

Financial Sustainability Review – Wrexham County Borough 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 and June 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 identified significant financial pressures and does not yet have an agreed plan to meet the funding gap.** We set out below why we reached this conclusion.
- 17 **The Council is clear upon the magnitude and urgency of its financial challenges and is developing a change management program to coordinate a strategic approach to transformation. But it does not yet have a plan for sufficient savings to secure its medium term financial sustainability.**
- 18 The last two years have financially been very challenging for the Council requiring significant cuts to balance its budget. In summary:
- 19 The late identification of overspend in 2022-23 led to significant use of reserves. Whilst the Council's reserves then amounted to those before the COVID-19 pandemic, comparatively the Council then had the lowest level of usable reserves as a percentage of net cost of services of all Welsh councils. Therefore, the Council needed to accelerate the implementation of savings, including those that had been identified for the future through a business statement process for each service.
- 20 Significant potential budget gap identified early in 2023-24 of £23.8m, projecting a further use of reserves, but was mitigated by in year review of service net expenditure, delaying expenditure and consuming one-off income opportunities within corporate budgets. The Council's unaudited 2023-24 Revenue Outturn report (June 2024) indicated a surplus of £0.6m without unplanned use of reserves.
- 21 The risk to the Council finance can also be evidenced by School reserves. School reserves were high following additional funding through the pandemic. However, following the pandemic school reserves have reduced from £14.7m in 2021-22 to £10.5m in 2022-23 and have further reduced to £5.3m at the end of 2023-24. The 2024-25 budget reduces funding for schools by £5.4m.
- 22 The Council projected a further funding gap of £22.6m when developing its 2024-25 budget A programme of savings has been identified with the service business statements providing the strategic framework, but £1.8m of savings remain

unidentified and are still required to balance the budget without drawing upon financial reserves. The Council's Executive Board intends to consider proposals for these £1.8m savings in July 2024, which is 5 months behind their own schedule. The financial pressures on the Council have increased in recent times which without a sustainable remedy put at risk the financial sustainability of the Council. To provide a contingency against these financial pressures, by displacing an existing a reserve previously earmarked for capital expenditure the council has created a contingency reserve of £5m.

23 Both senior officers and all elected members have been engaged with the financial challenges facing the Council. The Council held briefings for all elected members detailing key issues that underpin the Council's Medium Term Financial Plan (MTFP), workshops for school leaders and senior officers on financial planning. These activities supplement the public reporting and have kept its leaders informed of its financial challenges and supports effective decision making

24 The Council established a Change and Efficiency Board in December 2023 as the driving solution for its financial sustainability. It's terms of reference are:

“At a time of volatility and uncertainty to provide a co-ordinated overview of the transformational change the Council will require meeting budgetary challenges and providing an additional level of assurance to the sustainability, setting and delivery of the Council’s future service structure, budget and the Council Plan”.

This Board consists of senior officers and elected members primarily to propose savings required for the 2024-25 budget and beyond. The challenge for this Board is to achieve the difficult balance of:

- identifying proposals for financial savings and change
- assessing the full impact on service users, wider communities
- with limited reserves to invest to save
- at sufficient pace and urgency to meet the immediate financial challenges
- without an agreed strategic approach to financial sustainability in the medium and longer term

Whilst this Board ensures senior officer and politician engagement in proposing savings to its Executive Board, the Council is behind its schedule for identifying the remaining £1.8m of savings required to balance its 2024-25 budget without using reserves. At the time of our fieldwork the Council had just appointed staff to support this Board.

In 2022-23 the Council made some unplanned use reserves to balance its budget. Due to low reserves the Council plans to avoid using reserves in balancing its budget in 2023-24 and beyond through savings and a contingency fund in 2024-25. As a result, there has been additional pressure on savings identification. The continued urgency to identify the required level of savings, has led to services

proposing non-strategic² savings from their budget areas. These non-strategic savings were not fully assessed for impact and lack longer-term ongoing assessment.

- 25 Critically, these weaknesses mean that the Council does not fully understand the longer-term impact of all decisions. This may cost more in the longer-term or work against corporate objectives, both of which risk the Council's broader value for money. In taking a more robust, complete and strategic approach to savings identification and assessment, the Council can take greater assurance in mitigating this risk.
- 26 As the demand for savings continues over the medium-term, the risk of overspending is heightened, further increasing pressure on reserves if not delivered successfully. Delivering savings and urgently transforming how services are provided is critical to managing this risk and supporting the Council in its financial sustainability.
- 27 The Council has reported unaudited outturn figures that in 2023-24, collectively, the Council's Net Service Expenditure (excluding schools) overspent their budget by £9.3m (5.69%), notably Social Care overspending by £11m (13%) and Environment and Technical £2.6m (6.5%). This demonstrates that service delivery is already grappling to deal with key pressures and risks.
- 28 The Council projects that its financial challenges will continue into the medium term. The Council's MTFP projects further gaps in its funding of £12.6m in 2025-26 and £14.7m in 2026-27. The Council does not have a strategic plan to address the funding gap for 2025-26 onwards. 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.
- 29 The Council projects that its financial challenges will continue into the medium term. The Council's MTFP projects further gaps in its funding of £12.6m in 2025-26 and £14.7m in 2026-27. The Council has recently established the Change and Efficiency Board to identify strategic savings but has had limited opportunity to make progress at the time of our fieldwork. 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.
- 30 The Council's MTFP covers 2024-25 to 2026-27. This is effectively the current financial year and two further years. Whilst acknowledging the potential for greater uncertainties for planning beyond two years, longer term planning that incorporates benchmarking, reasonable assumptions and underpinned by demand modelling will enable understanding of longer-term considerations and prepare for a strategic approach to change.

² We use the term non-strategic savings to describe the individual savings that were not part of an overall strategic transformational plan.

- 31 **The Council has clear arrangements for managing its budget and financial savings.**
- 32 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.
- 33 Members are updated regularly on financial plans and performance, openly through the Executive Board and further additional communications to all Members. This is an improvement in arrangements since our report on transparency of reporting in September 2022³.
- 34 When setting the 2024-25 budget the Council did assess the impact of each individual savings proposal on its Corporate Plan/Council Priorities. But the detail and extent of consideration was very limited and did not explicitly consider impact on service users and local communities. The Council acknowledged this issue and has recently changed its impact assessment framework, but no worked examples were available at the time of our fieldwork. The Council's arrangements to manage its programme of savings provide to its senior leaders the detail of every action, progress on implementation together with clarity on the full programme of savings.

³ Audit Wales management letter, September 2022 - Wrexham County Borough Council – Arrangements for the Open Sharing of Information Through Committees



Our recommendation for the Council

Exhibit 1: our recommendation for the Council

Recommendation

- R1 The Council should extend its financial planning beyond two years and use the output to inform its programme of savings in the short term as well as long term transformational changes towards a plan for financial sustainability.

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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