

Financial Sustainability Review – Pembrokeshire County Council

Audit year: 2023-24

Date issued: October 2024

Document reference: 4513A2024

This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and Audit Wales are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to Audit Wales at infoofficer@audit.wales.

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

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

Contents

| | |
|---|----|
| Summary report | |
| Why we did this audit | 4 |
| Our audit duties | 4 |
| Our objectives for this audit | 4 |
| Why financial sustainability is important | 4 |
| What we looked at and what does good look like | 4 |
| Our audit methods and when we undertook the audit | 6 |
| What we found | 6 |
| Our recommendations for the Council | 9 |
| Appendices | |
| Appendix 1 – audit questions and criteria | 10 |

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 the fieldwork during April to May 2024 and our findings are based on the information available at that time.
- 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 financial position in the short-term but lacks a longer-term plan to close its identified funding gap.** We set out below why we reached this conclusion.

The Council does not have a longer-term strategic 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 We identified the Council has; forecasted overspends in key budget areas, a projected reduction in its reserve balances, challenging budget gaps for future years, and relatively low council tax levels. All of these serve to present significant concerns about the future financial sustainability of the Council. The Council will face increasingly difficult decisions in support of its Medium-Term Financial Plan (MTFP) in order to set a balanced budget each year and ensure its longer-term financial sustainability.
- 19 The Council has set out its strategic approach to support its financial resilience over the short-term through its detailed 2024-25 Budget Report and over the medium-term through its MTFP 2024-25 to 2027-28. However, the MTFP does not identify how the total identified funding gap will be closed. The lack of a longer-term financial strategy is weakening the Council's ability to coordinate and communicate its funding priorities over the medium to long-term and will potentially hinder the Council's ability to take the key strategic decisions needed to support its longer-term financial sustainability.
- 20 The Council is engaging with elected members in developing the Council's budget and financial strategy. The Council has a Financial Panel (a subgroup of the Policy

and Pre-Decision Overview and Scrutiny Committee) which meets to discuss key financial pressures and the MTFP.

- 21 The setting of the 2024-25 budget was challenging with an amended proposal tabled in the Council meeting, requiring a suspension of standing orders. The amended budget included a council tax increase of 12.5%, rather than the planned 16.3% with the resulting difference being met with additional saving requirements, a further call on reserves, and a planned higher increase in council tax for the 2025-26 financial year. The Council approved the amended budget; however, the amendments were contrary to the advice of the Section 151 Officer who felt the amendments were detrimental to the longer-term financial sustainability of the Council. One of the key issues for the Council is its historically lower levels of council tax which affects its funding position.
- 22 The Council has a declining reserves position. It is using some of its reserves strategically to support service change, but it is also using some reserves to help fund its revenue budget. At the end of 2022-23, the Council held £82.5m in reserves and was projecting these to fall to £62.8m for 2023-24 and to £54.5m for 2027-28. The Council is forecasting the use of £6.6m of reserves to fund the overspend in the 2023-24 revenue budget. The use of reserves to offset overspends and to fill budget gaps does not support financial sustainability in the longer-term.
- 23 The levels and direction of travel of Individual Schools' Balances (ISBs) are a cause for concern. The Council projects ISBs will be £2.5m at the end of 2023-24, reducing from £10.7m in 2021-22 and £5.9m 2022-23. In 2023-24, 51 of 60 schools set budgets in excess of the funding they received. The Council recognises this is not a sustainable position. If this trend continues, the number of schools falling into deficit will increase, and the total net school balances would be in deficit from 2024-25. This deficit would then have to be funded from the Council's corporate reserves. The budget report to Council in March 2024 extrapolates this trend to show an overall deficit of more than £10.0m for 2027-28. The Council is monitoring the position but if the trend continues this funding pressure may detrimentally impact the Council's longer-term financial sustainability.
- 24 In preparation for the 2025-26 budget, the Council has tasked all services with identifying budget savings equivalent to 10% of their controllable net expenditure budget and resetting their Service Improvement Plans over a 4-year planning horizon. The Council is beginning to look at more transformative ways to deliver services. It has engaged external support to help with this work, but it is at an early stage. Without a transformative approach to how the Council delivers services there is a risk that it will make short-term savings which may hinder it developing a longer-term approach to supporting its financial sustainability.

The Council has a good understanding of its financial position but overspends in key service departments since 2023 are challenging its financial sustainability

- 25 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.
- 26 The Council has a clear MTFP that includes reasonable assumptions and offers a range of scenarios to identify a budget gap of somewhere between £76.5m and £88.7m, with a 'most likely' figure of £82.2m by 2027-28.
- 27 The Council has looked beyond its current MTFP and has extrapolated historic trends to estimate how available funding may look up to 2040-41. It has also completed extensive benchmarking, looking at proposed budget savings and service expenditure levels at other Welsh councils and some English councils to inform the Council's budget planning.
- 28 The Council has a good understanding of its key budget pressures. The MTFP clearly outlines funding levels and cost pressures. It has identified a range of risks to its financial sustainability and implemented some control measures and identified further measures to be taken. However, dealing with in-year cost pressures, particularly the unpredictable demand in looked after children's services, is very challenging. The cost pressure in this service area has a significant impact on the Council's budget.
- 29 The Council has consistently delivered underspends in each of the years 2019-20 to 2022-23. However, at Quarter 3 of 2023-24 five key services are forecasting to overspend by a combined £13.4m, which will be partly offset by underspends in corporate and technical budgets, leading to a projected total overspend of £6.6m. Significant overspends against budgets weakens the Council's financial sustainability.

The Council's financial reporting arrangements support regular oversight of its in-year budget and savings positions and provide an update on its MTFP

- 30 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.
- 31 The Council clearly and regularly reports its financial position to elected members to enable oversight and scrutiny. Quarterly budget monitoring reports and annual outturn reports go to Cabinet, the Corporate Overview and Scrutiny Committee, and the Governance and Audit Committee. These reports also contain an update clarifying the position of the MTFP and changes to the projected funding gap.
- 32 The Council also regularly reports to elected members on the progress in delivering planned savings. The Council's savings plan lists and RAG-rates all savings, links directly to the MTFP and shows progress on achieving the identified cost reductions.

- 33 The Council has arrangements in place to report on the impact of its financial strategy. When setting the 2024-25 budget, the Council completed an Integrated Impact Assessment. The assessment highlights changes which require separate impact assessments (e.g. changes to day centre provision, increased fees in leisure centres, and library needs assessment). All major changes to service delivery have to go before Cabinet with a report which identifies the impact of the change. The Council's budget savings options are RAG-rated by their relative achievability and impact. These arrangements enable the Council to have an ongoing understanding of the impact of its savings on its financial strategy.



Our recommendations for the Council

Exhibit 1: our recommendation for the Council

Recommendation

- R1 We have identified the Council does not have a plan to address the funding gap in its MTFP beyond 2024-25. To address this, the Council should improve its longer-term planning and clearly set out how it intends to close its funding gap to support its future 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. |



Audit Wales

1 Capital Quarter

Cardiff CF10 4BZ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

We welcome correspondence and telephone calls in Welsh and English.
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.