

Financial Sustainability Review – Torfaen County Borough Council

Audit year: 2023-24

Date issued: July 2024

Document reference: 4384A2024

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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 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 and is focused on developing and implementing actions that will generate sufficient savings to address its identified budget funding gap in a timely and 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 **the Council has appropriate arrangements in place, with its identified funding gap in the short to medium term to be addressed by the strategic use of reserves and efficiency measures, and with actions in development to support its longer-term financial sustainability.**
- 18 The Council's Medium-Term Financial Plan (MTFP) clearly articulates the financial challenges it faces, including a forecast funding gap of £35.2 million over the next five years. The Council has not yet identified how it will fully close this funding gap.
- 19 The Council has set out a strategic approach to support its financial resilience over the short, medium, and longer-term. Plans to address the £21m funding gap identified for 2025/26 and 2026/27 are underway and involve considerations for strategic use of reserves to fund change or invest to save initiatives, and efficiency measures.
- 20 The Council has a prudent and strategic approach to the use of its reserves, with its policy to address in year pressures from within service budgets, and to not use reserves to underpin on-going spend. This is important given the Council's relatively low levels of useable reserves: in March 2023, the Council had £42.3 million of useable reserves. This is equivalent to 19.4% of the Council's annual spending on services. The Council does use reserves in applying an invest-to-save approach to develop longer term savings, such as investing in the workforce to increase capacity to promote cultural changes around energy consumption and efficiencies through its Project Apollo programme.

- 21 The Council is also reviewing existing and exploring new partnerships in its delivery of services. This includes closer working with neighbouring Blaenau Gwent County Borough Council, and the councils' recent decision to share a Chief Executive for an initial period of nine months aims to identify further opportunities to strengthen the resilience of both councils.
- 22 As part of Project Apollo, the Council is actively developing sustainable options through work strands including early intervention, prevention, demand management, and functional reviews of services. The Council anticipates that these work strands will deliver substantial financial savings over the longer-term although these have yet to be quantified.
- 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's financial strategy is supported by a clear understanding of its short to medium term financial position, although there is some uncertainty over the longer term.**
- 24 The Council calculated its medium-term funding gap using reasonable assumptions. The Council gained assurance over its MTFP assumptions through its discussions with the Society of Welsh Treasurers and WLGA benchmarking.
- 25 The Council's MTFP includes known and projected budget pressures. Service areas anticipate future needs which are monitored quarterly, helping the Council understand its short to medium-term budget pressures. Longer-term pressures are less clear due to uncertainties in external factors, for example future funding settlements.
- 26 The Council effectively manages its budget pressures, often staying within or under budget. It has identified its key risks, such as not achieving planned savings, increased pay awards and rising demand for services, and has set actions to mitigate them e.g. through early intervention and prevention initiatives and collaborative working. The Council will also need to recruit to maintain its strong financial leadership with two senior finance officers leaving the Council later this year. 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.
- 27 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 regularly reports its financial position, enabling oversight by officers and members, and the Council has the opportunity to consider and report the impact of its financial strategy on communities through its annual delivery plan.**
- 28 The Council's constitution clearly defines responsibilities for monitoring its financial position and delivering the financial plan.

- 29 Cabinet receives quarterly financial monitoring reports which provide updates on forecast budget and reserves position, financial challenges, and achievement of planned savings. Although high-level, the reports support appropriate oversight and scrutiny. The reports are not routinely considered by Scrutiny though the committee can choose to add them to their forward work programme.
- 30 The Council's reporting arrangements allow it to report the impact of its financial strategy. Impact assessments consider the anticipated effects of savings proposals on services and finances. The Council's corporate planning arrangements also help align its financial strategy with delivery of its corporate objectives; the annual delivery plan sets out the actions the Council will take within the financial budget set for the year.

Appendix 1

Audit questions and criteria

Exhibit 1: 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.



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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