

Financial Sustainability Review – Cardiff Council

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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 April to May 2024.
- 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 reasonable arrangements to support its financial sustainability with a clear understanding of its financial position and regular reporting to members but is in the early stages of developing its change programme to help it meet its significant funding gap.**
- 17 We set out below why we reached this conclusion.
- 18 **The Council is in the early stages of reviewing its service delivery and operating model, developing a change programme to improve its long-term financial sustainability.**
- 19 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.
- 20 The Council has an agreed Medium Term Financial plan (MTFP) in place. This MTFP is clear and supported by reasonable assumptions and modelling. The MTFP sets out a projected cumulative funding gap of £148m for the financial years 2025-26 to 2028-29. For context, the Council's budget for 2023-24 was £804m.
- 21 To address this funding gap and improve future financial sustainability, during May and June 2024, directorates completed a self-assessment to identify savings over the duration of the MTFP and different ways of delivering services in the future. Returns from this exercise have been collated with both directorate level and cross-cutting actions identified. For the 2-year period of 2025-26 to 2026-27, of the £63m required to close the funding gap, £35m savings (56%) have so far been identified. The Council will use this to review its future operating model and progress its change programme. However, the programme is not yet sufficiently developed to allow us to assess whether it can meet the challenge of Cardiff's projected funding gap.
- 22 The Council's strategic approach is widely understood and supported by members and senior officers. Members are aware of the scale of the challenge and their responsibilities in addressing the challenge. They are willing to take some difficult decisions when they need to.

- 23 The Council places a strong emphasis on finding efficiency savings that don't impact on frontline services. It is also aware it needs to do things differently in the future to help address its financial challenges and has used some innovative methods, such as artificial intelligence to deliver services more efficiently. The Council benchmarks its options with other bodies including councils in the core cities UK group.
- 24 The Council has relatively low levels of reserves compared with other councils. Its ratio of reserves that are usable by law to its net cost of services is 19.4% compared with a Welsh council average of 27.4%. The Council's funding forecasts currently assume it will use £1 million of reserves (from the Strategic Budget Reserve) in 2025/26 and £0.5 million annually between 2026/27 and 2028/29 as general budget funding. This is moderate, strategic and part of the Council's planned use of earmarked reserves to support financial resilience and help manage their budget gap.
- 25 However, the Council's recent use of reserves for schools' balances is not sustainable in the long-term, despite being planned. In 2022-23 and 2023-24, schools' balances reserves decreased by £13.7 million and £12.4 million respectively, leaving a balance of £10.7m at 31 March 2024. The Council acknowledges this is unsustainable and has mechanisms in place such as its School Budget Forum to monitor the position and explore options to address this.
- 26 Until the Council's change programme is fully developed, it will not have complete assurance about how it will meet its projected funding gap of £148m. This may increase the risk of unplanned use of reserves and short-term decision-making.
- 27 **The Council has a clear understanding of its financial position and the scale of its future financial challenges, which it will use to underpin its change programme to meet these challenges.**
- 28 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.
- 29 The Council has calculated its funding gap based on reasonable and prudent assumptions and modelling. For example, it has modelled its gap using multiple different potential scenarios in line with CIPFA best practice. The Council benchmarks its assumptions with other Welsh councils and other UK city councils via the Core Cities UK.
- 30 The Council has a good understanding of its key budget pressures in the medium and long-term. The Council's expenditure came in within budget for 2023-24 and department overspends tend to be limited to volatile areas such as looked after children. The Council has a strong track record of delivering in-year savings.
- 31 The Council's good understanding of its current and future funding pressures provides a strong foundation for planning its long-term financial sustainability.

- 32 **The Council has effective reporting arrangements to enable members to have oversight of the Council's financial position, but the Council does not always report clearly on the impacts of its financial decision-making.**
- 33 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.
- 34 The Council's Constitution clearly sets out that Cabinet is responsible for monitoring the Council's financial position. Our evidence indicates the system is clear and works well.
- 35 Officers provide an update on financial sustainability to Governance and Audit Committee six times per year and quarterly budget monitoring reports to Cabinet which provides members with ample opportunity for scrutiny and oversight.
- 36 Planned savings are clearly set out in the MTFP and quarterly budget monitoring/outturn reports provide a detailed breakdown of progress with savings. Interviewees report members as being well-informed and engaged.
- 37 The Council has reasonable arrangements to report the impact of its financial strategy. However, interviewees had mixed views on the clarity of the information provided, both to members and to the public. Significant budget proposals all go through the Equality Impact Assessment (EIA) process; however, recent Audit Wales work found deficiencies in the EIA process, which the Council is addressing. We will continue to monitor the Council's progress on this through our Assurance and Risk Assessment work.
- 38 In order to effectively plan its future service delivery, the Council needs to understand the impact of its financial decisions. If the information provided to the public on the Council's financial decisions is not clear, the public can not provide comprehensive feedback on the impact of these decisions, and this would compromise the Council's ability to plan its future service delivery.



Our recommendations for the Council

Exhibit 1: our recommendations for the Council

Recommendations

- R1 We identified that, while the Council is developing a change programme to improve its long-term financial sustainability, this programme is in the early stages. The Council should continue to prioritise this programme and ensure its implementation does not lose momentum, to support service transformation and promote long-term financial sustainability.

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.



Audit Wales

1 Capital Quarter

Cardiff CF10 4BZ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

We welcome correspondence and telephone calls in Welsh and English.
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