

# Financial Sustainability Review – Blaenau Gwent 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 like<sup>1</sup>

- 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

<sup>1</sup> 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 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 in place to support its financial sustainability, but these will only be effective if it works at pace to identify, approve and implement sufficient savings to reduce its medium-term funding gap in a sustainable way.** We set out below why we reached this conclusion.
- 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. We found that although the Council's strategy for financial sustainability focuses on long term approaches, it has had to use reserves and consider less sustainable short-term savings options to meet the immediate financial challenge.
- 18 The Council's Medium Term Financial Strategy (MTFS) clearly articulates the financial challenges it faces, including a forecast funding gap of £25 million over the next four years. The Council has not yet identified how it will close this funding gap.
- 19 The Council's strategic approach to support financial sustainability is set out at a high level in strategies such as the MTFS and Commercial Strategy. Although the approach focuses on a range of sustainable options, many of these will take time to develop and deliver financial benefits and there are currently few fully developed examples of transformational savings that will help address the funding gap. This presents the risk that the Council will need to draw on reserves and less sustainable savings options (e.g. reducing all portfolio budgets by a set percentage) to meet its immediate financial challenges, as it did in setting the 2024-25 budget.
- 20 The Council has been proactive in seeking opportunities for partnership working and its recent decision to share a Chief Executive with neighbouring Torfaen County Borough Council for an initial period of nine months aims to identify further opportunities to strengthen the resilience of both councils.

- 21 The approach has been shared widely with members and senior officers and recent budget proposals and decisions demonstrate their understanding of the financial challenge. But the scale of the medium-term funding gap requires officers and members to propose and agree more transformational changes in future.
- 22 Low levels of reserves reduce councils' financial resilience and ability to deal with future pressures. Over recent years, the Council has increased its levels of usable reserves and established specific reserves to support its financial resilience. In March 2023, the Council had £47 million of useable reserves, equivalent to 26.3% of the Council's annual spending on services. However, given the scale of the financial challenge it faces, the Council chose to rely on the use of reserves to set a balanced budget in both 2023-24 and 2024-25. The Council projects that its useable reserves balance will be reduced by £10 million by 31 March 2025, and recognises that continued use of reserves is unsustainable if it is to achieve financial sustainability over the longer term.
- 23 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. We found that the Council understands its medium-term financial position and the factors which influence it although there is some uncertainty over the longer term.
- 24 Medium-term funding gap calculations are based on reasonable assumptions. During the budget-setting process, members and senior officers have the opportunity to challenge these assumptions and WLGA benchmarking and discussions at Society of Welsh Treasurers meetings provide further assurance.
- 25 The Council understands its current budget pressures and considers and quantifies these as part of its annual budget process. Although there is some evidence of data modelling to understand future demand, the financial impact of cost pressures in future years of the MTFS is less well-developed. This could impact the accuracy of the forecast funding gap.
- 26 The Council has a varied record of addressing key budget pressures. It can demonstrate effective actions to address some pressures and has strengthened its arrangements to monitor overspends. Most portfolios are now managing pressures within existing budgets and the Council has underspent against its overall budget in recent years. But there remain several areas of overspends which will become increasingly difficult to absorb as budgets reduce to address the medium-term funding gap.
- 27 The Council has identified several key risks to its financial sustainability, including increased demand and costs, and staff recruitment and retention. Its strategic approach aims to mitigate against some of these risks, e.g. through early intervention and prevention initiatives and collaborative working. But some risks, such as uncertainty around WG funding and additional responsibilities being placed on councils without funding attached, are outside the Council's control. For these risks, mitigating actions are limited to regular monitoring of assumptions.

- 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. We found that clear responsibilities and informative budget monitoring reports support effective oversight of the Council's financial position but it's not clear how the Council's strategic approach to financial sustainability might impact local communities.
- 29 Although the Council can demonstrate that it considers the impact of individual savings and investment proposals, it does not identify or report the potential cumulative impact of its longer-term financial strategy on delivery of its corporate objectives. As a result, it's not clear how the Council's strategic approach to financial sustainability might impact local communities.
- 30 The Council's constitution clearly sets out responsibilities for monitoring its financial position. Informative quarterly budget monitoring reports and all-member briefing sessions also provide appropriate opportunity for member oversight and scrutiny of financial position and achievement of planned savings.



## Our recommendations for the Council

### Exhibit 1: our recommendations for the Council

#### Recommendations

- R1 We found that the Council has not yet identified all the savings it will need to close the funding gap over the medium term. The Council should focus sufficient capacity and resources to progress and quantify sustainable and transformational options which are in line with its strategy and address the funding gap beyond 2025-26.
- R2 To ensure that councillors and other stakeholders are able to transparently monitor the anticipated impact of the Council's financial strategy on local communities, the Council should ensure that it considers and reports on the impact of its financial strategy on 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"><li>• The Council has clearly set out its strategic approach to support its financial resilience over the short, medium, and long term.</li><li>• The Council has a medium-term financial plan.</li><li>• The Council's strategic approach is widely understood and supported by senior officers.</li><li>• The Council has considered a wide range of options to improve its long-term financial sustainability, including comparison with other bodies.</li><li>• 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.</li><li>• The Council's strategy includes the strategic use of reserves to manage its savings programme over the medium term.</li><li>• 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).</li></ul>
Is the Council's financial strategy supported by a clear understanding of its financial position?	<ul style="list-style-type: none"><li>• The Council has calculated its funding gap over the short to medium term based on reasonable assumptions.</li><li>• The Council has benchmarked its assumptions with appropriate comparator bodies.</li><li>• The Council has a good understanding of its key budget pressures in the medium and long term.</li><li>• The Council has a track record of successfully addressing key budget pressures.</li><li>• The Council has identified the key risks to its financial sustainability and has put in place mitigations.</li></ul>

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"> <li>• It is clear who is responsible for monitoring the Council's financial position, including its sustainability over the medium to long term.</li> <li>• The Council regularly reports its financial position to members to enable oversight and scrutiny.</li> <li>• 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.</li> <li>• 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.</li> <li>• The Council regularly reports progress in delivering planned savings to members to enable oversight and scrutiny.</li> </ul>





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