

Financial Sustainability Review – Powys 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 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 the **Council has not yet adopted a long-term approach to secure its financial sustainability, but is developing one.** We set out below why we reached this conclusion.

The Council is finalising a long-term strategic transformation approach to secure its financial sustainability and close its identified funding gap

- 17 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 The Council's Medium Term Financial Strategy (MTFS) for the period 2025-2029 sets out the scale of the financial challenge that it faces. The funding gap set out in the MTFS ranges from £46 million (best case) to £64.6 million (expected position). The Council has yet to fully develop its plans to close its annual funding gap beyond 2024-25 where it identified £10.7 million of savings to balance the budget.
- 19 The Council's MTFS summarises the Council's priorities and key demands over the next five years. The Council has clearly articulated a range of risks and uncertainties to its financial sustainability and has developed mitigating actions to address those risks in the short to medium-term.
- 20 However, the Council has acknowledged that its current operating model is unsustainable. In response, at the time of our fieldwork, it was developing a transformation programme (Sustainable Powys) which aims to identify service changes to address its funding gap effectively and secure its financial sustainability over the longer-term. Both elected members and officers recognise the need to develop and implement the Sustainable Powys service transformation approach effectively and at pace. In July 2024, Cabinet approved the principles of the Sustainable Powys Programme. This will now lead to significant decisions for the Council to realise its programme aims.
- 21 The Council's level of usable reserves as a percentage of the net cost of services, whilst increasing in recent years, remains below the Welsh median. In recent years, the annual revenue budget has included a risk budget of around £3 million

to respond to emerging in-year budget pressures. This has reduced the need for services to draw on reserves in an unplanned way. In 2023-24, the Council estimates a significant reduction in overall delegated schools' reserves from £6.6m to below £1 million. The Council is aware of the significant issue the reduction in schools' reserves presents and intends to work with individual schools to put recovery plans in place.

The Council's understanding of its future financial challenge is based on reasonable assumptions and a well-developed understanding of its short and medium-term pressures and risks

- 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 Council's MTFS uses a range of assumptions to inform its funding gap, including Aggregate External Finance (AEF) levels from Welsh Government, inflation, service demand and pay awards. The Council uses Wales-wide analyses of local government funding as well as benchmarking, where available. Members and senior officers receive a range of key comparisons, for example, AEF from Welsh Government and Council Tax average cost per dwelling, during the budget setting process.
- 24 For the period 2025-26 onwards, the Council's MTFS includes two scenarios for assumed AEF from Welsh Government, a 'best case' (0% or flatline scenario) and an 'expected' (-2% reduction) for its future AEF. Those assumption levels, lower than those of many other Councils, increase the estimated funding gap for 2025 onwards. The Council's assumptions importantly help inform the modelling of changes to services and the operating model through the transformation programme which will impact on residents and users of council services. The Council updates its assumptions on a six-monthly basis to ensure that members are well sighted of the scale of the financial challenges and the approach to addressing those. The Council's most recent update of its MTFS in July 2024 reported that its budget gap for 2025-26 had reduced from £18.4million to between £9.6million and £12.2 million. We have, however, not audited the underlying calculations within that paper as part of this review.
- 25 The Council has a good understanding of its key short to medium-term budget pressures including:
- price inflation;
 - pay increases and pension costs;
 - service specific pressures, and
 - demographic changes.

The Council is therefore well-placed to use this understanding to inform the scope and scale of the actions it is developing in its transformation programme.

The Council's reporting arrangements support clear and regular oversight of its current financial position, but it does not report explicitly on the impact of its financial strategy on its corporate objectives nor on local communities

- 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. Officers and elected members understand their role well in monitoring and scrutinising the Council's financial position. The Council reports clearly on its financial position and progress in delivering planned savings quarterly to its finance panel. The Council's delivery of its planned savings has improved in recent years. In 2022-23 it delivered 78% of its £10.9 million savings, leaving £2.4million undelivered. In 2023-24, the Council forecasts delivery of 92% of its £17.4 million savings. However, the Council assesses that £1.3 million of its savings are now not achievable. There is a risk that the Council might find future savings more difficult to achieve. This emphasises the importance of the Council robustly and realistically planning future savings and of having arrangements to report the actual impact of those savings on communities and its three well-being objectives².
- 27 The Council identified 91 budget saving proposals worth £10.7m to balance the 2024-25 budget. The Council assessed these proposals and decided that 19 (plus the delegated schools' budget) totalling £2 million required individual impact assessments³ due to the significant potential impact they could have. The Council assessed that the other £8.7 million of proposed savings would have a low or no impact on communities. Furthermore, it had not produced assessments where it planned further consultation with communities and other stakeholders about the savings proposals. The Council plans to complete those impact assessments, if required, when these proposals are finalised.
- 28 The Council's overarching budget impact assessment assesses its potential impacts against the national well-being goals, the Sustainable Development principle five ways of working, and key workforce aspects. The Council assesses individual savings proposals against the same criteria. However, the impact assessments do not explicitly state how the budget or savings proposals will impact on its well-being objectives. Currently, the Council's financial reports do not explicitly report the actual impact of the overall budget or savings proposals. This

² Objective 1: We will improve people's awareness of services, and how to access them, so that they can make informed choices

Objective 2: We will support good quality, sustainable, employment opportunities and pursue real living wage accreditation.

Objective 3: We will work to tackle poverty and inequality to support the well-being of the people of Powys.

³ Impact Assessments (IA) are a process of assessing how proposals and decisions might impact upon different types of people and communities and developing proposals in line with relevant legislation including Equalities, Welsh language, the Well-being of Future Generations and Socio-economic duties.

therefore limits the Council's ability to understand the actual impact of its budget and savings proposals on the delivery of its corporate objectives and communities.

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 implement at pace its long-term transformation programme.
R2	To provide greater insight into the overall effect of its savings proposals over time, the Council should explicitly report on the actual impact of savings proposals on both communities and corporate 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 (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.



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