

Financial Sustainability Review – City and County of Swansea 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 March to June 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, but there are weaknesses in the delivery and monitoring of the savings programme to support these.** We set out below why we reached this conclusion.
- 17 **The Council is beginning to develop a long term approach to improve financial sustainability through its transformation programme, supported by its Medium Term Financial Plan, but progress delivering required savings has been slower than anticipated, presenting risks to the Council.**
- 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. The Council does not have an overarching long term financial strategy, but has outlined its strategic approach through its Medium Term Financial Plan (MTFP) and Transformation programme plan.
- 19 The Council has identified a budget gap of £53.5m over 2025-26 to 2027-28. It has set out in its MTFP that it will address the budget gap through implementing its corporate transformation programme, associated savings and other mitigating measures. However, approximately 42% of the identified savings have not been agreed and have no clear strategy for implementation. Many of these future savings proposals are complex in nature, and any likely impact has yet to be assessed.
- 20 Some of the largest savings proposals have not been agreed or set out in detail. For instance, £10.7m of savings rely on large scale transformational change within Social Services. Other savings proposals that the Council have yet to approve or consult on include savings relating to parking (£6.4m). Further proposed savings, like the 'Reduction of service asset portfolio due to service reductions - savings on premises costs' (£900,000) rely on the Council progressing its plans to achieve net zero by 2030. Unless such large scale savings proposals are fully costed and set

out in detail, there is a risk that they may not be delivered or need to be deferred, or the Council has to find short-term alternative options to address its budget gap. This risk is magnified given that the Council has not managed to achieve the level of savings it intended from its transformation programmes to date.

- 21 **The Council has a good understanding of its medium-term financial position, but the use of reserves in response to service overspend and risks around capital financing weaken its long-term financial sustainability.**
- 22 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.
- 23 The Council has used a wide range of data to inform its medium-term planning assumptions and benchmarked these against comparator bodies where appropriate. The Council has outlined required savings based on an assumption of a 2% increase in Aggregate External Finance (AEF) and a council tax increase of 5%. Variables that may affect these assumptions and key risks are regularly articulated to Members and are outlined in the MTFP. This gives the Council a good understanding of its key pressures in the medium-term.
- 24 The Council's understanding of long term pressures is less developed, with limited long term data modelling and the Council acknowledging difficulties around this due to external factors outside of its control. One of the largest areas of risk, as outlined in the MTFP, is the need for future unsupported borrowing² to complete its ambitious capital programme. The Council has previously secured favourable interest rates for its borrowing to date, however further required borrowing is likely to be at a higher rate with additional revenue implications. The Council's aim is to offset this by rationalising its assets. However, should the income from these receipts not materialise, further revenue reductions, additional funding or further borrowing will be required as set out in its MTFP.
- 25 We found that whilst there is a good understanding of financial pressures, there is an overreliance on the use of reserves to support service pressures and overspends, which threatens long-term sustainability. The Council's Director of Finance regularly communicates key risks associated with this approach to senior officers and Members. Whilst the Council has taken decisions to use reserves to support investment in its transformation programme, there is a significant planned draw on earmarked reserves and 'one-off' investments in services, which is potentially unsustainable in the long-term, particularly in the context of increasing demand on services.
- 26 **The Council has arrangements to regularly monitor its financial position, but it does not report progress with individual savings or fully identify the impact**

² The current capital programme requires unsupported borrowing of £147.6 million, with £50 million assumed as a future borrowing requirement.

of savings proposals to enable effective oversight of its financial sustainability.

- 27 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.
- 28 We found that the Council has arrangements in place to support regular monitoring and oversight of its financial position and there was clear responsibility for those monitoring arrangements. However, the Council does not publicly report detailed progress of individual savings against targets, or information on risks to their delivery and the associated impact of not meeting these targets. Including more of this detail would provide Members with more information on the full impact of delayed proposals, allowing them to make a more informed judgement when assessing progress, rather than focussing on the total savings achieved against the bottom line.
- 29 The Council does not fully model the impact or consequences of its required savings against its corporate priorities or on its stakeholders. The Council does not clearly communicate what transformation will mean for its service users or how these actions will improve its long-term financial sustainability. This limits the Council's ability to consider and understand the potential impact of its longer-term savings requirements.



Our recommendations for the Council

Exhibit 1: our recommendations for the Council

Recommendations

- R1 We found there are opportunities to improve arrangements to develop and deliver the Council's longer term financial strategy. The Council should:
- Improve development of savings plans to assist longer term planning, ensuring proposals are specific, measurable, achievable, realistic and time bound (SMART) to allow for robust consideration.
 - Revisit any longer term proposals, agreeing and aligning these with Corporate Objectives to help improve longer term financial sustainability.
- R2 We found there are opportunities to improve the reporting and monitoring of savings proposals delivery. To ensure a more accountable assessment of proposals, the Council should:
- Ensure that progress against detailed individual savings proposals is regularly reported to Members to enable better oversight and monitoring of progress and take action where necessary.
- R3 We found there are opportunities to improve the assessment of the impact of proposed savings. The Council should:
- Improve its understanding of the impact of savings on local communities and corporate objectives;
 - Review how it communicates the likely impact to local communities.

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 (e.g. 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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