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Cysylltwch â ni'n Gymraeg neu'n Saesneg.

Mr Phil Roberts  
Chief Executive  
City and County of Swansea Council  
Guildhall  
Swansea  
SA1 4PE

**Reference:** 956A2018-19

**Date issued:** 29 November 2018

Dear Phil

## Annual Audit Letter – City and County of Swansea, City and County of Swansea Group and City

This letter summarises the key messages arising from my statutory responsibilities under the Public Audit (Wales) Act 2004 and my reporting responsibilities under the Code of Audit Practice.

### The Council complied with its responsibilities relating to financial reporting

It is City and County of Swansea (the Council's) and City and County of Swansea Group's (the Group's) responsibility to:

- put systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
- maintain proper accounting records;
- prepare a Statement of Accounts in accordance with relevant requirements; and
- establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Public Audit (Wales) Act 2004 requires me to:

- provide an audit opinion on the accounting statements;
- review the Council's and the Group's arrangements to secure economy, efficiency and effectiveness in their use of resources; and
- issue a certificate confirming that I have completed the audit of the accounts.

Local authorities in Wales prepare their accounting statements in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This code is based on International Financial Reporting Standards. On 25 September 2018, I issued an unqualified audit opinion on the financial statements confirming that they present a true and fair view of the Council's and Group's financial position and transactions. On 6 November 2018 I issued an unqualified opinion on the financial statements of the Pension Fund confirming that they present a true and fair view of the Pension Fund's financial position and transactions. The key matters arising from the audit of both sets of financial statements were reported to Members at the Council meeting on 20 September 2018, in my Audit of Financial Statements reports.

Overall, the financial statements and associated working papers provided for audit were of a good standard. Your officers were helpful and supplied us with all the information we requested.

The Council has made good progress in bringing forward the production of the financial statements. This year the financial statements were made available for audit on 4 June. The Council is therefore making good progress towards achieving the 31 May deadline in 2020-21.

We are continuing to work with management to implement learning from each year's accounts preparation and audit processes.

**I am satisfied that the Council and the Group have appropriate arrangements in place to secure economy, efficiency and effectiveness in their use of resources, but the Council continues to face significant financial challenges**

My consideration of the Council's and Group's arrangements to secure economy, efficiency and effectiveness has been based on the audit work undertaken on the accounts as well as placing reliance on the work completed under the Local Government (Wales) Measure 2009. The Auditor General has highlighted areas where the effectiveness of these arrangements could be improved in his published Annual Improvement Report. The Annual Improvement Report was published in August 2018 and can be accessed via the following link [Annual Improvement Report](#)

Austerity remains the most significant challenge facing all local government bodies in Wales and these financial pressures are likely to continue for the medium term. The recent provisional local government funding settlement for 2019-20 will see no funding increase for the Council. The wide range of service and demographic pressures will therefore continue to impact on the finances of the Council.

These pressures were evident in 2017-18. The revenue out-turn position reported that the Council's direct revenue expenditure was £4.7 million greater than the revised budget with the Council needing to utilise general fund reserves. For 2018-19, the quarter two budget position shows a forecast revenue budget overspend of £8.5 million. After utilising funds from its earmarked reserves, the Council predicts a forecast overspend of £2.8 million for the financial year.

As a result of the above, the Council needed to utilise £3.1 million of its general fund reserve in 2017-18 to manage overspends in service directorates and it is likely that at least a further £2 million will be needed to balance the predicted 2018-19 overspend. This will potentially mean that just over 40% of the Council's general fund balance will have been used to cover overspends in both 2017-18 and 2018-19 and could leave the general fund reserve in the region of £7 million as at 31 March 2019. Careful consideration of the general fund reserve (and other reserves) and how they might be used to support financial plans is particularly important, as it is not sustainable for the Council to rely on reserves to support ongoing expenditure.

With regards to the recent overspends, it is evident that the Council has had difficulty in delivering its planned levels of efficiency savings in a number of service areas. The Council needs to review the reasons for the non-delivery and develop more robust arrangements going forward.

The 2019-20 financial budget is currently predicting a shortfall in excess of £20 million. In order to deliver a balanced budget, careful consideration will need to be given to planned efficiency targets, additional sources of income and current levels of service provision. We are pleased to note that management have and will continue to undertake a risk assessment of the current departmental efficiency plans.

The predictions identified in the Council's Medium Term Financial Strategy identify a cumulative budget shortfall of £24 million in 2019-20, £48 million in 2020-21 and £69 million in 2021-22. In addition, the Council is planning to undertake a significant capital investment programme including the 21<sup>st</sup> Century Schools programme and major capital schemes flowing from the Swansea Bay City Deal including the digital village (£30 million) and the Swansea Arena and Swansea City Centre development (£130 million). Significant unsupported funding will be required to finance these developments. By 2025-26, this additional unsupported borrowing is estimated to cost the Council £14 million in additional finance costs.

The financial position outlined above is undoubtedly challenging. It is therefore critical that the Council:

- continues to review and update its medium term financial strategy; and
- carefully monitors its level of reserves.

To achieve a balanced budget for 2019-20, the Council must continue to risk assess its efficiency savings plans and implement robust arrangements to secure their delivery. This is even more important against the backdrop of the Council's planned capital investment programme.

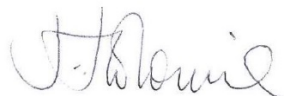
In 2019, we will undertake a more detailed review of the Council's financial position.

### **My work to date on certification of grant claims and returns has not identified significant issues that would impact on the 2017-18 accounts or key financial systems**

My ongoing work to date on certification of grant claims and returns has not identified significant issues that would impact on the financial statements or key financial systems. A more detailed report on my grant certification work will follow in 2019 once this year's programme of certification work is complete.

The financial audit fees for 2017-18 are currently expected to be marginally lower than those set out in the Annual Audit Plans. We will formally report our out-turn position to the Council in our 2018-19 Audit Plan.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'J. Holownia', written in black ink.

**Jane Holownia – Engagement Director**  
**For and on behalf of the Auditor General for Wales**

cc Councillor Rob Stewart- Leader  
Ben Smith – Head of Financial Services and Service Centre and S151 Officer