



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Annual Improvement Report 2016-17 Caerphilly 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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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 Caerphilly 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 likely to meet its statutory requirements in relation to continuous improvement providing it responds constructively and in a timely way to our statutory recommendations

- 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 providing it responds constructively and in a timely way to our statutory recommendations.
- 4 In our June 2017 report 'Welsh Housing Quality Standard' we made three statutory recommendations to the Council as detailed in [Exhibit 1](#) below. We received a statement of action by the Council's Corporate Director - Communities on 19 July 2017, which is subject to the Cabinet's endorsement. We will follow up the Council's progress in due course as part of our ongoing audit work at the Council.
- 5 As stated in our 2015-16 Annual Improvement Report, internal investigations are continuing in relation to the issues concerning some senior officers. Consequently, there are still a number of interim or acting posts at senior management level and a degree of uncertainty remains at the Council until the internal investigations are concluded.

Recommendations and proposals for improvement

- 6 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.
- 7 Formal recommendations made by the Auditor General during the course of the year are set out below. Authorities must prepare a response within 30 working days of receiving them.
- 8 A number of proposals for improvement have also been made and these are repeated in this report. We will monitor progress against the Auditor General's recommendations, proposals for improvement, and relevant recommendations made in our national reports ([Appendix 3](#)) as part of our improvement assessment work.

Exhibit 1: formal recommendations made in the year.

Formal recommendations made in the year

The Council should take urgent action to achieve the Welsh Housing Quality Standard (WHQS) by 2020. It should:

- R1 By September 2017, develop a comprehensive, overarching, financial and operational programme setting out how the Council will achieve the WHQS by 2020. This programme should:
- establish the full scope of investment needed in the Council's housing stock based on accurate, comprehensive and up-to-date stock condition information;
 - set out how the Council, by March 2018, will:
 - review its procurement arrangements to ensure value for money;
 - provide clear and transparent information to members and tenants about the current position of the programme and a commitment to stakeholders with accurate projected completion dates; and
 - secure the resources needed to deliver the programme by 2020.
 - contain clear and measurable milestones and relevant performance measures for delivering the programme up to 2020; and
 - set out the programme management, governance and accountability responsibilities and arrangements so that urgent remedial action can be taken if further slippage occurs and those tasked with delivering the programme can be held to account at appropriate decision-making levels.
- R2 Assure itself that it is meeting its statutory landlord responsibilities by ensuring that:
- all properties have a valid gas safety certificate in place, or are having the Council's non-compliance arrangements applied to them fully; and
 - arrangements for undertaking asbestos surveys and recording the results of these surveys are robust.
- R3 Ensure it has sufficient project management capacity to deliver the Council's WHQS programme effectively by 2020.

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
Governance			
February 2017	<p>Good governance when determining service changes</p> <p>Review of the Council's governance arrangements for determining service changes.</p>	<p>The Council's approach to service change has been proportionate to the scale of changes it has made to date and it is strengthening its arrangements to prepare for potentially more significant future service changes:</p> <ul style="list-style-type: none"> the Council has a clear set of principles for determining service change that support its current vision, but it recognises the need to review its strategic; the Council continues to strengthen its governance and accountability arrangements and these have the potential to assist it to deliver future service change effectively; options appraisals are generally sound and improving but there is a need for more consistency in the quality of information included; the Council's arrangements to engage stakeholders in service changes have been effective; the Council monitors the impact of service changes but arrangements are not systematic or transparent; and in recent years, the Council has strengthened its governance and decision-making arrangements, and has responded positively to our audit reports. 	<p>The Council's governance arrangements for service change could be strengthened by:</p> <p>P1 Introducing a more systematic and transparent arrangement for monitoring the impact of service changes.</p> <p>P2 More clearly setting out in reports how feedback from engagement and consultation has been taken account of in developing proposals for service change.</p>

Issue date	Brief description	Conclusions	Proposals for improvement
Use of resources			
November 2016	<p>Annual audit letter 2015-16 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 Appendix 2 of this report.</p>	<ul style="list-style-type: none"> The Council complied with its responsibilities relating to financial reporting and use of resources. We are satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources. 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. 	<p>P1 That the Council reviews how the Logotech Asset System calculates depreciation for revalued assets as our work identified that revalued assets are being depreciated one year too quickly due to the incorrect 'Useful Economic Life' being used post revaluation.</p> <p>P2 That aged debtor and creditor balances should be written off and removed from the brought forward balances.</p>
March 2017	<p>Savings planning 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 has an effective and improving savings planning approach, which is supporting future financial resilience:</p> <ul style="list-style-type: none"> the Council has reported achievement of 96% of its planned 2015-16 savings in-year and can demonstrate that individual savings have been delivered; the Council has an effective corporate framework for financial planning and whilst the Council has well considered savings plans, some savings proposals are insufficiently developed when the budget is agreed; and the Council has detailed savings plans and is forecasting that 96% of its 2016-17 savings plan will be achieved in-year. 	<p>Strengthen financial planning arrangements by ensuring that savings plans are underpinned by robust business cases.</p>

Issue date	Brief description	Conclusions	Proposals for improvement
Local risk-based performance audit			
June 2017	<p>Welsh Housing Quality Standard (WHQS) Review of the Council's arrangements to enable it to meet the WHQS by 2020.</p>	<p>The majority of tenants' homes remain below the WHQS due to longstanding inefficient and ineffective programme management and the Council is unlikely to achieve the Standard by 2020.</p> <ul style="list-style-type: none"> • the majority of tenants' homes remain below the WHQS and the Council is making insufficient progress to achieve the Standard by 2020; • there are weaknesses in the Council's arrangements to meet its statutory landlord responsibilities; • the Council has not met all the minimum requirements of the Welsh Government's WHQS policy because it lacks a comprehensive programme that sets out to stakeholders how it will meet the Standard by 2020; • the Council does not have adequate and up-to-date stock condition information to enable it to shape its housing investment programme; • the Council has a range of mechanisms to engage with tenants about the WHQS but these are ineffective and are not being used to shape planning and drive performance; • the Council is unable to ensure that it is achieving value for money in delivering its WHQS works; and • arrangements to oversee, challenge, monitor and scrutinise the progress of the WHQS programme are weak and fail to provide sufficient oversight of the totality of the programme. 	<p>We made the following formal recommendations:</p> <p>The Council should take urgent action to achieve WHQS by 2020. It should:</p> <p>R1 By September 2017, develop a comprehensive, overarching, financial and operational programme setting out how the Council will achieve the WHQS by 2020. This programme should:</p> <ul style="list-style-type: none"> • establish the full scope of investment needed in the Council's housing stock based on accurate, comprehensive and up-to-date stock condition information; • set out how the Council, by March 2018, will: <ul style="list-style-type: none"> – review its procurement arrangements to ensure value for money; – provide clear and transparent information to members and tenants about the current position of the programme and a commitment to stakeholders with accurate projected completion dates; and

Issue date	Brief description	Conclusions	Proposals for improvement
			<ul style="list-style-type: none"> – secure the resources needed to deliver the programme by 2020. • contain clear and measurable milestones and relevant performance measures for delivering the programme up to 2020; and • set out the programme management, governance and accountability responsibilities and arrangements so that urgent remedial action can be taken if further slippage occurs and those tasked with delivering the programme can be held to account at appropriate decision-making levels. <p>R2 Assure itself that it is meeting its statutory landlord responsibilities by ensuring that:</p> <ul style="list-style-type: none"> • all properties have a valid gas safety certificate in place, or are having the Council's non-compliance arrangements applied to them fully; and • arrangements for undertaking asbestos surveys and recording the results of these surveys are robust.

Issue date	Brief description	Conclusions	Proposals for improvement
			<p>R3 Ensure it has sufficient project management capacity to deliver the Council's WHQS programme effectively by 2020.</p>
<p>August 2017</p>	<p>Asset management Review to consider the extent to which the Council's asset management arrangements support strategic and effective decision-making and improvement.</p>	<p>The Council recognises the key role its assets have in helping to deliver its priorities but weaknesses in its new Corporate Asset Management Strategy and its delivery undermines its ability to shape the future of its assets.</p>	<p>We did not make any specific recommendations or proposals for improvement but identified that we would undertake a review of the effectiveness of the Council's Business Improvement Board as part of our 2017-18 local performance audit work.</p>
<p>August 2017</p>	<p>Digital risk diagnostic Review to identify 'potential' digital risks and issues at the Council.</p>	<p>The Council has a range of Information Management and Technology (IM&T) related policies, plans and processes but lacks an overarching digital strategy to drive its activities.</p>	<p>We did not make any specific recommendations or proposals for improvement but identified that we will consider carrying out more specific work, focussing on one or more of the following areas as part of our ongoing performance audit programme:</p> <ul style="list-style-type: none"> • to explore more fully the Council's approach to digital and IT after it has made a decision about joining the SRS in the autumn; • IM&T resilience (IT business continuity, disaster recovery, and backups); and • Information and cyber security.

Issue date	Brief description	Conclusions	Proposals for improvement
Improvement planning and reporting			
June 2016	Wales Audit Office Annual 'Improvement Plan' Audit Review of the Council's published plans for delivering on improvement objectives.	The Council has complied with its statutory improvement planning duties.	None
November 2016	Wales Audit Office Annual 'Assessment of Performance' Audit Review of the Council's published performance assessment.	The Council has complied with its statutory improvement reporting duties.	None
Reviews by inspection and regulation bodies			
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

Mr Chris Burns
Chief Executive
Caerphilly County Borough Council
Penallta House
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Ystrad Mynach
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22 November 2016

Dear Mr Burns

Annual Audit Letter – Caerphilly County Borough Council 2015-16

This letter summarises the key messages arising from our 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 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 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 30 September 2016 we issued an unqualified audit opinion on the accounting statements confirming that they present a true and fair view of the Council's financial position and transactions. Our 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 our Audit of Financial Statements report on 14 September 2016. The significant items are summarised as follows:

- there were no misstatements identified in the financial statements, which remained uncorrected.
- there were a number of misstatements that were corrected by management. This included an adjustment of £137.8 million to the value of Council Dwellings following a change in the valuation basis to the adjusted vacant possession (using the beacon principle).
- two high-risk recommendations were also made. We recommended that the Council reviews how the Logotech Asset System calculates depreciation for revalued assets as our work identified that revalued assets are being depreciated one year too quickly due to the incorrect 'Useful Economic Life' being used post revaluation. We also recommended that aged debtor and creditor balances should be written off and removed from the brought forward balances.

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 under the Local Government (Wales) Measure 2009. The Auditor General will highlight areas where the effectiveness of these arrangements has yet to be demonstrated or where improvements could be made when he publishes his Annual Improvement Report.

We issued a certificate confirming that the audit of the accounts has been completed on 30 September 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 my 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 currently expected to be in line with the agreed fee set out in the Annual Audit Plan.

Yours sincerely

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

Appendix 3

National report recommendations 2016-17

Exhibit 3: 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	Financial Resilience of Local Authorities in Wales 2015-16	<p>In our report of 2014-15 (The Financial Resilience of Councils in Wales, 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"> • developing more explicit links between the Medium Term Financial Plan (MTFP) and its corporate priorities and service plans; • aligning other key strategies such as workforce and asset management plans with the MTFP; • developing comprehensive multi-year fully-costed savings plans which underpin and cover the period of the MTFP, not just the forthcoming annual budget; • categorising savings proposals so that the shift from traditional-type savings to transformational savings can be monitored over the period of the MTFP; and • ensuring timescales for the delivery of specific savings proposals are realistic and accountability for delivery is properly assigned. <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	<u>Community Safety in Wales</u>	<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 co-ordinate 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"> • setting appropriate measures at each level to enable members, officers and the public to judge progress in delivering actions for community-safety services; • ensuring performance information covers the work of all relevant agencies; and • establishing measures to judge inputs, outputs and impact to be able to understand the effect of investment decisions and support oversight and scrutiny. <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"> • developing plans and priorities for community safety; • agreeing priorities for action; and • reporting performance and evaluating impact.

Date of report	Title of review	Recommendation
November 2016	<u>Charging for Services and Generating Income by Local Authorities</u>	<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 MTFP 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"> • regularly reporting any changes to charges to scrutiny committee(s); • improving monitoring to better understand the impact of changes to fees and charges on demand, and the achievement of objectives; • benchmarking and comparing performance with others more rigorously; and • providing elected members with more comprehensive information to facilitate robust decision-making. <p>R8 Improve the forecasting of income from charges through the use of scenario planning and sensitivity analysis.</p>
January 2017	<u>Local Authority Funding of Third Sector Services</u>	<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 <u>Checklist for local authorities effectively engaging and working with the third sector</u> to:</p> <ul style="list-style-type: none"> • self-evaluate current third sector engagement, management, performance and practice; • identify where improvements in joint working are required; and • jointly draft and implement an action plan to address the gaps and weaknesses identified through the self-evaluation. <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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