



24 Cathedral Road / 24 Heol y Gadeirlan
Cardiff / Caerdydd
CF11 9LJ

Tel / Ffôn: 029 2032 0500

Fax / Ffacs: 029 2032 0600

Textphone / Ffôn testun: 029 2032 0660

info@audit.wales / post@archwilio.cymru

www.audit.wales / www.archwilio.cymru

Please contact us in Welsh or English.

Cysylltwch â ni'n Gymraeg neu'n Saesneg.

Gareth Chapman – Chief Executive
Merthyr Tydfil County Borough Council
Civic Centre
Merthyr Tydfil
CF47 8AN

Reference: MTCBC AAL 17-18

Date issued: 7 April 2019

Dear Gareth

Annual Audit Letter Merthyr Tydfil County Borough Council 2017-18

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 and use of resources

It is Merthyr Tydfil County Borough Council's (the Council) 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 financial statements 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 arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- issue a certificate confirming that I have completed the audit of the accounts.

Local authorities in Wales prepare their financial 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 27 September 2018 I issued an unqualified audit opinion on the 2017-18 financial statements confirming that they present a true and fair view of the Council's financial position and transactions. My report is contained within the financial statements. The key matters arising from the audit were reported to Members of the Council meeting on 26 September 2018, in my Audit of Financial Statements report. I issued a certificate confirming that the audit of the financial statements has been completed on 27 September 2018.

The financial statements were provided for audit on 8 June 2018, three weeks ahead of the statutory deadline of 30 June for 2017-18 and evidences the Council's continued preparation for the early closing agenda. This is a noteworthy achievement by the finance team, preparing the accounts one week earlier than achieved last year without sacrificing their quality.

I reported to you the more significant issues arising from our audit, which are summarised below:

- The financial statements were supported by accessible and comprehensive working papers at the outset of my audit. Your officers were helpful and supplied me with all the information I requested helping me to achieve the overall completion timetable.
- I identified misstatements which were corrected, some of which were material by value but note none had an impact on the reported outturn of the Council for the year.
- I reported two non-trivial uncorrected misstatements within the financial statements. Council agreed with management's decision not to amend for these given their immaterial value with no resulting impact upon our audit opinion.
- During our audit I suggested a number of additions, amendments and deletions to disclosures within the financial statements to ensure completeness, clarity, accuracy and consistency throughout, and to comply with best practice as set out in the Code.
- Two formal recommendations for improvement to the reporting of performance indicators within the Narrative Report and accounting for revenue grant income accruals were accepted by management, with implementation target dates of May 2019.

Since completion of the audit I have held a joint post project learning exercise with your finance officers. I have identified areas where we can both learn from this year, and make improvements for the future, with focus on bringing audit work forward to the interim audit stage.

The financial audit fee for 2017-18 is in line with the agreed fee set out in the 2018 Audit Plan.

Further work is needed to assess whether the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources

My consideration of the Council'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 has yet to be demonstrated or where improvements could be made in his Annual Improvement Report

published in September 2018 which can be accessed via:

<http://www.audit.wales/publication/merthyr-tydfil-county-borough-council-annual-improvement-report-201718>

During 2018-19, we have undertaken further work to assess the risks to the Council putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. Our review of the Council's Environmental Health services found that the Council's environmental health services resources have reduced, and it cannot demonstrate that it is delivering all its statutory environmental health services. We are currently doing reviews of the Council's leisure services and corporate safeguarding arrangements.

All local authorities in Wales face financial challenges, however, the challenge at Merthyr Council is significant given budget pressures and reliance on diminishing reserves

Austerity funding remains the most significant challenge facing all local government bodies in Wales and these financial pressures are likely to continue for the medium term.

Position as at 31 March 2018

In 2017-18, the Council had a net revenue surplus of £2.3 million, of which, £1.0 million was transferred to the earmarked budget reserve, £1.2 million to other earmarked reserves and £0.1 million to the general fund reserve.

As at 31 March 2018 the Council's usable reserves totalled £24.2 million (£4.7 million in the general fund reserve, £17.2 million in earmarked reserves and £2.3 million in other reserves).

Forecast outturn for 2018-19

As at 31 December 2018, the Council is forecasting a net revenue deficit of £0.1 million for the 2018-19 financial year, but only after the use of £3.5 million of earmarked reserves. The use of reserves is £1.6 million higher than budgeted at the start of the year. Significant budgetary pressures exist in departments such as Social Services £1.7 million (looked after children, domiciliary care, supported placements) and Learning £0.4 million (enhanced provision).

Budget 2019-20

The financial outlook is extremely challenging. The 2019-20 local government funding settlement saw the Council's funding increase by 0.8%. Budget pressures experienced during 2018-19 which are considered unavoidable and recurring have been reflected in the Medium Term Financial Plan (MTFP) 2019-20 to 2022-23.

The Council's most recently updated MTFP, presented to the Council on 20 March 2019, indicates the use of a further £2.3 million of reserves in order to arrive at a balanced budget for 2019-20 (£0.5 million earmarked reserves, £1.3 million budget reserve, £0.5 million general reserve).

The Council's Corporate Reserves Policy's overarching aim is to maintain a general reserves balance of between 3.5% to 4% of the Council's net revenue expenditure. By utilising £0.5 million of general reserves in the budget setting process for 2019-20, the general reserve will reduce to £4.2 million or 3.5% of net revenue expenditure.

Medium Term Financial Plan 2019-20 to 2022-23

The Council currently projects a budget deficit of £8.2 million for 2020-21 and a cumulative budget deficit of £15 million over the 4 year period of the MTFP. This update reflects the final settlement for 2019-20, a projected settlement of -1% per annum for 2020-21 to 2022-23, additional service demands which have been identified, the employee voluntary severance initiative, the Council Tax increase of 5.99% and assumes the teachers' pensions' additional costs are funded through Central Government (£0.7 million for 2019-20, full year impact from 2020-21 of £1.3 million).

Significant financial challenges remain for all local authorities in Wales, but as the summary above indicates, they are particularly challenging at the Council. The Council's MTFP budget gap of £15 million over the four-year period, and the reducing level of reserves, strongly suggests that the Council cannot continue viably to operate as it has done.

It is not sustainable for the Council to rely on its reserves to support the ongoing costs of demand led services and projected future deficits. Careful consideration of reserves balances and how they might be used to support financial plans is particularly important.

The challenge facing the Council is significant. It will require the collective input of the Council's Corporate Management Team, Cabinet and elected members to seek to manage the position. The Council should also assess the need to consult widely with its residents as to priorities for future service provision.

We will continue to monitor the Council's progress with this matter.

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

My certification of grants claims and returns has not identified any significant issues in relation to the accounts or the Council's key financial systems. A more detailed report on my grant certification work was presented to the Audit Committee on 25 March 2019.

Yours sincerely



Derwyn Owen

Director Financial Audit

For and on behalf of the Auditor General for Wales