



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

# Annual Improvement Report 2016-17 Torfaen County Borough Council

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This Annual Improvement Report has been prepared on behalf of the Auditor General for Wales by Sara-Jane Byrne and Non Jenkins under the direction of Huw Rees.

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The Auditor General is independent of government, and is appointed by Her Majesty the Queen. The Auditor General undertakes his work using staff and other resources provided by the Wales Audit Office, which is a statutory board established for that purpose and to monitor and advise the Auditor General. The Wales Audit Office is held to account by the National Assembly.

Together with appointed auditors, the Auditor General audits local government bodies in Wales, including unitary authorities, police, probation, fire and rescue authorities, national parks and community councils. He also conducts local government value for money studies and assesses compliance with the requirements of the Local Government (Wales) Measure 2009.

Beyond local government, the Auditor General is the external auditor of the Welsh Government and its sponsored and related public bodies, the Assembly Commission and National Health Service bodies in Wales.

The Auditor General and staff of the Wales Audit Office aim to provide public-focused and proportionate reporting on the stewardship of public resources and in the process provide insight and promote improvement.

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

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

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# Summary report

## 2016-17 performance audit work

- 1 In determining the breadth of work undertaken during the year, we considered the extent of accumulated audit and inspection knowledge as well as other available sources of information including Torfaen County Borough Council's (the Council) own mechanisms for review and evaluation. For 2016-17, we undertook improvement assessment work at all councils under three themes: governance, use of resources, and improvement planning and reporting. At some councils, we supplemented this work with local risk-based audits, identified in the Audit Plan for 2016-17.
- 2 The work carried out since the last Annual Improvement Report (AIR), including that of the relevant regulators, is set out in **Exhibit 3**.

## The Council is meeting its statutory requirements in relation to continuous improvement

- 3 Based on, and limited to, the work carried out by the Wales Audit Office and relevant regulators, the Auditor General believes that the Council is likely to comply with the requirements of the Local Government Measure (2009) during 2017-18.

## Recommendations and proposals for improvement

- 4 Given the wide range of services provided by the Council and the challenges it is facing, it would be unusual if we did not find things that can be improved. The Auditor General is able to:
  - make proposals for improvement – if proposals are made to the Council, we would expect it to do something about them and we will follow up what happens;
  - make formal recommendations for improvement – if a formal recommendation is made, the Council must prepare a response to that recommendation within 30 working days;
  - conduct a special inspection, and publish a report and make recommendations; and
  - recommend to ministers of the Welsh Government that they intervene in some way.
- 5 During the course of the year, the Auditor General did not make any formal recommendations. However, a number of proposals for improvement have been made and these are repeated in this report. We will monitor progress against them and relevant recommendations made in our national reports ([Appendix 3](#)) as part of our improvement assessment work.

## Audit, regulatory and inspection work reported during 2016-17

### Exhibit 1: audit, regulatory and inspection work reported during 2016-17

Description of the work carried out since the last AIR, including that of the relevant regulators, where relevant.

Issue date	Brief description	Conclusions	Proposals for improvement
<b>Governance</b>			
February 2017	<p><b>Good governance when determining service changes</b> Review of the Council's governance arrangements for determining service changes.</p>	<p>The Council's governance arrangements for significant service change are generally sound but there is scope to improve the quality of options appraisals and arrangements to monitor the impact of service changes:</p> <ul style="list-style-type: none"> <li>the Council has a clear vision but is still developing its strategy for implementation;</li> <li>the Council considers a range of options when service changes are proposed, but there is scope to strengthen the quality of options appraisals;</li> <li>the Council has sound arrangements for engaging stakeholders in service change proposals;</li> <li>the Council monitors the impact of service changes but its arrangements are not systematic; and</li> <li>the Council proactively reviews and improves the effectiveness of its decision-making arrangements.</li> </ul>	<p>The Council's governance arrangements for service change could be strengthened by:</p> <p>P1 Clarifying the protocols for Cabinet member attendance at scrutiny.</p> <p>P2 Improving the quality of its options appraisals by strengthening the level of financial information provided and including an analysis of stakeholder engagement.</p> <p>P3 Putting in place appropriate arrangements to provide member support and development about service change, for example on options appraisals and the Council's new wellbeing assessments.</p> <p>P4 Strengthening arrangements for monitoring the impact of service changes including explicitly setting out what will be monitored, where this will be monitored and who will be responsible for doing so.</p>

Issue date	Brief description	Conclusions	Proposals for improvement
<b>Use of resources</b>			
October 2016	<p><b>Annual audit letter 2015-16</b> Letter summarising the key messages arising from the Auditor General's statutory responsibilities under the Public Audit (Wales) Act 2004 and his reporting responsibilities under the Code of Audit Practice. The Annual Audit Letter is in <a href="#">Appendix 2</a> of this report.</p>	<ul style="list-style-type: none"> <li>the Council complied with its responsibilities relating to financial reporting and use of resources; and</li> <li>we are satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources.</li> </ul>	<p>P1 That the Council reviews its methodology in calculating its bad debt provision in respect of housing benefits overpayment recoveries. This should set out clearly how it has determined its assumptions and ensure sufficient evidence is maintained to support how these are applied.</p>
March 2017	<p><b>Savings planning</b> Review of the Council's financial savings arrangements, including how well it is delivering the required savings and whether it has robust approaches to plan, manage and deliver budget savings, at a pace that supports financial resilience.</p>	<p>The Council continues to have an effective savings planning approach, supporting future financial resilience:</p> <ul style="list-style-type: none"> <li>the Council continues to have an effective savings planning approach, supporting future financial resilience;</li> <li>the Council has reported achievement of 99% of its planned 2015-16 savings in-year and can demonstrate that individual savings have been delivered;</li> <li>the Council has effective financial planning arrangements which it continues to strengthen; and</li> <li>the Council has detailed savings plans and is forecasting that all of its 2016-17 savings targets will be achieved.</li> </ul>	<p>Strengthen financial planning arrangements by developing an Income Generation/Charging Policy.</p>

Issue date	Brief description	Conclusions	Proposals for improvement
<b>Local risk-based performance audit</b>			
The scope of the local risk based performance audit work is being discussed with the Council.			
<b>Improvement planning and reporting</b>			
April 2016	<p><b>Wales Audit Office annual improvement plan audit</b> Review of the Council's published plans for delivering on improvement objectives.</p>	The Council has complied with its statutory improvement planning duties.	None.
November 2016	<p><b>Wales Audit Office annual assessment of performance audit</b> Review of the Council's published performance assessment.</p>	The Council has complied with its statutory improvement reporting duties.	None.
<b>Reviews by inspection and regulation bodies</b>			
No reviews by inspection and regulation bodies have taken place during the time period covered in this report.			

# Appendix 1

## Status of this report

The Local Government (Wales) Measure 2009 (the Measure) requires the Auditor General to undertake a forward-looking annual improvement assessment, and to publish an annual improvement report, for each improvement authority in Wales. Improvement authorities (defined as local councils, national parks, and fire and rescue authorities) have a general duty to 'make arrangements to secure continuous improvement in the exercise of [their] functions'.

The annual improvement assessment considers the likelihood that an authority will comply with its duty to make arrangements to secure continuous improvement. The assessment is also the main piece of work that enables the Auditor General to fulfil his duties. Staff of the Wales Audit Office, on behalf of the Auditor General, produce the annual improvement report. The report discharges the Auditor General's duties under section 24 of the Measure, by summarising his audit and assessment work in a published annual improvement report for each authority. The report also discharges his duties under section 19 to issue a report certifying that he has carried out an improvement assessment under section 18 and stating whether (as a result of his improvement plan audit under section 17) he believes that the authority has discharged its improvement planning duties under section 15.

The Auditor General may also, in some circumstances, carry out special inspections (under section 21), which will be reported to the authority and Ministers, and which he may publish (under section 22). An important ancillary activity for the Auditor General is the co-ordination of assessment and regulatory work (required by section 23), which takes into consideration the overall programme of work of all relevant regulators at an improvement authority. The Auditor General may also take account of information shared by relevant regulators (under section 33) in his assessments.

# Appendix 2

## Annual Audit Letter

Ms Alison Ward  
Chief Executive  
Torfaen County Borough Council  
Civic Centre  
Pontypool  
NP4 6YB

10 October 2016

Dear Alison

### Annual Audit Letter – Torfaen County Borough Council 2015-16

This letter summarises the key messages arising from the Auditor General for Wales' statutory responsibilities under the Public Audit (Wales) Act 2004 and our reporting responsibilities under the Code of Audit Practice.

#### The Council complied with its responsibilities relating to financial reporting and use of resources

It is the Council's responsibility to:

- put systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
- maintain proper accounting records;
- prepare a Statement of Accounts in accordance with relevant requirements; and
- establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Public Audit (Wales) Act 2004 requires us to:

- provide an audit opinion on the accounting statements;
- review the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- issue a certificate confirming that we have completed the audit of the accounts.

Local authorities in Wales prepare their accounting statements in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This code is based on International Financial Reporting Standards.

On 20 July 2016, we issued an unqualified audit opinion on the accounting statements confirming that they present a true and fair view of the Council's and the Pension Fund's financial position and transactions. Our report is contained within the Statement of Accounts.

The key matters arising from the accounts audit for both the Council and the Greater Gwent (Torfaen) Pension Fund were reported to members of the Audit Committee in our Audit of Financial Statements Report on 6 July 2016. The significant items are summarised as follows:

- The Council continued to strengthen its arrangements for the early implementation of the Faster Close agenda, successfully concluding its audit of the financial statements on 20 July 2016, significantly ahead of the statutory deadline of 30 September. The Council has continued to provide good quality draft financial statements and accompanying working papers for audit. These were available for us to commence our audit fieldwork on 31 May 2016.
- As a result of our audit, only a small number of disclosure amendments were required to the draft financial statements. This included correction of the note of the fair value of PWLB loans disclosed in note 15 of the financial statements to ensure that the fair value of loans was calculated using the new borrowing rates as opposed to premature borrowing rates as its discount factor.
- We recommended that the Council reviews its methodology in calculating its bad debt provision in respect of housing benefits overpayment recoveries. This should set out clearly how it has determined its assumptions and ensure sufficient evidence is maintained to support how these are applied.

As administering authority to the Greater Gwent Pension Fund, the Council includes the pension fund's accounts within its financial statements. The following items were identified in relation to our audit of the Pension Fund:

- We reviewed post year end payments made to 6 June 2016 relating to retirements prior to 31 March 2016. From our sample of 18 members, we identified that 17 members had signed their option form after the year end, with the cost of their retirement accrued in the 2015-16 pension fund accounts. Our testing identified a further 20 members who had retired prior to 31 March 2016 who had been paid their retirement lump sum in May and June 2016. These members had not submitted their option form prior to the 30 April 2016 and therefore the cost had not been accrued in the 2015-16 financial statements. As the movement in this accrual since the 30 April 2016 was significant, the costs of these retirements were identified as an amendment within the 2015-16 financial statements. The additional costs relating to these 20 members totalled £829,524.
- Our audit identified a disclosure change in relation to the 'payments to and on account of leavers' note (note 10), with a value of £5 million relating to the University of Wales Newport transfer originally shown as 'Group transfers out to other schemes'. The correct group transfer figure was £3.066 million, representing a £1.934 million reduction from the draft statements.

- From 1 April 2011, responsibility for employees working for Monwell Hankinson transferred from Newport City Council to Rhondda Cynon Taf County Borough Council. As a result, responsibility for their pensions transferred from the Greater Gwent (Torfaen) Pension Fund to Rhondda Cynon Taf Pension Fund, effective from 1 April 2011. The transfer should have been recognised in the Fund Account for the year to 31 March 2012, as the liability to pay pensions for the members transferred during that year. An actuarial assessment of the liability at 1 April 2011 valued the transfer at £1,097,281. A prior year adjustment was required to record this amendment.
- During the 2015-16 year an amount of £3.3 million was received from Capita Gwent Consultancy and an additional £0.5 million of related liabilities transferred out to other pension schemes. The remaining balance of £4.1 million was agreed to be met equally by the four local authorities; Caerphilly CBC, Blaenau Gwent CBC, Torfaen CBC and Monmouthshire CC. This amount will be received from the four authorities over the next 25 years, and will be included within the contribution rates set through the latest triennial valuation that will take effect from the 2017-18 financial year. The amounts receivable to the pension fund of £4.14 million has been included within current assets in the net asset statement, at the balance sheet date. As this amount will not be received within the 2016-17 year, it does not meet the definition of a current asset, and should therefore be identified as a noncurrent asset.

**We are satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources**

Our consideration of the Council's arrangements to secure economy, efficiency and effectiveness has been based on the audit work undertaken on the accounts as well as placing reliance on the work completed as part of the Improvement Assessment under the Local Government (Wales) Measure 2009. The Annual Improvement Report will highlight areas where the effectiveness of these arrangements has yet to be demonstrated or where improvements could be made.

We issued a certificate confirming that the audit of the accounts was completed on 20 July 2016.

Our work, to date, on certification of grant claims and returns has not identified significant issues that would impact on the 2016-17 accounts or key financial systems.

A more detailed report on our grant certification work will follow in January 2017 once this year's programme of certification work is complete.

The financial audit fee for 2015-16 is expected to be in line with the agreed fee set out in the Annual Audit Outline.

Yours sincerely

**Grant Thornton UK LLP**  
**For and on behalf of the Auditor General for Wales**

# Appendix 3

## National report recommendations 2016-17

### Exhibit 2: national report recommendations 2016-17

Summary of proposals for improvement relevant to local government, included in national reports published by the Wales Audit Office, since publication of the last AIR.

Date of report	Title of review	Recommendation
August 2016	<a href="#">Financial Resilience of Local Authorities in Wales 2015-16</a>	<p>In our report of 2014-15 (<b>The Financial Resilience of Councils in Wales</b>, April 2015) we made a number of recommendations for local authorities. Many of these recommendations remained relevant and required further work from authorities to address them during 2016-17. In addition, we also made the following recommendations based on our more recent review:</p> <p>R1 Local authorities should strengthen their financial-planning arrangements by:</p> <ul style="list-style-type: none"> <li>• developing more explicit links between the Medium Term Financial Plan (MTFP) and its corporate priorities and service plans;</li> <li>• aligning other key strategies such as workforce and asset management plans with the MTFP;</li> <li>• developing comprehensive multi-year fully costed savings plans which underpin and cover the period of the MTFP, not just the forthcoming annual budget;</li> <li>• categorising savings proposals so that the shift from traditional-type savings to transformational savings can be monitored over the period of the MTFP; and</li> <li>• ensuring timescales for the delivery of specific savings proposals are realistic and accountability for delivery is properly assigned.</li> </ul> <p>R2 Local authorities should develop corporate income generation and charging policies.</p> <p>R3 Local authorities should ensure that they have a comprehensive reserves strategy, which outlines the specific purpose of accumulated useable reserves and the impact and use of these in the MTFP.</p> <p>R4 Local authorities should develop key performance indicators to monitor the MTFP.</p> <p>R5 Local authorities should ensure that savings plans are sufficiently detailed to ensure that members are clear as to what the plans are intended to deliver and that the delivery of those plans can be scrutinised appropriately throughout the year.</p> <p>R6 Local authorities should ensure that corporate capacity and capability are at a level that can effectively support the delivery of savings plans in the MTFP at the pace required.</p>

Date of report	Title of review	Recommendation
October 2016	<a href="#">Community Safety in Wales</a>	<p>The seven recommendations within this report required individual and collective action from a range of stakeholders – the Welsh Government, Home Office Wales Team, police and crime commissioners, public service board members and local authorities:</p> <p>R1 Improve strategic planning to better coordinate activity for community safety by replacing the existing planning framework with a national strategy supported by regional and local plans that are focused on delivering the agreed national community-safety priorities.</p> <p>R2 Improve strategic partnership working by formally creating effective community-safety boards that replace existing community-safety structures that formalise and draw together the work of the Welsh Government, police forces, local authorities, health boards, fire and rescue authorities, WACSO and other key stakeholders.</p> <p>R3 Improve planning through the creation of comprehensive action plans that cover the work of all partners and clearly identify the regional and local contribution in meeting the national priorities for community safety.</p> <p>R4 Review current grant-funding arrangements and move to pooled budgets with longer-term funding commitments to support delivery bodies to improve project and workforce planning that focuses on delivering the priorities of the national community-safety strategy.</p> <p>R5 Ensure effective management of performance of community safety by:</p> <ul style="list-style-type: none"> <li>• setting appropriate measures at each level to enable members, officers and the public to judge progress in delivering actions for community-safety services;</li> <li>• ensuring performance information covers the work of all relevant agencies; and</li> <li>• establishing measures to judge inputs, outputs and impact to be able to understand the effect of investment decisions and support oversight and scrutiny.</li> </ul> <p>R6 Revise the systems for managing community-safety risks and introduce monitoring and review arrangements that focus on assuring the public that money spent on community safety is resulting in better outcomes for people in Wales.</p> <p>R7 Improve engagement and communication with citizens through public service boards in:</p> <ul style="list-style-type: none"> <li>• developing plans and priorities for community safety;</li> <li>• agreeing priorities for action; and</li> <li>• reporting performance and evaluating impact.</li> </ul>

Date of report	Title of review	Recommendation
November 2016	<a href="#">Charging for Services and Generating Income by Local Authorities</a>	<p>This report made eight recommendations, of which six required action from local authorities. Recommendations R4 and R6 required action from the Welsh Government and Welsh Local Government Association:</p> <p>R1 Develop strategic frameworks for introducing and reviewing charges, linking them firmly with the Medium Term Financial Plan and the Corporate Plan.</p> <p>R2 Review the unit and total costs of providing discretionary services to clearly identify any deficits and, where needed, set targets to improve the current operating position.</p> <p>R3 Use the impact assessment checklist whenever changes to charges are considered.</p> <p>R5 Identify opportunities to procure private sector companies to collect charges to improve efficiency and economy in collecting income.</p> <p>R7 Improve management of performance, governance and accountability by:</p> <ul style="list-style-type: none"> <li>• regularly reporting any changes to charges to scrutiny committee(s);</li> <li>• improving monitoring to better understand the impact of changes to fees and charges on demand, and the achievement of objectives;</li> <li>• benchmarking and comparing performance with others more rigorously; and</li> <li>• providing elected members with more comprehensive information to facilitate robust decision making.</li> </ul> <p>R8 Improve the forecasting of income from charges through the use of scenario planning and sensitivity analysis.</p>

Date of report	Title of review	Recommendation
January 2017	<a href="#">Local Authority Funding of Third Sector Services</a>	<p>This report made three recommendations, of which two required action from local authorities. Recommendation R3 required action from the Welsh Government:</p> <p>R1 To get the best from funding decisions, local authorities and third sector bodies need to ensure they have the right arrangements and systems in place to support their work with the third sector. To assist local authorities and third sector bodies in developing their working practices, we recommend that local authority and third sector officers use the <a href="#">Checklist for local authorities effectively engaging and working with the third sector</a> to:</p> <ul style="list-style-type: none"> <li>• self-evaluate current third sector engagement, management, performance and practice;</li> <li>• identify where improvements in joint working is required; and</li> <li>• jointly draft and implement an action plan to address the gaps and weaknesses identified through the self-evaluation.</li> </ul> <p>R2 Poor performance management arrangements are weakening accountability and limiting effective scrutiny of third sector activity and performance. To strengthen oversight of the third sector, we recommend that elected members scrutinise the review checklist completed by officers, and regularly challenge performance by officers and the local authority in addressing gaps and weaknesses.</p>

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