

Assurance and Risk Assessment Review – Rhondda Cynon Taf 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 our audit work undertaken since our last Annual Audit Summary in February 2022.
- 3 We focused on the following areas at the Council:
 - Financial position
 - Implications of the Local Government and Elections (Wales) Act 2021
 - Self-assessment arrangements
 - Carbon reduction plan
- 4 This report also summarises the findings from our digital strategy work, which we did during 2021-22.
- 5 The Assurance and Risk Assessment project has been ongoing throughout the year. We held a workshop with the Council's Leader and Senior Leadership Team in March 2022 to gather their perspectives on the key audit risks in relation to the Council and to inform our forward planning.

Financial position

The Council is now facing significant financial pressures, but remains well-placed to respond to these

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

Financial strategy

- 8 The Council is now experiencing significant financial pressures due to the current economic climate. However, we remain assured about the Council's financial position and its arrangements to help it address these pressures.
- 9 The Council has recently updated its medium-term financial plan. Based on the indicative settlements provided by the Welsh Government, the Council is now forecasting a £77.79 million budget gap over 2023-24 to 2025-26. This consists of £36.47 million for 2023-24, £21.7 million for 2024-25 and £19.5 million for 2025-26. The updated medium-term plan provides a much worse position than forecast a year ago. At that time, the Council was forecasting a maximum budget gap of just under £52 million over the three years. This was based on a 2% annual settlement increase. The increase in the forecast budget gap underlines the significant challenges the Council is facing due to the current economic climate. This includes a range of inflationary pressures, including rising energy costs. The Council is estimating these will cost it an extra £63.6 million over the next three years.
- 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. Medium-term financial planning will continue to rely on a range of assumptions. The changing socio-economic landscape and economic uncertainty mean planning for financial resilience and future budget rounds will continue to be challenging for the Council.
- 11 The Council has identified broad areas to help it address its budget gap. This includes identifying further efficiencies, digitisation, transforming social services, and reviewing its assets. The Council's strategy continues to be to protect front line services. To date, it has been able to invest in areas linked with its corporate priorities. But the Council's updated MTFP makes clear that this strategy may not be sustainable if it is to address the significant budget gap being predicted. Exploring service reductions is now part of its programme to address its financial challenges. The Council has not yet set out in detail how it will meet the increased budget gap. However, overall, we remain assured that the Council has a solid financial position

and arrangements to help it prepare for the pressures it is facing. It continues to have a range of options available to it to manage its budget pressures.

Usable reserves

- 12 We have continued to find no major concerns about the Council's management of its reserves. As shown in **Exhibit 1** below, the Council increased its level of usable reserves considerably in 2020-21 and 2021-22. This is partly due to the additional grant funding provided by the Welsh Government towards the end of the financial year. It continues to have a healthy reserves position. This gives the Council a degree of resilience to help it manage its budgetary pressures.

Exhibit 1: 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 delivers.

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22 (draft position, subject to audit)
Net cost of services in £ millions ¹	472.1	477.1	491.5	505.6	532.1	551.5
Total usable reserves in £ millions ²	138.9	143.5	119.5	119.9	171.3	229.2
Total usable reserves as a percentage of net cost of services	29.4%	30.1%	24.3%	23.7%	32.2%	41.5
Comparison with the other councils of Wales	3/22	3/22	6/22	6/22	7/22	Not yet available

- 13 The Council used some of its general fund balance reserves to help it manage the costs of Storm Dennis during the spring 2020. In 2021-22, the Council has been able to increase its general fund balance reserves from £8.5 million to £10.2 million. This

¹ Value used is the 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.

² 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.

is now in line with the minimum level recommended by the Council's Section 151 officer.

- 14 For 2022-23, the Council plans to use £0.963 million from its Service Transformation reserve to fund the budget gap. This would leave £3.644 million in the Service Transformation reserve. This was clearly communicated to members in the revenue budget report in March.

Savings delivery

- 15 The Council's approach of identifying and delivering savings early and removing these from base budgets has continued to be effective. In 2021-22, the Council identified and delivered £4.6 million in efficiency savings. As part of its 2022-23 budget strategy, it has identified and removed £4.9 million from its base budget requirements. However, the updated MTFP highlights that this approach will be increasingly challenging without impacting on front line services. As it is now facing significant financial challenges, it is having to find further efficiencies in year to help it address these.

Performance against budget

- 16 We have continued to find that the Council has a good track record of generally delivering its services within budget. For 2021-22, the Council is reporting a small overspend of £213,000 against its revenue budget. But this is after it has transferred over £65 million to its reserves. This is primarily due to the receipt of additional grants and funding from the Welsh Government towards the end of the financial year. Most of the £30 million additional costs and income losses incurred by the Council during 2021-22 due to the pandemic were covered by the Welsh Government Hardship Fund.
- 17 In 2021-22, there were no significant overspends in individual service areas.
- 18 However, as at June 2022, the Council is forecasting a £10.4 million overspend against its 2022-23 revenue budget. This is mainly due to inflationary pressures and the ongoing impact of the pandemic on income in areas such as leisure. The largest overspend forecast (£7.6 million) is in Community and Children's services. This is due to increased costs and demands. The £10.4 million overspend does not include any potential pay awards over and above the current figures it has already budgeted for. With a large number of staff, this would have a major impact on the Council's budget. The Council is reviewing its expenditure and income to identify ways to help it reduce the overspend. This includes using its earmarked reserves and identifying further efficiencies.

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

The Council is making good progress developing its arrangements to meet the requirements of the Local Government and Elections (Wales) Act 2021, but has not yet agreed its approach for engaging the public

- 19 We have been monitoring the Council's progress in responding to the Local Government and Elections (Wales) Act 2021 over the course of the year.
- 20 The Council has established its Governance and Audit Committee and membership in line with the requirements of the Act.
- 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 The Council is building on and strengthening its existing self-evaluation arrangements to meet the self-assessment requirements. The Council's self-evaluation arrangements are well-embedded in the organisation and supported by robust corporate challenge. The Council intends to strengthen its data and evidence to underpin its self-assessment.
- 23 The Council has not yet agreed its public participation strategy. Cabinet is due to consider this in November.

Carbon reduction plans

Context

- 24 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.
- 25 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.
- 26 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 is taking forward its plans to meet the challenge of achieving net zero carbon emissions by 2030, but recognises that further work is needed to identify resources to deliver its plans over the longer term

- 27 The Council's 'Think Climate' strategy was agreed by Cabinet in June 2022. The strategy provides a clear vision of what the Council wants to achieve by 2030. It demonstrates that the Council has thought about the wider impacts that its plans for tackling climate change have. These wider impacts include how the Council's plans contribute to the seven national well-being goals under the Well-being of Future Generations (Wales) Act 2015. Also, how its 'Think Climate' strategy connects to, and supports, its three main corporate priorities related to People, Places and Prosperity.
- 28 The Council is increasing its capital and revenue spending on the decarbonisation agenda. But it recognises that it has not yet determined the long-term resource implications of delivering its decarbonisation plans, including its staff resources. Furthermore, there is a significant skills gap nationally that is a barrier to achieving the 2030 target. The Council intends to partially mitigate this through its graduate and apprenticeship programmes. To meet its net zero ambition, the Council needs to fully cost its action plan and ensure it is aligned with its Medium Term Financial Plan.
- 29 The Council understands the significant challenge that is facing it. It is taking its net zero agenda forward, with a range of climate-change-related initiatives planned or already underway. The Council understands the risks and opportunities that present themselves from the challenge of achieving net zero carbon status by 2030. The Council's strategic risk register includes two risks related to decarbonisation and climate change.
- 30 The Council intends to take forward a staff training programme following the publication of its 'Think Climate' strategy. The member induction programme will include training on the decarbonisation agenda. Work is underway to improve the quality of the data used for the annual carbon footprint calculations submitted to the Welsh Government.
- 31 The Council has cited good examples of current partnership working in relation to decarbonisation and the Council is taking steps to build its community links. The Council is represented on the Local Government Decarbonisation Strategy Panel

and on various all-Wales officer groups. The Council has been proactive in its community leadership role and has facilitated dialogue with residents. This includes through the Let's Talk RCT web pages that seek residents' views. The Council intends to produce an engagement plan once the strategy goes live. It is looking at different ways it can involve residents further, including ensuring the views of the diversity of the population are considered.

32 The Council has governance arrangements in place to drive its decarbonisation agenda. There was a Climate Change Cabinet Steering Group, that had an advisory role to Cabinet, and had been in place since 2019. The Steering Group received reports such as updates on the Carbon Footprint Project, measuring and understanding the Council's annual carbon footprint. In May 2022, a Climate Change Cabinet Sub Committee with decision making powers replaced the Steering Group. The Council also monitors its decarbonisation agenda through its existing arrangements. This includes via the budget monitoring process and through its corporate risk management arrangements. The Council intends to monitor the strategy via the Council's quarterly performance reports to Cabinet and Scrutiny. Climate change and the net zero agenda are part of the Council's service self-evaluation and delivery planning processes.

Recommendation

Exhibit 2: recommendation

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

Recommendation	
R1	In order to meet its net zero ambition the Council needs to fully cost its action plan and ensure that it is aligned with its Medium Term Financial Plan.

Digital Strategy

The Council has invested in its digital team and processes and has built on its previous digital strategy and the progress made during the pandemic to develop its new strategy and was developing its arrangements to support its implementation

- 33 This work considered whether the Council has effective arrangements to support the development and implementation of its digital strategy. At the start of our work, the Council was in the process of developing its second digital strategy. The Council agreed its new digital strategy in March 2022.
- 34 Our work included monthly discussions with senior officers of the Council, observing relevant governance meetings, and document reviews. We provided feedback to the Director of Finance and Digital Services, and the Service Director ICT and Digital Services, during our work.
- 35 Overall, we found that the Council has invested in its digital team and processes and has built on its previous digital strategy and the progress made during the pandemic to develop its new strategy and was developing its arrangements to support its implementation.
- 36 We reached this conclusion because:
- the Council has, in its recently approved Digital Strategy 2022-26, set out its digital vision, strategic aims and guiding principles. This builds on its previous digital strategy which it agreed in 2017. The new strategy also builds on the significant progress made during the pandemic, which accelerated the development of its digital processes and solutions. It also draws on the national digital standards.
 - the Council's digital team played a key role during the pandemic supporting services, residents and staff. This included developing digital processes to support the delivery of business grants and self-isolation payments. The team also provided IT equipment to digitally excluded pupils and care homes, and supported the mass vaccination centres.
 - there is corporate support and drive for the Council's digital agenda. The Council has invested in its digital team and support. It has set up a new data centre and the digital team has been pro-actively working with services to explore digital solutions. The Council has also looked at how other organisations are doing this to learn from practice elsewhere.
 - the Council's Finance and Performance Scrutiny Committee had considered the draft digital strategy before it was agreed. This Committee had also previously considered the Council's progress in implementing its previous digital strategy.

- during our work, the Council was developing its governance arrangements to support the development of the digital strategy and its implementation, including:
 - i. finalising its digitisation work programme to deliver its digital Strategy.
 - ii. planning to set up a Strategic Digital Delivery Board to oversee the delivery of the strategy.
 - iii. developing a project methodology for assessment and delivery that utilises the five ways of working³ to ensure that the sustainable development principle is at the heart of its digitisation programme. We will be keen to see the Council's progress with this and its impact.
 - iv. the Council has a cyber assurance project underpinning its security aspects. The Council has been taking account of the findings from our Cyber and Use of Data reports in its work.
- work is ongoing to determine how it will deliver its Digital strategy. At the time of our work, the Council had not determined the resources needed to implement its strategy. It intends to develop delivery plans to include explicit links with funding of the digitisation programme over the course of the strategy. This will be essential to ensure that the programme is affordable and pace of delivery is as planned. The Council's medium-term financial plan updated in September 2022 highlights that its digital strategy will be key to help it address its budget gap and maintain the resilience of its services.
- the Council recognised that achieving its digital ambition will require a more integrated approach. We recently issued reports to the Council following our work on the Council's workforce planning and asset management arrangements. In these, we raised the need for planning to be more integrated.

37 During our work, we particularly challenged the Council to more fully apply the sustainable development principle in the development of its digital strategy. The Well-being of Future Generations (Wales) Act has now been in place for over seven years. Therefore, we would now expect that public bodies are able to demonstrate how the Act is shaping what they do. Some of the areas we discussed with the Council during our work included:

- greater alignment with the Digital agenda in Wales and the digital standards being developed by the Centre for Digital Public Services.
- determining how the digital strategy will help contribute to each of the seven national well-being goals and the Council's well-being objectives.
- opportunities for collaboration.
 - understanding how the Council's digital vision has been developed. For example, who was involved in this, how it was shaped by service user needs and views.

- how it was going to work with groups to minimise the risk of digital exclusion.
- exploring future trends.
- developing the culture to support the implementation of its strategy.
- developing measures to help monitor progress.
- building on learning from elsewhere.
- officers responded constructively to our challenges during our work. This included strengthening the Council’s application of the sustainable development principle in the development of its strategy.



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