

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2017-2018

**COUNCIL
21ST JUNE, 2017**

Agenda Item No. 7

REPORT OF THE CHIEF EXECUTIVE

WALES AUDIT OFFICE REPORTS

Author: Mr.Chris Bradshaw, Chief Executive (Tel.No.01443-424026)

1. PURPOSE OF THE REPORT

The purpose of the report is to provide Members with five Wales Audit Office (“WAO”) reports, including the Annual Improvement Audit 2016/17.

2. RECOMMENDATIONS

It is recommended that Council:

- 2.1 Note the contents of this report;
- 2.2 To receive Mr Colin Davies of the WAO to present the Annual Improvement Report 2016/17 and other reports.

3. BACKGROUND

3.1 As part of the Audit of the Council for the financial year 2016/17, Wales Audit Office has undertaken a number of projects that enable it to form a view on the robustness of the corporate effectiveness of the Council. During the four month period to June 2017, the WAO published the following reports:

- The Annual Improvement Report 2016/17;
- WAO risk-based assessment of corporate arrangements: improvement and performance;
- WAO risk-based assessment of corporate arrangements: collaboration and partnerships;
- Savings Planning; and
- WAO risk-based assessment of corporate arrangements: financial and service planning.

3.2 A copy of each report is included in Appendices 1-5.

4. THE WAO PROPOSALS FOR IMPROVEMENT AND THE PROPOSED RESPONSE

- 4.1 The five WAO reports are positive reports and reflect the fact that the Council has robust financial, service and performance management arrangements in place. Nevertheless, there are opportunities to improve these arrangements and the WAO has made a number of proposals for improvement across the reports. Action is being taken to address the proposals for improvement, and the progress made against these actions will be reported to the Audit Committee in due course.



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Annual Improvement Report: 2016-17 Rhondda Cynon Taf County Borough Council

Issued: June 2017

Document reference: 344A2017



This Annual Improvement Report has been prepared on behalf of the Auditor General for Wales by Colin Davies and Justine Morgan under the direction of Jane Holownia.

Huw Vaughan Thomas
Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

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

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

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

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

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

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

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Summary report

2016-17 performance audit work

- 1 In determining the breadth of work undertaken during the year, we considered the extent of accumulated audit and inspection knowledge as well as other available sources of information including Rhondda Cynon Taf 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 1](#).

The Council continues to meet its statutory requirements in relation to continuous improvement

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

Recommendations and proposals for improvement

- 4 Given the wide range of services provided by the Council and the challenges it is facing, it would be unusual if we did not find things that can be improved. The Auditor General is able to:
 - a 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;
 - b make formal recommendations for improvement – if a formal recommendation is made, the Council must prepare a response to that recommendation within 30 working days;
 - c conduct a special inspection, and publish a report and make recommendations; and
 - d recommend to ministers of the Welsh Government that they intervene in some way.

- 5 During the course of the year, the Auditor General did not make any formal recommendations. However, a number of proposals for improvement have been made and these are repeated in this report. We will monitor progress against them and relevant recommendations made in our national reports (Appendix 3) as part of our improvement assessment work.

Audit, regulatory and inspection work reported during 2016-17

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

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 has effective governance arrangements for determining significant service changes and has demonstrated a commitment to further improving them.</p> <ul style="list-style-type: none"> the Council has a clear vision and strategy for determining service changes linked to its strategic priorities; governance and accountability arrangements for service change decision making are clear and well understood; options appraisals are well developed and transparent; the Council has effective consultation arrangements for key service changes and is committed to improving its engagement with stakeholders; the Council is improving its corporate arrangements for monitoring the impact of service changes; and the Council has made improvements to its decision making processes to reflect learning from earlier service changes. 	<p>P1 That the Council set out at the point of decision on service change proposals how the impact of proposed changes is going to be measured and monitored.</p> <p>P2 That the Council clarify and promote the arrangements for public participation in its overview and scrutiny process in order to encourage and promote public involvement.</p> <p>P3 That the Council publish its overview and scrutiny committees' forward work programme(s) as stand-alone document(s) on the Council website to increase openness and transparency.</p>

Issue date	Brief description	Conclusions	Proposals for improvement
Use of resources			
November 2016	<p>Annual audit letter 2015-16</p> <p>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. I am satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources. I issued a certificate confirming that the audit of the accounts has been completed on 29 September 2016. 	None.
December 2016	<p>Savings planning</p> <p>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 a largely effective and improving savings planning approach, which supports future financial resilience:</p> <ul style="list-style-type: none"> the Council has reported achievement of all of its 2015-16 savings plans in year, and can demonstrate that individual savings have been delivered; the Council has an effective corporate framework for financial planning but lacks indicative savings plans for future years; and the Council has a well-considered and detailed plan for 2016-17 and is forecasting that all planned savings will be achieved. 	P1 Strengthen financial planning by finalising the development of an income generation approach; and developing savings plans to cover the funding gap identified in the Medium Term Financial Plan.

Issue date	Brief description	Conclusions	Proposals for improvement
Local performance audit: Risk-based assessment of corporate arrangements			
August 2016	Information and Communications Technology and Information Governance	The Council has a clear vision for Information and Communications Technology (ICT) which is integrated with the Council's overarching aims and goals.	None.
February 2017	Human Resources	The Council has effective arrangements in place to manage and utilise its workforce.	P1 The Council should record explicitly the potential risk of insufficient capacity within the HR Division to support the Council implement its change agenda on the corporate risk register and the HR Delivery Plan 2017/18.
March 2017	Collaboration and partnerships	<p>The Council is collaborating effectively with a range of partners in order to achieve efficiencies and improve services to its citizens</p> <ul style="list-style-type: none"> the Council is collaborating well with neighbouring councils; the Council is a valued member of the Cwm Taf Public Service Board; the Council is seeking to modernise health and social care for the benefit of its citizens in conjunction with Cwm Taf University Health Board; and the Council is leading on the City Deal initiative to primarily improve the economic performance and the transportation infrastructure of the region. 	None
March 2017	Improvement and performance	The Council's Corporate Self-Assessment arrangements are becoming embedded and increasingly focussed, providing a balanced evaluation of performance and supporting improvement actions.	None.

Issue date	Brief description	Conclusions	Proposals for improvement
May 2017	Financial and service planning	The Council has improved its financial and performance management arrangements, strengthening the linkage between the Council's Corporate Plan Priority areas and resources allocated to them.	None.
Improvement planning and reporting			
July 2016	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.
July 2016	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 period covered in this report.			

Appendix 1 – Status of this report

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

Councillor Andrew Morgan
The Leader
Rhondda Cynon Taf County Borough Council
The Pavilions
Cambrian Park
Clydach Vale
Mid Glamorgan
CF40 2XX

Reference: 630A2016

Date issued: November 2016

Dear Councillor Morgan

Annual Audit Letter – Rhondda Cynon Taf County Borough Council and Pension Fund 2015-16

This letter summarises the key messages arising from my statutory responsibilities under the Public Audit (Wales) Act 2004 and my 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 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 29 September 2016 I issued an unqualified audit opinion on the accounting statements confirming that they present a true and fair view of the Council's and Pension Fund'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 at the Council Meeting on 28 September 2016, in my Audit of Financial Statements report.

Overall the statement of accounts and associated working papers provided for audit were of a good standard. Officers were very helpful and supplied us with all the information we requested. I reported to you the more significant issues arising from our audit, which are summarised below:

- **RCTCBC Accounts** – our testing identified £1.9 million of Receipts in Advance that should have been recognised as income in 2015-16. Management agreed and amendments were made to the Financial Statements. We will work with Finance Officers to agree the accounting treatment of this type of transaction for future years.
- **RCT Pension Fund Accounts** – material misstatements were identified in the draft accounts relating to Transfers from (and to) other Pension Funds. Contrary to its accounting policy the Pension Fund had not accrued for this type of transaction on an accruals basis. Management agreed to the misstatements and adjusted the Financial Statements. The net impact was to reduce the value of Transfers In and Transfers Out in 2015-16 by £41.9 million and £1.8 million respectively and increase the corresponding values for 2014-15 by the same amounts.

Since completion of the audit we have held a joint Post Project Learning exercise with Council finance officers. We have identified areas where we can both learn from this year, and make improvements for the future. We have set up regular meetings to take these issues forward and to start preparations for the challenges that will be brought about by future requirements to bring forward the accounts preparation and audit.

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

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 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 will also shortly be issuing a report on the Council's financial resilience which will consider whether the Council's financial savings planning arrangements support financial resilience.

I issued a certificate confirming that the audit of the accounts has been completed on 29 September 2016

My 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 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 fee set out in the Annual Audit Plan.

Yours sincerely

Anthony Veale
For and on behalf of the Auditor General for Wales

cc: Chris Bradshaw, Chief Executive

Appendix 3 – national report recommendations 2016-17

Exhibit 2: national report recommendations 2016-17

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 their 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, the Wales Association for Community Safety Officers, 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>

Date of report	Title of review	Recommendation
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 Checklist for local authorities effectively engaging and working with the third sector 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>

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

Swyddfa Archwilio Cymru
24 Heol y Gadeirlan
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn Testun: 029 2032 0660

E-bost: post@archwilio.cymru

Gwefan: www.archwilio.cymru



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Wales Audit Office / Swyddfa Archwilio Cymru

24 Cathedral Road / 24 Heol y Gadeirlan
Cardiff / Caerdydd
CF11 9LJ

Tel / Ffôn: 029 2032 0500

Fax / Ffacs: 029 2032 0600

Textphone / Ffôn testun: 029 2032 0660

info@audit.wales / post@archwilio.cymru

www.audit.wales / www.archwilio.cymru

Mr Christopher Bradshaw
Chief Executive
Rhondda Cynon Taf County Borough Council
The Pavilions
Cambrian Park
Clydach Vale
CF40 2XX

Reference: 217A2017

Date issued: 9 March 2017

Dear Chris,

WAO risk-based assessment of corporate arrangements: Improvement and Performance

We have completed the above element of our risk-based assessment of the Council's corporate arrangements. The person who delivered the work was Alison Lewis. As set out in our Project Brief, we said we would share our findings and conclusions with you following completion of individual elements of the work.

The Council's Corporate Self-Assessment arrangements are becoming embedded and increasingly focussed, providing a balanced evaluation of performance and supporting improvement actions

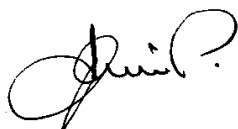
As part of the Council's process for managing improvement it undertakes a corporate self-assessment. The Council produced a Draft Corporate Self-Assessment in December 2015 and a further one in November 2016, both of which we have reviewed. Our review included an overall evaluation of the documentation, supported by a more detailed examination of developments in relation to a sample of the Council's identified key priorities for improvement. Our assessment of progress in relation to this sample is set out below:

Key priority (December 2015)	WAO assessment of progress
<p>To set a clear strategic direction and Council vision, with a reduced number of priorities, a set of challenging targets that compare favourably with the best in Wales, through consultation with the general public and Council staff</p>	<p>The Council has met this improvement priority, having consulted and agreed on a new Council vision and key priorities with associated performance measures and targets.</p> <p>The Council has published its Corporate Plan 2016-2020 - 'The Way Ahead' which sets the overall direction for the Council, describing its vision, purpose and ambition for the County Borough. It includes a set of priorities and measures of success for 2020 which will be used to ensure that services provided to residents are effective and efficient. The Plan was informed by the priorities and concerns of residents, identified through the budget and community consultation undertaken during 2015 and 2016.</p>
<p>Refresh the Council's performance management framework</p>	<p>The Council has reviewed and revised its performance management arrangements and Cabinet approved the new Performance Improvement Framework in December 2016. As part of this framework, in addition to undertaking a corporate self-assessment, all services undertake a Service Self-Evaluation (SSE). The SSEs are used to help inform the Delivery Plans for each service area. The Council has developed a new suite of measures to assess services and their contribution to Corporate Plan priorities. Under these new arrangements there is a clearer tie in between the Corporate Plan, Service Self-Evaluations and Delivery Plans. The Council continues to evolve the SSE process making changes based on feedback received from managers and the Performance Team.</p>
<p>Simplify the way in which financial and performance management information is organised, presented and analysed so that they are easier to read, understand, challenge and scrutinise to drive service improvement</p>	<p>The Council has revised the format and content of its quarterly monitoring reports. Based upon our review, we consider that this new format presents and analyses relevant financial and performance management information accurately and concisely; is relatively straightforward to read and interpret and as such, will support effective scrutiny and challenge.</p> <p>The new style quarterly monitoring report brings together the Council's performance into an Executive Summary, which highlights summary level financial data and progress against the Corporate Plan priorities. The suite of measures used to monitor performance at a corporate level has been refined and reduced to better focus on these priorities. In the Executive Summary, links are provided to more detailed information. This has the benefit of reducing the summary report size, whilst still making fuller information available. However the Council may wish to consider highlighting significant issues, e.g. any key performance measures that warrant remedial action, in the Executive Summary to promote appropriate scrutiny and challenge.</p>

Key priority (December 2015)	WAO assessment of progress
Focus attention on those national performance measures, which are local priorities, and for which RCT is consistently the worst in Wales	We found that the Council continues to improve its performance in the Local Government Performance Indicators, gaining improvement in 29 of the 40 indicators (73%) that were comparable between 2014-15 and 2015-16, making it the most improved local authority in Wales over that period. However, it remains in the bottom half of local authorities for 17 of the indicators. The Council was also 19th out of 22 local authorities for the number of indicators in the top quartile.
Continue to strengthen the Scrutiny arrangements to further support service delivery and improvement	<p>Scrutiny Members told us that they have seen a positive change in the scrutiny function, which they consider is becoming more effective in challenging officers and Members regarding decisions, and is now more Member led. Scrutiny's role and remit has developed. For example, scrutiny has had the opportunity to:</p> <ul style="list-style-type: none"> • undertake pre-scrutiny of the Council's Draft Corporate Plan 2016-2020 • be involved with the development of the detailed action plans for each priority area • take part in the consultation process for the 2016/17 draft Revenue Budget and pre-scrutiny of the 2016/17 Revenue Budget Strategy • undertake pre-scrutiny of the leisure investment programme, home to school transport and extra care • be routinely involved as a consultee on service change • be involved in monitoring the impact of service changes.

In due course, these will be published in an Annual Improvement Report on conclusion of our 2016-17 Regulatory Programme of work at the Council.

Yours sincerely



Colin Davies

Rheolwr Archwilio Llywodraeth Leol / Audit Manager Local Government

Ffôn / Tel: 02920 320666 / 07786 800258

E-bost: colin.davies@archwilio.cymru / E-mail: colin.davies@audit.wales

Swyddfa Archwilio Cymru: www.archwilio.cymru / **Wales Audit Office:** www.audit.wales

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WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Wales Audit Office / Swyddfa Archwilio Cymru

24 Cathedral Road / 24 Heol y Gadeirlan
Cardiff / Caerdydd
CF11 9LJ
Tel / Ffôn: 029 2032 0500
Fax / Ffacs: 029 2032 0600
Textphone / Ffôn testun: 029 2032 0660
info@audit.wales / post@archwilio.cymru
www.audit.wales / www.archwilio.cymru

Mr Christopher Bradshaw
Chief Executive
Rhondda Cynon Taf County Borough Council
The Pavilions
Cambrian Park
Clydach Vale
CF40 2XX

Reference: 210A2017

Date issued: 9 March 2017

Dear Chris

Wales Audit Office risk-based assessment of corporate arrangements: collaboration and partnerships

We have completed the above element of our risk based assessment of the Council's corporate arrangements. The person who delivered the work was Justine Morgan.

As set out in our Project Brief, we undertook to share our findings and conclusions with you following completion of individual elements of the work.

The Council is collaborating effectively with a range of partners in order to achieve efficiencies and improve services to its citizens

The Council is collaborating well with neighbouring councils

1. The Council is embracing opportunities for integration and collaboration and has developed a constructive, working relationship with nine south east Wales local authorities, in particular Merthyr Tydfil County Council. Both councils are exploring opportunities to gain efficiencies and savings in relation to the corporate spine activities for example finance; payroll and pensions; human resources and procurement. The Council has also progressed collaborative working in relation to front line services to its citizens such as waste management, recycling and collection services and highways maintenance.

The Council is a valued member of the Cwm Taf Public Service Board

2. The Council benefits from established relationships developed through its Local Service Board and this positions the Council well to help create an informed Cwm Taf Public Service Board (PSB) and support the integration of new partners. A new vision has been agreed for the PSB, putting the citizen at the centre of planning and decision-making for all partners. The PSB is embedding the principles of the Well-being & Future Generations Act and provides a values based framework for partner organisations to align their strategic planning, focusing on putting the citizen at the heart of decision-making. Partners are committed to working collaboratively and lead organisations are held to account for delivery. The Council is leading on financial contributions on behalf of the PSB and the Strategic Partnership Board.
3. Within the Council, the Leadership team are providing opportunities at its '100 Top Managers' sessions to embed thinking around service delivery to citizens and this is helping to support cultural change, putting the citizen at the centre of decision-making. This visible integration puts the Council in a good position to align its Corporate Plan and Well-being Plan with that of the PSB and its well-being objectives.

The Council is seeking to modernise health and social care for the benefit of its citizens in conjunction with Cwm Taf University Health Board

4. There are effective and established relationships with the Health Board around modernising health and social care that include joint officer posts and pooled budgets in relation to hospital admissions and discharge planning. The Council is also seeking to support modernising primary care provision through its asset management programme. Both partners are mutually well respected and valued but pace is an issue if the Council is to realise its efficiency savings and modernise the service for the citizens of RCT.

The Council is leading on the City Deal initiative to improve the transportation infrastructure and economic position of the region

5. The Leader of the Council is Chair of City Deal for Transport and Infrastructure and the Council utilises its strong corporate capacity effectively to maintain focus on the City Deal initiative. The work invested in developing the Council's Medium Term Financial Strategy has enabled staff to have capacity to focus on City Deal funding; consider the links between the transport infrastructure and the Local Development Plans, including affordable housing across the region; and the positive impact on economic regeneration for the South Wales valleys region.

In due course, these will be published in an Annual Improvement Report on conclusion of our 2016-17 Regulatory Programme of work at the Council.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Colin Davies', with a stylized flourish at the end.

Colin Davies

Rheolwr Archwilio Llywodraeth Leol / Audit Manager Local Government

Ffôn / Tel: 02920 320666 / 07786 800258

E-bost: colin.davies@archwilio.cymru

E-mail: colin.davies@audit.wales

Swyddfa Archwilio Cymru: www.archwilio.cymru

Wales Audit Office: www.audit.wales

Appendix

Interviewees

- Ellis Cooper – Deputy Chief Executive Merthyr Tydfil County Council
- Chief Inspector Sally Burke – Chair of Strategic Partnership Board (operational group supporting Cwm Taf Public Service Board)
- Simon Jones – Chief Executive Officer of Interlink
- Ruth Treharne – Director of Planning & Performance, Cwm Taf University Health Board
- Samia Saeed-Edmonds – Assistant Director of Planning, Cwm Taf University Health Board
- Nicola Davies - Head of Health & Wellbeing, Cwm Taf University Health Board
- Cllr Andrew Morgan – Leader of Rhondda Cynon Taf Council Borough Council
- Chris Bradshaw – Chief Executive Officer Rhondda Cynon Taf Council Borough Council
- Gio Isigrinni – Director of Social Services, Rhondda Cynon Taf Council Borough Council



WALES AUDIT OFFICE
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Auditor General for Wales

Savings Planning – Rhondda Cynon Taf County Borough Council

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info.officer@audit.wales.

The team who delivered the work comprised of Janet Smith and Jeremy Evans, under the direction of Alan Morris.

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Summary report

Summary

- 1 Good financial management is essential for the effective stewardship of public money and the continual delivery of efficient public services. The current financial climate and the reduced settlements for local government mean that good financial planning, with well-considered savings plans, is critical to financial resilience.
- 2 This review focuses on answering the following question: **do the council's financial savings planning arrangements support financial resilience?**
- 3 Good financial planning:
 - helps councils take the right decisions for the short, medium and long term;
 - helps councils deliver services to meet statutory obligations and the needs of local communities;
 - is essential for good corporate governance;
 - is about managing performance and achieving strategic objectives as much as it is about managing money;
 - underpins service quality and improvement;
 - is the basis of accountability to stakeholders for the stewardship and use of resources; and
 - is a key management discipline.
- 4 Financial planning for the medium to long term involves understanding future demand, assessing the impact of probable changes, reviewing the gaps between funding needs and possible income and, where necessary, developing appropriate savings strategies.
- 5 A council's strategic priorities and its financial health should be the basis for deciding what is practicable. Well-considered and detailed long-term financial strategies and Medium-Term Financial Plans (MTFPs) can ensure the delivery of strategic priorities by enabling appropriate financial choices. Conversely, short-term annual budget planning encourages an incremental and process-driven approach that is too inflexible in a period of rapid external change.
- 6 Councils receive about 80% of their net income from Welsh Government, the exact amount is only known 4-5 months before the start of the financial year. Whilst this has an impact on financial planning councils can use a range of information to anticipate changing circumstances, set priorities, make choices and manage service delivery. They can calculate how much they would need to deliver services (at current or future prices) and review alternative income and spending scenarios to identify gaps and prepare for the future by investigating different approaches.

- 7 During 2015-16 the Wales Audit Office undertook work at all councils to assess the adequacy of their financial planning, control and governance arrangements. Local reports were issued and a national summary report published in August 2016. The national summary report concluded that **strategic planning arrangements are improving but councils have difficulty in developing and delivering the savings and changes to services at the pace required to ensure future financial resilience.**
- 8 In this assessment, undertaken during the period June to September 2016, we have focused on work to identify, plan for and deliver savings. We examined the extent to which Rhondda Cynon Taf County Borough Council (the Council) achieved its 2015-16 savings plans, the quality of its medium term financial plans and the robustness of its 2016-17 savings plans.
- 9 We sampled three savings proposals for 2016-17 and looked at the underlying assumptions and whether there are adequate mechanisms to ensure they can be delivered in the planned timescale.
- 10 We followed up our 2015-16 work to determine what the Council did as a consequence of what it learnt and how it responded to our proposals for improvement in relation to financial planning if we made any.
- 11 In this report we have described some key characteristics of effective financial planning – **What good looks like**. Auditors have used these and other factors to reach a balanced view on the effectiveness of a council's financial planning arrangements and to evaluate the ability of a council to deliver its MTFP and planned savings.
- 12 In our 2015-16 review we concluded that **the Council has a robust corporate framework for financial planning; however, there remains scope to enhance the links between the Council's corporate and medium-term financial planning processes.**
- 13 In this review, we concluded that **the Council has a largely effective and improving savings planning approach which supports future financial resilience.**

- 14 **This is an improved position from 2015-16.** The Council has increased investment in its corporate priorities by reviewing and releasing earmarked reserves. It has also developed an MTFP document which encompasses all medium-term financial planning assumptions and is developing an income generation policy.

Proposals for improvement

Exhibit 1: proposals for improvement

It would be unusual if we did not find things that can be improved and, where we do, the Auditor General can take a variety of steps. In this case, a proposal for improvement has been made and we would expect the Council to do something about it.

Proposals for improvement

- P1 Strengthen financial planning by:
- finalising the development of an income generation approach; and
 - developing savings plans to cover the funding gap identified in the MTFP.

Detailed report

The Council has an effective and improving savings planning approach which supports future financial resilience

Context

- 15 Since 2010, the UK government has reduced spending on public services as part of its plan to reduce the deficit. With cuts to its budget, the Welsh Government has had to make difficult choices as to how to allocate those funding cuts across devolved public services. As a result, the amount of core funding made available by the Welsh Government to local councils has reduced each year. So far, most local councils have managed to reduce expenditure and balance budgets, but the scale of annual reductions is likely to continue. Our analysis shows that between 2013-14 and 2016-17, there is a real-terms reduction of £483 million (10.9%) in this core funding¹.
- 16 The impact of the decision to leave the European Union may represent a threat to local councils and the wider public sector in Wales. In the immediate aftermath of the decision there was reaction across financial markets resulting in volatility in, for example, share prices, currency exchange rates, oil prices and bond yields, and the UK continues to face a great deal of uncertainty on top of significant questions regarding future economic and trading relationships with Europe. The Welsh Local Government Association has expressed concerns over the implications of the European Union referendum outcome, calling it a 'seismic change in UK public policy'² especially as local councils are collectively the largest employer in Wales and the deliverer of many important public services.

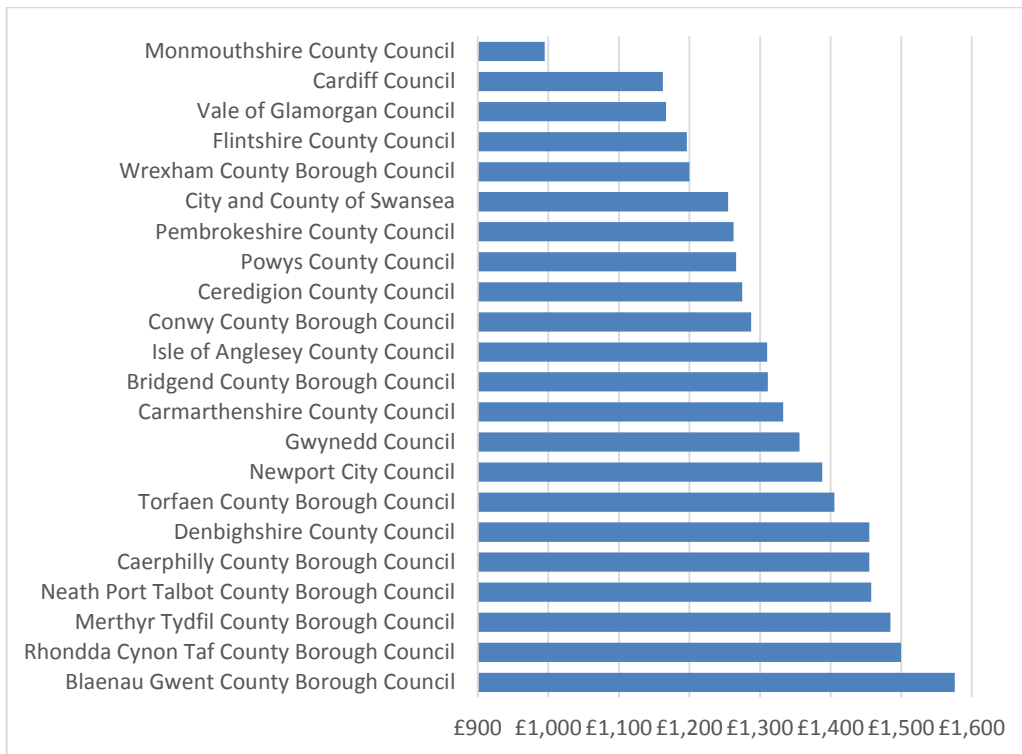
¹ Comparing core funding (Aggregate External Finance (AEF)) across the period 2013-14 to 2016-17 is complicated for two main reasons. Firstly, the Welsh Government has incorporated into core funding grants that were previously provided separately. While this de-hypothecation of grants results in an increase in core funding, it is not necessarily a net increase in funding. The net value of grants incorporated into core funding since 2013-14 is around £76 million in real terms (adjusted for inflation).

² Welsh Local Government Association, **Councils voice concern over service impacts of EU referendum**, 24 June 2016

- 17 Whilst the overall Welsh Government funding has reduced, councils have been expected to protect schools and social care from the bulk of the pressures. Social care, in particular, has struggled even with this protection as for example demographic changes have led to increased demand; however, this does mean that other services have borne the majority of the cuts and have seen reductions in budgets of 30% or more in real terms since 2013-14.
- 18 The Council received £353.8 million in support from the Welsh Government in 2016-17. This represents £1,500 per person in the county, above the average for Wales but a real-terms reduction of 9.1%³ per head since 2013-14. There are other key issues that impact on any council's overall financial position, for example the overall Council tax base, the ability to generate income locally and the levels of deprivation.

Exhibit 2: Welsh Government support in 2016-17

The graph below illustrates the amount of money each council gets per head of population from the Welsh Government.



Source: [Stats Wales](#)

³ The percentage reduction per head figure varies from the 2013-14 core funding reduction due to population variation over the same period.

Savings achievement 2015-16

The Council has reported achievement of all of its 2015-16 savings plans in year, and can demonstrate that individual savings have been delivered

What good looks like

19 Councils that have a good track record of delivering the majority of planned in-year savings should have well developed savings and delivery plans in place which are underpinned by robust monitoring processes. These councils do not have to continually bridge the gap year on year, by identifying alternative savings, using unplanned one-off funding from earmarked reserves, general reserves, contingency funds or fortuitous unplanned income received during the year.

What we found

- 20 In our 2015-16 review we found that the Council had a robust process for identifying savings and only builds them into its base revenue budget once business cases have been developed, and the relevant details agreed. The Council has a strong track record of delivering its annual budget and managing overspends and underspends in-year.
- 21 In our 2016-17 review we found that the Council had improved on its previous year's position in a number of areas; these are detailed below.
- 22 The Council achieved a surplus on its 2015-16 budget including the delivery of all planned savings. The surplus was transferred to earmarked reserves. The Council's strategy is to achieve additional in year savings, where possible, and use these to top up the Medium Term Financial Planning and Transformation Reserve or for investment opportunities.
- 23 The Council's 2015-16 out-turn report showed there was a collective net underspend on directorate budgets which mainly related to Community and Children's Services. This underspend resulted from the Council's proactive approach in progressing more preventative strategies in these services.
- 24 The Council's planned budget strategy included the use of transitional one-off funding from its Medium Term Financial Planning and Service Transformation Reserve to fund the part-year impact of some savings proposals which straddle financial years. It also included a planned transfer from its general reserve to replenish the Medium Term Financial Planning and Service Transformation Reserve. Appropriately, funding of the Council's base budget is not underpinned by use of the general reserve.
- 25 The Council achieved its 2015-16 savings plans in full. This achievement is in part due to the fact that the Council only builds budget savings into its base revenue budget once business cases have been developed, and the relevant

details agreed. This approach provides the assurance that the saving will be achieved in year.

- 26 The Council divided its savings into efficiency type savings and service changes. All efficiency type savings are identified in advance of setting the following year's annual budget.
- 27 Savings plans are embedded in the base budget and form part of the budget monitoring process. Problems with achieving savings plans would be identified in the regular budget monitoring reports.
- 28 The Council has a track record of delivering its in-year savings plans. The Council is confident that all in-year savings plans will be achieved without having to identify alternative savings proposals.
- 29 The Council ensures that the consultation process required for any service change proposals is completed in advance of the annual budget being agreed.

Financial planning arrangements

The Council has an effective corporate framework for financial planning but lacks indicative savings plans for future years

What good looks like

- 30 The MTFP is a key component of an effective, integrated corporate planning framework. Good medium-term financial planning and annual budgeting should reflect the council's strategic objectives and priorities for the year, and over the longer term. MTFPs typically span a three-to-five-year period and should identify how resources will be allocated to both the delivery of services and the council's priorities. The impact on citizens and other stakeholders should also be considered.
- 31 Good MTFPs include consideration of key financial risks together with their mitigation. Councils have to make assumptions around inflation, income levels, demographics, future demand for services and the costs of delivering services, and these need to be based on reasonable predictions. The council should also use financial modelling to assess the likely impacts on financial plans and required savings for a range of different scenarios and risks. The MTFP should be frequently reviewed and updated to reflect changes in assumptions and risks.
- 32 Councils should operate within a level of reserves and balances (including earmarked reserves and the general fund balance), approved by members, and appropriate to the strategic, operational and financial risks it faces. Councils should include details on how reserves will be used over the period of the MTFP.
- 33 The council must demonstrate that it understands its sources of income and the risks arising from these, and that it has reviewed its approach to fees and charges, for its services, to achieve value for money.

What we found

- 34 In our 2015-16 review we found that the Council had effective arrangements for medium-term financial planning but these were not supported by an MTFP document, reserves policy or comprehensive income generation/charging policy.
- 35 In our 2016-17 review we found that the Council had improved on its previous year's position in a number of areas; these are detailed below.
- 36 The Council reviews its plans regularly; for example, it reviewed its Corporate Plan in February 2016. This plan now focuses on three priorities: economy, people and place. The Corporate Plan is set in the context of the 2016-17 budget setting process and is a key component of the Council's budget and business planning process. It states that the Council will meet the financial challenges ahead through a commitment that the Council lives within its means. The Corporate Plan builds on, and links well to, the medium-term financial efficiency principles previously established and will have the same focus going forward. Since 2015 the Council has invested approximately £30 million in Corporate Plan priorities, some of which will release revenue savings in future years.
- 37 The annual budget and medium-term financial planning assumptions for 2016-17 referred to the Corporate Plan but no other corporate strategies; however, in September 2016 the Council developed an MTFP document which refers to key strategies, such as office accommodation and digitisation of services, which will be developed to release savings over the period of its MTFP.
- 38 The Council's MTFP is good. Medium-term financial planning assumptions are kept under review. A formal update rolling the budget forecast forward is provided to members in July and updated following the announcement of the provisional settlement. Regular internal updates on MTFP assumptions to take account of changes in key variables and any other emerging issues are provided to the Leader, Cabinet and Senior Management Team following good practice.
- 39 The MTFP forecasts cover a three-year period. The MTFP forecasts are comprehensive and include sensitivity analysis and are modelled on best, most likely and least optimistic scenarios for funding from Welsh Government. The MTFP 2017-18 to 2019-20 identifies a budget gap of £62 million based on a least optimistic scenario. The Council has identified indicative savings over the period of £23 million, leaving a budget gap of £39 million.
- 40 The MTFP is also underpinned by reasonable and appropriate assumptions for key variables such as pay awards, price inflation, and funding and council tax levels. The impact of demographic changes, changes in demand and inescapable pressures is also assessed.
- 41 The Council holds approximately £11 million as a working balance in its general reserve. The general fund reserve level is reviewed when finalising the annual budget and statement of accounts. The annual budget report does not include a comprehensive statement of planned use of reserves over the term of the MTFP and the Council does not have a reserves policy. However, the Council reviews and reports in year on the use of reserves.. For example, the Council reviewed its

earmarked reserves in 2015-16 and identified that around £19 million could be released for investment in the Council's priorities.

The Council's budget strategy since 2014-15 includes the planned use of its Medium Term Financial Planning and Transformation Reserve to smooth the part-year effect of savings proposals which straddle financial years. Appropriately, the Council recognises that this is not sustainable in the longer term and the amount used to fund the annual budget has reduced by 50% since 2014-15. The Council has partially replenished this reserve at year-end.

- 42 The Council does not have a corporate policy on income generation/charging or a corporate fees and charges register. However, the level of fees and charges is agreed by Cabinet on an annual basis and feeds into the Council's annual budget strategy. There is some evidence that income generation opportunities are considered, eg charging for sports pitches but opportunities could be missed without a corporate policy in place. The Council recognised this risk and is at the early stages of developing an income generation/charging policy.
- 43 Integrated, quarterly, in-year financial and performance reporting is well established, including updates on the use of reserves. Although the MTFP assumptions are reviewed during the year, there is no evidence that MTFP performance is monitored in year.

Savings Plan 2016-17

The Council has a well-considered and detailed plan for 2016-17 and is forecasting that all planned savings will be achieved

What good looks like

- 44 Councils that deliver savings effectively have well-considered savings plans that sit within longer-term savings strategies which are underpinned by well-developed fully costed individual savings and delivery plans aligned with the MTFP. Savings proposals should be specific and risk assessed in terms of likelihood of achievement.

What we found

- 45 In our 2015-16 review we found that current-year savings plans were specific and underpinned by well-developed processes but there was scope to improve alignment with its medium-term financial planning processes.
- 46 In our 2016-17 review we found that the Council is improving on its previous year's position but its MTFP still lacks indicative savings plans for future years. Our findings are detailed below.
- 47 The Council has identified savings plans to meet the savings required for 2016-17. The MTFP includes indicative global savings from general base budget efficiencies over the MTFP term but it has not identified any other indicative savings proposals to meet the forecast budget gap going forward. The Council's quarter one financial monitoring report forecast that all savings plans for 2016-17 will be achieved.
- 48 The Council has appropriately classified its costed savings plans into general base budget efficiencies (no impact on services or the public); Social Care Transformation Programme; management restructure; and service change design. Savings plans deemed to be transformational amount to 35% of costed savings plans.
- 49 Following good practice, the Council's savings proposals are risk assessed throughout the year prior to being included in the following year's budget and finance officers work with service managers to test the robustness of proposals. Only savings proposals which are assessed as being achievable are included in the annual budget. Service changes proposals are subject to options appraisals and appropriate consultation prior to inclusion in the budget.
- 50 General base budget efficiencies are considered to have nil impact on citizens or stakeholders and do not usually require impact assessments. Equality impact assessments are carried out for all other savings proposals.
- 51 Budget consultation responses on savings proposals received from citizens, stakeholders and other partners etc. are considered before the budget is approved, and if deemed appropriate, changes are made, eg following consultation the savings proposal for supported bus routes was removed.
- 52 The Council's savings plans are specific. General base budget efficiencies are included as a global target sum but no specific detail is in the public domain because these efficiencies are deemed to have no impact on service users or stakeholders and are business-as-usual efficiency reductions. However, a schedule of general base budget efficiencies is tracked and monitored internally, and progress on proposals is risk assessed throughout the year using a Red/Amber/Green (RAG) status prior to inclusion in the following year's annual budget. Service change and transformation proposals are identified separately.

- 53 The Council does not specifically monitor the general base budget efficiency savings proposals because these are stripped out at the start of the year and the impact of non achievement monitored within base budgets. The Council would identify and address significant impacts resulting from savings proposals as and when they arise. For example, the member decision not to proceed, after the annual budget was agreed, with the home-to-school transport savings proposal for 2016-17 was reported to Council and alternative savings were identified and approved. Savings proposals for less significant amounts form part of the quarterly budget monitoring process and any underachievement would be addressed as part of this process. The Social Care Transformation Programme savings proposal is monitored separately on a monthly/quarterly basis.
- 54 We sampled three savings proposals for 2016-17 to test the underlying assumptions and whether there are adequate mechanisms to ensure they can be delivered in the planned timescale. The proposals were:
- social care transformation: £2.985 million (transformation type saving);
 - libraries – service change: £186,000 (service change options); and
 - day care nursery provision: £125,000 (service change options).
- 55 In each case, we found that options appraisals were underpinned by reasonable assumptions, delivery plans had clear timescales, and the proposals were supported by appropriate approval and consultation processes.

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone : 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

Swyddfa Archwilio Cymru
24 Heol y Gadeirlan
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn testun: 029 2032 0660

E-bost: post@archwilio.cymru

Gwefan: www.archwilio.cymru



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Wales Audit Office / Swyddfa Archwilio Cymru

24 Cathedral Road / 24 Heol y Gadeirlan
Cardiff / Caerdydd
CF11 9LJ

Tel / Ffôn: 029 2032 0500

Fax / Ffacs: 029 2032 0600

Textphone / Ffôn testun: 029 2032 0660

info@audit.wales / post@archwilio.cymru

www.audit.wales / www.archwilio.cymru

Mr Christopher Bradshaw
Chief Executive
Rhondda Cynon Taf County Borough Council
The Pavilions
Cambrian Park
Clydach Vale
CF40 2XX

Reference: 328A2017

Date issued: 3 May 2017

Dear Chris

Wales Audit Office risk-based assessment of corporate arrangements: financial and service planning

We have completed the above element of our risk based assessment of the Council's corporate arrangements. The person who delivered the work was Colin Davies.

As set out in our Project Brief, we undertook to share our findings and conclusions with you following completion of individual elements of the work.

The Council has improved its financial and performance management arrangements, strengthening the linkage between the Council's Corporate Plan Priority areas and resources allocated to them

1. In our 2015-16 Annual Improvement Review we identified that there was scope for the Council to enhance the transparency of its financial planning arrangements and to integrate medium-term financial planning and corporate planning processes more closely in order to strengthen the linkage between the Council's improvement objectives and resources allocated to them.
2. Through our work this year, we found that that the Council had improved on its previous year's position in a number of key areas. For example, the Council has:
 - **Developed a Medium Term Financial Plan:** we found this to be a comprehensive document based on sound financial planning assumptions which references links with the Council's other key strategies and identifies the resources allocated to Corporate Plan Priority areas;

- **Modified its Budget Consultation process:** to incorporate questions on Corporate Plan priorities and investment priority areas, the results of which are used to inform the Council's Revenue Budget Strategy;
 - **Revised its Performance Reporting to Members:** quarterly updates on financial and operational performance (which are available to the public on the Council website) now include improved links between the Council's investment activity and its Corporate Plan priorities;
 - **Improved its financial and performance management arrangements:** by introducing more rounded suites of information including performance against budget and analysis of key indicators (e.g. unit cost variance and sickness absence) at a service level, for service management team review with corporate input/support; and
 - **Strengthened its financial monitoring arrangements:** by introducing investment priority and key income projection updates for review by services and Senior Leadership Team on a monthly basis.
3. In addition to these improved arrangements, the Council has used appropriate analysis of financial and performance information, together with consultation feedback effectively in order to improve decision-making and scrutiny in relation to resource allocation. For example in highways, leisure centres, and youth services.
4. The above findings are consistent with those of our Savings Planning review that concludes the Council has a largely effective and improving savings planning approach which supports future financial resilience.

In due course, a summary of these findings will be published in an Annual Improvement Report on conclusion of our 2016-17 Regulatory Programme of work at the Council.

Yours sincerely



Colin Davies

Rheolwr Archwilio Llywodraeth Leol / Audit Manager Local Government

Ffôn / Tel: 02920 320666 / 07786 800258

E-bost: colin.davies@archwilio.cymru

E-mail: colin.davies@audit.wales

Swyddfa Archwilio Cymru: www.archwilio.cymru

Wales Audit Office: www.audit.wales