



To:
Cllr Rob Stewart
Cabinet Member for Economy,
Finance and Strategy

Please ask for:
Gofynnwch am:

Direct Line:
Llinell Uniongyrochol:

e-Mail
e-Bost:

Date
Dyddiad:

Overview & Scrutiny

01792 636292

scrutiny@swansea.gov.uk

23rd March 2021

BY EMAIL

Summary: This is a letter from the Service Improvement and Finance Scrutiny Performance Panel to the Cabinet Member for Economy, Finance and Strategy. The letter concerns the meeting held on 8th March 2021 and the Q3 Budget Monitoring report 2020-21, the Mid-Year Budget Statement 2020-21 and the Treasury Management Strategy Statement.

Dear Councillor Stewart,

On the 8th March, the Panel met to discuss the Q3 Budget Monitoring report 2020-21, the Mid-Year Budget Statement 2020-21 and the Treasury Management Strategy Statement. The Panel wish to thank Ben Smith, Section 151 Officer / Chief Finance Officer, for his attendance and contributions. We are writing to you to reflect on what we learnt from the discussion and to share the views of the Panel.

Q3 Budget Monitoring report 2020-21

We heard that in Q3 the Council submitted a loss of income claim to Welsh Government, the position regarding which has now been confirmed as £2.2M. We understand that officers have now submitted the Q4 loss of income claim, although the final awarded amount remains to be confirmed.

We heard that the Local Government and Housing Minister announced further sums totalling £50M allocated on a pro-rata fair share basis; officers anticipate Swansea Council's share will be in the region of £3.75M. Officers explained it had also been announced that a £42.5M extension to the hardship fund will be available, including free school meals until the Easter holidays; Swansea's share is likely to be approximately £3M.

OVERVIEW & SCRUTINY / TROSOLWG A CHRAFFU

SWANSEA COUNCIL / CYNGOR ABERTAWE

GUILDHALL, SWANSEA, SA1 4PE / NEUADD Y DDINAS, ABERTAWE, SA1 4PE

www.swansea.gov.uk / www.abertawe.gov.uk

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We heard that there is likely to be a further tranche of business grant money, possibly up to £15M before year end, although this is subject to First Minister announcements around mid-March. Officers explained this money will come in to the Council and then straight out to businesses.

We also heard that there will be a £206M extension of the hardship fund for the first six months of next year. Officers do not know what Swansea Council's share will be yet, however based on the fair share calculations it could be another £15m or thereabouts.

We queried whether the Council is in a good position financially. Officers explained that during February we received three days of notifications, each of over £3M and the continued announcements on funding improves our position. Officers clarified that the Council also started with a significant underlying underspend position, excluding Covid-related impacts, at the beginning of the year.

We heard that the Council has continued to receive the majority of sums back from Welsh Government; officers explained that seeing the pace, scale and frequency of announcements has improved the financial position significantly. We queried whether to expect another underspend position by the end of this year. Officers responded that whilst not certain, it would be probable to end up with a material underspend position.

Officers clarified that, in regards to where monies should be allocated, the decision is for members – general reserves would need to go up slightly, and the majority of funds may go to earmarked reserves. The Chief Finance Officer will continue to give the advice that any decision taken must have due regard to previous decisions taken and the future longer term consequences.

We discussed Appendix A, P37, regarding taking £4M out of ear marked reserves and whether we anticipate that £4m is no longer required. Officers confirmed yes, that the position at Q3 required that draw, however were now certain this anticipated draw would not be needed. We heard that Welsh Government have distributed substantial sums to all twenty two authorities and, although officers would not speculate on an amount, Q4 will likely be a very material sum.

We discussed the Revenue Budget summary and the contingency fund of £5.9M, querying why the Council is not taking money out of this fund. Officers confirmed that this report was written in Q3 and this picture has now changed. Officers confirmed that this may indeed not all be needed as a result of the substantial amounts announced that are due.

We heard that assumptions have been made over what will benefit the Council over the next seven years regarding the City Deal funds. After Year 7, a further burden is added to capital financing. Officers commented that it is tempting for Council to draw from the capital equalisation reserve, however, the Well-being of Future Generations Act requires sufficient cover to fund over the life cycle of the project.

We queried the Capital Equalisation Reserve (CER), noting large sums going in, and questioned if this would continue. Officers explained that, if there is a temporal underspend on capital financing, it is advisable to add it into the CER.

Mid-Year Budget Statement 2020-21 and the Treasury Management Strategy Statement. We discussed these items concurrently.

We heard that Capital financial requirements will go up by hundreds of millions of pounds, measured as a percentage of the revenue budget. Officers explained that, in every scenario, they see budgets going up, although subject to complex interplays.

We heard that the Chief Finance Officer would have liked to have externalised borrowing already but, as restricted by law and the code of practice, cannot borrow in advance of need.

Officers explained that there are currently relatively low interest rates, which are favourable. We heard that there is a risk inflation will go up, and subsequently interest rates will also rise; officers explained that the Council would ideally externalise borrowing soon and to lock in at good rates.

We heard that, whilst these are dry technical documents, if these documents are incorrect the Council would rapidly run out of resource cover given long term funding commitments to capital.

We queried Appendix 4, Item 6, the general fund capital expenditure – there is now a £115M general requirement. We questioned why there is such a huge difference in original estimate / outturn. Officers explained that this is due to a direct consequence of building the Arena, fuelled by the field hospital expenditure. The Chief Finance Officer commented that this demonstrates the sheer amount of capital spend that is underway.

Your Response

We hope you find this letter useful and informative. We would welcome your comments on any of the issues raised but would ask for a response to the following by 14th April 2021:

- 1) Please provide more detailed information about the expected increase in repayments (relating to the general fund capital expenditure) due to the increase in the borrowing requirements.

Yours sincerely,

Councillor Chris Holley

Convener, Service Improvement and Finance Scrutiny Performance Panel

✉ cllr.chris.holley@swansea.gov.uk