

Financial Sustainability Review – Rhondda Cynon Taf County Borough Council

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

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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 April to 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 has appropriate arrangements to support its financial sustainability which provides a platform to address longer term budget challenges**. We set out below why we reached this conclusion.
- 17 **The Council has clear arrangements to manage its financial position in the short term and is developing transformation programmes to address recurring cost pressures, but has not yet modelled the collective impact these programmes will have on its budget gap over the medium to long term.**
- 18 A clear, robust and agreed financial strategy is important to identify how the Council will respond to anticipated future funding pressures and 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) covering 2023/24-2026/27. The plan contains reasonable assumptions and forecasts. The projected budget gap across the next three-years ranges from £60.7m to £80.5m, with a cash flat settlement scenario increasing this to £119.6m. In the MTFP, the Council outlines that each 1% change in the level of settlement from Welsh Government equates to an approximate £4.7m change in budget (based on 2023/24 settlement levels) and therefore future budgets are uncertain.
- 20 The Council has a range of reserves, including its Medium-Term Financial Planning and Service Transformation reserve, which is used strategically to help manage the Council's overall financial sustainability. At the end of March 2023, the Council had £225.2m of total useable reserves which is equivalent to 36.4% of the Council's annual spending on services. Many of these reserves are earmarked for specific purposes and the Council recognises that it cannot rely on using its reserves to balance its budget over the long-term.
- 21 Senior officers and members clearly understand the Council's financial strategy. The Council identifies budget reduction measures early, invests in capital projects to reduce revenue budget requirements in future years and makes use of dedicated reserves to deliver corporate plan objectives. The Council has made service delivery changes to address some of its cost pressures (such as home to

school transport) and has commenced transformation programmes in some service areas (such as waste services). The Council compares data and costs with other organisations to develop service change options and inform its decisions.

- 22 The Council has not yet modelled how these transformation programmes collectively will help to address its budget gap over the medium to long term. Modelling the collective impact of its transformation programmes would provide assurance as to the effectiveness of the Council's approach in supporting its long term financial sustainability.
- 23 **The Council's approach is underpinned by a good understanding of its financial position and the factors which impact it, including recurring cost pressures in particular service areas.**
- 24 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.
- 25 The Council understands its key budget pressures in the medium to long-term and has forecasted inescapable budget pressures of £29.9m across the next three years, of which £17.6m occurs in 2024/25. Its main budgetary pressures are linked to inflation (such as school transport where costs have risen from £8m in 2015 to over £15m in 2023/24) and adult and children's services.
- 26 As outlined above, the Council is developing transformation programmes in areas of key budget pressures to reduce costs and improve outcomes over time. Implementing transformation proposals developed within these programmes will be crucial given the scale of the budget gap the Council faces.
- 27 **The Council provides regular reports to members to enable them to understand its financial position. However, the Council's reporting approach does not give members clear sight of the impact all budget decisions have had on services, local communities and the achievement of corporate objectives.**
- 28 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 The Council fosters an approach of collective responsibility for financial sustainability, for example, through senior officers presenting information on the Council's financial position to full Council. This approach enables senior officers and members to make difficult decisions to support financial resilience from an informed position.
- 30 Cabinet and the Overview and Scrutiny Committee review the Council's quarterly performance reports which include the position against revenue and capital budgets. There are also arrangements at an officer level to review and challenge budget reduction proposals.

- 31 The Council reports the anticipated impact of its financial strategy through budget consultation processes and impact assessments undertaken on service changes. The Council provides reports on the overall budget position and changes within specific service areas, but members do not receive an overview report enabling them to evaluate the collective impact individual budget decisions have had. As the Council builds savings into base budget adjustments, there is a risk that it is more difficult for members to evaluate the longer-term impact budget decisions may have on service performance, future budgets and delivery of corporate objectives. Ensuring that members have a clear evaluation of the impact of budget decisions will be increasingly important as the Council develops its transformation programmes.



Our recommendations for the Council

Exhibit 1: our recommendations for the Council

Recommendations

- R1 We found that the Council has not yet modelled the collective impact its transformation programmes will have on its budget gap over the medium to long term. The Council should:
- ensure it understands the impact its transformation programmes will collectively have on its budget gap over the medium to long term; and
 - strengthen its evaluation and reporting of the impact delivered programmes have had on its budget, local communities and the achievement of its 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 (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.



Audit Wales

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

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