

# Financial Sustainability Review – Carmarthenshire County 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 like<sup>1</sup>

- 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

<sup>1</sup> 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 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 **the Council's embedded transformation approach provides a strategic framework to positively support its financial resilience.** We set out below why we reached this conclusion.
- 17 **A combination of the Council's budget strategy, medium-term financial planning and embedded longer term transformation approach sets out a strategic framework for its long-term financial sustainability.**
- 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's Transformation Strategy 2022-2027 is an overarching framework to support its financial resilience in the short, medium and long-term. The Strategy contains eight thematic areas which are:
  - Efficiencies and value for money
  - Workplace
  - Service design & improvement
  - Schools
  - Income and commercialisation
  - Workforce
  - Customers & digital transformation
  - Decarbonisation & biodiversity
- 20 Through the strategy, the Council has embedded a transformation approach across its services which means it is well placed to address funding pressures. The Strategy does not contain financial information outlining the impact that delivery of the thematic priorities will have on its overall financial sustainability. However, it has driven more detailed transformation strategies in some service areas, such as leisure and children's services.
- 21 Through its ongoing budget monitoring and budget strategy process, the Council identifies pressures and has considered a range of transformation options to improve its long-term financial sustainability. For example, following projection of a £5.3m overspend in children's services, the Council commissioned an external review of its options. The Council has considered how its options compare with

other bodies, although the level of detail regarding benchmarking exercises provided alongside proposals varies by service.

- 22 The Council will need to maintain momentum for delivering its transformation programme as its Medium Term Financial Plan forecasts a funding gap of £24m across 2024/25 - 2026/27. The Council has identified some of the savings required to close this gap, but a shortfall of £15.8m remains.
- 23 The Council has set a balanced budget for 2024-25 by increasing Council Tax 7.5%, making £10.8m of financial savings and using £3m of its reserves. At £168.7m, the Council's total usable revenue reserves not protected by law as a % of net cost of services was 37.8% at the end of 2022-23, although many of these reserves are earmarked for specific purposes including sums already contractually committed.
- 24 The Council's overall level of reserves and use of a small percentage of those reserves to support a balanced budget indicates there is no immediate risk to the Council's financial sustainability.
- 25 The Council's transformation approach to long-term sustainability is understood by members and senior officers. The Council's Revenue Budget Strategy communicates key budget decisions, although the rationale provided for some of these decisions is limited.
- 26 Additionally, while the Council does undertake impact assessments on savings proposals, these are not always publicly available. For example, impact assessments undertaken on the Revenue Budget Strategy 2024-27 Consultation proposals were available on request. Communicating the impact of financial decisions on services and local communities with greater clarity would enhance transparency.
- 27 **The Council has a clear understanding of its key budget pressures and costs over the medium-term.**
- 28 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.
- 29 The Council has calculated its funding gap over the short-medium term using reasonable assumptions. Financial reporting provides the assumptions used for factors such as pay awards and utilities but does not state the percentages used to calculate Welsh Government settlement forecasts. Ensuring all key assumptions are clearly reported enables members to understand the full context of medium-term forecasts.
- 30 The Council has a good understanding of its key budget pressures and risks in the medium and long-term. For example, the Council has estimated it will cost £166+m to achieve its Low Carbon Net Zero Plan by 2030. This understanding provides the Council with the opportunity to plan and identify funding mechanisms to successfully address budget pressures in the longer-term.

- 31 The Council has successfully addressed budget pressures in some key areas such as domiciliary care services. However, there are recurrent budget pressures in some areas such as education. Officers recognise the importance of successfully making difficult decisions to manage the significant budgetary pressures. The Council has transformation and work programmes in place to address these budget pressures and successful implementation will be crucial to support the Council's financial resilience.
- 32 **The Council's financial reporting is clear but is not regularly integrated with reporting on delivery of its corporate objectives.**
- 33 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 on local communities.
- 34 The Council has clearly defined roles and responsibilities for monitoring the Council's sustainability over the medium to long-term. The Council regularly reports its financial position to members through Revenue Budget monitoring reports and consultations, Capital Programme updates and the Statement of Accounts.
- 35 The Revenue Budget monitoring reports outline agreed savings and delivery progress although could more clearly outline the impact savings progress has on its wider financial position by linking to the Council's budget and Medium-Term Financial Plan.
- 36 The Council has arrangements for reporting the achievements of its corporate objectives but these are not fully integrated with its financial strategy. Reporting on these aspects separately means it is more difficult to assess the impact its financial strategy will have on achievement of its corporate objectives.





## Our recommendations for the Council

### Exhibit 1: our recommendations for the Council

#### Recommendations

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- R1 We found that the Council has not fully integrated financial planning with delivery and reporting of its wider corporate and transformation objectives. The Council should:
- Fully integrate financial planning with planning for delivery of transformation programmes and wider objectives. This would support achievement of objectives and provide assurance on the impact these programmes will have on the Council's overall financial sustainability.
  - Fully integrate reporting on its finances with reporting on delivery of corporate objectives and transformation programmes. This would strengthen communication and understanding of the impact the Council's financial strategy will have on delivery of its wider 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"><li>• The Council has clearly set out its strategic approach to support its financial resilience over the short, medium, and long-term.</li><li>• The Council has a medium-term financial plan.</li><li>• The Council's strategic approach is widely understood and supported by senior officers.</li><li>• The Council has considered a wide range of options to improve its long-term financial sustainability, including comparison with other bodies.</li><li>• 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.</li><li>• The Council's strategy includes the strategic use of reserves to manage its savings programme over the medium-term.</li><li>• 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).</li></ul>
Is the Council's financial strategy supported by a clear understanding of its financial position?	<ul style="list-style-type: none"><li>• The Council has calculated its funding gap over the short to medium term based on reasonable assumptions.</li><li>• The Council has benchmarked its assumptions with appropriate comparator bodies.</li><li>• The Council has a good understanding of its key budget pressures in the medium and long-term.</li><li>• The Council has a track record of successfully addressing key budget pressures.</li><li>• The Council has identified the key risks to its financial sustainability and has put in place mitigations.</li></ul>

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"> <li>• It is clear who is responsible for monitoring the Council's financial position, including its sustainability over the medium to long term.</li> <li>• The Council regularly reports its financial position to members to enable oversight and scrutiny.</li> <li>• 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.</li> <li>• 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.</li> <li>• The Council regularly reports progress in delivering planned savings to members to enable oversight and scrutiny.</li> </ul>



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