

Financial Sustainability Review – Newport City Council

Audit year: 2023-24

Date issued: September 2024

Document reference: 4133A2024

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	9
Appendices	
Appendix 1 – audit questions and criteria	10

Summary report

Why we did this audit

Our audit duties

- 1 Newport City Council (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

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.

and oversight of its financial sustainability. This audit was limited to a consideration 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 **Newport City Council has sound financial arrangements to support its financial sustainability, including a developing transformation plan and effective oversight arrangements, but the Council has not fully identified how it will close its budget gap over the medium and long-term.** We set out below why we reached this conclusion.
- 17 **The Council does not have a fully developed long-term approach to support its financial sustainability. But there are sound arrangements to manage its short-term financial position.**
- 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 a Medium-Term Financial Plan (MTFP) which sets out the funding gap for the next three years. However, it only includes a definite plan to close the budget gap for the first year of the period it covers.
- 20 The Council is in the process of finalising its Transformation Plan, but it is clear in its MTFP that this Transformation Plan will not deliver the levels of savings that would cover the Council's anticipated budget gap. The Council has not fully determined how it will address its budget gap over the medium to long-term. This means the Council is largely reliant on identifying budget reduction measures each year, supported by the use of reserves.
- 21 Members are usually willing to make difficult decisions when they need to, however they are reluctant to identify savings beyond the annual budget-setting process.
- 22 The Council uses reserves in a planned way and at low levels (£400,000 in 2024-25 out of a total £139 million of total usable reserves at 31 March 2023), which they then replenish the following financial year. We can therefore conclude the Council uses reserves strategically rather than in an ad hoc way to avoid essential cost reductions, which is line with CIPFA guidance. The Council has a relatively high

level of reserves compared with other local authorities (as at end of March 2023, its ratio of reserves that are usable by law to net cost of services in 2022-23 was the highest in Wales at 40.1%). Many of these reserves are earmarked for specific purposes (including around £40 million for PFI liabilities) and the Council recognises that it cannot rely on using its reserves to balance its budget over the long-term.

- 23 If the Council does not identify how it will meet its projected medium term funding gap, it could compromise its ability to maximise its resources to transform how it delivers its services and achieve its corporate objectives.
- 24 **The Council has a good understanding of its current financial position and the key risks to its future financial sustainability.**
- 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 calculated its funding gap up to 2026-27 (£38m from 2024-25 to 2026-27), based on reasonable assumptions and supported by modelling of demand for future services. The Council benchmarks its assumptions with the other councils in Wales via the WLGA benchmarking exercise.
- 27 The Council has a good understanding of its key pressures in the medium to long term and a track record of successfully addressing key budget pressures. The Council has overall spent within its budget in recent years although there have been some departmental overspends, largely due to unforeseeable pressures.
- 28 The Council has identified the key risks to its financial sustainability which are monitored and mitigated by its ability to use its reserves.
- 29 The Council's clear understanding of its current financial position and future key risks provide a good starting point for planning its future long-term financial sustainability.
- 30 **The Council's reporting arrangements support regular oversight of its financial position and risks. These provide a good foundation for oversight and scrutiny of the plan to enable the Council's long-term financial sustainability as it develops.**
- 31 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.
- 32 The Council's constitution is clear that responsibility for monitoring the Council's financial position lies with the Cabinet.
- 33 The MTFP is updated yearly and goes to Cabinet and full Council for approval. Officers present quarterly budget monitoring/outturn updates to Cabinet. These are detailed, comprehensive and clearly written to enable members to provide effective oversight and scrutiny.

- 34 The Council has varied arrangements to report the impact/anticipated impact of its financial strategy including a cycle of public meetings. These include producing Fairness and Equality Impact Assessments, attending ward meetings, and reporting back to communities on progress.
- 35 The Council's MTFP includes a section on savings which details what has been agreed and how much progress has been made in implementation. These savings are fully integrated into the budget and the MTFP. The Council reports progress in delivering planned savings to members at least quarterly to enable oversight and scrutiny.
- 36 The Council has reporting arrangements which support effective oversight of its financial position. This will allow members to take a fully informed role in planning transformation of its service delivery for people and communities. And it will support the Council in involving people and communities to contribute to the Council's future financial strategy.



Our recommendation for the Council

Exhibit 1: our recommendation for the Council

Recommendation

- R1 We found that Newport City Council's financial strategy does not fully address the risk to financial sustainability posed by the Council's funding gap. The Council should improve its long-term planning to determine how it will address its funding gap beyond 2024-25 to support service transformation and promote long-term financial sustainability.

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.



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.