

Financial Sustainability Review – Conwy County Borough Council

Audit year: 2023-24

Date issued: August 2024

Document reference: 4440A2024

This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and Audit Wales are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to Audit Wales at infoofficer@audit.wales.

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

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

Contents

| | |
|---|----|
| Summary report | |
| Why we did this audit | 4 |
| Our audit duties | 4 |
| Our objectives for this audit | 4 |
| Why financial sustainability is important | 4 |
| What we looked at and what does good look like | 4 |
| Our audit methods and when we undertook the audit | 6 |
| What we found | 6 |
| Our recommendations for the Council | 8 |
| Appendices | |
| Appendix 1 – audit questions and criteria | 10 |

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 of the

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.

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 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 **although the Council has arrangements to support its financial sustainability these arrangements are not effective in addressing the scale of its budget gap and low reserves, which provide a significant risk to its long-term sustainability without transformational change.** We set out below why we reached this conclusion.
- 17 The Council has a clear and well-informed strategy which is communicated effectively, but the scale of the identified savings required and the low level of reserves puts its strategy at risk. 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.
- 18 The Council's financial planning provides clear detail of its strategic approach to financial sustainability over the medium-term. In particular, the Council has engaged with external partners, including CIPFA, to improve its understanding of opportunities to identify savings and income generation, and it has worked well with members to engage them in the budget-setting process.
- 19 However, proposals from this external work, along with the Council's transformation agenda, are yet to be implemented and their impact on the Council's financial sustainability is untested and likely to be limited for the 2025-26 budget. As a result, we cannot conclude on the effectiveness of these arrangements.
- 20 The Council has identified an anticipated shortfall of £32.3 million for 2025-26 and 2026-27 in its Medium-Term Financial Plan (MTFP). This comes after having to find £12 million of savings to balance its 2024-25 budget, through 86 budget initiatives across all service areas.
- 21 Most budget initiatives were for small amounts, with 65 initiatives raising no more than £50,000 each. This would indicate 'salami-slicing' of budgets rather than more challenging and fundamental change, such as transformation. Only some of these initiatives were supported by impact assessments so the Council did not understand the impact of much of its identified budget initiatives on both citizens directly and on the

deliverability of corporate objectives. Understanding impact enables Councils to avoid making savings that need corrective actions that could cost more in the longer-term.

- 22 The Council recognises its low levels of reserves which means the Council has little scope to manage in-year overspends or unachieved savings. This further increases the scale of financial sustainability risks faced by the Council.
- 23 The Council has a clear understanding of its financial position, which includes some service areas with rapidly expanding demand and cost. 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.
- 24 The Council's MTFP includes projections for its budget gap for the next two years, based on assumptions and forecasts sense checked with external partners, such as assumption benchmarking through the Society of Welsh Treasurers, and has identified the key risks and pressures that it faces.
- 25 When setting the 2024-25 budget, the Council recognised risks including:
 - Pay awards exceeding the sums allocated in the budget. Every 1% increase will cost £1.15m per year for non-school staff and £533k for school staff.
 - Pressures on high-demand services, particularly homelessness and social care, that are above the increases already included within the budget, potentially leading to £1-2million additional financial demand.
 - Uncertainty around elements of central government funding.
- 26 By necessity, the Council has focussed on its short-term position and balancing annual budgets, as required by law. As a result, it is not clear how it balances this with the long-term, for example how it mitigates the long-term impact of short-term decisions..
- 27 With the scale of cumulative savings required, the Council will have to consider how it reduces its costs, if possible, in a more fundamental manner, such as significant service transformation or collaboration. This is, however, at its early stages of proposal identification and exploration. The Council may need to consider proposals and share these considerations with members when setting future budgets. We recognise that transformational change is not always easy nor do proposals inevitably lead to savings.
- 28 The Council has a range of reporting arrangements which allow scrutiny and assurance for Members. 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 The Council has a range of reporting to senior officers and Members, in public and private, that provide assurance and the opportunity for challenge and support. This includes tracking progress against planned savings and reporting on a regular basis.
- 30 The Council has also implemented our 2021 recommendation to publish an MTFP and have it scrutinised annually by Members.
- 31 The Council's Constitution and Terms of Reference provide clarity to the roles of its Governance and Audit Committee (GAC) and Finance and Resources Oversight and Scrutiny Committee (FROSC) in financial matters. It is for FROSC to scrutinise

decisions and for GAC to seek assurance over the effectiveness of processes and systems in place. Officers have confirmed that they are working with both committees to ensure their focus is aimed at the relevant parts of the Council's financial activity.

Our recommendations for the Council

Exhibit 1: our recommendations for the Council

| Recommendations | |
|-----------------|--|
| R1 | There are weaknesses in how the Council identifies savings. To change this, the Council should work with officers and Members to develop arrangements for identifying savings of a scale that can impact on its identified budget gap. |

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.