

# Financial Sustainability Review – Denbighshire County 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 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 **the Council engages well with Members and officers when setting its budget but it currently lacks an approach to find sufficient savings or an implemented transformation plan to bridge its funding gap..** We set out below why we reached this conclusion.
- 17 The Council has a clear strategy for its medium-term financial sustainability, which is well communicated to Members and officers, but has weaknesses in how it currently identifies efficiencies and is at an early stage of longer-term transformation. 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 However, we identified risks within the Council's approach. The Council engages in existing peer networks but is limited in wider engagement, such as with CIPFA, to learn from others and identify opportunities for finding savings.
- 19 The Council plans to find efficiencies for its 2025-26 budget with a revised approach and is also developing a transformation agenda to support its medium and long-term financial planning. However, both workstreams are not fully developed and untested for their impact and effectiveness.
- 20 In recent years the Council has made unplanned use of reserves to balance in year budget pressures. As the Council is aware using reserves to balance annual budgets does not address underlying issues, it has a policy to avoid using reserves to balance its budget. This, in turn, increases pressure on savings identification and transformation to address the underlying issues. As a result, there has been additional pressure on savings identification. As the Council's initial approach did not identify the required level of savings, this led to services being asked to find non-strategic savings from their budget areas to balance the budget. Many of these non-strategic savings were not assessed for impact and lack an ongoing assessment.

- 21 Critically, these weaknesses mean that the Council does not fully understand the longer-term impact of all decisions. This may cost more in the longer-term or work against corporate objectives, both of which risk the Council's broader value for money. In taking a more robust, complete approach to savings identification and assessment, the Council can take greater assurance in mitigating this risk.
- 22 The Council's understanding of its financial position is clear, supported by assumptions and identified risks. The Council is aware that its recent use of reserves is unsustainable going forward. 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.
- 23 The Council bases its Medium-Term Financial Plan on good information with appropriately benchmarked assumptions and a good understanding of key budget pressures. The Council updates its calculations regularly and communicates the changes to members. Risks to the financial position are also reviewed regularly, with monthly updates provided to Cabinet.
- 24 In its draft MTFP for 2024-25 to 2026-27, the Council projected a shortfall in funding of £15 million in 2025-26 and a further £13 million in 2026-27. This comes on top of the £10.4 million of savings identified to balance the 2024-25 budget. The cumulative saving required of £38.4 million within three years is equal to 15% of the total 2023-24 revenue budget.
- 25 The Council has overspent against the budget in the last two years, which demonstrates it is grappling to deal with key pressures and risks, which include:
- Pay awards for school and non-school staff, for example it is assumed the non-school pay award for 2024-25 will cost the Council an extra £4 million.
  - Adult social care and homelessness has shown an additional pressure of £7.97 million for the 2024-25 budget (gross of savings). This is due to various causes, increase in demand and complexity of cases.
  - Budgeted school pressures from inflation, pay awards, and increased pension contributions totalled £7.6 million alone for 2024-25.
- 26 As the demand for savings increases over the medium-term plan the risk of overspending is heightened, further increasing pressure on reserves if not delivered successfully. Identifying pressures and mitigations in a timely manner is critical to managing this risk and supporting the Council in delivering its plan.
- 27 The Council needs to ensure that its scrutiny and monitoring arrangements provide clarity across the responsible Committees and will need to review the effectiveness of recently introduced reporting and tracking arrangements. 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.
- 28 Both officers and members identified confusion in previous arrangements for the oversight of financial performance, primarily between committee roles. Despite the

constitution stating the role of Performance Oversight and Scrutiny Committee, this has not taken place. Whilst members have been able to ask questions during Cabinet financial updates, this is not formal scrutiny.

- 29 The Council has taken steps to amend the constitution to provide clarity, as well as introduce new arrangements to support the financial strategy, such as a detailed savings tracker. As these arrangements are newly introduced at the time of reporting, we have been unable to assess their effectiveness currently.

## Our recommendations for the Council

### Exhibit 1: our recommendations for the Council

#### Recommendations

R1 We identified weaknesses in how the Council planned its financial approach. To address this the Council should:

- 1.1 – Look to learn from others to identify good practice and potential savings proposals to ensure a wide range of ideas are considered.
- 1.2 – Establish an approach to the identification of savings which is informed by an assessment of impact and sustainability against corporate objectives, whilst ensuring that the identified savings will bridge the identified gap.
- 1.3 – When identifying savings, the Council should ensure the impact of all savings are understood and monitored during implementation.

R2 We identified some confusion in the arrangements and clarity of responsibilities for financial oversight by members. Whilst the Council is acting to address this, it should review any changes introduced to ensure they provide the impact they want and are effective.

R3 The Council is introducing new arrangements to support financial oversight, such as a financial and savings tracking system. It is planned that this will help develop a process for tracking and reporting savings to officers and Members. The Council should review these changes once fully developed to ensure they provide assurance to officers and Members and allow for proper scrutiny of progress against planned savings.



# 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 (eg 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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