

Financial Sustainability Review – Isle of Anglesey County 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 good arrangement to respond to financial challenges in the short to medium term, but has not formalised the planning and oversight of its longer term financial sustainability. We set out below why we reached this conclusion.
- 17 The Council has not formalised a strategy for its long-term financial sustainability.
- 18 The officers and councillors we interviewed recognise that demographic changes, coupled with increasing demand and budgetary pressures, are likely to impact on where and how it provides services in the future. Officers intend to use data to understand how demographic trends will impact on the Council in the longer-term. However, the Council is not formally planning beyond the two-year horizon set out in its Medium-Term Financial Plan 2025-26 – 2026-27 (MTFP). A clear, robust and agreed financial strategy is important to identify how the Council will respond to anticipated funding pressures. The Council acknowledges, in line with good practice, the need to reintroduce a three-year MTFP.
- 19 The Council is yet to identify the savings it intends to make to close its funding gaps in the next two years. Its MTFP notes that it is projected to have a funding shortfall of £7.365 million in 2025-26 and a further £0.733 million in 2026-27.² It has not identified any significant efficiency savings to reduce budget requirements, and its MTFP notes that any future savings can only be generated by reducing or ceasing service provision. However, beyond comparing council tax rates, we found little evidence of the Council looking elsewhere to inform its approach and how its current service provision compares with other bodies. Without a longer-term strategy that sets out how the role of the Council may change in future and where it

² To help calculate its projected funding shortfalls, the Council has informally benchmarked its assumptions with other councils. Some of its key assumptions (e.g. revenue support grant, and general inflation) are more optimistic than other councils across Wales.

needs to prioritise its resources, the Council risks reducing capacity in key areas and undermining its ability to adapt and respond to long-term challenges.

- 20 The Council has made planned use reserves to address short-medium term funding gaps. The Council used £3.78 million of reserves to balance the 2023-24 budget, and £4.425 million in 2024-25. Senior officers acknowledge that resources available to fund a budget deficit from reserves are limited, and acknowledge the need develop a longer-term sustainable solution.³
- 21 The Council understands its financial position over the short to medium term and has a track record of managing key budget pressures and has delivered services in line with its budget in each of the last five years.
- 22 Officers and councillors articulate a good understanding of the Council's financial position. Positively the Council has invested in initiatives to reduce certain pressures. The Council has undertaken several schemes to reduce costs including the creation of placements for children within the county, investment in preventative services and identifying opportunities to increase service income. While the Council has made planned efficiencies there is acknowledgement that these have not been strategically pulled together to ensure a framework for forward thinking and strategic decision making by members where the long term impact of decisions can be modelled and understood.
- 23 The Council has arrangements to support regular oversight of its financial sustainability over the short to medium term. However, it needs to develop and formalise arrangements to support oversight of its long-term financial sustainability.
- 24 The roles of senior officers, councillors and key committees in monitoring the Council's financial position over the short-medium term are clearly set out. However, arrangements to support oversight of long-term financial sustainability need to be given greater consideration. 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.

³ At £40.39 million, the Council's total usable revenue reserves (not protected by law) as a proportion of the net cost of services was 23.7% at the end of 2022-23, down from 30.1% the previous year. The average across Wales in 2022-23 was 27.4%.



Our recommendations for the Council

Exhibit 1: our recommendations for the Council

Recommendations

- R1 The Council's Medium Term Financial Strategy is limited to two years and has not approved a financial strategy that identifies the long-term financial pressures and its strategic approach to meet these challenges. To address this, the Council should develop a longer term financial strategy that supports its understanding of its future financial position and informs its transformation and prioritisation of services.

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.
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.