

Assurance and Risk Assessment Review – Caerphilly County Borough Council

Audit year: 2021-22

Date issued: November 2022

Document reference: 3230A2022

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Contents

What we reviewed and why	4
Financial position	5
Implications of the Local Government and Elections (Wales) Act 2021	8
Carbon reduction plan	9
Recommendations	11

What we reviewed and why

- 1 We undertook this project to identify the level of audit assurance and/or where further audit work may be required in future years in relation to risks to the Council putting in place proper arrangements to secure value for money in the use of resources. This project also helped us to assess the extent to which the Council is applying the sustainable development principle in taking steps to meet its well-being objectives.
- 2 This report summarises our findings in the areas where we have undertaken more detailed Assurance and Risk Assessment work. We will also produce an Annual Audit Summary in the autumn of 2022 that will summarise all of our audit work undertaken since our last Annual Audit Summary in January 2022.
- 3 We focused in particular on the following areas at the Council:
 - Financial position
 - Recovery planning [from the pandemic]
 - Implications of the Local Government and Elections (Wales) Act 2021
 - Self-assessment arrangements
 - Carbon reduction plan
- 4 Our evidence base for this work included findings arising from interviews with Council officers and our review of relevant documents.
- 5 The Assurance and Risk Assessment project has been ongoing throughout the year. We fed back emerging findings to officers as we undertook this work, and also held a workshop with Senior Leadership Team and Cabinet members in March 2022 at which we shared emerging findings in relation to some aspects of this work. We also used the workshop to gather the perspectives of senior managers on the key audit risks in relation to the Council and to inform our forward planning.

Financial position

Additional Welsh Government funding and the Council underspend against budget have resulted in the Council's reserves position increasing significantly in recent years, but the Council's medium-term financial plan remains underdeveloped, and future budget rounds will continue to be challenging during this period of significant economic uncertainty

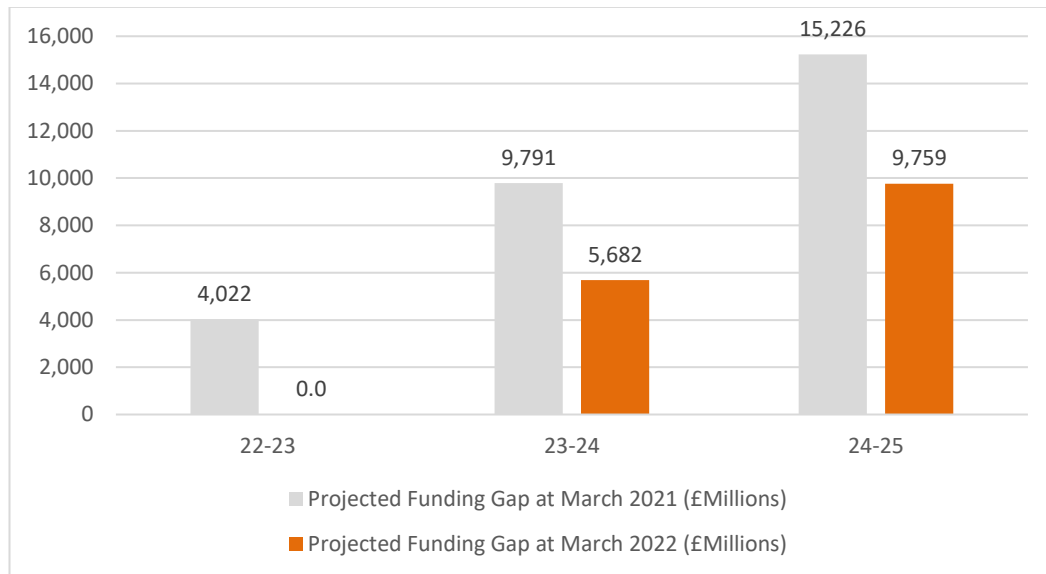
- 6 We reviewed the Council's financial position during June and August 2022. This included consideration of the Council's financial reserves position, the delivery of planned savings and performance against the planned budget for the year.
- 7 We also published a [Local Government Financial Sustainability Data tool](#) in February 2022 which includes a range of financial data for councils, national parks and fire and rescue authorities in Wales.

Financial strategy

- 8 Our previous work on financial sustainability found that although the Council has a strong financial position, its medium-term financial plan (MTFP) was underdeveloped. The strategy did not fully reflect its record of significant underspending nor its transformation plans. The Council had not made its planned improvements to its MTFP in 2020-21 as it was responding to the impact of COVID-19. We proposed that the Council should develop and implement a more comprehensive MTFP and that the intended financial benefits arising from its Transformation Programme be clearly defined and communicated.
- 9 The Council understands that further work is needed to develop its MTFP. This intention is reflected in the narrative report that precedes the unaudited Statement of Accounts 2021-22. Officers have told us that work is underway to strengthen the MTFP in this regard.
- 10 The Council's reported forecast cumulative funding gap has reduced by £5.467 million over the course of 2021-22, from £15.266 million in March 2021 to £9.759 million in March 2022 for the two-year period 2023-24 to 2024-25. These reported figures are not audited.

Exhibit 1: the Council’s total projected medium-term funding gap is £9.759 million – £5.467 million lower than last year’s forecast

This graph shows the medium-term funding gap identified by the Council in March 2021 and March 2022¹. The annual figures are cumulative.



- 11 Members received an updated MTFP in February 2022 as part of the draft budget proposals. It shows the Council does not have a projected funding gap for 2022-23. The latest MTFP does not identify a projected funding gap beyond 2025.
- 12 The Welsh Government’s indicative funding settlements on an all-Wales basis of 3.5% and 2.4% respectively for 2023-24 and 2024-25 provide a degree of funding certainty over the medium term. However, 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.

Usable Reserves

- 13 Since 2018-19, the Council has increased its reserves each year. **Exhibit 2** shows that at the end of 2021-22, useable reserves levels – in absolute terms and as a percentage of net cost of service – were the highest in six years.

¹ Source: Revenue budget reports for 2021-22 and 2022-23 presented to the Council in February 2021 and 2022.

Exhibit 2: amount of 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 delivers².

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22 unaudited
Net Cost of Services in £ millions	336	335.4	343.2	344.5	337.5	352.6
Total Usable Reserves in £ millions³	82.4	87	90.9	100.5	137.2	175.7
Total Usable Reserves as a percentage of net cost of services	24.5%	25.9%	26.5%	29.2%	40.7%	49.8%
Comparison with the other councils of Wales	4th	4th	4th	2nd	2nd	Not yet confirmed

Savings delivery

- 14 We previously found that the Council had a good track record of delivering planned savings but had no further planned savings within its current medium-term financial plan. Between 2017-18 and 2019-20, the Council reported that it achieved between 91.4% and 98.5% of its planned savings.
- 15 During 2020-21, in addition to agreed planned savings of £3 million, the Council delivered £2 million in additional savings. The Council used the additional savings to help determine its 2021-22 budget, which therefore negated the need for any planned savings for 2021-22.

Performance against revenue budget

- 16 We previously reported that the Council underspends against its revenue and capital budgets, and this remains the case for 2021-22.
- 17 In 2021-22, the Council reported a significant underspend of £37.815 million across all service areas, including schools and the housing revenue account (HRA), and the Welsh Government continued to provide significant one-off support that totalled

² Source: 2016-17–2020-21: [Audit Wales financial sustainability data tool](#); 2021-22: Council's outturn statement

³ Source: We define usable financial reserves as reserves usable for revenue costs, where the purpose is not protected by law. This is the total of the general fund, earmarked reserves, and schools' balances. It excludes Housing Revenue Account reserves, capital receipts and capital grants unapplied.

£27.5 million. We found there to be no overspend in the Council's five directorate areas. The Council has used £21.627 million of the underspend to contribute to earmarked reserves with the remaining £16.188 million allocated to the general fund reserves.

Implications of the Local Government and Elections (Wales) Act 2021

The Council is putting in place arrangements in response to the Local Government and Elections (Wales) Act 2021 but recognises the need to further develop its approach to public participation

- 18 We undertook our assessment of the Council's progress in responding to key requirements in the Local Government and Elections (Wales) Act 2021 between May and June 2022. The evidence was gathered through interviews and document reviews and also drew on relevant findings from our other ongoing and recent work at the Council. Our work focused on the arrangements the Council is putting in place in responding to the Local Government and Elections (Wales) Act 2021 (the Act).
- 19 The Council understands what it must do to meet the requirements of the Act and has developed an action plan in response.
- 20 The Act requires councils to keep performance under review and consult and report on performance through a self-assessment. Councils must make and publish a self-assessment report of their performance for each financial year.
- 21 The Council has developed a Draft Self-Assessment Guide that sets out how it will carry out its self-assessment, including how it will keep performance under review and report on self-assessment throughout the year; and how it will consult with others regarding its performance.
- 22 The Council's performance management approach will be the primary way in which the Council will gather evidence for the future self-assessments it is required to undertake under the Act. In February 2020 the Cabinet approved the new Caerphilly Performance Framework 2020. The performance framework intends to be self-reflective, and focused on action, mitigating risks and driving improvement. The framework includes the use of a broad set of data to assess and challenge performance bringing together performance data, resources data (Financial and Workforce), risk management information, customer intelligence information and lessons learned, and impact assessments.
- 23 In February 2020, the Council adopted its Consultation and Engagement Framework 2020-2025, that sets out the approach and principles it will follow to enhance consultation and engagement with its citizens and communities. Action

has already been taken in this regard, for example, the 'Caerphilly Conversation' engagement work that provides opportunities for communities to be more involved in issues that affect them. However, the Council recognises that it needs to strengthen and consolidate its arrangements to ensure that its participation agenda reflects its ambitions for public participation and is currently drafting a new Participation Strategy.

- 24 The Council has established a new Governance and Audit Committee to meet the requirements of the Act. The Committee includes eight councillors and four lay members.

Carbon reduction plan

The Council understands the significant challenge of becoming net zero by 2030 and is putting resources and arrangements in place to deliver its action plan and monitor its progress

- 25 In July 2022, the Auditor General published Public Sector readiness for Net Zero Carbon by 2030, which looked at decarbonisation actions in 48 public bodies, including all councils. This report found uncertainty that the collective ambition for a net zero public sector by 2030 will be met. Our work identified significant, common barriers to progress that public bodies must collectively address to meet the collective ambition. We found that while public bodies are demonstrating commitment to carbon reduction, they must now significantly ramp up their activities, increase collaboration and place decarbonisation at the heart of their day-to-day operations and decisions.
- 26 In the report, the Auditor General makes the following five calls for action from public bodies:
- strengthen your leadership and demonstrate your collective responsibility through effective collaboration;
 - clarify your strategic direction and increase your pace of implementation;
 - get to grips with the finances you need;
 - know your skills gaps and increase your capacity; and
 - improve data quality and monitoring to support your decision making.
- 27 The following paragraphs set out the findings of our local audit work on the Council's decarbonisation action plan. These findings sit within the wider context of the Auditor General's July 2022 report that calls for increased pace and stronger leadership across Wales in reducing carbon emissions.
- 28 We undertook an assessment of the Council's arrangements to develop and deliver their Decarbonisation Strategy and supporting action plan between April and June 2022. We gathered evidence through an interview with key Council

officers, document reviews and the Council's returned Call for Evidence. We also drew on relevant information from our National Studies Team which undertook a baseline review of the public sector's arrangements in response to the Welsh Government's carbon reduction target for 2030.

- 29 In November 2020, Cabinet approved its Decarbonisation Strategy (the Strategy) – Reduce, Produce, Offset, Buy and supporting action plan. The Strategy outlines the risks to the climate if raising global temperatures is not addressed, with the action plan containing numerous actions the Council will take to lower its own carbon emissions from its current carbon emission rate to net zero by 2030. These actions have yet to be fully costed and still need to be built into the Council's Medium Term Financial Strategy and Capital Programme. We understand the challenges of assessing the financial cost and carbon impact of decarbonisation actions, but this data will be key to prioritising actions that deliver the greatest returns and understanding funding requirements. The Council has identified several short and long-term risks and opportunities in achieving net zero. The Council has established its carbon emissions baseline data.
- 30 The Council understands the significant challenge of addressing climate change and to achieve net zero by 2030. The Council has identified a need for a change in culture and changes in working practices as essential. The Council engaged elected members and staff when developing the Strategy. The Council held staff workshops and one-to-one sessions with service managers and Heads of Service and the Council intends to continue this involvement as it delivers the action plan and as more resources become available. To date, while the Council has engaged and involved community groups when developing the strategy, the Council is internally focussed on reaching net carbon neutrality by 2030. Over time, the Council intends to widen its focus onto its communities to achieve net zero in the Borough by 2050.
- 31 The Council is increasing its revenue spending on delivering the strategy and action plan. In 2022, the Council appointed a permanent Decarbonisation Manager within the corporate transformation team. The Council is also recruiting two additional officers to work with the Decarbonisation Manager on an initial two-year fixed-term basis and the Council has an initial sum of £500,000 in an earmarked reserve to support delivery of the strategy. The Council recognises the need to develop more staff capacity and skills in understanding and delivering the strategy. Supporting individual services and upskilling staff is a key role for the newly appointed Decarbonisation Manager. The action plan contains actions to improve staff engagement, involvement, communication, training and awareness.
- 32 The Council recognises that achieving the aim of being carbon neutral by 2030 requires the engagement and involvement of all Council services. The action plan reflects this and assigns responsibility to deliver actions to several Council services: Waste Management, Communications, Regeneration, Planning, Engineering, Procurement, Parks, Highways, Drainage, Housing and Property, and Transport.

- 33 The Council is developing the governance and monitoring arrangements to oversee and assess progress in delivering the strategy and action plan. Prior to the creation of the strategy, the Council had a Carbon Reduction Plan. This plan had arrangements for reporting progress but the Council recognises these arrangements require updating and strengthening for the new strategy. Currently, there are several internal officer monitoring groups for different strands of the action plan and the Council is considering forming an overarching officer working group to monitor the delivery of the whole plan. This group would then review progress before the corporate management team, the relevant scrutiny committee and Cabinet receive progress reports.
- 34 The intention is for the actions supporting the strategy which are relevant for each service to feature in each Directorate Performance Assessment (DPA). This should create an alignment between the strategy and individual directorates and their responsibilities. Scrutiny Committees and Cabinet currently receive six-monthly DPA updates, and this is another arrangement for members to be updated and assess progress.
- 35 There are a number of opportunities to learn from others and what is going on in other councils. The Decarbonisation Manager is currently leading the climate change/decarbonisation wellbeing assessment for the Gwent Public Services Board and works closely with counterparts in the other Gwent councils. The Council also actively participates in regional and national networks

Recommendations

Exhibit 3: recommendations

The table below sets out the recommendations that we have identified following this review.

Recommendations	
R1	<p>The Council should ensure its proposed actions to reach net zero by 2030 are:</p> <ul style="list-style-type: none"> • fully costed in terms of their carbon and financial impact to enable it to prioritise actions; • fully reflected in its Medium Term Financial Plan and Capital Strategy: and • integrated into Directorate Performance Assessments.

Recommendations

- R2 The Council should develop a robust set of metrics to measure and report progress on its decarbonisation journey.



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