

Financial Sustainability Review – Cyngor Gwynedd

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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 to 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 there was a significant increase in the number of Council departments overspending in the last two financial years, and it has developed arrangements to review its budgets. It is yet to set out how it will address future funding gaps. We set out below why we came to this conclusion.
- 17 The Council is yet to implement a long-term strategy to support its financial sustainability. The Council has started to develop a strategic approach, for example by establishing arrangements to assess services' impact on citizens, and to understand the statutory and discretionary elements of different functions. It has also undertaken research to understand the scale and nature of long-term demand in adults' services. This is important to ensure that savings proposals are appraised based on their anticipated impact on citizens, both now and in the future. Building on this and implementing a financial strategy will help the Council to identify the savings needed to close its funding gaps in the next three years² and beyond.
- 18 The Council has relatively high levels of financial reserves that have accumulated over a number of years. Council has three funds³ for funding one-time spending requirements, to deal with overspending, or to transition before savings take effect. Total of these funds have fallen from £23.874 million to £11.153 million during 2023-24. The Council uses reserves to fund a core budget deficit and overspending at the end of the year. The Council recognises that the permanent use of funds to set a budget or to respond to overspending is not a sustainable solution. While the use of funds responds to current pressures, it reduces the balances available to the Council to support the transformation and remodelling of services for the future.

² Cronfa Strategaeth Ariannol y Cyngor, Cronfa Adfer yn Sgil COVID a Chronfa Trawsfurfio

- 19 Service overspending has increased recently, and the Council appreciates the need to come to grips with this to be sustainable as they set annual budgets and long-term plans. For example, its 2023-24 outturn revenue report sets out a total service overspend position of over £9 million at the end of the year.⁴ Similarly, in 2022-23 services overspent a total of over £10 million. The Council has a bidding regime in place to try to respond to areas of overspending on an annual basis, and proactive steps are underway to reduce overspending. Council is not formally reviewing the budget at the end of the first quarter, but the most recent budget review confirms that further efforts are needed to reduce the funding gap. As well as putting pressure on its reserves, a consistent pattern of overspending risks undermining the achievement of any planned savings in the future.
- 20 The Council's Medium-Term Financial Plan identifies likely financial gaps it will face over the next three years. However, it needs to develop and formalise arrangements to oversee its long-term sustainability – including progress in addressing its projected funding gap. The Council reports on its budgets every two months to challenge and support performance meetings with the Cabinet member, and twice a year to a Governance and Audit Committee and to Cabinet. During the fieldwork phase of this audit, the Council is also taking steps to strengthen reporting arrangements by establishing a monthly regime to review budgets within the ten areas most at risk of short-term overspending. The Council intends to review the expenditure and impact of each department to identify the most essential services to Gwynedd's people in order to build what they believe is within their power to provide. This can help the Council understand when and how key services are overspending, but it does not necessarily mean it can tackle this increased pressure. Clear, regular and transparent reporting arrangements are important to enable effective oversight of the Council's financial position, the steps it takes to ensure its financial sustainability and the impact of this on its local communities.



Our recommendations for the Council

Exhibit 1: our recommendations for the Council

Recommendations

- R1 We found limitations in the Council's strategic approach to support its long-term financial sustainability. To address this, the Council should implement a long-term financial strategy that supports its understanding of its medium-long

⁴ Six out of eleven Council departments overspent in 2023-24, with three of these overspending by over £1 million.

Recommendations

term financial position and informs its transformation and prioritisation of services.

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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