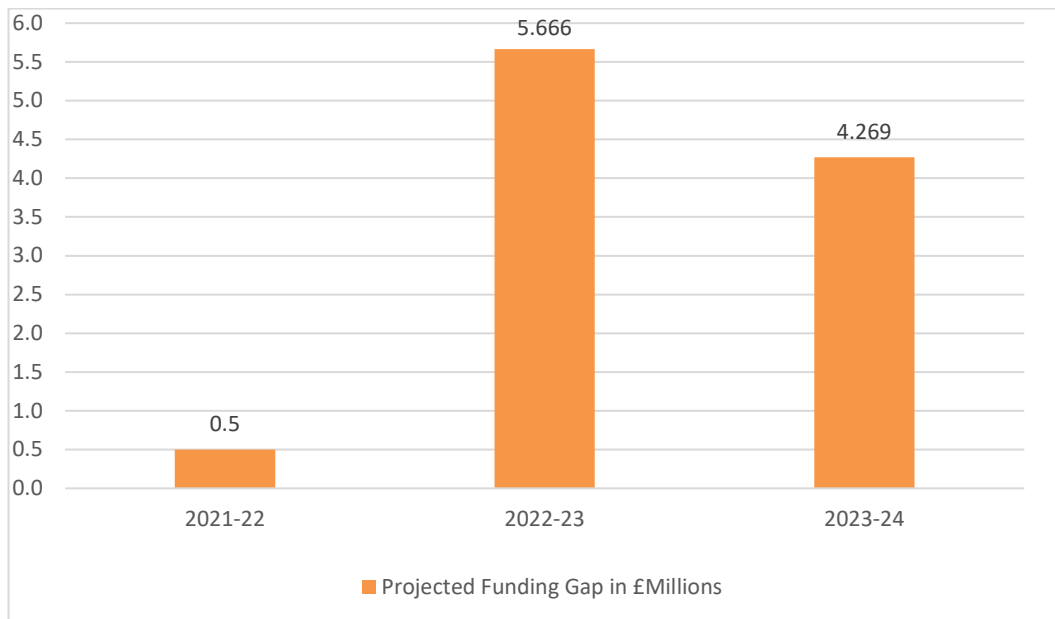
- the Council's latest Medium Term Financial Plan (MTFP) covers the period up until 2023-24. The Council revises the MTFP annually in Autumn.
- the MTFP is constructed by looking at known cost pressures, agreed savings and financial modelling. The Council takes a prudent approach to its

financial modelling, with different future settlement scenarios projected: a 1% decrease, no change and 1% increase.

- the Council has projected that it will have a £10.435 million budget gap over the next three years but has not explicitly set out how it will meet this gap over the term of the MTFP. However, the Council is in a healthy financial position and has various options at its disposal to meet those gaps. For example, it is maintaining a sustainable amount of residual reserves despite the planned use of earmarked reserves, and its current rate of Council Tax is below the Welsh average.
- the MTFP includes some evidence of alignment with the Council's strategic priorities. For example, there are earmarked reserves to support the Reshaping Services programme, including the planned use of part of the Reshaping Services reserve in 2021-22, and the planned use of the Trainee Appointments Reserve for the period up to 31 March 2024 to fund the appointment of trainees and interns to support services and the Reshaping Services Programme.

Exhibit 2: the Council has a total projected funding gap for the three years 2021-22 to 2023-24 of £10.435 million {source: 22 February 2021 Final Budget Proposals report to Cabinet}

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



Note: The projected funding gap is based on an assumption of a 0% settlement increase from Welsh Government for 2022-23 and 2023-24. The £0.5 million is the savings target for 2021-22.

The Council has a healthy level of reserves and its plans to use them are generally sustainable despite some unplanned use in 2020-21

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:

- our 2019-20 Financial Sustainability report² found that the Council had a high level of useable reserves.
- our October 2020 Financial Sustainability national report³ found that at the end of 2019-20, the Council had the highest amount of useable reserves as a proportion of the net cost of services of all the Councils in Wales.
- in February 2021, the final proposals for the Revenue Budget 2021-22 Cabinet report set out that there will be a 48% fall in the Council's level of reserves in the period up to 31 March 2024. However, this is mainly in respect of the planned use of earmarked reserves and the Council considers that the level of reserves in this period will be adequate. The minimum general reserves (Council Fund Reserve) balance recommended by the Section 151 Officer is £10 million. For the period up to 31 March 2024 the Council intends to maintain this balance and is projecting a Council Fund Reserve of £10.074 million at 31 March 2024.
- as a result of additional funding received at year end, the Council were able to make a net transfer into useable reserves of £12.2 million.

² [Financial Sustainability Assessment - Vale of Glamorgan Council 2019-20](#)

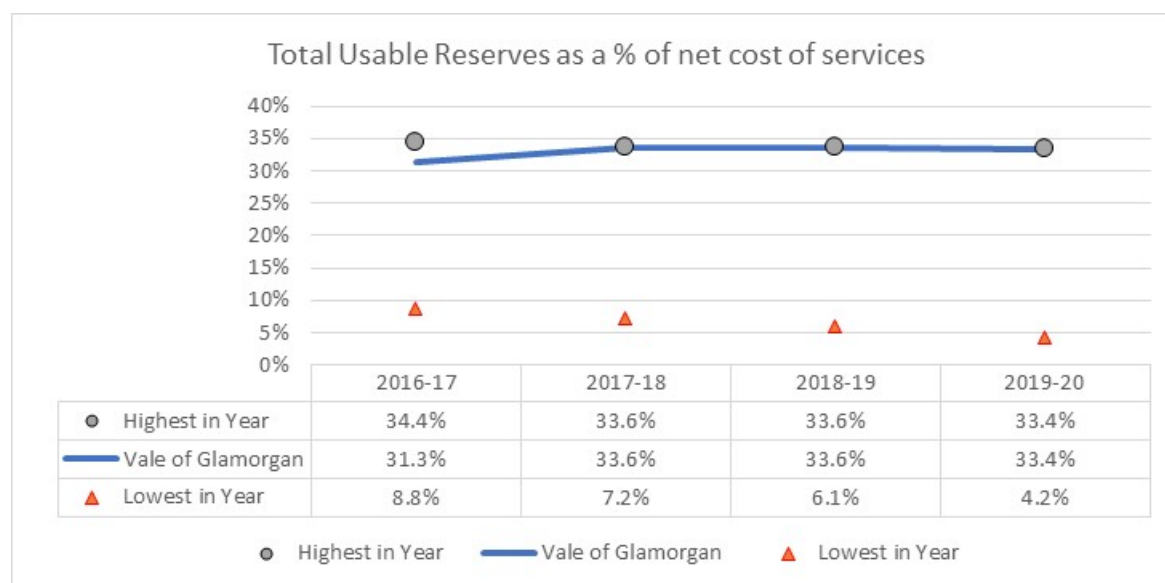
³ [Financial Sustainability of Local Government as a result of the COVID-19 pandemic](#)

Exhibit 4: amount of reserves vs annual budget [Source: statements of accounts]

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 ⁴
Net Cost of Services in £ millions ⁵	245.4	234.4	241.5	248.6.	256.2
Total Useable Reserves in £ millions ⁶	76.7	78.7	81.2	83.0	92.2
Total Useable Reserves as a % of net cost of services ⁷	31.3%	33.6%	33.6%	33.4%	36.0%
Comparison with the other councils of Wales	2	1	1	1	N/A

Exhibit 5: total useable reserves as a percentage of net cost of services (source: Audit Wales analysis)



⁴ Based on 2020-21 draft financial statements

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 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

⁷ Audit Wales calculation.

The Council has a track record of achieving a surplus and transferring monies to its reserves, until 2020-21 when service overspends led to a small unplanned use of reserves

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.

We found that:

- our 2019-20 Financial Sustainability report found that the Council underspends its overall revenue budget, but there were some growing overspends in certain service areas.
- in the period from 2016-17 to 2019-20 the Council achieved a surplus each year and transferred monies to its reserves.
- for 2020-21, there was unplanned drawdown of reserves totalling £700k.

11 Our 2019-20 Financial Sustainability report made reference to overspends in children's social services and waste services. For 2020-21, children's social services overspent by £149k, although social services as a whole underspent by £8k. The Waste Collection Service overspent by £1.4 million in 2020-21, in part due to what the Council refers to as 'one off pressures', in large part related to the roll out of the Welsh Government's Collections Blueprint. The overspend was covered by grant funding from Welsh Government.

**Exhibit 6: amount of overspend/underspend relative to total net revenue budget
{Source: annual outturn reports to Cabinet}**

The following exhibit shows the amount of overspend or underspend for the Council's overall net revenue budget for the last five years.

	2016-17	2017-18	2018-19	2019-20	2020-21 ⁸
Original Net revenue budget £ millions ⁹	214.8	215.7	222.1	226.1	240.4
Actual Net Revenue Outturn	216.4	209.0	216.2	223.5	228.2
Amount of overall surplus/overspend	-1.6	6.7	5.8	2.6	12.2
Percentage difference from net revenue budget	-0.7%	3.1%	2.6%	1.1%	5.1%

The Council has a mixed track record of identifying and delivering savings to support its financial sustainability

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.

We found that:

- our 2019-20 Financial Sustainability report found that the Council has not achieved its recent savings targets. The Council has made savings of £19.24 million between 2016-17 and 2019-20 (see Exhibit 7). However, our 2019-20 report found that some of the savings were not true savings but in effect in-year windfalls – for example a change to the Minimum Revenue Provision policy or budget cuts rather than transformational change.

⁸ Based on 2020-21 draft financial statements

⁹ 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

- in 2020-21, the Council significantly reduced its savings targets to £247k. The rationale as set out in the final Revenue Budget 2020-21 proposals in February 2020 was 'It has become increasingly difficult for services to deliver further savings without reducing service provision following £59m being achieved in the last 10 years. It is considered that the target set for 2020/21 is at a level that can be achieved by services'. The February 2021 Cabinet report on the final proposals for the Revenue Budget 2021-22 sets out that the Council is on track to achieve the savings target of £247k.
- for 2021-22 the Council has again set a low savings target of £500k which was increased from an original target of £116k. The target was increased due to the refocus of the Reshaping Services programme and resulting efficiencies identified.
- the Council's February 2021 Cabinet report on the final proposals for the Revenue Budget 2021-22 sets out that there is a possible shortfall in funding for 2022-23 and 2023-24 totalling £9.935 million (based on a 0% increase to the annual settlement from Welsh Government). The report acknowledges that identifying savings to contribute to meeting this shortfall is becoming more challenging and that work remains to be done in order to identify efficiencies for 2022-23 and 2023-24.

Exhibit 7: savings delivered as a percentage of planned savings {Source: annual outturn reports to Cabinet}

The following exhibit sets how much money the Council intended to save from its savings plans during 2016-17 to 2019-20 and how much of this it actually saved as well as estimated figures for 2020-21.

	2016-17	2017-18	2018-19	2019-20	2020-21
Total planned savings in £ millions	9.29	4.02	6.30	3.02	0.25
Planned savings achieved in £ millions	8.69	3.00	5.17	2.38	0.25
Planned savings not achieved in £ millions	0.60	1.02	1.13	0.64	0
Percentage of savings achieved	93.5%	74.6%	82.1%	78.8%	100%

The Council has a strong liquidity position meaning it can meet its financial obligations as they fall due for repayment

Why the Council's liquidity position is important

- 13 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.
 - 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.
- 14 We found that:
- the Council has a stable liquidity position with current assets being consistently more than double the value of current liabilities. The Council is in a strong position to meet financial obligations as they fall due for repayment.
 - the Council takes a low risk approach to its treasury management. The Council's priorities regarding investment are security, then liquidity, and finally return.
 - the Council's liquidity ratio has, since 2015-16, ranked among the top two highest local authorities in Wales.
 - the Council's Treasury Management and Investment strategy forecasts a reduction in the level of short-term investments. This leads to a reduction in the estimated liquidity ratio to 2.0 by 2022-23. Based on historic data, a ratio of 2.0 still ranks amongst the highest Local Authorities in Wales in this measure.

Exhibit 8: working capital ratio 2015-16 to 2019-20 {Source: Annual statements of account and forecasts provided by the Council}

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 ¹⁰
Current Assets ¹¹	110.1	105.4	115.2	127.0	134.0	148.7
Current Liabilities ¹²	40.0	42.7	40.4	49.2	50.4	67.0
Working Capital Ratio	2.7	2.5	2.9	2.6	2.7	2.2

¹⁰ Based on 2020-21 draft financial statements.

¹¹ Current Assets, includes: Short Term Investments; Assets held for sale; Inventories; Short Term Debtors; and Cash and equivalent

¹² Current Liabilities, includes Short Term Borrowing; Short Term Creditors; and Provisions due in one year.



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