



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Annual Improvement Report

Caerphilly County Borough Council

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About the Auditor General for Wales

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.

This Annual Improvement Report has been prepared on behalf of the Auditor General for Wales by Non Jenkins and Jackie Joyce under the direction of Alan Morris and supported by the work of PricewaterhouseCoopers.

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Summary report and recommendations

- 1 Each year, the Auditor General must report on how well Welsh councils, fire and rescue authorities, and national park authorities are planning for improvement in delivering their services. This report sets out the findings of the work undertaken on behalf of the Auditor General by the staff of the Wales Audit Office; and also draws on the work of the relevant Welsh inspectorates. The report covers the delivery and evaluation of services at Caerphilly County Borough Council (the Council) in relation to 2012-13, and its planning of improvement for 2013-14. Taking these into account, the report records the Auditor General's conclusion on whether he believes that the Council will make arrangements to secure continuous improvement for 2014-15.
 - The Council has had mixed success in improving the skills levels of children and young people.
 - The Blaenau Gwent and Caerphilly Youth Offending Service was performing well, and a more co-ordinated approach to reduce the number of young people who are not in education, employment or training was in place but its impact has not yet been seen in all age ranges.
 - Housing benefits management improved and the Council made savings ahead of schedule and maintained performance despite using less resource.
 - The Council has recorded the Welsh language skills of its workforce on the payroll system but Welsh language provision on its website and social media still needed to be improved.
- 2 The audit team found that, in 2012-13, the Council made steady progress in delivering improvements in most of its priority areas but that some key challenges remained. We came to this conclusion because:
 - Governance remained a key concern given the instability in the Council's corporate management arrangements.
 - In 2012-13 the Council's activities helped to improve employment opportunities and the health profile of the area but they remain key priorities for the Council.
 - Social Services continued to perform well during 2012-13 and some lessons had been learnt from considering integration with Blaenau Gwent.
- 3 We also found that the Council's evaluation and reporting of performance for 2012-13 improved but underpinning arrangements needed to be strengthened. We came to this conclusion because:
 - in 2012-13 the Council discharged its improvement reporting duties under the Measure although there was potential to strengthen its arrangements further;
 - the Council recognised that weaknesses remained in its performance management arrangements;
 - the effectiveness of scrutiny was inconsistent;

- the Council had data validation arrangements in place which it continued to improve but these needed to be consistently applied and embedded across the organisation; and
 - the Council complied with its responsibilities relating to financial reporting, but there were weaknesses with regards to its use of resources.
- 4 The Council is involved in a range of collaborations and, historically, its financial planning has been sound but in 2013-14 it failed to discharge some of its improvement planning duties under the Measure. We came to this conclusion because:
- The Council failed to discharge some of its improvement planning duties under the Measure for 2013-14 as it did not publish its improvement objectives in a timely way, and should ensure that it acts more in accordance with Welsh Government guidance.
 - The Council is involved in a high number of collaborations compared with the other councils we surveyed and, in general, we found scope to improve some arrangements for planning and management of projects and that the lack of information on costs and benefits makes it difficult to assess value for money.
 - To date, the Council has been proactive in identifying its savings requirements but is now having to review its budget strategy to meet the significant level of savings needed over the next two to three years.
- Arrangements are now in place to report and monitor the Auditor General's proposals for improvement and recommendations.
- 5 Finally, in January 2014, the Auditor General published his report on the special corporate governance inspection undertaken at the Council. The report concluded that a combination of a number of weaknesses inevitably led to governance failings at the Council and whilst it is making encouraging progress in improving its governance arrangements, it is too early to conclude whether these improvements can be sustained. We came to this conclusion because:
- The pace of change and a combination of a number of weaknesses inevitably led to governance failings.
 - The Council is now improving its governance arrangements.
 - It is uncertain whether the improved governance arrangements can be sustained during a period of further change.
- 6 Taking the above into account and given the uncertainty of the sustainability of its improved governance arrangements, the Auditor General is not yet able to conclude whether the Council is likely to comply with its requirement to make arrangements to secure continuous improvement for 2014-15.

Recommendations

The following statutory recommendations were issued to the Council during 2012-13.

<i>Report in the Public Interest on Chief Officer Essential Car User and Annual Leave Allowances – December 2013</i>	
R1	<p>Records of decisions</p> <ul style="list-style-type: none">• Clear records of all decisions should be retained, identifying the decision made, who made the decision and when the decision was made. Furthermore, as decisions are taken there should be proper consideration of whether these decisions should be recorded in the Council's decision log. This consideration should be documented.
R2	<p>Implementing decisions</p> <ul style="list-style-type: none">• Officers should not proceed to implement decisions unless they are clear as to who has made the decision. Officers should retain evidence of this consideration.
R3	<p>Statutory officer advice</p> <ul style="list-style-type: none">• When making decisions, decision-makers should consider whether a formal view is required from the S151 Officer or Monitoring Officer and whether this view has been given. Where a formal view is required, there should be a process in place to ensure that the statutory officer is provided with all of the relevant information required to take that view. Officers should also record how this advice was followed.
R4	<p>Reports</p> <ul style="list-style-type: none">• Reports which are produced to support decision-making processes should follow a standardised format, in particular noting the author of the report and who has been consulted. Reports should contain a comprehensive list of available options.

Special inspection – January 2014

R1	Clarifies, in an easily understandable format, governance and decision-making roles, specifically of the Cabinet; Chief Executive; Corporate Management Team; corporate directors; scrutiny committees; and Audit Committee.
R2	Ensures that appropriate documentation is maintained of all decisions made, and by whom to provide further assurance that decision making is undertaken appropriately and transparently.
R3	Continues to implement the Improving Governance Programme Board action plan to enhance governance arrangements for the future.
R4	Strengthens its risk management processes further to embed risk management across the Council. Specifically there should be: <ul style="list-style-type: none">• more frequent review of the corporate risk register by Corporate Management Team;• explicit action planning for the key risks identified;• more oversight of, and consistency in, approach to directorate risk registers;• clarification of the role and remit of the Risk Management Group; and• enhanced training for Audit Committee members.
R5	Clarifies roles and responsibilities for whistle-blowing procedures and ensures that the new policy is updated to reflect recent legislative changes.
R6	Reassesses its expectations of the Internal Audit service and puts in place a programme for its Internal Audit service to address the findings of this inspection.
R7	Ensures that the actions identified to improve the HR function and workforce planning are implemented.
R8	Emphasises the importance of following appropriate procurement procedures and ensures that relevant key performance indicators are set for the procurement function.

Detailed report

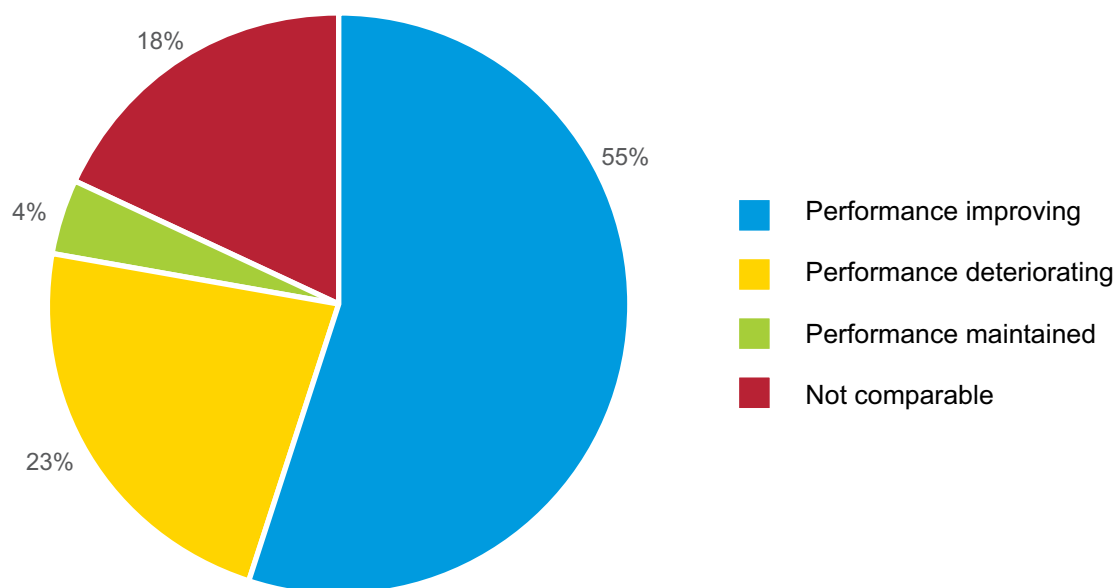
Introduction

- 7 Under the Local Government (Wales) Measure 2009 (the Measure), the Auditor General must report each year on how well Welsh councils, fire and rescue authorities, and national park authorities are planning for improvement in delivering their services. **Appendix 1** provides more information about the Auditor General's powers and duties under the Measure. This work has been undertaken by the staff of the Wales Audit Office, on behalf of the Auditor General. With help from Welsh inspectorates, Estyn (for education), the Care and Social Services Inspectorate for Wales (CSSIW), and the Welsh Language Commissioner, we have brought together a picture of what each council or authority in Wales is trying to achieve, how it is going about it, and the progress the Council has made since the Auditor General published his last annual improvement report. The report also draws on the Council's own self-assessment. Finally, taking all this into account, the report records the Auditor General's conclusion on whether the Council is likely to make arrangements to secure continuous improvement for 2014-15.
- 8 We do not undertake a comprehensive annual review of all Council arrangements or services. The conclusions in this report are based on our cumulative and shared knowledge and the findings of prioritised work undertaken this year.
- 9 Given the wide range of services provided and the challenges facing the Council, 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 them 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.
- 10 We want to find out if this report gives you the information you need and whether it is easy to understand. You can let us know your views by e-mailing us at info@wao.gov.uk or writing to us at 24 Cathedral Road, Cardiff, CF11 9LJ.

In 2012-13 the Council made steady progress in delivering improvements in most of its priority areas but some key challenges remained

- 11 The Council published its Annual Performance Report 2012-13 in October 2013. The Annual Performance Report provided an evaluation of the Council's performance on both a directorate basis and progress in delivering its 2012-13 improvement objectives. The Annual Performance Report included an analysis of the Council's performance against the National Strategic Indicators and Public Accountability Measures. Figure 1 shows that of the 44 indicators reported, 24 (54.6 per cent) improved, 10 (22.7 per cent) declined, two (4.5 per cent) were unchanged and eight (18.2 per cent) were not comparable with prior-year performance.

Figure 1 – The Council's analysis of its national strategic performance indicators and public accountability measures

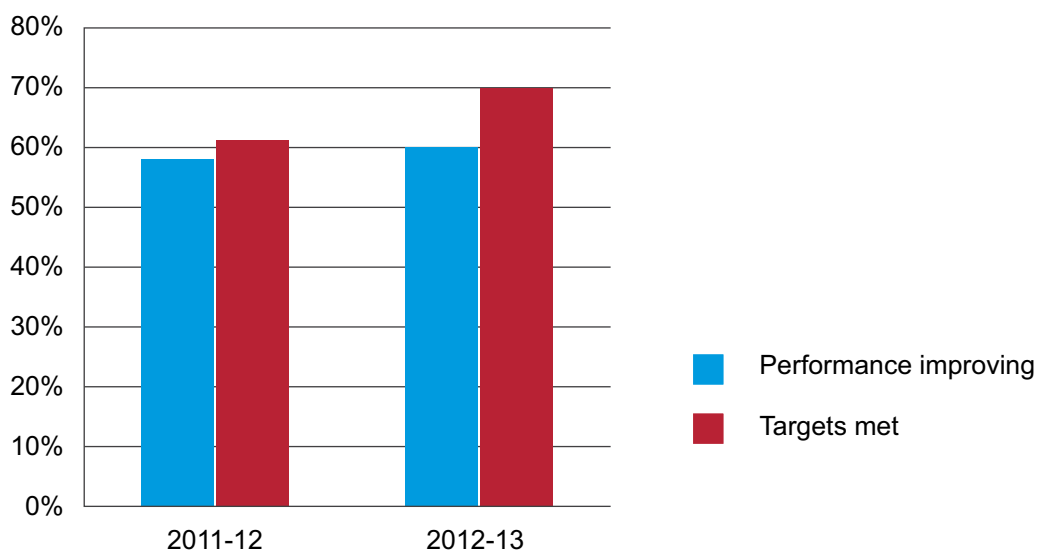


12 In our *Annual Improvement Report* issued in September 2013, we commented that the Council's performance in improving services in 2011-12 had been mixed. We reported that the percentage of national strategic indicators that had improved when compared with the previous year had declined significantly, from 77 per cent in 2010-11 to 58 per cent in 2011-12. It was pleasing to note, therefore, that the proportion of national strategic indicators that improved had increased slightly from 58 per cent in 2011-12 to 60 per cent in 2012-13. The Council also met 70 per cent of its targets for 2012-13, compared with 61 per cent last year.

13 In 2012-13 the Council identified eight improvement objectives (see [Appendix 4](#)) linked to its four overarching themes published in 2009:

- Building Better Public Services
- Building a Vibrant Economy
- Building Better Lifestyles
- Building Futures, Changing Lives

Figure 2 – Analysis of national strategic performance indicators for 2011-12 and 2012-13



- 14 This year, our work focused on two of the Council's improvement objectives:
- sustain the range of employment opportunities for residents (improvement objective 3); and
 - promote the benefits of a healthy and active lifestyle (improvement objective 5).
- 15 We provide a brief analysis of how well the Council performed in delivering improvement against these two improvement objectives below.

In 2012-13 the Council's activities helped to improve employment opportunities and the health profile of the area but they remain key concerns for the Council

In 2012-13 the Council's activities to improve employment opportunities were beginning to have an impact on reducing the level of unemployment in the area, although the level remained higher than the Welsh and UK averages

- 16 The Council has had an improvement objective to sustain and improve employment opportunities for residents for the past four years. In 2012-13, the Council focused its activities on promoting local funding opportunities, providing advice to local businesses and start-up businesses and engaging people onto employment support programmes.

- 17 In its Annual Performance Report 2012-13, the Council judged its progress in delivering this improvement objective to be successful. Over 6,000 people had been engaged in a range of programmes, such as Genesis 2, Bridges into Work and the Working Skills for Adults project, which are designed to improve opportunities for employment.

- 18 The Council's digital business network, Go2 My Town Project, was extended to a further five towns, building on the work done in Rhymney and Bargoed. Through grant funding and business support, the Council helped to create 139 new jobs and safeguard 1,130 jobs within the area.

- 19 The Council's apprenticeship scheme had over 130 additional people participating during 2012-13. The scheme was developed into the Council's Passport programme and, with the support of European funding, aims to engage more than 200 people on the programme each year. The progress to date with the new Passport programme was receiving significant attention across Wales from the Welsh Government and other councils who were keen to learn from the programme.

- 20 Of the 15 measures used by the Council to judge how well it was performing against this improvement objective, nine measures reported an improvement in performance, four declined in performance and one stayed the same when compared with the previous year. No data was available last year for one measure to enable comparison.

- 21 It should be noted that for 2012-13 we qualified the local indicator 'number of participants in the Council's apprenticeship scheme' because we found that the calculation did not fully meet the relevant definition and the indicator could not be recalculated at the time of the audit. The Council has already developed a new set of indicators for 2013-14 for its new Passport apprenticeship scheme, with a new set of definitions. These have replaced the 2012-13 indicator and should address the qualification issue going forward.
- 22 The Council met 11 of the 15 targets it set itself. However, it was notable that some of the targets were lower than the performance achieved in the previous year. In most areas, the explanation for the targets seemed reasonable and to a certain extent the targets were guided by the requirements of European funding. Targets were also set taking into account the state of the local economy, availability of funding and the general economic climate.
- 23 Areas of declining performance included: fewer people than anticipated were engaged in its Essential Skills in the Workplace project due to the withdrawal of one company from the project and no eligible new businesses approached the Council to access the grant scheme available to them. The engagement of Small to Medium Size Enterprises (SMEs) to work with the Council also continued to be a challenge. However, the Council is working towards meeting the Welsh Housing Quality Standard for its Council houses and is maximising the opportunity this presents to create new employment and training opportunities in the area.
- 24 Whilst the Council judged its performance to be successful in delivering this improvement objective, it appropriately underlined the high levels of unemployment within the area in its Annual Performance Report.
- 25 Performance against national comparative data available from the Office for National Statistics Information Service (NOMIS) suggested that the Council's activities have started to have an impact but performance relative to other Welsh councils remained a concern:
- The percentage of people claiming Job Seekers Allowance in the area decreased from 5.2 per cent in September 2012 to 4.5 per cent in September 2013. The Welsh average similarly decreased from 4.1 per cent to 3.5 per cent and the UK average decreased from 3.7 per cent to 3.2 per cent over the same period. The figure for December 2013, showed that the number of claimants continued to decrease and now stands at 4.3 per cent for Caerphilly but remained above the Welsh average of 3.3 per cent and UK average of 2.9 per cent.
 - The level of unemployment in Caerphilly decreased from 9.8 per cent in September 2012 to nine per cent in September 2013, the lowest level since March 2009. However, the unemployment rate in Caerphilly continued to be above both the Welsh average of 8.1 per cent and UK average of 7.7 per cent.

- Conversely, the percentage of 16 year olds who are not in education, employment or training (NEETs) increased from 4.5 per cent in 2011-12 to 5.9 per cent in 2012-13, considerably higher than the Welsh average of 4.2 per cent. This increase follows a fall of 1.5 per cent between 2010-11 and 2011-12. The Council was one of four out of the 22 Welsh councils which saw a decline in performance in this area. Paragraph 53 below details the Council's approach to addressing NEETs.
- In 2013, average weekly earnings in Caerphilly stood at £534. This was the tenth highest amongst the 22 Welsh local authorities. In 2003, 2008 and 2013 earnings in Caerphilly were below the Welsh average although the gap has narrowed.

26 As a measure of success, the *UK Competitiveness Index*¹ is another barometer to judge how well councils, regions and countries in the UK are performing in attracting new private sector investment as well as supporting existing businesses to flourish. In 2013, Caerphilly was ranked 378 out of 379 localities in the UK, a fall of one place from 2010. Comparatively, Wales was the least competitive region in the UK.

In 2012-13, the health profile of the area remained a concern but the Council's actions were helping to improve this

- 27 One of the Council's improvement priorities was to help improve the poor health profile of the borough, through promoting the benefits of a healthy and active lifestyle. In 2012-13, the Council continued its focus on making the area attractive and accessible to encourage people to become more active, working with schools to improve the health and activity levels of children, and developing a range of initiatives to encourage adults to be more active.
- 28 Building on the progress it made in 2011-12 in delivering its key actions, the Council judged its performance against this improvement objective to be successful. It continued to make reasonable progress in delivering the actions it set out in its Improvement Objectives 2012-13, with all being completed or in progress.
- 29 Notable areas of progress included: the delivery of multi-skills programmes across all schools to promote 'skills for life'; the activities undertaken across the borough to promote healthy lifestyles; and the installation of enhanced sports surfaces at St Cenydd and New Tredegar Leisure Centres. The Ystrad Mynach Performance Centre was also scheduled to be opened in February 2014 and the Council had been successful in securing partnership agreements with the Welsh Rugby Union (WRU) and Gwent Dragons.

¹ *The UK Competitiveness Index (UKCI)* was first introduced and published in 2000 by the University of Wales Institute, Cardiff. It represents a benchmarking of the competitiveness of the UK's regions and localities. The UK Competitiveness Index has been designed as an integrated measure of competitiveness focusing on the development and sustainability of businesses and the economic welfare of individuals.

30 Of the 24 measures the Council used to judge how well it was improving in this area, 17 (71 per cent) showed improvements, one (four per cent) maintained optimal 100 per cent performance, five (21 per cent) declined and one (four per cent) stayed the same.

31 For example, the number of people visiting the Council's leisure centres and indoor sports facilities increased from 1,148,638 in 2011-12 to 1,277,952 in 2012-13. Similarly, the number of children aged 16 and under who attended free swimming sessions increased from 25,584 in 2011-12 to 27,415 in 2012-13.

32 However, the number of people who attended the exercise referral scheme declined from 1,166 in 2011-12 to 982 in 2012-13 also falling short of the Council's target of 1,080. In its Annual Performance Report, the Council explained that this decline was due to the increasing numbers of people referred to the scheme who had complex health issues thus requiring additional instructor time.

33 We noted in our *Annual Improvement Report* of September 2013 that despite the Council's efforts, the take-up of school meals across primary schools was at its lowest level for three years. Whilst the take-up did not meet the Council's target again this year, it increased from 36 per cent in 2011-12 to just under 40 per cent in 2012-13. The Council is committed to adhering to the Appetite for Life legislation and is continuing to promote the health benefits of school meals to parents and pupils.

34 However, the following key national outcome statistics in 2012-13 demonstrated that the health profile of the area remained a concern. For example:

- Adult life expectancy has been steadily improving in recent years. Whilst male life expectancy was broadly in line with the Welsh average, female life expectancy was lower than the Welsh average.
- The percentage of obese adults in 2012-13 continued to be markedly higher than the Welsh average.

35 This is recognised by the Council and one of its improvement objectives for 2013-14 is to improve awareness, access, variety and use of leisure, community and sporting facilities.

Social Services continued to perform well during 2012-13 and some lessons had been learnt from considering integration with Blaenau Gwent

36 In our *Annual Improvement Report* last year, we reported that the Council had decided not to pursue integration of its social services with Blaenau Gwent County Borough Council. We also expressed concern that the potential impact of the integration was not factored into the Council's medium-term financial plan and it did not have a fully costed business case for the integration. Our recent corporate governance inspection also identified there was a lack of timeliness of formal consultation with the Section 151 Officer in respect of the proposed integration of Social Services with Blaenau Gwent County Borough Council.

- 37 The Council stated that it would consider aspects of integration with Blaenau Gwent on a case-by-case basis where it was supported by a business case. Final approval by the Council's Cabinet in July 2013 for a joint workforce with Blaenau Gwent was accompanied by a business case, but for a service which was de facto integrated by then.
- 38 CSSIW published its *Annual Review and Evaluation of Performance for 2012-13* for social services in Caerphilly in October 2013. The report provided a positive assessment of the Council's performance in both adult and children's services. The report highlighted many good aspects of service delivery and areas of progress. It also outlined some of the challenges facing the Council and identifies areas for improvement. The report can be found on CSSIW's website: <http://cssiw.org.uk>
- 39 The following paragraphs are taken from the report:
- 'Last year the focus lay on the integration of social services with Blaenau Gwent County Borough Council's social services department. However, this did not come to fruition. Both parties have maintained a commitment to work in partnership in specific service areas.
 - Whilst the decision was made not to progress with integration, the directors of both social services departments provided input into a review of collaborative working. This resulted in the publication of key lessons learned and positive suggestions and advice for agencies working in partnership.
 - Joint working with a range of partners has been high on the social services agenda and this has included taking the lead in a number of regional collaborative arrangements.
 - The latter part of the year saw challenges with vacancies emerging at both corporate and senior management level. This will pose challenges in 2013-14 as a new senior management team will need to be established.'
 - 'The council has continued to review and develop (adult social) services with partners. There is a strong commitment to working with other local authority social services departments and health. This has included developing existing relationships for example the Gwent Frailty model and hosting adult placement services, as well as participating in new arrangements – the Gwent wide adult safeguarding board.
 - Internal provision has been reviewed and new projects and strategies put in place to enhance services for people.'
 - 'Children's services have continued to perform well. The initial shared assistant director arrangements during the integration programme were followed by joint management for the remainder of the year. This did not show visible impact on children and young people receiving services.

- The council continued to review services including residential provision for looked after children and respite services for children with disabilities, as well as participating in regional collaboration for safeguarding.
 - Whilst performance has been maintained, the opportunity to continue the trajectory of development will come with the appointment of a new assistant director for children's services in 2013-14.'
- 40 CSSIW identified four areas of good practice:
- continued commitment to exploring areas for working collaboratively with a broad range of partners, for example the community resource team within the broader Gwent Frailty model;
 - review of internal service provision resulting in positive change, development of reablement beds, exploring new strategies for caring for people with dementia, developing a new children's residential unit and restructuring the children's respite service;
 - sharing the learning from the collaboration project with Blaenau Gwent; and
 - developing outcomes-based approaches in assessment care planning and review.
- 41 CSSIW also identified the following potential risks:
- the impact of long-term interim management arrangements on the department;
 - the potential effects of corporate instability; and
 - sustaining the current high levels of service in a financially challenging environment.
- 42 In December 2012, CSSIW undertook a national review of the statutory role of the director of social services. The review confirmed that in Caerphilly there was a clear understanding of the accountabilities of the director, with sound structures and governance and support arrangements to enable the director to carry out his role.
- 43 A permanent director of Social Services was now in post and the Council was in the process of appointing Assistant Directors for Children's and Adult Social Services. This should provide stability for the service.
- 44 The Council remained within its budget for Social Services but it was not complacent about the challenges going forward. Both the Annual Director's Report on the Effectiveness of Social Care Services 2012-13 (ACRF) and the Council's Annual Performance Report 2012-13 emphasised the growing pressures the Service faces due to increasing demand and the need to achieve unprecedented levels of financial savings for 2014-15 and beyond. Reshaping and transforming the way services are delivered will be vital to meet these pressures.

45 As part of our 2013-14 regulatory programme, we will be undertaking a review to assess the sustainability of Social Services across Gwent. This review will be carried out in conjunction with CSSIW.

The Council has had mixed success in improving the skills levels for children and young people

46 Improving the skills levels for children and young people was one of the Council's 2012-13 improvement objectives. In its Annual Performance Report 2012-13, the Council judged that it had been partially successful in delivering this improvement objective. It has completed all the actions it had identified in its Improvement Objectives 2012-13 document, including: providing learning coaches across its learning providers; delivering training to teachers in key stages 2 and 3; and establishing a programme of support to reduce the number of fixed-term and permanent exclusions.

47 Of the 20 performance measures the Council uses to judge how well it is performing in this area, 12 (60 per cent) showed improvements, seven (35 per cent) deteriorated and one (five per cent) stayed the same. The Council's data shows that there was improved performance across the majority of indicators at all key stages, including:

- the percentage of pupils achieving level 4+ at the end of key stage 2 assessments in mathematics increased from 84.6 per cent in 2011-12 to 86.8 per cent in 2012-13; and

- the percentage of pupils achieving level 5+ at the end of key stage 3 Assessments in English increased from 70.9 per cent in 2011-12 to 76.8 per cent in 2012-13.

48 However, the percentage gap between boys and girls achieving the core subject indicator at both key stages 3 and 4 increased. Similarly, the percentage of 17 year old pupils, entering courses leading to qualifications equivalent to two A levels, who achieve the level 3 threshold, deteriorated from 99 per cent in 2011-12 to 96 per cent in 2012-13.

49 The Council met 11 of the 20 targets it set itself for 2012-13 for this improvement objective.

50 Estyn inspected the Council's education services for children and young people in July 2012. Inspectors provide an overall judgement on current performance and capacity to improve. Services are evaluated on a four-point scale: excellent, good, adequate and unsatisfactory. Estyn judged the Council's education services for children and young people as adequate and the Council had adequate prospects for improvement. The Council has developed a post inspection action plan (PIAP) to address Estyn's recommendations. The PIAP is being monitored by Cabinet and the Education for Life Scrutiny Committee. The Director of Education's report to the Scrutiny Committee in November 2013 highlighted that 'the majority of actions in the PIAP have been completed and are having a positive impact on provision.'

51 In Estyn's letter dated March 2014 it stated that: 'The authority has moved swiftly to address the recommendations from the 2012 Estyn inspection. During a period of significant change of senior management, the council has demonstrated a strong commitment to improve its education services for children and young people. 'The authority has established better foundations to continue the drive for improvements in attainment and achievement for all learners. Caerphilly County Borough Council is judged to have made sufficient progress in relation to the recommendations following the inspection of July 2012. As a result, Her Majesty's Chief Inspector of Education and Training in Wales is removing the local authority from further follow-up activity.

The Blaenau Gwent and Caerphilly Youth Offending Service was performing well and a more co-ordinated approach to reduce the number of young people who are not in education, employment or training was in place but its impact has not yet been seen at all age ranges

52 The Council was very aware of the impact that having a high NEETs population had on the local economy and its services, and this clearly influenced its improvement objectives.

53 The Council's efforts were focussed on those young people aged between 14 to 16 and on reviewing relevant activities and services. This was in common with most Welsh councils, although the Council's Passport Scheme was a good example of where it recognised an increasing problem

at the 18 to 24 age range and developed a programme to address this.

54 Over the past 18 months, evaluating NEETs-related activities have been a key focus of the Council, primarily driven by the Director of Education who recognised that there were gaps in provision and was concerned about the impact and lack of co-ordination of some of the programmes designed to reduce the number of NEETs. Changes have now been made as a result. For instance: learning coaches were now in place providing more intensive support; a new single process for referral to out of school provision has been developed; there have been changes to the 14 to 16 curriculum; and new contracts have been awarded to providers.

55 There had also been a positive and proactive response to Estyn's concerns about Youth Services. Developing an effective and accessible Youth Service is one of the Council's 2013-14 improvement objectives. A new Head of Youth Service is now in place and a Youth Service strategy had been drafted. A bid had been agreed in principle by the Welsh Government to fund greater Youth Service involvement in schools.

56 The Council had a range of mechanisms in place for working with schools, colleges and other agencies to try to prevent young people becoming NEET. This included its new and expectant parents programme and integrated family learning project. It also had well-established mechanisms for engaging with young people and it was evident that young people's views are being taken into account.

- 57 Vulnerability assessment profiling was now being used and a new tracking system was in place providing the Council with more sophisticated information to understand the destination and aspirations of the young people in the borough. An information-sharing protocol was also being developed with Careers Wales but like all other councils, accessing some key data remained problematic.
- 58 The Council had also drafted its 2013-15 NEETs strategy which sets out its approach to reducing the level of young people who are NEET. However, the strategy had not yet been formally agreed, and reporting and monitoring arrangements were still being developed.
- 59 As already highlighted in paragraph 25 above, the percentage of 16 year olds who are not in education, employment or training increased from 4.5 per cent in 2011-12 to 5.9 per cent in 2012-13. The Council considered the increase to be partly due to improved reporting methods but it was still concerned about the figures and was continuing to strengthen its arrangements to address the level of NEETs. More positively, the proportion of Year 13 school leavers known to be NEET reduced from 7.1 per cent in 2009 to 6.8 per cent in 2012.

The Blaenau Gwent and Caerphilly Youth Offending Service was performing well

- 60 In June 2013, the HM Inspectorate of Probation (HMI Probation) carried out a short quality screening inspection of the joint Blaenau Gwent and Caerphilly Youth Offending Service (YOS). HMI Probation concluded that: 'Overall, we found that Blaenau Gwent and Caerphilly Youth Offending Service (YOS) was performing well. YOS staff were highly motivated and spoke positively about the organisation and their contribution to the work. Considerable improvements had been made since our last inspection in 2010, in particular to the work to safeguard children and protect the public. Efforts should now be focused on ensuring that all assessments and plans are of good quality. Given the commitment of staff and managers we anticipate that the standards observed in the majority of cases can be replicated across all the work.'
- 61 HMI Probation identified that the best aspects of work it found in Blaenau Gwent and Caerphilly included:
- The substantial improvement in practice since the previous inspection. Although driven by the management team, this had been embraced by a staff group committed to their work and the community they serve.
 - Engagement of children and young people and their parents/carers which then provided a firm foundation from which to work to reduce the likelihood of reoffending.

62 HMI Probation found that the most significant area for improvement was the need for consistent management oversight to ensure the quality of assessments of risk of harm to others and the quality of plans to address vulnerability.

63 The full inspection report can be found on the HMI Probation website:
<http://www.justice.gov.uk/>

Housing benefits management improved and the Council made savings ahead of schedule and maintained performance despite using less resource

In the services we reviewed, the Council made savings ahead of schedule and maintained performance despite using less resource but savings were not being explicitly monitored and evaluated

64 During 2012-13, we undertook a review across Gwent councils to determine how well they are managing with less resource. Our review focussed on three service areas – Environmental Health, Housing, and Waste Management – to understand how well these individual services are planning and delivering savings.

65 Overall, we found that councils in Gwent face significant challenges to continue to deliver and improve essential services in a changing environment with less money and fewer staff.

66 In relation to Caerphilly, the review concluded that savings had been achieved in advance of need and the Council's day-to-day budget monitoring was sound but there were weaknesses in how some savings were monitored and their delivery was evaluated. We came to this conclusion because we found that:

- the Council had a good understanding of the cost pressures it faced and had good systems in place to frequently assess and review financial management and budget performance;
- it had communicated the financial challenges it faces to staff, who have a common understanding of the future cost pressures;
- the Council had an established process for identifying and agreeing savings and preparing a Medium Term Financial Plan but lacked a mechanism to formally and explicitly link these to the cost of delivering its corporate priorities;
- the Council did not explicitly monitor and evaluate the delivery of its savings; and
- on the whole, the performance of the Council's Environmental Health, Housing and Waste Management services was improving or had been maintained despite small real-term reductions in budgets.

Despite reduced staffing levels, housing benefits management was generally improving

67 Following the introduction of the Welfare Reform Act in 2012, the number of people in Caerphilly claiming Housing and Council Tax Benefit during 2012-13 reduced by one per cent from 22,060 in May 2012 to 21,890 in February 2013. There was a similar picture across Wales. This reduction in workload provided the Council with the opportunity to reduce its staffing levels within its benefits section achieving savings of over £90,000 in 2012-13.

68 Despite this staffing reduction, performance against key indicators largely improved:

- The average time taken to process new claims improved from 25 days in 2011-12 to 22 days in 2012-13 but this was still longer than the Welsh average of 20 days in 2012-13.
- The average time taken to process changes of circumstances improved from eight days in 2011-12 to seven days in 2012-13, but again this was worse than the Welsh average of six days in 2012-13.
- The percentage of new claims outstanding over 50 days improved from three per cent in 2011-12 to two per cent in 2012-13. Performance was better than the Welsh average of four per cent in 2012-13.

- The recovery of previous years' overpayments improved from 27 per cent in 2011-12 to 38 per cent in 2012-13. Performance was better than the Welsh average of 32 per cent in 2012-13.
- The total number of housing benefit applications subject to review reduced from 371 in 2011-12 to 260 in 2012-13. The Council improved the time taken to process these applications from 24 days in 2011-12 to 16 days in 2012-13.
- The percentage of reconsiderations responded to within four weeks improved from 73 per cent in 2011-12 to 82 per cent in 2012-13. This was better than the Wales average of 11 per cent in 2012-13. Performance across Wales significantly declined from 68 per cent in 2011-12 to 11 per cent in 2012-13.

69 However, accuracy in processing claims remained static and performance declined in the following indicators:

- The percentage of new claims decided within 14 days declined from 87 per cent in 2011-12 to 83 per cent in 2012-13. This was worse than the Welsh average of 88 per cent in 2012-13. Performance across Wales declined from 91 per cent in 2011-12 to 88 per cent in 2012-13.
- Whilst the number of appeals reduced from eight in 2011-12 to six in 2012-13, the average time taken to process appeals declined with the Council taking on average 47 days in 2012-13 compared with 36 days in 2011-12. This performance was worse than the Welsh average of 38 days in 2012-13.

- The Council undertook fewer fraud investigations during 2012-13, reducing from 32 per 1,000 caseload in 2011-12 to 25 per 1,000 caseload in 2012-13. However, the number of successful sanctions applied improved from four per 1,000 in 2011-12 to five per 1,000 in 2012-13, although this remained worse than the Wales average of eight per 1,000 caseload in 2012-13. Performance across Wales declined from nine per 1,000 caseload in 2011-12 to eight per 1,000 caseload in 2012-13.

The Council has recorded the Welsh language skills of its workforce on the payroll system but Welsh language provision on its website and social media still needed to be improved

70 The role of the Welsh Language Commissioner was created by the Welsh Language (Wales) Measure 2011. It is expected that new powers to impose standards on organisations will come into force through subordinate legislation by the end of 2014. Until that time, the Commissioner will continue to review Welsh language schemes by virtue of the powers inherited under the Welsh Language Act 1993.

71 The Commissioner works with all local authorities in Wales to inspect and advise on the implementation of language schemes. It is the responsibility of local authorities to provide services to the public in Welsh in accordance with the commitments in their language schemes. Every local authority is committed to providing an annual monitoring report to the Commissioner outlining its performance in implementing the language scheme. The Commissioner analyses every monitoring report; provides a formal response and collects further information as required.

72 The Commissioner's comments in relation to Caerphilly are as follows: 'The Council keeps a record of the workforce's Welsh language skills and the information is now included in the payroll system. Despite this, the Council has not made progress in terms of designating posts where Welsh language skills are essential and that is expected to be a priority in the next period. Further work needs to be done to improve the Council's Welsh language content on its website and social media. The Council's equalities and Welsh language team is offering support to other service departments on practical issues relating to the Welsh Language Scheme. The Council has also committed to providing language awareness courses in response to the requirements of the Language Scheme and the Government's *More Than Just Words* strategy.'

The Council's evaluation and reporting of performance for 2012-13 improved but underpinning arrangements need to be strengthened

In 2012-13 the Council discharged its improvement reporting duties under the Local Government (Wales) 2009 Measure although there was potential to strengthen its arrangements further

73 The Council published an assessment of its performance during 2012-13 in its Annual Performance Report 2012-13 before 31 October 2013 in line with statutory requirements. The Annual Performance Report was available on the Council's website, and hard copies were available at its main public buildings. It was evident there was ownership and involvement of services in developing the Annual Performance Report.

74 The Council addressed many of the proposals for improving its Annual Performance Report raised in our Improvement Assessment letter of 17 December 2012. For example, comparative data for all the National Strategic Indicators and Public Accountability Measures was included, together with more financial information to illustrate how resources are being spent in each Directorate and to highlight the financial pressures it is facing. There was also greater involvement of the Council's Scrutiny Committees and Audit Committee in evaluating the Council's success in delivering its Improvement Objectives, both throughout the year and at the year-end to inform the development of the Annual Performance Report. Moreover, the Annual Performance Report presented a fairer and more balanced picture of the Council's performance than it did last year.

75 We identified a number of areas where the Council could further improve the Annual Performance Report. These included providing more contextual information to give a more rounded picture of performance and setting out more consistently what action it is going to take to address poor/ under-performance. We also felt that consideration could be given to more targeted use and reporting of comparative information. For example, the Council could consider comparing its performance with other similar councils or bodies rather than just using the all-Wales average.

The Council recognised that weaknesses remained in its performance management arrangements

76 The Council's performance management mechanisms were well-established but had not been reviewed or changed significantly for a long time. Performance management was a regular item at departmental team meetings and consideration of the 'story' behind the data was maturing but the emphasis had been on data gathering rather than analysis and evaluation. The use of qualitative and comparative information was ad hoc and there was a lack of formal and routine progress reports to Cabinet on the Council's Improvement Objectives.

77 With the increasing financial pressures on the Council, it was now reviewing its arrangements to ensure these were still appropriate. Improving performance management was a key component of the Council's Improving Governance action plan. Changes were being made, for example, to

its service planning process and its scrutiny arrangements. A new corporate planning cycle and timetable for 2014-15 had been developed. The Viewpoint Panel had also been re-instated and provided a useful means of consulting the public.

78 In our 2013 *Annual Improvement Report* of September 2013 we raised concerns about inconsistencies in the quality of self-evaluation arrangements in place across the Council. Over the past four months the Council has been working to strengthen its self-evaluation arrangements with support from the Welsh Local Government Association. Workshops have been held with heads of service and a range of approaches to self-evaluation have been piloted across the organisation. The Council has now adopted a set of core self-evaluation characteristics rather than a prescribed format and is considering establishing internal challenge mechanisms for assessing the robustness of the self-evaluations.

79 The Council is intending to undertake its first round of self-evaluations during the summer of 2014, which will then be used to provide the Council's leadership with a clear understanding of all the key issues relating to its services including need, improvement, risk and resources. These self-evaluations will then be used to inform the Council's medium term financial plan and service plans. We will monitor how these arrangements develop.

80 CSSIW's Annual Review and Evaluation of Performance 2012-13 concluded that: 'The director of social service's annual report is clear and well balanced. It provides an outline of services provided, changes over the year and is honest about the challenges going forward. The interim director recognises in his report that the impact of welfare reform will need careful monitoring to maintain and redirect services to those key areas of need. Priorities are set out for the coming year. There is acknowledgement that continued review of existing services along with exploration of new alternatives will be required to continue the Council's building of resilient services for the future.'

81 Ffynnon² continued to be used as the key tool to monitor and report performance. The Welsh Government is currently in the process of tendering for new performance management software so the contract with the providers of Ffynnon will finish in June 2014. The Council invested significant time and resource in developing its use of Ffynnon across the organisation. Hence, it has been sensibly negotiating with the providers to extend the contract in advance of the end of the all-Wales contract.

² Ffynnon is a nationally procured software solution to meet the performance management requirements of local authorities, fire and rescue services, national park authorities and their partners.

The effectiveness of scrutiny was inconsistent

- 82 Our survey of members and officers undertaken as part of the special corporate governance inspection found that they had a mixed view of the effectiveness of the Council's scrutiny committees. The chairs of these committees felt that there were areas where scrutiny could be improved. This was attributed to a range of reasons, such as:
- whether the right reports were being presented to scrutiny committees;
 - members' understanding and confidence in their roles; and
 - a view that the six-monthly scrutiny of Council performance was too weak and was not an integrated part of the scrutiny process, and hindered progress towards a self-evaluative approach.
- 83 The Council engaged in the Auditor General's improvement study on scrutiny in 2012-13, which included an aspect of peer review and self-evaluation. Following the study, the Council developed a scrutiny improvement action plan, which has been seen as an integral part of the Council's improving governance programme. Many of the actions have been implemented. Procedural changes have been introduced to better distinguish between members and officers in committees and a Scrutiny Leadership Group has been set up. Many of these changes were still in their infancy and were not yet in place consistently and robustly across all committees. Further changes and improvements were also due to be made during 2014.
- 84 The Council is continuing to observe and learn from how scrutiny operates at other councils. Our observation of two of the Council's scrutiny committees was that members were becoming more challenging and growing in confidence, although it was evident that there was still much to do to ensure there was greater consistency of performance across committees.
- 85 CSSIW reported in its Annual Review and Evaluation of Performance 2012-13 that it 'attended and observed a scrutiny meeting which was well attended. The full agenda provided opportunity for discussion around a range of issues which were discussed in detail before decisions were made. Social services staff and the local youth forum were represented, providing presentations to the members present.'
- 86 We also found that the Audit Committee was becoming more effective in its role with more challenge to the reports produced and to management evident from its operation. Pre-meetings with auditors and the Section 151 Officer and the chair of the committee assisted in understanding the key points of reports presented. There should be a stronger role for the committee in ensuring the Internal Audit programme addressed the risks facing the Council as a form of assurance that risks were being adequately mitigated.

The Council had data validation arrangements in place, which it continued to improve, but these needed to be consistently applied and embedded across the organisation

87 Every council needs to have good information and use it well if it is to provide good services and make them even better. We audited the data systems supporting six performance measures used by the Council. One was a National Strategic Indicator (NSI) and five were local performance measures.

88 Our assessment of a sample of the Council's performance measures and operational data systems concluded that the Council's data validation arrangements were continuing to be strengthened and the need to ensure consistency across the Council was recognised.

89 The Council had sound systems in place to produce and quality assure its performance indicator data. However, given that we qualified two out of the six indicators we audited this year, including one National Strategic Indicator, the systems needed to be more robust. Nevertheless, this was the first year in the past six years that we qualified any indicators at the Council. We qualified the two following indicators:

- NSI LSC/002b: number of visits to local authority sport and leisure centres during the year per 1,000 population where the visitor will be participating in physical activity; and

- local indicator: number of participants in the Council's apprenticeship scheme.

90 Whilst the process for validating the NSIs was well defined, the process for local measures was being further refined. For example, work was ongoing to ensure there were clear definitions in place and that these were being adhered to.

The Council complied with its responsibilities relating to financial reporting, but there were weaknesses with regards to its use of resources

91 The auditor appointed by the Auditor General recently gave his opinion on the Council's accounts, and based on this the Appointed Auditor's view was that the Council complied with its responsibilities relating to financial reporting but there were weaknesses with regards to its use of resources.

92 The Appointed Auditor issued a *Public Interest Report* on 6 March 2013 in respect of chief officer pay. The report concluded that the decision by the Senior Remuneration Committee (the Committee) on 5 September 2012 to approve the recommended pay structure set out in the Chief Executive's report to that Committee was unlawful.

93 As a consequence, there was an amount included in expenditure in the 2012-13 accounts, which the Appointed Auditor considered to constitute unlawful expenditure. The Council undertook an additional review of payments to senior officers during the year. As a result of this review, further payments were identified which were considered unlawful as these decisions were made by persons without appropriate authority to do so under the Council's constitution and Scheme of Delegation. [Appendix 3](#) gives more detail.

The Council is involved in a range of collaborations and, historically, its financial planning has been sound but in 2013-14 it failed to discharge some of its improvement planning duties under the Measure

The Council failed to discharge some of its improvement planning duties under the Measure for 2013-14 as it did not publish its improvement objectives in a timely way and should ensure that it acts more in accordance with Welsh Government guidance

- 94 The Council failed to discharge some of its improvement planning duties under the Measure for 2013-14 as it did not publish its Improvement Plan, known as Caerphilly Council's Improvement Objectives, for the year 2013-14, within a reasonable timescale.
- 95 The Council undertook consultation with the public on its suggested set of improvement objectives in line with the requirements of the Measure. The consultation was carried out using web and paper-based surveys between 22 April and 24 May 2013.
- 96 We recognise the Council's efforts to undertake meaningful consultation to inform its new set of improvement objectives impacted on the timescales to publish its Improvement Plan. The Improvement Plan was not published until 25 July 2013. In the absence of exceptional circumstances, we would consider it reasonable to expect a council to make arrangements to formulate, scrutinise, approve and publish its improvement objectives at the latest before the end of the first quarter of the financial year to which they relate. In our Improvement Assessment Letter of October 2012, we identified that the Council needed to ensure that it allowed sufficient time in its arrangements to consult with an appropriate range of stakeholders. Despite raising this as an issue last year and making a proposal for improvement the Council did not subsequently put in place arrangements that enabled it to formulate, scrutinise, approve and publish its improvement objectives in a timely way to meet its statutory obligations.
- 97 The Council agreed six improvement objectives for 2013-14, which are different to those from previous years, and the rationale for choosing them is set out in the Improvement Plan. The Improvement Plan also seeks to explain the difference between its improvement objectives and overall Council priorities although it is concerning that the Council did not formally approve its priorities until October 2013.
- 98 We felt that the Council should ensure it acts more in accordance with Welsh Government guidance because:
- The Council was continuing to embed a more outcome-based approach with clearer links between actions, measures and outcomes but further work is still needed to ensure this is applied consistently.
 - The Council made some progress in addressing the proposal for improvement around the use of comparative information issued in our Improvement Assessment Letter dated October 2012. However, there is still scope to make more use of comparative information. We have also previously encouraged the Council to use a wider basket of evidence to demonstrate progress with its improvement objectives but the majority of measures adopted by the Council continue to be quantitative. There are limited examples of more qualitative

- or wider types of evidence being used to determine progress.
- Our review of a sample of Service Improvement Plans showed that overall there was alignment with relevant improvement objectives. The Children Service's Service Improvement Plan, for instance, showed clear links to an improvement objective relating to looked-after children. However, the alignment between the Youth Service related improvement objective and the Youth Service Service Improvement Plan was less clear as the actions contained in the Plan were not explicit in the Youth Service Service Improvement Plan. Again, we previously raised this as an area for improvement in our Improvement Assessment Letter in October 2012, and have found that further work is still needed to ensure links are robust between relevant Service Improvement Plans and improvement objectives.
 - At the time of our audit of the Council's Improvement Plan, we noted that the Council was in the process of developing action plans for each of its improvement objectives as it recognised some improvement objectives involve cross-departmental working. These action plans are now in place.
- 99 The Equality Act 2010 (Statutory Duties) (Wales) Regulations 2011 set out specific requirements for local authorities in Wales. They were required to develop and publish Equality Objectives and the Council published its Strategic Equality Plan in March 2012. There is significant alignment between the requirement to produce Equality Objectives and the 'Fairness' element that authorities must pay consideration to in setting Improvement Objectives under the Measure. Equality impact assessments were undertaken during the development of the Council's 2013-17 Corporate Priorities, which informed the development of the Council's improvement objectives.
- 100 The Improvement Plan also contains a section which briefly highlights the links between its strategic equality objectives and its improvement objectives. Indeed, it is clear that some of the Council's improvement objectives, such as the improvement objective relating to looked-after children, are specifically focused on vulnerable groups within the county borough.
- 101 In our Improvement Assessment Letter to the Council in October 2012, we made a proposal for improvement about the need for equality impact assessments to be undertaken robustly and consistently for all Service Improvement Plans. It is positive to note that the Council has taken steps to address this. The Council's Equalities Officer has run a series of workshops this year with services to improve their equalities planning. The Service Improvement Plans are reviewed by the Council's Equalities and Sustainable Development Officers as well as the Council's Performance Management Unit and feedback is provided to the service. Any areas for improvement are then addressed by the services before being finalised. The Council's Equalities Officer also provides a whole authority Service Improvement Plan report to Corporate Management Team which outlines the alignment between the Service Improvement Plans and the equality objectives.

102 The Appointed Auditor issued a report in the public interest in accordance with Section 22 of the Public Audit (Wales) Act 2004 which raised significant concerns about the Council's governance arrangements. Although the Council is not required to make reference to this within its Improvement Plan in order to meet the Measure, given the public interest in the Council over the past year, it is surprising that the Council did not do so, if only to provide assurance to its citizens of the actions it was taking to address the findings.

The Council is involved in a high number of collaborations compared with the other councils we surveyed and, in general, we found scope to improve some arrangements for planning and management of projects, and that the lack of information on costs and benefits makes it difficult to assess value for money

103 In 2012-13 we carried out a review of collaborative working across four councils in Gwent: Blaenau Gwent, Caerphilly, Monmouthshire and Torfaen. The reviews sought to assess whether the councils' approaches to collaboration were robust and delivering what they intended.

104 Overall, we concluded that Caerphilly is involved in a high number of collaborations compared with the other councils we surveyed and, in general, we found scope to improve some arrangements for planning and management of projects and that the lack of information on costs and benefits

makes it difficult to assess value for money. We came to this conclusion because:

- Councils we surveyed are involved in many collaborative projects and Caerphilly reported the second highest number of these projects compared with the other councils.
- The planning and management of some projects could be improved by clearly setting out the rationale for collaborating, nominating a lead officer and specifying clear timescales for the project.
- Collaboration projects in the councils we surveyed generally lack information on the costs and benefits of collaboration, which has made it difficult to assess value for money.

To date, the Council has been proactive in identifying its savings requirements but is now having to review its budget strategy to meet the significant level of savings needed over the next two to three years

105 The current financial climate and the recent tough settlement for local government mean that good financial planning is critical to sustaining financial resilience.

106 The Auditor General is currently examining authorities' financial health, their approach to budgeting and delivering on required savings, to provide assurance that authorities are financially resilient. This work will consider whether authorities have robust approaches in place to manage the budget reductions that they are facing to secure a stable financial position that enables them

to continue to operate for the foreseeable future. The focus of the work is on the 2014-15 financial planning period and the delivery of 2013-14 budgets. This review will be completed early in 2014-15 and we will publish the findings in our next cycle of improvement assessment work.

107 The Council has calculated that it needs to find savings totalling over £28 million by 31 March 2017. A long list of potential savings was developed and was subject to consultation with councillors, trades unions and the public between November and December 2013. Following consideration of this consultation, a number of these initial savings proposals were withdrawn, reducing the total level of savings which will be achieved for 2014-15 to £14.7 million and resulting in a funding gap of over £628,000 for 2014-15. At its Council meeting on 26 February 2014, the Council agreed its 2014-15 budget strategy to fill this gap. This strategy included increasing the level of Council Tax for 2014-15 by 3.9 per cent.

108 In our *Annual Improvement Report* of September 2013, we reported that the Council has taken a proactive view in identifying its savings requirements allowing it to plan ahead in a measured way. The level of savings required is now such that the Council has had to reconsider its budget strategy for 2015-16 and 2016-17. Up to three per cent efficiency savings will still be considered in all service areas but there will also be a comprehensive review of a range of discretionary services. The Council anticipates that this new budget strategy will lead to a much higher percentage reduction in service in a number of, if not

all, discretionary service areas. The Council also recognises that it will need to review its priorities to ensure that these can still be achieved given the reduced funding levels. In addition, the Council is reviewing its workforce policies to determine whether they are flexible enough to deal with the level of savings required in future years. The Council agreed its financial strategy for 2015-16 and 2016-17 at its Council meeting on 26 February 2014.

Arrangements are now in place to report and monitor the Auditor General's proposals for improvement and recommendations

109 The Council has now put in place more robust arrangements for reporting and monitoring the Auditor General's proposals for improvement and recommendations. Previously, these arrangements have been ad hoc. All draft Auditor General reports are now discussed by the Council's Corporate Management Team and final reports are presented to the Council's Audit Committee, with a covering report identifying how progress against proposals for improvement will be monitored. The Council's Improving Governance Board has also recommended that this approach be applied to all regulators' reports.

110 The Council is continuing to make reasonable progress in addressing the Auditor General's proposals for improvement with the majority now considered to be closed or in progress. Key governance-related proposals for improvement have been incorporated into the Council's Improving Governance Programme.

During 2013-14 we found that a combination of a number of weaknesses inevitably led to governance failings at the Council and whilst it is making encouraging progress in improving its governance arrangements, it is too early to conclude whether these improvements can be sustained

111 In September 2013, the Auditor General announced his intention to conduct a special inspection into corporate governance arrangements at the Council, following up the findings of the Appointed Auditor who issued a *Report in the Public Interest* in March 2013. This report highlighted failures in governance arrangements and inadequacies in the processes followed by the Council to set the pay of chief officers. He also wished to follow up the wider governance issues highlighted in his Annual Improvement Report, published on 10 September 2013. The report on the special inspection was published in January 2014 and can be found on the Wales Audit Office's website: <http://www.wao.gov.uk>

112 Key findings of the special inspection are summarised in the paragraphs below.

The pace of change and a combination of a number of weaknesses inevitably led to governance failings

113 The tone at the top of the organisation changed with the appointment of a new Chief Executive in September 2010. The Council became more action oriented with a greater risk appetite and pressure for an increased pace of working. There was increased pressure to raise the profile of the Caerphilly area and to promote the achievements of the Council. The changes introduced by the new Chief Executive had an impact on the capacity of the Senior Management Team.

114 Key governance arrangements were not reviewed or changed to reflect the change in tone at the top of the organisation and the increased operating pace. The potential for conflicts of interest inherent in the new structures were not considered and key statutory officer roles did not have sufficient profile or influence.

115 A number of decisions were taken by the Council which did not follow appropriate governance procedures. There were also weaknesses in the preparation of business cases to support decisions and in the transparency and comprehensiveness of reports prepared to support decisions.

116 Weaknesses in the Council's internal challenge functions were present throughout this time. In particular, its risk management arrangements were weak, the Internal Audit service was not used effectively, scrutiny arrangements were not sufficiently effective and there were weaknesses in performance management arrangements. This increased the risk that governance failures would not be prevented or detected.

117 There continues to be some uncertainty amongst officers as to when to consult members and when officers can make decisions. The Council's constitution still lacks clarity over decision-making processes. Whilst training is taking place on report writing, the Council has not yet embedded a cultural shift that ensures that transparency, comprehensiveness and balance of reports are maintained over time.

The Council is now improving its governance arrangements

- 118 The Council clearly recognises, and is embracing, the need to change and improve its governance arrangements. There is a strong determination amongst members and officers to ensure governance arrangements are working properly and to re-build the Council's credibility. The Council has established an Improving Governance Programme Board and has implemented the majority of actions it has identified to improve governance. However, certain governance functions need further improvement.
- 119 Risk management is not yet successfully embedded across the Council. Whistle-blowing procedures are out of date and do not reflect the most recent legislative changes. Internal audit is not used effectively to provide assurance over the major risks facing the Council. In addition, identified actions to improve its HR functions and performance management are yet to be implemented.
- 120 Members generally trust officers to deliver the work of the Council and respect their knowledge and professionalism. Whilst members feel able to challenge officers, there is a mixed view as to the effectiveness of the Council's scrutiny committees. The Council is continuing to observe and learn from how scrutiny operates at other local authorities. Members are becoming more challenging and are growing in confidence although this is not yet consistent across committees.

It is uncertain whether the improved governance arrangements can be sustained during a period of further change

- 121 The appointment of a former Chief Executive of the Council as Interim Chief Executive has provided re-assurance to members, staff and other stakeholders that the stability experienced by the Council previously for many years can be attained. Changes have been made that have strengthened the Corporate Management Team and the roles of statutory officers. A revised approach to dealing with reports and recommendations from external regulators has been implemented and the Leader and the Interim Chief Executive have focused on the need to communicate with staff and the public.
- 122 There has been a healthy focus in the Council on getting on with providing services and dealing with normal business. However, future changes are inevitable following the completion of the police investigation. It is critical that the Council ensures that the improvements in governance already made or planned are implemented fully and are robust enough to be sustainable for the future.

Given the uncertainty around the sustainability of its improved governance arrangements, the Auditor General is not yet able to conclude whether the Council is likely to comply with its requirement to make arrangements to secure continuous improvement for 2014-15

- 123 Police investigations, court proceedings and disciplinary investigations are continuing in relation to the issues reported in the Public Interest Reports. The Chief Executive, Deputy Chief Executive and Head of Legal Services have been charged with misconduct in public office. Police investigations into the matters raised by the Appointed Auditor's *Report in the Public Interest on Chief Officer Essential Car User and Annual Leave Allowances* are also ongoing. Internal disciplinary investigations have been put on hold pending the completion of the police and court proceedings.
- 124 Whilst the special inspection demonstrated that the Council is improving its governance arrangements, it is too soon to determine whether these are yet sufficiently embedded. A full assessment of the robustness and sustainability of the Council's improved governance arrangements will only be possible when all investigations and associated proceedings are complete and the Council has fully returned to stability.
- 125 The Council is currently considering its proposed improvement objectives for 2014-15 and a timetable is in place to bring forward the publication of its improvement objectives. The Council also intends to publish a Corporate Plan 2014 this year. Together they will form a key component of the Council's revised annual corporate planning cycle which aims to better integrate its service, financial and resource planning.
- 126 The Council's Annual Performance Report 2012-13 demonstrated that the Council's performance is improving in many of its priority areas. The results of the Council's Household survey undertaken in June 2013 showed that the percentage of respondents who were satisfied with the overall services the Council provides increased from 78 per cent in 2011 to 82 per cent in 2013.
- 127 However, the Council is facing unprecedented challenges, both financially and corporately, that will test if its capacity and arrangements can continue to sustain this improvement.

Appendices

Appendix 1 Status of this report

The Local Government (Wales) Measure 2009 (the Measure) requires the Auditor General to undertake an annual improvement assessment, and to publish an annual improvement report, for each improvement authority in Wales. This requirement covers local councils, national park authorities, and fire and rescue authorities.

This report has been produced by the staff of the Wales Audit Office on behalf of the Auditor General to discharge his duties under section 24 of the Measure. 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.

Improvement authorities are under a general duty to 'make arrangements to secure continuous improvement in the exercise of [their] functions'. Improvement authorities are defined as local councils, national park authorities, and fire and rescue authorities.

The annual improvement assessment is the main piece of work that enables the Auditor General to fulfil his duties. The improvement assessment is a forward-looking assessment of an authority's likelihood to comply with its duty to make arrangements to secure continuous improvement. It also includes a retrospective assessment of whether an authority has achieved its planned improvements in order to inform a view as to the authority's track record of improvement. The Auditor General will summarise his audit and assessment work in a published Annual Improvement Report for each authority (under section 24).

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

Useful information about Caerphilly and Caerphilly County Borough Council

The Council

The Council's budget is £427.3 million for 2013-14. This equates to about £2,390 per resident. In the same year, the Council also had a capital budget of £43.3 million.

Band D council tax in 2012-13 for Caerphilly was £1,100 per year. This has increased by 2.5 per cent to £1,128 per year for 2013-14. Eighty-eight per cent of Caerphilly's housing is in council tax bands A to D.

The Council is made up of 73 elected members who represent the community and make decisions about priorities and use of resources. The political make-up of the Council is as follows:

- 50 Labour
- 20 Plaid Cymru
- 3 Independent

The Council's Interim Chief Executive is Stuart Rosser. The corporate management also consists of:

Acting Deputy Chief Executive and Corporate Director for Education, Lifelong Learning and Leisure,
Sandra Aspinall

Acting Director of Corporate Services, Nicole Scammell

Corporate Director for Social Services, David Street

Other information

The Assembly Members for Caerphilly are:

- Jeff Cuthbert, Caerphilly
- Gwyn Price, Islwyn
- Huw Lewis, Merthyr Tydfil and Rhymney

The Regional Assembly Members are:

- Mohammad Asghar, South Wales East
- Jocelyn Davies, South Wales East
- Lindsay Whittle, South Wales East
- William Graham, South Wales East

The Members of Parliament for Caerphilly are:

- Wayne David, Caerphilly
- Christopher Evans, Islwyn
- Dai Havard, Merthyr Tydfil and Rhymney

For more information see the Council's own website at www.caerphilly.gov.uk or contact the Council at Penallta House, Tredomen Park, Ystrad Mynach, Hengoed, CF82 7PG.

Appendix 3

Annual Audit Letter

Councillor Harry Andrews
Leader
Caerphilly County Borough Council
Penallta House
Tredomen Park
Ystrad Mynach
CF82 7PG

Dear Councillor Andrews

Annual Audit Letter

This letter summarises the key messages arising from my statutory responsibilities under the Public Audit (Wales) Act 2004 as the Appointed Auditor and my reporting responsibilities under the Code of Audit Practice.

The Council complied with its responsibilities relating to financial reporting, but there were weaknesses with regards to its 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 me 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 I 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 30 September 2013 I issued an unqualified audit opinion on the accounting statements stating that they present a true and fair view of the Council's financial position and transactions. My report is contained within the Statement of Accounts. The key matters arising from the accounts audit were reported to members of the Audit Committee in my Audit of Financial Statements report on 17 September 2013, and an update letter on matters that were outstanding on the day of the Audit Committee issued on 25 September 2013.

The key matters in relation to my audit of the accounts that were identified in those reports are as follows:

Senior Officers' Pay

I issued a *Public Interest Report* on 6 March 2013 in respect of chief officer pay. The report concluded that the decision by the Senior Remuneration Committee (the Committee) on 5 September 2012 to approve the recommended pay structure set out in the Chief Executive's report to that Committee was unlawful. There were a number of matters that lead to this conclusion, which were set out in the report.

As a consequence, there is an amount included in expenditure in the 2012-13 accounts, which I considered to constitute unlawful expenditure. The Council undertook an additional review of payments to senior officers during the year. As a result of this review, further payments were identified which were considered unlawful as these decisions were made by persons without appropriate authority to do so under the Council's constitution and Scheme of Delegation.

I have concluded that the following payments were unlawful:

- Payments made to senior officers pursuant to the decision of the Senior Remuneration Committee on 6 September 2012 until the rescinding of that decision on 17 January 2013 by the Council (£188,757).
- Payments made to senior officers which were made in the period from 17 January to 31 March which continued to be paid pursuant to the Senior Remuneration Committee decision (£81,607).
- Amounts paid to senior officers to buy-out certain allowances (£218,563).

The Council disclosed these amounts in its accounts and my audit opinion drew attention to this disclosure.

Valuation of Council Dwellings

Significant adjustments were made to the statement of accounts in respect of the valuation of council dwellings. The Council's valuers had not reviewed the suitability of the model for determining a valuation for accounting purposes prior to it being used for the draft financial statements. I have therefore recommended that the Council ensures that it appropriately utilises its internal expertise in producing accounting estimates, particularly where there is a significant level of judgement involved.

Other matters

My 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. Overall, I am not satisfied that the Council has appropriate arrangements in place. We have found significant weaknesses in the governance procedures and arrangements at the Council in the period. I issued a *Report in the Public Interest* on 6 March 2013 under section 22 of the Public Audit (Wales) Act 2004. I published this report to draw the public's attention to a failure in governance arrangements and inadequacies in the processes adopted by the Council to determine the pay of chief officers. The report stated:

- 'The decisions taken by the Senior Remuneration Committee were unlawful.
- There are weaknesses in the governance procedures at the Council:
 - the procedures for the first meeting of a new committee should have been more robust;
 - the report presented to the Committee lacked clarity in certain respects; and
 - the records of the meeting were inadequate.'

As a result of these failures, I concluded that the Council 'acted unlawfully with regards to this pay-setting process'. I made five recommendations around the following key areas: advertisement of meetings; conflicts of interest; procedures for new committees; records of meetings; and clarity and comprehensiveness of reports to committees. Avon and Somerset Police are currently investigating the issue.

The Auditor General has highlighted areas where the effectiveness of these arrangements has yet to be demonstrated and where improvements can be made in his *Annual Improvement Report* published in September 2013. The Auditor General is also currently undertaking a Special Inspection focusing on the Council's governance and decision-making arrangements.

I would like to highlight the following specific areas in this letter:

The financial outlook for the Council remains challenging and financial planning and monitoring arrangements are in place to identify the funding gap and facilitate the savings required.

The Council had generally good arrangements in place for the production and submission of its 2011-12 grant claims but there is some scope for improvement. 21% of the grant claims certified by PwC in respect of 2011-12 were subject to a qualification letter (18% in 2010-11) resulting in a net adjustment of £34.8k on the total grant claim of £175.3m. 82% of the grant claims were submitted by the Council on time. This is the same as in the previous year.

I have not yet issued a certificate confirming that the audit of the accounts has been completed as there are a number of matters raised by the public which I am currently investigating.

The financial audit fee for 2012-13 is currently expected to be higher than the agreed fee set out in the Annual Audit Outline due to the additional work required in respect of senior officers' pay and asset valuations.

Yours sincerely

Lynn Pamment (PricewaterhouseCoopers LLP)

For and on behalf of the Appointed Auditor
29 November 2013

cc: Stuart Rosser, Chief Executive

Appendix 4

Caerphilly County Borough Council's improvement objectives and self-assessment

The Council's improvement objectives

The Council is required by the Welsh Government to make plans to improve its functions and the services it provides. Each year it must publish these plans along with specific 'improvement objectives' that set out the key things that the Council intends to do to improve. The Council must do this as soon as possible after 1 April each year.

The Council published its improvement objectives for 2013-14 in its Improvement Objectives 2013-2014 which can be found on the Council's website at <http://www.caerphilly.gov.uk/>

They are:

Improvement objectives for 2012-13	Improvement objectives for 2013-14
Ensure the citizens of Caerphilly County Borough understand why, when and how to engage with us and the impact their engagement will have in helping us to improve services.	Ensure children and young people who are looked after are supported to achieve their full potential.
Make Caerphilly a safer place to live.	Improve job opportunities by implementing the Council's Passport Scheme.
Sustain the range of Employment Opportunities for residents.	Develop an effective and accessible Youth Service that supports the personal and social development of young people.
Improve the skills level for Children and Young People.	Improve awareness, access, variety and use of leisure, community and sporting facilities.
Promote Benefits of a Healthy and Active Lifestyle.	Investment in Council homes to transform lives and communities.
Adults who are in the social care system are able to lead full, active and independent lives.	Improve the availability of private and public sector housing to reduce the number of residents who may become homeless.
Agencies will work together to help children, young people and families who are experiencing difficulties.	
Reduce our carbon footprint and improving our sustainability.	

The Council's self-assessment of performance

The Council's self-assessment of its performance during 2012-13 can be found in the 'Annual Performance Report 2012-13 and can be located on its website at <http://www.caerphilly.gov.uk>

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