

Financial Sustainability Review – Flintshire County Council

Audit year: 2023-24

Date issued: August 2024

Document reference: 4439A2024

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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 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.



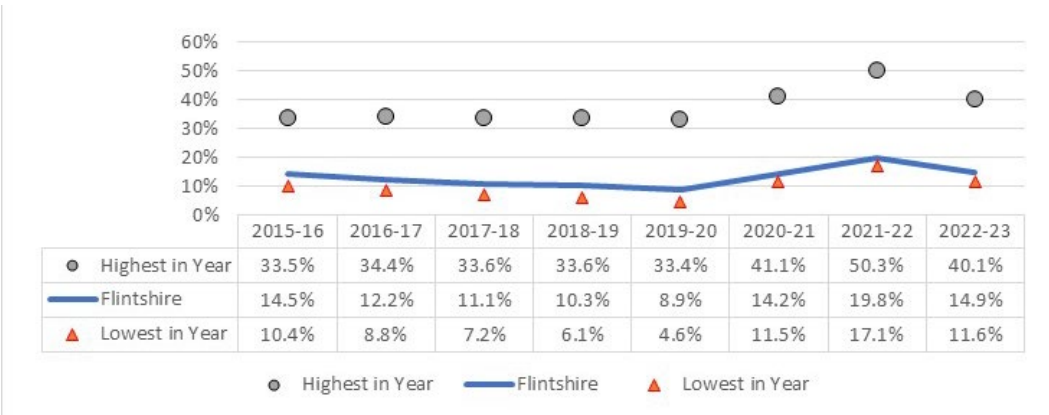
What we found

- 16 Overall, we found that **the Council's arrangements do not provide assurance that it can identify strategic transformation in the short and medium-term of the scale required by its financial position. This, combined with its low level of reserves and spiralling costs in some service areas, puts the Council's financial sustainability at serious risk.** We set out below why we reached this conclusion.
- 17 Although the Council has engaged members well, it has taken a short-term approach to detailed financial planning that has led to weaknesses in identifying and assessing savings, which it has not looked to address. 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.
- 18 During its budget-setting process for 2024-25, the Council ran a series of presentations and workshops with Members to provide updates and allow them to contribute to the process. The engagement process with Members for the 2025-26 budget has already begun. This is earlier than for the previous year and will allow the Council more time to manage the process.
- 19 The Council has worked well with other bodies to identify and compare its assumptions, forecasts, and to identify budget and service pressures. This has been used in its financial planning. However, this is short-term in nature, with no joined-up review of its medium-term budget gaps or pressures.
- 20 The Council was only able to present a balanced budget for 2024-25 after two rounds of substantial savings. The second round, which was unplanned, required £10 million in December 2023, of a total of £32 million planned in-year. The Council is aware that it is not feasible to identify savings in such a manner going forward.
- 21 Additionally, there is no evidence that the Council assessed the potential impact of these savings on services and service users, partly because of the unplanned nature of the savings and the timescales required to achieve them. This could lead

to unforeseen impacts on demand and the Council’s financial resources in the medium and long-term.

22 The importance of planning in the longer-term is framed by the Council’s reserves position. Whilst the Council has not regularly relied on the unplanned use of reserves to balance outturns, a risk of failing to meet the scale of the budget gap may place additional pressure on reserves. This risk would increase with planned usage of earmarked and contingency reserves to balance budgets. In our analysis of 2022-23 accounts, the Council held the third lowest reserves as a proportion of the net cost of services. The low levels of reserves (**Exhibit 1**) means the Council can only rely on these sources of funding in a very limited manner in the future. Reserve levels have continued to decline during 2023-24. This risks it not being able to set balanced budgets or mitigate against unplanned spend in-year.

Exhibit 1: total usable reserves not protected by law² as a percentage of the net cost of services



Source: Audit Wales analysis of council accounts

23 The Council has a clear understanding of its financial position and pressures. 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.

24 The Council has projected budget pressures of £24.9 million in 2025-26 and £22.7 million in 2026-27. Key pressures include:

- homelessness: the service has been given an additional £2 million for 2024-25, but this is anticipated to be below the uplift required to meet the demand

² This definition is consistent with our financial sustainability data tool and will differ from the Council’s own definition of usable reserves.

predicted for the financial year. For context, the service's net expenditure in 2022-23 was £1.9 million and was projected to be £5.1 million in 2023-24.

- out of county placements: This service was projected to overspend by £1.6 million in 2023-24 and has been allocated an extra £1.5 million for 2024-25 on top of the allocation for 2023-24.
- the Council's social care budget for 2024-25 includes a 7.44% increase, which is £7.4 million. While many other services are facing cuts to their budget, the Council anticipates that this increase will only be able to match the estimated additional costs arising from increased demand, inflation and costs being passed on from the providers of commissioned services.

- 25 While there are other external pressures on the Council's budget beyond the Council's control, such as central pay awards that have been greater in recent years, there are pressures and opportunities that are within the Council's control that it is not exploring fully. These include developing a more strategic approach to identifying savings, taking decisions to alter service design and delivery on a scale that will impact its financial position, and identifying opportunities for collaboration or transformation.
- 26 The Council had developed plans to introduce a transformation program but these have yet to receive approval from Chief Officers or members. As a result, if agreed and implemented, they are unlikely to deliver savings in the short to medium term, increasing the pressure on traditional savings and reserves.
- 27 Despite a clear understanding of its financial position, the Council has not taken challenging decisions of the scale required. This, combined with Council's low level of reserves and savings approach, does not provide us with the assurance that the Council is in a position to produce balanced budgets going forward.
- 28 The Council has good arrangements for regular and detailed reporting to Members on its financial position, but these have been unable to impact its financial position. 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.
- 29 Arrangements provide Members with the opportunity to scrutinise and challenge the Council's financial decisions and position. In monthly reporting to members, officers provide a very detailed review of spending and progress against planned savings. The detailed level of reporting leads to discussions about smaller matters and detracts from tackling the bigger issues facing the Council.
- 30 Officers also report on the impact of its financial position and decisions against the sustainable development principle, the national well-being goals, and the Council's corporate objectives.
- 31 However, despite these arrangements, the Council's financial position remains challenging. There is little evidence of the Governance and Audit Committee or the Corporate Resources Oversight and Scrutiny Committee providing any mitigation or decision-making to help the Council improve its financial sustainability.



Our recommendations for the Council

Exhibit 2: our recommendations for the Council

Recommendations

- R1 There are weaknesses in how the Council identifies savings. To change this, the Council should:
- 1.1 work with officers and Members to develop arrangements for identifying savings of a scale that can impact on its identified budget gap from a range of sources; and
 - 1.2 develop and implement arrangements to identify and evaluate the impact of these savings on services and service users.

Appendix 1

Audit questions and criteria

Exhibit 3: 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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