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Dear Wendy

Assurance and Risk Assessment Progress Update – Financial position

Following on from our meeting with Corporate Management Team earlier this year, we said that we would more formally feedback on some 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.

This work was undertaken as part of our 2021-22 Assurance and Risk Assessment (ARA) 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.

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

The Council has previously shown good financial sustainability and has planned to continue making efficiency savings to meet the identified future funding gap. However, delivering its planned future savings in an increasingly challenging financial climate represents a substantial ongoing risk to the Council

Financial strategy

The Council's Revenue Budget Strategy (RBS) for 2022-23 to 2024-25 was presented to Cabinet in February 2022. This showed an expenditure budget for 2022-23 of £419.746 million, up from the 2021-22 figure of £388.743 million. With efficiencies included, these figures dropped to £416.079 million and £386.232 million respectively.

Prior to publishing the February 2022 RBS, the Council held public consultation events and sessions with Members, Scrutiny Committees and Town and Community Councils.

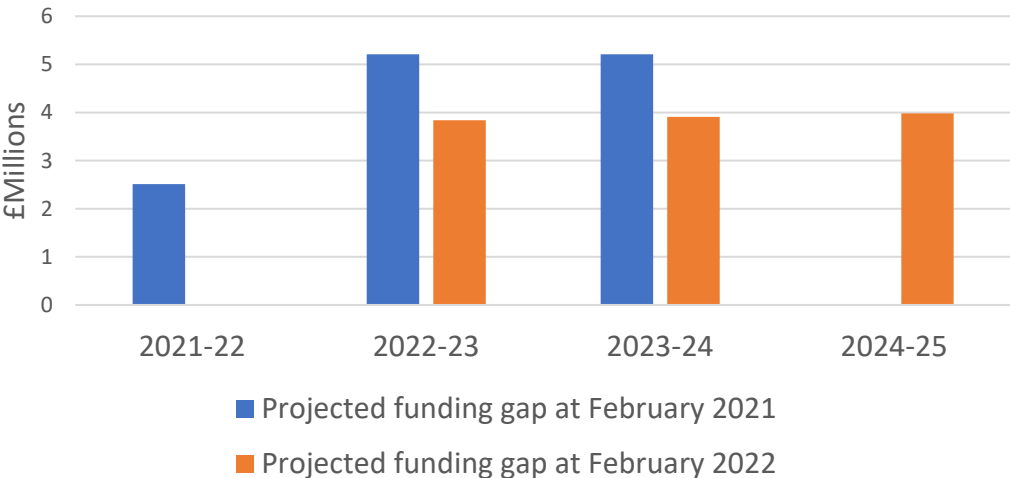
For the February 2022 RBS, the Council set inflationary factors at 4% in its draft budget, a figure below the Bank of England peak forecast of 7% during 2022-23.

This 4% figure was only applied to expenditure. Income increases were set at 2.5%, reflecting the pressures already facing households and residents.

Budgets also assume that Council staff and teachers will receive a 4% pay award during 2023-24.

Exhibit 1 below shows the projected funding gap, as outlined in the February 2021 and February 2022 RBSs. At the time of writing, the February 2022 RBS shows that the Council projects its funding gap to be smaller in 2022-23 and 2023-24 than the projected gaps in the February 2021 RBS.

Exhibit 1: As at February 2022, the Council’s projected funding gap in 2023-24 was £3.9 million, £1.3 million lower than the figure projected at February 2021 for the same financial year



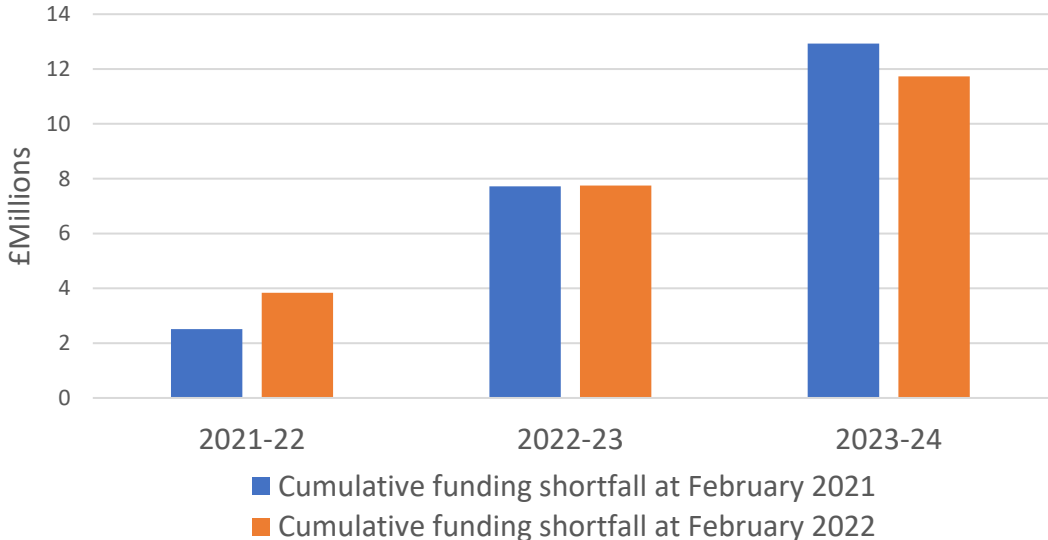
The February 2022 RBS shows a projected improved position going forward with regard to the Council’s funding gap, compared to the February 2021 RBS.

By the end of the 2023-24 financial year, the projected funding gap is £11.729 million (over three years). This compares to the figure in the March 2021 RBS of £12.928 million (for the same three financial years).

The improved position outlined in the February 2022 RBS is due to a number of factors, including:

- A re-calculation of the cost of the National Insurance increase, which lowers its impact by £500,000
- An increase in the Fire Levy
- There was an increase in the RSG settlement (£311 million) compared with the forecast of £290 million

Exhibit 2: As at February 2022, the Council forecast a cumulative funding shortfall of £11.729 million by 2023-24 – £1.2 million lower than the figure forecast in February 2021 for the same financial year



Useable reserves

Whilst the net cost of services has remained similar in 2019-20 and 2020-21, total useable reserves have increased every year between 2016-17 and 2020-21. At the end of the 2020-21 financial year, the Council had £134 million total useable reserves (this includes Earmarked, schools and general balances). That equates to 36.1% of the net cost of services for that financial year, the third highest percentage for all councils in Wales.

In its February 2022 RBS, the Council said ‘...whilst the use of reserves to support annual budgets should not be summarily discounted, it must be treated with caution’.

This increase in total useable reserves has been achieved through a combination of Welsh Government funding that was either un-planned for or from funding streams that have been discontinued, and through service underspends.

It is unlikely that useable reserves will continue to increase in future financial years given the financial outlook and pressures faced by the Council.

Exhibit 3: While the net cost of services has only risen by £33 million over the last four financial years, total useable reserves have risen by nearly £75 million in the same time period – an increase of 58%

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22 ²
Net Cost of Services (£Millions)	350.93	355.17	373.18	373.89	371.53	388.981
Total Usable Reserves (£Millions)	85.15	92.44	93.9	100.84	134.11	167.487
Total Usable Reserves as a percentage of net cost of services (%)	24.3	26.0	25.2	27.0	36.1	43.0
Ranking of useable reserves as a percentage of net costs compared to all Welsh councils	5th	5th	5th	4th	3rd	N/A

Savings delivery

We reported in October 2021 that the Council’s delivery against its planned savings had deteriorated.

² Figures for 2021-22 taken from Statement of Accounts (Published subject to Audit)

In 2020-21, the Council achieved 51% of its planned savings, this was, however, the first year of the pandemic. This was the second financial year in a row that the percentage of planned savings achieved had declined.

In 2021-22, the Council revised its planned savings for that financial year. Its previous target for savings in 2021-22 was £5.930 million, but this was adjusted in a February 2021 Cabinet paper to £2.511 million. This target was revised downwards because of an improved settlement from the Welsh Government, additional emergency funding provided by the Welsh Government, and a recognition that the capacity to deliver savings during a pandemic was much reduced.

Planned savings targets for 2022-23 and 2023-24 remained unchanged, at £5.209 million in 2022-23 and £5.208 million in 2023-24.

The changes made for 2021-22 covered five service areas, with the majority being allocated as follows:

- £979,000 to Education and Children
- £1.495 million to Communities
- £699,000 to Environment

As detailed below, the Council had a net position underspend against planned expenditure in 2021-22.

Because of the financial impact of COVID, both in terms of the Council receiving unplanned-for funding and the pausing or reduction in the provision of some services, it is difficult to understand if the planned savings were achieved in 2021-22.

Performance against budget

The Head of Financial Services 2021-22 Revenue Budget Monitoring report was presented to Cabinet on 25 July 2022. This report showed an underspend at departmental level of £5.345 million. After taking account of capital charges and the movement in Earmarked and Department reserves, the net position for the Council's services was an underspend of £1.433 million.

The report outlines the main reasons for the underspend in 2021-22 as being:

- some services being paused or reduced due to lockdown measures, leading to a reduction in expenditure;
- staffing shortages, leading to an underspend on wages;

- utilisation of capital underspend across different budget areas; and
- funding from the Welsh Government Hardship fund and other additional grant funding streams.

Whilst the year end position for 2021-22 was an underspend, this position was only achieved by the use of reserves and non-recurring funding from the Welsh Government.

In particular, service pressures in the Communities and Education and Children departments would have resulted in an overspend if it were not for Welsh Government Hardship funding and a number of vacant posts.

Future pressures

The Welsh Government's indicative funding settlements on an all-Wales basis of 3.5% and 2.4% respectively for 2023-24 and 2024-25 provide a degree of funding certainty over the medium term. However, medium-term financial planning will continue 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.

On 3 October 2022, the Director of Corporate Services presented a report to Cabinet which provided an update to the February 2022 MTFP. This report noted that many assumptions made in February 2022 have been overtaken by more recent events, and that new circumstances have emerged since then, all of which mean the financial model assumptions made in February 2022 need to be reviewed.

There is now great uncertainty about the level of the Welsh Government financial settlement for 2022-23 onwards and the likely rate of inflation will be much higher than forecast. Acute increases in energy prices will impact on transportation costs as well as heating and electricity supplies. These increases will impact on both the Council and residents.

The wider cost-of-living crisis will impact on residents, which could have a knock-on effect on payments to the Council, in particular, council tax payments. The Council could see a reduction in its planned income against these sources.

The receipt of Welsh Government support funds to mitigate against COVID-related issues is likely to cease in 2022-23. In particular, the Welsh Government Hardship Fund, which finished in March 2022. This fund has helped to support the Council's finances during the last two financial years.

Yours sincerely,

Audit Wales