

Assurance and Risk Assessment Review – Monmouthshire County Council

Audit year: 2021-22

Date issued: September 2022

Document reference: 3172A2022

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

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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 interviews with senior officers and review of relevant documents.
- 5 The Assurance and Risk Assessment project has been ongoing throughout the year. We held a workshop with Senior Leadership Team 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.

Recommendations

Exhibit 1: recommendations

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

| | |
|----|--|
| R1 | The Council should further develop its understanding of its own carbon footprint and use this refined data to inform its refreshed Climate Emergency Strategy. |
| R2 | The Council should ensure its proposed actions to reach net zero by 2030 are: <ul style="list-style-type: none">• fully costed in terms of their carbon and financial impact to enable it to prioritise actions; and• fully reflected in its Medium Term Financial Plan and Capital Strategy. |
| R3 | The Council should develop a robust set of metrics to measure and report progress on its decarbonisation journey. |

Financial position

Additional Welsh Government funding has helped improve the Council's financial position in recent years, but its plans to achieve financial resilience over the medium term and future budget rounds will continue to be challenging in this period of significant economic uncertainty

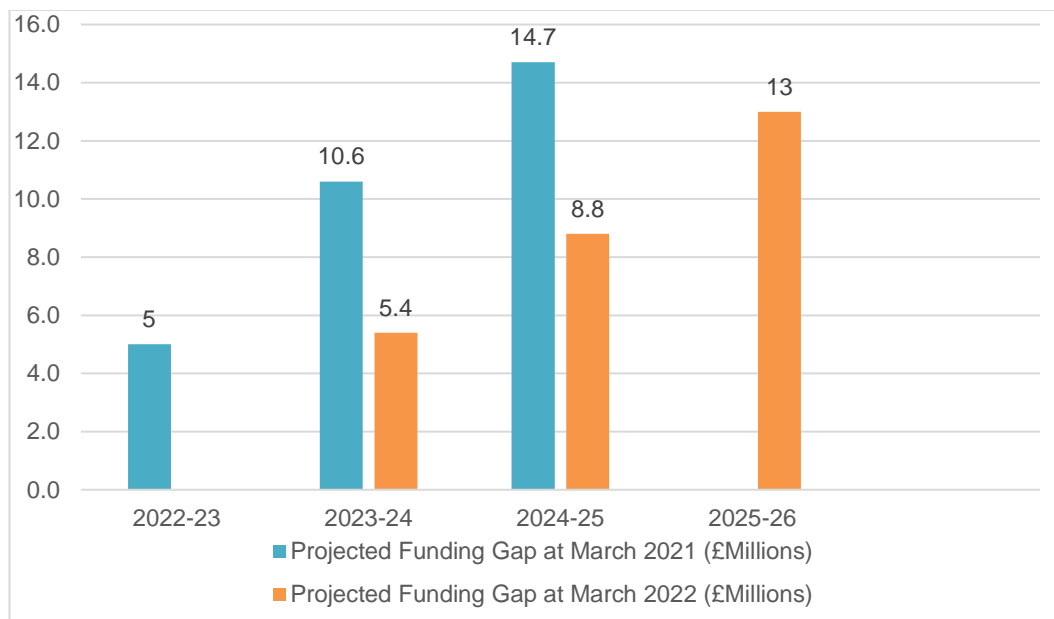
- 6 We reviewed the Council's financial position in July 2022. This included consideration of the Council's financial reserves position, the delivery of planned savings and performance against the planned budget for the year.
- 7 We also published a [Local Government Financial Sustainability Data Tool](#) 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 found that the Council did not yet have a financial strategy to support financial resilience and sustainability over the medium term as, although the Council could identify its medium-term funding gap, challenges remained in closing it. We suggested the Council could strengthen its medium-term financial planning by developing a longer-term approach to savings plans and regularly reviewing future cost pressure estimates.
- 9 The Council understands that further work is needed to develop its Medium Term Financial Plan (MTFP). This intention is reflected in recent budget reports to members, and officers intend to work with the new administration to take forward plans to strengthen the MTFP.
- 10 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.
- 11 The Council's projected cumulative funding gap has reduced by £1.7 million over the course of 2021-22, from £14.7 million in March 2021 to £13 million in March 2022. This improved position reflects the indicative settlements due from the Welsh Government in future years of the Plan.

Exhibit 2: the Council’s total projected medium-term funding gap is £13 million – £1.7 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.



- 12 The Council has not yet identified the necessary savings that will need to be made during the later years of its MTFP, which is recognised in the January 2022 MTFP update. Officers recognise the need to develop and deliver a programme of sustainable planned savings to help close the medium-term budget gap and intend to develop this with the new Council. In doing so, the Council will need to apply the sustainable development principle. A longer-term approach to savings planning reduces the risk of needing to make unplanned and/or unsustainable savings that are not aligned to the Council’s strategic objectives.
- 13 Members received an updated MTFP in January 2022 as part of the draft budget proposals, providing adequate opportunity for scrutiny. Our previous work has shown that officers are well sighted of changes that would impact on the assumptions in the MTFP and update them as necessary. For example, the final budget proposals for 2022-23 recommended by Cabinet and accepted by Council in March included further amendments to reflect the latest position on cost pressures and other assumptions.

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

Useable reserves

- 14 In 2019-20 and 2020-21, the Council increased its reserves balances after several years of reductions. **Exhibit 2** shows that at the end of 2020-21, useable reserves levels – in absolute terms and as a percentage of net cost of service – were the highest in five years. However, reserve levels remain comparatively low when considered against other Welsh authorities.

Exhibit 3: 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 |
|---|---------|---------|---------|---------|---------|-------------------|
| Total usable reserves in £ millions ³ | 15.2 | 14.7 | 13.5 | 14.9 | 23.0 | 33.6 |
| Total usable reserves as a percentage of the net cost of services | 10.3% | 9.9% | 8.8% | 9.4% | 14.0% | 19.7% |
| Comparison with the other councils of Wales | 18th | 20th | 20th | 19th | 20th | Not yet available |

- 15 In July 2022, Cabinet approved recommendations by officers to transfer the 2021-22 year-end surplus to reserves. This increased usable reserves to £33.6 million, including new earmarked reserves to help address the ongoing impact of the pandemic and inflationary pressures.
- 16 Members receive regular updates on the reserves position and approve decisions on how to use or add to reserves. Budget reports also provide contextual information to help inform decision-making around reserves.

Savings delivery

- 17 We previously found that the Council had a variable record of delivering planned savings and that the pandemic had impacted on delivery. Between 2016-17 and 2020-21, the Council achieved between 66% and 93% of its planned savings.
- 18 In 2021-22 the Council achieved £4.4 million of its £4.7 million planned savings (93%). As the Council achieved an overall surplus at the year-end, the £309,000

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

³ By usable reserves we mean the total general fund balance, together with earmarked reserves that councils are not legally prevented from redirecting to use for another purpose.

unachieved savings had no significant impact on the budget, but going forward it will be important for the Council to deliver against its planned savings to help close its projected budget gap.

Performance against budget

- 19 We have previously reported that the Council has a good track record of delivering against its overall budget, usually coming in under budget. However, there are significant cost pressures and overspends in certain service areas and overall underspends are often achieved through in-year actions which are not sustainable over the long term.
- 20 For 2021-22, the Council reported a surplus of £5.6 million at the year-end. Cost pressures relating to additional learning needs, children looked after and foster care led to year-end deficits in the Children and Young People (£1 million) and Social Care, Health and Safeguarding (£14,000) directorates. Although all other directorates came in under budget, this was achieved in part by additional Welsh Government grant funding and several vacancies within services.
- 21 The Council recognises that holding vacant posts to achieve savings is unsustainable and that it will need to fund ongoing pandemic-related cost pressures following the end of Welsh Government hardship funding. To help address this, the Council is creating additional earmarked reserves with its 2021-22 year-end surplus and has made additional funding available for ongoing cost pressures as part of the 2022-23 revenue budget.

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

The Council is putting in place arrangements to assure itself that it is meeting the requirements of the Local Government and Elections (Wales) Act 2021

- 22 We undertook our assessment of the Council's progress in responding to key requirements in the Local Government and Elections and (Wales) Act 2021 between September 2021 and August 2022. The evidence was gathered through interviews and document reviews, and also drew on relevant findings from our other ongoing work at the Council. Our work looked at the arrangements the Council is putting in place in responding to the Local Government and Elections and (Wales) Act 2021 (the Act).
- 23 The Council understands what it needs to do to meet the requirements of the Act and has set this out in an action plan.
- 24 The Act requires councils to keep performance under review and to consult and report on performance through a self-assessment. Councils must publish a self-

assessment of their performance for each financial year. The Council's draft self-assessment of its performance in 2021-22 was considered by the Performance and Overview Scrutiny Committee and Governance and Audit Committee in July 2022 and will go to Council for approval in September 2022. The Council intends to continue to review and refine its self-assessment arrangements, taking into account feedback from Members and learning from this first year of the new process.

- 25 The Democratic Services Committee considered a draft Public Participation Strategy [the Strategy] in September 2021. In line with the requirements of the Act, the Strategy focuses on helping residents understand the democratic process and how they can get involved. Following the May 2022 local government elections, the Cabinet member responsible for public engagement has established a working group to consider engagement more broadly. While the scope of this work goes beyond the requirements of the Act, it will inform the Strategy before it goes out to public consultation and is formally adopted by the Council.
- 26 The Council has established a Governance and Audit Committee as required by the Act and has run induction sessions for committee members. At the time of our review, the Council was actively seeking to recruit the final lay member to complete membership of the Committee. It has also reviewed its committee role descriptions and has revised its Constitution to reflect the requirements of the Act.

Carbon reduction plan

Context

- 27 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.
- 28 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.

- 29 We undertook an assessment of the Council's arrangements to develop and deliver its Decarbonisation Plan between June and August 2022. Our work included a focus on the clarity of the Council's vision, partnership working and prevention as well as monitoring and reviewing progress. We gathered evidence through interviews, document reviews and the Council's returned Call for Evidence for the Decarbonisation Baseline Review.
- 30 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.

The Council has set out its ambition and a proposed set of actions for reaching net zero by 2030 but has yet to prioritise or fully cost those actions

- 31 The Council has a clear vision for its decarbonisation journey which it has outlined in its November 2021 Climate Emergency Strategy and Action Plan (the Strategy). This includes several clear commitments around climate change and decarbonisation at both the Council and regional level. Climate change and decarbonisation has a strategic profile within the Council and in May 2019 it declared a climate emergency. This focus on decarbonisation is also reflected within one of its Strategic Goals 'to maximise the potential of the natural and built environment' and has been identified by the Council as a strategic risk. The Council is in the process of redrafting the Strategy to ensure it more closely aligns with the Welsh Government's route map to net zero and to include additional priority areas such as nature and water. The Strategy was subject to an integrated impact assessment which considered its contribution to the National Goals and the five ways of working, although this contribution is not clearly reflected in the Strategy itself.
- 32 The Council understands its carbon footprint and has reported its data to the Welsh Government as part of its net zero return. The Strategy includes some footprint data at the county level although it does not currently provide a breakdown of the Council's own carbon footprint. The Council has told us that work is currently underway to improve its understanding and robustness of the current level of emissions from its own services and supply chain to support it to plot a path to net zero, such as the work with Cardiff Council on a project to improve the data on the carbon impacts of their supply chain. Whilst the Council has a good understanding of the risks and opportunities around decarbonisation and is using this to help shape its decarbonisation journey, it has not yet fully assessed the carbon and cost impact of its decarbonisation action plan. We understand the challenges of doing so, but this data will enable the Council to prioritise its actions in those areas that will deliver the greatest social, financial and carbon returns.

- 33 There are several mechanisms through which the Council monitors progress on its decarbonisation journey. These include providing updates on its Action Plan to Cabinet and Council, also through the officer-led Climate Emergency Strategy Group and the Member-led Climate Emergency Working Group. We noted that the latter of these two groups had yet to be re-established following the forming of the new administration. The ability of these groups to effectively monitor and evaluate progress will be negatively impacted should key data such as the carbon and cost impact of the proposed interventions be unavailable to them. Whilst the Council has reported some decarbonisation and climate change metrics in these fora, there are currently no specific carbon reduction milestone targets or publicly reported progress on these. It will be important that decarbonisation measures and targets are included within its refreshed Strategy so it can demonstrate progress on its decarbonisation journey.
- 34 The Council had engaged with citizens in the development of its current Strategy. This was informed by a dedicated consultation session with its external Climate Champions Network, a drop-in consultation session for residents and an on-line survey. We understand that the refreshed Strategy will also use a similar engagement approach augmented by the planned engagement that will be undertaken over the next few months on the Council's new Corporate Plan and priorities, which will also incorporate decarbonisation.
- 35 The Council is working collaboratively with other public bodies and with the private sector to support its decarbonisation journey. The Monmouthshire Public Service Board (PSB) prioritised climate change as one of its biggest challenges. The Environment Partnership Board has overseen several short-term projects where collaboration between the PSB Partners is helping to reduce emissions such as Climate Ready Gwent, the Gwent Green Grid, and the expansion of the electric charging network. There is also regional work ongoing with the Welsh Government Energy Service and Cardiff Capital Region on developing a Regional Area Energy Plan from which the Council's own Local Area Energy Plans will be developed. The Council is also leading on projects under the Cardiff Capital Region, such as testing software to create a 'digital twin' to help model and understand the carbon and wider impact of significant infrastructure investments, such as where to build a new depot and modelling to understand the options for the most optimal future fleet. This learning will be shared with the Cardiff Capital Region councils and more widely across Wales. The Council has also proactively sought to use the learning from others as it develops its plans, such as work with the private sector and other English councils in developing an Electric Vehicle Strategy.
- 36 We noted several examples where the Council has invested in decarbonisation, such as its 5MW solar farm, installing solar panels on many of the Council's buildings, its investment in LED street lighting and its Re-fit programme to reduce energy costs and carbon. It is also planning to create a new decarbonisation team to help deliver its decarbonisation plan, which will initially be funded from the income generated through its solar farm. In addition to this, the Council is currently out to tender for external consultancy to support its decarbonisation journey. Whilst

it has reported that additional investment will be required to deliver its net zero ambition, the Council has yet to fully cost and identify the resources for its decarbonisation journey. In addition to this, it will need to ensure that its net zero actions are fully reflected in its Medium Term Financial Plan and Capital Strategy.



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