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Dear Phil

## City and County of Swansea Council

### Financial Sustainability Review

As you will be aware, the Wales Audit Office is currently undertaking a review of financial sustainability across all Welsh Councils. I would like to thank you and your team for providing your self-assessment submission in line with the requested deadlines.

We will be undertaking the detailed work on this review over the next few weeks and as part of that process we look forward to meeting with both yourself and the Council Leader to discuss your current financial position and future strategy.

We have undertaken an initial review of your self-assessment and key documentation and consider it appropriate to bring to your attention some of our early concerns, particularly in view of some significant capital investment decisions the Council may be considering in the coming weeks.

As you will know our 2018 annual audit letter included the following conclusion:

“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”

We reached this conclusion for the following reasons:

- For the last three years the Council had not been able to maintain its cost of services within annual budgets and as a result had utilised reserves to fund these overspends;
- The Council had continued to have difficulty in delivering its planned levels of efficiency savings in a number of service areas;
- The Medium-Term Financial Strategy (MTFS) had identified the need to find further significant levels of efficiency savings to deliver balanced budgets; and
- The Council was planning to undertake a significant capital investment programme including the 21st 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 would be required to finance these developments.

Since we reported this conclusion, we have continued to monitor the Council's financial position. We have also been working with officers to derive assurance that the 'Sustainable Swansea – Fit for the Future' programme can deliver the financial savings and income generation targets set out in the Council's 2019-20 budget at the pace and scale required. Whilst this work is ongoing, to date, officers have been unable to provide us with the level of assurance needed. The quarter 1 monitoring return for 2019-20 projects a year-end overspend of £4m and shows that services are not delivering their planned efficiency savings and will need to develop alternative savings proposals. Your financial sustainability self-assessment describes an intended freeze on service expenditure budgets for the next 4 years, and this will require each service to identify further significant efficiency savings to cover all inflationary pressures. In addition, the MTFS shows a cumulative budget deficit by 2022-23 of £63million.

We understand that you will soon be considering whether to proceed on the Swansea Central Phase 1 project. This will involve taking out significant additional unsupported borrowing with capital financing costs that will worsen the budget deficit going forward by up to £9million p.a., according to the November 2018 report to Cabinet.

Given the current financial position, increasing future pressures, previous difficulties experienced in 'closing the gap', and impending decisions that may significantly heighten the Council's financial risk, I feel it more timely to convey my concern now, in advance of us reporting our financial sustainability review. You will of course be aware of the need for statutory officers to ensure the financial prudence of decision making, and no doubt be seeking the assurance that you require to address these financial challenges in a sustainable way.

We look forward to meeting you on 29 October to discuss these issues as we continue to seek the assurance we require on the financial sustainability of the Council.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Huw Rees', with a horizontal line extending to the right.

Huw Rees  
Engagement Director