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Dear Karen

Assurance and Risk Assessment 2021-22 Financial Position update

Following on from our recent 2021-22 Assurance and Risk Assessment (ARA) progress update letter we said that we would feedback on some further specific aspects of our assurance and risk assessment work that we have undertaken. This letter provides a progress update on the Council's financial position for 2021-22.

This work was undertaken as part of our 2021-22 Assurance and Risk Assessment project to help discharge the Auditor General's duties¹.

¹ These duties include under section 17 of the Public Audit (Wales) Act 2004 (the 2004 Act). It may also inform a study for improving value for money under section 41 of the 2004 Act, and/or an examination undertaken by the Auditor General under section 15 of the Well-being of Future Generations (Wales) Act 2015.

This feedback provides a point in time assurance and risk progress update on the Council's arrangements in this area. Overall we found that:

The Council is financially stable, helped recently by additional Welsh Government funding, but it needs to develop a sustainable plan to address cost pressures and close its medium-term funding gap in an increasingly challenging financial climate

What we looked at

- 1 We reviewed the Council's financial position during October and November 2022. This included consideration of the Council's financial reserves position, the delivery of planned savings and performance against the planned budget for the year.
- 2 We also published a Local Government Financial Sustainability Data tool in February 2022 which includes a range of financial data for councils, national parks and fire and rescue authorities in Wales. The tool can be accessed via the following link – [Financial Sustainability data tool](#).

Financial strategy

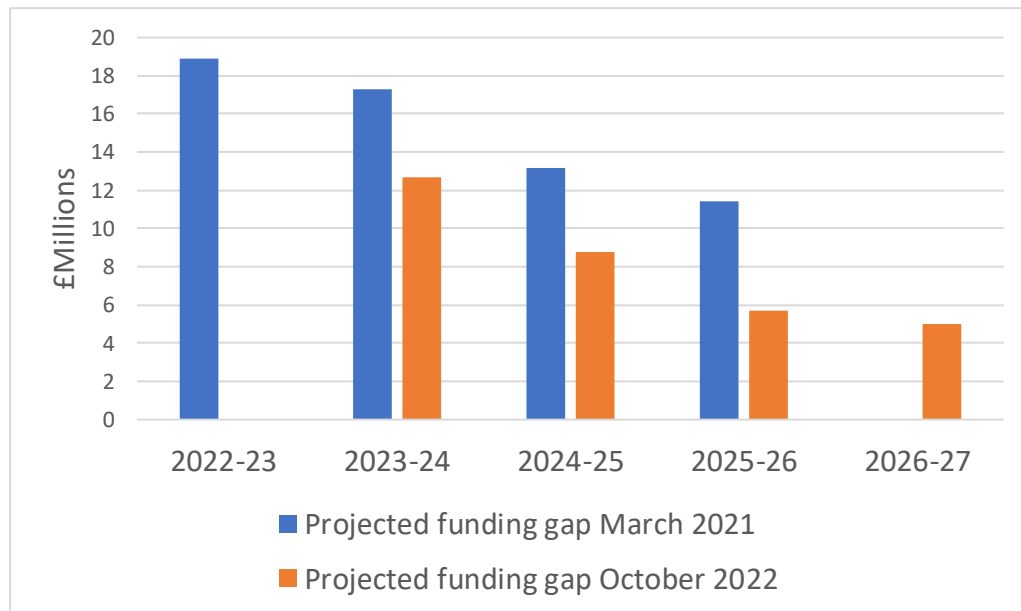
- 3 Our previous work, reported in September 2021 ([Financial Sustainability Assessment](#)) found that the Council focusses on annual budgeting and did not have a published Medium Term Financial Plan (MTFP). The financial plan was revised annually to help inform the annual budget setting process and set out the Council's medium-term financial projections. The Council recognised that it had scope to strengthen its medium-term financial planning and its links to the achievement of its corporate objectives.
- 4 The Council's 2022-23 budget, published in March 2022, did not quantify its medium-term financial position, reporting that it would subsequently undertake a comprehensive exercise to develop a MTFP. In October 2022, the Council reported the progress it had made in developing its MTFP for the period 2023-24 to 2027-28 to Cabinet. It has made assumptions about cost and income patterns based on 2 scenarios each, all of which result in a significant budget gap for the Council over the next 5 years. Its modelled gap ranges from £23.5

million with an optimistic Welsh Government settlement and 4% pay inflation, to £42.7 million with a realistic Welsh Government settlement and 6% pay inflation.

- 5 The Council's forecast cumulative funding gap for the period 2023-24 to 2025-26 has decreased by £14.6 million since March 2021 (based on a realistic settlement and 4% pay inflation) – **Exhibit 1**.

Exhibit 1: the Council's cumulative projected funding gap for the three years 2023-24 to 2025-26 is £27.2 million - £14.6 million less than last year's forecast

This graph shows the cumulative funding gap that the Council identified in March 2021 and October 2022 for the three year period 2023-24 to 2025-26.



Source: 2021-22 budget report to Cabinet (March 2021), Medium Term Financial Plan 2022-23 to 2027-28 to Cabinet (October 2022)

- 6 The Council recognises that it has more work to do to identify service pressures and increased service demand which are likely to further increase its projected gap. It has identified some areas for consideration in closing the projected gap which will take time to deliver savings and the Council recognises that further options need to be identified in case the 2023-24 Welsh Government settlement is insufficient to close the 2023-24 budget gap. In addition, the Council's estimated £4 million pressure from in-sourcing leisure services has not been

included in its assumptions although the Council plans to identify options to mitigate this as part of developing its leisure services business plan.

Useable reserves

- 7 The Council has historically had a healthy level of reserves and has not had a history of using reserves to fund revenue budget pressures. Although it budgeted to use £1.65 million of general reserves to balance its revenue budget in 2020-21 and £3.1 million in 2021-22, underspends on its net revenue budget and additional covid related funding from Welsh Government saw useable reserves increase by a further £25.7 million to £104.8 million at 31 March 2022.
- 8 The Council's 2022-23 budget was balanced without the use of general reserves but anticipated earmarked reserves being reduced by £13.8 million. The Council has subsequently identified additional pay and inflation pressures which it plans to fund from useable reserves, and it projects that its useable reserves will decrease to £77.1 million by 31 March 2023.

Exhibit 2: the net cost of services versus the amount of usable reserves

This exhibit shows the amount of usable reserves the Council had during 2021-22 and the previous five years as a proportion of the net cost of the services the Council delivers.

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Net Cost of Services in £ millions ²	283.3	281.8	296.1	307.0	267.9	284.5
Total Useable Reserves in £ millions ³	51.3	59.5	61.4	59.1	79.1	104.8
Total Useable Reserves as a percentage of the net cost of services ⁴	18.1%	21.1%	20.7%	19.3%	26.3%	32.8%
Comparison with other Welsh Councils	10 th	8 th	9 th	10 th	10 th	n/a

Source: Annual statements of accounts

Savings delivery

- 9 The Council has made significant savings in recent years, achieving the majority of its planned savings. In 2020-21 the Council balanced its budgeted funding gap through planned savings of £1.97 million. In 2021-22, this target was set at £135,000 as responding to the COVID pandemic reduced the Council's opportunity for service changes.

² Value used is the net cost of services charged to the general fund from the Expenditure and Funding Analysis 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.

- 10 The Council continues to remove individual identified savings from its budgets at the start of the year which are monitored through its budget monitoring process. Unless significant budget variances are highlighted, the Council assumes that in-year savings are being achieved. The Council's outturn position for 2020-21 and 2021-22 confirms that it achieved most of its planned savings.
- 11 The Council's 2022-23 revenue budget was balanced without the need for planned savings. In response to in-year budgetary pressures, the Council is reviewing its activities and budgets, and is progressing actions to mitigate the cost and income pressures brought about by Covid. The Council's recovery plan – Recover, Reset and Renew (approved by the Council in March 2022) outlined several initiatives to reduce its net revenue budget requirement with reserves being used to fund its invest to save and invest to earn initiatives. The Council recognises that further work is required to identify efficiencies as part of work underway to develop its MTFP for the period 2023-24 to 2027-28.

Performance against budget

- 12 We previously reported in September 2021 ([Financial Sustainability Assessment](#)) that the Council has a good track record of financial management and that it had consistently delivered its services within agreed budgets, transferring small surpluses to its general reserve.
- 13 In 2021-22, receipt of additional Covid related funding from Welsh Government meant that the Council's planned £3.1 million use of general reserves was not needed and enabled the Council to increase its useable reserves by £25.7 million. Whilst the Council has overspent in some services, it has offset these by underspends elsewhere. The main causes of these variances continue to be Covid related and due to additional Welsh Government funding, the underlying position continues to be unclear in some areas.
- 14 For 2022-23, the Council's month 6 revenue budget monitoring report is forecasting a £2.7 million overspend after reserve transfers of £4.0 million. The main overspend relates to pay awards which are projected to be £9.7 million higher than budgeted for. This will be partly funded by re-purposing underspent central budgets but other cost and service pressures have also been identified.

Future Budget Pressures

- 15 The Council's medium-term financial planning will need to rely on a range of assumptions, and when coupled with the changing socio-economic landscape

in this period of significant economic uncertainty, planning for financial resilience and future budget rounds will continue to be challenging for councils.

Yours sincerely

Audit Wales