

Assurance and Risk Assessment Review – Torfaen County Borough Council

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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
 - Implications of the Local Government and Elections (Wales) Act 2021
 - 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 the Policy Development Forum in July 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 has helped improve the Council's financial position in recent years, but it needs to develop a sustainable plan to address ongoing cost pressures and close its medium-term funding gap and this will continue to be challenging during this period of significant economic uncertainty

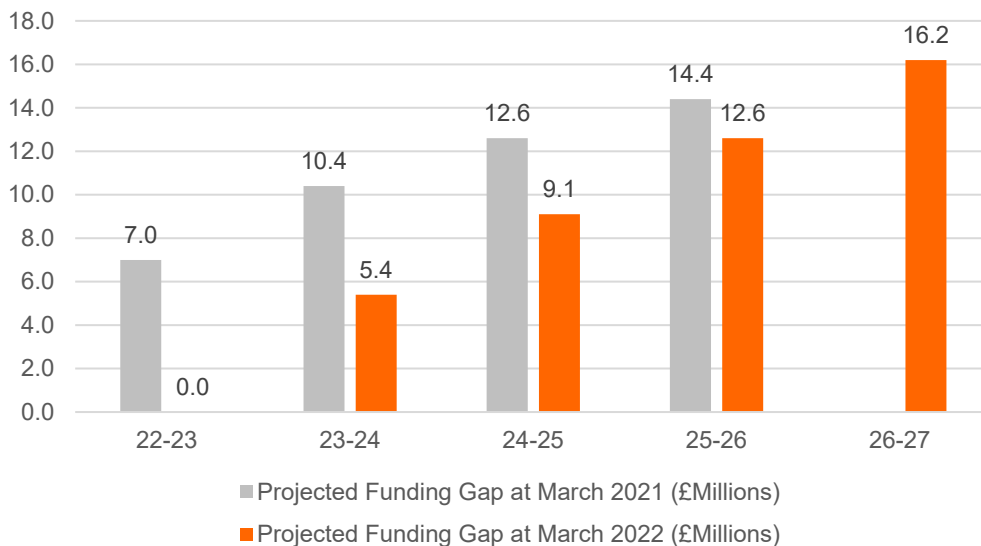
- 6 We reviewed the Council's financial position during June and July 2022. This included consideration of the Council's financial reserves position, the delivery of planned savings and performance against the planned budget for the year
- 7 We also published a [Local Government Financial Sustainability 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 did not identify any significant weaknesses in financial strategy. However, we proposed that 'to bridge its estimated funding gap and contribute to strengthening its financial sustainability' the Council should develop and deliver a programme of sustainable planned savings over the medium term, including the financial benefits arising from the delivery of its T22 transformation programme (T22).
- 9 The Council's future financial strategy relied significantly, but not exclusively, upon savings from its T22 transformation programme. The Council is now phasing out T22 to be replaced by a Programme Management Office (PMO).
- 10 The Council's forecast cumulative funding gap has increased by £1.8 million over the course of 2021-22, from £14.4 million in March 2021 to £16.2 million in March 2022.

Exhibit 1: the Council’s total projected medium-term funding gap is £16.2 million – £1.8 million higher than last year’s forecast

This graph shows the medium-term funding gap identified by the Council in March 2021 and March 2022. The annual figures are cumulative.



- 11 Due to the improved settlement from the Welsh Government and delivery of the mitigations, the Council does not have a projected funding gap in 2022-23. However, the Council recognises the need to develop and deliver a programme of sustainable planned savings to help close the medium-term funding gap and intends to develop this programme with the new administration and in the context of its new Corporate Plan. In doing so, the Council will need to be mindful of the sustainable development principle and the benefits of a longer-term approach to savings.
- 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.
- 13 Members received an updated Medium Term Financial Plan (MTFP) in February 2022 as part of the draft budget proposals, providing adequate opportunity for scrutiny. Officers remain well sighted of changes that would impact on the assumptions in the MTFP and update them as necessary. For example, update reports on budget position and outturn have been presented to the Cross-Cutting Resources and Corporate Business Overview and Scrutiny Committee, the Cabinet, and to a Members’ Seminar on Financial Context and Service Planning.

Usable reserves

14 In 2020-21 and in 2021-22, the Council took decisions to increase its usable reserves. **Exhibit 2** shows that at the end of 2021-22, usable reserves levels – in absolute terms and as a percentage of net cost of service – were the highest in six years. However, historically, reserve levels have been comparatively low compared with other Welsh authorities.

Exhibit 2: 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 delivers¹.

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Net cost of services in £ millions ²	174.4	173.3	181.1	186.6	186.0	188.9
Total usable reserves in £ millions ³	17.4	18.2	18.7	16.7	25.4	41.4
Total usable reserves as a percentage of net cost of services	10	10.5	10.3	8.9	13.7	21.9%
Comparison with the other councils of Wales	20th	19th	17th	20th	21st	Not yet available

Savings delivery

15 We found that the Council continues to have a good track record of delivering against planned budgets. Between 2017-18 and 2020-21, the Council achieved between 72% and 94% of its planned savings.

¹ Source: 2016-17–2020-21: Audit Wales [financial sustainability data tool](#); 2021-22: Council's outturn statement.

² 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

³ 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.

- 16 The Council achieved approximately £2.5 million (94%) of its planned savings in 2021-22. However, the Council also delivered alternative savings (non-planned) of £88,000 during the year. Overall, this resulted in the Council achieving 98% of its annual savings target.

Performance against budget

- 17 We have previously reported that the Council has a good track record of delivering against its overall budget. Whilst there has been overspending in some service areas in previous years, for example, in the Children's services and Neighbourhoods departments, these have largely been offset by underspends in other service areas, by use of reserves and/or by one-off windfalls.
- 18 In 2021-22, the Council underspent on its budget for services of £11.7 million, it also received £1.8 million additional core (AEF) funding from the Welsh Government to support the Council through the pandemic. In 2021-22, there were no overspends in individual service areas. The Council has transferred £9.7 million of the underspend to earmarked reserves with the remaining £3.3 million allocated to the General Fund reserve.

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 that it needs to further develop its approach to self-assessment and public engagement

- 19 We undertook our assessment of the Council's progress in responding to key requirements in the Local Government and Elections (Wales) Act 2021 (the Act) 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 Act.
- 20 The Council understands what it must do to implement the changes required by the Act and has developed an action plan in response.
- 21 The Act requires councils to keep performance under review, consult, and report on performance through self-assessment. Councils must make and publish a self-assessment report once in respect of every financial year.
- 22 We found that there has been proactive corporate engagement by the Council's Senior Leadership Team, Leadership Sub-group and Members on the development of their approach to self-assessment. The Council has begun gathering evidence as a way of assessing its position against a set of defined

characteristics of an outstanding Council, and a first draft of its self-assessment was presented to its Cross-cutting Scrutiny Committee in July 2022.

- 23 The Council intends to improve its arrangements on how it self-assesses moving forward, to gather and evaluate data to ensure more effective corporate understanding and management of performance and that it has taken action in that regard. For example, the Council is developing its new Strategic Framework and Performance Management Framework which it intends to be self-reflective, improvement focused and to draw on a broad set of data to challenge and evaluate performance.
- 24 The Council has reviewed how it engages citizens and has consulted on its high-level Public Participation Strategy. The Council wants to work with its communities in new creative ways to identify shared solutions and opportunities to inform the design of services. The strategy broadly sets out the Torfaen model of participation and lists the different ways stakeholders can engage with the Council – for example, the various resident panels and its consultation hub. The Council is developing a suite of documents and guidance to help services with the requirements of public participation and has launched a new online platform for public and stakeholder engagement. A newly established Communities and Digital directorate aims to help the Council realise its ambition to enhance community capacity and resilience and focus on public involvement to better understand community needs. The Council recognises that there is more work to do to ensure that its participation agenda reflects best practice for public participation.
- 25 The Council has established a new Governance and Audit Committee to meet the requirements of the Act. The Committee will include five councillors and three 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

- 26 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.

- 27 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
 - Improve data quality and monitoring to support your decision making
- 28 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.
- 29 We undertook an assessment of the Council's arrangements to develop and deliver its Climate and Nature Emergency 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.
- 30 The Council understands the significant challenge of addressing climate change. The Council's corporate risk register includes three risks on: failing to achieve net zero by 2030; failing to adequately support, lead and facilitate the Borough in becoming net zero carbon by 2050; and failing to ensure that future generations living in Torfaen would benefit from a biodiverse natural environment that supports their wellbeing.
- 31 Cabinet approved the Council's Climate and Nature Emergency action plan (the action plan) in February 2022. The Council involved staff and elected members in developing this action plan, consulted with the public and created Climate Change Ambassadors to work with the Council on this agenda. As the action plan evolves, the Council recognises it needs to do more to effectively engage with communities.
- 32 The Council is starting to put in place monitoring and reporting arrangements for the action plan. The Council has arrangements for both officer and member oversight of the delivery of the action plan. The Council's Climate Emergency Officer group will monitor the delivery of the action plan and be the link with individual service areas. In addition, Cabinet formed a sub-group to oversee the delivery of the action plan. The subgroup meets bi-monthly to monitor progress and will receive annual progress reports. In addition, the relevant scrutiny committees will receive a progress report every 18 months.
- 33 The Council recognises that not all actions within the plan are easily measurable and has started work to establish more robust performance measures where possible, which in turn should improve arrangements for monitoring and assessing progress. The Council is also at an early stage of developing a new Performance

Management Framework which will inform the future performance reporting framework for the Climate and Nature Emergency Action Plan.

- 34 The Council is increasing its revenue spending on delivering the action plan but recognises the resource implications of delivering its action plan, including building staff capacity and upskilling the technical knowledge of relevant staff in service areas, are medium to long-term issues and the action plan is not yet fully costed or resourced. Work on defining these costs is still at an early stage and still needs to be built into its 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.
- 35 The Council recognises that addressing the need to be carbon neutral by 2030 requires the commitment and involvement from services across the Council. The action plan reflects this and assigns responsibility to deliver numerous actions to several Council services, such as the Energy Team, Property Services, Public Protection, Human Resources, Asset Management, Integrated Transport Unit, the T22 Procurement Board, Economy and Skills Team, Waste services, Highways and the Natural Environment Policy Team. To co-ordinate and lead on this activity, in early 2022, the Council created a new role of Energy and Carbon Reduction Manager. This manager has a key role in delivering this agenda along with the Council's Energy Officer. In May 2022, following a restructure of the Neighbourhood, Planning and Public Protection directorate, the Council created an additional Head of Service role with a focus on Climate Change.
- 36 The Council has officers on the Local Government Decarbonisation Strategy Panel and on various all-Wales officer groups. In addition, officers have close links with their counterparts across Gwent to collectively respond to the climate change emergency, to share ideas and learn from each other.

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 and service business plans.
R2	<p>The Council should develop a robust set of metrics to measure and report progress on its decarbonisation journey.</p>



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