

Financial Sustainability Assessment – City and County of Swansea Council

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What we looked at and why

- 1 We undertook this assessment as financial sustainability continues to be a risk to councils putting in place proper arrangements to secure value for money in the use of resources. In part, this was informed by experiences of some councils in England, our knowledge of the financial situation in councils in Wales, and the general trend of decreasing resources for local government combined with rising demand for some services. We undertook a similar project in 2019-20, before the COVID-19 pandemic.
- 2 Our 2020-21 assessment on councils' financial sustainability was in two phases. Phase 1 was a baseline assessment of the initial impact of COVID-19 on local councils' financial position. Phase 1 drew on: the year-end position for 2019-20; the position at the end of quarter 1 for 2020-21; and projections for quarter 2 for 2020-21. Following Phase 1, in October 2020 we published a national summary report – **Financial Sustainability of Local Government as a result of the COVID-19 Pandemic**¹. We found that councils and the Welsh Government have worked well together to mitigate the impact of the pandemic to date, but the future sustainability of the sector is an ongoing challenge.
- 3 The pandemic has had an immediate and profound effect on public sector finances as a whole and, as a consequence, on councils' financial position. The summary report set a high-level baseline position, including the reserves position of local councils before the pandemic. It also set out the initial financial implications of the pandemic for local councils and the scale of the anticipated challenge going forward.
- 4 This report concludes phase 2 of our financial sustainability assessment work during 2020-21. As part of this we are producing a local report for each of the 22 principal councils in Wales.
- 5 We undertook this assessment during February 2021 to June 2021.

¹ Audit Wales, [Financial Sustainability of Local Government as a Result of the COVID-19 Pandemic](#), October 2020.

The Council is well placed to maintain its financial sustainability and plans to strengthen some aspects of financial management

The immediate impact of COVID-19 on the Council's financial sustainability has been mitigated by additional Welsh Government funding

- 6 This section sets out the impact that COVID-19 has had to date on the Council's financial position and the extent to which this has been mitigated by additional funding from the Welsh Government.
- 7 We found that:
- The Council incurred significant extra expenditure and lost income in 2020-21 as a result of the Covid pandemic. The majority of this has been reimbursed by Welsh Government and has not therefore had a detrimental effect on the Council's financial position. Welsh Government has announced additional Covid related grant funding for the first six months of 2012-22, but the extent of any further financial support and the longer term effects of the pandemic on the Council's financial position are uncertain.
 - During 2020-21 the Council has delivered significant underspends which has allowed them to increase useable reserves by £50m to £144.5m as at 31 March 2021. The Council has specifically set aside £20m for a Covid 19 Recovery Fund reserve and £10m into a Contingency Fund reserve. The Council plans to revisit its medium-term financial plan in light of the significantly improved financial position it found itself at the end of 2020-21.

Exhibit 1: the cost to the Council of COVID-19 over 2020-21 (Source: Councils finance department)

The table below shows the Council's estimated additional expenditure and lost income over 2020-21 as a result of COVID-19 and how much of this was mitigated by extra funding from the Welsh Government.

The additional amount the Council estimates it will have spent as a result of COVID-19 over 2020-21.	£37 million
The amount of income the Council estimates it will have lost as a result of COVID-19 over 2020-21.	£22 million

The amount of additional funding the Council estimates it will receive from the Welsh Government over 2020-21 to mitigate the impact of COVID-19.	£57 million
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The cost to the Council of COVID-19 over 2020-21 after extra funding from the Welsh Government is taken into account.	£2 million
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The Council has revised both its transformation strategy document and medium-term financial plan supported by new governance arrangements

Why strategic financial planning is important

8 A clear and robust financial strategy is important to identify the likely level of funding available to a council, as well as the anticipated level of demand for, and cost of, providing services. Given the recent and anticipated funding pressures facing all councils it is also important to identify how it intends to respond to those pressures, and particularly how they will meet projected funding gaps.

We found that:

- On 15 October 2020, the Cabinet approved a document called Achieving Better Together. This document highlighted the Council's immediate priorities from the COVID-19 crisis, the longer-term plan from recovery to transformation, and was a framework to replace Sustainable Swansea Strategy.

To support this plan a revised Governance structure has been introduced with the following committees having responsibility for ensuring the strategy's ambitions are achieved:

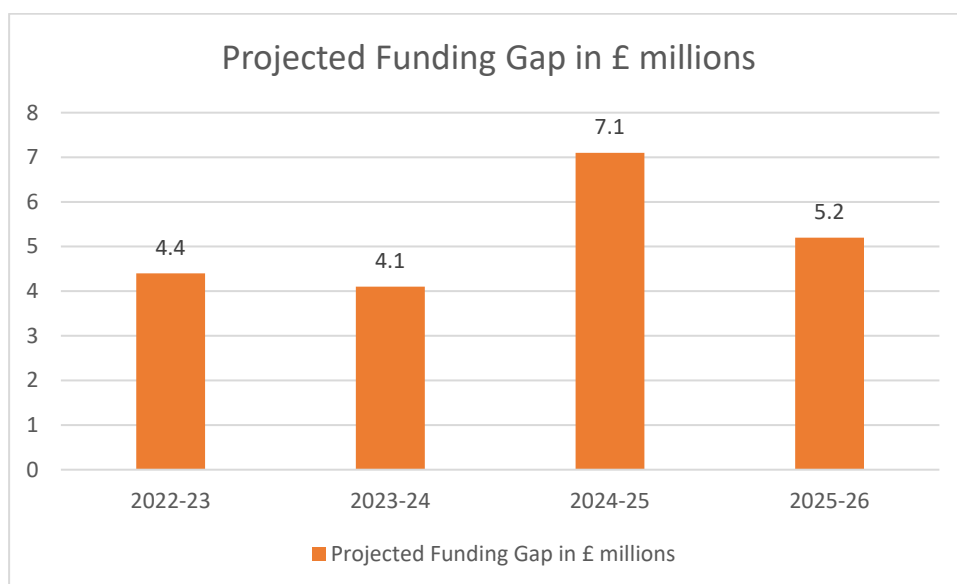
- Organisational Cross Cutting & Transformation Steering group – chaired by the Deputy Leader with membership including the deputy Chief Executive and the 5 workstream leads.
- Recovery, Reshaping & Budget Strategy Board – Chaired by the Leader with membership including the two deputy leaders, Chief Executive, Deputy Chief Executive and Section 151 Officer
- The Council revises its financial plan annually to help inform the annual budget setting process. The Medium-Term Financial Plan (MTFP) for the period 2022-23 to 2025-26, approved by the Council on 4 March 2021, aligns to the "Achieving Better Together" strategy document. The plan sets out the Council's medium-term financial projections and for the four-year

period 2022-23 to 2025-26, the Council is projecting a funding gap of £20.8 million.

- The new strategic document, MTFP and revised governance arrangements are still being embedded in operational practices. With the challenging financial gap identified in the MTFP there will be a need to review these revised arrangements during 2021-22 to assess how effectively they are delivering on the aims of the strategy and MTFP.

Exhibit 2: The Council has a total projected funding gap for the period 2022-23 to 2025-26 of £20.8 million (Source: 2021-22 MTFP report to Council)

This graph shows the funding gap that the Council has identified for the following four years.



The Council has significantly improved its level of useable reserves

Why sustainable management of reserves is important

- 9 Healthy levels of useable reserves are an important safety net to support financial sustainability. As well as being available to fund unexpected funding pressures, useable reserves can also be an important funding source to support 'invest to save' initiatives designed to reduce the ongoing cost of providing services. Councils that show a pattern of unplanned use of reserves to plug gaps in their

revenue budget that result in reductions of reserve balances reduce their resilience to fund unforeseen budget pressures in future years.

We found that

- 10 In 2019-20 we reported that the Council had a reasonable level of useable reserves, but that recent unplanned use of reserves needed to be controlled to support financial sustainability.
- 11 We reached this conclusion because:
 - the Council had £77.0 million of useable reserves including a General Fund Reserve of £9.4 million as at 31 March 2019; and
 - the Council's general reserve fund was £12.4m as at 31 March 2016. Between 1 April 2016 and 31 March 2019 this had reduced to £9.4 million because of the need to fund unplanned service overspends.
- 12 The 2020-21 budget outturn report showed that overall direct revenue expenditure was £27m less than the revised budget. This underspend was as a result of both the services underspending together with additional Welsh Government funding.
- 13 During 2020-21, due to the significant underspend the Council was able to increase useable reserves by £50m to £144.5m. For the purpose of this report useable reserves are defined as being the balances in the general fund, schools reserves and other earmarked reserves. An additional £13m was put into schools reserves, £6.4m into an IT transformation reserve, £20m into a Covid 19 recovery fund reserve and £10.4m into a contingency reserve.
- 14 The quarter 3 budget monitoring report for 2020-21 forecast year end useable reserves of £89.6m. The significant difference between the forecast position for useable reserves for 2020-21 and the outturn position for 2020-21 will mean that the Council will need to revisit its medium term financial plan and assess how best to utilise these reserves to support future years strategic plans and revenue budget.
- 15 Whilst it is planned to significantly lower reserve levels over the coming years, these are projected to remain at a reasonable level.

Exhibit 3: amount of reserves vs annual budget (Source: Annual statements of accounts)

This exhibit shows the amount of usable reserves the Council had during 2020-21 and the previous four years as a proportion of the net cost of the services the Council delivers.

	2016-17	2017-18	2018-19	2019-20	2020-21
Net Cost of Services in £ millions ²	410.1	424.5	456.9	445.2	418.4
Total Useable Reserves in £ millions ³	68.1	68.4	77.0	93.8	144.5
Total Useable Reserves as a % of net cost of services ⁴	16.6%	16.1%	16.9%	21.1%	34.5%

The Council has delivered significant service underspends in 2020-21

Why accurately forecasting expenditure is important

- 16 It is important that overspending and underspending are kept under control and that actual expenditure is as close to the levels planned as possible. A council that is unable to accurately forecast and plan expenditure runs the risk of creating unforeseen financial pressures that may compromise the ability to set a balanced budget. Significant patterns of underspending may be reducing the ability of a council to deliver its key objectives or meet its statutory responsibilities.

What we found

- 17 In 2019-20 we reported that for the last three years the Council has not been able to maintain its cost of services within annual budgets.
- 18 We reached this conclusion because:

² Value used is the net cost of services charged to the general fund from the Expenditure Funding Analysis, less any Housing Revenue Account cost of services, plus precepts, levies and debt interest. Source: Statement of Accounts

³ By usable reserves we mean the total general fund balance, together with earmarked reserves that councils are not legally prevented from redirecting to use for another purpose. Source: Statement of Accounts

⁴ Audit Wales calculation.

- in recent years the Council had overspent at a service expenditure level against its revenue budgets and to some extent had needed to utilise reserves to fund these overspends; and
- the Council has 4 directorates. Since 2016-17, the Directorates of Resources, Social Services and Education have often overspent against budget. However, Poverty and Prevention (now part of Social Services) and the Directorate of Place have generally managed their annual expenditure within budgets.

19 In 2020-21 Council services delivered a £20.5m underspend and these underspends are shown below:

- Social Services - £9.6m underspend
- Education - £3.6m underspend
- Resources - £3.6m underspend
- Place - £3.7m underspend

20 The main causes of these underspends are Covid related and due to additional Welsh Government funding in 2020-21 and are a factor in the Council being able to significantly increase earmarked reserves as at 31 March 2021.

Exhibit 4: amount of overspend/underspend relative to total net revenue budget (Source: revenue outturn reports to Cabinet)

The following exhibit shows the amount of overspend or underspend for the Council's overall net revenue budget for the last four years.

	2017-18	2018-19	2019-20	2020-21
Original Net revenue budget £ millions	418.8	433.2	443.3	468.6
Actual Net Revenue Outturn £ millions	419.3	432.9	442.6	466.2
Amount of overall surplus/overspend £ millions	0.5 overspend	0.3 surplus	0.7 surplus	2.4 surplus
Percentage difference from net revenue budget	0.12% overspend	0.07% surplus	0.13% surplus	0.5% surplus

The Council has not monitored its savings during 2020-21, but plans to reintroduce revised monitoring processes in 2021-22 to help meet its future funding gap

Why the ability to identify and deliver savings plans is important

- 21 The ability to identify areas where specific financial savings can be made, and to subsequently make those savings, is a key aspect of ensuring ongoing financial sustainability against a backdrop of increasing financial pressures. Where savings plans are not delivered this can result in overspends that require the use of limited reserves whilst increasing the level of savings required in future years to compensate for this. Where savings plans are not delivered and service areas are required to make unplanned savings, this increases the risk either of savings not being aligned to the Council's priorities, or of 'short-term' solutions that are not sustainable over the medium term.

What we found

- 22 In 2019-20 we reported that the Council did not have a good track record of delivering planned savings, adding to in-year financial pressures.
- 23 We reached this conclusion because:
- the Council has not met its savings targets in any of the last 5 years. During this time a total of £83.3 million of savings have been identified but only £62.7 million have been delivered. The Council's MTFP has generally been predicated on the Council achieving 80% of planned savings. On average over the last 5 years the Council has achieved 75.2% of its planned savings.
 - the Council predicted that for 2019-20 of £12.6 million planned savings, £2.0 million (15.9%) will not be achieved.
- 24 As a result of the Covid 19 pandemic for 2020-21 the Council stopped monitoring its achievement of planned savings. The medium-term financial plan approved by the Council on 4 March 2021 identified a funding gap of £20.8m for the 4 year period to 2025-26. It will be important that the new financial governance procedures reintroduce robust monitoring of planned savings.
- 25 The Council recognises that the use of reserves to balance its budget is not sustainable and covering the identified funding gap through the achievement of planned savings will be critical in avoiding the need to utilise reserves to support annual revenue pressures.

Exhibit 5: savings delivered during the period 2016-17 to 2019-20 as a percentage of planned savings (Source: budget reports and annual outturn reports to Cabinet)

The following exhibit sets how much money the Council intended to save from its savings plans during 2016-17 to 2019-20 and how much of this it actually.

	2016-17	2017-18	2018-19	2019-20
Total planned savings in £ millions	22.5	18.7	16.5	12.6
Planned savings achieved in £ million	21.9	12.7	10.3	10.6
Planned savings not achieved in £ millions	0.6	6.1	6.2	2.0
Percentage of savings achieved	97%	67%	62%	84%

The Council's liquidity position is sound, enabling it to meet its financial obligations when they fall due

Why the Council's liquidity position is important

- 26 Why gauging current assets to current liabilities (liquidity) is important:
- an indicator of how a council manages its short-term finances.
 - while it is commonly used to examine whether organisations are able to pay their debts in the short term, this is unlikely to be a risk for councils given their ability to take short-term borrowing. It does also, however, act as an indicator of how a council manages its short-term finances.
 - councils with low liquidity ratios should ensure they have arrangements in place to meet their liabilities.
 - there may be additional costs for councils that rely on short-term borrowing to pay debts.
 - councils with very high liquidity ratios should consider whether they are managing their current assets in the most effective way.
- 27 We found that:
- The Council's liquidity position has been improving since 2015-16 peaking at 3.5 in 2018-19 which is well above the national average. This means that current assets have been significantly above the value of current liabilities and indicates that the Council can meet its financial obligations when they fall due without the need for short term borrowing.

- The Council adopts a prudent approach to treasury management, prioritising low risk before investment return and only investing surplus monies when adequate liquidity is maintained.
- The Council's liquidity ratio has historically exceeded the average for Welsh councils which indicates that it is in a comparatively strong financial position.

Exhibit 6: working capital ratio 2015-16 to 2019-20 (Source: Annual statements of accounts)

	2015-16	2016-17	2017-18	2018-19	2019-20
Current Assets £ millions ⁵	128.4	134.2	128.5	225.2	213.1
Current Liabilities £ millions ⁶	71.9	93.1	57.9	64.8	74.5
Liquidity Ratio	1.8	1.4	2.2	3.5	2.9

⁵ Current Assets, includes: Short Term Investments; Assets held for sale; Inventories; Short Term Debtors; and Cash and equivalent

⁶ Current Liabilities, includes Short Term Borrowing; Short Term Creditors; and Provisions due in one year.



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