

Financial Sustainability Review – Bridgend County Borough Council

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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 and 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 understands its financial position with good arrangements to support its financial sustainability which it flexes and adapts but is at the early stage of developing its long-term approach.** 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 the Council is developing its longer-term approach to support its financial sustainability, which is underpinned by good arrangements to involve officers and members, but it has not identified how it will meet all its projected funding gap.
- 18 The Council has a clear approach to support its financial planning over the short to medium term. It has set out a series of principles to shape its financial planning and is in the early stage of exploring options to determine its approach to address its longer-term sustainability. It has good arrangements to involve members in its financial planning.
- 19 The Council operates a Budget Research and Evaluation Panel (BREP) consisting of 12 members from different political groups. This panel meets regularly and provides an opportunity to enhance member understanding, and engagement in its financial planning. The Council has identified that this Panel did not work as effectively as in previous years and is reviewing its arrangements for member engagement for its 2025-26 budget planning process.
- 20 The Council has changed its approach to identifying budget reductions. Introduced in 2024-25, Cabinet and senior officers collectively went through each service area to review and agree budget reductions rather than each service area identifying their proposed savings. This enabled the Council to adopt a more collaborative and holistic approach to understand and risk assess the proposed savings.
- 21 The Council has a four-year Medium Term Financial Strategy 2024-25 to 2027-28 (MTFS) and a Reserves and Balances Protocol which strongly aligns to the MTFS.

The Council has a considered approach to using its reserves. It has a contingency reserve to fund any undeliverable budget reductions over the MTFs period. The Council reviewed its earmarked reserves in 2023 and did not use reserves to balance its 2024-25 budget. In March 2023, the Council had £102.3 million of useable financial reserves, and this equates to 29.9% of the Council's annual spending on services. This provides the Council with a degree of resilience.

- 22 The Council has identified a medium-term funding gap of £44.9 million between 2024-25 to 2027-28. The Council has identified £21.9 million of budget reductions (49%) to help address this gap. The Council has RAG (Red, Amber, Green) rated its budget reductions. Only £6.9 million (green rating) of the £21.9 million are fully developed and deemed deliverable. £2.2 million are rated amber and £12.8 million rated red. The amber and red rated budget reductions are at different stages of development and considered to have delivery risks.
- 23 Overall, whilst the Council is in the process of identifying how it will support its financial sustainability, it has not identified all its budget reductions to address its forecasted gap. This, combined with the potential for its high-risk budget reductions not being delivered on time, could result in the Council needing to use reserves or make unplanned in-year or short-term savings, which may impede it implementing a more longer-term approach.
- 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. We found that the Council has a good understanding of its service pressures and risks, and models a range of assumptions to inform its budget, but it does not adjust assumptions over the medium-term
- 25 The Council has a good understanding of its key budget pressures and key risks to its financial sustainability. The Council is taking action to address its budgetary pressures by introducing arrangements to manage and monitor individual risks and budget pressures.
- 26 The Council's MTFs is based on a range of assumptions The Council regularly refined the modelling of assumptions when setting its 2024-25 budget. This demonstrates an ongoing awareness of factors that can influence its short-term financial position. However, although the Council recognises assumptions may change in the future, the Council has used the same assumptions for each consecutive year of its MTFs. This could affect the amount of the Council's projected funding gap.
- 27 The Council commissioned a comparative spending data report from the Welsh Local Government Association (WLGA). This provides the Council with an overview of its current spend per service compared to other councils. The Council has not yet used this information to help inform its long-term approach, but it provides a good starting point for the Council to re-examine its spend per service and engage with other councils to understand how they deliver services more

efficiently. This report may help the Council to further develop and inform its long-term strategic approach.

- 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 the Council has robust reporting arrangements to enable regular oversight of its financial sustainability, however, it does not report on the impact of its financial approach.
- 29 The Council has robust arrangements to ensure members are regularly informed of the Council's financial position and outlook, and for members to provide oversight and challenge. The Council is agile in changing its arrangements in response to increased risk to its financial sustainability.
- 30 Both Cabinet and scrutiny committees receive quarterly budget monitoring reports and quarterly progress reports on the deliverability of budget reductions. Members also receive monitoring reports of prior year budget reductions that are carried forward into the current year.
- 31 The Council is establishing a monthly revenue budget monitoring board. The Board will be responsible for monitoring the deliverability of the Council's budget reductions and have an earlier insight into any emerging financial challenges. This Board was not in place at the time of our review, so we have been unable to review its impact.
- 32 The Council completed an equality impact assessment on its MTFS which recognises potential impacts on service users, including those with protected characteristics. As each budget reduction proposal is further developed, each (where applicable) will be subject to an equality impact assessment to enable members to understand the potential impact on service users. However, the Council does not report the impact or anticipated impact of its financial strategy on its communities or on the delivery of its well-being objectives to enable members to monitor and address any impacts.



Our recommendations for the Council

Exhibit 1: our recommendations for the Council

Recommendations

- R1 To strengthen the Council's approach to financial sustainability, the Council should develop a savings plan across the timescale of the MTFP, to clearly show how the funding gap will be addressed or clearly communicate the challenge where this is not possible.
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- R2 The Council should strengthen its arrangements to ensure the impact of its financial position and MTFP on communities and on the delivery of its well-being objectives is reported to members to enable them to monitor and address any impacts.

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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