



## GOVERNANCE AND AUDIT COMMITTEE 20<sup>TH</sup> JULY 2021

**SUBJECT: AUDIT WALES FINANCIAL SUSTAINABILITY ASSESSMENT –  
CAERPHILLY COUNTY BOROUGH COUNCIL**

**REPORT BY: CORPORATE DIRECTOR FOR EDUCATION AND CORPORATE  
SERVICES**

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### 1. PURPOSE OF REPORT

- 1.1 To present the Governance & Audit Committee with the Audit Wales report on its latest financial sustainability assessment of Caerphilly CBC.

### 2. SUMMARY

- 2.1 Audit Wales has undertaken its assessment of financial sustainability as this continues to be a risk to councils putting in place proper arrangements to secure value for money in the use of resources. A similar project was undertaken for 2019/20, before the COVID-19 pandemic. The overall conclusion of the 2019/20 review for Caerphilly CBC was that: -

***The Council has a strong financial position, with an increasingly high level of usable reserves, a relatively stable level of borrowing, and significant budget underspends in recent years.***

- 2.2 The Audit Wales 2020/21 assessment of councils' financial sustainability was in two phases. Phase 1 was a baseline assessment of the initial impact of COVID-19 on local councils' financial positions. This phase drew on the year-end position for 2019/20, the position at the end of quarter 1 for 2020/21, and projections for quarter 2 for 2020/21. Following Phase 1, in October 2020 Audit Wales published a national summary report – **Financial Sustainability of Local Government as a result of the COVID-19 Pandemic**. This found that councils and the Welsh Government have worked well together to mitigate the impact of the pandemic to date, but the future sustainability of the sector is an ongoing challenge.
- 2.3 The pandemic has had an immediate and profound effect on public sector finances as a whole and, as a consequence, on councils' financial positions. The summary report set a high-level baseline position, including the reserves position of local councils before the pandemic. It also set out the initial financial implications of the pandemic for local councils and the scale of the anticipated challenge going forward.
- 2.4 The report attached at Appendix 1 has been produced by Audit Wales following the conclusion of Phase 2 of its financial sustainability assessment work during 2020/21. A report is being produced for each of the 22 principal councils in Wales.
- 2.5 A member of staff from Audit Wales will attend the Governance & Audit Committee meeting to present the Caerphilly CBC report.

### 3. RECOMMENDATIONS

3.1 The Governance & Audit Committee is asked to: -

3.1.1 Consider and comment upon the content of the Audit Wales report.

3.1.2 Note that the Audit Wales proposals for improvement have been accepted by Officers and will be addressed as part of the Sustainable Financial Planning Corporate Review.

### 4. REASONS FOR THE RECOMMENDATIONS

4.1 To ensure that the Governance & Audit Committee is aware of the review work undertaken by Audit Wales and the resultant findings, conclusion, and proposals for improvement.

### 5. THE REPORT

5.1 The Audit Wales report on the outcome of Phase 2 of the financial sustainability assessment for Caerphilly CBC is attached at Appendix 1. Overall, the report concludes that: -

***The Council continues to have a strong financial position, although its current medium-term financial plan is underdeveloped.***

5.2 The report contains the following proposals for improvement: -

**Proposal for improvement: strengthening the medium-term financial planning.**

**P1** - The Council should develop and implement a more comprehensive MTFP.

**Proposal for improvement: setting the annual revenue and capital budgets.**

**P2** - The Council should examine the processes in place for its annual budget setting, and for its in-year budget revisions and outturn reporting. As part of the review, given the significant underspends that the Council has experienced in recent years, it should assess whether the process needs strengthening. The Council should then identify and implement any actions for improvement.

**Proposal for improvement: to help address the funding gap identified in the MTFP, develop a programme of financial benefits from the Transformation Programme activities.**

**P3** - In further developing its Transformation Programme, the Council should ensure that the intended financial benefits arising are clearly defined and communicated. The Council should monitor its progress with achieving the intended benefits and regularly report the outcomes to elected members.

5.3 The proposals for improvement have been accepted by Officers and align with the outcomes already agreed for the Sustainable Financial Planning Review, which is one of ten Corporate Reviews included in the Strengthening Team Caerphilly report that was approved by Cabinet on the 22<sup>nd</sup> July 2020. The outcomes are as follows: -

- The Council has a long-term and viable financial plan that supports the delivery of Council services and the development of new and improved service models.
- The Council has a sustainable investment strategy that enables us to turn on and turn off services as required.

- Outcome based budgeting – matching our budget to the specific needs of the community.
- Effective and efficient spend control.

5.4 A project team has been established to focus on these outcomes, and progress on the ten Corporate Reviews is being monitored by the Team Caerphilly Programme Board. As part of the agreed governance framework for the Council's Transformation Programme progress reports will also be presented periodically to the Policy & Resources Scrutiny Committee and Cabinet.

5.5 Progress on the Audit Wales proposals for improvement will also be reported to the Governance & Audit Committee periodically through existing reporting arrangements.

## **6. ASSUMPTIONS**

6.1 It is assumed that the financial outlook will remaining challenging for Local Government, which underlines the need for strong financial management.

## **7. SUMMARY OF INTEGRATED IMPACT ASSESSMENT**

7.1 This report is for information purposes, so the Council's Integrated Impact Assessment (IIA) process does not need to be applied.

## **8. FINANCIAL IMPLICATIONS**

8.1 There are no direct financial implications arising from this report.

## **9. PERSONNEL IMPLICATIONS**

9.1 There are no direct personnel implications arising from this report.

## **10. CONSULTATIONS**

10.1 At its meeting on the 23<sup>rd</sup> June 2021, Cabinet was presented with the Financial Sustainability Assessment report and colleagues from Audit Wales provided details of a small number of minor amendments to the report, which were noted by Cabinet.

10.2 Officers explained that the Council is in a strong financial position, with a number of key projects and frameworks in place, and that the proposals for improvement in the Audit Wales report align with the agreed outcomes for the ongoing Sustainable Financial Planning Corporate Review. In addition, Cabinet was assured that regular updates will be provided through the Committee cycle.

10.3 Following consideration and discussion and in noting the minor amendments to the report it was unanimously agreed that: -

- The content of the Audit Wales report be noted.
- The Audit Wales proposals for improvement will be addressed as part of the Sustainable Financial Planning Corporate Review.

- 10.4 Since the Cabinet meeting on the 23<sup>rd</sup> June 2021, some further minor amendments have been made to the Financial Sustainability Assessment report. The version attached as Appendix 1 is the final cleared document and colleagues from Audit Wales will provide a verbal update on the amendments that have been made.
- 10.5 All other consultation responses have been reflected in the report.

## 11. STATUTORY POWER

- 11.1 Local Government Acts 1972 and 2003.

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Appendices:

Appendix 1 – Audit Wales Report, Financial Sustainability Assessment, Caerphilly CBC, July 2021

Background Papers:

Cabinet (22/07/20) – Strengthening Team Caerphilly.

Audit Committee (21/10/20) – Audit Wales Report, Financial Sustainability Assessment, Caerphilly CBC, March 2020.

Audit Committee (21/10/20) – Audit Wales Report, Financial Sustainability of Local Government as a Result of the COVID-19 Pandemic, October 2020.