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Dear Martin

## 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 feed back 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 duties<sup>1</sup>.

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<sup>1</sup> 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.

We recognise that the both the current and future financial climate is both challenging and fluid and therefore this feedback provides a point-in-time assurance and risk progress update on the Council's financial position for 2021-22.

## **Financial Position update 2021-22**

### **What we did**

We undertook our assessment of the Council's 2021-22 Financial Position between September and November 2022. The evidence was gathered through interviews and document reviews and included consideration of the Council's financial reserves position, the delivery of planned savings and performance against the planned budget for the year. Whilst the focus of our work was on the 2021-22 financial year, where appropriate, consideration has also been given to later financial information where this helps to contextualise the position.

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.

### **What we found**

**Additional Welsh Government funding and increased reserves in recent years have helped improve the Council's financial position and stability, but it needs to develop a sustainable plan to address substantial emerging cost pressures.**

### **Financial strategy**

The Council revises its Medium Term Financial Plan (MTFP) annually as part of its annual budget setting process. The MTFP for the period 2023-24 to 2025-26 was approved by Council in March 2022 and outlined indicative annual assumptions for projected spending, likely resources and potential funding shortfalls.

The MTFP assumptions were based on Aggregate External Funding (AEF) increases of 3.5%, 2.4% and 2% annually from 2023-24 onwards and Council Tax income increases of 5% annually from 2023-24 onwards.

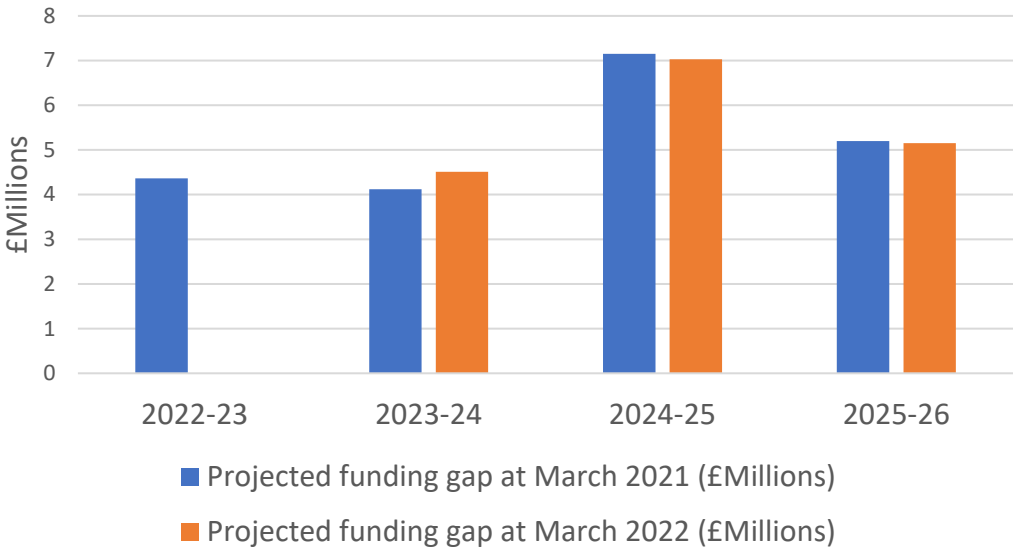
The March 2022 MTFP forecast additional cost pressures of £40 million in 2022-23, compared to the 2021-22 budget, and identified the uncertain economic climate and the ongoing impact of COVID.

The Council's projected funding gap for 2023-24 was £4.5 million, a slight increase compared to the gap of £4.1 million projected in its March 2021 MTFP.

The March 2022 MTFP projects slightly smaller funding gaps for 2024-25 and 2025-26 compared to the projected gaps in the March 2021 MTFP.

**Exhibit 1: the Council's projected annual funding gaps over the medium term are broadly in line with last year's forecast**

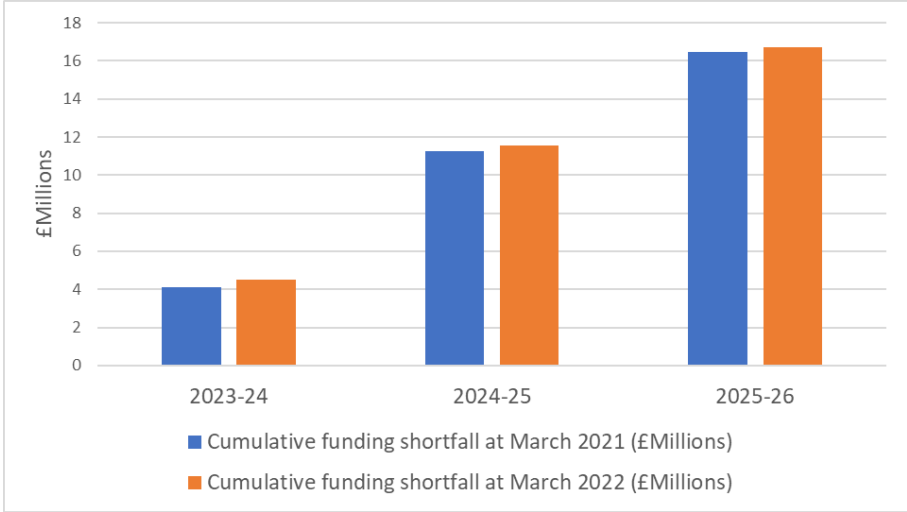
This graph shows the annual funding gap identified by the Council over the medium-term in March 2021 and March 2022.



The cumulative projected funding gap over the lifetime of the March 2022 MTFP also showed a marginally larger figure compared to the March 2021 MTFP. By 2025-26, the funding gap was projected at £16.69 million, compared to £16.47 million projected in the March 2021 MTFP.

**Exhibit 2: As at March 2022, the Council’s total projected medium-term funding gap to 2025-26 was £16.7 million, marginally larger compared to the March 2021 forecast.**

This graph shows the cumulative medium-term funding gap identified by the Council in March 2021 and March 2022. The annual figures are cumulative.



**Useable reserves**

The Council’s useable reserves have doubled over the last two financial years, increasing from £93.75 million in 2019-20 to £186.7 million in 2021-22. This was achieved through delivery of savings, underspends on its revenue budget and additional COVID-related funding from the Welsh Government.

The Council’s March 2022 MTFP states that ‘it remains the Council’s position that planned use of earmarked reserves to support general revenue budget deficits is inappropriate’. In 2020-21, the Council’s useable reserves totalled 33% of its net cost of services, the sixth-highest percentage of all councils in Wales. This percentage has increased to 40.8% in 2021-22.

When setting the 2022-23 budget, the Council planned to contribute £3.52 million to its contingency fund to support the revenue budget if likely risks and inflationary pressures materialised in year. The proposed contribution from reserves was £17.21 million. The total net contributions from reserves equalled £13.69 million.

### Exhibit 3: the Council's useable reserves versus annual budget

This exhibit shows the amount of usable reserves the Council had at the end of 2021-22 and the previous five years, as a proportion of the net cost of the services the Council delivers<sup>2</sup>.

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Net Cost of Services (£Millions) <sup>3</sup>	425.03	429.49	440.34	444.56	435.41	457.86
Total Usable Reserves (£Millions)	68.1	68.43	77.02	93.75	144.51	186.70
Total Usable Reserves as a percentage of net cost of services	16.0	15.9	17.5	21.1	33.2	40.8
Comparison with the other councils of Wales	13th	12th	11th	8th	6th	n/a

### Savings delivery

We have previously reported that the Council has not had a good track record of achieving planned savings in previous financial years, achieving £62.7 million of planned savings of £83.3 million between 2016-17 and 2020-21.

The revenue budget for 2021-22, approved by Council in March 2021, included planned service savings of £8.321 million. These were included in Directorate budgets at a service level and monitored by Cabinet on a quarterly basis. As in 2020-21, the Council did not monitor achievement against planned savings in 2021-22 because of the COVID pandemic.

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<sup>2</sup> Source: 2016-17–2020-21: Audit Wales financial sustainability data tool; 2021-22, unaudited statement of accounts

<sup>3</sup> The methodology for calculating these figures can be found in the [Audit Wales financial stability data tool](#).

At the end of Quarter 3 of 2021-22, the Council reported a forecast service overspend of £9.4 million. This was balanced by assumed Test, Trace, Protect (TTP) and Welsh Vaccination Certificate Service (WVSC) cost recoveries of £7.1 million and a contribution from the Council's contingency fund of £12.9 million resulting in a forecast underspend of £11.9 million.

The outturn position for 2021-22 showed a significant improvement on the Quarter 3 forecast outturn, with the £11.9 million underspend forecast at Quarter 3 becoming an underspend of £41 million. This improvement was due to the realisation of planned underspends across services and a number of late additional funding streams from the Welsh Government, including additional Revenue Support Grant and Council Tax shortfall funding.

The Council's March 2022 MTFP outlines planned savings between 2023-24 and 2025-26 across all of its service areas. Savings of £4.5 million, £7.7 million and £5.15 million are proposed in each of the next three financial years. These savings include additional service pressures of £1.9 million, £0.23 million and £0.50 million in the same three financial years.

### **Performance against budget**

In 2020-21 we reported that having previously not been able to maintain its cost of services within annual budgets, the Council delivered significant service underspends which were COVID-related and from the receipt of additional Welsh Government funding.

The 2021-22 outturn reported a net revenue expenditure underspend of £41.2 million, comprised of a £20.2 million underspend on services and £21 million of additional funding streams from Welsh Government.

All five of the Council's main service areas, Corporate Services, Finance, Social Services, Education and Place showed an underspend against the planned spend of between 1.4% and 12.4%. The reasons for these underspends included a reduction in planned activity and services due to COVID, unfilled vacancies, reductions in staff where services were reduced and reduced costs from commissioned activity and services.

## **Future Budget pressures**

Ongoing risks to the 2022-23 budget were reported to Cabinet in July 2022 as part of the 2021-22 outturn report. These included internal risks to specific service areas, the continued financial impact of COVID, demographic pressures on services and ongoing costs relating to the residual Single Status appeals.

Since July 2022, external inflationary pressures, the affordability of nationally agreed pay awards and the loss of existing specific grants have increased. Combined with the cost of living pressures being felt by residents, this is likely to provide significant additional financial pressures for the Council, in areas such as council tax collection rates and referrals to social services and advice services.

This is combined with the likely withdrawal of Welsh Government financial support through the Hardship Fund and other sources, which in previous years has allowed the Council to meet its planned budgets, mitigate against overspends across service areas and increase its general reserves.

Medium-term financial planning will continue to rely on a range of assumption, 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 the Council.

Yours sincerely,

**Audit Wales**