

# Financial Sustainability Review – Caerphilly County Borough 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 like<sup>1</sup>

- 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

<sup>1</sup> 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 and 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 understands its medium-term financial position and has a clear, but untested approach to improve its financial sustainability. However, its arrangements for reporting and oversight, and modelling of future service demands are limited.** We set out below why we reached this conclusion.
- 17 A clear, robust and agreed financial strategic approach 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. We found that **the Council has a clear strategic approach to improve its financial sustainability, but it has not identified how it will meet its medium-term funding gap. In the short-term, the Council has used reserves and temporary savings to meet its immediate financial challenge while it embeds its longer-term approach.**
- 18 The Council is considering a wide range of options through its 'Mobilising Team Caerphilly' transformation programme to help support its financial sustainability.
- 19 The Council has a range of mechanisms to help senior officers and members understand the Council's strategic approach. These include weekly 'stand-up' sessions to update officers and members on transformation projects, monthly management network meetings, and member briefings.
- 20 The Council has a three-year medium-term financial plan 2024-25 to 2026-27 (MTFP) and while the Council identified a funding gap of £45 million, it has not identified how it will meet this gap. The Council identified £19.5 million of permanent savings proposals for 2024-25, £0.4 million for 2025-26 and £0.02 million for 2026-27.
- 21 The Council balanced its 2024-25 budget by using reserves, increasing Council Tax by 6.9% and through temporary and permanent savings. This short-term approach is to allow the Council time to develop and engage members on its transformation programme.

- 22 However, the Council has a track record of significantly underspending its budget, which it has used to increase its reserves. For example, the Council underspent its revenue budget by £18.4 million in 2020-21 (5.2% of revenue budget), £24.6 million in 2021-22 (6.7%), and £8.9 million in 2022-23 (2.3%). This indicates budgets may not be sufficiently challenging or realistic when set, which may undermine the reliability of financial plans.
- 23 The Council has high levels of reserves compared to many councils in Wales. In March 2023, the Council had £163.9 million of useable financial reserves. This level of useable reserves is equivalent to 38% of the Council's net cost of services for 2022-23, which provides the Council with a degree of financial resilience while it progresses with its transformation programme. The Council is applying an invest-to-save approach with its reserves and has used some to provide additional capacity within its transformation team. However, the Council's reserves position may potentially mask the Council's long-term financial sustainability challenge and the decisions members must make to deliver transformation.
- 24 The Council is clear the transformation programme will be key to improving its financial sustainability. However, the programme is in its infancy so largely untested and the extent to which members will agree implementing the transformation projects is unknown. If there are delays in making decisions, there is a risk the Council could continue to unsustainably use reserves rather than progress with delivering its long-term plans, in turn making the financial challenge greater.
- 25 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. We found that **the Council understands its medium-term financial position, but the modelling of future service demands is less well-developed, which could impact the accuracy of the identified budget gap.**
- 26 We previously recommended<sup>2</sup> the Council strengthen its medium-term financial plan and reported that it did not include any planned savings to address its funding gap. The Council has not addressed these issues.
- 27 The Council's MTFP is a one-page document that lacks detail on the wider financial outlook, as well as the scenarios, risks and considerations that informed it. While some detail is provided in covering reports to members, this approach places an extra burden on members to find all the relevant information from different documents to fully understand the Council's medium-term outlook.
- 28 The Council used reasonable assumptions in developing its MTFP. Some assumptions were benchmarked with other councils via a Welsh Local Government

<sup>2</sup> [Financial Sustainability Assessment - Caerphilly County Borough Council \(audit.wales\)](#)

Association (WLGA) survey and through discussions at Society of Welsh Treasurers.

- 29 The Council has a good understanding of its key budget pressures and risks to its financial sustainability. However, the Council does not routinely use data to model future service demands to inform its budget gap. This raises questions about the robustness of the information used to support its longer term planning. This, together with not identifying how it will address its budget gap, may also impact the pace at which the Council delivers its strategic financial approach and undermine the extent to which it can support its financial sustainability.
- 30 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. We found that **there is limited reporting, member oversight and scrutiny of the Council's financial position and its impact.**
- 31 Cabinet receives only one budget monitoring report a year, nine months into the financial year. This is late in the year and limits Cabinet's ability to respond promptly if any concerns are identified. Whilst scrutiny committees receive quarterly budget monitoring reports, these are for information only unless they are called-in by members. This rarely happens.
- 32 The Council does not routinely report on whether it is achieving the savings it has agreed. Failing to deliver savings on time increases the likelihood of service overspends requiring the use of reserves or additional unplanned in-year savings.
- 33 When proposing savings, the Council considers the impact of individual savings on service users. However, it does not clearly report the potential cumulative impact of the savings on delivery of its well-being objectives or the impact on its communities.
- 34 Overall, therefore, reporting arrangements are very limited and risk undermining the Council's ability to monitor and support its efforts to strengthen its financial sustainability.
- 35 During fieldwork, the Council recognised it needs to improve its arrangements for keeping members regularly updated on its financial position and plans to introduce new arrangements. These include Cabinet to receive quarterly budget monitoring reports and scrutiny committees to receive two reports per annum on the main agenda. The new arrangements should support members to fulfil their role to enable greater understanding, oversight, and scrutiny of the Council's financial position. As these arrangements were not in place at the time of our work, we have been unable to assess their effectiveness.





## Our recommendations for the Council

### Exhibit 1: our recommendations for the Council

#### Recommendations

- R1 The Council needs to strengthen its medium-term financial planning by:
- 1.1 - Strengthening its Medium-Term Financial Plan to provide a more complete analysis and context to support understanding. For example, including the financial outlook, its assumptions, budget pressures, benchmarking, and financial scenario planning;
  - 1.2 – Modelling future service demand to better inform its MTFP and increase accuracy in calculating its funding gap;
  - 1.3 - Developing a savings plan across the timescale of the MTFP, to clearly show how the funding gap will be addressed or clearly communicate the challenge where this is not possible: and
  - 1.4 Further align its transformation plan with its MTFP.
- R2 The Council needs to ensure members receive comprehensive and regular financial information to enable them to effectively oversee and monitor the Council's financial position. The Council should strengthen its arrangements by:
- 2.1 Provide regular budget monitoring reports to members for discussion. As a minimum, these should be quarterly;
  - 2.2 - Provide members with updates on progress on the delivery of savings. As a minimum, these should be quarterly; and
  - 2.3 - Develop reporting arrangements to provide members with the impact of its financial position and MTFP on local communities and delivery of its well-being objectives.

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

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"> <li>• It is clear who is responsible for monitoring the Council's financial position, including its sustainability over the medium to long term.</li> <li>• The Council regularly reports its financial position to members to enable oversight and scrutiny.</li> <li>• 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.</li> <li>• 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.</li> <li>• The Council regularly reports progress in delivering planned savings to members to enable oversight and scrutiny.</li> </ul>



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