Monmouthshire County Council – Financial Sustainability Assessment – draft report feedback

Document reference: 2503A2021-22

Date issued: July 2021

Report text	Council Comments – email from Peter Davies 25.06.21	Audit Wales response
Para 13 - Last year we found that the Council did not yet have a financial strategy to support financial resilience and sustainability over the medium term	There is a specific recommendation for the Council to develop a/its financial strategy. I think this will get incorporated as we look to revise the layout and format of the MTFP budget report we bring through in Sept/Oct time. This will in turn capture and deal with the two proposals for improvement listed around pressures and savings plans.	Para 13 reflects the heading reported in last year's financial sustainability report. We acknowledge the points you've made and they seem a reasonable response to the proposals for improvement in the draft report. You may want to include this comment in your management response to the report.
Para 26 - The Council indicated that it might need to draw on the Council Fund to	Last two sentences need to be tidied up to refer to the net contribution made to earmarked reserves as part	Having reviewed your proposed wording, we're happy that this accurately reflects

Report text	Council Comments – email from Peter Davies 25.06.21	Audit Wales response
balance its budget in 20-21 if mitigating budgetary actions were insufficient to address forecast overspends. However, the improved forecast position at the end of December 2020 meant this was no longer necessary. Usable earmarked reserves increased by £169k in 20-21 and the Council is proposing to use its 20-21 year-end surplus to further boost its usable reserves.	of outturn. Jon has provided the following proposed revised wording: The Council indicated that it might need to draw on the Council Fund to balance its budget in 20-21 if mitigating budgetary actions were insufficient to address forecast overspends. However, the improved forecast position at the end of December 2020 meant this was no longer necessary. At the end of December 2020 usable earmarked reserves were forecast to reduce by £849k during 20-21, however the Council is proposing to use its 20-21 year-end surplus to further boost its usable reserves.	the position and have amended the paragraph accordingly.
Para 46 - Exhibit 7 below, shows that the Council's current liabilities increased by £70.6m (128%) between 2015-16 and 2019-20. Over the same period, the Council's current assets increased by £6.4m (12%). As a result, the Council's working capital ratio	Jon has provided below the liquidity ratio and as I've asked him to offer a revised form of words for paras 46-48 to explain our current assets and liabilities and why we don't see a notable liquidity risk for the Council. 46 Exhibit 7 below, shows that the Council's current liabilities increased by £70.6m (128%) between 2015-16 and 2019-20. Over the same period, the Council's current assets increased by £6.4m (12%). As a result,	No changes to para 46 proposed.

Report text	**Council Comments – email from Peter Davies 25.06.21**	**Audit Wales response**
has fallen from 1 to 0.5 and is the second lowest in Wales.	the Council's working capital ratio has fallen from 1 to 0.5 and is the second lowest in Wales.	
Para 47 - The projected liquidity ratio for 2020-21 is [TBC once current assets and liabilities are known].	The projected liquidity ratio for 2020-21 is 0.4	We have updated para 47 to confirm a 0.4 projected liquidity ratio for 20/21.
Para 48 - The Council does not see its liquidity position as a key risk as regular cash receipts ensure it is able to meet its current liabilities.	Proposed wording: The reduction in working capital ratio over the last few years has been primarily due to a tactical treasury strategy to favour short term borrowing or utilising internal resources over long term borrowing. This strategy is expected to remain in the near term until such time that capital investment plans crystallise and/or market conditions change. The Council does not see its liquidity position as a key risk as regular cash receipts ensure it is able to meet its current liabilities.	Having reviewed your proposed wording, we're happy that this accurately reflects the position and have amended the paragraph accordingly.
Exhibit 7 – working capital ratio 20-21 estimate Current Assets 37.5	Current Assets 55.7 Current Liabilities 125.2	Exhibit 7 has been updated to reflect the year end figures provided.

Report text	Council Comments – email from Peter Davies 25.06.21	Audit Wales response
Current Liabilities 87.0 Working Capital Ratio 0.4	Working Capital Ratio 0.4	
	Finally the fundamental and key thing missing from the report is a recognition of the key financial risks facing the Council in the future as stand here currently: 1. The COVID Hardship Fund ended as things stand on 30th September and the significant potential pressure that this will place on the Council this year and going forward and until such time as COVID income losses and cost pressures fall away. 2. The uncertainty that surrounds WG funding and the settlement for 22-23 and over the medium term and in the absence of a CSR that enables WG to be able to offer indicative settlements for future years. 3. Services pressures falling on the Council and that extend now further into supporting communities post pandemic. Along with policy commitments around decarbonisation etc.	Brief reference was made in paras 20 and 30 to WG indicative settlements and COVID funding but we have updated para 20 to more fully reflect these points: *However, the MTFP does not set out how the Council plans to close the funding gap beyond 2021-22. The Council recognises the need to develop a balanced MTFP and acknowledges this in the 2021-22 budget papers. However, it faces challenges in doing so. Key barriers and risks include:* • *uncertainty over medium-term funding from Welsh Government, due to a lack of indicative settlement figures and changes to COVID-19 funding. Welsh Government's COVID-19 Hardship Fund is due to end on 30th September 2021, at which point the Council will no longer be able*

Report text	Council Comments – email from Peter Davies 25.06.21	Audit Wales response
		to recoup ongoing cost pressures and income losses linked to the pandemic; • *service pressures – both existing and newly emerging pressures brought about by the pandemic; and* • *the impact of the local government election cycle on financial decision making*.