

Financial Sustainability Review – Monmouthshire County Council

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

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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 May to July 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 is developing a longer-term approach to financial planning, it is yet to identify how it will close its future funding gap. Given its low reserves levels, the Council will need to work at pace to implement its financial strategy and strengthen its financial resilience.** We set out below why we reached this conclusion.
- 17 **Although the Council's new financial strategy demonstrates its commitment to strengthening financial sustainability over the medium term, it currently lacks robust plans to close its identified funding gap.**
- 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.
- 19 The Council has developed a financial strategy, which is clear, well-informed and based on reasonable assumptions. This strategy was approved by full Council in July 2024. It is too early to assess the impact that this strategy will have on the Council's long-term financial sustainability.
- 20 The Council has a four-year Medium-Term Financial Plan 2024/25 to 2027/28 (MTFP) that identifies a cumulative funding gap of £34.4 million. The Council has not yet identified how it will close this gap, but it recognises that its operating model needs to change and at the time of our review was in the early stages of developing a Change and Improvement Plan to address this.
- 21 The Council's level of usable reserves as a percentage of the net cost of services is routinely amongst the lowest in Wales. The Council had £26.9 million of usable financial reserves at the end of March 2023, equivalent to around 13.8% of the Council's annual spending on services. This reduced further to £18.8 million in 2023-24; approximately 8.9% of the Council's annual spend. The Council acknowledges that this is unsustainable, and its newly developed financial strategy articulates a commitment to strengthen reserve levels. Schools' reserves balances also fell significantly during 2023-24, from £4.3 million credit to a £0.9 million deficit, and nearly 40% of schools were in deficit at year end. The Council is aware

of the risk this presents and is working with schools to put recovery plans in place and better understand the financial pressures impacting school budgets.

- 22 Overall, the Council has a good track record of delivering against its overall budget, but cost pressures and unachieved savings have required the Council to take in-year budget recovery action and draw on reserves. For example, there is a pattern of shortfalls in the Council achieving its budget savings proposals. The Council achieved 83.3% of its identified savings for 2023/24. This savings target shortfall is consistent with previous years and indicates a risk to the Council fully delivering on its budget saving proposals for 2024/25 and over the medium-term. Consistently falling short on savings targets can place pressure on the Council to rely upon reserves as a matter of course, further risking its longer-term financial sustainability.
- 23 Without robust plans to address the identified funding gap and limited resilience due to its low level of reserves, the Council's longer-term financial sustainability remains at risk. The pace at which the Council develops its plan to close the identified funding gap and rebuild its reserves is therefore of key importance, highlighting a need to work with urgency to identify, approve and implement sufficient savings to reduce its funding gap in a sustainable way.
- 24 **The Council has a clear understanding of its financial position and recognises the need to strengthen its use of data to better understand and mitigate longer-term cost pressures.**
- 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 good financial management arrangements and is aware of its budget pressures and the risks to its financial sustainability. The Council's forecast funding gap is based on reasonable assumptions and draws on external data from sources such as the Office for Budget Responsibility and the Wales Fiscal Analysis Unit where appropriate.
- 27 The Council acknowledges, however, that it needs to strengthen its use of data and modelling to better understand and forecast its medium to long-term cost pressures. To support this, the Council plans to identify and monitor the main factors which impact its spending in key service areas. As well as helping develop more accurate long-term financial assumptions, this insight will also help inform the Council's long-term strategic approach to financial sustainability by identifying actions to manage and mitigate the cost drivers.
- 28 **The Council's reporting arrangements support clear and regular oversight of its current financial position, but reporting on the long-term impact of financial decisions is less well-developed.**
- 29 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.

- 30 The Council's constitution and draft financial strategy clearly identify responsibilities for monitoring its financial position and long-term sustainability. Elected members receive regular updates on financial position, including progress in delivering against planned savings, providing appropriate opportunity for oversight and scrutiny. Last year, the Council established a Financial Management Board to strengthen officer oversight and, going forward, the Board will also be responsible for overseeing delivery of the new financial strategy. These arrangements support clear and regular oversight by both officers and elected members.
- 31 As part of the annual budget-setting process, the Council assesses the anticipated cumulative impact of its budget proposals on local communities and the national well-being goals. However, although budget papers recognise that proposals will impact on delivery of well-being objectives, they don't clearly quantify the anticipated impact. Furthermore, the Council reports its financial and performance information separately. For example, budget outturn reports detail the value of savings achieved each year, but not their impact on local communities or well-being objectives. Whereas the Council's self-assessments report on progress against the well-being objectives but only make high level references to the impact of reduced resources. This makes it more difficult to understand the correlation between financial decisions and impact on delivery of the well-being objectives. In taking forward its new financial strategy, the Council should ensure that it estimates, monitors and reports the impact of its Change and Improvement Plan on local communities and delivery of its well-being objectives.



Our recommendations for the Council

Exhibit 1: our recommendations for the Council

Recommendations

R1 To address its medium to long-term financial sustainability, the Council should urgently implement the delivery plan for its new financial strategy. Specifically, it should:

- develop its Change and Improvement Plan to identify sustainable ways to deliver services whilst addressing its forecast funding gap;
- utilise effective modelling and data to support its long-term approach to financial sustainability; and
- ensure it has appropriate arrangements to monitor and report the impact of its financial strategy, in particular the Change and Improvement Plan, on service users and delivery of 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 (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. |



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