

Assurance and Risk Assessment Review – Merthyr Tydfil 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 including self-assessment arrangements
 - Carbon reduction plans
- 4 Our evidence base for this work included conversations with officers and reviewing 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. We also held a workshop with the Corporate Management Team in February 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

The Council's immediate financial position has improved, with increased levels of reserves, but the Council still needs to identify how it is going to address the budget gap over the medium term

- 6 We concluded our review of 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 Aided by increases in revenue funding from the Welsh Government, the Council has achieved a surplus the past three years. The 2021-22 surplus amounted to £3.7 million after a transfer to earmarked reserves of £6.0 million¹. The Council's general fund reserve will be topped up by £388,000 out of the 2021-22 surplus, and is planned to be maintained in line with its reserves policy. Additionally, the Council's usable reserves increased significantly following the 2020-21 and 2021-22 financial years. The Council's total usable reserves is currently £40.4 million².
- 8 The Council has achieved the majority of its savings over the last two years. The Council's Medium Term Financial Plan (MTFP) sets out an efficiencies target of £6.4 million between 2022-23 and 2024-25. But even if it achieves those efficiencies, it still has a deficit of £10.3 million. The Council has yet to determine proposed efficiencies for 2025-26 and has a projected deficit up to that date of £16.4 million.
- 9 The Council recognises the need to take a longer-term approach to its financial planning. It is beginning to take steps to determine the extent to which its Recovery, Transformation and Improvement (RTI) Plan can help to address its financial deficit over the course of its MTFP. It is vital that the Council progress this.
- 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. 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.

¹ As per [provisional statement of accounts](#) (page 8)

² As per [provisional statement of accounts](#) (page 52)

- 11 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.

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

- 12 We reviewed the arrangements the Council is putting in place to respond to the Local Government and Elections (Wales) Act 2021 (the 2021 Act).
- 13 The 2021 Act requires councils to keep performance under review and consult and report on performance through a self-assessment. Councils must publish a self-assessment of their performance for each financial year. During 2021-22 the Council has taken forward actions to implement the self-assessment duties. The Council plans to publish its first self-assessment report in November 2022. This will be following consideration of the draft report by Council, scrutiny committee workshops and Governance and Audit Committee (GAC).
- 14 The Council plans to discharge its consultation duty under the 2021 Act through existing mechanisms of engagement with the trade unions, businesses in the local area, residents and Council staff.
- 15 The Council's draft public participation strategy – (which the Council is calling its Consultation and Engagement Framework) – was considered by the Transformation, commercialisation and corporate centre scrutiny committee in March 2022. At the time of writing, the Council plans to hold a Cabinet workshop on the draft strategy shortly, before taking it to Cabinet and full Council.
- 16 The Council has updated the GAC's Terms of Reference to reflect the 2021 Act. The GAC's membership is in accordance with the 2021 Act, with one third of the committee being lay persons. GAC members have received introductory training on their role.

Carbon reduction plans

Context

- 17 In July 2022, the Auditor General published Public Sector readiness for Net Zero Carbon by 2030³, 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.
- 18 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.
- 19 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 report calls for increased pace and stronger leadership across Wales in reducing carbon emissions.

The Council has not finalised its net zero delivery plan and needs to put in place proper governance arrangements to ensure it is in a position to meet the challenge of achieving net zero carbon emissions by 2030

- 20 The Council lacks a clear plan for how it proposes to meet the 2030 net zero target, but it is currently drafting a net zero delivery plan that will go out to public consultation. The Council has identified some significant barriers to achieving the 2030 target such as capacity, expertise and finances. Despite those barriers, the decarbonisation risk is not yet reflected in the Council's corporate risk register.

³ Audit Wales, [Uncertainty that the ambition for a net zero public sector will be met, according to Auditor General](#), July 2022.

- 21 One of the Council's well-being objectives is 'Environmental wellbeing' and the Recovery, Transformation and Improvement (RTI) Plan contains actions in relation to decarbonisation. However, the Council recognises that it needs a delivery plan for the net zero agenda that builds on existing carbon reduction actions. The Council will need to consider how its forthcoming net zero delivery plan can contribute to the seven national well-being goals, how delivery will impact on its other well-being objectives and wider priorities, and how delivery will impact on other public bodies' well-being objectives.
- 22 The Council participates in all-Wales officer groups in relation to the decarbonisation agenda. But it recognises that it has more to do in terms of its external collaboration on this agenda. The Council also recognises that it needs to further involve residents in its plans and that it involves the diversity of the population to ensure it acts in accordance with the sustainable principle. To date, there has been some training available for officers and members. The Council is considering an e-learning module to improve its training offer. There are skills gaps nationally that the Council, in common with other councils, will need to seek to mitigate as the decarbonisation agenda ramps up. In line with the need for particular skills, the Council are planning to appoint a decarbonisation manager. The Council will need to better understand the resource implications of delivering the net zero delivery plan, both from a staff perspective and the wider financial implications if it is to successfully deliver its plan. 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.
- 23 Once the net zero delivery plan has been finalised, the Council plans to set up a group to oversee its delivery. It will be important for the Council to monitor and review progress towards short, medium and long-term objectives in the net zero delivery plan. It is the intention to provide regular updates to the Council's RTI Board. The Council will also need to consider the role that other fora, such as scrutiny, play in the monitoring of the net zero delivery plan to ensure proper oversight of the Council's activity.

Recommendations

Exhibit 1: recommendations

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

| Recommendations | |
|-----------------|--|
| 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. |



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