

Assurance and Risk Assessment Review – Cardiff 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 our audit work undertaken since our last Annual Audit Summary in January 2022.
- 3 We focused 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 conversations with officers and reviewing relevant documents.
- 5 The Assurance and Risk Assessment project has been ongoing throughout the year. We held a workshop with the Senior Management 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's arrangements to manage its financial position are generally sound. But it is facing significant cost pressures, which will seriously test its financial resilience

- 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 planned savings and performance against the planned budget for the year.
- 7 We 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 Our previous work on financial sustainability found that the pandemic had affected the Council's ability to determine how it was going to meet its significant medium-term budget gap, but it was starting to develop plans to meet the gap. Our 2021 financial sustainability report included a proposal for improvement that the Council needed to formulate and progress these plans. This included identifying the level of savings it can achieve through its transformation programme.
- 9 Our recent work has found that the Council has broken down its transformation programme into specific areas, such as hybrid working and digitisation. But it still needs to identify the likely savings from its transformation programme. Overall, we found that the Council continues to have sound arrangements in place to manage and monitor its financial resilience. But in the context of the current economic climate, its financial position is extremely challenging.
- 10 The Council has an ambitious capital programme, and it has some major projects planned. The Council's capital financing requirement has increased steadily over the last five years and is currently £868 million. This includes both its general fund and housing revenue account. The Council has forecast that its capital financing requirement will increase significantly in future years. Currently, its external borrowing remains below its capital financing requirement. The position is monitored as part of the Council's financial resilience reports.
- 11 The current economic climate is such that the Council's forecasts for the current year and for 2023-24 indicate a much more challenging position than it envisaged only a few months ago. Despite more positive financial settlements recently, the Council is predicting a deficit of £7.3 million for 2022-23. This is before factoring any potential pay award increases above the 3% currently included in its budget. Given the large numbers of staff employed by the Council, increased pay awards would put an additional pressure on the Council's budget.

- 12 The Council is now forecasting that its budget gap for 2023-24 will be about £53 million. This is a £20 million increase from its forecasted position in July. This increase is due to pay awards and increased energy costs.
- 13 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. In July, the Council was forecasting a £91 million gap over the next four years, but given the increased gap for 2023-24, this is now likely to increase. To date, the Council's strategy to help it address its budget gap has included a combination of efficiency savings, income generation and increases in Council Tax.
- 14 The Council has not fully determined how it will meet its short and medium-term budget gap. Given the magnitude of the budget gap and the pressures facing the Council, the Council knows it needs to intensify its activities to meet the gap. Its approach needs to be shaped by the sustainable development principle, for example, by balancing short-term with long-term needs when determining future savings plans. This would minimise the risk of unplanned savings being needed.
- 15 The Council intends to update its MTFP in the autumn. medium-term financial planning will continue to rely on a range of assumptions. Planning for financial resilience and future budget rounds will continue to be particularly challenging for the Council in this period of significant economic uncertainty.

Performance against budget

- 16 We previously reported that the Council manages its spending within budget but further work was needed to manage overspends in some key services. This remains the case. The Council achieved a balanced position for 2021-22. Yet despite strengthening its budget monitoring arrangements, it continued to experience significant pressures in education and children's services. Some of these were offset by the receipt of additional grants from the Welsh Government towards the year-end.
- 17 The Council is continuing to experience major challenges in some of its key services. This is contributing to a £7.3 million overspend predicted for 2022-23. The largest overspend relates to children's services where the Council is forecasting an £8.9 million overspend. This is mainly due to the cost of providing support and residential placements for children with complex needs. The Council has strengthened arrangements to identify ways to mitigate the overspends with increased focus on managing placements. It has also identified reserves to help fund transformation in social services. The Education department is forecasting a £5.9 million overspend for 2022-23. In part, this is due to overspends in home-to-school transport because of rising energy costs and increased demand.
- 18 In other service areas like culture and leisure, income levels are not yet returning to pre-pandemic levels. Increased energy costs are also having a major impact on the Council's financial position. The Council is waiting to understand the impact of the recent business price cap. The overspends have been partly offset by forecasted

underspends in other areas, such as capital financing and use of the COVID Contingency base budget.

- 19 The Council continues to have some contingency budgets. This provides it with a degree of resilience and flexibility to manage unforeseen pressures. However, it has already committed over £6 million of its £10 million base COVID recovery budget. The Council is also assuming it will draw down £1.1 million of the £2.5 million contingency budget for children's services in 2022-23. The use of these contingency budgets already within the financial year underlines the Council's increasingly challenging financial position.
- 20 The Council is tightening its budgetary controls across the organisation and departments have been asked to deliver further efficiencies in-year. Senior officers are underlining the need to explore alternative ways to offset the Council's financial pressures, but the position is extremely challenging.

Useable reserves

- 21 As shown in **Exhibit 1** below, the Council increased its level of useable 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. **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. The increased level of reserves has provided the Council with a greater degree of resilience. It has enabled the Council to set up earmarked reserves, for example, to prepare for the end of the Welsh Government's COVID hardship fund.

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 delivers¹.

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Net cost of services in £ millions ²	657.1	667.4	692.4	712.1	646.6	777.9
Total usable reserves in £ millions ³	73.6	76.1	68	69.1	116.7	165.3m
Total usable reserves as a percentage of net cost of services	11.2%	11.4%	9.8%	9.7%	15.6%	21.2%
Comparison with the other councils of Wales	17th	16th	18th	18th	18th	Not yet available

22 The Council's MTFP agreed in July included using £0.5 million of reserves each year to help balance the budget. The Council has maintained its Council fund balance at £14.25 million. However, the Council is likely to need to call on its reserves to a greater extent than it had originally planned if it cannot address its forecasted budget gaps.

23 As **Exhibit 1** shows, the Council's total usable reserves as a percentage of net cost of services was one of the lowest when considered against other Welsh authorities. Whilst the Council has increased its reserves in recent years, it understands that using reserves is not a sustainable solution to manage budget gaps over the longer term.

Savings delivery

24 The Council has a mixed record of achieving its targeted savings. In 2020-21, it delivered 52% of the savings it intended, in part due to the pandemic. The position improved in 2021-22. The Council achieved just under 90% of the savings it planned for 2021-22 and 65% of the 2020-21 savings it carried forward. Many of

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

² 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.

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.

those unachieved savings continue to relate to income generation and the impact of the pandemic.

- 25 The Council has strengthened its arrangements to identify potential savings earlier and to analyse their robustness and deliverability. There is now more corporate oversight and challenge of the planned savings.
- 26 In July, the Council estimated that it will need to find £69 million of savings over the four years of the MTFP. This was before it had updated its forecasted position for 2022-23 and 2023-24. The Council is forecasting that it will deliver about 95% of its planned savings for 2022-23. However, the Council has set an initial target to make further in-year savings of about £6 million. This is to help offset the overspend currently forecast for 2022-23.
- 27 The Council has set itself a first phase efficiency target of £8.5 million in 2023-24, with further phases of savings likely. Members are due to consider the proposed savings options for phase 1 during the autumn. Delivering these savings will be crucial to help it address its budget gaps.

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

The Council has made good progress in putting in place arrangements to meet the requirements of the Local Government and Elections (Wales) Act 2021

- 28 We conducted a high-level review of the arrangements the Council is putting in place to respond to the Local Government and Elections (Wales) Act 2021 (the Act). Our work included discussions with officers and a review of documents on an ongoing basis throughout the audit year.
- 29 The 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.
- 30 The Council introduced its arrangements to self-assess progress against its Well-being Objectives in 2020-21 and integrated them within the Council's performance management framework. The self-assessment formed the basis of the Cardiff Wellbeing Report 2020-21 published in July 2021. The clearance process included consideration by the Policy Resources and Performance Scrutiny Committee and Governance and Audit Committee (GAC) before Council approval. The Council plans to publish its second self-assessment report in October 2022.
- 31 The Act places a duty on the Council to consult at least once every financial year with trade unions, businesses in the local area, residents, and Council staff on the extent to which it is meeting performance requirements. The Council has begun to develop its participation strategy starting with an internal baseline review of strengths and weaknesses. Officers are currently running informal/pre-consultation

work with stakeholders from groups where response rates/engagement are persistently low. For example, more deprived communities, black and ethnic minority and disability groups to understand the barriers as they see them and to help develop proposals for future consultation. The Council aims to publish a draft participation strategy for consultation in the autumn and finalise early in 2023.

- 32 The Council has updated the terms of reference of its GAC to include its new remit. The Council's GAC membership already consisted of a third lay members before the Act came in. GAC members have received introductory training on their role. We have observed that the GAC is getting to grips with its role around complaints and performance evaluation.
- 33 The Council has not yet agreed a timescale for when it will commission a Panel Assessment.

Carbon reduction plan

Whilst the Council is making good progress delivering its One Planet Cardiff carbon reduction plan, it does not know if its plan is affordable

Collaborative work and governance arrangements to deliver the plan are at an early stage of development. It is not clear how the sustainable development principle has been applied in developing the plan

Context

- 34 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 would be met.
- 35 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.
- 36 In the report, the Auditor General makes the following five calls for action from public bodies:
 - Strengthen leadership and demonstrate collective responsibility through effective collaboration
 - Clarify strategic direction and increase the pace of implementation
 - Get to grips with the finances needed

- Know your skills gaps and increase capacity
- Improve data quality and monitoring to support decision making

37 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.

What we looked at

38 We undertook an assessment of the Council's arrangements to develop and deliver their Decarbonisation Plan between April and June 2022. We gathered evidence through interviews, document reviews and the Council's returned Call for Evidence for the Decarbonisation Baseline Review.

What we found

39 The Council has published its carbon reduction plan, One Planet Cardiff (the plan) which sets out the Council's strategic direction. The Council has calculated a baseline carbon footprint. It has articulated the short, medium and long-term risks and opportunities in its plan. It has also categorised its actions into short, medium and long term to recognise that it has not yet identified solutions to all the issues. The Council has an action plan in place to deliver the strategy and will report against that annually.

40 The plan is clear about its ambition to reduce the Council's carbon emissions. The plan does not clearly demonstrate how the sustainable development principle has been applied and how the plan links to the national wellbeing goals. It is, therefore, not clear how the sustainable development principle has been applied to the development of the plan.

41 The Council involved a range of people and partners in its three-month consultation process on the plan. As well as an online questionnaire and a range of surveys, the Council engaged with community groups, businesses, the Citizens Panel, and the Youth Council. The Council recognises that it will need to further develop its approach to involving the full diversity of the population as the plan and its delivery move forward.

42 The Council has developed a Carbon Impact Evaluation Tool. It intends to use the tool to review and prioritise the short-term projects associated with the plan. It also intends to use the tool to develop methodologies that will allow the Council to consider the social impact of its projects, as well as the impact on carbon emissions. Currently, the indicators for social impact are less well developed than those looking at carbon emissions. But it is positive that the Council recognises the importance of trying to consider the qualitative impact of the plan.

- 43 Through its involvement in the Cardiff Public Services Board, the Council has developed arrangements to enable it to identify collaborative projects. There is an opportunity for the Council to determine and articulate how delivering the plan will impact on other public bodies.
- 44 The Council has governance arrangements in place to progress its plans within the Council and with its partners. However, these arrangements are at an early stage of development, and it is too early to evaluate their impact. The Council has established a Climate Emergency Board (CEB) through the PSB. This Board is made up of representatives of PSB partner organisations, utility providers and Cardiff University. The CEB has identified four areas where partnership working would be beneficial and has set up a subgroup to progress work in each area. Within the Council, each directorate has identified a key project officer to attend monthly steering group meetings, where progress against the action plan is discussed. This is in addition to project management arrangements for each project in the action plan.
- 45 The Council is aware that it does not know how much the plan in its entirety will cost to deliver. Given its challenging financial position, it is important it identifies the resource implications of delivering its plan.

Recommendation

Exhibit 2: recommendation

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

Recommendation	
R1	The Council needs to determine the resource and cost implications of delivering its 'One Planet Cardiff' Net Zero Carbon 2030 strategy.



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