

Financial Sustainability Review – Neath Port Talbot Council

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This document is also available in Welsh.

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Summary report

Why we did this audit

Our audit duties

- 1 The Council has to put in place arrangements to get value for money for the resources it uses, and the Auditor General has to be satisfied that it has done this.
- 2 We undertook this audit to help discharge the Auditor General's duties under section 17 of the Public Audit (Wales) Act 2004. 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 Well-being of Future Generations Act (Wales) 2015.

Our objectives for this audit

- 3 To provide assurance that councils have proper arrangements to support their financial sustainability.
- 4 To explain councils' financial position and the key budget pressures and risks to their financial sustainability.

Why financial sustainability is important

- 5 A combination of factors including the rising cost of delivering services and increased demand for some services is placing significant pressure on local government finances.
- 6 Despite these pressures, councils are still required to set a balanced budget whilst delivering a number of statutory services. Councils also provide a range of non-statutory services that communities rely on.
- 7 In this context, it is important that councils develop a strategic approach to their financial sustainability over the longer term to help them to secure value for money in the use of their resources.

What we looked at and what does good look like¹

- 8 We reviewed the Council's strategic approach to support its financial sustainability, its understanding of its current financial position, and its arrangements for reporting and oversight of its financial sustainability. This audit was limited to a consideration

¹ Defined as 'what should be' according to laws or regulations, 'what is expected' according to best practice, or 'what could be', given better conditions.

of the arrangements that the Council has put in place to support its financial sustainability. It was not a review of the Council's wider financial management, or of the individual financial decisions that the Council has made or intends to make.

- 9 We recognise that some factors which will impact on councils' financial sustainability will be beyond the scope of this audit, as this audit focused on the arrangements that councils are putting in place. However, where we identified common issues through our fieldwork that go beyond the arrangements that councils have put in place, we will report on these in our planned national summary report.
- 10 We also recognise the unprecedented financial challenges that councils have faced for many years and are likely to continue to face for at least the medium term. This includes the public sector funding pressures that followed the financial crisis in 2008 and the impact of the pandemic both at the time and its continued aftereffects. More recently councils have also faced significant real-terms reductions in spending power as a consequence of the fastest increase in inflation for decades. Alongside all of these events there have also been significant increases in the demand for some services, including for example the impact of an ageing population and the resulting increased demand for some services. These factors are largely outside the control of any individual council.
- 11 Against this longer-term background of financial challenges councils have needed to respond to more recent challenges at pace and we understand that inevitably in many, if not all councils, some of the specific details of how financial pressures will be tackled over the medium-term are still to be determined. This report sets out our view on the council's financial arrangements, and where appropriate where we think these could be strengthened to help improve the council's financial sustainability over the medium-term. Our report should be viewed in the context of these wider and longer-term financial pressures.
- 12 The audit sought to answer the overall question – **Does the Council have proper arrangements to support its financial sustainability?** To do this we looked to answer the following questions:
- Does the Council have a clear strategy for its long-term financial sustainability?
 - Is the Council's financial strategy supported by a clear understanding of its financial position?
 - Do the Council's reporting arrangements support regular oversight of its financial sustainability?
- 13 The audit criteria that we used to assess the Council's arrangements against each of our questions is set out in **Appendix 1**. This has been informed by our cumulative knowledge, as well as drawing on some publications produced by the Chartered Institute of Public Finance and Accountancy (CIPFA).



Our audit methods and when we undertook the audit

- 14 Our findings are based on document reviews and interviews with a sample of councillors and senior officers. The evidence we have used to inform our findings is limited to these sources. We undertook this work during May to June 2024 and our findings are based on the information available at that time.
- 15 We are undertaking this work at each of the 22 principal councils in Wales and, as well as reporting locally to each council, we also intend to produce a national report.



What we found

- 16 Overall, we found that **the Council has arrangements in place to support its financial sustainability in the short term but lacks a documented longer-term financial strategy to support more transformative change and inform Members' future spending decisions.** We set out below why we reached this conclusion.
- 17 **The Council does not have a financial strategy to support its financial sustainability over the longer-term.**
- 18 A clear, robust and agreed financial strategy is important to identify how the Council will respond to anticipated future funding pressures, and particularly how the Council will meet its projected funding gap in the short, medium and long-term.
- 19 The Council does not have a medium to long-term financial strategy. The Council has planning assumptions that cover the medium-term (2024-25 to 2028-29) and identifies a budget gap of circa £39 million after consideration of savings and income proposals. The lack of a financial strategy is weakening the Council's ability to co-ordinate and communicate its funding priorities over the medium to long-term and will potentially hinder the Council's ability to take the key strategic decisions needed to support its long-term financial sustainability.
- 20 Initiatives to improve service delivery and resilience through a small number of transformation programmes have recently been approved and are in the initial stages of implementation. Formal monitoring of these transformation initiatives is yet to be established. Oversight of these programmes will be essential to ensure that savings/cost reductions are being delivered against targets.
- 21 The Council has a good track record of delivering its identified savings. More than 90% of planned savings were delivered during 2023-24. However, current financial plans do not fully address the anticipated budget gap identified in the Council's medium-term planning assumptions. Planned cost reductions generally cover a one-year period, which means that additional savings need to be identified each year through the Council's service sustainability reviews and budget setting

process. This short-term focus is potentially impeding the Council's ability to better plan for its longer-term financial sustainability.

- 22 The Council's general reserve position is projected to remain at circa £15.5 million at the end of the 2024-25 financial year, which is in line with its reserves policy. A call of circa £16.4 million from earmarked reserves has been approved in the 2024-25 budget to support service delivery, meet unfunded pressures and support transformation schemes. School reserve balances at end of 2024 are projected to be in an overall deficit reserve position of circa £2.9 million, despite there being an opening balance of school reserves as at end of April 2023 of £6.5 million credit. All schools currently reporting a deficit budget have been requested to submit a 3-year recovery plan. Whilst there is evidence of reserves being used to support the Council's transformation initiatives in social services and housing which are anticipated to deliver recurring budget savings, there is a risk that school budgets are unsustainable in the short to medium-term and will require intervention.
- 23 **The Council has a good understanding of its financial position.**
- 24 A thorough understanding of current and future funding pressures, alongside other risks to financial sustainability is important to ensure that the Council's financial strategy is well informed and appropriate to the scale of the financial challenge it faces.
- 25 The Council has used reasonable assumptions and benchmarking to calculate its anticipated funding gap. The Council keeps these under review and updates them as required. Anticipated funding pressures were captured in these planning assumptions and were well communicated to Members during the annual budget setting process.
- 26 The lack of a comprehensive medium to long-term financial strategy means that there is currently no clear process for the Council to be able to identify and document longer-term financial risks and potential mitigations.
- 27 **The Council's financial reporting arrangements support regular oversight of its in-year budget position but not its financial sustainability in the longer-term.**
- 28 Clear, regular and transparent reporting arrangements are important to enable effective oversight of the Council's financial position, the action it is taking to ensure its financial sustainability and the impact of this on its local communities.
- 29 There is clear responsibility for and monitoring of the Council's financial position in year, with regular budget monitoring reports being presented to Members. Progress on the deliverability of savings is also reported regularly but these reports lack detail on the actual savings delivered against targets and their impact. This limits the ability of Members to effectively monitor and scrutinise the progress and impact of savings delivery throughout the year.
- 30 The Council does not report to Members routinely on its longer-term financial sustainability. This lack of reporting limits the Council's ability to consider and

communicate the potential impact of longer-term saving requirements to Members, other stakeholders, residents and service users.

Our recommendations for the Council

Exhibit 1: our recommendation for the Council

Recommendation	
R1	The Council should develop and publish a clear and robust financial strategy showing how it intends to close the identified budget gap over the medium and longer-term. This would help support Members' and other stakeholders understanding in relation to the decisions that will be required to ensure the future financial sustainability of the Council.

Appendix 1

Audit questions and criteria

Exhibit 2: overall question: Does the Council have proper arrangements to support its financial sustainability?

Level 2 questions	Criteria
Does the Council have a clear strategy for its long-term financial sustainability?	<ul style="list-style-type: none">• The Council has clearly set out its strategic approach to support its financial resilience over the short, medium, and long term.• The Council has a medium-term financial plan.• The Council's strategic approach is widely understood and supported by senior officers.• The Council has considered a wide range of options to improve its long-term financial sustainability, including comparison with other bodies.• The Council has identified all the savings it intends to make to meet its funding gap over the medium term, supported by well-evidenced plans based on reasonable assumptions.• The Council's strategy includes the strategic use of reserves to manage its savings programme over the medium term.• The Council has modelled the anticipated impact of its financial strategy over the medium term (eg potential service reductions and council tax levels on local communities).
Is the Council's financial strategy supported by a clear understanding of its financial position?	<ul style="list-style-type: none">• The Council has calculated its funding gap over the short to medium term based on reasonable assumptions.• The Council has benchmarked its assumptions with appropriate comparator bodies.• The Council has a good understanding of its key budget pressures in the medium and long term.• The Council has a track record of successfully addressing key budget pressures.• The Council has identified the key risks to its financial sustainability and has put in place mitigations.

Level 2 questions	Criteria
<p>Do the Council's reporting arrangements support regular oversight of its financial sustainability?</p>	<ul style="list-style-type: none"> • It is clear who is responsible for monitoring the Council's financial position, including its sustainability over the medium to long term. • The Council regularly reports its financial position to members to enable oversight and scrutiny. • The Council has arrangements to transparently report the impact/anticipated impact of its financial strategy on the achievement of its corporate objectives and on local communities to members and other stakeholders. • The Council's savings plan includes what has been agreed, how much progress has been made in implementation, and links to both its budget and medium-term financial plan. • The Council regularly reports progress in delivering planned savings to members to enable oversight and scrutiny.



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