

# Financial sustainability of local government

December 2024



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Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

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# Summary Report

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## Auditor General's foreword

### **The financial position of local government is unsustainable over the medium-term unless action is taken**

- 1 From my position as the external auditor for most of the devolved Welsh public sector, I see the valued services that the local government sector provides to the people of Wales daily - waste collections, libraries, environmental health, education, social services and many more. Vital for citizens, these services are increasingly stretched by financial, demographic, and societal pressures.
- 2 To date, unlike in England, all Welsh councils have been able to balance their budgets and none has needed to submit a Section 114 report.<sup>1</sup> That is testament to the commitment of officers and councillors across Wales and the tough decisions already made. However, as the cumulative impact of financial restraint builds, we cannot assume that the future for the sector is sustainable. The position is fragile and sensitive to the competing and complex factors that affect council finances.
- 3 It is my role to highlight these risks and provide assurance over the arrangements councils have made. To that end, I have reviewed the steps that councils are taking and the arrangements they have in place to support their own financial sustainability.
- 4 Our work shows that, while councils generally know the scale of their funding gaps, they do not have longer term plans in place to address them. This leaves them vulnerable to short term decision making that may not represent value for money or be in the longer-term interests of local communities. That runs counter to the expectations of the Wellbeing of Future Generations Act, which places long-term thinking at the heart of organisational planning.

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1 A section 114 report is issued to the Full Council where a council's Chief Finance Officer (Section 151 officer) believes the council has spent (or is committed to spend) more than the total resources available to it. It then places spending limits on the council.

- 5 Our examination also highlights the importance of good governance to financial sustainability. That means having clear strategic leadership, a detailed and well-communicated understanding of the financial position, and effective oversight and collaboration by elected councillors. In such an environment, value for money is more likely to be at the heart of decision making. I echo the view of my counterpart the UK Comptroller and Auditor General that promoting productivity and making public money work harder should be focuses for the whole public sector.<sup>2</sup>
- 6 I emphasised all these issues in my statement earlier in the year - [From firefighting to future-proofing – the challenge for Welsh public services | Audit Wales](#). There, I described common themes that I see repeatedly from our work across the public sector. If addressed, public organisations could achieve more with what they already spend and so help shift from relentless firefighting of today’s immediate challenges to the delivery of sustainable public services that are fit for the future.
- 7 Some councils are better placed than others to weather the financial challenges ahead. But given the scale of the funding gaps projected for local government in the coming years, all councils will need to keep up or increase the pace of change if they are to meet the urgency and scale of the challenge. The Welsh Government will also need to support the sector in meeting this challenge.
- 8 Put simply, local government is financially unsustainable over the medium term unless action is taken, by those who support and interact with the sector as well as councils themselves. Though a difficult message, I hope that this report helps councils, the Welsh Government and all of those committed to the sector, to chart a path to a sustainable future.

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2 Comptroller and Auditor General, [Here’s how to make public money work harder](#), September 2024

## Executive summary

### Context

- 9 Over the spring and summer of 2024, we looked at the financial sustainability of each of the 22 councils in Wales. We focussed on:
  - the strategies to support councils' long-term financial sustainability;
  - councils' understanding of their financial position; and
  - council's reporting arrangements to support regular oversight of their financial sustainability.
- 10 This report provides some context on the financial challenges faced by councils and summarises our key findings from this work. We have also reflected on what all of this means for the future financial sustainability of councils and provide some reflections on how councils' future financial sustainability could be strengthened.

# Key facts

Below are some key facts that illustrate how the financial pressures on council finances have grown over time

**3.3%** (£3 billion) – the real terms growth of gross council spending between 2008-09 and 2023-24.



**94%, 27%, and 31%** – the real terms growth in council spending on children’s, adult, and older peoples’ social care between 2008-09 and 2023-24

**-62%** – the reduction in real terms council spending on community safety between 2008-09 and 2022-23



**-16.6%** – the real terms reduction in usable reserves not protected by law between 2022-23 and 2023-24<sup>3</sup>



**79%** – the increase in children looked after by Welsh councils between 2003 and 2023



**41%** – the increase in schools spending on Additional Learning Needs between 2015-16 and 2022-23



**-4.3%** – the reduction in real terms funding for Welsh local government between 2025-26 and 2027-28 forecast by Cardiff University

<sup>3</sup> This is a comparison of the 19 councils that had provided draft accounts for 2023-24 at the time of drafting. It excludes Blaenau Gwent CBC, Denbighshire CC, and Merthyr Tydfil CBC.



# Key messages

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Below is a summary of the key messages that are set out in this report.

**There are significant risks to the sustainability of local government finances which are likely to increase over the medium term without action to mitigate them**

- 11 Given the scale of the funding pressures facing local government, many councils require a step-change in approach to move beyond setting an annually balanced budget to achieving value for money and financial sustainability over the medium-term.

**The public sector has faced a period of unprecedented financial pressures since 2008.**

- 12 In real terms spending by councils decreased between 2008 and 2020. It rose slightly during the pandemic but overall growth in funding for councils remains well below the growth rate before 2008. This has required councils to make difficult choices throughout this period.

**The pressure on local government funding over this time has affected councils and services differently**

- 13 Some services have been 'protected' from budget reductions more than others, and for some service areas this has varied across councils. It is notable, however, that some significant falls in spending have been seen in the regulatory and preventative areas of council spending.

**There are significant factors affecting councils' financial sustainability that are beyond their control**

- 14 Wider contextual challenges greatly influence demand for services and costs for councils. This has included, for example a large and unforeseen increase in inflation because of world events. To varying degrees these are beyond councils' control. This makes mitigating their impact more difficult.



**All councils in Wales have arrangements to understand their short and medium-term financial positions. Generally, however, they do not take a longer-term view of financial sustainability**

- 15 Few councils have a comprehensive understanding of how they will close their projected budget gaps over the medium to long term – beyond the next two years. Whilst some councils have identified some of the savings required, there is a continued reliance on annual savings rounds, rather than longer-term transformation plans. This has meant a reliance on short-term savings, and/or short-term use of reserves.
- 16 This increases the risk over time that funding gaps will not be bridged, or that short-term solutions will not help councils to secure value for money over the longer term.

**Councils have generally appropriate financial reporting arrangements for the short and medium term but assessing and monitoring the impact of financial decisions is a weakness**

- 17 Most councils have arrangements in place to report on their short and medium-term financial position. This helps facilitate oversight and scrutiny of councils' financial position. The reporting and assessing of the actual impact of financial plans and decisions once implemented is however a weakness. Without understanding and monitoring the impact of financial decisions it is difficult for councils to understand the extent to which they are achieving value for money.

**Practice examples**

- 18 Our review aimed to promote practice examples that could help councils to improve their financial sustainability. We have drawn on some of what we observed at different councils during the review and included a checklist in the report for councils to consider against their own arrangements.

**Many of the financial challenges faced by Welsh councils are common to the rest of the UK**

- 19 Experience from across the UK offers potential for learning from elsewhere. We have outlined some of this learning, including key learning from the Section 114 reports that have been issued in England. This includes the importance of being aware and accepting of financial challenges, offering leadership to respond to them, and having proper governance arrangements to oversee the response.

## We heard some concerns that national issues or processes make financial planning more difficult

20 These included concerns relating to:

- the funding formula used to distribute Welsh Government funding to local government;
- the timing of the local government funding settlement, and the lack of 'multi-year' settlements present in other spending areas: and
- additional responsibilities being placed on councils without commensurate funding being made available.

21 We have reported these to provide context and balance but have not explored or assessed these matters within the scope of this work.

## Our audit approach

22 Our audit approach is set out in the appendices to this report, alongside a map that provides links to our local reports. This work is a continuation of our work on financial sustainability, most recently in 2021. Our work is also supplemented by our local government financial sustainability data tool. We have published the most recent update to this tool alongside this report. This update has added data for the 2023-24 financial year<sup>4</sup>, as well as new indicators covering councils' levels of borrowing.

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4 Data in the tool for 2022-23 and 2023-24 is drawn from unaudited, draft financial statements.

# Detailed Report

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## What does financial sustainability mean?

- 23 There is no common definition of financial sustainability within the public sector. Our understanding of what financial sustainability looks like is informed by our cumulative audit knowledge and experience, the work of key bodies like the Chartered Institute of Public Finance and Accountancy (CIPFA). It is also informed by the sustainable development principle as set out in the Well-being of Future Generations (Wales) Act 2015.
- 24 A council could be sustainable by delivering minimal services at the minimum standard that the law allows. This, though, would be unlikely to enable it to deliver all its objectives or meet the needs and expectations of its communities. Equally a council's financial plans could be unsustainable because it is trying to deliver services far above the reasonable expectations of service users, or because it has taken unnecessary commercial risks to deliver services.
- 25 Councils are independent of other public bodies with their own tax raising powers but are still fundamentally linked to the wider public sector. The Senedd and the Welsh Government place requirements on councils, whilst also providing most of their funding, as outlined below. The actions of public bodies in other sectors such as the police, fire and rescue services, and health bodies, can also impact on council services and spending. To be financially sustainable, a council needs to provide the services required of it, by law and expectation, within its available resources in the long-term. Part of this may involve re-defining what 'reasonable' expectations might be for service users as demand pressures, priorities and the funding position changes.
- 26 A sustainable council must also provide the assets and infrastructure to enable effective service delivery. This requires a balancing of capital investment and its sources, such as borrowing, as well as ongoing maintenance and future liabilities, against the impact of these financial decisions on revenue spending. Failing to invest in the short-term may cause increased costs in the medium to long-term.
- 27 Whilst councils can put arrangements in place and take decisions to improve their financial sustainability, some factors are outside of their control. These include the funding levels and funding model determined largely by the Welsh and UK governments, and changes in the wider economy. Though outside their control, councils still need to make informed assumptions about such factors to inform their financial planning.

## Overall, we found that most councils have arrangements in place to support their short-term financial sustainability but have yet to fully develop their longer-term plans

### How well do councils understand the financial position?

- 28 This national report reflects finding from the assessments we have undertaken in all 22 councils. It would not be sensible or helpful to use these findings to produce a 'league table' of financial sustainability. **Appendix 1** to this report, however, shows our main findings for each council. Individual council reports are published on the Audit Wales website.
- 29 All councils have arrangements that enable them to quantify their financial position and understand their financial pressures in the short and medium terms. However, most remain focused on the next two years, and few look beyond three years. In part, this reflects the annual balanced budgets that councils are required to set by law, which may encourage a focus on the short-term. Looking towards a longer period can help councils better understand the challenges they face, as well as supporting longer-term solutions that cannot be implemented in an annual cycle.
- 30 We found that reserves are not always used in a strategic manner. Reserves have been used, in some councils, as 'bridging' strategies to balance annual budgets rather than supporting longer-term transformation. Reserves can be an important tool in funding investments to support longer-term financial sustainability such as 'invest-to-save' or transformation projects. Reserves are also in effect an emergency fund for councils that can be used infrequently to fund unexpected financial pressures. Using them solely to fund in-year pressures without using them to support longer-term financial sustainability is unlikely to deliver value for money over the longer-term. However, we recognise that in some circumstances this may be unavoidable, particularly given the scale and pace with which financial pressures have developed in recent years.
- 31 Without clear long-term financial strategies, supported by detailed medium-term plans, the long-term strategic direction of councils towards securing financial sustainability is unclear. Corporate strategies and financial plans provide a framework for elected councillors, as well as the public, to understand decisions and actions. Where councils do not have longer term financial strategies, we cannot be assured that councils have arrangements to support long-term financial sustainability and therefore value for money.

- 32 To help improve their financial sustainability, some councils have sought advice to better understand their financial position. This has included benchmarking to understand spend per head with comparative councils. This can help councils identify opportunities to improve value for money through learning how other councils provide service and the costs of delivering them.

### **How well developed are councils' plans to meet the financial challenge over the medium term?**

- 33 No council has a comprehensive understanding of how they will bridge their funding gaps over the length of their Medium-Term Financial Plans (MTFPs). Whilst some have a substantial proportion of savings identified, the majority remain focused on annual savings. In the long-term, it is unlikely that the historic approach of incremental cuts across a wide range of services will be sufficient given the levels of savings that councils have made since 2008.
- 34 Councils recognise that some service transformation is required to bridge their funding gaps, however, transformation plans are not consistently being developed. Some councils have identified transformation projects, their timescales, and their intended savings, which helps inform councillors of the potential solutions over a longer-period. Most councils are in the early stages of their current transformation plans, either forming governance arrangements or drawing up a list of potential options. Whilst it is not inevitable that all transformation will lead to savings, it is likely that the pace of transformation will need to be accelerated to help councils bridge their funding gaps over the medium-term.

### **Do councils have strong governance arrangements?**

- 35 Most councils have arrangements in place to report their short and medium-term financial position to councillors. This helps to facilitate oversight of the financial position and inform decision-making.
- 36 However, most councils do not have arrangements in place to understand and assess the impact of financial decisions on an ongoing basis. Reporting the impact of decisions on council objectives and local communities enables councillors to understand if the intended impact of financial decisions has materialised. This in turn helps to identify if any corrective action needs to be taken, as well as informing assessments of the value for money of decisions. It can also provide learning to help inform future financial decisions.

## Practice examples

- 37 We have drawn on some of the practice we observed at different councils during the review to develop a checklist for councils to consider against their own arrangements:
- using external advice – some councils have sought to supplement their understanding of their financial position through procuring detailed benchmarking data from external organisations. This has helped councils understand service spending relative to similar councils, as well as potential variation in the level of services they deliver. This can help councils to better inform where and how they might improve the value for money of their service delivery.
  - promoting a collective approach to financial decision-making - many councils outlined how they have communicated to councillors that the budget is an ongoing process, rather than an annual event. This led to, for example, workshops and engagement sessions to discuss financial proposals. This can help build understanding of, and therefore support for, sometimes difficult decisions.
  - making decisions easy to visualise – some councils have reported proposed budget savings to councillors in both cash terms and as a percentage of Council Tax. This can help councillors to better understand the impact of accepting or rejecting a saving on local council tax payers. In turn, this helps improve transparency and understanding of the impact on communities.
  - analysing future demand – a few councils have undertaken research to understand the scale and nature of long-term predicted demand for services using internal and external data. This can help councils develop a detailed understanding of their budget gap, particularly for services with a significant projected rise in demand, such as adult social care.
  - aligning financial and transformation plans – a few councils have developed transformation strategies aligned with their MTFPs to outline their approach to close the short, medium, and long-term budget gaps. This can help councils to communicate their intended approach to officers, councillors and other stakeholders. It also helps to provide a strategic framework for decision-making.
  - having clear savings trackers – most councils track their savings implementation and report this to councillors for their oversight. Some councils risk rate individual savings to provide a clear indication on the likelihood of achieving them. Risk rating savings can improve scrutiny by making it clear where the delivery of savings is not on target and corrective action needs to be taken.

- clearly understanding long and short-term impacts of decision-making – most councils assess the impact of significant savings proposals. Some councils assess the impact on communities and the achievement of the well-being objectives, some over both the short and long-term. This can help to improve the quality of decision-making by providing councillors with a detailed understanding of the potential impact of decisions both now and in the future. Setting out options that have been considered to mitigate any negative impact can also help inform councillors when taking decisions on savings proposals.
- understanding and rationalising the asset base – councils own and invest in a range of buildings and other assets to deliver services. They have ongoing costs in maintenance that impact spending plans and effectiveness of services. Understanding the condition of already owned assets, in addition to understanding what is needed in the future, helps understand and plan for revenue and capital costs from buildings.

## National findings

38 Our local reports have focused on the arrangements in place at each council to support financial sustainability. As explained above, most councils' funding is provided by the Welsh Government. Below we summarise themes raised by councils during our fieldwork that relate to Welsh Government.



### Funding formula

- 39 Funding from the Welsh Government, known as the local government settlement, is determined by the application of a formula known as the Standard Spending Assessment (SSA). The SSA is designed to reflect the different costs of service delivery due to demography, geography, or socio-economic characteristics. Notional amounts of funding are allocated to specific service areas, although individual councils then determine how this funding is then allocated across service areas.
- 40 The SSA process is outlined in documents published by the Welsh Government annually.<sup>5</sup> These documents include both the sources of data, the indicators used, and the assessments that draw on the data and indicators. This is known as the 'Green Book'. The formulae for all services were independently reviewed before the 2001-02 settlement and there have been subsequent focused reviews of specific aspects of the formula, agreed following discussions through the finance sub-group, which includes councillor and officer representatives of councils. The Welsh Government publish papers annually that provide context and outline the annual process for their determination.
- 41 The indicators used in the formulae are split into three categories:
- main client groups – These are the main factors influencing cost, such as population or pupil numbers. In 2024-25, this represented 65% of indicators.
  - deprivation – Indicators reflecting additional costs to support people with higher levels of deprivation. In 2024-25, this represented 28% of indicators.
  - population dispersal - Indicators reflecting additional costs to support people in sparsely populated areas. In 2024-25, this represented 6% of indicators.

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5 For example, [Local government revenue and capital settlement: Background information for standard spending assessments 2024-25](#)



- 42 The total funding available, the determination of how this is distributed, and the provision of any 'top-ups' to ensure all councils receive a baseline increase in funding are clearly political decisions for the Welsh Government. There are also elements of the settlement set out by law, such as Non-Domestic Rates distribution, and the settlement is also subject to the approval of the Senedd. We have not audited the detail of the formula, its source data, nor its effectiveness as part of this review.
- 43 Inevitably, there is a range of views across Wales on the merits of this system that often correlates with how funding is allocated. Those who receive proportionally greater levels of funding from the Welsh Government, in general, had less to comment on during our fieldwork.
- 44 However, we heard a number of concerns relating to the SSA though our fieldwork, these included:
- the SSA produces too much difference between neighbouring councils;
  - the SSA has an emphasis on funding for services for children rather than older people, despite services for older people often resulting in higher costs due to social care costs; and
  - that some data used within the SSA is not sufficiently up to date.
- 45 We have not audited these assertions. Some relevant information is, however, already provided by the Welsh Government. For example, the 2024-25 SSA documents acknowledged that some data relating to settlement and dispersion was based on the 1991 and 2001 censuses, whilst others also used data from 2001 and 2011. Some elements of the formula are updated more frequently. We have not reviewed the impact that such examples might have, however it is clearly important that Welsh Government has assurance over the validity and accuracy of data that is used to inform decisions on funding allocations.



### **Length and timing of the settlement**

- 46 Council officers outlined the strain on capacity and individuals that the timing and duration of the local government settlement can have. Where funding is different to the anticipated level or changes between the provisional and final allocation, this can require significant amendments to local plans. In the three settlements before publication, the average change in settlement was a 0.3% increase. Annual volatility in funding levels can add further uncertainty to these amendments.

- 47 Pre-pandemic, the settlement was typically published in October and finalised in December. This allowed councils time to inform their local budget setting. Since 2019, the provisional settlement has been in December with finalisation in February or March. This reduces planning time for councils and has meant councils have decided their annual budgets ahead of knowing the amount of funding they would receive. This increases the risk of additional funding being allocated without a proper assessment of its impact, or the unplanned use of reserves if funding is below the budgeted level. Both scenarios increase the risk of funding not being used in a planned way to secure value for money over the longer-term.
- 48 In addition, the timing of specific grants was also felt to increase the pressure on officers and financial planning. For example, when it is uncertain if additional funding will fund nationally agreed pay rises or changes in pension contribution rates, this makes financial forecasting more challenging.
- 49 In some previous years, the Welsh Government provided councils with a multi-year indication of overall council funding. This has not consistently been provided and was not in the current year. Some interviewees have said that the lack of clarity on indicative funding is a barrier to effective financial planning.
- 50 We recognise that some factors that influence the timing of the local government financial settlement are beyond the control of the Welsh Government. The timetable and decisions of fiscal events in the UK Parliament have a significant impact on the budget setting process in Wales. This can limit the extent to which Welsh Government can provide clarity on future settlements, grants, and their timing.
- 51 Councils can draw on publicly available information to help forecast future funding levels. For example, the Wales Governance Centre provided projections for council budgets up to 2027-28 in October 2023. Councils also draw on a comparison of financial assumptions, such as anticipated pay rises, made by different councils through the Society of Welsh Treasurers. We saw all councils use evidence like this to varying extents. Forecasts can be helpful to enable councils to develop different options, so they are prepared to respond to financial pressures once funding levels are confirmed or unforeseen events occur. This can help to mitigate against uncertainty over the future budget position and help councils to prepare for a range of scenarios.



### Additional responsibilities

- 52 Some interviewees felt that additional funding has not been provided by the Welsh Government despite the additional responsibilities placed upon councils through new legislation.
- 53 As outlined above, services (or levels of services) provided by councils are either provided due to the council choosing to (a 'discretionary' service) or because it is required to by law (a 'statutory' service). Legal duties are included in Acts passed by the Senedd or the UK Parliament. However, for statutory services, Councils have the option to shape these services where service levels are not prescribed.<sup>6</sup>
- 54 As new Acts are passed it can mean new duties are placed on councils. Legislation can also have unintended consequences that result in additional costs for councils. For example, where it results in private sector service providers deciding to stop providing a service and councils have to fill a gap in provision as a 'provider of the last resort.' The most frequently cited area where interviewees felt that legislation has led to increased costs related to housing services.

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6 For example, class sizes in primary schools are required by Regulations to be no more than 30 pupils so a council could not increase classes sizes above this.

## The wider UK context

### **Pressure on council finances is not unique to Wales and this offers insight into potential causes and indicators of financial sustainability**

- 55 When, in the view of the Chief Finance Officer<sup>7</sup>, a council has spent (or is committed to spend) more than the total resources available to it, the officer must (in consultation with other senior officers) report this to councillors and to and to the auditor (in Wales, the Auditor General). This is known as a Section 114 report.<sup>8</sup> This then limits any new spending the council can make. To date, no such reports have been made in Wales.
- 56 Since 2018, in England 11 reports have been made due to councils being unable to balance the budget (**Exhibit 1**).

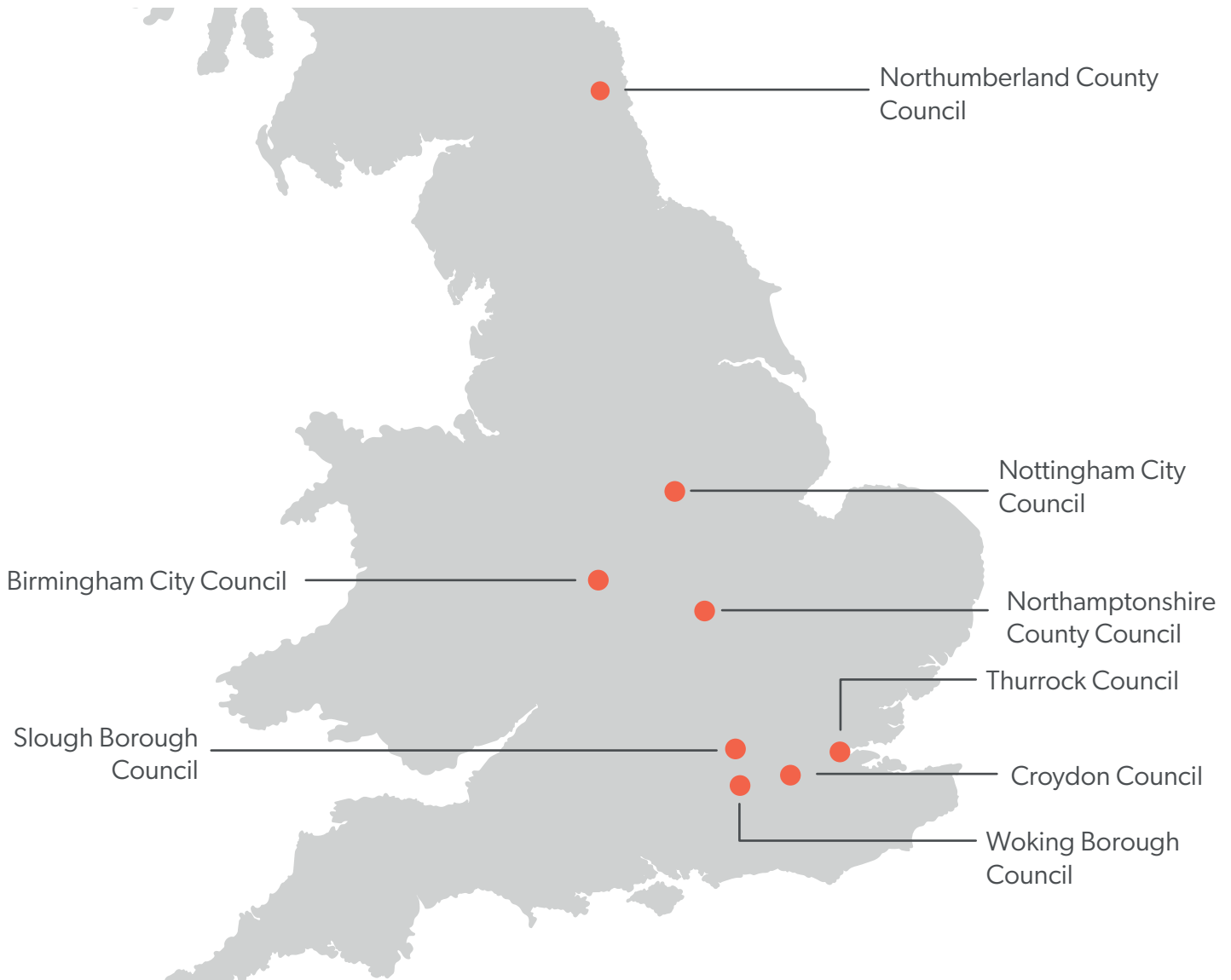
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7 This is commonly referred to as a Section 151 officer as the role is required by s151 of the [Local Government Act 1972](#).

8 s144 of the [Local Government Finance Act 1988](#). This also applies where the S151 officer believes a council will incur unlawful spending.

### Exhibit 1: council areas in England that have made a Section 114 report

This map shows the eight councils in England that have made a Section 114 report.



Source: Audit Wales

57 Although in each case there were differing local influences, the Chartered Institute for Public Finance and Accountancy (CIPFA) identified four common themes:

### Exhibit 2: common themes of Section 114 reports

An unwillingness to see the reality of the situation	Ignoring the warnings about the financial position, both internally and externally, to avoid recognising that the current plan was not working.
An absence of leadership	Being unable to take difficult decisions – both by officers and councillors. This means less problem solving and scrutiny of proposals.
Inadequate governance processes	A significant lack of oversight by councillors, particularly by governance and audit committees. A lack of skills contributes to this.
Weak financial management	Weak and insufficient processes that lack accountability, sustainability, and transparency. This can be indicated by a substantial decline in reserves, which limits solutions to problems when they arise.

Source: [CIPFA](#)

58 CIPFA have produced resources to support councils, such as [Building Financial Resilience](#), in addition to outlining a [roadmap to avoiding Section 114](#):

- the savings process should be effective and engaging, with budget holders involved in identifying and delivering savings;
- the risks around commercial activities must be clearly understood, with effective oversight of council-owned companies;
- councillors must receive training on financial matters, improving their understanding of complex issues;
- governance arrangements should be strengthened and include the ability to speak truth to power;
- internal audit should review the effectiveness of financial rules and processes, and knowledge of and compliance with financial regulations;
- the quality of financial management should be assessed, particularly for larger organisations;
- independent assurance on the annual governance statement can ensure it is effective; and
- a financial resilience review may be obtained.

- 59 This structure could be used as a basis for councils to review their own position, alongside our local reports. For example, Denbighshire County Council have used the common themes and roadmap to develop a self-assessment to inform its Governance and Audit Committee of the risk of requiring a Section 114 report. It intends to make this an annual assessment to support its arrangements and oversight by councillors.
- 60 Councillors through their scrutiny and decision-making are an important part of a governance framework that supports financial sustainability. This could include scrutinising the robustness of financial plans or proposed decisions, as well as needing to take difficult decisions to support financial sustainability. This aligns with the [Principles for Good Governance in the Public Sector](#)
- 61 Financial sustainability and the uncertainty associated with funding models has been identified as an issue by auditors in other parts of the UK.
- 62 For example, in England the National Audit Office (NAO) has reported<sup>9</sup> on the impact of financial uncertainty and resilience on councils delivering value for money. The NAO's findings are very similar to our own, including:
- councillors holding off making difficult decisions in the hope that the settlement would be more positive than expected;
  - a lack of time to review savings options to make good rather than quick decisions;
  - a tendency to be overly cautious and cut services rather than to plan for efficiencies over the medium term; and
  - the tendency to build up reserves in-year in the expectation that they will be needed to balance the next budget.
- 63 The NAO have also produced a [good practice guide](#) for leaders and decision-makers in an uncertain environment to help consider value for money, as well as [strategic planning and budgeting](#).
- 64 Audit Scotland have concluded that council budget gaps in 2024-25 were 'unsustainable'.<sup>10</sup> They reported similar themes to Wales, such as the challenging timetable of budget setting and the importance of clarity in financial plans. They have also recently set out that<sup>11</sup> 'the unprecedented financial and service demand pressures mean there is an urgent need for the local government sector to transform how it operates if it is to sustainably maintain services'.

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9 For example, [Local government finance in the pandemic](#), March 2021 and [The local government finance system in England: overview and challenges](#), November 2021

10 Audit Scotland, [Local government budget 2024-25](#), May 2024

11 Audit Scotland, [Transformation in councils](#), October 2024

65 Audit Scotland have developed key transformation principles (**Exhibit 3**), in addition to setting out barriers to, and potential structures to support, transformation. This work includes features that may be applicable to Wales, such as emphasising community involvement, collaboration, and prevention. It also underlines the importance of innovation.

### Exhibit 3: transformation principles

This exhibit sets out principles for council transformation published by Audit Scotland.

Vision	<p>Have a clear vision that sets out the intended end state of any transformation activity, focused on:</p> <ul style="list-style-type: none"> <li>• delivering large-scale recurring savings or generating income for the council, contributing to its longer-term financial sustainability;</li> <li>• improving outcomes for citizens in line with council priorities;</li> <li>• taking a whole-system approach to see and realise opportunities both within councils and more widely;</li> <li>• meeting the needs of the people who use services and reduce inequalities; and</li> <li>• focusing on preventative activity, where applicable, to reduce the demand for services and to make them sustainable in the longer term.</li> </ul>
Planning	<ul style="list-style-type: none"> <li>• Be clear on the scale of the change required and ensure transformation plans are sufficiently ambitious to credibly respond to the scale of the challenge.</li> <li>• Commit staff with appropriate skills, time, and resources to ensure transformation occurs at the scale and pace required and that there is enough capacity for the changes to be embedded.</li> <li>• Be clear about the timescales, costs, outcomes, and anticipated impacts of transformation projects.</li> <li>• Show urgency and progress projects at pace without compromising appropriate governance on projects</li> </ul>
Governance	<ul style="list-style-type: none"> <li>• Have a clear process for monitoring, evaluating, and reporting progress.</li> <li>• Put in place effective governance and escalation processes so that the transformation activities are well managed in their own right, but also able to be given priority alongside other business-as-usual activities</li> </ul>



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Collaboration	<ul style="list-style-type: none"><li>• Develop better working relationships with communities and/or partners to achieve a sustainable model of service delivery.</li><li>• Actively consider the opportunities offered by regional or national sectoral collaboration, or by integrating services locally with partners, or by supporting individuals and communities to achieve desired outcomes in place of an existing service.</li><li>• Learn from good practice across the country and beyond.</li></ul>
Innovation	<ul style="list-style-type: none"><li>• Implement new ways of thinking, including innovation, creativity and a desire, willingness, and action to change and do things in new and different ways that achieve the outcomes needed.</li><li>• Embed the right culture and behaviours to manage change and help maximise the contribution of all the team.</li></ul>

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Source: [Audit Scotland](#)

## What does this mean for councils in the future?

### **There are significant risks to the sustainability of council finances which are likely to increase over the medium term without action to mitigate them**

#### **Securing value for money will be even more important to support financial sustainability**

- 66 Later in this report we illustrate the scale of the funding pressures facing local government and how councils are responding to this challenge. We also set out some issues for Welsh Government to reflect on above.
- 67 In view of wider financial and economic trends the funding position for councils may not significantly improve over the medium-term. For example analysis by [Cardiff University](#) in October 2023 forecasted a 4.3% reduction in real terms funding for local government between 2025-26 and 2027-28. The [WLGA](#) have estimated a £559 million budget gap for 2025-26, which they forecast to rise significantly with a further £1 billion of additional anticipated demand in the following two years.
- 68 If these projections prove accurate, it heightens the need for councils to put in place proper arrangements for securing value for money in their financial and wider strategic planning. Given the potential scale, this will mean a step-change in approach for some councils and a much clearer emphasis on moving beyond setting an annually balanced budget to financial sustainability over the medium-term.

#### **The sustainable development principle provides a framework to support financial and strategic planning**

- 69 The sustainable development principle provides a framework against which councils can develop their financial plans and strategies. It can also provide a framework for assessing individual proposals or decisions designed to support a council's financial sustainability. Some potential impacts of not applying the principle are set out below against the five ways of working (**Table 1**):

**Table 1: examples of the potential impact of not applying the sustainable development principle**

This table sets out the potential impacts of not applying the sustainable development principle in relation to each of the five ways of working.

Way of working	Examples of the potential impact of not applying the sustainable development principle
Long-term	<ul style="list-style-type: none"> <li>• Reserves are used in the short-term to balance annual budgets in a way that prevents them from being used for longer-term investment that could secure better value for money.</li> <li>• The long-term impacts of savings proposals are not properly considered, potentially leading to higher costs and reduced outcomes for service users over the longer-term.</li> <li>• Medium- and longer-term investment requirements are not funded/prioritised in the short term, for example in relation to. developing capacity, infrastructure specific skills.</li> </ul>
Prevention	<ul style="list-style-type: none"> <li>• Linked to the examples above under ‘long-term’, not investing in preventative initiatives increases the demand for and cost of providing more acute services. It also leads to reduced outcomes for service users.</li> </ul>
Integration	<ul style="list-style-type: none"> <li>• Financial plans are not integrated with a council’s other plans and strategies or those of its partners. Or not understanding the relationship between resourcing/ savings decisions across different areas of the business. This results in duplication of effort and missing opportunities to secure multiple benefits, and may hamper progress towards longer term ambitions, as defined in Well-being Objectives.</li> </ul>
Involvement	<ul style="list-style-type: none"> <li>• Those with an interest in financial plans or individual decisions are not involved in the decision-making process. This increases the likelihood that a council takes decisions that do not take account of their needs and therefore does not secure value for money.</li> </ul>
Collaboration	<ul style="list-style-type: none"> <li>• Opportunities to work collaboratively within and between councils and other partners are not explored. As a result, opportunities to improve value for money through economies of scale, greater resilience and improved outcomes may be missed.</li> </ul>

Source: Audit Wales

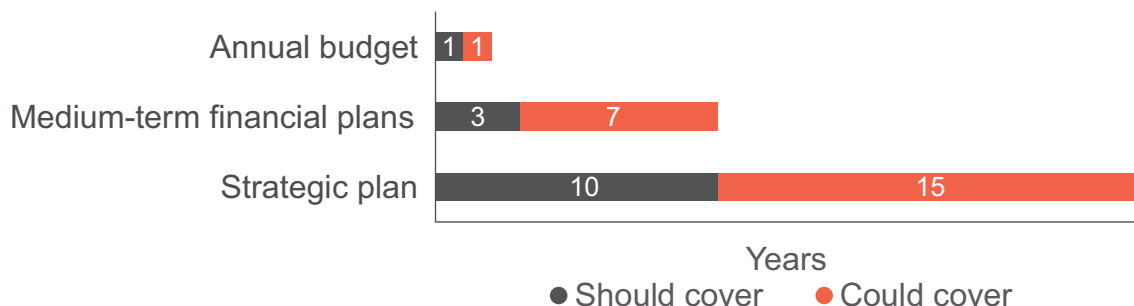
70 Embedding the sustainable development principle more clearly in financial planning could help councils to develop a longer-term, more holistic approach to financial sustainability that is informed by on-going involvement activity. This is particularly important if the scale of the financial challenges requires more fundamental changes to service delivery through for example greater collaboration, transferring assets to community groups or ceasing to provide some services at all.

**A longer-term approach to financial planning and decision-making**

71 In our review, we have adopted CIPFA’s definitions of timescales in financial planning. Medium-term financial plans are expected to set the direction over at least three years, building on the annual budget setting process. This is within a longer-term strategic plan that builds on the three-year view to at least a decade (**Exhibit 4**). Generally, we found that councils in Wales are not taking this longer-term approach.

**Exhibit 4: timescales in financial planning**

This exhibit shows the timescales in different types of financial plans should cover and the suggested timescales they could cover in the view of CIPFA.



Source: [CIPFA](#)

72 The timescales set out by CIPFA go beyond electoral cycles and the annual budget process. We recognise the challenges associated with applying such timescales to decision making, however, it is necessary if longer term financial sustainability is to be secured.

## Overview of council finances and funding

- 73 In this section we set out the recent financial context within which councils are operating and how this has impacted on funding for services.
- 74 The Welsh Government is the largest funder of Welsh councils. Though varying from year to year, since 1999-2000, around 72% of council funding has come from the Welsh Government, with business rates and council tax accounting for some 12% and 16% respectively.<sup>12</sup>
- 75 After the 2008 global financial crisis, the spending power of local government plateaued and then fell. Councils relied on a range of measures to manage their financial position, including increasing Council Tax levels, the use of reserves, and reductions in spending. By law, councils must set a balanced annual budget.
- 76 During the Covid-19 pandemic<sup>13</sup>, additional funding was made available to support councils. This included specific grants for homelessness, offset falls in business rates, and general assistance funding. This funding helped councils maintain and adapt services during the pandemic, it also helped councils to increase their levels of reserves to a varying extent.
- 77 Between 2005-06 (the earliest year comparative data is available) and 2022-23, real-term council spending increased by 11% (**Exhibit 5**). In comparison, over the same period the Welsh NHS programme budget grew by 60% in real terms.<sup>14</sup>

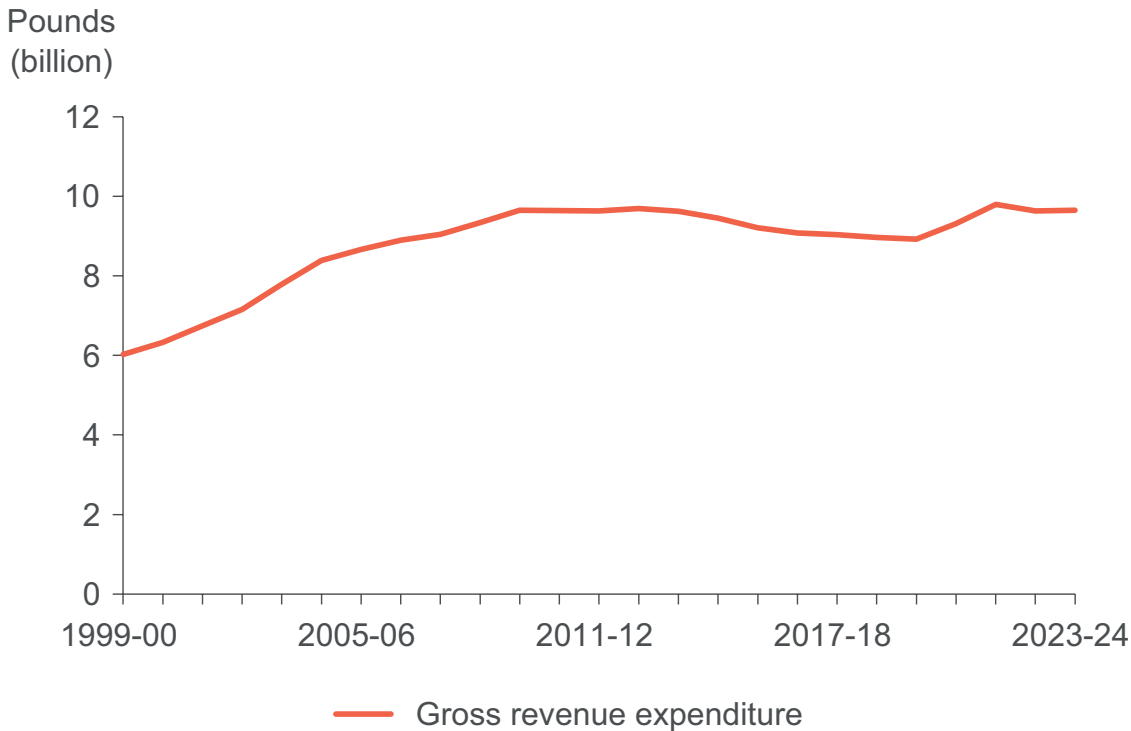
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12 Audit Wales analysis of Welsh Government, [Council revenue outturn data](#)

13 During the pandemic, we commented on the financial impact on councils twice in [October 2020](#) and [September 2021](#). We also published A Picture of Local Government in [September 2021](#).

14 Audit Wales analysis of Welsh Government, NHS expenditure [pre-2010 data](#) and [post-2010 data](#)

**Exhibit 5: gross revenue expenditure by all councils in real terms, 1999-2000 to 2022-23 (June 2024 prices) (£billions)**



Source: Audit Wales analysis of [Welsh Government council revenue outturn data](#)

- 78 Council Tax levels are determined by each council. When setting levels of Council Tax, councils must consider a range of factors. For example, the financial impact on residents, the financial position of the council, and the needs of service users. In real terms, between 1999-2000 and 2023-24 the Welsh average band D Council Tax level rose by 66% or £812.<sup>15</sup> The share of council spending funded by Council Tax has remained broadly similar over time. In 1999-2000, Council Tax funded around 16% of gross spending by councils nationally and some 18% in 2023-24.<sup>16</sup>
- 79 **Table 2** shows how funding per head of population varies between councils and each type of funding source. This is included for contextual information rather than a conclusion on the circumstances or decisions relating to any individual council.

<sup>15</sup> Welsh Government, [Average band D council tax](#)

<sup>16</sup> The proportion of local spending funded by Council Tax varies between councils.

**Table 2: council tax required, Revenue Support Grant (RSG), and Redistributed Non-domestic rates (RNDR) per head of population by council, 2023-24 (Pounds)**

<b>Council</b>	<b>Council Tax required</b>	<b>RSG and Top-up funding</b>	<b>Redistributed non-domestic rates</b>	<b>Total</b>
Gwynedd	£780	£1,585	£329	£2,693
Blaenau Gwent	£574	£1,747	£327	£2,648
Denbighshire	£672	£1,612	£324	£2,607
Merthyr Tydfil	£582	£1,700	£325	£2,606
Neath Port Talbot	£611	£1,609	£327	£2,547
Isle of Anglesey	£707	£1,455	£329	£2,492
Rhondda Cynon Taf	£533	£1,634	£320	£2,487
Ceredigion	£716	£1,432	£337	£2,484
Conwy	£732	£1,399	£337	£2,468
Powys	£765	£1,366	£335	£2,466
Carmarthenshire	£630	£1,454	£326	£2,411
Torfaen	£560	£1,525	£321	£2,405
Caerphilly	£474	£1,603	£324	£2,401
Pembrokeshire	£662	£1,374	£327	£2,364
Bridgend	£648	£1,380	£325	£2,353

<b>Council</b>	<b>Council Tax required</b>	<b>RSG and Top-up funding</b>	<b>Redistributed non-domestic rates</b>	<b>Total</b>
Newport	£517	£1,459	£310	£2,287
Flintshire	£665	£1,291	£326	£2,282
Swansea	£582	£1,375	£320	£2,277
Wrexham	£597	£1,329	£323	£2,248
Vale of Glamorgan	£703	£1,188	£318	£2,208
Monmouthshire	£826	£967	£330	£2,123
Cardiff	£546	£1,239	£308	£2,094
Wales	£620	£1,422	£323	£2,365

Source: Audit Wales analysis of Welsh Government [mid-year population estimates](#), [Council Tax](#), and [government support data](#)

Notes: Whilst non-domestic rates are collected locally by councils, they are redistributed by the Welsh Government as part of the annual funding settlement. Consequently, some councils are net beneficiaries or net contributors to the funding 'pool'.

Top-up funding is additional funding provided to ensure councils receive a minimum percentage increase set by the Welsh Government.

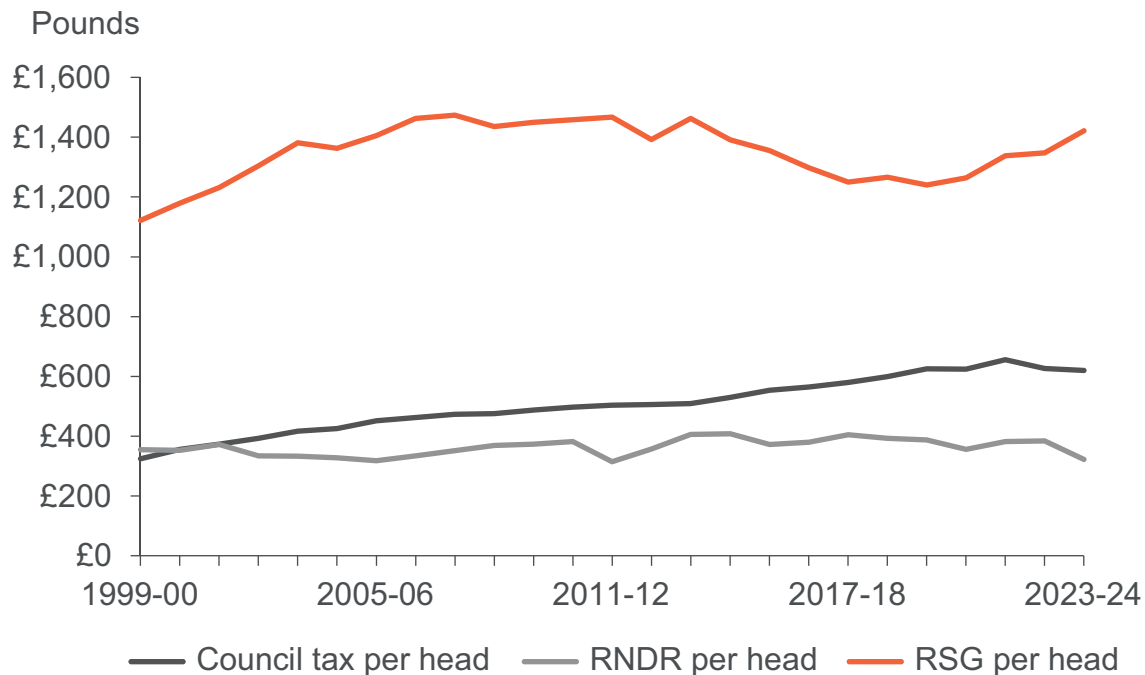
Council tax requirement includes Town and Community Council and Police precepts that are outside of the control of Principal Councils.

- 80 In real terms, between 1999-2000 and 2023-24 the average band D Council Tax level rose by 66% or £812.<sup>17</sup>
- 81 The share of council spending funded by Council Tax has remained broadly similar over time. In 1999-2000, Council Tax funded around 16% of gross spending by councils and some 18% in 2023-24.

17 Welsh Government, [Average band D council tax](#)



**Exhibit 6: council tax, RSG, and RNDR per head in real terms based on mid-year population estimates, 1999-2000 to 2023-24 (Pounds)**

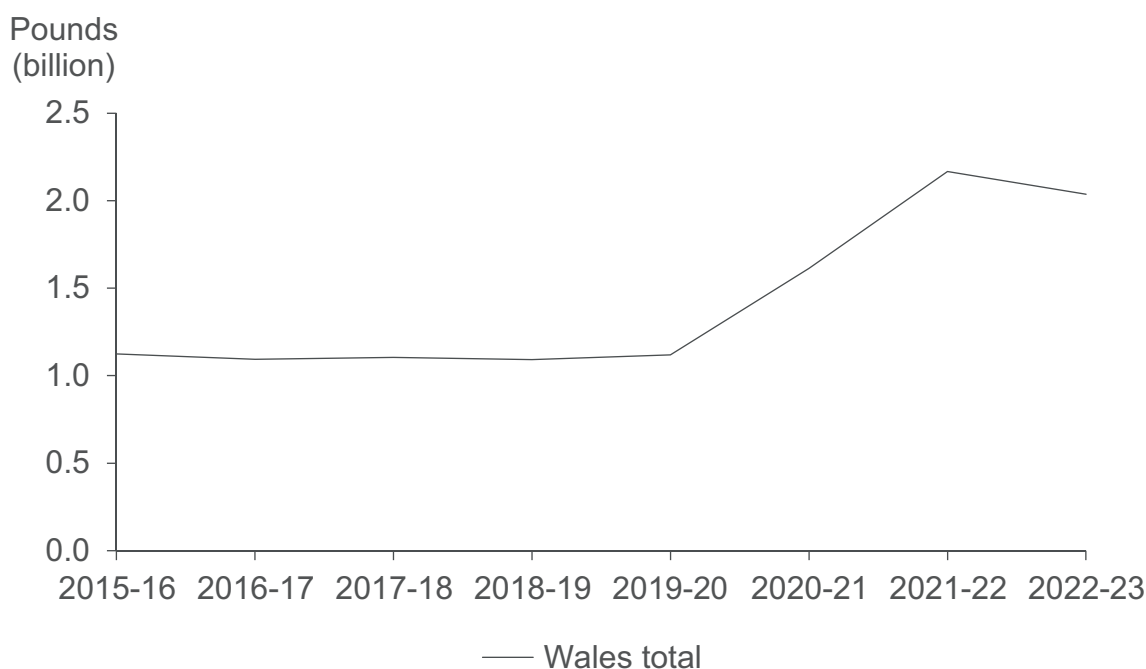


Source: Audit Wales analysis of Welsh Government [population](#), [council tax](#), and [government support data](#)

- 82 Councils can balance their spending by utilising different types of reserves. There are three main types of reserve:
- usable and general reserve – this is a reserve that can be used as a council wants and has not been set aside for a specific purpose.
  - usable and earmarked reserve – this is a reserve that can be used as a council wants but has been set aside for a specific purpose, such as the future costs of an asset. In practice using these reserves to supplement revenue expenditure may be problematic if not being used for their original purpose.
  - unusable reserve – this is a type of reserve that is not cash-backed so cannot be freely used, either due to law or its accounting basis, such as a revaluation reserve. This can be a requirement of international accounting standards or law.
- 83 Reserves can only be used once and are a finite resource. For this reason, they are often seen as a last resort or a form of insurance for councils. This makes the sustainable usage and replenishment of reserves a key indicator of financial sustainability.

84 Our analysis shows that levels of usable reserves not restricted by law<sup>18</sup> were largely consistent over time before increasing significantly during the pandemic (**Exhibit 7**). For Wales overall, usable reserves not restricted by law increased from around £1.1 billion in 2019-20 to more than £2.1 billion in 2021-22. Though reducing in 2022-23, usable reserves still amounted to more than £2 billion or 27% of the total cost of services. This is a significant resource to draw upon. However, the position of individual councils, and the extent to which earmarked reserves can easily be re-purposed, varies considerably. In 2022-23, earmarked reserves accounted for 87% of the total usable reserves not restricted by law held by councils.

**Exhibit 7: total usable reserves not restricted by law held by Welsh councils, 2015-16 to 2022-23 (£billions)**



Source: Audit Wales [analysis](#) of council accounts

18 We define this as ‘those reserves that can be applied to the provision of services, either by incurring expenses or for capital investment, irrespective of whether there are restrictions on exactly what the resources can be applied to’. This is the total of the general fund, earmarked reserves and schools’ balances. It excludes Housing Revenue Account reserves, capital receipts and capital grants unapplied.

85 The level of usable reserves as a proportion of the net cost of services, as well as other financial indicators, varies considerably across councils. Our [local government financial sustainability data tool](#) compares the level of reserves across local government bodies since 2015-16. In 2022-23, seven councils held usable reserves not restricted by law amounting to less than 20% of the net cost of services. Based on draft accounts provided to us for 2023-24 at the time of publication, two councils have a usable reserves not restricted by law amounting to around 10% of the net cost of services. A further five councils have below 20% of the net cost of services in usable reserves not restricted by law.

**Table 3: change in usable reserves not restricted by law between 2022-23 and 2023-24 (£millions)**

Council	Usable reserves 2022-23 £million	Usable reserves 2023-24 £million	Change (%)	Usable reserves as a proportion of net cost of services 2022-23	Usable reserves as a proportion of net cost of services 2023-24
Blaenau Gwent	47	Not available	Not available	30%	
Bridgend	103	76	-26%	30%	21%
Caerphilly	165	134	-19%	39%	29%
Cardiff	163	151	-7%	19%	17%
Carmarthenshire	170	149	-12%	38%	30%
Ceredigion	56	51	-9%	32%	25%
Conwy	43	43	2%	16%	15%
Denbighshire	65	Not available	Not available	27%	
Flintshire	50	38	-23%	15%	11%
Gwynedd	123	118	-4%	40%	36%

<b>Council</b>	<b>Usable reserves 2022-23 £million</b>	<b>Usable reserves 2023-24 £million</b>	<b>Change (%)</b>	<b>Usable reserves as a proportion of net cost of services 2022-23</b>	<b>Usable reserves as a proportion of net cost of services 2023-24</b>
Isle of Anglesey	40	39	-5%	24%	21%
Merthyr Tydfil	38	Not available	Not available	27%	
Monmouthshire	27	19	-30%	14%	9%
Neath Port Talbot	91	74	-19%	25%	19%
Newport	129	121	-6%	40%	33%
Pembrokeshire	83	81	-2%	28%	25%
Powys	64	69	8%	20%	20%
Rhondda Cynon Taf	225	215	-4%	36%	32%
Swansea	179	158	-12%	31%	27%
Torfaen	42	41	-4%	19%	17%
Vale of Glamorgan	95	75	-21%	30%	22%
Wrexham	38	37	-3%	12%	11%
<b>Wales</b>	<b>2,037</b>			<b>27%</b>	

Source: Audit Wales analysis of unaudited accounts

Note: At the time of publication, not all 2023-24 accounts had been received. Where not received the entries are noted in the above table

## Public expectations and communications

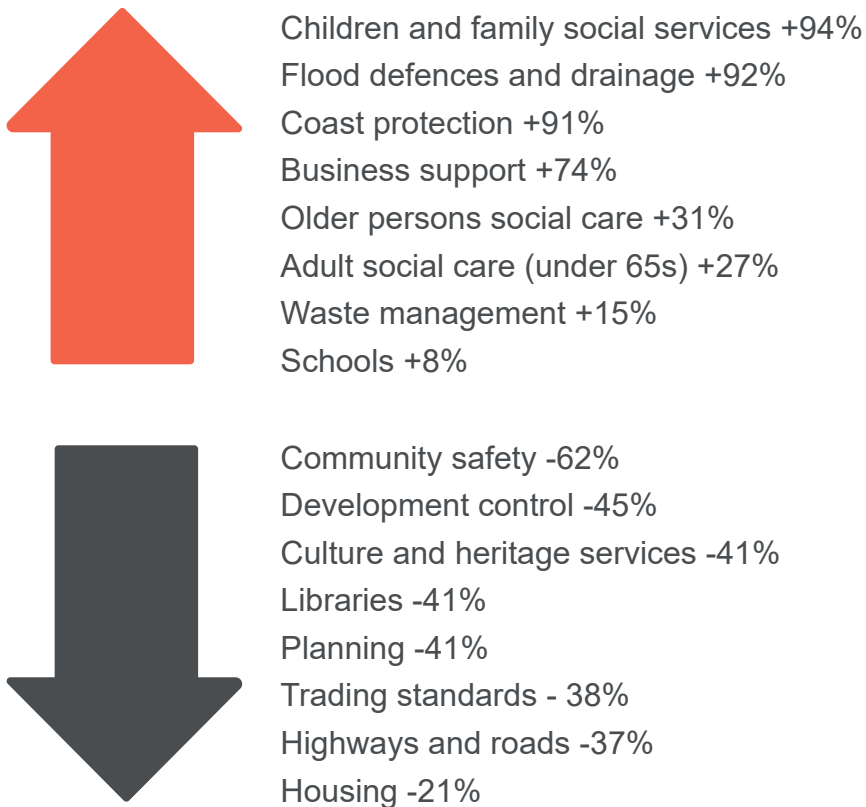
- 86 Councils balance financial pressures against the expectations of their communities. This can be challenging. Whilst no survey collates resident expectations or satisfaction across Wales, data is collated in England. For example, in a June 2024 survey whilst most citizens were satisfied with their councils (55%) only 38% believed they delivered value for money. This suggests an expectation gap between what residents pay for services and their view of the services they receive.
- 87 Councils also face the challenge that at any point in time many council taxpayers may not directly receive the services that account for a significant proportion of council spending, such as social services and education. This presents a communications challenge for councils to explain why and how their funding is allocated and gain public support for what may be unpopular financial decisions. For example, where this means potentially reducing or removing services, or increasing charges for them.

## Since 2008 some services have seen significant cuts to spending whilst others have increased

- 88 As Councils have faced pressure on their overall income, spending in some services has decreased (**Exhibit 8**).

### Exhibit 8: example services with proportional changes in real terms net spending by Welsh councils, 2008-09 to 2023-24 (June 2024 prices)

This graphic shows the real terms change in service spending by councils between 2008-09 and 2023-24.



Source: Audit Wales analysis of [Welsh Government data](#)

89 Services that provide regulatory or preventative services have often been cut to prioritise funding for short-term needs and/or statutory services. We recognise that prioritising funding for preventative services can be challenging. However, over the longer-term investing in preventative services can improve financial sustainability through providing better value for money as well as improving outcomes for residents.

### Councils identified several common and significant financial challenges

90 During our fieldwork councils outlined some of the key financial challenges that are impacting on their financial sustainability. We have outlined some of these below. It is not an exhaustive list and the extent to which these affect individual councils will vary.

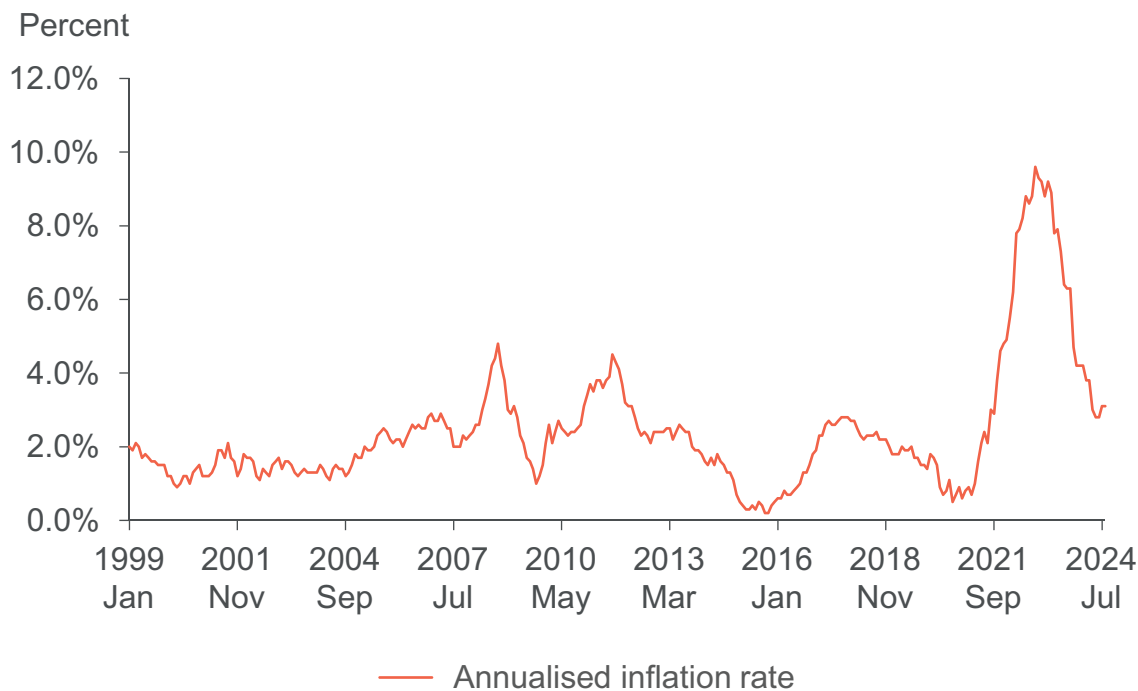


## Inflation and the cost-of-living crisis

- 91 Inflation, the rate that prices increase each year, was relatively consistent at around 2% through the 2000s (**Exhibit 9**). It rose dramatically in late 2021, contributing to a much higher cost-of-living and increasing the cost of local government service delivery.

### Exhibit 9: consumer Price Index including owner-occupied housing costs (CPIH) annual rate for all items, January 1999 to June 2024

This graph shows the trend in the annual percentage change in the inflation rate since January 1999.



Source: [Office for National Statistics \(ONS\)](#)

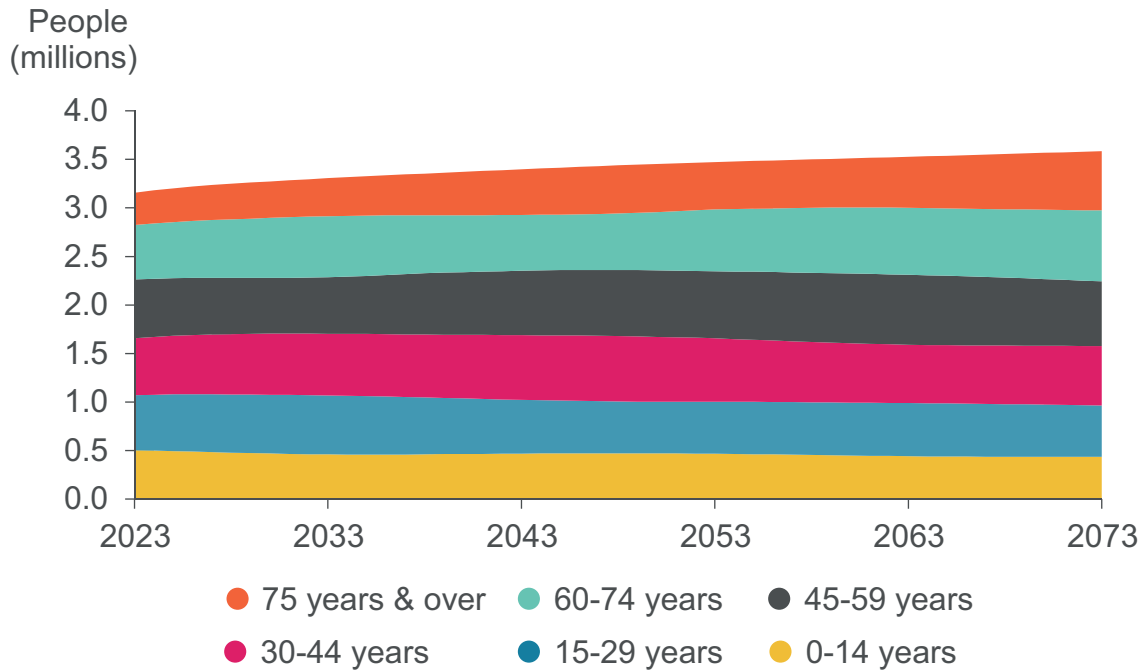
- 92 Councils faced the same pressures on their own spending as a result of rising prices, seeing large increases in energy costs, for example. So as many residents were looking to councils for additional support, councils themselves were under even greater financial pressure.

 **Social care**

93 Population projections indicate that life expectancy is expected to continue to increase, along with the proportion of older people in the population. This is likely to increase pressure on public services such as social care services (**Exhibit 10**).

**Exhibit 10: Welsh national population projections, 2023 to 2073 (2021 based)**

This shows the increase in the Welsh population between 2023 and 2073, broken down age categories.



Source: [ONS](#)

94 The increased demand for some service associated with an ageing population is also greater for some councils due to internal population movements. This can include young people moving to urban areas for work or education, but also older people moving to more rural or seaside areas for retirement. This can make it more difficult for councils to predict the demand for services.



- 95 Between January 2023 and June 2024, the number of adult residents receiving either residential or domiciliary care or reablement increased by 6.6% to 32,062.<sup>19</sup> In recent years, spending on social care has accelerated due to increases in both demand and complexity. As shown in Exhibit 8, social care spending for children, adults, and older people has increased by 94%, 27%, and 31% respectively in real terms since 2008-09.
- 96 Later this year the Auditor General will publish findings following his review of emergency and urgent care flows from hospital and its impact on both councils and health boards.
- 97 Councils are responsible for caring for some children within their social care provision. Once a child has been in care for over 24 hours they are classed as Children Looked After (CLA). The number of CLA has gradually increased over time. By 2023, Welsh Government data showed that 7,210 CLA were cared for by councils – an increase of 79% since 2003.<sup>20</sup>
- 98 A quarter of CLA in 2023 were housed in Wales but outside their council area, and a further 6.5% were housed outside of Wales altogether. Insufficient capacity can mean that councils incur extra costs as it is a competitive market with a finite number of placements. Placing children out of county can have a detrimental impact on those children as well as increasing costs for councils. We have heard anecdotally from councils that sudden, emergency placements can have significantly high costs – particularly in cases with complex needs.
- 99 The Welsh Government’s Programme for Government includes a commitment to remove profit from the CLA sector. As part of this policy<sup>21</sup>, it aims for fewer children to enter the care system and to restrict companies who can provide accommodation to those who are not-for-profit. We heard concerns from councils about the possible impact of the policy on capacity and costs. The Wales Centre for Public Policy (WCPP) has identified<sup>22</sup> a range of potential implications of the policy, which are likely to impact on councils.

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19 Welsh Government social care dashboard data

20 Welsh Government, [Children looked after at 31 March by local authority](#)

21 Welsh Government, [Removing profit from the care of children looked after](#), July 2024

22 WCPP, [Expert opinion on eliminating profit from the care of children looked after](#), May 2024



## Housing

- 100 Councils have a range of housing and homelessness prevention duties. In real terms, despite spending from council revenue budgets<sup>23</sup> on housing decreasing by 21% since 2008-09, housing has been consistently the third largest spending area for councils after education.<sup>24</sup>
- 101 Temporary accommodation is used to provide interim housing for residents facing homelessness. This can often take the form of hotels or hostels due to insufficient council-owned properties to meet demand. The costs of providing this accommodation can therefore also be subject to wider market competition. As of May 2024, 11,591 individuals were temporarily housed by councils in Wales, of which 3,003 were children.<sup>25</sup>
- 102 This is a significant cost pressure that can be difficult to predict due to its sensitivity to the wider rental market and economy. In the year to August 2024, the ONS found that private monthly rents increased by 8.5% in Wales.<sup>26</sup> This followed changes to private rental regulations in December 2022 under the Housing (Wales) Act 2014. Both have been cited by council officers as adding additional pressure on their services, as well as increased costs in supporting residents in private rental properties.
- 103 The Auditor General is undertaking a local government study focused on temporary accommodation and plans to report on this early in 2025.



## Education

- 104 In general, councils provide funding to individual schools, which then set a budget. These are known as delegated school budgets. Where schools have unspent funding, they can create reserves that are commonly referred to as 'school balances'. During fieldwork, we heard concerns about the impact of required savings and the resulting decrease in school balances. In 2023-24, school balances continued to reduce sharply to a total of £115 million nationally – equivalent to £253 per learner.<sup>27</sup> Consequently, 21% of schools held negative balances and required additional support from councils.

23 This excludes Housing Revenue Accounts (HRAs) where a council has retained its own housing stock.

24 This is partially due to social care classification by age.

25 Welsh Government, [Homeless individuals temporarily accommodated at the end of the period by local authority](#)

26 ONS, [Private rent and house prices. UK: September 2024](#)

27 Welsh Government, [Reserves held by schools in Wales at 31 March 2024](#)

- 105 Additional Learning Needs (ALNs), where a person has a learning difficulty or disability that requires additional support, is a key cost pressure for schools. The additional learning system was reformed following legislation in 2018. Changes have been phased in since 2021/22 with all school pupils in the new arrangements by 2025/26. The term 'ALN' has replaced the former term 'Special Educational Needs' (SEN) but the definition is essentially the same.
- 106 Since 2021, the proportion of students in council-funded schools has declined sharply. The proportion of students with SEN/ALNs halved from 22.6% to 11.2% between 2013/14 and 2023/24.<sup>28</sup> However, despite a fall in demand, costs have continued to increase. There is uncertainty over the cause of the reduction.
- 107 Net expenditure from delegated school budgets on ALN increased by 13.4% in real terms between 2013-14 and 2023-24. This formed a total of 4.8% delegated schools' net expenditure in 2023-24 – up from 4.3% in 2013-14.<sup>29</sup> Spending on ALN from council budgets has risen over the same period by 20.7%. This would support the view that despite a decline in the proportion of students identified with ALN, the costs and complexity of providing support to learners with ALN is a significant challenge for schools to meet. The Auditor General will review ALN as a future national study.
- 108 SEN costs are a key budget pressure for councils across the UK. For example, the UK Government has made 'safety valve' agreements with 38 councils since 2020-21 to support SEN services. This effectively 'writes-off' service deficits, subject to conditions agreed between the council and UK Government. No such arrangements are in place in Wales.
- 109 Councils have legal responsibilities over home to school transport for some learners. The assessment process and thresholds for providing transport are set out in law and primarily relate to the distance between home and the nearest suitable school. Learners entitled to these services cannot be charged. Councils can vary local policy to cover more students and can charge for this discretionary service, for example for transport to religious or Welsh-medium schools that are not the nearest suitable school. Councils net spending on home to school transport has grown by 25% between 2013-14 and 2023-24 in real terms.

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28 Welsh Government, Schools' census results

29 Audit Wales analysis of Welsh Government, Education revenue outturn expenditure



## Capital investment

- 110 Councils must balance capital investment to achieve objectives and service delivery alongside financial sustainability. Capital programmes can include the improving or building of assets, such as roads, office buildings, or schools.
- 111 As with revenue spending, councils can use different funding sources for their capital programme. Unlike revenue budgets, councils can also borrow money. Each borrowing source has distinct types and scales of risk, making active consideration and oversight of capital programmes critical for financial sustainability. Considering the revenue budget implications of capital investment is important in ensuring financial sustainability over the long-term.
- 112 We have recently added borrowing data to our local government data tool to add insight into this area. In cash terms, total borrowing between 2020-21 and 2022-23 grew slightly by 4% to total £6.3 billion. Borrowing varies in scale between councils, reflecting their capital programmes and risk appetite (**Table 4**).

**Table 4: total council borrowing and as a percentage of net cost of services and usable reserves not restricted by law, 2023-24**

Council	Total borrowing (£ millions)	Borrowing as a proportion of the net cost of services	Borrowing as a proportion of usable reserves not restricted by law
Blaenau Gwent*	190	107%	405%
Bridgend	122	33%	160%
Caerphilly	321	70%	239%
Cardiff	903	99%	596%
Carmarthenshire	413	82%	276%
Ceredigion	112	56%	221%
Conwy	250	84%	577%
Denbighshire*	232	107%	395%
Flintshire	339	93%	885%
Gwynedd	109	33%	93%
Isle of Anglesey	125	68%	323%

<b>Council</b>	<b>Total borrowing (£ millions)</b>	<b>Borrowing as a proportion of the net cost of services</b>	<b>Borrowing as a proportion of usable reserves not restricted by law</b>
Merthyr Tydfil*	127	89%	331%
Monmouthshire	180	85%	955%
Neath Port Talbot	272	68%	368%
Newport	190	52%	158%
Pembrokeshire	179	56%	221%
Powys	338	97%	487%
Rhondda Cynon Taf	288	43%	134%
Swansea	685	117%	435%
Torfaen	111	47%	272%
Vale of Glamorgan	150	43%	201%
Wrexham	522	158%	1419%

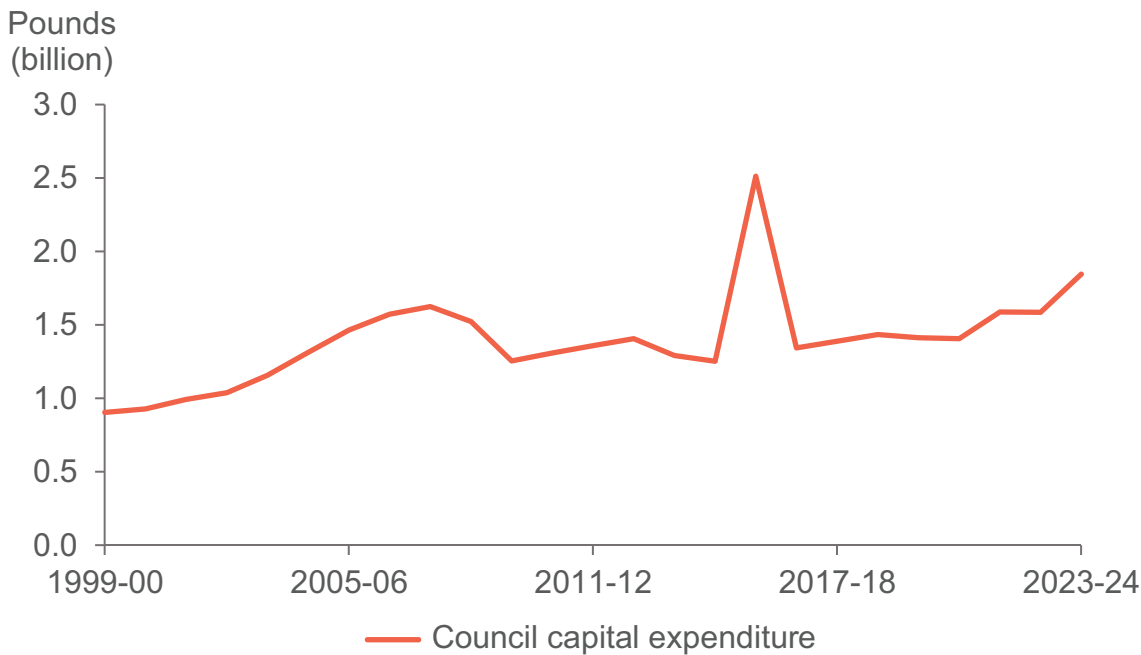
Source: Audit Wales analysis of unaudited accounts

Note: At the time of publication, not all 2023-24 accounts had been received. Consequently, 2022-23 figures have been used for Blaenau Gwent, Denbighshire, and Merthyr Tydfil.

113 Capital expenditure by councils has gradually increased in real terms to just over £1.8 billion in 2023-24. It has grown faster than revenue spending over the period since 1999-2000. The Auditor General will undertake a local government study focused on capital planning in 2024-25.

### Exhibit 11: capital expenditure outturn by Welsh councils in real terms, 1999-2000 to 2023-24 (2023-24 prices)

This graph shows the trend in capital spending over time.



Source: Audit Wales analysis of Welsh Government, [Council capital outturn expenditure](#)

Note: 2015-16 appears inflated due to the Housing Revenue Account subsidy buyout, which had a real terms value of around £1.2 billion.



#### Environmental sustainability

- 114 Climate change and other environmental issues directly affect council spending in three main ways. Firstly, policy can require investment in response, such as the introduction of recycling targets. Council waste management spending has increased by 15% since 2008-09.
- 115 Secondly, it encourages councils to invest in infrastructure to reduce carbon emissions to meet the national net-zero target. As we previously outlined<sup>30</sup>, there remains significant uncertainty in the ability of the public sector to meet this target and one key element of this is getting to grips with the finance needed.

30 Audit Wales, [Public Sector Readiness for Net Zero Carbon by 2030](#), July 2022

116 Thirdly, councils must react to the more frequent direct impacts of climate change. For example, Storms Ciara, Dennis, and Jorge in 2020 led to 3,120 domestic and non-domestic properties being flooded, leading to damage estimated at £81 million.<sup>31</sup> As well as impacting the local economy, these events can require emergency responses, like emergency housing and support, in addition to addressing damage to council property. As the impact of climate change becomes more severe and frequent, the pressure on council finance is only likely to increase. This may increase the need for preventative spending, such as on flood defences.

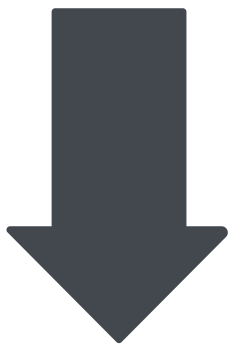
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31 Natural Resources Wales, [February 2020 Floods in Wales](#), October 2020

## Financial sustainability on a page

### Exhibit 12: financial sustainability graphic

This graphic shows the pressures on council financial sustainability and potential approaches to respond to them.



- Cumulative savings impact since 2008
- Growing demand and expectations
- Annual budget setting requirements
- Difficult decisions being required
- Issues beyond the control or influence of councils
- Finite reserves
- Feasibility of Council Tax rises



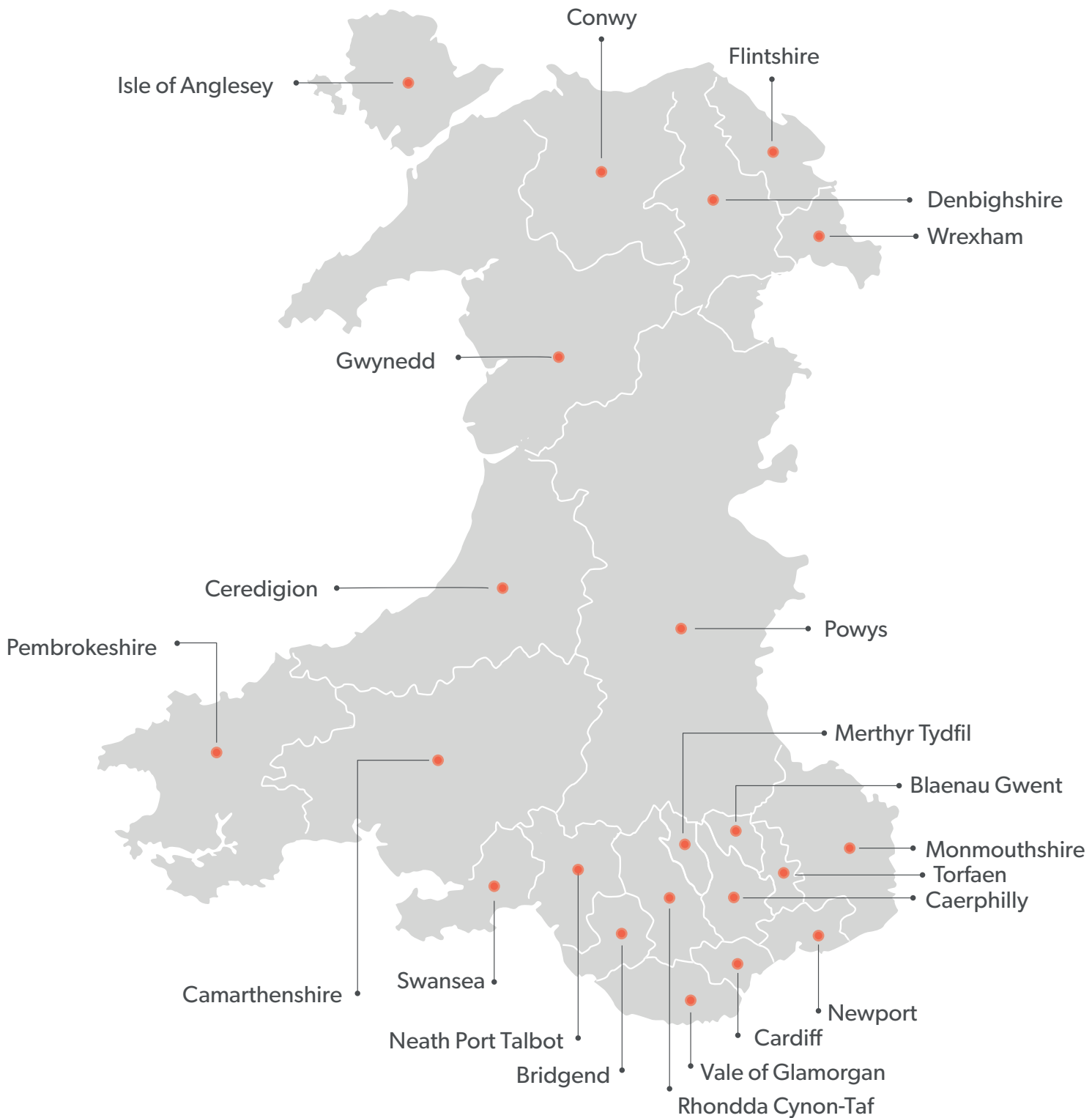
- Acceptance of the understood financial position
- A clear, communicated financial strategy
- Wide buy-in and support for the approach
- Realistic, long-term planned savings plans
- Clearly assessed and mitigated risk management
- An open dialogue for oversight
- Learning from elsewhere and together
- Meaningful application of the sustainable development principle

Source: Audit Wales



## Our local reports

**Exhibit 13: local financial sustainability reports issued by Audit Wales**



Source: Audit Wales

## Local report findings

In this section we set out our main and sub-conclusions from each of our local reports.

### **Blaenau Gwent County Borough Council**

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 found this because:

- 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.
- the Council understands its medium-term financial position and the factors which influence it although there is some uncertainty over the longer term.
- 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.

### **Bridgend County Borough Council**

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 found this because:

- the Council is developing its longer-term approach to support its financial sustainability, which is underpinned by good arrangements to involve officers and councillors, but it has not identified how it will meet all its projected funding gap.
- 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.
- the Council has robust arrangements to ensure councillors are regularly informed of the Council's financial position and outlook, and for councillors to provide oversight and challenge. The Council is agile in changing its arrangements in response to increased risk to its financial sustainability.

## Caerphilly County Borough Council

The Council understands its medium-term financial position and has a clear, but untested approach to improve its financial sustainability. However, its arrangements for reporting and oversight, and modelling of future service demands are limited.

We found this because:

- the Council has a clear strategic approach to improve its financial sustainability, but it has not identified how it will meet its medium-term funding gap. In the short-term, the Council has used reserves and temporary savings to meet its immediate financial challenge while it embeds its longer-term approach.
- the Council understands its medium-term financial position, but the modelling of future service demands is less well-developed, which could impact the accuracy of the identified budget gap.
- there is limited reporting, councillor oversight and scrutiny of the Council's financial position and its impact.

## Cardiff Council

The Council has reasonable arrangements to support its financial sustainability with a clear understanding of its financial position and regular reporting to councillors but is in the early stages of developing its change programme to help it meet its significant funding gap.

We found this because:

- the Council is in the early stages of reviewing its service delivery and operating model, developing a change programme to improve its long-term financial sustainability.
- the Council has a clear understanding of its financial position and the scale of its future financial challenges, which it will use to underpin its change programme to meet these challenges.
- the Council has effective reporting arrangements to enable councillors to have oversight of the Council's financial position, but the Council does not always report clearly on the impacts of its financial decision-making.

### **Carmarthenshire County Council**

The Council's embedded transformation approach provides a strategic framework to positively support its financial resilience.

We found this because:

- a combination of the Council's budget strategy, medium-term financial planning and embedded longer term transformation approach sets out a strategic framework for its long-term financial sustainability.
- the Council has a clear understanding of its key budget pressures and costs over the medium-term.
- the Council's financial reporting is clear but is not regularly integrated with reporting on delivery of its corporate objectives

### **Ceredigion County Council**

The Council has arrangements in place to support its present financial sustainability but lacks a long-term strategy to support this.

We found this because:

- The Council has taken decisions to support its financial sustainability over the short to medium-term but does not have a comprehensive long-term financial strategy.
- The Council's Medium Term Financial Strategy is presented during the mid-point of the financial year to ensure early engagement with Members prior to detailed budget setting processes. Assumptions are updated during the budget setting process to provide an up-to-date assessment of likely budget requirements.
- Longer-term monitoring of the Council's financial sustainability is impacted by its lack of a long-term comprehensive financial strategy. There are arrangements in place however to support regular budgetary oversight through its current reporting.

### **Conwy County Borough Council**

Although the Council has arrangements to support its financial sustainability these arrangements are not effective in addressing the scale of its budget gap and low reserves, which provide a significant risk to its long-term sustainability without transformational change.

We found this because:

- the Council has a clear and well-informed strategy which is communicated effectively, but the scale of the identified savings required and the low level of reserves puts its strategy at risk.
- the Council has a clear understanding of its financial position, which includes some service areas with rapidly expanding demand and cost.
- the Council has a range of reporting arrangements which allow scrutiny and assurance for councillors.

### **Denbighshire County Council**

The Council engages well with councillors 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 found this because:

- the Council has a clear strategy for its medium-term financial sustainability, which is well communicated to councillors and officers, but has weaknesses in how it currently identifies efficiencies and is at an early stage of longer-term transformation.
- 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.
- 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.

### **Flintshire County Council**

The Council's arrangements do not provide assurance that it can identify strategic transformation in the short and medium-term of the scale required by its financial position. This, combined with its low level of reserves and spiralling costs in some service areas, puts the Council's financial sustainability at serious risk.

We found this because:

- although the Council has engaged councillors well, it has taken a short-term approach to detailed financial planning that has led to weaknesses in identifying and assessing savings, which it has not looked to address.
- the Council has a clear understanding of its financial position and pressures.
- the Council has good arrangements for regular and detailed reporting to councillors on its financial position, but these have been unable to impact its financial position.

### **Gwynedd Council**

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.

- the Council is yet to implement a long-term strategy to support its financial sustainability.
- 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.

### **Isle of Anglesey County Council**

The Council has good arrangements to respond to financial challenges in the short to medium term, but has not formalised the planning and oversight of its longer term financial sustainability.

- the Council has not formalised a strategy for its long-term financial sustainability.
- the Council understands its financial position over the short to medium term and has a track record of managing key budget pressures and has delivered services in line with its budget in each of the last five years.
- the Council has arrangements to support regular oversight of its financial sustainability over the short to medium term. However, it needs to develop and formalise arrangements to support oversight of its long-term financial sustainability.

### **Merthyr Tydfil County Borough Council**

There are significant risks to the Council's financial sustainability as it does not currently have a plan to address its medium-term funding gap and does not have a long-term approach to improve its financial sustainability.

We found this because:

- the Council continues to take a short-term approach to addressing its financial position and lacks capacity at a senior officer level to develop a long-term approach to improve its financial sustainability.
- the Council has a good understanding of its service pressures and models reasonable assumptions to inform its budget, but it does not adjust its assumptions over the medium-term which could impact the accuracy of the identified budget gap.
- there is regular budget monitoring reporting to senior officers and senior councillors, but the Council does not report on delivering its savings and without a long-term financial approach it cannot monitor or report on its impact.

### **Monmouthshire County Council**

Although the Council is developing a longer-term approach to financial planning, it is yet to identify how it will close its future funding gap. Given its low reserves levels, the Council will need to work at pace to implement its financial strategy and strengthen its financial resilience.

We found this because:

- although the Council's new financial strategy demonstrates its commitment to strengthening financial sustainability over the medium term, it currently lacks robust plans to close its identified funding gap.
- the Council has a clear understanding of its financial position and recognises the need to strengthen its use of data to better understand and mitigate longer-term cost pressures.
- the Council's reporting arrangements support clear and regular oversight of its current financial position, but reporting on the long-term impact of financial decisions is less well-developed.

### **Neath Port Talbot County Borough Council**

The Council has arrangements in place to support its financial sustainability in the short term but lacks a documented longer-term financial strategy to support more transformative change and inform councillors' future spending decisions.

We found this because:

- the Council does not have a financial strategy to support its financial sustainability over the longer-term.
- the Council has a good understanding of its financial position.
- the Council's financial reporting arrangements support regular oversight of its in-year budget position but not its financial sustainability in the longer-term.

### **Newport City Council**

The council has sound financial arrangements to support its financial sustainability, including a developing transformation plan and effective oversight arrangements, but it has not fully identified how it will close its budget gap over the medium and long-term.

We found this because:

- the Council does not have a fully developed long-term approach to support its financial sustainability. But there are sound arrangements to manage its short-term financial position.
- the Council has a good understanding of its current financial position and the key risks to its future financial sustainability.
- the Council's reporting arrangements support regular oversight of its financial position and risks. These provide a good foundation for oversight and scrutiny of the plan to enable the Council's long-term financial sustainability as it develops.

### **Pembrokeshire County Council**

The Council has arrangements in place to support its financial position in the short-term but lacks a longer-term plan to close its identified funding gap.

We found this because:

- the Council does not have a longer-term strategic approach to secure its financial sustainability and close its identified funding gap.
- the Council has a good understanding of its financial position but overspends in key service departments since 2023 are challenging its financial sustainability.
- the Council's financial reporting arrangements support regular oversight of its in-year budget and savings positions and provide an update on its MTFP.

### **Powys County Council**

The Council has not yet adopted a long-term approach to secure its financial sustainability, but is developing one.

We found this because:

- the Council has not yet adopted a long-term approach to secure its financial sustainability, but is developing one. The Council is finalising a long-term strategic transformation approach to secure its financial sustainability and close its identified funding gap.
- the Council's understanding of its future financial challenge is based on reasonable assumptions and a well-developed understanding of its short and medium-term pressures and risks.
- the Council's reporting arrangements support clear and regular oversight of its current financial position, but it does not report explicitly on the impact of its financial strategy on its corporate objectives nor on local communities.



### **Rhondda Cynon Taf County Borough Council**

The Council has appropriate arrangements to support its financial sustainability which provides a platform to address longer term budget challenges.

We found this because:

- the Council has clear arrangements to manage its financial position in the short term and is developing transformation programmes to address recurring cost pressures, but has not yet modelled the collective impact these programmes will have on its budget gap over the medium to long term.
- the Council's approach is underpinned by a good understanding of its financial position and the factors which impact it, including recurring cost pressures in particular service areas.
- the Council provides regular reports to councillors to enable them to understand its financial position. However, the Council's reporting approach does not give councillors clear sight of the impact all budget decisions have had on services, local communities and the achievement of corporate objectives.

### **Swansea City and County Council**

The Council has reasonable arrangements to support its financial sustainability, but there are weaknesses in the delivery and monitoring of the savings programme to support these.

We found this because:

- the Council is beginning to develop a long-term approach to improve financial sustainability through its transformation programme, supported by its Medium-Term Financial Plan, but progress delivering required savings has been slower than anticipated, presenting risks to the Council.
- the Council has a good understanding of its medium-term financial position, but the use of reserves in response to service overspend and risks around capital financing weaken its long-term financial sustainability.
- the Council has arrangements to regularly monitor its financial position, but it does not report progress with individual savings or fully identify the impact of savings proposals to enable effective oversight of its financial sustainability.

### **Torfaen County Borough Council**

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 found this because:

- 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.
- 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.
- the Council regularly reports its financial position, enabling oversight by officers and councillors, and the Council has the opportunity to consider and report the impact of its financial strategy on communities through its annual delivery plan.

### **Vale of Glamorgan County Borough Council**

Whilst having arrangements for the short to medium term, the Council lacks a long-term plan and regular assessments of the impact of decisions to support its long-term financial sustainability.

We found this because:

- the Council has arrangements in place to manage its financial resilience in the short to medium-term, but its longer-term approach is less certain due to being at an early stage in its transformation agenda.
- although the Council understands its financial position, a limited evidence base and a mixed track record in delivering savings means this understanding may be limited in depth and accuracy.
- the Council has clear arrangements for reporting its financial position, but this does not include an understanding of the impact of delivering on its objectives nor how it affects the longer-term.

## **Wrexham County Borough Council**

The Council has identified significant financial pressures and does not yet have an agreed plan to meet the funding gap.

We found this because:

- whilst the Council is clear upon the magnitude and urgency of its financial challenges, it does not yet have a plan for sufficient savings or strategic approach to transform services to secure its medium-term financial sustainability.
- the Council has clear arrangements for managing its budget and financial savings.



# Appendices

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## 1 Audit approach and methods

# 1 Audit approach and methods

## Audit objectives

Through this national summary and our local reports, our objectives were to:

- provide assurance that councils have proper arrangements to support their financial sustainability.
- explain how councils are managing with limited resources and the extent to which they assess the impact of their decisions on service delivery and citizens, now and in the future.
- using the national summary output, explain the extent to which councils are considering the sustainable development principle in their financial planning and decision making.
- using the national summary output, inspire improvement by citing examples of good practice in managing and promoting financial sustainability where appropriate.

## Approach and scope

We used a system-orientated approach to examine arrangements to support financial sustainability in our local reports. For our national summary, we combined this with a problem-orientated approach to explore issues and their prevalence.

In preparing our approach, we met with the Society of Welsh Treasurers and the Welsh Government. We retained our independence throughout our work.

We completed our fieldwork locally between March and July 2024, which informed our national evidence gathering over the same period and further into August.

Locally, we reviewed each 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. We reviewed arrangements that each council has to support its financial sustainability. We did not review of each council's wider financial management or individual financial decisions.

Our audit criteria were based on our cumulative audit knowledge and drawing on publications produced by CIPFA.

## Methods

In preparing this national summary, we compiled evidence and findings from our local reports that used the following methods:

- interviews – at each council we interviewed:
  - Chief Executive Officer
  - Section 151 officer
  - lead officer for transformation
  - leader of the council
  - cabinet lead for finance
- document review – we reviewed documents from each council including each Medium-Term Financial Plan (MTFP), financial strategies, financial reports, and committee minutes.
- data analysis – we analysed financial data, both publicly available and provided by councils. Where financial figures are presented in real terms, we have used June 2024 deflators issued by [HM Treasury](#) to account for the impact of inflation.



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Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.