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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 duties¹.

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.

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.

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 is financially stable, helped recently by additional Welsh Government funding. However, delivering sustainable planned future savings in an increasingly challenging financial climate is an ongoing significant financial risk.

Financial strategy

Our [previous work on financial sustainability](#) at the Council, (June 2021), found that the Council remained financially stable and was focussed on future challenges. Our 2021 financial sustainability report included a proposal for improvement that the Council should: continue to monitor the significant overspends in social care; and ensure that its Social Services Transformation Project is driving improvement. The Council is continuing to monitor its spending in social care and is currently in the process of gathering the data to assess the improvements being delivered through its Social Care Through Age Well-being Transformation Programme.

From our other wider audit work at the Council, (Springing Forward Reviews on [Workforce Management](#) and [Asset Management](#) (September 2022)), we identified that continuing to deliver the efficiencies through its transformation of social services and the significant long-term costs in maintaining its asset portfolio, will continue to represent ongoing financial risks for the Council.

In March 2022, the Council published its Medium Term Financial Strategy (MTFS) for 2022-23 to 2024-25. This outlined indicative annual assumptions for projected

spending and income for this period. It also forecasted likely resources and potential funding shortfalls and savings required.

The Council's March 2022 MTFS states that its financial strategy is to continue to manage the forecasted gap between likely resources and budget requirement in order to deliver a balanced budget position whilst meeting the Council's objectives. In the Council's March 2022 MTFS, the Council identified the need to make savings of £15 million to deliver a balanced budget between 2022-23 and 2024-25 – see **Exhibit 1** for the funding Gap and Savings projections.

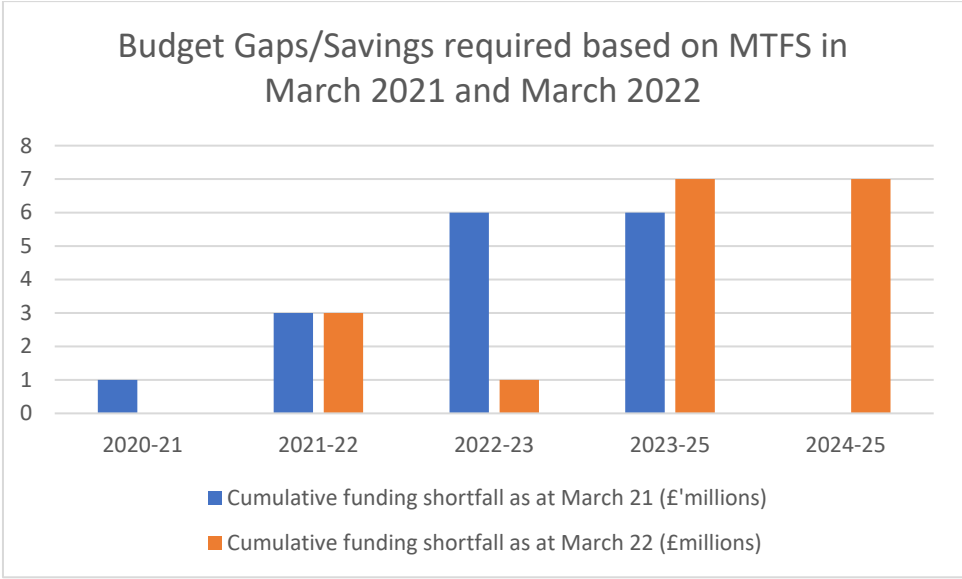
Additional monies from the Welsh Government in 2022-23 enabled the Council to postpone the original savings it required to make in 2022-23 by a further year. The Council received an 8.6% increase (on a like for like basis) from the Welsh Government's Revenue Support Grant which helped the Council to reduce the £6 million original savings required for 2022-23, (as identified in the Council's 2021-22 MTFS) to £1.3 million. However, in March 2021, the Council had identified a £15 million three-year rolling funding gap, and this still remained the position as at March 2022, albeit with the overall savings now being required a year later than originally planned.

At the time of its publication in March 2022, the Council's MTFS referred to a number of key risks and areas of uncertainty, such as the economic climate and the ongoing impact of COVID in increased costs and in reduced income from fees and charging income.

For 2021-22, the Council had a capital programme working budget of £22.1 million, with a final outturn spend of £17.5 million. For 2022-23, the Council's capital working budget more than doubled to £41.4 million, however, the Council is in the process of revising this downwards.

Exhibit 1: As at March 2022, Ceredigion County Council’s projected a medium-term funding gap of £15 million between 2022-2023 to 2024-25.

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



Useable reserves

Our previous work on Financial Sustainability at the Council in June 2021 noted that the Council had continued its record of not making unplanned use of reserves to fund revenue expenditure, and usable reserves had increased in recent years.

The Council’s useable reserves grew by nearly £33 million between 2019-20 and 2021-22, from £27.7 million to £60.7 million. This was achieved through savings, underspends and additional Welsh Government funding largely due to the COVID pandemic.

The Council has a Reserves Policy in place and as at March 2022 had no plans to use general reserve balances to fund revenue base budgets other than for exceptional and agreed priority one-off items.

The Council’s Cabinet report in September 2022 included several areas of ongoing impact due to the COVID pandemic. As a result, there are expenditure items and lower levels of income that are being mitigated temporarily during 2022-23 by the Council’s corporate COVID budget provision. The Council’s 2022-23 budget setting process made allowance for a £2 million COVID-19 support budget, of which £1.25 million was funded as planned from its reserves. The main areas still being affected include schools supply cover, temporary highway changes and its care homes,

alongside lower levels of income being seen in trade waste and its Wellbeing Centres.

In 2020-21, the Council's useable reserves totalled 29.7% of its net cost of services, the ninth highest percentage of all councils in Wales. In 2021-22, this had risen to 38.6%.

Exhibit 2: Ceredigion County Council's amount of usable 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.

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Net Cost of Services in £ millions ²	£147.6m	£147.2m	£151.8m	£155.8m	£149.92m	£157.3m
Total Useable Reserves not protected by law in £ millions	£20.2m	£21.5m	£24.2m	£27.7m	£44.6m	£60.7
Total Useable Reserves as a percentage of net cost of services	13.7%	14.6%	15.9%	17.8%	29.7%	38.6%
Comparison with other Councils in Wales	15th	13th	12th	11th	9th	Data not available

² Net cost of services Value used is the net cost of services charged to the general fund from the Expenditure Funding Analysis, less any Housing Revenue Account cost of services, plus precepts, levies and debt interest.

Savings delivery and performance against revenue budget

Our previous work on Financial Sustainability in June 2021 noted that the Council had a good track record of meeting its savings targets, however, delivering the required savings would be more challenging going forward.

For 2021-22, the Council's original planned savings estimate was £3 million. However, in September 2021, the Council reported that this would need to increase to £3.4 million, following a lower than expected financial settlement from the Welsh Government. The Council's strategy to deliver these savings focussed on services being required to save 1% of their budgets (£1.25 million) and a corporate savings target for the Council's Leadership Group collectively of £2.1 million. In September 2021, the Council's Cabinet report noted that 80% of the Council's service savings and 100% of its corporate savings target had already been achieved or were on target, continuing to demonstrate that the Council has a good track record on delivering its savings targets.

In July 2022, the Council's Cabinet report presented the final 2021-22 Controllable Revenue Outturn position and that 'the final overall revenue position is an overall underspend of £668,000. This includes the benefit of a surplus on Council Tax collection and additional Welsh Government Revenue Support Grant funding (which came as a result of an amended 2021-22 Local Government Finance Settlement issued in March 2022). The underspend is lower than projected due to transfers to earmarked reserves. The overall surplus will result in General Balances rising to £6.7 million, which equates to 4.1% of the 2022/23 Budget (being just above the mid-point of the target range of between 3% and 5%).'

In our prior financial sustainability work in June 2021, we highlighted the projected overspends in the Council's Social Services for 2021-22. As at the March 2022, the Council's MTFS identified significant planned savings for Social Services between 2022-23 and 2024-25 of £5.6 million, representing over a third of the total savings required by the Council for this period. Whilst the Council has reported a small overspend for Social Services for 2021-22, this was achieved through using almost £2.5 million of non-recurrent Welsh Government funding. Whilst this position is more positive than originally projected, the Council is aware that the savings targets for Social Services represent an ongoing financial risk and therefore should continue to be closely monitored.

Future Budget pressures

The Council's Cabinet report in September 2022 on the Council's 2022-23 controllable budget, identified several potential areas that will have a future impact on its finances and which at that time were unquantified. These included the continued financial impact of COVID (although this is being mitigated temporarily for 2022-23 by

the planned use of reserves), the cost-of-living crisis and the potential impact of national pay awards.

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.

I would like to take this opportunity to thank you and your officers for the ongoing support you provide to enable us to carry out our work.

Diolch yn fawr.

Yn gywir,

Audit Wales Engagement Team