

Financial Sustainability Review – Vale of Glamorgan 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, **whilst having arrangements for the short to medium term, the Council lacks a long-term plan and regular assessments of the impact of decisions to support its long-term financial sustainability.**
- 17 We set out below why we reached this conclusion.
- 18 **The Council has arrangements in place to manage its financial resilience in the short to medium-term, but its longer-term approach is less certain due to being at an early stage in its transformation agenda.**
- 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 a clear approach to manage its financial position over the short to medium term which is well-understood by senior officers and members. The Council's Medium-Term Financial Plan (MTFP) contains reasonable assumptions and forecasts.
- 21 However, information within the MTFP is at a high level, stating what needs to be done, but not always how it will be done. The Council has not fully identified how it will deliver all the savings required over the period covered by the plan, which poses a risk of the Council being unable to close the funding gap. Its longer-term plan to address its financial strategy is focused on transformation, which is at the early stages of development. Given this, we cannot conclude on the effectiveness of the Council's longer-term proposals at this stage.
- 22 The Council has a clear plan for using a proportion of reserves over the medium-term to manage its financial challenges and implement its transformation programme. As of 31st March 2023, the Council had £94.7 million of useable reserves². This is equivalent to 30.1% of the Council's annual spending on

² Our definition will differ from the Council's own definition of usable reserves. Further information can be seen within our [data tool](#).

services- the ninth highest in Wales in our analysis². The Council budgeted to use £2.3 million of its reserves in 2023-24, however a further £6.9 million of reserves was projected to be required by quarter three. This balanced overspends in areas such as Social Services and deficits in schools' balances.

- 23 The Council is forecasting its useable reserves will reduce to £48.5 million by 2029. This would represent 15.7% of its 2024-25 budgeted spend. Without a clear, detailed savings and transformation plan across the medium to long-term, additional pressure will be placed on these limited reserves to balance the budget. Progressing with transformation and understanding its impact are, therefore, critical to closing the budget gap and ensuring financial sustainability over the medium-term.
- 24 **Although the Council understands its financial position, a limited evidence base and a mixed track record in delivering savings means this understanding may be limited in depth and accuracy.**
- 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.
- 26 The Council has obtained detailed spending analysis to help inform its financial understanding, but it is unclear how this has been used in its MTFP beyond 2024-25. Having a range of sources helps provide a rich evidence base that strengthens the assumptions and potential savings proposals identified from them.
- 27 The Council has identified a range of risks to its financial sustainability and has short to medium term mitigations in place where possible. These include recognition of increased pressures in demand, particularly in the areas of education, social care, and homelessness. However, whilst senior officers noted in our interviews that school balances are a concern, and this was highlighted in the recent Estyn inspection report, this risk is not included within the Corporate Risk Register. This means there is not senior oversight of the risk and limits members' ability to understand the impact of school balances on its overall financial position, together with other risks to its financial planning. It also questions the completeness of risks considered within its financial planning.
- 28 The Council has a mixed track record of achieving its savings targets across its directorates. Whilst high proportions of savings have been made overall, the cumulative volume has been modest in comparison to current challenges. However, it is recognised that settlements for 2021-22 and 2022-23 were higher than anticipated, therefore reducing the need for significant savings. For example, whilst £4.7 million was required in 2023-24 (78% achieved at end quarter 3), only £0.7 million (100% achieved) and £0.5 million (76% achieved) were required in 2022-23 and 2021-22, respectively. In 2021, we also found variability in savings delivery. As the savings in 2024-25 have increased to £7.7 million, the uncertainty in the Council's ability to deliver savings of this scale make it difficult for us to be assured that the Council will meet its savings targets.

- 29 **The Council has clear arrangements for reporting its financial position, but this does not include an understanding of the impact of delivering on its objectives nor how it affects the longer-term.**
- 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.
- 31 Members receive regular reports to help them monitor and challenge the Council's financial position. Reports include progress against savings targets. They also include both high level and detailed analysis to support understanding.
- 32 However, these reports do not set out the impact of the Council's finances on delivering its objectives. The Council reports its financial and performance information separately, which makes it difficult for members to understand the correlation between decisions on spending or saving, and its performance and impact on service users. Whilst some savings proposals are assessed for impact prior to being agreed by members, the level of analysis varies. Assessing impact through delivery can help understand the effectiveness of decisions and offer lessons for the future.
- 33 Following implementation of savings proposals, whilst reporting links overall performance with the five ways of working, it does not provide any tangible link to the well-being objectives. Without this link, it is difficult for the Council to understand the correlation between decisions on spending or saving, performance, and service level impact fully.



Our recommendations for the Council

Exhibit 1: our recommendations for the Council

Recommendations

- R1** We have identified some weaknesses in how the Council plans its approach to financial sustainability in the medium to long-term. To address this, the Council should improve its long-term planning to determine how it will address its funding gap for the length of its plan to support service transformation and promote long-term financial sustainability.
- R2** To report on the impact of its financial approach, the Council should 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">• 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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