

Financial Sustainability Review – Ceredigion 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 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 **the Council has arrangements in place to support its present financial sustainability but lacks a long-term strategy to support this.** We set out below why we reached this conclusion.
- 17 **The Council has taken decisions to support its financial sustainability over the short to medium-term but does not have a comprehensive long-term financial strategy.**
- 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 strategy (MTFS) (2023-24 – 2026-27) which sets out the resources and financial framework required to underpin the Council's Corporate Strategy (2022-27) and well-being objectives. The MTFS identifies an indicative budget shortfall over the life of the strategy of £11.9m after considering its savings initiatives. The strategy does not seek to address the full budget shortfall, nor does it include detailed savings plans for the identified savings strategies. The MTFS does provide a comprehensive plan to support the Council's financial sustainability in the short-term.
- 20 The Council has considered options to improve its financial sustainability in the short/medium-term and has taken past decision which have improved its resilience. The Council also has a strong track record of delivering planned savings and addressing its budget pressures. Successfully achieving cumulative savings of about £60m over the last 10 years. The Council has a corporate approach to some savings through its 'Doing things differently' programme which is progressing several new themes and initiatives. However, the Council lacks a comprehensive strategy to outline the longer- term (5 years plus) financial benefits stemming from these.
- 21 **The Council's MTFS is presented during the mid-point of the financial year to ensure early engagement with Members prior to detailed budget setting**

processes. Assumptions are updated during the budget setting process to provide an up-to-date assessment of likely budget requirements.

- 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 current year's budget was balanced via an AEF settlement of 2.9% and council tax increase of 11.1%. Whilst the 2023-24 MTFS assumed aggregated external finance (AEF) and council tax increases of 3.1% and 5% respectively, Members were updated through the 2024-25 Budget process that a potential AEF range was a -0.3% reduction to a +1.0% increase.
- 24 The Council has used its reserves to fund its key corporate priorities and deployed specific contingency reserves to mitigate against identified pressures. Indicating that the Council uses its reserves in a planned and strategic way. The estimated general reserve balance at the time of budget planning was £6.7m and £49m in earmarked reserves. Previous outturns (2021-22 to 2022-23) have delivered a balanced budget position demonstrating awareness and management of the Council's financial position.
- 25 **Longer-term monitoring of the Council's financial sustainability is impacted by its lack of a long-term comprehensive financial strategy. There are arrangements in place however to support regular budgetary oversight through its current reporting.**
- 26 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.
- 27 The Council has arrangements to support regular monitoring of its budget and financial position. Progress on the implementation of savings is regularly reported to Members but reports lack detail on the actual savings delivered against targets and their impact. This limits the ability of Members to effectively monitor and scrutinise the progress and impact of savings delivery throughout the year. The Council has acknowledged that strengthening of savings reporting is required to effectively monitor the challenging savings delivery programme for 2024-25.
- 28 During the budget setting process, consideration had been given to the anticipated impact on council tax in relation to savings proposals. There was also evidence of the wider impact and consequences of cost reduction and budget savings initiatives being reported to Members.
- 29 Savings plans for 2024-25 detail the proposed revenue savings and BRAG rate the status of each initiative. Proposals for 2025-26 provide indicative savings which are linked to identified savings for 2024-25. The plans however have a relatively short horizon. This shorter-term focus is potentially impeding the Council's ability to better plan for its longer-term financial sustainability.



Our recommendation for the Council

Exhibit 1: our recommendations for the Council

Recommendation

- R1 To ensure that the Council is able to coordinate and communicate its approach to longer-term financial sustainability the Council should ensure that it has a comprehensive medium to long-term financial strategy that sets out clearly how it will address its anticipated funding pressures over the life of the strategy.

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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