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AGENDA

Committee	AUDIT COMMITTEE
Date and Time of Meeting	TUESDAY, 22 MARCH 2016, 2.00 PM
Venue	COMMITTEE ROOM 4 - COUNTY HALL
Membership	Ian Arundale (Chair), Professor Maurice Pendlebury, Hugh Thomas Councillors Howells, McGarry, Mitchell, Murphy, Weaver, Dianne Rees and Kelloway

Time approx.

1 Apologies for Absence

To receive apologies for absence.

2 Declarations of Interest

To be made at the start of the agenda item in question, in accordance with the Members' Code of Conduct.

3 Minutes

To approve as a correct record the minutes of the previous meeting.

4 Finance

2.05 pm

- 4.1 Financial Update 2015-16
- 4.2 Accounting Policies

5 Governance and Risk Management

2.20 pm

- 5.1 Audit Committee Draft Annual Report 2015-16
- 5.2 Draft Annual Governance Statement 2015-16

6 Wales Audit Office

2.40 pm

- 6.1 Report Progress Updates and Value for Money Studies
 - a) WAO Report - Delivering with Less: Leisure Services (MS) – 2.40pm

- b) WAO Tracker/Other Studies (VP) – 2.50pm
- c) WAO Report - Regional Education Consortia (NB) – 3.00pm
- d) WAO Report - Picture of Public Services (PO) – 3.10pm
- 6.2 Corporate Assessment Update (PO) – 3.20pm
(Appendix B to follow)
- 6.3
 - Improvement Plan of Work (including Fee details) – 3.50pm
 - Annual Financial Audit Outline (to include revised statement of responsibilities and Cardiff & Vale Pension Fund Audit Plan)

7 Treasury Management 4.20 pm

- 7.1 Performance Report
- 7.2 Treasury Management Practices

8 Internal Audit 4.35 pm

- 8.1 Progress Update
- 8.2 Audit Strategy 2016-17

9 Outstanding Actions 4.55 pm

10 Work Programme Update

11 Urgent Business

12 Date of next meeting

The date of the next meeting will be 22 June 2016
(to be confirmed at Full Council in May).

David Marr

Interim Monitoring Officer

Date: Wednesday, 16 March 2016

Contact: Graham Porter, 029 2087 3401 g.porter@cardiff.gov.uk, 029 2087 3401,
g.porter@cardiff.gov.uk

AUDIT COMMITTEE

1 FEBRUARY 2016

Present: Independent Members: Ian Arundale (Chair),
Councillors Professor Maurice Pendlebury, Howells, McGarry,
Mitchell, Murphy, Weaver and Kelloway

42 : APOLOGIES FOR ABSENCE

Apologies for absence were received from Hugh Thomas, Chris Pugh (WAO) and Non Jenkins (WAO).

43 : DECLARATIONS OF INTEREST

No declarations of interest were received.

44 : MINUTES

The minutes of the meeting held on 30 November 2015 were approved as a correct record, subject to the addition of the following resolution to minute number 31:

- (4) Officers to prepare and circulate guidance and list of contacts for dealing with building maintenance contract matters.

The Corporate Director Resources advised that an all-Member briefing on this topic had taken place. Members of the Committee and any attendees for the briefing session will have received the information requested. The Chairperson requested that this communication also address the Committee's concerns regarding the single point of contact (SPOC).

Matters Arising

It was suggested to the Committee that uplift in school building maintenance contracts can be as high as 31% depending on the reason for the uplift. Some Members of the Committee stated that they would welcome the opportunity to liaise with colleagues in schools in order to find out more about their experiences, particularly in relation to schools being charged for work outside of the year, no SPOC, difficulties in isolating landlord/tenant headings and balancing budgets.

The Corporate Director Resources advised that the Operational Manager, Facilities Management was the SPOC and this had been clarified at the previous meeting. The Chairperson requested that if Members wished the Committee to consider discussing these matters further at future meeting, then they should write to him following the meeting.

RESOLVED –

- (1) That the all-Member briefing be provided to Members of the Audit Committee.

- (2) The value for money concerns regarding schools and the building maintenance framework to be set out by the Member concerned and included as a minute item.

Finance

45 : FINANCE UPDATE

The Corporate Director Resources presented a report providing the Committee with an update on the Council's financial position in order to assist Members in understanding the current financial context within which the Council is operating. The report provided an overview of the current position and an update on the preparatory work for 2016/17 and the medium term.

The Corporate Director Resources advised that the Cabinet had considered the Month 6 position in November and Cabinet will receive a report on the Month 9 position later in February. Indications were that the Month 9 position will show a slight improvement. The Committee will receive a further report at its March meeting.

Members were advised that the 5-week public consultation period was now closed. However, the provisional budget settlement figure was received from Welsh Government too late to be included in the consultation exercise. The settlement had been more favourable than anticipated; although the settlement represented an overall decrease in funding, this was less than expected. The Corporate Director Resources stated that the settlement afforded an opportunity to reshape the challenges in the medium term by improving the authority's financial resilience, addressing areas of significant risk, giving more scope to consider the budget consultation outputs, and giving more opportunity to protect the Council's corporate priorities.

The final budget settlement figure would be received on 2 March 2016. Although there was a risk in setting the budget prior to this the Welsh Government has indicated that it does not intend to change the provisional settlement. However, in order to address this risk, the budget report would introduce a mechanism to address any shortfall from reserves. The Corporate Director Resources stated that the risk was marginal and, indeed, the final settlement may be slightly more or slightly less than proposed.

The Corporate Director Resources confirmed that the authority's formal position was that the budget was robust.

RESOLVED – That the financial information provided in respect of the 2015/16 monitoring position and the process being adopted in respect of the budget preparation for 2016/17 and the medium term be noted.

Governance and Risk Management

46 : ANNUAL GOVERNANCE STATEMENT ACTION PLAN

The Committee received a report providing Members with the Annual Government Statement (AGS) mid-year position, to outline the AGS framework and to inform the Committee of the Senior Management Team's mid-year responses to the Senior Management Assurance Statements (SMAS).

The Audit and Risk Manager advised that all Directors had returned a SMAS. A summary of the responses received was included at Appendix A to the report. The Committee also received an update regarding the significant governance issues previously identified

marked as Appendix B to the report. The Audit and Risk Manager confirmed that the Social Services and Well Being Act was being addressed and a report will be presented at the March meeting.

A member requested that the Audit Committee note their welcoming of the internal market prices issue, and efforts to resolve formally.

RESOLVED – That the Annual Governance Statement framework and summary of the returned SMAS questionnaires be noted.

47 : AUDIT COMMITTEE ANNUAL SELF ASSESSMENT REVIEW 2014/15

The Committee received a report providing an update on the improvement actions resulting from the self-assessment closed session workshop in January 2015. Members were advised that the Audit Committee had undertaken the first self-assessment in December 2013. Future annual assessments were considered appropriate in order to inform the Audit Committee's Annual Report.

A workshop was held in January 2015 which was facilitated by the Welsh Audit Office and the Audit and Risk Manager. Members completed a self-assessment questionnaire of 46 questions. Following the completion of the questionnaire an action plan was produced which included 16 proposed actions for improvement and a series of target dates and action owners.

The Audit and Risk Manager reported that, following a review of the current position, progress made against the actions was encouraging. Further information regarding the progress being made was provided in Appendix A to the report. The next workshop would take place in September 2016.

Members asked whether the resources available to Internal Audit presented a risk. The Audit and Risk Manager accepted that lack of resources was an ongoing concern across all departments, but he remained positive.

The Committee discussed whether the Chief Executive will be invited to attend a future meeting of the Committee. The Audit and Risk Manager advised that the Chief Executive was awaiting an invite. It was suggested that the Chief Executive could be invited when the Committee receives a report on the Corporate Assessment.

RESOLVED – that

- (1) The Committee notes the updated Action Plan position as summarised in Appendix A and the current status of ongoing action.
- (2) The Chief Executive be invited to attend Audit Committee as part of the discussion following the Corporate Assessment presentation in March.

48 : AUDIT COMMITTEE ANNUAL REPORT

The Audit and Risk Manager advised that the draft Audit Committee Annual Report 2015/16 would be presented at the meeting in March. The Chairperson stated that Members had an opportunity to influence, comment on or feed into the Annual Report process. The Chairperson asked Members for their views.

Members asked for clarification that, following the forthcoming restructuring in Audit and Risk Management, whether Risk Management issues would still be reported to the Committee and whether these matters could be addressed in the Committee's Annual Report. The Corporate Director Resources confirmed that Risk Management issues would still be reported to the Committee. There was no agreed line of responsibility yet, but Risk Management would be allocated to a senior manager within the directorate. Members were aware that external auditors had previously raised concerns insofar as best practice suggests that risk management should be managed as a function independent from audit.

Members requested that the above change in the management structure be signalled in the Annual Report.

RESOLVED – That

- (1) Any Members who may wish to comment on the Annual Report do so writing to the Chairperson via email.
- (2) The change in the Audit management structure be included in the Annual Report.

49 : LOCAL GOVERNMENT BILL CONSULTATION - IMPLICATIONS FOR AUDIT COMMITTEE

The Committee received a report on the Welsh Government's draft Local Government (Wales) Bill proposals in relation to how these proposals concern matters relevant to the Audit Committee. Members were asked to consider the report and consider how the Committee may wish to respond to the Welsh Government's consultation.

Members were advised that the stated purpose of the Bill was to establish new Counties by the merger of existing Counties and County Boroughs; to establish a new and reformed legislative framework for local government democracy, accountability, performance and finance; and to establish a statutory Public Services Staff Commission. The consultation exercise is intended to provide the opportunity for comments on the proposals to be considered by the Welsh Government after the May 2016 elections. The deadline for responses is 15 February 2016.

Part 4 of the Bill imposes statutory duties upon Members of the new Councils relating to the performance of their functions. Part 5 of the Bill renames Audit Committees as 'Corporate Governance and Audit Committees' and provisions are made regarding their functions in Section 148 and Section 149. Specifically, the Bill provides that a committee is required to assess, and report on the Council's ability to comply with its duties in respect of its governance arrangements, make progress against the priorities set out in its Corporate Plan and handling complaints effectively. The Corporate Governance and Audit Committee must also assess and report on arrangements for self-assessment and peer assessments. The Committee must also review self-assessment reports and draft responses to peer assessment reports.

Part 4 and Part 5 of the Bill were attached to the report as Appendix A.

Members of the Committee discussed the Bill. It was noted that a number of the proposed changes had already been adopted in Cardiff. It was suggested that there may be a need to change the support arrangements for the Committee.

The Committee noted that one third of the Membership of the Committee must be Lay Members. The Council is currently recruiting for a fourth Lay member. The Chair will have to be independent, but there will be no significant change to the terms of reference of the committee. The matter of having a member of the Executive on the Governance and Audit Committee was discussed, for which there was a message in the Bill that they can be members, but not the Chair. The Bill narrowed the definition of a Lay Member. Members recommended that an additional paragraph be added to paragraph 151 of the draft bill, which would preclude any consultant or similar employed by the authority, or spouse or civil partner, of such as consultant, from serving as a Lay member on the Committee. It was agreed that this point be set out in the Committee's formal response to the Welsh Government's consultation.

RESOLVED – That

- (1) The Committee notes the provisions of Part 4 and Part 5 of the draft Local Government (Wales) Bill, set out in Appendix A, insofar as they relate to matters which the (current or proposed) remit of the Committee;
- (2) Delegates authority to the Corporate Director Resources, in consultation with the Chair, to prepare a response for Cabinet to consider on behalf of the Committee;
- (3) The response to the Local Government Bill consultation should suggest strengthening the potential conflicts for Lay persons to include business relations with Councils themselves, or for their civil partner or spouse.

Wales Audit Office

50 : CORPORATE ASSESSMENT UPDATE

The Corporate Director Resources advised that the Corporate Assessment was still awaited for initial review and comment. It was noted that at the previous meeting of the Committee an action was agreed for the Chairperson to meet with WAO. The Chairperson stated that meetings were yet to be arranged but these would be scheduled and would take place over the next 9 months.

RESOLVED – That the Chair will meet with WAO to discuss boundaries, roles and responsibilities, particularly in view of the new Committee changes resulting from the Local Government Bill.

51 : WAO REPORT PROGRESS UPDATE AND VALUE FOR MONEY STUDIES

The Audit and Risk Manager advised the Committee that progress reports were on track. A further report would be considered at the March meeting of the Committee and relevant attendees would be invited to attend.

Treasury Management

52 : PERFORMANCE REPORT

Members received a report providing performance information and a position statement on Treasury Management, highlighting the key changes from the previous report received in 31 October 2015. The report included a snapshot of treasury performance and position statements on investments and borrowing.

The Operational Manager, Capital and Treasury, presented the report. Members were asked to note investments to the value of £83 million. The forecast level of internal borrowing was £50 million at 31 March 2016. There was a slight underspend forecast in terms of external borrowing. Cash balances will reduce over the next 2 months as there will be no Council Tax receipts. In December £11 million of new borrowing was made for school investment. Longer term borrowing is at a more favourable rate from the Treasury.

RESOLVED – That the report be noted.

53 : TREASURY MANAGEMENT STRATEGY 2016/17

The Committee received a report on the draft Treasury Management Strategy 2016/17. The proposed strategy for 2016/17 is required to be approved at the Budget Council meeting in February 2016. The draft strategy was appended to the report.

The Operational Manager, Capital and Treasury advised Members that the draft strategy had been prepared in accordance with the Welsh Government's requirements. The main points of the Strategy included interest rate forecasts, an explanation of the pressures on the capital programme, a section on borrowing and the policy for the repayment of debt. It was felt that the Treasury Management Strategy was instrumental in minimising risks. The strategy includes the impact of housing reform, with integrated borrowing in place and an integrated strategy.

Interest on investments has been 0.5% since 2009 with minimal investment returns, but conversely borrowing rates are expected to rise in the medium term.

There is an increased need to borrow e.g. 21st Century Schools and capital schemes.

Based on the Draft Capital Programme, there is a requirement to borrow £108 million by 2018/19 year end. The plan is to use internal borrowing where possible, but not to leave external borrowing too late should interest rates rise.

There is a policy for debt repayment, with a prudent approach in the strategy for repaying historic borrowing.

There are indicators in the strategy which are similar to those used in the last strategy, with affordable borrowing limits. The investment strategy is much the same as prior years.

A member questioned the single integrated strategy. It was explained that this was not new, but when the Council takes on extra debt it needs to split this between general fund and housing borrowing. Debt is integrated, so that there is one process, but account for it correctly via HRA or General Fund.

RESOLVED – That the Committee note the proposed Treasury Management Strategy for 2016/17.

Internal Audit

54 : INTERNAL AUDIT PROGRESS UPDATE

The Audit and Risk Manager presented a progress report providing an update on the work of Internal Audit up to 31 December 2015. Members were advised that an Annual Audit Strategy/Plan is prepared each year by which the work of Internal Audit can be measured. The Audit and Risk Manager advised that, as of January, progress against the plan was on track for most fundamental / high risk audits.

Members were advised that during the quarter there have been six new 'Limited Assurance' reports, with three or four at draft stage, and two executive summaries with 'No Assurance',

- Glyn Derw & Michaelston – This audit highlighted a wide range of concerns around governance and financial control. The Director was heavily involved as was the Resources LFM team. A new business manager had recently taken up their post and was working with staff and LFMS to address concerns.
- Youth centre inventories – Issues involved the accountability for assets and the movement of stock. These mainly related to competency issues and poor records management, rather than suspicion of fraud, but these concerns are also being considered by the Director.
- The 6 executive summaries have been provided to the Chief Executive who will reinforce the need for strong financial control with SMT. All will be subject to a revisit in 6 months' time.

It was also noted that there has been an overall increase in the number of limited audits conducted compared to those with a satisfactory assurance opinion and this needs to be closely monitored. The Audit and Risk Manager stated that this was a worrying trend and that he would be highlighting this in his Annual Internal Audit report.

The Chair said that there is comfort in the personal meetings between the Audit and Risk Manager and the CEO, with the message getting to the right people in the organisation, but some of the outcomes from audits required close monitoring.

Key priorities for Quarter 4 included the transition to a new management structure with the retirement of the Audit and Risk Manager, who has extensive knowledge and experience from over 45 years of service. High risk audits will be targeted in order to minimise the number not completed during the financial year. New staff, recently appointed will receive induction and training in order to contribute to delivering the plan. The Internal Audit Strategy will also be refreshed and key documents e.g. the Audit Charter updated. Included in the Strategy will be an outline plan for 2016-17 based on ongoing work on assurance mapping.

Members noted that the audit of pool cars had been deferred. The Audit and Risk Manager advised that this was due to the Council recently acquiring a new fleet of keyless vehicles, and lead time needed prior to the audit. Audit have been involved to provide assurance that the control issues originally identified have been addressed under the new arrangements.

Members also asked for further details regarding the Contract Fraud investigation, referred to in the Appendix to the report, specifically, for how long the invoices had been submitted. The Audit and Risk Manager agreed to provide Members with further details via email.

A Member questioned about the extent of contract audit work undertaken. The Audit & Risk Manager explained that there has been work on CMS variation orders and some audit consultation on the review of financial and contract standing orders and procurement rules. There has been some slipping of work with a need for specific work on procurement to be prioritised in 2016-17.

With regards to the variation audit findings, weaknesses were reported in the approval processes and the need to strengthen the audit trail. It was clarified to a member who expressed concern that if contracts exceed a certain percentage of variation, that there is an escalation process for approval in place.

The Corporate Director Resources advised that contract standing orders have variance levels in place and if those variances are exceeded enquiries are made.

The Committee was advised that a directorate received additional budget in order to address a likely overspend on a capital project. The overspend did not occur and the directorate subsequently asked the Corporate Director Resources if the uplift could be used for something else. The additional budget was clawed back. The Chairperson stated that there was a formal mechanism in place regarding the re-provisioning of savings. The Chairperson indicated that he had previously received written confirmation to this effect from the Chief Executive, which he was happy to share with the Committee.

Members raised concerns that CRSA data for Cantonian High School had not been returned

Members asked officers to confirm that when the confederated schools in Glyn Derw and Michaelston are amalgamated into a new school, then any deficits associated with the existing schools will be wiped out. Concern was expressed that there was, therefore, no incentive to reduce the respective deficits. Officers advised that any losses would come from School Organisational Plan funding, and not Council monies.

RESOLVED – That

- (1) The report be noted.
- (2) The Audit and Risk Manager provide details of the period over which the fraudulent invoices were submitted in respect of the contract fraud.

55 : VALUE FOR MONEY STUDIES

The Committee received a report providing an update on the value for money (VFM) studies on Agency Spend, Standby Payments, Annual Leave, Overtime, Home to Office Travel and Mileage Claims. The Audit and Risk Manager advised that the VFM studies on Agency Spend and Standby Payments had been reported to the Committee previously. Additional studies relating to annual leave, overtime payments, home to office travel and mileage claims were complete.

The VFM studies aimed to highlight spend in these areas and seek assurances of the appropriateness of this spend and to identify any potential areas for savings to be considered.

Some compliance issues were highlighted and recommendations were made to enhance control. The VFM studies were reported to Senior Management Team on 12 January 2016. The Audit & Risk Manager will provide Directors with a breakdown of the data from each study, and Directors were recommended to discuss the information with their management teams and seek assurances that the level of spend was appropriate, the mechanisms for approval were robust, and potential savings were being considered.

Member questions related to whether any benchmarking had been completed on standby and agency spend. This has not been considered by Audit to date.

It was suggested that there could be a requirement to have a business case for standby arrangements, in the same way as home to office.

The Committee discussed the VFM studies in some detail. The Chairperson requested that a further report be considered at the Committee's meeting in December 2016.

RESOLVED – That

- (1) The report be noted.
- (2) The Audit Manager provide a further report to Audit Committee at its meeting in December 2016 and consider benchmarking with others on agency spend and standby and give further consideration to the possible introduction of business cases for standby arrangements .

56 : INTERNAL AUDIT MANAGEMENT

Members received a report on the amended management arrangements for Internal Audit. Members were advised that in May 2015 temporary measures were put in place to enable the phased retirement of the Audit and Risk Manager. The Pension Team had also been reporting directly to the S151 officer for the past 10 months and there was also a managed reduction of staff in relation to investigations and fraud as a result of a restructure.

Recent guidance from the Public Sector Internal Audit Standards Board had reaffirmed the position that Internal Audit should be an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations.

Following the appointment of a Head of Finance in September 2015, a review was undertaken to consider the overall management structure in Finance, including suitable arrangements for the Internal Audit functions. The Internal Audit Manager will be the key link with the Audit Committee and a key member of the Finance Management Team. Recruitment for the role has commenced and it is anticipated that the interview arrangements will be concluded in March 2016. In the event that the successful applicant will not be joining before 1 April 2016, interim arrangements will be put in place.

RESOLVED – That the Committee notes the content of the change in management arrangements in Internal Audit.

57 : OUTSTANDING ACTIONS

The purpose of this item was to update the Committee on outstanding actions from the Audit Committee's Action Plan. The Audit and Risk Manager confirmed that a number of actions would be closed following the meeting.

The SharePoint site is now available with holds a number of documents which members may find of interest.

The value for money exercise on supply teachers is almost complete and an update will be provided in March.

An assurance map is being used to update and collate the audit plan.

RESOLVED – That

- (1) the report be noted.
- (2) an update will be provided at the Committee's meeting in March on the VFM exercise on supply teachers.

58 : WORK PROGRAMME UPDATE

The purpose of this report was to update Members on the Committee's Work Programme for 2015/16. Members were asked to note that that the agenda for the meeting on 22 March 2016 contained was already full.

RESOLVED – That the report be noted.

59 : URGENT BUSINESS

No urgent business was reported.

60 : DATE OF NEXT MEETING - 22 MARCH 2016

The next meeting would take place on Monday 22 March 2016.

The meeting terminated at 4.00 pm

**CITY OF CARDIFF COUNCIL
CYNGOR DINAS CAERDYDD**

AUDIT COMMITTEE:

22 MARCH 2016

FINANCIAL UPDATE 2015/16

REPORT OF THE CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 4.1

Reason for this Report

1. The Audit Committee Terms of Reference sets out their responsibility for Governance, Risk & Control and also Financial Reporting. This report allows the Committee to be updated with reference to the above.
2. This report has been prepared to provide the Audit Committee with an update on the Council's financial position.

Background

3. To assist the committee in understanding the current financial context within which the Council is operating, this report sets out an overview of the current monitoring position for 2015/16 and provides a brief update on the 2016/17 Budget approved by Council on the 25 February 2016 and the medium term.

Issues

Financial Monitoring

4. The Cabinet considered the Month Nine Monitoring Report on 18 February 2016. Overall, the revenue monitoring position for the Council shows a potential surplus of £988,000, an increase of £679,000 compared to the position previously reported at month six. The change is largely due to an improvement in the monitoring position on directorate budgets, particularly in respect of City Operations. Despite this, financial pressures and shortfalls against budget savings targets in directorate budgets continue to result in projected overspends, however these are offset by projected savings on capital financing, an anticipated surplus on Council Tax collection and by NDR refunds on Council properties.
5. Directorate budgets are currently projected to be overspent by £5.6 million however it is anticipated that management actions will enable this to be further reduced by the year end. The current position includes projected overspends in the Social Services, Economic Development and City Operations Directorates and in Corporate Management. This reflects a number of factors including shortfalls against budget savings targets set as part of the 2015/16 budget and on-going shortfalls carried forward from the previous financial year. The directorate overspends are partially offset by the £4.0 million general contingency budget

which was maintained as part of the 2015/16 budget in order to reflect the quantum, risk and planning status of the proposed savings for 2015/16.

6. An overall shortfall of £6.075 million is currently projected against the £32.473 million directorate savings targets with £21.979 million having been achieved to date and a further £4.419 million anticipated to be achieved by the year end. The budget approved by Council on the 26 February 2015 identified red or red / amber achievability risks totalling £10.230 million with £5.854 million of the savings proposals still at a general planning stage. These risks are evident in the projected shortfall currently reported as part of the month nine monitoring. A projected shortfall of £2.594 million has also been identified in relation to savings targets carried forward from 2014/15. The projected shortfalls are reflected in the directorate monitoring positions although where possible shortfalls have been offset by savings in other budget areas. The £4.0 million General contingency budget which was allocated to reflect the risk and planning status of the proposed savings for 2015/16 is also available to offset the shortfall in the current financial year.
7. Actions are being taken by those directorates currently reporting a projected overspend in order to try to resolve the position and this will continue to be reviewed as part of the challenge process to review the performance of directorates including the budget monitoring position. The financial monitoring position and any actions being taken by directorates to reduce projected overspends are also discussed in the Chief Executive's monthly meetings with directors.
8. The total Council Capital Programme for 2015/16 amounts to £329.7 million and against this the projected out-turn is £299.8 million resulting in a net variance of £29.9 million. The majority of the projected variance is due to slippage in two main areas, namely, construction of the new Eastern High School and various energy projects including LED for street lighting. Directorates have been reminded of the need to avoid slippage wherever possible by ensuring that their project plans and profiles of activity are robust.

2016/17 Budget and Medium Term

9. The 2016/17 Budget was approved by Council on 25 February 2016. The revenue budget totals £578.161 million and includes budget savings of £28.835 million to be achieved during the financial year. A Council Tax increase of 3.7% was approved.
10. The Budget proposed by the Cabinet and approved by Council took account of the responses received in relation to the budget consultation. It also reflected the funding allocated in the Provisional Settlement which provided the Council with a lower funding reduction than had previously been anticipated as part of the Budget Strategy. This amounted to £11.5 million. Additional resources of £1.9 million were also identified as a result of changes to the Council Tax Base as set out in the report to Cabinet in December 2015.
11. As part of the due diligence for the 2016/17 budget process consideration was given to the likely future achievability of the budget savings shortfalls currently identified in the budget monitoring process for 2015/16. Following this a judgement was made that in relation to £3.029 million of these savings, the risk associated with them was such that they should be written out. The consequential budget

realignments are reflected in the directorate base budgets for 2016/17. It is anticipated that all other savings shortfalls identified in the current year will be fully achieved in 2016/17.

12. The 2016/17 budget savings of £28.835 million were risk rated for both residual risk and achievability. The residual risks include £9.888 million rated red or red / amber with £11.663 million similarly rated in relation to achievability. Savings have either been realised or detailed plans are in place for 90.5% of the proposed savings, a significantly increased percentage compared to the position in the previous financial year. The achievement of these savings will be closely monitored throughout the coming year.
13. The Medium Term Financial Plan (MTFP) for the financial years 2017/18 to 2019/20 as set out in the Budget Report shows a potential budget gap of £73.247 million over this three year period. This is the base position with a worse case analysis indicating a potential budget gap of £98.256 for the same period. The Budget Report sets out a range of measures and budget savings based on themes to address the potential base budget gap. Work will now commence on the 2017/18 Budget with a Budget Strategy Report to be presented to Council in July 2016. This will also provide an update to the MTFP for any known changes.
14. The Capital Programme for 2016/17 totals £114.329 million with £414.443 million identified in relation to the Programme as a whole over the period 2016/17 to 2020/21. The Capital budgets for 2016/17 will be updated during the financial year for any additional approved grant funding towards capital schemes.
15. A summary Question and Answer document has been developed to aid communication of the budget messages. This is available on the Council's website, is being used as a briefing tool for council employees and is attached as Appendix 1.
16. The Budget Report included an extensive section on the Council's financial standing, risks and financial resilience which also included the position on Council reserves. To support this section an appendix on the financial health of the organisation was included within the report and which is replicated as Appendix 2 to this report.
17. As a result of the timing of the Final Financial Settlement from Welsh Government, the Council's budget was set on the latest available information with the recommendation:

"In the event that the final settlement figure differs from the provisional figure, the Council approve a proportionate adjustment to the general reserves."

The final settlement was published on 2 March 2016 with the result that the Council's funding increased by £18,000. In accordance with the above recommendation, this amount will be transferred to the General Reserve.

Reason for Recommendations

18. To inform the Audit Committee of the current financial context for the Council.

Legal Implications

19. No direct legal implications arise from this report.

Financial Implications

20. There are no direct implications arising from this information report.

RECOMMENDATIONS

21. To note the financial information provided in respect of the 2015/16 monitoring position and the outcome of the budget for 2016/17 and the medium term.

CHRISTINE SALTER
CORPORATE DIRECTOR RESOURCES
March 2016

The following appendices are attached:

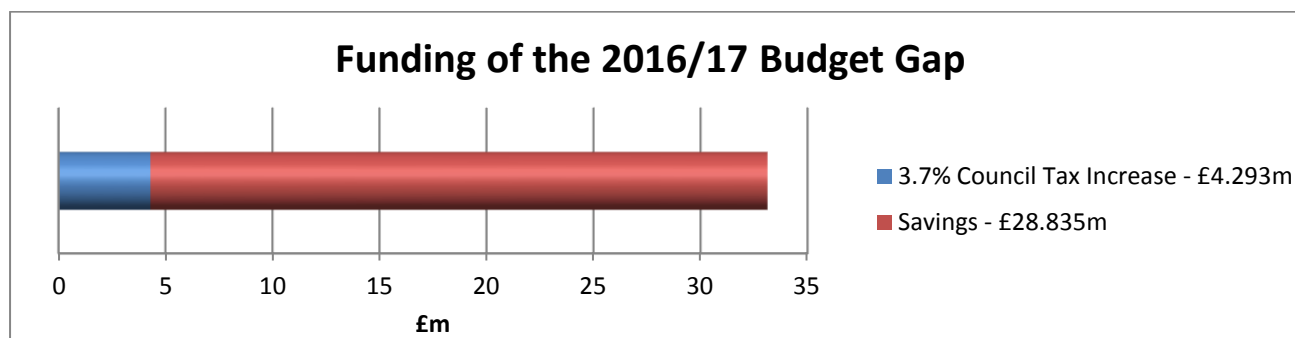
Appendix 1 – Budget 2016/17 Quick Q&A

Appendix 2 – Financial Snapshot – Budget Report Version

Budget 2016/17 – Quick Q&A

Has the 2016/17 Budget been finalised?

- Yes the 2016/17 budget was approved at Council on 25 February 2016
- The final budget gap was £33 million
- This was bridged through a combination of savings totalling £28.835 million and a 3.7% council tax increase



What was the reason for this gap?

- The budget gap is a result of funding failing to keep pace with financial pressures and increased demand for services.

I heard the Council had extra grant funding this year?

- The Council will not receive additional grant funding for 2016/17. In fact general grant funding will reduce by £301,000 (-0.1%)
- The good news is that Cardiff had been anticipating a reduction in funding of 3% which is around £12 million. This was based on warnings for Local Government to expect challenging funding settlements and was comparable to the funding reduction the Council received in 2015/16.
- In summary, funding levels are better than expected, but there is still no additional cash.

Why did the position change between consultation and budget?

- Post consultation developments improved the position set out in the Consultation Report by £14.095 million. This was a result of three updates:-
 1. Firstly, the 2016/17 funding reduction of 0.1% announced by Welsh Government in December 2015 was better than the 3% reduction the Council had anticipated. Usually the Council would have been aware of funding levels in October, but this was delayed by almost two months due to the timing of the Comprehensive Spending Review in late November 2015.
 2. Secondly, based on the Council Tax Base Report taken to Cabinet in December 2015, additional council tax income will be generated in 2016/17 as a result of additional properties and an improved collection rate.
 3. Thirdly, the Council received indicative energy price reductions for 2016/17.

What changes were made to the consultation proposals to reflect the updated position?

Mindful that the gap for 2016/17 is still very significant and that the WG funding settlement is for one year only, changes to reflect the improved position were based on the following principles:-

- **Review of budget planning assumptions** – to reduce use of one year only solutions, to take out areas of high risk and to support key corporate priorities – i.e. schools
- **Reduction of future risk** – through introduction of a new mechanism to improve financial resilience and enable one off investment and development in priority areas
- **Review financial pressures** – to address emerging risk areas, to review areas of high risk or uncertainty and to address corporate priorities
- **Review consultation savings proposals** – to improve their achievability for 2016/17 by addressing pace and scale, to improve the future financial position by pushing some proposals back into later years, to address emerging issues and to take account of consultation feedback.

Were all services cut by a comparable amount?

- All directorates with the exception of schools made significant savings.
- The total savings figure of £28.835 million represents 8% of the non-schools budget.
- The percentage cut varies across directorates because the ability to make savings is affected by issues such as increasing demand and statutory duty (i.e. there are some things the Council has a duty to provide.)

What about Schools?

- Schools budgets have received demographic growth of £4.033 million to address increased pupil numbers and their associated needs.
- In addition, Schools received £7.2 million, which represents 75% of their estimated inflationary pressures next year.
- Therefore whilst schools budgets have not been cut, the level of growth they received has been capped.

What is the impact on jobs?

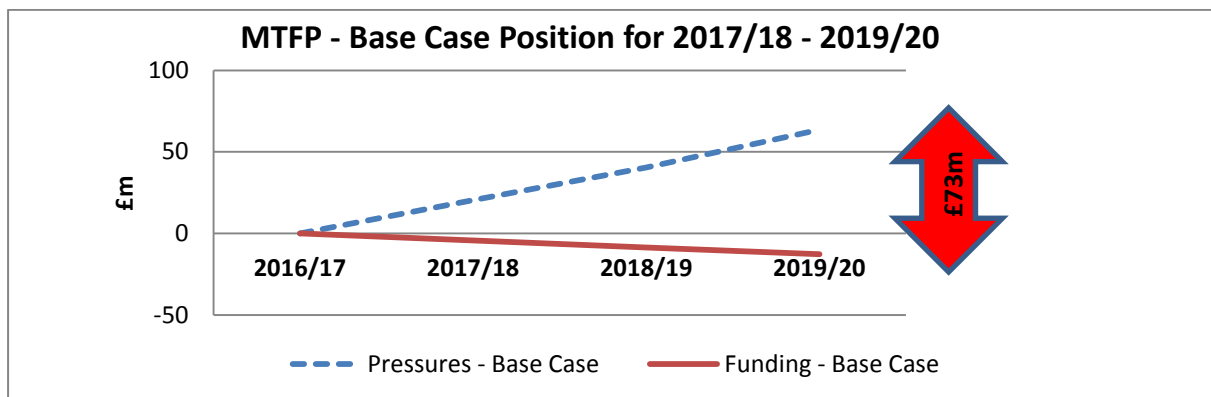
- As part of the 2016/17 budget, posts will be lost in almost all directorates (with the exception of schools although individual schools may need to review their own staff structures on receipt of their budget information).
- Council-wide, it is estimated that the overall impact on jobs will be a reduction in approximately 135 posts. This is a combination of 165 full time equivalent posts deletions offset by the creation of circa 30 posts.
- In addition, there may be TUPE implications of alternative delivery models.

Can I review further details of the Budget online? Where can I see all the savings?

- Yes you can view the Budget Report on line including a full list of savings and post consultation amendments by going into the Council meetings sections of the website and reviewing the documents for the 25 February 2016 Council meeting.

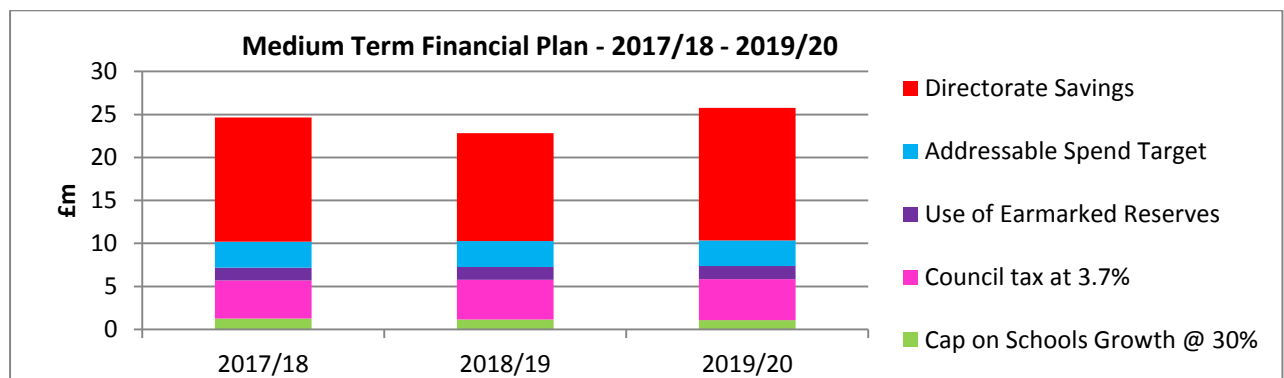
What about the future? Will there be further budget reduction requirements?

- The Council's Medium Term Financial Plan identifies a budget gap of £73 million over the three year period 2017/18 – 2019/20.
- The £73 million is considered a base case scenario and is based on the Council receiving Welsh Government funding decreases of 1% each year.
- Closing this gap will be extremely challenging given that the Council has made savings of £190 million over the 10 year period 2006/07 – 2015/16 and that over half of these were between 2013/14 and 2015/16.



How will the Council address this gap?

- The 2016/17 Budget Report sets out a direction of travel for bridging the gap.
- The solution is a combination of budget strategy assumptions and savings proposals.
- Budget Strategy Assumptions refer to potential council tax increases, use of reserves and future caps on schools growth. At present a similar position to 2016/17 has been extended over the medium term and will be reviewed in developing the 2017/18 Budget Strategy Report.
- The savings proposals are based on a review of budgets that directorates undertook in connection with development of the 2016/17 Budget Strategy.



What Next?

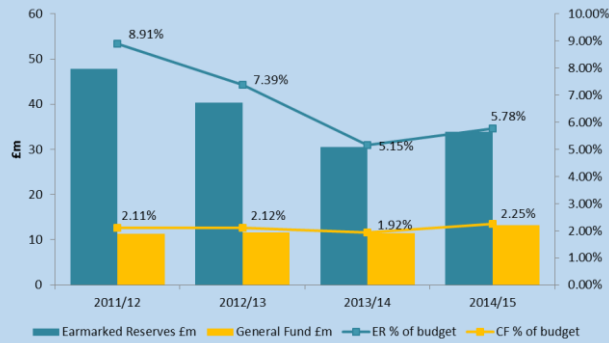
- Directorates will need to finalise all necessary steps to ensure delivery of the savings identified for 2016/17 and monitoring will commence in this respect.
- Work will need to begin immediately on the 2017/18 Budget Strategy Report which will be subject to approval in July 2016.
- As part of Budget Strategy Work, the planning status of savings proposals for 2017/18 and beyond will be developed and further due diligence work undertaken.

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FINANCIAL SNAPSHOT REPORT - BUDGET REPORT VERSION

The following tables, charts and figures give an indication of the financial resilience of the Council as per the Statement of Accounts.

Level of Council Fund (CF) and Earmarked Reserves (ER)



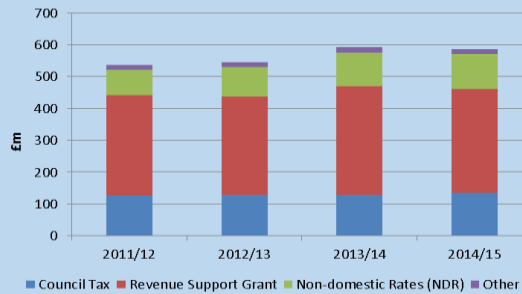
Levels of Reserves

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
Earmarked Reserves	47,822	40,319	30,559	33,824
General Fund Balance	11,342	11,548	11,413	13,154

Budgeted Sources of Revenue Funding

	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000
Total Revenue funding	536,867	545,631	593,007	585,288
Revenue Support Grant	315,271	307,237	339,678	326,291
Non-domestic Rates (NDR)	80,067	93,743	107,229	109,695
Other	15,681	15,451	16,874	14,182
Council Tax	125,848	129,200	129,226	135,120

Budgeted Revenue Funding Split



Financial Performance and Ratios

Ratio	Calculation	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000
Net Worth	(Assets - Liabilities)	912,881	884,876	940,758	877,814
Net Worth exc Pension Liability	(Assets - Liabilities)	1,546,881	1,592,190	1,413,785	1,417,600
Working Capital Ratio	(Current Assets/Current Liabilities)	1.93%	1.65%	1.41%	1.34%
Gearing Ratio	(Borrowing/Total Reserves)	48.9%	52.3%	51.0%	54.4%

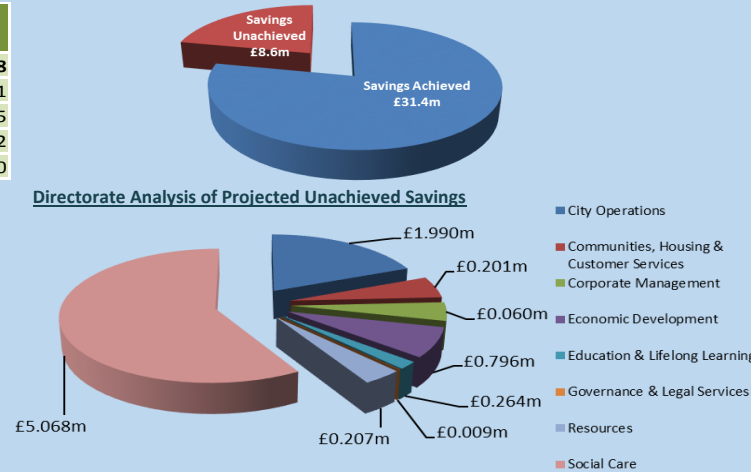
Appendix 7

The figures below show a snapshot of the Council finance for the current financial year for both revenue monitoring and capital.

Revenue Month 9 Projected Outturn Position

Directorate	Net Expenditure Budget £000	Projected Outturn £000	Variance £000	Variance %
City Operations	52,389	52,538	149	0.3%
Communities, Housing & CS	46,976	46,976	0	0.0%
Corporate Management	24,504	24,899	395	1.6%
Economic Development	2,162	2,474	312	14.4%
Education & LL	234,657	234,657	0	0.0%
Governance & Legal Services	4,501	4,489	(12)	-0.3%
Resources	16,777	16,599	(178)	-1.1%
Social Services	137,830	142,750	4,920	3.6%
Total Directorates	519,796	525,382	5,586	1.07%
Capital Financing	35,845	34,633	(1,212)	-3.4%
General Contingency	4,000	0	(4,000)	-100.0%
Summary Revenue Account etc.	10,578	9,216	(1,362)	-12.9%
Total Net Expenditure	570,219	569,231	(988)	-0.17%
Funded by:				
Revenue Support Grant	322,851	322,851	0	0.0%
Non-domestic Rates (NDR)	101,253	101,253	0	0.0%
Council Tax	142,633	142,633	0	0.0%
Other	3,482	3,482	0	0.0%
Total	570,219	570,219	0	0

Revenue Savings Achieved and Unachieved



Capital Month 9 Projected Outturn Position

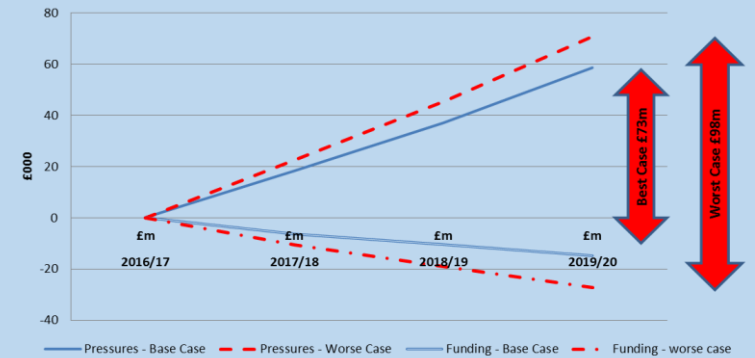
Directorate	Budget £000	Projected Outturn £000	Variance £000	Variance %
City Operations	38,433	31,607	(6,826)	-17.8%
Communities, Housing & CS	9,594	10,172	578	6.0%
Economic Development	16,853	15,534	(1,319)	-7.8%
Education & LL	45,656	24,367	(21,289)	-46.6%
Governance & Legal Services	335	335	0	0.0%
Resources	7,874	7,048	(826)	-10.5%
Social Services	25	25	0	0.0%
Total	118,770	89,088	(29,682)	-24.99%

The tables below show the Medium Term Financial Plan (MTFP), the risks and affordability indicators facing the Council.

MTFP Scenario

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	TOTAL £000
Financial Pressures	33,490	18,330	18,611	21,617	92,048
Funding Reductions	- 4,655	6,333	4,220	4,136	10,034
Budget Requirement Reduction	28,835	24,663	22,831	25,753	102,082
Savings Targets & BS Assumptions	28,835	17,459	15,552	18,394	80,240
Shortfall to Requirement	-	7,204	7,279	7,359	21,842

Modelling of Budget Gap 2016/17 - 2018/19



Capital Expenditure & Capital Financing Requirement (CFR)

	31 Mar 2015 £m	31 Mar 2016 £m	31 Mar 2017 £m	31 Mar 2018 £m
Capital Expenditure				
General Fund (GF)	63	89	88	114
Housing Revenue Account	20	211	26	28
Total Capital Expenditure	83	300	114	142
Capital Financing Requirement				
General Fund CFR inc Landfill	426	463	482	476
Housing Revenue Account CFR	95	277	279	296
Total CFR	521	740	761	772

Affordability Indicator - GF Capital Financing costs as a % of Controllable Budget

	2011/12	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Difference 11/12- 20/21
Net	13.47	15.42	15.79	15.27	15.53	17.00	16.82	24.87
Gross	15.17	19.13	19.94	20.31	20.80	22.51	22.37	47.46

AUDIT COMMITTEE: 22 MARCH 2016

ACCOUNTING POLICIES UPDATE

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 4.2

Reason for this Report

1. The Audit Committee Terms of Reference sets out their responsibility for reviewing the financial statements prepared by the authority.
2. This report has been prepared to provide Audit Committee Members with an update on changes to accounting policies included in the 2015/16 CIPFA Code of Practice (the Code) and potential impact for the Council's Statement of Accounts. It will also highlight future Code updates that are likely to have a significant impact on the accounts.

Background

3. The Code of Practice is based on International Financial Reporting Standards (IFRSs), and is developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board. The Code has been prepared on the basis of accounting standards and interpretations in effect for accounting periods commencing before 1 January 2015.
4. There are a number of changes within the Code that will have little or no effect on the Council's Statement of Accounts. This report will focus on the key accounting changes to the Code that will impact upon the Council's accounts. A copy of the Council's draft 2015/16 accounting policies is included, for information, at Appendix 1.

IFRS 13 Fair Value Measurement

5. The most significant change within the 2015/16 Code is the application of IFRS 13 *Fair Value Measurement* of property, plant and equipment in local government. CIPFA/LASAAC deferred adoption of IFRS 13 to the 2015/16 financial year to allow time to review the concepts which underpin its measurement requirements and their relevance in the public sector.
6. CIPFA/LASAAC are of the view that the definition of fair value in IFRS 13 is not the most appropriate measurement base for operational property, plant and equipment in the public sector. Service potential is of primary interest when managing public

sector assets, therefore the measurement of 'Current Value' will continue for operational assets.

7. However, the 2015/16 Code introduces the concept of valuation of surplus assets and investment properties for accounting purposes on the basis of 'Fair Value' and requires any valuations to be based on the basis of 'highest and best use'. This is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.
8. In respect of surplus assets, the Council adopted a fair value approach, in 2014/15, for reasons set out previously in its accounting policies. This was deemed to give a fairer indication of the value of assets not used in service delivery. The change in the Code affirms our existing approach and supports our original deviation from the accounting approach previously recommended.
9. The Council's investment properties were revalued during 2014/15 and professional valuation advice deems that the Council's approach to valuation of these assets already considers the revised fair value requirements. Whilst a high level review will be undertaken during 2015/16 to determine that the valuations previously provided have not changed materially, the next full revaluation of investment properties is to take place in 2016/17 in accordance with the rolling programme of revaluations.

Forthcoming changes to the Code

10. The 2015/16 Code includes confirmation of changes to forthcoming editions of the Code, including adoption of the measurement requirement of the *Code of Practice on Transport/Infrastructure Assets* in the 2016/17 Code. These changes are likely to require significant additional workload on the part of the local authority finance function and directorates at a time of significant financial pressures. Consideration of the cost and benefit of all changes will need to be undertaken as part of implementation particularly in respect of the materiality of the impact of the requirements.

Highway Network Infrastructure Assets

11. Although the change in measurement of the Highway Network Infrastructure Asset will not be implemented until the 2016/17 Code, there will be a significant impact on the balance sheet and comprehensive income & expenditure (CI&E) accounts and, therefore, it is important that those responsible for governance are made aware of the changes and its potential impact.
12. The Highway Network Infrastructure Asset includes land, carriageways, footways, cycle tracks, structures, street lighting, street furniture and traffic management systems. It is the most valuable asset that the Council holds and operates, in terms of replacement cost. However, local authority accounts do not currently reflect the true value of the asset, its condition, its cost in providing services and the implications of not maintaining it in the short and long term.
13. From 2016/17, the asset will need to be measured at Depreciated Replacement Cost (DRC), rather than Depreciated Historic Cost (DHC), and will also be a disclosed as a separate class of asset on the balance sheet. The move to DRC will

significantly change the balance sheet and increase depreciation charges to the CI&E. There will be no requirement to restate balances in relation to 2015/16.

14. There are a number of reasons for the change to DRC, including:

- Whole of Government Accounts – deemed that nationwide assets were understated by over £200 billion largely due to the valuation of infrastructure assets.
- Leads to better financial and asset management.
- Better reflects cost of replacing an asset in its current condition.
- More realistic valuation basis than historic cost, which is extremely dated.
- Consistent with the key principles of the Infrastructure Code.

15. These changes aim to address the following:

- Increase visibility and impact of infrastructure assets in delivery of Council services.
- Nationally a perception that not enough spent on maintaining infrastructure assets, with the impact of not maintaining assets now resulting in more expense later.
- Lack of consistent data on quantities, condition of such assets, maintenance backlogs and true cost of holding such assets
- Data held in disparate systems or not held at all.
- The only infrastructure assets held in the Council accounts are those where expenditure has been incurred since a certain date in the 1990s. They are measured at historic costs and do not reflect true value, condition or use in service delivery.
- Lack of information to improve service delivery and resource allocation in line with Asset Management Plans.

16. The City Operations Directorate has been providing asset valuation and condition data for the National Whole of Government Accounts project. It has been working with the County Surveyors Society Wales Highway Asset Management Group to review the information held, how it is held, and professional assumptions made. The Whole of Government Accounts return for 2014/15 included a Gross Replacement cost for Highway Network assets of c £2.3 billion for Cardiff, which would double the valuation of all non-current assets currently included in the Statement of Accounts.

17. The pre-requisites for preparing for the upcoming change include:

- Highways, Transport, Finance and Audit officers involved at an early stage and sufficient resource available to deliver requirements.
- Ensuring financial information generated for asset management is robust, consistent and fit for purpose e.g. Gross Replacement Cost, current condition, professional assumptions, inventory and asset lives.
- Data is available in a form that can be used to inform the Statement of Accounts Systems and processes exist that can be audited, maintained and updated with all relevant information provided by professionals in their field.
- Consideration of materiality and cost versus value added in the provision and collection of information
- Early support from external audit where needed.

Telling the Story Consultation

18. During 2015, CIPFA undertook a consultation on 'Telling the Story', which aimed to review clutter within Local Authority Statement of Accounts and better explain the financial statements. It is not yet known exactly when the findings of the consultation will impact upon the Code, however it is possible that they will be introduced in the 2016/17 version of the Code.
19. The key change under consideration is a change from reporting the net cost of services, within the CI&ES, on a Service Reporting Code of Practice (SERCOP) basis to the recognised management reporting structure of each authority. The consequence will be a deviation from standardised reporting of income and expenditure across all local authorities. To support this change, it is intended to introduce a new 'Expenditure & Funding Analysis' note to the accounts, which will provide a reconciliation of the figures contained within the CI&ES and those reported as part of each authority's final management accounts for the year. Furthermore, a simplification of the Movements in Reserves Statement and a significant change to the contents of the segmental reporting note is under consideration.
20. In support of CIPFA's simplification agenda, the Council is currently undertaking a review of its Statement of Accounts, with the intention of removing immaterial disclosures and superfluous narrative and information.

Reasons for Recommendations

21. To ensure the Audit Committee are aware of the implications of accounting policy changes on the Council's Statement of Accounts.

Legal Implications

22. There are no direct legal implications as a result of this report.

Financial Implications

23. There are no direct financial implications as a result of this report.

Recommendations

24. That the update in respect of accounting policies be noted.

**CHRISTINE SALTER
CORPORATE DIRECTOR RESOURCES
14 MARCH 2016**

4.2 Appendix 1 – Draft Accounting Policies 2015/16

Extract from 2015/16 Statement of Accounts

3.1 Accounting policies, critical judgements and assumptions

In accordance with the Accounts and Audit (Wales) Regulations 2014, this Statement of Accounts summarises the Council's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. The accounts are prepared in accordance with proper accounting practices as contained in the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code) and the Service Reporting Code of Practice 2015/16 (SERCOP), supported by International Financial Reporting Standards (IFRS).

Accounting policies used when formulating the accounts

1. Accounting policies issued but not yet adopted

The main change introduced by the Code, which will be required from 1 April 2016, relates to the adoption of the CIPFA Code of Practice on Transport Infrastructure Assets. This will require the Council to separately disclose its Highways Network Asset and measure it at Depreciated Replacement Cost (DRC), as opposed to Depreciated Historic Cost (DHC).

A prospective application will be required and, therefore, there is no impact upon the 2015/16 Statement of Accounts and no requirement to restate 2015/16 balances. The change will have a significant and material impact upon the Statement of Accounts. Had this policy been adopted for the 2015/16 Statement of Accounts, it would have resulted in a doubling of the value of all non-current assets.

2. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when the cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received are recorded as expenditure when the services are received rather than when the payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance is written down and a charge made to revenue for the income that might not be collected.

3. Cash and Cash Equivalents

These are sums of money available for immediate use. Cash is represented by cash in hand, bank balances of cheque book schools and the net balance on all of the Council's other accounts, including petty cash accounts. Cash equivalents are highly liquid investments including

Call Accounts and Money Market Funds that are repayable without penalty on notice of not more than 24 hours. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand.

4. Contingent assets and liabilities

These are potential benefits or obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control. Contingent assets and liabilities are not recognised in the accounting statements but are disclosed in a note to the accounts.

5. Deferred Liabilities

Where the Authority receives income from developers and other organisations in respect of the future maintenance of assets, the amounts are held in the Balance Sheet as deferred liabilities until such time that the maintenance of the asset takes place.

Obligations under finance leases are treated as deferred liabilities and measured on the basis disclosed in accounting policy 20.

6. Disposals and Capital Receipts

When non-current assets are disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal.

Receipts from disposals are credited to the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. Where sums are due but not yet received they are treated as deferred capital receipts. A proportion of receipts relating to Housing disposals (75% for dwellings – net of statutory deductions and allowances) are used to reduce the capital financing requirement of the Housing Revenue Account.

Receipts from disposals are appropriated to the Capital Receipts Reserve from the Council Fund Balance in the Movement in Reserves Statement and can only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement (CFR)). The written-off value of disposals is not a charge against council tax, as the cost of non-current assets are fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Council Fund Balance in the Movement in Reserves Statement.

7. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees, and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that there is no impact upon Council Tax.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy, and are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement. Where termination benefits involve the

enhancement of pensions, statutory provisions require the Council Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year. An accrual is made for the strain upon the pension fund and is included in the Balance Sheet as a long-term creditor, to the extent that it is repayable to the pension fund over 5 years. In the Movement in Reserves Statement, appropriations are made to or from the Pensions Reserve to neutralise the impact of this accrual on Council Tax.

Post-Employment Benefits

Employees of the County Council of the City and County of Cardiff are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by the Teachers Pensions Agency
- The Local Government Pension Scheme, administered by the County Council of the City and County of Cardiff.

The Council accounts for pension costs in the main accounting statements in accordance with International Accounting Standard 19 (IAS19). IAS19 requires recognition in the employer's accounts of the fact that although retirement benefits are not actually payable until an employee retires, the Authority's commitment to make those payments arises at the time that employees earn their future entitlements. The treatment of pension costs in the accounts depends on whether they are in respect of a defined benefit scheme or a defined contribution scheme.

Defined Benefit Schemes

In defined benefit schemes the retirement benefits payable are based on pay and service, and the assets and liabilities of the scheme can be readily identified between the participating bodies in the scheme. The Local Government Pension Scheme is a defined benefit scheme.

Under IAS19, the cost charged to net cost of services is the cost of pension entitlements earned in the year rather than the cost of contributions paid into the Fund. This cost is known as the *current service cost* and is determined by the actuary. The *Net Pension Liability*, which represents the Authority's attributable share of the Pension Fund's assets and liabilities, is shown in the Balance Sheet.

The following accounting policies have been applied in determining the figures to be included in the Comprehensive Income and Expenditure Statement and Balance Sheet in respect of pensions costs for the Local Government Scheme:

- the attributable assets of the scheme have been valued at bid price
- the attributable liabilities have been measured on an actuarial basis using the projected unit method, which assesses the future liabilities discounted to their present value
- the surplus/deficit in the scheme has been calculated as the excess/shortfall in the value of the assets in the scheme over/below the present value of the scheme liabilities
- the current service cost has been based on the assumptions at the start of the year and the estimated pensionable pay over that year.
- the interest cost is based on the discount rate and the present value of the scheme liabilities at the beginning of the period; discount rates are based on the annualised yields on the iBoxx over 15 year AA rated corporate bond index.
- the net interest on the net defined benefit liability/asset is the interest on the present value of liabilities/assets and interest on the net changes in those liabilities/assets over the period, calculated using the discount rate at the start of the period.
- actuarial gains/losses have been calculated by updating values from the last actuarial valuation to reflect conditions at the balance sheet date
- past service costs cover items such as the provision of enhanced or discretionary benefits on retirement. The costs included in the accounts for 2014/15 are the full costs relating to early retirements granted in the year, which have been calculated as the special contributions payable into the fund, adjusted for the financial assumptions used under IAS19, to represent the approximate cost of the increase in benefits granted to members under IAS19.

Defined Contribution Schemes

These are schemes where the employer pays fixed amounts into the scheme and has no obligation to contribute further amounts if the scheme does not have sufficient assets to pay employee benefits. Under IAS19, defined contribution schemes are accounted for by charging employer contributions to revenue as they become payable. The Teachers' Pension Scheme is a defined benefit scheme but as the Authority cannot identify its share of the underlying assets and liabilities in the scheme on a consistent basis; this scheme is to be accounted for as if it were a defined contribution scheme under IAS19.

In relation to retirement benefits, statutory provisions require the Council Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the Council Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

8. Events After the Balance Sheet Date

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – The Statement of Accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

9. Exceptional Items

Exceptional items are material in terms of the Authority's overall expenditure and not expected to recur frequently or regularly. When they occur, they are included in the Comprehensive Income and Expenditure Statement as a separate line, if that degree of prominence is necessary to give a fair presentation of the accounts.

10. Financial Assets

Financial assets are classified into three types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- investments at fair value – assets that have a quoted market price and/or do not have fixed or determinable payments.
- fair value through profit and loss – assets that are held for trading

Loans and Receivables: Initially measured at fair value and carried at their amortised cost. Credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset, multiplied by the effective rate of interest for the instrument. Interest that is due but unpaid at the end of the year is recognised in the Balance Sheet as a current asset.

Where assets are identified as impaired, because of a likelihood, arising from a past event, that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on de-recognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement.

Where loans or receivables are undertaken on behalf a third party or are legally required to be kept separate, interest on these balances has been paid to the relevant third parties accordingly.

Investments at Fair Value: available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses). Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Comprehensive Income and Expenditure Statement. The exception is where impairment losses have been incurred - these are debited to the Comprehensive Income and Expenditure Statement, along with any net gain/loss for the asset accumulated in the Reserve.

Where assets are identified as impaired because of a likelihood, arising from a past event, that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on de-recognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement, along with any accumulated gains/losses previously recognised.

Investments at Fair Value through Profit and loss: These are initially measured and carried at fair value. Any movements in fair value, gains and losses that arise on de-recognition of the asset, and investment income is credited/debited to the Comprehensive Income and Expenditure Statement.

11. Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. Interest that is due but is unpaid at the end of the year is recognised in the Balance Sheet as a current liability.

Premiums or Discounts incurred on the extinguishment of debt are charged immediately to the Comprehensive Income Expenditure Statement, with Regulation being used to mitigate the financial impact on the council taxpayer by an adjustment from the Financial Instruments Adjustment Account.

- Premiums are amortised to the Movement in Reserves Statement over the life of the replaced loan, replacement borrowing or other prudent period.
- Discounts are amortised to the Movement in Reserves Statement over the life of the replaced loan or 10 years (whichever is the shorter period).

Where restructuring of the loan portfolio involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and amortised to the Movement in Reserves Statement in accordance with statutory regulation.

Transaction costs, such as brokers' fees and commission in relation to managing the Authority's Financial Instruments, which are not considered material, are charged immediately to the Comprehensive Income and Expenditure Statement.

12. Foreign Currency Translation

When transactions are required to be undertaken in a foreign currency, they are converted at the prevailing rate on the day of the transaction. The Council does not invest or borrow in any currency other than sterling and undertakes very few transactions involving foreign currency.

13. Grants - Revenue

Grants and other contributions relating to revenue expenditure are accounted for on an accruals basis and recognised when:

- the Council will comply with the conditions for their receipt.
- there is reasonable assurance that the grant or contribution will be received.

The accounting treatment will vary depending on whether it is deemed that conditions inherent in the agreement have been complied with. Monies advanced as grants, for which conditions have not yet been satisfied, are carried in the Balance Sheet as Revenue Grants Receipts in Advance. When conditions have been satisfied, the grant or contribution is credited to the relevant service line (specific revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-specific revenue grants) in the Comprehensive Income and Expenditure Statement. Where there is no reasonable assurance that the conditions will be met, any cash received will not be recognised as a receipt of grant monies but as a repayment due to the awarding body. The cash received is held on the Balance Sheet as a liability.

Where the conditions of a revenue grant or contribution have been complied with but it is yet to be used to fund expenditure for the purpose stipulated in the grant agreement, it is set aside in an Earmarked Reserve.

14. Grants and Contributions – Capital

Grants and contributions that are applied in the year to fund capital schemes that are Revenue Expenditure Funded by Capital under Statute (REFCUS) are treated as revenue income and credited to the Comprehensive Income and Expenditure Statement to the relevant service line.

Capital Grants and Contributions applied in paying for other capital works are credited to the Taxation and Non-Specific Grant Income line in the Comprehensive Income and Expenditure Statement. Where a specific capital grant or contribution has been received but remains unapplied, this is deemed to represent a condition in that the unused element could be returned to the funder.

Capital grants and contributions are identified separately on the Balance Sheet. Contributions such as those arising from Town and Country Planning Act 1990 obligations usually come with conditions that the funding can be clawed back by the provider if not spent within a certain period of time or if not spent on a specific project. Such items are treated as Capital Grants Receipts in Advance.

The unapplied element of such grants or contributions would not be taken to the Comprehensive Income and Expenditure Statement when received and is treated as a creditor. Where a specific capital grant or contribution is applied, but is not yet received, this is taken to Comprehensive Income and Expenditure Statement when applied and is treated as a debtor.

Non-specific grants such as the General Capital Grant or Major Repair Allowance are recognised immediately in the Comprehensive Income and Expenditure statement. If such a non-specific grant remains unapplied at the end of the year, this element is held as Capital Grants unapplied.

15. Intangible Fixed Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council is capitalised. In the case of computer software and licences, this will be capitalised where it relates to the enhancement or development of systems, expenditure on which is deemed to generate long-term economic benefits to the Authority in the form of savings and

improvements in service delivery. Intangible assets are included in the Balance Sheet at historic cost net of amortisation, are reviewed for impairment and are re-valued only where they have a readily ascertainable market value. The assets are amortised to the relevant service line over the economic life of the investment to reflect the pattern of consumption of benefits

Any amortisation, impairment, disposal gains or losses are not permitted to have an effect upon Council Fund Balance and are reversed in the Movement in Reserves Statement.

16. Interests in Companies and Other Entities

The Council has interests in companies and other entities. Subject to the level of materiality and exposure to risk, these are consolidated to produce Group Accounts. In the Council's own single entity accounts, the interests in such companies are recorded as financial assets in the Balance Sheet.

17. Inventories

Inventories are measured and held at the lower of cost or net realisable value. When such inventories are sold, exchanged or distributed, the carrying amount is recognised as an expense in the Comprehensive Income and Expenditure Statement.

18. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. Investment properties are measured at fair value, based on the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The valuations are undertaken by officers of the Council's Strategic Estates department, who fall within the competence demands set out by the Royal Institution of Chartered Surveyors and who are valuers registered in accordance with the RICS Valuer Registration Scheme.

Fair Value is deemed to be the market value assessed for each asset reflecting highest and best use, echoing market conditions at the balance sheet date. The valuation method is term & reversion, with passing rents capitalised at appropriate yields and estimated reversionary rental values based on prevailing rents for similar properties. Local comparable rental evidence and market yields have been utilised for the valuations.

Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal. Rentals received in relation to investment properties are credited to the relevant service line and result in a gain for the Council Fund Balance. However, revaluation and disposal gains and losses are not permitted to have an impact on the Council Fund Balance. The gains and losses are therefore reversed out of the Council Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

19. Joint Committees

The relevant proportion of the transactions and balances of Joint Committees are included within the Council's Comprehensive Income Expenditure Statement and Balance Sheet. These reflect the transactions and balances as per the draft accounts prepared for each Joint Committee.

20. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards, incidental to ownership, of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Leases are reviewed at inception and classed as finance or operating by reviewing arrangements such as:

- Transfer of ownership at the end of lease contract
- Option to purchase asset at price lower than fair value
- Lease term is for major part of economic life of asset
- Present value of minimum lease payments amounts to at least substantially all of the fair value of leased asset

- Leased assets are specialist and only lessee can use them without major modifications

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee

Finance Leases

Property, plant and equipment held under finance leases are recognised on the Balance Sheet at fair value measured at the lease's inception. The asset recognised is matched by a liability for the obligation to pay the lessor.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Authority at the end of the lease period).

For plant and equipment the Authority has set a de-minimis level of £75,000 for leases to be recognised as finance leases.

The Authority is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are, therefore, substituted by a revenue contribution in the Council Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Payments for operating leases are charged to the relevant service line on an accruals basis. The charges are made evenly throughout the period of the lease.

The Authority as Lessor

Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement, as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the Council Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is transferred out of the Council Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is transferred out of the Council Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the Council Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease).

21. Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered, principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale. If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

22. Overheads and Support Services Costs

The costs of overheads and support services are allocated to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2015/16* (SERCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SERCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the Net Cost of Services.

23. Prior Period Adjustments

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error.

- Material errors discovered in prior period figures are corrected by amending opening balances and comparative amounts for the prior period

- Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or performance. Any change is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

24. Private Finance Initiative (PFI) and similar contracts

These are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor during the contract term. The Council does not have any such contracts at the balance sheet date.

25. Property, Plant, Equipment, Community and Heritage Assets

These assets are those that have physical substance used in the production or supply of goods or services, those intended to be held indefinitely and those for the promotion of culture and knowledge and expected to be used during more than one financial year.

Recognition:

Expenditure on the acquisition, creation or enhancement of such assets is capitalised on an accruals basis. All expenditure incurred on existing assets is assumed to result in enhancement of the asset and will be shown in the accounts as an addition to the asset. This, together with a 3-year rolling programme of revaluations, ensures that the values of land and buildings carried in the accounts are not materially misstated and ensures a sustainable cost/benefit approach to valuation and accounting for capital expenditure on land and buildings in the year.

Expenditure that maintains but does not add to an asset's potential to deliver benefits or service potential (i.e. repairs and maintenance) is charged to revenue as it is incurred.

The Council has a de-minimis policy with regards to the capitalisation of expenditure in connection with Council dwellings, as follows:

- External works requirement for capital expenditure to be over £1,000
- Heating requirement for capital expenditure to be over £1,000
- All other works over £500

The Council recognises heritage assets where it may have incurred separately identifiable expenditure on their acquisition, or preservation at historic cost, or where it has information on the value of the asset.

The Council recognises Voluntary Aided, Voluntary Controlled and Foundation Schools on the Authority's Balance Sheet if it owns the land and can accordingly direct the use of the assets.

Measurement:

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the specific asset into working condition for its intended use. The Council does not capitalise borrowing costs.

These assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure Assets – depreciated historical cost. Not all roads and infrastructure are included in the Balance Sheet, as the balance sheet values reflect historic expenditure incurred on such assets from a point in time. Any roads adopted by the Council are not individually identified on the balance sheet and are effectively recorded at nil value. Accordingly, the Balance Sheet does not represent the true value and size of infrastructure assets. This will change in future years, but until then the asset values

presented in the accounts understate the real value of infrastructure assets held and used by the Council.

- Community Assets and Assets under Construction are included in the Balance Sheet at historic cost.
- Heritage Assets and their nature make determining a value for them complex. Valuations may lack reliability, there may be no market, providing an estimate of replacement cost may be difficult and the cost of determining a valuation for accounting purposes only may not be justified on cost benefit grounds. These difficulties are recognised by the Code and so many individual assets are not recorded in the accounts, but additional narrative disclosures are made about the nature and scale of such assets. Heritage assets are included at historic cost if included in the accounts and only measured at fair value where the benefits of doing so outweigh the costs.
- Council Dwellings – Existing use value for Social Housing (EUV-SH) This is the estimated amount for which a property should exchange, on the date of valuation, between a willing buyer and a willing seller, on the assumption that the property will continue to be let and used for social housing. The Council has used a discount factor of 41% to adjust beacon values to existing use value.
- The Code requires Surplus Assets to be valued at Fair Value, based on highest and best use. The main types of assets held within this class include historic development land and buildings awaiting suitable open market disposal or use for identified schemes, sites held for the purpose of the Cardiff Partnering Scheme, as well as former operational buildings awaiting disposal or alternative use.

All other assets are measured at Current Value. Where there is an active market for assets, Existing Use Value is used as the basis for determining current value. Where there is no market-based evidence, because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value. For schools land and buildings, a detailed approach to DRC, known as Modern Equivalent Asset (MEA), is used, due to the much specialised nature of these assets. Non-property assets, such as plant and equipment, have short useful lives or low values (or both), and, therefore, depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at fair or current value are required to be revalued at least every five years. The Council must balance the requirement to ensure carrying amounts are not materially different from their fair or current value at the year-end, with the time, costs and resources involved in providing valuation services for accountancy purposes. It does this by:-

- Undertaking an annual impairment review of property with the Council's in-house valuation team to identify significant changes
- Using the experience and local knowledge of the in-house valuation team to provide valuation services to ensure financial services are made aware of all property issues affecting the Council
- Having an agreed rolling programme of revaluation which is shorter than the minimum 5 year cycle required by the Code in order to ensure there is sufficient, regular and consistent coverage of all classes of assets.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service line.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only; the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Revaluation:

Where required by the Code, asset revaluations take place with an effective date of 1 April of the financial year and are undertaken by in-house professional valuers, all of whom are RICS registered. This is in accordance with the Council's rolling programme of three year revaluations.

Charges to Revenue for Non-Current Assets:

Service lines are debited with the following amounts to record the cost of holding assets during the year:

- depreciation attributable to the assets used by the relevant service
- impairment losses on assets used by the service, where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off

The Council is not required to raise Council Tax to fund depreciation, impairment losses or amortisations. However, it is required to make a prudent provision from revenue towards the reduction in its overall requirement to borrow. Depreciation, impairment losses and amortisations are, therefore, replaced by this prudent provision in the Council Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Impairment and Downward Revaluation:

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired in value, either due to a significant reduction in service potential, e.g. service delivery from that asset ceasing, or significant permanent market value reductions (downward revaluation). Where either type of loss is identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation:

Depreciation is provided for on all Property, Plant and Equipment assets by an allocation of their depreciable amounts over their estimated useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land, heritage and community assets), as well as assets that are not yet available for use (i.e. assets under construction). The Code also requires depreciation of buildings categorised as surplus assets. However, the Council does not depreciate these, as by their very nature they are no longer used in service delivery, depreciation is not consistent with the valuation approach adopted and, in the majority of cases, buildings on a site are planned to be demolished or are in a poor condition. For assets depreciated by the Council, it charges a full year's depreciation on capital expenditure incurred in the year.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets, and the depreciation that would have been chargeable based on their historical cost, being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Depreciation is calculated on the following bases:

Asset category	Initial Useful Life in years
Intangible Assets	3-5
Council Dwellings	50

Land	n/a
Buildings *	3-125
Vehicles, Plant, Furniture and Equipment	5-15
Infrastructure **	7-120
Community Assets, Investment Properties, Heritage Assets, Surplus Assets and Assets Held for Sale	n/a

* Included within Buildings is City Hall with an initial useful life of 125 years

** Included within Infrastructure is the Cardiff Bay Barrage, which is being depreciated over the design life of 120 years

Component Accounting:

Where a single asset may have a number of different components, each having a different useful life, three factors are taken into account to determine whether a separate valuation of components is to be recognised in the accounts in order to provide an accurate figure for depreciation.

- **Materiality with regards to the Council's financial statements.** Componentisation will only be considered for individual non land assets that have a net book value of more than £1.5 million at the end of the financial year.
- **Significance of component.** For individual assets meeting the above threshold, where services within a building (Boilers / Heating / Lighting / Ventilation etc.), or items of fixed equipment (Kitchens / Cupboards) is a material component of the cost of that asset (> 30%), then those services/equipment will be valued separately on a component basis.
- **Difference in rate or method of depreciation compared to the overall asset.** Only those elements that normally depreciate at a significantly different rate from the non-land element as a whole, or that require a different method of depreciation will be identified for componentisation.

Assets that fall below the de-minimis levels, and the tests above, can be disregarded for componentisation on the basis that any adjustment to depreciation charges would not result in a material misstatement in the accounts.

Where assets are material and to be reviewed for significant components, it is recommended that the **minimum** level of apportionment for the non-land element of assets is:

- Plant and equipment and engineering services.
- Structure.

Professional judgement will be used in establishing materiality levels, the significance of components, useful lives, depreciation methods and apportioning asset values over recognised components.

Revaluations of the Council's property assets will continue to be undertaken on a 3 yearly rolling programme basis, at which point the revaluation takes into account the value and condition of the assets, relevant components and also de-recognition, where relevant. Where there is a major refurbishment of an asset, a new valuation will be sought in the year of completion and a revision to the useful life.

The Council does not currently undertake componentisation on infrastructure assets.

26. Provisions

Provisions are made when, as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount but the timing of the settlement is uncertain.

Provisions are charged as an expense to the appropriate service line in the year that the Authority becomes aware of the obligation, based on the best estimate of the likely settlement.

When payments are eventually made, they are charged to the provision, which is held on the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and provisions that are no longer required are credited back to the relevant service line.

27. Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions, but that does not result in the creation of a non-current asset, has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the Council Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

28. Reserves

The Council sets aside amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts from the Council Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year. The reserve is then appropriated back into the Council Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure. Certain reserves are maintained to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority.

29. Value Added Tax

Apart from certain cases where the Council funds supplies of goods or services to other persons or organisations, the Council is reimbursed for VAT. The revenue accounts have, therefore been prepared exclusive of this tax.

**CITY OF CARDIFF COUNCIL
CYNGOR DINAS CAERDYDD**

AUDIT COMMITTEE: 22 MARCH 2016

DRAFT AUDIT COMMITTEE ANNUAL REPORT 2015/16

AGENDA ITEM: 5.1

Reason for Report

1. The Audit Committee's Terms of Reference requires Members to report to Council on the Committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of the governance, risk management and internal control frameworks.
2. To consider the "draft" Audit Committee's Annual Report for 2015/16.

Background

3. The Council's Constitution requires that all Committees report annually to Council on their activities over the past year.
4. This Committee meets five times every year and receives a wide range of information to meet the responsibilities, as set out in the Committee's Terms of Reference. The Audit Committee Annual Report is prepared based on the evidence presented to the Committee throughout the year. It allows Committee Members the opportunity to provide their views on the key messages considered appropriate to report.
5. The final report is agreed at the June meeting of Committee and the Chair then attends Council to present the report.

Issues

6. Following an update of the Action Plan arising from their latest Self-Assessment exercise, Members were given the opportunity to contribute to the Annual report and to provide any comments they had to the Chair.
7. This draft report has been prepared following a review of meeting agendas and minutes for the past four meetings. The draft can be amended following discussions at the meeting to be held on 22 March. The Chair has decided on the format and has had significant input to the report.
8. Members of the Committee are requested to consider the draft Audit Committee's Annual Report 2015/16 to ensure the report captures the Members' views for the municipal year. See attached Appendix.

Legal Implications

9. There are no legal implications arising directly from the contents of this report.

Financial Implications

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

Recommendation

11. Members of the Committee consider and contribute to the draft Audit Committee's Annual Report 2015/16.

CHRISTINE SALTER
CORPORATE DIRECTOR RESOURCES

The following Appendix is attached:

Appendix A – Audit Committee Annual Report 2015/16

Audit Committee Annual Report 2015/16



The City of Cardiff Council

The Ten General Principles of Public Life

<p>Selflessness Members should serve only the public interest and should never improperly confer an advantage or disadvantage on any person.</p>	<p>Personal Judgement Members may take account of the views of others, including their political groups, but should reach their own conclusions on the issues before them and act in accordance with those conclusions.</p>
<p>Honesty and Integrity Members should not place themselves in situations where their honesty and integrity may be questioned, should not behave improperly, and should on all occasions avoid the appearance of such behaviour.</p>	<p>Respect for Others Members should promote equality by not discriminating unlawfully against any person, and by treating people with respect, regardless of their race, age, religion, gender, sexual orientation or disability. They should respect the impartiality and integrity of the authority's statutory officers and its other employees.</p>
<p>Objectivity Members should make decisions on merit, including when making appointments, awarding contracts, or recommending individuals for rewards or benefit.</p>	<p>Duty to Uphold the Law Members should uphold the law and, on all occasions, act in accordance with the trust that the public is entitled to place in them.</p>
<p>Accountability Members should be accountable to the public for their actions and the manner in which they carry out their responsibilities, and should co-operate fully and honestly with any scrutiny appropriate to their particular office.</p>	<p>Stewardship Members should do whatever they are able to do to ensure that their authorities use their resources prudently, and in accordance with the law.</p>
<p>Openness Members should be as open as possible about their actions and those of their authority, and should be prepared to give reasons for those actions.</p>	<p>Leadership Members should promote and support these principles by leadership, and by example, and should act in a way that secures or preserves public confidence.</p>
<p><i>'Nolan Committee on Standards in Public Life'</i></p>	

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1. Foreword by Ian Arundale, Chairperson of the Committee

I am pleased to present this report which provides an overview of the Audit Committee's work during the municipal year 2015/16. It is my first Audit Committee Annual Report since taking over the role of Chairperson in June 2015.

This Municipal year has seen the departure of key Members and Officers, including Sir Jon Shortridge (Chairperson), Marie Rosenthal (Corporate Director - Governance & Legal Services) and Derek King (Audit & Risk Manager) all of whom have provided a tremendous service to the Audit Committee. I would like to acknowledge their efforts and thank them, on behalf of the Audit Committee, for their highly valued services.

I wish to record my thanks to all Elected Members and the Independent Lay Members who have served on the Committee this year. Members from across the political groups have come together in an extremely effective way in our five meetings this year. It is also very encouraging to report well attended meetings, given how busy members are in fulfilling other roles and responsibilities.

Throughout the year Audit Committee has continued to receive highly valued professional support from Accountancy, External Audit (Wales Audit Office), Internal Audit, Treasury Management and Improvement & Information Management. Additionally, we have invited officers to attend Committee to respond to concerns raised by Members or identified through various Committee reports, such as internal and external audit reports.

We have reviewed our work programme at each Committee meeting, taking account of changing risks and priorities through the reports and information we receive from Members, Officers, external stakeholders and other Committees of the Council. Our Work Programme has been extremely busy this year with a wide range of issues brought before the Committee.

We acknowledge the broad remit of our role and have reflected on the effectiveness of governance, risk management and control at all organisational levels in providing an overall assurance opinion and informing the Council's Annual Governance Statement 2015/16.

We have considered comments from the Wales Audit Office regarding the need for a more streamlined process for Committee meetings, and have taken a number of actions to improve our focus. These include holding informal discussions before formal meetings, the creation of a Member's SharePoint reference site and greater use of email for sharing information. In addition, through collaboration with Scrutiny Services, we have developed a protocol for complimentary working and understanding between our respective Committees. We will reconsider our performance through a new Audit Committee Self-Assessment review in September 2016.

In looking forward to 2016/17 and beyond, in the context of continued financial pressures facing the Council, reshaping of services, new models of service delivery and a growing demand for public services, the importance of an effective Audit Committee remains critical. In February 2016, Committee Members considered the Welsh Government's draft Local Government (Wales) Bill proposals, which will see the Audit Committee renamed as 'Corporate Governance and Audit Committee'.

The Audit Committee welcomes the anticipated widening of its roles and responsibilities from the Local Government (Wales) Bill. Having recently received a report from the Monitoring Officer and participated in Cardiff Council's consultation response, we will keep a watching brief on the implementation of the Bill.

Cardiff Council can take some assurance from the positive improvement steps recognised in the Corporate Assessment Follow On, issued by the Wales Audit Office in February 2016. However, there is still much to do to embed change and improvement within the Council. There is a need for the Council to continue to work hard to fulfil its responsibilities and to ensure robust arrangements are in place for effective governance, risk management and control which are essential to ensure sustained improvements.

2. The Role of the Audit Committee

The Audit Committee is a key component of the City of Cardiff Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

The Local Government (Wales) Measure 2011 requires a Local Authority to have a Committee which provides independent assurance to the Members of the Council with regard to governance, risk management and internal control frameworks; and oversees the financial reporting and annual governance statement processes. Audit Committee also oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

The Measure requires an Audit Committee to be established that includes Independent Lay Members. The City of Cardiff Council determined that the membership of its Audit Committee would be twelve Members; eight Elected Members and four Independent Lay Members, which meets the requirement of the proposed new Local Government (Wales) Bill.

Specifically, the Terms of Reference of the Committee embraces the following:

Governance, Risk & Control

- To consider the Council's corporate governance arrangements against the good governance framework by way of the process of compiling the Annual Governance Statement.
- To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account the internal audit opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk and internal control.
- To consider the Council's framework of assurance and ensure that it adequately addresses the risk and priorities of the Council.
- To monitor and scrutinise the effective development and operation of the risk management arrangements within the Council.
- To oversee progress in addressing risk-related issues reported to the Committee, such as the Corporate Risk Register.
- To consider any Anti-Fraud strategies, policies or procedures.

Internal Audit

- To approve the Internal Audit Strategy comprising the risk-based internal audit plan, containing the internal audit resources (resources include; Audit, Investigations, Risk & Governance and Programme and Project Assurance Teams).
- To approve significant changes to the risk-based internal audit plan and resource requirements.
- To consider reports from the Audit Manager on Internal Audit's performance during the year e.g. progress reports.

- To consider the Audit Manager's Annual Report, including the statement of conformance with the Public Sector Internal Audit Standards 2013 and the results of the Quality Assurance and Improvement Programme that supports the statement. Fundamental to the annual report is the overall opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and internal control together with a summary of the work supporting the opinion.
- To receive summaries of specific internal audit reports in accordance with agreed protocols.
- To receive reports on fraud prevention and detection initiatives and updates to any related policies and strategies.
- To receive reports of any significant incidents of fraud or financial impropriety and actions taken to enhance controls where this is considered necessary.

External Audit

- To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
- To consider specific reports as agreed with the external auditors.
- To comment on the scope and depth of external audit work and to ensure it gives value for money.

Financial Reporting

- To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
- To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.
- To seek assurances that the Council has complied with the Treasury Management Strategy and Practices by demonstrating effective control of the associated risks and pursuing optimum performance consistent with those risks.

Accountability Arrangements

- To report to Council on the Committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of the governance, risk management and internal control frameworks.
- To raise the profile of probity generally within the Council and to report on matters of concern to the individual Cabinet Member, relevant Scrutiny Committee, Cabinet or to Council as necessary and appropriate.
- To work in synergy with the five Scrutiny Committees of the Council and liaise with other Council Committees as and when appropriate to avoid duplication in work programmes.

Training & Development

- To attend relevant training session in accordance with the Member Development Programme including specialist training tailored for Members of the Audit Committee e.g. treasury management.

3. Our Work in 2015/16

The Audit Committee's activities have been designed to provide assurance to the Council and to make a positive contribution towards improving the governance arrangements across the Council.

Effective Audit Committees can bring many benefits to Local Authorities including:

- increasing public confidence in the objectivity and fairness of financial and other reporting;
- providing additional assurance on the robustness of the Authority's arrangements through a process of independent and objective review;
- raising awareness of the need for internal control and the implementation of audit recommendations, thereby reinforcing the importance and independence of internal and external audit;
- being a platform for Elected Members to bring matters of financial, governance, risk and internal control for consideration and action as necessary.

The work of the Audit Committee can be split into two: the Committee receives regular reports in relation to the standard agenda themes, and also receives ad-hoc / non- standard reports based on risk, governance or internal control issues. Each of these aspects is reported on below.

4. Standard Items

4.1 Finance

The Corporate Director Resources (Section 151 Officer) has provided financial updates at every meeting outlining the budget strategy and the Council's overall financial position, to provide Committee Members with an overview of the financial standing of the Council. This allows for a regular opportunity to raise questions on the budget and general finance matters during a period of ongoing unprecedented financial pressure. Monitoring the financial position with regards to achieving the necessary savings in some directorates has proved difficult, due to ongoing overspends. The year end out-turn report will be important to provide assurance on a "balanced" budget.

The Audit Committee Chair has written to the Chief Executive this year, requesting an increase in the level of rigour placed on the identification and allocation of Directorate savings. Assurance on the due process has been provided by the Section 151 Officer.

This year saw a new risk added to the Corporate Risk Register relating to Financial Resilience and the Corporate Director Resources (Section 151 Officer) has provided regular updates on this and agreed to continue to do so at future meetings.

Much work has gone into preparing the Budget Strategy for 2016/17 and the medium term, which was approved by Cabinet and Council in July 2015. The Corporate Director Resources has outlined the process involved and assured Audit Committee that robust due diligence and scrutiny of 2016/17 proposals has been undertaken through the updated budget strategy approach which was introduced in 2015/16 in consideration of the future shape of the Council.

On 22 June 2015, the Committee was given opportunity to review and provide comments on the 2014/15 draft Statement of Accounts, prior to them being signed by the Corporate Director Resources and subsequently submitted for external audit and public inspection. On 16 September 2015 the Wales Audit Office reported to Committee that they were issuing an

unqualified audit opinion. Officers were congratulated on completing a very comprehensive and complex piece of work within the required timescale.

4.2 Governance, Risk Management & Internal Control

The Audit Committee has formed a view on the Council's governance, risk management and internal control arrangements taking into account the information presented by the Corporate Director Resources (Section 151 Officer), the External Auditor – Wales Audit Office (WAO), the Audit & Risk Manager and other officers of the Council.

The Annual Governance Statement (AGS) is a fundamental governance document which the Audit Committee plays a key role in contributing to and challenging. During the municipal year 2015/16 the AGS was considered by the Audit Committee, in conjunction with the draft Statement of Accounts for 2014/15, in June and September.

The Committee has had early involvement with the draft AGS 2015/16. In February 2016 Audit Committee was provided with a report on the process in place for compiling the AGS, inclusive of an update on the senior management assurance process. In March 2016, Audit Committee was provided with the opportunity to comment on the draft AGS.

Levels of assurance from a number of sources have been incorporated into the AGS in reporting on the Council's governance arrangements. A Governance and Member Engagement Programme Board, comprising officers throughout the Resources and Governance and Legal Services Directorates has contributed to producing the AGS.

The revised senior management structure took effect in June 2015, and Audit Committee has engaged with each Director since their appointment. Audit Committee has continued to receive update reports biannually on the corporate risk register and senior management assurance statement responses.

The Audit Committee has received the analysis of a benchmarking exercise with UK Core Cities which identified the broad alignment of Cardiff Council's corporate risk register with those in other Core Cities. This has provided assurance on the content of the corporate risk register and the risk management focus at a time when its composition has been relatively static.

In November 2015, Audit Committee received a briefing on the senior management exercise undertaken in order to inform the development and formalisation of a corporate risk appetite by Cabinet. At a time when difficult strategic decisions need to be made there is a need to accept a level of risk which is acceptable to the Council, and within tolerance. The Audit Committee will monitor the progress in formalising this approach and embedding risk appetite considerations in decision making.

The Audit Committee has received a report on the expanded use of senior management assurance statements in order to support the AGS, by engaging the assurance of the Chief Executive in addition to each Director at the year end. This provides more comprehensive assurance which now represents the full management team.

The Audit Committee have also recognised the work undertaken within Internal Audit to create an assurance "map", gathering information from a wide range of reports and studies undertaken from both inside and outside the Council, applying the "three lines of defence" approach.

4.3 Treasury Management

This is an area where Committee Members have a specific role to fulfil, as set out in the Treasury Management Strategy approved by the Council.

Over the past twelve months the Committee has received reports on the Treasury Management Annual Report, Mid-Year Report 2015/16, Treasury Management Strategy 2016-17 and the Treasury Performance Report.

This has given Members the opportunity to scrutinise and challenge the approach adopted and decisions taken. This is a complex area, and the Committee believes that it has added value by probing and scrutinising policies and the data provided in conjunction with Officers.

The Committee is satisfied with the way in which the Council is currently undertaking its Treasury Management responsibilities, but has emphasised the need to ensure a spread of debt repayments. At the Mid-Year position, it was reported that the maturity of debt profile has improved with a stable projection to 2056.

The Committee has been provided with an update on the Treasury Management position in each Committee meeting, but has previously expressed an interest in receiving further benchmarking data on treasury management activities with comparable Councils. The Council has subsequently become part of the Capita Benchmarking Club, which it is anticipated will enable meaningful comparisons. Benchmarking has also been carried out to compare the Council's level of debt with the Public Works Loan Board, from which in June 2015 we are assured that of other local authorities the Council's average rate of debt was below the Welsh average.

Audit Committee updates have been provided on borrowing in relation to the Housing Revenue Account settlement payment, and the final details of the settlement payment made to exit the Housing Revenue Account Subsidy (HRAS) system.

4.4 External Audit (Wales Audit Office)

The Committee places reliance on the work of the Wales Audit Office (WAO) as the Council's external auditors.

The Committee has received key documents throughout the year such as the Regulatory Programme; Audit of Financial Statements Report; Audit Plan; Annual Financial Audit Outline (including the Cardiff & Vale Pension Fund Audit Plan) and in September 2015 the WAO's Annual Improvement Report.

An arrangement has been set up for Members of the WAO team to be present at each meeting in order to engage with members on key report findings and on the progress and timetable of forthcoming reports.

In February 2016 WAO issued the Corporate Assessment Follow On of the Council. The follow-on assessment reviewed the extent to which the Council was effectively addressing the issues raised in the Corporate Assessment in September 2014.

The follow-on review concluded that 'The Council has put in place better arrangements to support improvement and to address longstanding issues, but is now at a critical point in embedding them if it is to achieve a step change in delivering improved outcomes.'

The positive steps which have been made by the Council should be commended, but there is a need to avoid complacency and ensure that the recommendations and proposals for improvement are promptly and effectively acted upon.

Audit Committee Members receive a number of other reports and studies from WAO. These reports are of interest, but often present broad national or regional findings and conclusions. Each report / study is considered and any lessons learned are reported separately to Audit Committee and officers asked to attend to provide assurance any findings will be acted upon in the best interest of the Council. There have been three such reports /studies during 2015-16.

4.5 Internal Audit

Similar to the External Audit arrangements, the Committee places reliance on the work of the Council's in-house Internal Audit Team. Throughout the year the Committee gained assurances from considering the following key documents:

- Internal Audit Strategy (including Internal Audit Charter)
- Internal Audit Plans
- Internal Audit Quarterly Progress Reports
- Internal Audit Executive Summaries
- Internal Audit Annual Report
- Value for money Studies
- Changes to key documents / policies.

The Committee welcomed the information presented by the Audit & Risk Manager to gain a level of assurance on the Council's internal control environment.

The Committee has played a key role in supporting and promoting the Internal Audit function as well as engaging with officers; approving plans and policies; and helping to shape new and innovative processes.

The Audit Committee has been provided with an overview of all audit reports issued but emphasis has been on those audits where "Limited assurance" audit opinions have been reported and in seeking assurance around improvement, through implementing audit recommendations. The level of "Limited assurance" opinions has slightly increased on last year (22 to date + 6 on hold) which requires careful monitoring, but encouragingly the outcomes from follow up audits are much improved on previous years.

Members have welcomed a new protocol introduced this year so that every "Limited assurance" report is now shared with the Chief Executive and Section 151 Officer, which enables the Committee to focus on area where there are significant control weaknesses i.e. "No assurance" audit opinion reported, and where follow up audits have failed to evidence satisfactory improvement to the internal control environment.

Further detail on some outcomes from the work of the Internal Audit Team is shown later in the section 'Non-Standard Reports to the Audit Committee' and the Committee will receive a full year overview of audit work completed, and key messages, when the Internal Audit Annual Report is presented to the June 2016 meeting of the Audit Committee. This report will provide the Audit Manager's opinion on the Council's overall position in relation to risk, governance and internal control, based on the work undertaken by the Internal Audit team.

5. Non-Standard Reports to the Audit Committee

The Committee received a number of reports throughout 2015/16 which were not standard items. Details of these reports are given below:

5.1 Education & Lifelong Learning

Glyn Derw and Michaelston Federation - The Committee considered an Executive Summary Report on Glyn Derw and Michaelston Federation in February 2016. This audit highlighted a wide range of concerns around governance and financial control which were discussed with the Director. Audit Committee has been advised that a new business manager has taken up post and has been working with staff and provided with additional support from the LFM Manager to address concerns. Audit Committee has expressed concern about financial accountability and governance prior to the establishment of a new school and this will be included in the follow up Internal Audit review.

Youth Centre Inventories - The Audit Committee was provided with an Internal Audit briefing which outlined how improvements identified in an audit of Youth Centres Inventories in 2013 had not been sustained. Consequently 'No Assurance' could be given on the management of assets in the centres. Meetings have been held with the Director and appropriate Managers with regard to the report, and it has been agreed that the audit findings will be considered as part of any changes to the youth service in the coming months. A follow up audit will be undertaken in six months to ensure that controls have been appropriately enhanced.

Annual Report on School Governance and Deficit - The Committee received a position statement on schools in deficit at its meeting on 22.06.15. Although there did not appear to be timescales for the schools to bring their budgets out of deficit, the Committee was advised that there are only a small number of schools that continue to cause concern to the authority. It has also been reported that there has been an increase in performance management in schools with some good changes in leadership, which includes financial management. There are cases where excess balances have not reduced over the last four years, however, the Committee was advised that most of these balances would be reduced in setting school budgets for 2015/16. The Committee will continue to receive information on schools balances as part of the Director of Education & Life Long Learning's report on governance in schools.

5.2 City Operations

Highways Street Operations – In June 2015, the Director of City Operations (formerly Strategic Planning, Highways & Traffic & Transport) provided Audit Committee with a response to an internal audit report which raised a number of concerns including monitoring of staff activity, hours worked and use of vehicles. Improvements were reported with a commitment to change through the appointment of new works managers and a team leader, and the introduction of several initiatives to improve efficiency. Internal audit will assess the progression of these initiatives and review the progress in implementing audit recommendations raised in a forthcoming follow-up review which is scheduled for the first quarter of 2016/17.

5.3 Communities, Housing & Customer Services

Building Maintenance Framework Contract – Audit Committee Members have raised a number of concerns about work quality, cost effectiveness and operational matters in relation to the Building Maintenance Framework. Assurances have been sought through a number of information streams, including the commissioned independent review of the framework by Constructing Excellence Wales (CEW) and the presence of a Principal Auditor on a Building Maintenance Project Board, which has developed a series of actions and targets in order to meet the objectives of the CEW recommendations.

In November 2015, Audit Committee received a presentation on the Building Maintenance Framework from the Assistant Director Housing and Communities, Senior Category Manager, Commissioning & Procurement and OMs in Facilities Management and Community Maintenance Services. The presentation provided Committee with a briefing on key features of the Building Maintenance Framework Agreement, the remit of CEW Review and a summary of the findings and action plan.

Members welcomed the detailed briefing on this area and a number of matters were raised which included in particular:

- the need for better communication of the policies and processes with Elected Members;
- the need for a focussed single Council delivery approach to provide best use of resources and improved monitoring, customer service and satisfaction;
- the need to ensure effective use of Council resources, value for money in parallel to effectiveness and efficiencies of current framework;
- the need to learn from current framework contract arrangements;
- the importance of a robust process for complaints; their review; and consideration be given to a quality assurance report for tenants / clients to complete and return (aimed at providing the more vulnerable people with a greater opportunity to comment on work done and quality issues);
- the Asset Management group continue to monitor the implementation of the recommendations arising from the CEW report.

5.4 Internal Audit

Measuring Effectiveness of Internal Audit – This year the Audit & Risk Manager has presented details of work undertaken as part of the Quality Assurance and Improvement Programme used to measure the effectiveness of internal audit in relation to the following different elements:

- Delivery against the Audit Plan;
- Delivery against Annual Objectives;
- Internal quality assurance reviews;
- Extent to which audit recommendations are agreed and implemented;
- Director meetings and audit assurance questionnaires;
- Public Sector Internal Audit Standards – self assessment;
- Institute of Internal Auditors – “ What Every Director Should Know “ self-assessment;
- Audit Committee view as part of Audit Committee Self-Assessment;
- Benchmarking;
- External Assessment ;
- Wales Audit Office opinion on Internal Audit and overall financial control opinion;
- Management Performance Review.

Audit Committee welcomed the report and commended the team on its robust audit work against a reducing level of resources. The client feedback has showed that the effectiveness; professionalism and understanding of the audit function have been high.

Assurance Mapping - The Committee has received a report from the Audit and Risk Manager on the development of an Assurance framework which is being used to review the Council’s internal control environment. The assurance map begins with the contents of the corporate risk register, senior management assurance statements and significant governance issues arising from the annual governance statement. The outputs of different sources of assurance are populated on the assurance map, utilising a three lines of defence model. This model considers the assurance gained from management / internal controls, inspection / regulatory / compliance activities and the work of external audit.

During a time of limited audit resources, with a strong ongoing need for audit assurance, the assurance map considers the work of others in providing assurance in relation to governance,

risk and internal control matters. This is used to shape Internal Audit priorities and impact on the work and timing of the Internal Audit Team, to avoid duplication and ease pressure on Directorates, who may be subject to both internal and external assurance reviews.

Public Sector Internal Audit Standards - The Audit and Risk manager has provided an update on the Public Sector Internal Audit Standards (PSIAS) which were adopted in April 2013. The PSIAS have a number of requirements, including the requirement for an external assessment at least once every five years. The Welsh Chief Auditor's group are proposing that all Welsh authorities establish a joint peer group to undertake such assessments. This approach is consistent with a peer group established for Core cities across the UK, being based around a robust self-assessment and an external evaluation that fully meets the requirements of the Standard, whilst being cost effective. The Audit Committee has approved the above approach to carrying out external assessments in compliance with Public Sector Internal Audit Standards (PSIAS). In readiness for the external assessment, an Internal Audit Self-Assessment has been completed and has produced improvement actions which are being progressed.

Internal Audit Management – In February 2016, Members received a report on the amended management arrangements for Internal Audit.

Following the appointment of a Head of Finance in September 2015, a review was undertaken to consider the overall management structure in Finance, including suitable arrangements for the Internal Audit functions.

With the Audit & Risk Manager retiring at the end of March 2015, after 45 years local government, primarily working within Internal Audit, a decision was taken to appoint a new Audit Manager with more focus on the Audit and Investigation functions. The retiring Audit & Risk Manager has been instrumental in the development of the Audit Committee since 2003, when the first Audit Panel was established, and continued to provide technical support and reports to every meeting since then. Members are keen to ensure a seamless transition so a new appointment is made which provides the same level of leadership and direction to the Audit teams and also delivers the same professional service in supporting the work of the Audit Committee.

The new Internal Audit Manager will be the key link with the Audit Committee and the Finance Management Team. Recruitment for the role has commenced and it is anticipated that the interview arrangements will be concluded in March 2016. In the event that the successful applicant is not appointed before 1 April 2016, Audit Committee has been assured that interim arrangements will be put in place.

Risk Management Assurance – The retirement of the Audit and Risk Manager has provided an opportunity to allocate risk management responsibilities to a senior officer who is outside of the Internal Audit function. This serves to reduce any perceived impairment to objectivity or independence in risk management activities. It also enables the Internal Audit Team to focus audit resources on risk management assurance, with a reduction in risk management coordination requirements.

Value for Money Studies (VFM) - The Internal Audit Team has produced a number of value for money (VFM) studies which have been welcomed by the Audit Committee. Committee has been provided with VFM briefings on Agency Spend, Standby Payments, Annual Leave, Overtime, Home to Office Travel, and Mileage Claims and each report has presented potential opportunities for management to realise efficiencies and reduce costs. The Audit and Risk Manager has sought assurances on the appropriateness of spend and asked Directors to identify and consider potential areas for savings. In addition to efficiency based concerns, some compliance and control issues were highlighted through these studies which Directors have

been asked to address. Audit Committee will continue to monitor the results of value for money briefings received and seek assurances that progress is being made to improve processes and practices.

5.5 Scrutiny Services

Audit / Scrutiny Protocol - The Audit Committee Members and Council Officers have collaborated with the Policy, Review and Performance (PRAP) Scrutiny Committee to create a draft protocol between our respective Committees. The protocol ensures roles and responsibilities are clearly defined, work planning is complementary and that any potential work duplications are avoided. It is supported by clearly defined areas of responsibility and processes to share work programmes, information and certain reports. It is anticipated that the report can be finalised once the terms of reference of each Committee have been approved for the municipal year 2016/17.

6. Audit Committee Self-Assessment

On 19 January 2015 a workshop was held prior to the meeting of the Audit Committee to undertake a Self-Assessment exercise. On 23 March 2015 the outcomes were summarised and reported back to the Committee for approval.

At the Audit Committee meeting in on 1 February 2016, the Audit and Risk Manager provided an updated assessment, following a review of the current position relating to the sixteen improvement actions from the January 2015 Self-Assessment. The follow-up review showed that most of the actions had been implemented, with two actions contingent on the finalisation of a Scrutiny and Audit Protocol. This protocol has been drafted and discussed with only minor amendments anticipated before it can be approved.

The follow-up assessment is appended to this Annexe 1, and the next full Self-Assessment exercise is scheduled for September 2016.

7. Key Observations 2015/16

With the support of the Wales Audit Office, Internal Audit and other Council officers, a Work Programme was developed setting out the priorities for the twelve months. This centred on the significant risks and significant challenges facing the Council. The work of the Wales Audit Office and the Internal Audit Section has been helpful in providing assurance to the Committee on key areas.

The Committee have concentrated on areas considered to be high profile and / or high risk within the Council, and have met officers responsible for various aspects of service delivery. This has enhanced the Committee's understanding of the services they provide and the challenges that they face. In addition, the Committee has had the opportunity to challenge and discuss actions taken in response to both External and Internal Audit Reports. It is recognised that the Council has continued to face severe financial challenges and strives to look for efficiencies and service delivery initiatives. It is therefore vital that good governance is maintained. The Committee will continue to support the Council as it responds to these challenges.

8. Opinion of the Audit Committee for 2015/16

At the strategic level, based on the evidence presented to the Audit Committee during 2015/16, it is the considered view of the Committee that the Council does, for the most part, have sound financial controls and governance arrangements in place. Strategic risks are well captured and reviewed on a regular basis and these represent the true challenges facing the Council at the present time. Examples of where the Committee has continuing concerns, which will be incorporated into the Committee's Work Programme for 2016/17, include:

8.1 Organisational Development Programme

The Organisational Development Programme (ODP) has been discussed at Audit Committee meetings in 2015/16. This is with the clear recognition that delivery against the Organisational Development Plan is being monitored and challenged by other Committees (namely the Policy Review and Performance Scrutiny Committee).

Although some assurance can be placed on the work of Scrutiny, the Audit Committee has expressly noted that the importance of this programme of work for the Council on its improvement journey. The programme has a key role in moving the Council towards its new shape and is acknowledged as a critical savings enabler.

At a time when Audit Committee has continued to challenge the budget position when faced with unprecedented financial pressure, the recently issued Corporate Assessment Follow On report from the Wales Audit Office has highlighted a need for a clear link between Medium Term Financial Plan savings plans and work streams or projects in the ODP.

Audit Committee will reflect on the comments raised by the Wales Office, and will seek assurance from relevant management and through the work of Internal Audit, that the ODP is clearly aligned to and monitored against critical business objectives. In the forthcoming year, Audit Committee intends to invite the Leader and Chief Executive to attend and answer questions related to the Corporate Assessment Follow On.

In recognising the critical importance of the ODP to the Council, Internal Audit has initiated a Control Risk Self Assessment (CRSA) approach to auditing an initial pilot of ODP projects and regular engagement with Management in the OD Team. Audit Committee anticipates the findings of Internal Audit and the ongoing assurance from the roll-out of the audit approach throughout 2016/17.

8.2 Financial / Internal Control

The continuing reduction in resources, together with a growing population and greater demand for public services, mean that the Council is facing significant challenges in how it delivers services in the future. The Committee continues to receive regular updates from the Corporate Director Resources and other senior managers to seek assurances around governance and fundamental financial control.

Audit Committee receives regular reports in respect of the budget, the treasury management and financial resilience. A key enabler for meeting severe financial pressures is reforming and redesigning services. There is a clear need to ensure strong internal controls are integrated within and new or reformed processes and systems. At a time when many decisions have to be finance driven it is essential that internal controls are not neglected or impaired in the use of public monies.

Over 2015/16 there has been an increase in limited or no assurance audit reports from the Internal Audit Section. This is a concern that will require regular review by the Audit Committee, particularly when some isolated functions have repeatedly failed to maintain the required

standards of internal control. The number of such reports is not yet at a level of significant concern, but the trend of limited assurance being reported has captured the attention of the Audit Committee. In instances where improvements are not promptly made we will be inviting those accountable to attend Audit Committee and explain the reasons for control weaknesses and to provide a firm commitment to improvement. This is with strong support and commitment from the Chief Executive to support management and the Audit Committee in driving improvements.

8.3 Contract and Procurement Matters

Through a number of Internal Audits completed this year a consistent weakness has been contract management and performance monitoring. Some areas of the Council such as Social Services rely heavily on commissioned services for certain aspects of their services and spend a significant amount of money on this purpose. Internal Audit reports are regularly reporting limitations to assurance on the basis of a lack of clear contracts for high value spend and instances of lapsed contracts, in addition to weaknesses in contract management where contracts are in place.

The Building Maintenance Framework contract involves a significant amount of spending with a limited number of contractors for services under different lots. Members have raised contract management concerns over the operation of this contract following multiple issues being raised by constituents relating to the standard of work completed on domestic Council properties as part of the framework. Following a number of other concerns being raised relating to contract management and value for money, Audit Committee was presented with a briefing which summarised the findings of an independent report on the Building Maintenance Framework from Constructing Excellence Wales. (CEW)

Audit Committee recognises that the CEW report has identified a number of significant matters and produced a detailed action plan for improvements. A cross functional Project Board has been established in order to implement the recommendations of the report for the duration of the contract, and to embed these practices into the forthcoming procurement to be undertaken in the financial year 2016/17.

Whilst commissioning the above review represents positive steps in seeking to improve contract management processes, on a Council-wide basis there are areas where significant amounts of money are being spent without clear contracts, or where contracts are not being sufficiently monitored and managed. This is a finding which is consistently being reported.

At a time when the Council is moving towards new models of service delivery Audit Committee will continue to seek assurances that improvements are being made to contract management on a Council-wide basis. Audit Committee will continue to monitor the findings of Internal Audit reports and the progress of the Building Maintenance Project Board.

8.4 Schools Governance & Compliance

Audit Committee has continued to raise concerns about governance and compliance matters in schools. Historically, Audit Committee has received a greater proportion of 'Limited Assurance' audit reports in relation to schools, compared to the rest of the Authority. This trend has not improved in 2015/16, with Internal Audit opinions of both 'Limited Assurance' and 'No Assurance' issued to Cardiff schools this year. Particular concerns and details have been discussed in Audit Committee meetings, together with relevant management responses.

The Committee acknowledges that the Council is not able to set rules for schools to adhere to regarding contracting matters, albeit advice can be offered on good practice. Although practices can only be commended, given the size of school budgets and the reputational risks associated

with weaknesses in school governance, this area of interest remains a priority of the Audit Committee. The Audit Committee continues to support the production and commending of best practice guidance to schools in the interests of strengthening financial control.

Effective financial management is another important element of governance in schools. Audit Committee has received a position statement on schools in deficit in June 2015. The Committee was advised that there are only a small number of schools that continue to cause concern to the authority. The Committee will continue to receive information on schools balances as part of the Director of Education & Life Long learning's report on governance in schools.

8.5 Internal Audit Resources

The financial challenges facing the Authority are having an impact across all services resulting in the reduction of resources. The Internal Audit section like others has seen a significant reduction in the number of staff in recent years, and a loss of experienced officers. Reliance is placed on the Internal Audit team to provide assurance to the Section 151 Officer and senior management on the key controls in place across the Authority.

The Audit Committee has expressed concern about the reducing number of audit staff, and requested that this is expressly stated in the Annual Governance Statement 2014/15. The Audit Committee is kept informed of the issues facing the Internal Audit team and closely monitors resources available and considers the associated risks, though review of the Audit Manager's quarterly progress reports.

At a time of financial pressure and significant change, with lots of officers leaving who have many years of experience, then it is considered vital that a strong audit presence is maintained.

9. Looking ahead to 2016/17

During the forthcoming municipal year the Committee will continue to be guided by the Corporate Director Resources, External and Internal Audit teams.

Audit Committee will seek to further develop the assurances relative to our remit and will continue to contribute to an effective control framework. The Committee will monitor the issues highlighted in the 'Opinion of the Audit Committee 2015/16' contained within this report ensuring these are incorporated within the Committee's programme of work.

Audit Committee has a keen interest in appointment of the new Audit Manager, who will not have the responsibilities for risk which were held by the retiring Audit and Risk Manager. This provides an opportunity to separate out any perceived independence and objectivity issues with the coordination role being removed from the Internal Audit Section.

With risk management being a key activity in our terms of reference, we will be seeking assurance that new structures for risk management and control are robust, and will look to the Internal Audit team to provide independent assurance to Audit Committee on their effectiveness.

Additionally, Audit Committee will keep a watching brief on the development of the Local Government (Wales) Bill. Any required measures will be put in place to ensure that the Committee is well placed to discharge all responsibilities effectively resulting from the widening of its responsibilities which result from the bill.

The Committee's Work Programme will continue to be reviewed to ensure the Committee maximises its contribution to the governance and control framework, at the same time managing agendas to ensure that all meetings are equally productive and focus on the key issues.

10. Audit Committee Membership 2015/16

The Committee consists of four Independent Lay Members (sought by public advertisement) and eight Non Executive Councillors, elected by Council, see Annex 2 for details. Independent members are appointed for no more than two administrative terms with Council Members reappointed annually.

The Committee is serviced by Council Officers, principally the Corporate Director Resources (Section 151 Officer) and the Audit & Risk Manager. Representatives from the Wales Audit Office have attended three of the four (to date) meetings.

The Audit Committee met on 5 occasions throughout the municipal period 2015/16 on the following dates: 22 June 2015, 16 September 2015, 30 November 2015, 01 February 2016 and 22 March 2016.

11. Attendance in 2015/16

Attendance 2015/16 Possible Actual

Attendance 2015/16	Possible	Actual
Independent Lay Members		
Ian Arundale (Chairperson)	4	3
Professor Maurice Pendlebury (Deputy Chairperson)	4	4
Sir Jon Shortridge	2	1
Hugh Thomas	4	2
Non Executive Councillors		
Councillor Nigel Howells	4	4
Councillor Bill Kelloway	2	2
Councillor Mary McGarry	4	3
Councillor Paul Mitchell	4	3
Councillor Jim Murphy	4	4
Councillor Dianne Rees	4	3
Councillor Christopher Weaver	4	4

During 2015/16 the Committee experienced a number of changes in membership; Sir Jon Shortridge stepped down from the Committee in September, following his extensive experience as the Chair of the Audit Committee, and former Audit Panel of the City of Cardiff Council.

Councillor Walker took up his new role as Lord Mayor, and subsequently left the Committee in May 2015. Councillor Robson left in June, following a change in political party and was replaced by Councillor Kelloway, who has previously served on the Audit Committee.

Councillors, Dianne Rees and Eleanor Sanders, joined the Committee following Annual Council in May 2015, however, shortly after, Councillor Sanders stepped down.

Induction training was provided to Councillors Rees and Murphy. The Audit & Risk Manager provided an overview of the Committee's remit in line with the Committee's Terms of Reference,

governance, risk management and internal control. The Operational Manager, Capital & Treasury, provided specialist training around the Committee's role with regards to Treasury Management.

There have been two vacancies on the Committee this year; one Lay member position has been vacant since June.

11. Audit Committee Contacts

Ian Arundale Chairperson of Audit Committee	arundale@btinternet.com
Christine Salter Corporate Director Resources	029 2087 2301 C.Salter@cardiff.gov.uk
Derek King Audit & Risk Manager	029 2087 2248
Ann-Marie Harkin Engagement Director, Wales Audit Office	029 2032 0562 info@wao.gov.uk
Janet McNicholas Manager, Wales Audit Office	029 2087 2259 info@wao.gov.uk
Non Jenkins Manager, Wales Audit Office	07879 848671 info@wao.gov.uk
Chris Pugh Performance Audit Lead, Wales Audit Office	029 2032 0523 07748 181685 info@wao.gov.uk

Annex 1 Self Assessment: Improvement Actions – Updated Position (February 2016)

Ref.	Proposed Improvement Actions	Target Date	Action Owner	February 2016 Position	February 2016 Status
	Roles & Responsibilities				
1	<p><u>Audit Committee Terms of Reference</u></p> <p>Officers to undertake a review of the Committee's Terms of Reference prior to Annual Council in May 2015 to ensure fit for purpose and in line with current best practice.</p>	May 2015	Audit & Risk Manager	The Audit Committee Terms of Reference was reviewed and approved in May 2015.	Actioned.
Page 60	<p><u>Volume of Meeting Papers</u></p> <p>Members noted that although the agenda supports the Work Programme there are often large volumes of paper associated with each agenda item. It can be difficult for Members to digest prior to the meeting given other demands. Officers to be reminded that the information put in front of Members to be relevant and concise and not overly detailed. Where Members of the Committee have concerns over such matters to report to the Committee Chair.</p>	Ongoing	Corporate Director Resources & Audit & Risk Manager	<p>To reduce the agenda size in Audit Committee meetings three new approaches have been introduced.</p> <p>1) An Audit Committee SharePoint site has been created so that documentation of interest to the Audit Committee can be stored for Member information. This is being developed, with solutions being sought for Independent Members who are not currently able to access the SharePoint site.</p> <p>2) Emails are being circulated to Members for information communications, to limit Audit Committee agendas.</p> <p>3) Members are invited to a pre meeting of the Audit Committee giving them an opportunity to raise and discuss any issues prior to the formal meeting.</p>	Actioned
3	<p><u>Information Items</u></p> <p>Items for information to be taken off the Agenda and distributed for information only.</p> <p>Any ongoing actions to be reviewed and where appropriate to be reported, in brief, under Outstanding Actions (for information only.)</p>	Ongoing	Secretariat	<p>As above, information only items are being reduced in Audit Committee meetings.</p> <p>Pre meeting allows Members with the opportunity to raise issues.</p>	Actioned

Ref.	Proposed Improvement Actions	Target Date	Action Owner	February 2016 Position	February 2016 Status
4	<p><u>Assurance Summary</u></p> <p>The Audit Committee annually are presented with an Assurance Summary of the key governance issues and corporate risks. Members of the Committee to continue to receive this summary annually to provide a level of assurance against the Committee's Work Programme.</p>	Annually	Audit & Risk Manager	<p>On a biannual basis, the Audit Committee receives</p> <ul style="list-style-type: none"> An action plan of the 'Significant Governance Issues' affecting the Council, as updated by the Senior Management Team, and; The Corporate Risk Register (detailed and summary versions). 	Actioned
5	<p><u>Circulation of Work Programme</u></p> <p>The Committee's Work Programme is to be published more widely amongst elected Members similar to Scrutiny.</p>	Ongoing	Democratic Services	Meeting papers published on the Council Website.	Ongoing
6	<p><u>Audit Committee & Scrutiny Committees</u></p> <p>In order to address the issue of items being considered by Scrutiny overlapping with Audit Committee a protocol is to be developed by officers.</p> <p>In order to support this notion the Audit Committee Chair would consider it beneficial to meet with the Scrutiny Chairs on an annual basis.</p> <p>In future, Scrutiny work programmes to be shared with Audit Committee Members and used to inform Audit Committee work programme to avoid duplication.</p>	Ongoing	Secretariat	<p>A draft Scrutiny and Audit Protocol has been developed to promote work synergies.</p> <p>The Audit Committee Chair also attended a Scrutiny Chair's Liaison Forum in quarter two (2015/16).</p>	Draft protocol Prepared - Ongoing

Ref.	Proposed Improvement Actions	Target Date	Action Owner	February 2016 Position	February 2016 Status
7	<p><u>Chairperson's Letters</u></p> <p>There have been instances where issues have been reported to the Committee on more than one occasion, where action has not been taken. In order to escalate these matters the Chair will in future write to the Chief Executive, relevant Cabinet Member or relevant Scrutiny Chair if the Director cannot provide a resolution.</p>	Ongoing	Audit & Risk Manager	This is now happening and the Chair does raise issues with the Chief Executive, Cabinet Member or relevant Scrutiny Chair as considered appropriate.	Actioned
8	<p><u>Independent Members</u></p> <p>Engagement with Members - To benefit the independent Members an item to be included on each agenda which can be used for elected members to bring any matters of interest to the independent Members.</p> <p>Members Newsletter - The newsletter circulated to elected Members to be distributed to the Independent Members.</p>	Ongoing	Democratic Services	<p>All Members receive induction training.</p> <p>There is a pre meeting before every Audit Committee meeting, where there is an opportunity for all Members to have discussions and to bring any matters of interest to the independent members.</p> <p>Being considered as to best means of sharing this. Potential to use SharePoint website once access provided to Independent members.</p>	<p>Actioned</p> <p>Ongoing</p>
Monitoring & Oversight					
9	<p><u>Internal Audit Resource</u></p> <p>The impact of reducing resources within the Internal Audit Team to be highlighted in the Audit Committee's Annual Report.</p>	March 2015	Audit & Risk Manager	<p>The impact of reducing resources within the Internal Audit Team was highlighted in the Audit Committee's Annual Report and emphasised in the Annual Governance Statement.</p> <p>Regular updates to Audit Committee mention resource issues and next year's Audit Plan will highlight any resource implications on audit coverage.</p>	Ongoing

Ref.	Proposed Improvement Actions	Target Date	Action Owner	February 2016 Position	February 2016 Status
10	<u>Chief Executive Attendance</u> The Committee would appreciate if the Chief Executive would attend the Audit Committee on an annual basis to provide an update on the progress of the Organisational Development Plan and the strategic direction of the Council.	December 2015	Corporate Director Resources, Secretariat & Chief Executive	The CEO and Leader have attended Audit Committee to provide updates on the ODP and have agreed to continue to provide updates and attend as appropriate.	Actioned
11	<u>Monitoring Officer</u> The Monitoring Officer to attend Audit Committee when the Annual Governance Statement is considered.	In accordance with the Work Programme	County Clerk	The Monitoring Officer now attends Audit Committee whenever a governance item is included on the Agenda. She also attends the Agenda conference meeting with the Chair.	Actioned
12	<u>Audit Committee Self Assessment</u> The assessment exercise to be held on an annual basis.	January 2016	Secretariat & Audit & Risk Manager	The Audit Committee Self Assessment position will be reviewed annually. Agreed the next workshop would be held in Sept 2016.	Actioned & Ongoing
Internal & External Audit Process					
13	<u>Meeting with Audit Manager</u> A formal arrangement will be offered to Members of the Committee to meet with the Internal Audit Manager and External Auditors on an individual basis.	Commencing June 2015	Secretariat & Audit & Risk Manager & Wales Audit Office	Members are aware that this is possible. The introduction of time to get together pre Audit Committee helps raise issues of interest and retain focus during the meeting.	Actioned
14	<u>Wales Audit Office</u> External Auditors to be represented at all meetings.	Ongoing	Wales Audit Office	In Place.	Actioned
Membership					

Ref.	Proposed Improvement Actions	Target Date	Action Owner	February 2016 Position	February 2016 Status
15	<p><u>Vice Chair</u></p> <p>It was agreed that a Vice Chair should be nominated by the Committee for the municipal year and to act in the absence of the Chair.</p>	June 2015	Audit Committee	Actioned and a Vice Chair appointed in June when the Chair was appointed. MP (independent member) for current year.	Actioned
	Meetings				
	No matters to report			N/A	N/A
	Skills & Training				
16	<p><u>Individual Self Assessment</u></p> <p>The Committee Members may wish to undertake a personal self assessment in context with the role of an Audit Committee Member which may identify gaps in knowledge and areas where training can be arranged.</p> <p>The suggested framework was presented to Council in December 2013: The Wales Charter for Member Support and Development: An Introduction for Authorities. Specifically the role of a Member of an Audit Committee.</p>	-	Chairperson, Secretariat, Corporate Director Resources & Audit & Risk Manager	This opportunity has been offered to members	Actioned

Annex 2 - Audit Committee Member Profiles

Current Membership



Ian Arundale
(Chair)
(Independent Lay
Member)

Ian Arundale is a self-employed Law Enforcement and Security Consultant. He was a police officer for 32 years serving in South Wales, West Mercia and Dyfed-Powys Police Forces rising to the rank of Chief Constable.

Ian was the UK lead on behalf of the Association of Chief Police Officers (ACPO) for 'Armed Policing' policy and practice and chaired the UK 'Conflict Management' portfolio.

He works internationally and has recently assisted police forces and organisations in the USA and New Zealand.

Ian holds a diploma in Applied Criminology from Cambridge University, an MSc (Econ) degree in Criminology and Criminal Justice from Cardiff University and a BA (Hons) degree in Police Studies. He is a Fulbright Fellow and a graduate of the Prime Ministers 'Top Management' programme.

In addition to his role with work with Cardiff Council, he is also a member of the Discipline Committee of the Royal College of Veterinary Surgeons and a board member of the International Law Enforcement Forum (ILEF)." He was awarded the Queens Police Medal (QPM) in 2011.



Professor Maurice
Pendlebury
(Independent Lay
Member)

Maurice Pendlebury is a qualified accountant and until his retirement he was a professor of accounting at Cardiff Business School.

He has wide experience of many areas of management in both the public and private sectors and is the author of numerous books and articles on accounting and financial management topics.

He was a non-executive director of the Cardiff and Vale NHS Trust from April 2007 to September 2009 and he is currently a governor of a high school in Cardiff.

He was appointed as an independent member of the Audit Panel in 2010 and remained a member when the panel changed and became the current Audit Committee.








Hugh Thomas
(Independent Lay
Member)

Hugh Thomas, a retired Solicitor, pursued a Local Government career for forty years culminating in his being Chief Executive of Mid Glamorgan County Council (the largest local authority in Wales) for fifteen years. During this time he served as Clerk to the South Wales Police Authority and Honorary Secretary of the Assembly of Welsh Counties. He retired in 1995.


He has since chaired a number of public bodies and national voluntary organisations including those in the health and higher education sectors. He was Vice Chairman and Chair of the Audit Committee of the Wales Centre for Health. He was also a non-Executive Director of Welsh Water.

Currently, he is Chair of the Regulatory Board for Wales and one of fifteen trustees of The National Library of Wales.

 <p>Cllr Nigel Howells (Liberal Democrats)</p>	<p>Serving the Adamsdown Ward.</p> <p>Term of Office: 03/05/2012 –</p> <p>Serving on the following committees:</p> <ul style="list-style-type: none"> • Audit Committee • Bilingual Cardiff Member Group • Council • Economy & Culture Scrutiny Committee • Policy Review and Performance Scrutiny Committee (Chair) <p>Outside Bodies:</p> <p>Cardiff Business Technology Centre (CBTC) Local Government Association General Assembly</p>
 <p>Cllr Bill Kelloway (Liberal Democrats)</p>	<p>Serving the Penylan Ward.</p> <p>Term of Office: 03/05/2012 –</p> <p>Serving on the following committees:</p> <ul style="list-style-type: none"> • Audit Committee • Council • Licensing Committee • Licensing Sub Committee • Public Protection Committee • Public Protection Sub Committee
 <p>Cllr Mary McGarry (Labour)</p>	<p>Serving the Plasnewydd Ward.</p> <p>Term of Office: 03/05/2012 –</p> <p>Serving on the following committees:</p> <ul style="list-style-type: none"> • Audit Committee • Community & Adult Services Scrutiny Committee (Chairperson) • Council <p>Outside Bodies:</p> <p>Cardiff Action for the Single Homeless (Huggard Centre) Cardiff County Club Standing Advisory Council for Religious Education (SACRE)</p>
 <p>Cllr Paul Mitchell (Labour)</p>	<p>Serving the Fairwater Ward.</p> <p>Term of Office: 03/05/2012 –</p> <p>Serving on the following committees:</p> <ul style="list-style-type: none"> • Audit Committee • Council • Environmental Scrutiny Committee (Chairperson) <p>Outside Bodies:</p> <p>Cardiff County Club South Wales Intercultural Community Arts (SWICA)</p>
 <p>Cllr Jim Murphy (Labour)</p>	<p>Serving the Ely Ward.</p> <p>Term of Office: 03/05/2012 –</p> <p>Serving on the following committees:</p> <ul style="list-style-type: none"> • Audit Committee • Children and Young People Scrutiny Committee • Council • Council Appeals Committee • Democratic Services Committee • Licensing Committee • Licensing Sub Committee

	<ul style="list-style-type: none"> • Policy Review and Performance Scrutiny Committee • Public Protection Committee • Public Protection Sub Committee <p>Outside Bodies: Cardiff & Vale of Glamorgan Community Health Council</p>
 <p>Cllr Dianne Rees (Conservative)</p>	<p>Serving the Pontprenau & Old St Mellons Ward.</p> <p>Term of Office: 03/05/2012 -</p> <p>Serving on the following committees:</p> <ul style="list-style-type: none"> • Audit Committee • Children and Young People Scrutiny Committee • Constitution Committee • Council • Council Appeals Committee
 <p>Cllr Christopher Weaver (Labour)</p>	<p>Serving the Cathays Ward.</p> <p>Term of Office: 03/05/2012 –</p> <p>Serving on the following committees:</p> <ul style="list-style-type: none"> • Audit Committee • Council • Economy & Culture Scrutiny Committee
<p>Vacant - Labour Member</p>	

Past Membership 2015-16

 <p>Sir Jon Shortridge (Independent Lay Member)</p>	<p>Jon Shortridge has degrees in Philosophy, Politics and Economics from Oxford University, and in Urban Design and Regional Planning from Edinburgh University.</p> <p>He became Permanent Secretary of the Welsh Office in March 1999 and of the National Assembly on its creation in May 1999. In May 2007 he became Permanent Secretary of the Welsh Assembly Government. He retired in May 2008, but returned to Whitehall briefly as interim permanent secretary of DIUS (and subsequently BIS) in the summer of 2009.</p> <p>He is now Chair of Community Service Volunteers, Chancellor and Chair of Glyndwr University, a board member of the Parliamentary and Health Service Ombudsman and an advisory member of the Commission for Local Government in England. He chairs the audit committees of the Parliamentary and Health Service Ombudsman and of the Local Government Ombudsman, and is a member of the audit committees of Oxford University and the Royal Society.</p> <p>He is married to Diana, and has a daughter and a son. He was knighted in 2002.</p>
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David Walker

Serving the **Lisvane** Ward.

Term of Office: 03/05/2012 –

Serving on the following committees:

- [Council](#)



Cllr Adrian Robson

Serving the **Rhiwbina** Ward.

Term of Office: 03/05/2012 –

Serving on the following committees:

- [Appointments Committee](#)
- [Council](#)
- [Democratic Services Committee](#)
- [Glamorgan Archives Joint Committee](#)
- [Planning Committee](#)

DRAFT ANNUAL GOVERNANCE STATEMENT 2015/16

REPORT OF CORPORATE DIRECTOR RESOURCES AGENDA ITEM: 5.2

Reason for Report

1. The Audit Committee's Terms of Reference requires Members to review the Annual Governance Statement (AGS) prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account the internal audit opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk and internal control.
2. The Audit Committee is also required to consider the Council's corporate governance arrangements against the good governance framework by way of the process of compiling the AGS. In February 2016, Audit Committee received a report on the AGS framework and an update of the Senior Management Assurance Statement (SMAS) mid year responses. The SMAS responses are supporting assurance documents which contribute to the Annual Governance Statement (AGS).

Background

3. The Accounts and Audit (Wales) Regulations 2015 requires Authorities to carry out an annual review of the effectiveness of the system of internal control. The Council has approved and adopted a Governance Framework, which is consistent with the principles of the CIPFA/SOLACE Framework - Delivering Good Governance in Local Government.
4. The Council uses the above governance framework to identify evidence against each of the 6 core principles outlined below:
 - Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.
 - Members and Officers working together to achieve a common purpose with clearly defined functions and roles.
 - Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
 - Taking informed, transparent decisions which are subject to effective scrutiny and managing risk.
 - Developing the capacity and capability of Members and Officers to be effective.
 - Engaging with local people and other stakeholders to ensure robust public accountability.

5. Good governance leads to effective management, improving performance, stewardship of public money, successful public engagement and ultimately, the desired outcomes for citizens and service users. Sound governance enables the Council to pursue its vision with effective mechanisms for control and the management of risk.
6. All Senior Managers have a responsibility to ensure sound governance arrangements within their Directorates. The SMAS responses from Directors provide the opportunity to provide evidence of performance in a number of key areas for good governance, and to identify any matter/s which could significant impact on the Council. A Chief Executive Assurance Statement has also been developed in 2015/16 and introduced to ensure a complete set of assurance statements from Senior Management to inform the AGS.
7. Once all assurance statements have been completed any reported, significant governance issues are compiled and checked against the Corporate Risk Register (CRR). Issues raised that are captured on the CRR are not highlighted in the statement to avoid duplication (this is highlighted in the AGS). The Senior Management Team is then presented with the list of significant governance issues for corporate consideration and collective approval.
8. Following approval by management, the AGS will be updated and reported to Audit Committee in June within the draft Financial Statements 2015/16. Thereafter the AGS will be finalised in preparation for September Council where the Financial Statements are presented.
9. The Governance Framework provides a useful source for collating the evidence to inform the AGS, but in order for the AGS to show a true assessment of the Council during the financial period further sources are relied upon.
10. The process of compiling the AGS begins in quarter 4 of each financial year, but a process of engagement and consultation with officers across the Council is ongoing. The Governance Framework is reviewed annually by officers to ensure there are no gaps in the evidence required to meet the principles of the Framework.

Issues

11. Audit Committee are sighting the AGS prior to year end, therefore there are a number of gaps in the statement as much of the final drafting takes place after the financial year end. The AGS is split in two parts; firstly, a reflection of the good governance principles and then a review of effectiveness of the Council's governance arrangements.
12. Following year end the review of effectiveness will be completed when all sources of information are readily available.

Legal Implications

13. There are no legal implications arising directly from the contents of this report.

Financial Implications

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

Recommendation

15. The Audit Committee considers the content of the draft Annual Governance Statement 2015/16, mindful that certain sections cannot be completed until year end.
16. The Committee reinforces the requirement for all Directors to complete a Senior Management Assurance Statement at the year-end position 2016/17 in order for the draft Annual Governance Statement to be finalised.
17. Members of the Committee agree that once the Audit Committee's Annual Report is drafted that the opinion contained within informs the Annual Governance Statement, both of which will be presented to the Committee in June.

**CHRISTINE SALTER
CORPORATE DIRECTOR RESOURCES**

The following Appendices are attached:

Appendix A – Draft Annual Governance Statement 2015/16

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Scope of Responsibility

1. The City of Cardiff Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
2. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, including arrangements for the management of risk.
3. The Council is the Administering Authority for the Cardiff and Vale of Glamorgan Pension Fund (the Pension Fund) and Cardiff Port Health Authority (CPHA). The governance arrangements detailed in this Annual Governance Statement apply equally to the Council's responsibilities to the Pension Fund and CPHA. There are further specific requirements for the Pension Fund which are:
 - The Statement of Investment Principles;
 - Funding Strategy Statement;
 - A full Actuarial Valuation to be carried out every third year
4. The Council has approved and adopted a Governance Framework, which is consistent with the principles of the CIPFA/SOLACE Framework - Delivering Good Governance in Local Government. A copy of the framework can be obtained from the Audit Manager.
5. The CIPFA/SOLACE framework has been subject to consultation for revision, with the intention of building on the 'International Framework: Good Governance in the Public Sector' (CIPFA/IFAC 2014). The International Framework places sustainable economic, societal and environmental outcomes as a key focus for governance processes and structures. It emphasises the importance of considering the longer term and the links between governance and public financial management. CIPFA has confirmed that the existing framework should be used for the purpose of the Annual Governance Statement (AGS) for 2015/16.
6. This statement explains how the Council has complied with the Governance Framework and also meets the requirements of the Accounts and Audit Regulations 2015.

The Purpose of the Governance Framework

7. The Governance Framework comprises the systems, processes, culture and values by which the Council is directed and controlled together with its activities through which it accounts to, engages with, and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
8. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
9. The following paragraphs summarise the core principles of the Council's Governance Framework and reflects the arrangements in place to meet the six core principles of effective governance:
 - Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area;

5.2 - APPENDIX A

ANNUAL GOVERNANCE STATEMENT 2015/16

- Members and Officers working together to achieve a common purpose with clearly defined functions and roles;
- Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
- Developing the capacity and capability of Members and Officers to be effective;
- Engaging with local people and other stakeholders to ensure robust public accountability.

Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area

10. The Council's vision is an integral part of the city's 10 Year What Matters Strategy (2010-2020) which has been developed in conjunction with public, private and voluntary sector stakeholders and following citizen engagement.

11. The What Matters Strategy brings together the Community Strategy; the Children & Young People's Plan; the Health, Social Care & Wellbeing Strategy and the Community Safety Strategic Assessment into a single plan which is based on a vision of delivering 7 shared outcomes. The Council participated in the development of seven Citizen Outcomes with the Cardiff Partnership Board partners.

12. The Council approved a strategic and focused Corporate Plan in March 2015 for the period 2015 - 2017 setting out the strategic direction and providing a framework for more detailed service plans and performance management objectives. The Corporate Plan provides a road map for meeting the twin challenges of facing increasing demand for services from a growing population, whilst funding is reducing, to enable the Council to continue to deliver great public services with the vision to build on successes to become Europe's most liveable capital city. The four Corporate Plan priorities which have been maintained in the 2015 – 2018 Corporate Plan are identified as below to be delivered as part of the public service values of "open", "fair" and "together":

- Better education and skills for all;
- Supporting vulnerable people;
- Creating more jobs and better paid jobs;
- Working together to transform services.

13. Under each of these priorities sit a number of improvement objectives which set out the specific outcomes which the Council has agreed to focus on. In turn these improvement objectives have associated activities and performance indicators. This level of information will be used to evaluate the Council's performance in delivering both the improvement objectives and the agreed priorities. For each priority, improvement objectives have been established, with high level commitments and performance indicators identified for each improvement objectives

14. To ensure there is clear accountability for delivering each objective a Lead Member, or in some instances Members, are identified. The delivery of the revised Corporate Plan is monitored through the Council's Performance Management Framework, including:

- Performance Challenge sessions of the Council's Senior Management Team;
- Joint Cabinet and Senior Management Team Performance Challenge meetings;
- A Challenge Forum involving Members, Senior Officers and external peer support to challenge the Council's progress against its improvement journey and the delivery of the Corporate Plan.

15. Delivery against the What Matters outcomes is subject to an annual review, and the 2015 review was presented to the Policy Review and Performance Scrutiny Committee. In May 2015 the Policy Review and Performance Scrutiny Committee was asked to take overarching responsibility for scrutiny of the Council's partnership work, specifically scrutiny of the Cardiff Partnership Board

(CPB). On publication of the Improving Scrutiny Project in September 2015, the transfer of responsibilities from a decommissioned Local Service Board Scrutiny Panel was agreed.

16. The Council's Constitution provides each of the Council's five scrutiny Committees with authority to scrutinise partnership activity within their terms of reference, and so, complementing this Committee's strategic overview of partnership activity, all Council scrutiny committees will continue to factor scrutiny of relevant What Matters work streams into their forward work programmes.

17. The CPB is the successor to the Cardiff Local Service Board, set up in 2007 as part of a Welsh Assembly Government initiative across Wales. The CPB consists of South Wales Police, South Wales Fire & Rescue Service, The City of Cardiff Council, Cardiff Third Sector Council, Cardiff and Vale University Health Board and the Wales Probation Trust. The CPB strengthens local public service management to tackle 'fundamental and unmet' challenges from a citizen perspective. To achieve this, the Board is responsible for overseeing the performance of city-wide programmes and work streams to address major issues in Cardiff.

18. The Well-being of Future Generations Act (which comes into force from April 2016) is to ensure that the governance arrangements in public bodies for improving the well-being of Wales take into account the needs of future generations. The aim is for public bodies to improve the economic, social and environmental well-being of Wales in accordance with the detailed sustainable development principles and well-being goals that are prescribed by the Act.

19. From April 2016 the CPB will become a statutory Public Service Board and its work will contribute to achieving the seven well-being goals for Wales. The Well-being goals for Wales align well with Cardiff's seven citizen outcomes, providing an opportunity for our strategy to not only deliver those priorities that will improve quality of life in Cardiff, but also make a contribution towards the seven Well-being goals for all of Wales as follows:

- A prosperous Wales;
- A resilient Wales;
- A healthier Wales;
- A more equal Wales;
- A Wales of cohesive communities;
- A Wales of vibrant culture and thriving Welsh Language;
- A globally responsible Wales.

20. Since the publication of the first What Matters Strategy in 2010 there has been an increased recognition that local areas are best placed to respond to local need. Within Cardiff the Neighbourhood Partnership model has become significant in providing a coherent structure for allowing organisations to work together and problem solve within localities to deliver the priorities for different communities. The Building Communities – A New Approach to Neighbourhood Working White Paper was published in 2013 and facilitated improvements to the existing model by strengthening local engagement, including the identification of a 'Lead Elected Member' to work with other elected members and partners to agree priorities set out in each of the six Neighbourhood Partnership Action Plans.

21. Neighbourhood Partnership teams exist in each of the six localities across Cardiff and are made up of multi-agency staff working together to share local intelligence to solve problems for their particular neighbourhood. This means that a range of expertise from across the public and voluntary sectors is brought to bear on the issues that really matter to communities. The initiative has increased partners' awareness and understanding of their respective roles and activities, leading to more collaborative and responsive working. It has also redefined the conventional way of working by concentrating on bringing decision-making and resources closer to communities through a model tailored specifically to Cardiff.

22. The model, in addition to being successful in delivering tangible improvements in each neighbourhood has helped shape the work of some of our delivery programmes such as Families

First, Communities First, Flying Start and Youth Engagement Panels to target our resources where they are needed most to support a preventative approach, reduce duplication of provision and identify gaps in service. This approach has also been embraced by other partners, and NHS primary and community care services are organised into 6 matching clusters with a GP lead for each. Clusters provide an easily recognisable level of aggregation of GP practices and Cluster Plans address population health priorities, reflecting issues specific to the area and the actions required to be taken forward with partners to provide improved outcomes.

23. 'Joined-up' thinking and cutting across the traditional lines of responsibility for service funding and provision, has also encouraged some of our core services to take an area based approach and ensure that services are being delivered to those most in need. Cardiff's Community Hubs are an example of locality based partnership working and have delivered tangible benefits to meet identified needs within communities. Building on this model will ensure that the diverse needs of Cardiff's population continue to be met.

24. Neighbourhood delivery is influencing the way in which services are being redesigned such as waste collections, street cleansing and highways maintenance. New multi-skilled teams are now developing a neighbourhood approach to tackling different issues and needs and this approach is already leading to increased financial savings and improved satisfaction through increased efficiency.

25. The Executive adopted a Community Councils Charter ("the Charter") in March 2012, following consultation with relevant stakeholders, including the six Community Councils within the Council's area and the Standards and Ethics Committee. The Charter reflects the model Charter issued by the Welsh Government under section 130-133 of the Local Government (Wales) Measure 2011. The aim of the Charter is to support structured, regular engagement and communication between the County Council and the six Community Councils in Cardiff, based on the key principle of equality of partnership between the two tiers of local government.

26. In June 2015 the Cabinet reaffirmed its commitment to the aims of the Charter; and delegated authority to the Monitoring Officer (in consultation with the relevant Cabinet Member, the Standards and Ethics Committee and the six Community Councils), to update the Charter for authorisation by the relevant Cabinet Member. Discussions have been held with the Clerks of the six Community Councils and the Monitoring Officer has produced a revised draft which was presented to the Standards and Ethics Committee in December 2015.

27. The City Deal for the Cardiff Capital Region has also made good progress, with the Council and nine other participating local authorities currently working on proposals to support investment in infrastructure and skills development across the city-region. Underpinning the proposals will be a £1.28bn fund. The projects which will have the biggest impact on the city-region economy will be prioritised. Supporting this, new governance arrangements are being proposed. This will include the development of a Joint Cabinet made up of the Leaders of the ten local authorities to oversee investment across the city-region.

28. The Council recognises the need to change the way it delivers many services to ensure that their long term sustainability is secured and that underperformance in some statutory services is addressed. In order to do so, a rolling three year Organisational Development Programme has been established to:

- Review the shape and scope of the organisation and the way in which services are currently delivered to meet demand;
- Enhance citizen engagement and widen opportunities for people and communities to shape services around their needs;
- Identify delivery models that may be established to meet demand pressures and reflect budgetary realities;
- Significantly strengthen performance management, workforce development and staff engagement arrangements;

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- Identify opportunities for further efficiency savings through better internal and external collaboration, integration of service delivery and better use of assets and infrastructures.

29. The Council has agreed a performance management framework and a range of performance measures that demonstrate progress in meeting the priorities in the Corporate Plan. This framework also includes the statutory National Strategic Indicators as specified by Order together with local indicators which will enable a wider understanding of performance. The annual Outturns against these indicators are submitted to the Welsh Government to be audited as part of the revised Wales Programme for Improvement as the result of the Local Government (Wales) Measure. This framework ensures that there is alignment between the What Matters Strategy, Corporate Plan, Strategic Equality Plan, Directorate Delivery Plans and Personal Performance and Development Plans. Performance against the Council's targets and objectives are reported publicly on a quarterly and annual basis.

30. The Corporate Plan and Directorate Delivery Plans include key performance targets and these are monitored on a regular basis. Every quarter, each Directorate provides monitoring reports to the Senior Management Team (SMT) and the Cabinet with Scrutiny involvement where required. This enables the Council to track progress against the key objectives, monitor performance against targets and inform remedial action where required.

31. Enhancements were made in 2014/15 to strengthen the performance management arrangements given the range of challenges facing the Council, examples include the Star Chamber Sessions chaired by the Leader and Improvement Boards chaired by the Chief Executive for each Directorate.

32. An annual Improvement Report sets out the progress over the previous financial year in terms of:

- a review against the key objectives;
- progress and comparative information regarding the National Strategic Indicators and a balanced set of Core and Local Indicators which will in future be based on the measures in the Corporate Plan;
- an account of the challenges for the future to be part of the requirements of the Corporate Planning regime.

33. The Corporate Assessment Follow On report issued in February 2016 by the Wales Audit Office has made proposals to further strengthen performance management and performance reporting arrangements to enable further enhancements to processes.

34. The Local Government (Wales) Measure 2009 amended the statutory basis of the Improvement Agenda and from 2010 the drafts of the Corporate Plan and Improvement Report have been discussed at Scrutiny and the Cabinet before being debated and approved by Council prior to publication. The Auditor General for Wales' is required to issue Certificates of Compliance to the Council to discharge his requirements under the Local Government (Wales) Measure 2009. The Council also receives reports regarding key elements of governance i.e. finance and performance management. The proposals for improvement in these reports help to /shape the processes and outputs of the Council.

Members and Officers working together to achieve a common purpose with clearly defined functions and roles

35. The Council aims to ensure that the roles and responsibilities for governance are defined and allocated so that accountability for decisions made and actions taken are clear. It has done this by appointing a Leader, and a Cabinet which has collective decision making powers. Annual Council meet in May of each year to establish Committees: their size, terms of reference and allocation of seats. The Council's Constitution sets out the terms of reference for each of its Committees and the decisions that can be taken by each of those Committees, and is reviewed

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regularly by the Constitution Committee and recommendations made to Council. A number of Committees have been appointed by Council to discharge regulatory and scrutiny functions.

36. The Council's Constitution sets out the particular roles and responsibilities of Officers and Members and provides clarity on the interfaces between these roles. These include:

- Functions and subsections delegated to officers;
- Members' Code of Conduct;
- Employees' Code of Conduct;
- Protocol on Member / Officer Relations;
- Cardiff Undertaking - upon election all Members sign "The Cardiff Undertaking" which underlines their duties to the City and its citizens.

37. The Council is required to agree and publish a Schedule of Member Remuneration on an annual basis which sets out the levels of remuneration and allowances payable to Members. This is subsequently updated in line with the determinations made by the Independent Remuneration Panel for Wales in any annual or supplementary reports. Information relating to officers' pay levels is included in the Council's Annual Pay Policy Statement as required by the Localism Act 2011 and also in the annual Statement of Accounts.

38. The Corporate Plan forms part of the strategic policy framework set out within the Council's Constitution and is considered annually by the Council. The document outlines the Council's strategic policy priorities and improvement objectives, and forms part of the required statutory improvement framework as it discharges the Council's obligations under the Local Government (Wales) Measure 2009 to publish a stage one plan, setting out how the Council plans to achieve its priorities for improvement.

39. The Annual Improvement Report 2014/15 was approved by the Council in October 2015 and incorporated several proposals for improvement raised by the Auditor General which have been instigated, including ensuring:

- actions and targets support the delivery of, and determine progress against the improvement objectives;
- baseline data and targets are included for all improvement objectives;
- comparative data is represented for all performance indicators and is consistently presented;
- progress against the Outcome Agreement is presented to support the explanation of progress against the improvement objectives;
- an assessment of performance for each of the improvement objectives is provided;
- performance indicators have a target and that where targets have not been set that there is an explanation

40. The Council has responded positively to the findings of the Corporate Assessment in 2014, of the Wales Audit Office and put in place better arrangements to support improvement and address longstanding issues. The Corporate Assessment Follow On, issued in February 2016, concluded that: 'The Council has put in place better arrangements to support improvements and to address longstanding issues, but is now at a critical point in embedding them if it is to achieve a step change in delivering improved outcomes'. This progress is made against the 2014 report concluded that 'fragmented leadership and management have meant that weak performance in key service areas has not improved'.

41. The Budget Strategy for 2016/17 and the medium term was approved by Cabinet and Council in July 2015. It set out how the Council's Aggregate External Finance (AEF) was decreased by £12.516 million or 2.9% in cash terms over 2014/15, and when measured on a per capita basis resulted in Cardiff being ranked as 21 out of the 22 councils in relation to the per capita funding it received from the Welsh Government.

42. In response to increasing financial pressures, an updated approach to identifying savings targets was acknowledged in the 2015/16 Budget Report in consideration of the future shape of the Council. This was taken forward as a Reshaping the Base Budget exercise. The exercise identified services at the minimum statutory level and considered whether discretionary services could be covered by income. The difference between this picture and the current shape of services highlighted the opportunities for budget reductions over both one and three years against the following four savings drivers:

- Policy led savings;
- Business process efficiency savings
- Discrete Directorate led savings;
- Income / commercialisation.

43. A robust budget setting process was developed to deliver a balanced budget for 2015/16, given the scale of the Budget Reduction Requirement. This required the use of a number of positive practices, including:

- Setting budget strategy planning assumptions for both one and three years. This led to earlier engagement on choices in respect of council tax, employment costs, schools pressures and balance sheet assumptions;
- High level consideration of savings proposals against the Council's proposed target operating model as part of Budget Strategy development;
- Use of market place sessions for members to review the budget proposals for 2015/16, with budgetary analysis sheets provided for context;
- An extensive engagement exercise with citizens, business, partners and staff through The Cardiff Debate;
- An eleven week consultation process on the proposed savings for 2015/16 including the preparation and consideration of an extensive feedback report for Cabinet to consider;
- A due diligence process on the proposed savings, which resulted in a number of savings being removed or reduced due to concerns in respect of their achievability;
- A future year's outlook section up until 2029/30 being included in the Medium Term Financial Plan (MTFP);
- The inclusion of opportunities for further savings in respect of 2016/17 and 2017/18 in the Budget Report.

44. The Council's Budget for 2016/17 was presented to Cabinet in February 2016. At this point in the budget process the Council would usually be in receipt of the Final Local Government Settlement and would therefore have a firm figure of Aggregate External Finance (AEF) for the forthcoming financial year. However Welsh Government's budget timetable has been delayed as a result of the UK Government's Comprehensive Spending Review (CSR) with the result that this budget is predicated on the Provisional Local Government Settlement that was published in December 2015. The Welsh Government has stated that there is no intention for significant variation between the Provisional and Final figures for 2016/17.

45. The Corporate Plan 2016-2018 was approved by Cabinet in February 2016. To ensure clear lines of accountability, the Corporate Plan is structured around Cabinet portfolio responsibility. It is supported by individual Directorate Delivery Plans which contain detailed objectives and outcomes and integrate financial and service planning. The Delivery Plans provide clear lines of responsibility and increased accountability and are subject to effective management challenge and scrutiny.

46. In January 2015, Cabinet considered a report from the Chief Executive with proposals for an amended senior management structure, designed to meet the Council's objectives, the changing requirements of service delivery and the proposed budget saving. This was outlined in the Cabinet report '2015/16 Budget proposals – For Consultation' which was considered in November 2014, together with the objectives set out in the Cabinet report 'Senior Management

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Arrangements' considered in January 2015. The proposed restructure was supported by HayGroup benchmarking analysis which compared the management structure of Cardiff Council with other Core City Councils and a selection of other Unitary/City Councils of a similar size (in terms of population).

47. The subsequent restructure reduced the number of Director (Tier 1) posts from eleven to seven. It involved the creation of three new roles, namely the Director of City Operations, Director of Social Services and Director of Governance & Legal Services (reporting to Corporate Director Resources). Appointments were made to these roles in June 2015. Throughout the financial year (2015/16) a number of Tier 2 (Assistant Director) posts have been filled, in creating a remodelled management structure which is closer aligned with the benchmark Unitary/City Councils.

48. All employees, including senior management, have clear conditions of employment and job descriptions which set out their roles and responsibilities. The Employment Conditions Committee maintains an overview of such conditions.

49. On 19 February 2015 the Cabinet approved an Officers' Personal Interests & Secondary Employment Policy. All Council employees are obliged, under the Employees' Code of Conduct, to ensure that their private interests do not conflict with their public duties, and to comply with the Council's rules on the registration and declaration of financial and non-financial interests (paragraph 8(1) of the Code). The Standards and Ethics Committee reviewed the draft policy which was also shared with Audit Committee members. Measures have been undertaken to make all officers aware of the new policy, including providing awareness information enclosed with payslips.

50. Under the policy, staff are required to disclose any personal interest which actually or potentially conflict with their duties to the Council and all secondary employment. Their manager must then decide, in consultation with the staff member, whether an actual conflict exists. If it's decided that there is a conflict then a decision must be taken on how that conflict should be managed, which may include the re-allocation of duties.

51. The Cabinet at their meeting on 2 April 2015 agreed a Workforce Strategy in order to strengthen links between business, financial and workforce planning, particularly during the current period of financial challenge and rapid organisational change. An integral part of the strategy is the Employee Charter. The Charter is a response to a series of challenges the Council has faced and issues raised by the Wales Audit Office in September 2014 as part of the Corporate Assessment and the earlier WLGA Peer Review. The Employee Charter, founded on the Council's values, sets out the expectations of employees, managers and senior managers.

52. The Corporate Director Resources is the Council's Section 151 Officer with overall responsibility for the financial administration of the Council. Additionally, a Head of Finance has been appointed in 2015/16 in order to strengthen financial control. The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

53. Central finance employees provide advice and guidance to all Directorates, for instance providing support to forecast and monitor budgets on a periodic basis, with regular financial reports which indicate actual and projected expenditure against the budget and setting targets to measure financial performance.

54. All reports to the Council, the Cabinet and Committees are required to be considered from a financial perspective. All relevant employees are expected to be aware of the Council's Financial Procedure Rules (FPR) and the Contract Standing Order and Procurement Rules (CSO&PR). Both the FPR and CSO&PR are in a process of review to ensure an appropriate balance between financial probity, compliance and effective and efficient operations in forthcoming revisions.

55. An Impact Screening Tool has been developed by the Council to assess strategic policies and ensure that they take into account statutory requirements such as the impact of economic, social and environmental wellbeing and meet the requirements of the 2010 Equality Act. The Impact Screening Tool has been in place for several years and has been reviewed over time, most recently revised in 2013. The tool brings together the requirements of Equality Impact Assessments and Strategic Environmental Assessments in to one place to embed impact assessments in all decision making. The requirement for completion of screenings is also included within the Cabinet Report template to ensure the Council meets its statutory duties.

Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

56. In October 2014, the Cabinet agreed a renewed set of Values for the organisation, focusing on fairness, openness and working together. The Council supports a culture of behaviour based on these values which guide how the long term vision of the Council is put into effect, as well as how Members and Officers deliver their day to day roles. The Council's values have been actively communicated across the Council. The organisation's personal performance and development arrangements include specific tools to support staff in reflecting on how best to bring these values to life in their day to day work.

57. Governance and conduct matters are monitored by the Standards and Ethics Committee of which public meetings are held regularly and are chaired by an independent person. All Members and Officers are expected to comply fully with Codes of Conduct as set out in the Constitution. Protocols are in place for working relationships between Members and Officers e.g. Officer-Member Protocol. A Member Enquiry System logs Member enquiries and the responses from Officers.

58. In April 2015, the Standards and Ethics Committee was presented with a report on the revised guidance on member code of conduct. This revised Guide provides an overview of the Model Code of Conduct ("the Code") introduced in 2008. It is intended to help members understand their obligations under the Code. The Ombudsman reinforces the importance of member training on the Code whether by the Monitoring Officer or from a representative body.

59. The Corporate Assessment Follow-on, issued in February 2016, recognised the Council's governance arrangements, such as the 'Cardiff Undertaking' for Members, which sets out expectations in relation to conduct, in addition to the '10 Principles of Public Life'. However, it has been concluded that the Standards and Ethics Committee could do more to visibly enforce the principles of the Cardiff Undertaking.

60. The Audit Committee was established under the Local Government Measure (Wales) 2011, the key function of the Committee is to review, scrutinise and challenge the governance, risk management and internal control arrangements of the Council. The Committee has 12 seats; 8 elected members and 4 independent lay members and a full induction programme is provided to all members. There have been vacancies with 1 elected and 1 independent lay member being unoccupied for much of the municipal year 2015/16. In June 2015, Sir Jon Shortridge stepped down as Chairperson of the Audit Committee. Ian Arundale was elected as Chairperson, with Professor Maurice Pendlebury appointed as Deputy Chairperson. Both the Chair and Deputy Chairperson of the Audit Committee are independent lay members.

61. The Audit Committee continues to provide assurance to the Council on the effectiveness of its governance, risk management, and internal control arrangements. In providing such assurance the Audit Committee has followed a wide ranging programme of work focusing on strategic risks and fundamental financial processes. The Audit Committee through its work programme has standard agenda items at each meeting which include; budgetary and financial information, treasury management, risk and governance, internal audit, external audit and operational matters. The Committee is supported by the Council's Section 151 Officer as the principal advisor, the Audit Manager, who provides technical support and Democratic Services

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provide secretariat support. Agendas, minutes and meeting papers are available on the Council's Website.

62. The Audit Committee has participated in a response to the Draft Local Government (Wales) Bill Consultation in February 2016, which will see the Committee change name to Governance and Audit Committee and a widening of responsibilities. The Monitoring Officer has presented the requirements of the draft bill to the Audit Committee and consideration will be made in 2016/17 as to the most opportune time for potential early adoption of the Bill.

63. All staff undertake induction training which provides information on a range of policies, procedures and regulations including those relating to Financial Control, Data Protection, Health & Safety, Equalities and IT Security.

64. The Council takes fraud, corruption and maladministration very seriously and takes a zero tolerance approach to this, with the following policies to prevent, and deal with, such occurrences:

- Financial Procedure Rules;
- Contract Standing Order and Procurement Rules;
- Whistleblowing Policy;
- Fraud, Bribery & Corruption Policy;
- Anti-Money Laundering Policy;
- HR policies regarding discipline of staff involved in such incidents;
- Local Government Code of Conduct (for employees).

65. An Anti Fraud Bribery and Corruption Policy and a Money Laundering Policy and Procedure were approved by Cabinet in June 2015 following consideration by the Audit Committee in March. The policy review has been supported by a mandatory fraud training programme, developed to ensure consistently high professional standards within fraud investigating activities and application of the policy. All Investigating Officers will be required to receive mandatory fraud training. Developments have been made within the DigiGOV system to enhance the availability and visibility of investigation records and to improve the timescales of actions.

66. Cabinet approved the revised Disciplinary Policy in January 2016, following a detailed review involving key stakeholder groups, with a view to streamlining the current procedure, improve efficiencies and ensuring a standardised process. New elements of the policy include the provision of a twenty four hour, seven day a week counselling support service via the Employee Assistance Programme and a new Fast Track process, to promptly modify behaviour around misconduct issues. The main aim of the Disciplinary Policy is to improve an employee's performance or correct their behaviour. However, grievance procedures are in place for issues or problems to be raised concerning their employment. Workplace investigations, as part of Grievance or Disciplinary Procedures are designed to enable quick, cost-effective resolution to problems in the workplace.

67. The Council in May 2013 introduced a Comments, Complaints and Compliments Policy which ensures that the public and other stakeholders are given the opportunity to tell the Council what they think about the services we provide. In the run up to its introduction, briefings were carried out across the Council to raise awareness of the revised procedure. The streamlined procedure reflected guidance given in the Welsh Government Model Policy and Guidance Paper for Handling Complaints, as well as guidance received from the Public Service Ombudsman for Wales and now places a greater emphasis on a prompt resolution of complaints. Cabinet is informed annually of the number of complaints received.

68. The Council has developed an Information Governance Strategy which includes a suite of Information Governance Policies which set out the responsibilities of the corporate body and staff. These policies provide the framework for the Council to ensure that it is compliant with the Data Protection Act, including the Privacy & Electronic Communications Regulations, CCTV

Code of Practice, Employment Code of Practice, the Freedom of Information Act, and Environmental Information Regulations.

69. The Information Governance Training Strategy sits alongside the Information Governance Strategy to ensure that all staff receive training in respect of their employment within the Council in addition to training to support the function and role that they deliver, which is reviewed annually. The training programme is set out over three levels with 'level one' being mandatory for all staff who use a PC as part of their duties. Compliance reports for 'level one' training are regularly distributed to Directors and Operational Managers. All other staff are provided with a booklet which sets out the Council's Policies and outlines their responsibilities. They are required to attend a briefing session and sign for receipt of the booklet. This has provided the Information Commissioner's Office with the required assurance that the Undertaking requirements have been appropriately implemented and, they are satisfied that this will support compliance to the Data Protection Act 1998.

70. The Council has continued to strengthen information governance arrangements and capabilities, for instance, by assigning directorate representatives to be Service Information Asset Owners, providing them with training and key tasks. The Corporate Director Resources is the Council's Senior Information Risk Owner, supported by the Corporate Information Management Team, managing the overall Council approach to Information Management. Annually the team produces an Information Security Report which looks to address continuous improvement in this area.

71. Members are registered with the Information Commissioner as individual Data Controllers.

Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

72. Responsibility for decision making in relation to the functions of the Council is clearly set out in the Council's Constitution. This describes the roles and relationships for decision making, between the Full Council, the Cabinet, Scrutiny and other Non-Executive Committees. It also details decisions delegated to senior officers through the different management tiers.

73. All decisions taken by Members are on the basis of written reports by officers which include assessments of the legal, HR and financial implications arising from the decision. Such reports address the key risks involved in particular decisions and alternative courses of action which are available. Reports also take into account the impact of economic, social and environmental wellbeing factors through the Council's Impact Screening Tool. Decisions Registers for the Cabinet, Senior Officers, and for the Regulatory Committees are published on the Council's website.

74. To assist with the evaluation of alternative delivery models being considered by the Council as part of its Organisational Development Programme, a Corporate Alternative Delivery Model Evaluation Methodology has been developed by the Commissioning and Procurement Service. This methodology has been approved by the Commissioning Programme Board and reviewed by Informal Cabinet and the Council's Policy Review and Performance Scrutiny Committee. The methodology, together with the other elements of the options appraisal, has also been subject to external challenge and review and has also been subject to consultation with the Trade Unions which has included a series of meetings and workshops.

75. Organisational Development (OD) programmes and projects are an essential mechanism for delivering a robust approach to enabling business change. The Project Quality Assurance (PQA) approach (based on the principles of PRINCE2) is the framework adopted by the Council. This provides an effective framework for planning, monitoring and delivery of projects demonstrating probity, accountability and transparency. Internal Audit has engaged with OD management, and developed a Control Risk Self Assessment (CRSA) audit approach which is being used to provide assurance on a range of projects at varying stages in their lifecycles.

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76. The Organisational Development Programme (ODP) has robust and effective governance arrangements in place. In 2015/16 appointments were made of two Operational Managers who each have a portfolio of responsibility. The due process is for all new programmes as part of the ODP to be approved by SMT, with individual projects approved by their respective boards. Additionally, the Investment Review Board (IRB) approves all programmes and projects for which there is a financial implication. Senior Management Team (SMT) acts as the Organisational Development Board and receives monthly updates. Key risks are reported to SMT, as and when required, and 'deep dives' take place on requested projects to provide SMT with an update of progress.

77. The ODP has two portfolios of work; i) Enabling and Commissioning Services (Led by the Corporate Director Resources) and ii) Reshaping Services (Led by the Director of Communities, Housing and Customer Services). Each portfolio has its own Programme Board that meets on a monthly basis to review each project within its respective programme. The Investment Review Board is also provided with updates on specific projects as and when required. Additionally, an annual review of the ODP is undertaken and reported to members and SMT. It has been recognised that there is the opportunity to develop more explicit links between the Medium Term Financial Plan and the OD Plan, given that it is a key driver for reviewing the shape and scope of services within available budgets.

78. Scrutiny Services plays an important role in facilitating robust challenge to the organisation through the work of the Scrutiny Committees and a variety of informal scrutiny panels and activities. The Council has appointed five standing Scrutiny Committees, each of which meet on a monthly basis to undertake pre-decision scrutiny, policy monitoring and review. Scrutiny is an integral part of the Wales programme for improvement, and its challenge is designed to support the cabinet in providing accessible, efficient and effective services for citizens.

79. The Council's Scrutiny Committee Work Programmes for the municipal year 2015/16 were published on the Council's website by way of a forward plan, which gave details of the task and finish inquiries to be undertaken through the year and the associated timescales for delivery.

80. Each Committee launches a number of in depth inquiries each year to help the Cabinet develop and review robust, evidence driven policies and services. The Committees provide recommendations to the Cabinet following Scrutiny Inquiries, the majority of which are fully accepted. Each Inquiry is formally presented to Cabinet and a formal response given, detailing exactly how many recommendations are accepted / partially accepted / rejected. Scrutiny Committees then monitor the implementation of recommendations at appropriate points going forward, often annually.

81. A number of letters are written by the Council's five Scrutiny Chairs to Cabinet Members following Scrutiny Committee meetings, offering advice on service improvements. Where Scrutiny Chairs write letters to Cabinet Members the Chair formally requests a response from the Cabinet, again in the form of a letter, which should give a clear indication of whether recommendations are accepted or not. Both letters are published with Committee papers for transparency. If a Scrutiny Committee has an ongoing interest in a subject they will often ask for a progress update on implementation of recommendations.

82. The Council has collaborative scrutiny arrangements with its partners. Examples include the Prosiect Gwyrdd five Council Joint Scrutiny Committee, the Shared Regulatory Services Joint Committee and the Glamorgan Archives Joint Committee.

83. In January 2015, a project brief for Improving Scrutiny was presented to the Governance and Member Engagement Programme Board. The purpose of the Project is to ensure that scrutiny remains agile and able to play its role as a critical friend, in an environment that will see greater emphasis on partnerships, collaboration, commissioning and other alternative delivery models This Improving Scrutiny Project has concluded, with actions approved by Committee Members.

84. In addition to the Council's five Scrutiny Committees the Audit Committee provides a role in challenging and scrutinising the Council's governance, risk management and internal control arrangements. The work of the Audit Committee is very much informed by the work of the Internal Audit Team. The Audit Committee has reinforced the work of the Internal Audit Team, by writing to the Chief Executive or relevant Scrutiny or Cabinet Members, following reports which have been presented to the Committee.

85. Scrutiny Services and Internal Audit have collaborated in the development of a Scrutiny and Audit Protocol. This is in recognition that, with a limited Scrutiny and Audit resource, there is an increasing need for engagement and cooperative working in order to maximise collective assurance. The protocol addresses issues arising from the Wales Audit Office Annual Improvement Report including the Corporate Assessment 2014 relating to agenda management, the inefficiencies of reports being presented to multiple Committees and detailed reports being presented for information only. It is anticipated that this protocol will be approved in the beginning of 2016/17, which aims to:

- clarify the purpose and objectives of Audit and Scrutiny Committees;
- provide detail of which Committee is responsible for certain key roles;
- facilitate sharing of information and work programming;
- outline the option to refer matters between Committees;
- facilitate Committee engagement at Member and Officer levels.

86. Following the Organisational Development Plan report to Cabinet in May 2014, the Chief Executive instigated the Cardiff Manager Programme, which has been rolled out and delivered to over 300 middle managers across the Council. The programme delivered training on a number of themes including financial understanding, the management of budgets, evaluating and managing risks, financial compliance, commercial awareness and business case management. The programme provides a benchmark of information and understanding to enable managers to make informed and transparent decisions. Cohorts commenced on the programme in the autumn of 2014 which continued through 2015/16, with positive feedback from attendees. A wider role out of the training programme will commence from May 2016.

87. For several years each Director has been asked to complete a Senior Management Assurance Statement (SMAS), with responses reviewed by the Audit Manager. The statements received contribute to ongoing reviews of governance and risk management.

88. The purpose of the SMAS exercise is to provide a true reflection of the governance arrangements in place within the Council. Good governance ensures that as a Council we are open and transparent in our affairs and any areas which are of concern at a corporate level are identified and managed.

89. Completion of the SMAS requires each Director to respond to a number of statements with regards to the functions for which they have been responsible during the financial period. In addition, there is a requirement to declare if any significant governance issues have occurred during the period, which may merit inclusion on the Annual Governance Statement Action Plan, in addition to providing updated comments on four ongoing significant governance issues.

90. In 2015/16 the SMAS pro forma was refreshed to require Directors to provide examples and comments in support of their responses. Audit Relationship Managers have met with their respective Directors to discuss SMAS responses. This involved attendance at many Directorate Management Team meetings where Directorate responses were discussed, challenged where appropriate and collated. A Chief Executive Assurance Statement has also been developed and introduced to ensure a complete set of assurance statements from Senior Management at the year end position.

91. A framework is being developed to review responses by managers with expertise in risk management, procurement and performance information disciplines. This secondary review is

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being introduced to validate the accuracy and consistency of responses and provide more robust assurance at the year end position.

92. Work is continually ongoing to review the extent to which risk management is becoming embedded within the Council. The Council has a Risk Management Steering Group which is made up of Directors, a Member Risk Champion and dedicated officers from Internal Audit, Insurance, Improvement & Information Management and Partnership & Citizen Focus. Councillor Graham Hinchey is the nominated Member Risk Champion and the Corporate Director Resources has continued as Senior Officer Risk Champion through 2015/16. The work of the Risk Management Steering Group is cascaded to the network of Risk Champions who assist with identifying, assessing and managing risks at a Directorate level.

93. The Audit and Risk Manager retired in March 2016. He has championed improvements in risk, governance and internal control by effectively steering the activities of the Internal Audit service for more than thirty years. The loss of experience, knowledge and leadership in audit and risk management will provide a challenge going forward. However, the Audit & Risk Manager's retirement has provided an opportunity to reassigning risk manager responsibilities outside of Internal Audit, to strengthen the independence and objectivity of the Internal Audit function. An Audit Manager without specific risk management responsibilities will be appointed, to enable the Internal Audit function to focus on risk management assurance with a reduced role in coordinating risk management work.

94. Efforts have been made to contribute to the formal definition and communication of Cardiff Council's risk appetite. A risk appetite review has been prepared and completed by the Senior Management Team and the Risk Management Steering Group. In the current economic climate, the Council is required to make decisions which contain increasing inherent risks, and the senior management team have consistently recognised this need. The establishment of a formal risk appetite will support officers and Members in the application of the existing risk management framework. It will support them in their decision making considerations and rationale, and help to provide a balance between consideration of opportunities for innovation and change and risk exposure. A position paper will be provided to Cabinet in 2016/17 to seek formal approval of a corporate risk appetite.

95. During the financial year the Risk Management Steering group has created a draft partnership and collaborative working protocol and toolkit, to provide a consistent and practical approach to considering the viability of, and risk management arrangements in, partnership and collaborative working arrangements. Work is ongoing to finalise the document through the Risk Management Steering Group.

96. The Council has a Risk Management Policy, Strategy and Methodology, which was last reviewed in 2013/14. The Cabinet approved the revised document on 13 March 2014. Audit Committee members were also provided with risk management training during the year.

97. A Corporate Risk Register (CRR) is maintained which highlights the strategic risks facing the Council. The CRR is reviewed by SMT quarterly and by the Audit Committee and Cabinet on a six monthly basis. Each year an assessment is undertaken to cross reference the CRR to the Corporate Plan which incorporates the strategic objectives. This forms the focus for senior managers in identifying their business risks, as detailed in their Directorate Delivery Plans.

98. All major programmes and projects are required to develop and maintain an up to date risk register as an integral part of the Project Quality Assurance (PQA) process.

99. Risk assessment continues to be a key strand to the Budget Strategy where risks are considered as a factor in allocating resources.

Developing the capacity and capability of Members and Officers to be effective

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100. The Council aims to ensure that Members and Officers have the skills, knowledge and capacity required to discharge their responsibilities. The Council recognises the value of well trained, competent people in effective service delivery. All new staff and Members attend an induction programme to introduce them to the Council and its values, objectives, policies and procedures.

101. The Democratic Services team coordinate and facilitate a range of training courses to assist Members in carrying out their roles as ward members and community leaders. Where Members feel they require specific training then this is arranged. This may be undertaken in a group environment or one to one with officers. The Council provides a Member development programme which includes both mandatory (Code of Conduct, Planning) and discretionary elements.

102. As part of a Governance and Member Engagement Programme Board supporting the Enabling and Commissioning Organisational Development portfolio a number of activities have taken place in the financial year 2015/16 in order to enhance member development, and support the upholding of high standards of conduct and behaviour including the introduction of appraisals for all Committee chairs and executive members.

103. Following an all Member survey in January 2014, the Democratic Services Committee established a Task and Finish Group with a remit to develop and deliver a Member Development Strategy. This Strategy provides a framework for ensuring Members are provided with a full range of development opportunities to enable them to effectively carry out their many roles as Community Leaders and representatives of the Council. In July 2015 Members approved the Member Development Strategy for 2015/16. The adoption of the Member Development Strategy and Member Charter supports the importance of Elected Member development and appraisal programmes and in particular supports Senior Councillors on their roles and responsibilities.

104. The Democratic Services Committee has approved the use of the WLGA Continuing Professional Development for Councillors Competency Framework in order to inform the preparation of the 2015/16 Member Development Programme. The framework sets out the range of skills and knowledge required by Members. It provides a 'curriculum' of areas that authorities can consider when developing local strategies on Member Development including generic and specific competencies. Many of these competencies form part of the key themes identified in the Member Development Strategy.

105. The Council has joined the All Wales Academy for Local Government is a collaboration of Local Authorities, Welsh Local Government Association, Wales TUC and Skills for Justice. It is an e-learning site available in English and Welsh to all 22 Local Authorities with 24/7 access for Local Government staff and Elected Members which has just been launched.

106. A task and finish inquiry was led by the Council's Scrutiny Committee Chairs as part of the current Improving Scrutiny Project. In consideration of the significant programme of change within the Council the work in partnership with the Centre for Public Scrutiny was established to ensure that Cardiff's Scrutiny Function remains agile and able to play its role as a critical friend, in a future environment that will see greater emphasis on partnership, collaboration, commissioning and other alternative models of delivery.

107. The Chairs have delivered on this project plan, and summarised their findings in a draft report. In the report the Chairs set out a series of actions to directly address four areas of concern about governance issues raised by the Wales Audit Office in their September 2014 Annual Cardiff Improvement Report on Cardiff Council following their Corporate Assessment visit. Committee Member access to information has been enhanced through the launch of the Modern.Gov platform in June 2015, giving Members access to a wider range of opportunities to access information about the Council and public policy in Wales. The Members' Online Library is available from the Council's website. Additionally, an Audit Committee Member site has been created to enable access to audit related information, reports and other publications.

108. The Corporate Assessment Follow On, issued in February 2016, recognised the development of a more engaged culture and good Member and officer commitment to attending and engaging in full Council meetings. It was reported that more variable Member engagement and attendance was observed at Scrutiny Committee meetings, the Leader's meetings with opposition leaders, the Challenge Forum, Member Training and Member Briefing sessions. It was also reported that some roles and responsibilities within the Council's decision making framework require clarification.

109. The Council operates a Personal Performance and Development which provides a framework for employees and managers to discuss work performance and behaviour as well as to identify learning and development needs. It enables employees to be clear about their roles, responsibilities and the behaviours expected of them whilst giving a clear understanding of how their job and efforts contribute to the Council's objectives. Member Personal Development Reviews are also in place and seen as a means to help Members update their knowledge and learn new skills to help them to be more effective in supporting their communities.

110. The City of Cardiff Council Academy demonstrates a clear commitment to investing in staff as we make significant changes across the organisation. Supported by the Trade Unions, plans are in place for a programme of learning and development courses that will provide staff at all levels with opportunities to strengthen their existing skills and develop new skills.

111. Senior officers and those involved with financial and procurement matters are expected to comply with the system of financial management within the Council, which is based on a framework of regular management information, Financial Procedure Rules, Contract Standing Orders and Procurement Rules. The rules underpin the Council's Constitution and a system of delegation and accountability.

112. In some areas compliance with Council rules has been identified an issue and training has been delivered to Managers in those areas and continues to be offered on an ongoing basis. A Risk Management training workshop was delivered to a Directorate Management Team upon identifying compliance gaps and training sessions are also delivered on Financial Procedure and Contract Standing Orders and Procurement Rules where needs are identified.

Engaging with local people and other stakeholders to ensure robust public accountability

113. The Council's planning, decision making and scrutiny processes facilitate public involvement providing opportunities for the views of local people to inform decisions. Full Council meetings include a facility for public questions, and the Council's Scrutiny Committees invite stakeholder contributions to their scrutiny programme, both through research and consultation exercises and through direct access to address Committees.

114. In October 2014, the Cabinet agreed a renewed set of Cooperative Values for the organisation, focusing on fairness, openness and working together. The values mention specifically the importance of being "open and honest about the difficult choices we face, and leading a debate where people can have their say on what's important to them and their communities." Greater consultation, engagement and joint working with citizens are at the heart of these values, particularly being an Open Council.

115. The Cardiff Debate was launched with partners in June 2014 as a three year 'conversation' about the future of public services in Cardiff. The first phase of engagement involved 37 events across the city, covering every Neighbourhood Partnership area and ward. The events involved a combination of 'on-street' sessions which were at existing community events, festivals or at community facilities such as supermarkets and a number of 'Drop-In' Workshops. The sessions focussed on which services mattered most; how the public service can save money and do things differently, and how can the community get more involved.

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116. For the 2016/17 budget consultation 3,348 people recently completed a 'Changes for Cardiff' questionnaire and public views were also given via petitions, social media, attendance at 'drop-in' public engagement events, and through correspondence. The survey included 49 questions specific to the budget proposals plus demographic monitoring information. Of these, 20 were qualitative questions allowing the public the opportunity to explain any specific reasons for their opposition to proposed changes or provide additional commentary regarding local services. The consultation ran for more than four weeks and included 20 community engagement events, a youth council event, an online questionnaire, a video, social media promotion and hard copy questionnaires distributed across the city.

117. The Council continues to provide a webcasting service for live meetings, with the facility to download relevant documents or presentations discussed. The service is designed to be as easy to use as possible so once the meeting is archived an agenda item can be selected to view the discussion. Webcasting means it is easier than ever before to see how the Council works and decisions are made, whilst also giving the public the chance to feedback on items being discussed.

118. Scrutiny meetings are held in public, with annual reports published by each of the Council's five Scrutiny Committees presented to Council. Scrutiny reports and inquiries are published on the Council website. Scrutiny in-depth inquiries often include large scale surveys of public opinion on specific issues, and also take detailed evidence from academic experts, and public and third sector leaders on topics of their expertise.

119. Arrangements for consultation and for gauging the views of local people include the Citizen's Panel, the Ask Cardiff Survey, service specific consultations, and processes to receive and respond to petitions and community referenda. Consultations undertaken by Directorates are in accordance with the Council's Corporate Consultation Strategy.

120. All reports, minutes and decision registers are published in a timely manner and are open for inspection. All meetings are held in public, subject to the consideration of exempt information as defined by the Local Government Act 1972.

121. The system 'Modern.gov' was implemented in November 2014 and has increased the efficiency of the Democratic Services Team in administering meeting papers. The system stores all committee reports, back dated to May 2012 and is publically accessible.

122. Elected Members engage with local residents in a number of ways as part of their community leadership role, including ward correspondence, newsletters, ward surgeries, public meetings and bringing forward petitions to Council meetings which have been submitted by local people. The Council is also actively developing Neighbourhood Management arrangements to facilitate the engagement of local people and other stakeholders in the identification of local priorities and solutions.

123. The Council publishes a newsletter 'Capital Times' which is distributed six times a year on alternate months to 150,000 homes in Cardiff and all council buildings providing up to date information on the Council's vision, priorities, news and events.

124. Performance against the Council's targets and objectives is reported publicly on a quarterly and annual basis.

125. Institutional stakeholders to whom the Council is accountable include the Welsh Government and External Auditors (Wales Audit Office). Regular meetings are held with representatives from both organisations to ensure effective working relationships are in place.

126. To ensure staff are consulted and involved in decision making, various channels of communication are used including the Chief Executive's Update, joint updates from the Leader and Chief Executive, Core Brief, 'Our News' newsletter and 'Your Inbox' circulars.

127. The Council's Ambassador Network continues to grow with over 130 employees at all levels from across the Council helping to take forward the Employee Engagement agenda. In addition 'Have Your Say' sessions have been introduced as a response to employees' preference for face to face communication. The Employee Survey, launched in May 2015, provides an opportunity to better engage with and understand the needs of employees going forward.

128. The Council regularly engages in consultation with the Trade Unions. Consultation with Trade Unions has taken place through 2015/16, particularly with regards to budget saving proposals. The Partnership for Change Agreement was signed off as part of the Council's final budget setting at Council on 26 February 2015. The agreement sets out details of the joint partnership approach between the Council and Trade Unions in relation to budget savings for 2015/16 on the basis that the Trade Unions did not wish any impact on employees' terms and conditions.

129. Progress has been made as part of this agreement, laying the groundwork to address the difficult challenges ahead around how, irrespective of any service delivery models agreed, the Council will jointly address the continuing budget savings required whilst reducing operating costs, improving performance and improving customer satisfaction.

130. A Joint Partnership Board has been established to support the reform agenda. The Terms of Reference and proposed dates for fortnightly meetings were agreed in February 2015 to ensure that partnership working is supported and that 2 way communication is maintained between the Council and Trade Unions on key planned and emerging issues.

Review of Effectiveness

131. The Accounts and Audit (Wales) Regulations 2015 requires Authorities to carry out an annual review of the effectiveness of the system of internal control. This is informed by:

- The senior managers within the Authority who have responsibility for the development and maintenance of the internal control environment;
- The opinion of the Audit Committee;
- The outcome of any Scrutiny reviews;
- Views or comments from any Committee, the Cabinet or Council;
- The work of the Internal Auditors;
- The external auditors and other review agencies and inspectorates.

An Internal Control Self Assessment

132. On a biannual basis, Directors are required to complete a Senior Management Assurance Statement, reflecting on the internal control arrangements within their Directorate. Management teams are responsible for monitoring and reviewing internal controls as an integral part of the risk management process. Any significant issues will be highlighted in the Assurance Statement.

133. A Chief Executive Assurance Statement has also been developed and introduced to ensure a complete set of assurance statements from Senior Management at the year end position.

134. Building on previous work of the Annual Governance Statement 2014/15, Internal Audit following year end will facilitate an update of the 'Significant Governance Issues'. The Chief Executive and Directors are asked to consider any outstanding significant issues and either close these, where action has been taken, or update them where the issues are ongoing.

135. Any new issues captured on individual Senior Management Assurance Statements, which also feature on the CRR, will not be listed in the issues log but instead managed through the CRR review process so to avoid duplication in the review process.

Assurance Mapping

136. During a period of unprecedented financial challenge and stretched resources, providing Council wide assurance is becoming a challenge. This is being managed through an assurance mapping process. The Audit Manager has created a panel of audit management, who are responsible for the delivery of an ongoing assurance map and to assist with risk based audit planning.

137. The assurance map begins with the contents of the corporate risk register, senior management assurance statements and significant governance issues arising from the annual governance statement. The outputs of different sources of assurance are populated on the assurance map, utilising a three lines of defence model. This model considers the assurance gained from management / internal controls, inspection / regulatory / compliance activities and the work of external audit.

138. During a time of limited audit resources, with a strong ongoing need for audit assurance, the assurance map considers the work of others in providing assurance in relation to governance, risk and internal control matters. This is used to shape Internal Audit priorities and impact on the work and timing of the Internal Audit Team, to avoid duplication and ease pressure on Directorates, who may be subject to both internal and external assurance reviews.

139. Sources of assurance have been mapped and collated to inform this annual governance statement, through a review of key information presented to Cabinet and Committees of the Council. The aim of the exercise is to ensure that key sources of assurance are captured in this statement.

External Audit and Inspection

140. The Council is subject to Statutory External Inspections by various bodies including the Wales Audit Office, ESTYN and Care and Social Services Inspectorate Wales.

141. Annually the Wales Audit Office produces an Annual Improvement Report based on an assessment of the Council's arrangements to secure continuous improvement through the delivery of services.

142. During the financial year 2015/16 the Wales Audit Office completed the Corporate Assessment Follow On of the Council. The follow-on assessment reviewed the extent to which the Council was effectively addressing the issues raised in the Corporate Assessment where in September 2014 it was concluded that 'Fragmented leadership and management have meant that weak performance in key service areas has not improved'.

143. The follow-on review concluded that 'The Council has put in place better arrangements to support improvement and to address longstanding issues, but is now at a critical point in embedding them if it is to achieve a step change in delivering improved outcomes.' It was reported that the Wales Audit Office came to this conclusion because:

- 'overall, the Council has responded positively to the Corporate Assessment findings, and put better arrangements in place to support improvement and address longstanding issues; and
- the Council is now at a critical point in ensuring that improved arrangements are embedded and implemented consistently and constructively across the organisation in order to achieve a step change in delivering improved outcomes.'

144. A tracker system has been introduced to monitor external regulator reports and Council actions in respect of relevant recommendations and proposals for improvement.

Internal Audit

To be populated by the Audit Manager following year end.

Audit Committee

To be completed following approval of the Audit Committee Annual Report.

Significant Governance Issues

To be completed as part of the Senior Management Assurance Statement review process following year end.

Monitoring

To be completed as part of the Senior Management Assurance Statement review process following year end.

Certification by the Leader of the Council and the Chief Executive

To be completed following the year end.

Paul Orders, Chief Executive

Date:

Councillor Phil Bale, Leader of the City of the City of Cardiff Council

Date:

**CITY OF CARDIFF COUNCIL
CYNGOR DINAS CAERDYDD**

AUDIT COMMITTEE:

22 MARCH 2016

**WALES AUDIT OFFICE REPORT ON DELIVERING WITH LESS –
LEISURE SERVICES (NATIONAL STUDY)**

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 6.1(a)

Reason for this Report

1. To present to the Audit Committee the Wales Audit Office (WAO) National Report on Delivering with Less – Leisure Services.

Background

2. The Auditor General for Wales undertakes national studies across a range of functions and activities of local government. The report on delivering with less in leisure services is a report published on 3rd December 2015 which seeks to identify not only the current position but some indicators of good practice.
3. As a result of the WAO's work the Auditor General found that although public sector ownership and management of leisure provision is starting to change with the transfer of some services and assets to other models of operation, such as private sector trusts, strategic decisions on whether to transfer or continue with in-house provision of leisure services have not always been based on robust information or a consideration of all of the options open to councils.

WAO's Comments and Recommendations

R1 Public sector ownership and management of leisure provision is changing with the transfer of services and assets to other models of operation, however, decisions have not always been based on robust information

- Councils are exploring different ways to provide leisure services but decisions are not always set within a clear strategic framework.
- Not all of the options open to councils have been reviewed when councils have considered changing their leisure services operating model.
- There are weaknesses in how effective councils are at engaging with citizens when planning changes in leisure provision.

R2 Despite a reduction in facilities, budgets, staff numbers and council subsidy for leisure services, the continued impact of austerity presents a risk to the continued provision of services

- The amount councils spend on sports and recreation services is falling. Since 2011-12 the number of council staff delivering leisure services has fallen by 14.2 per cent, although some of them have transferred with services to other providers.
- Although councils' income from facilities is being sustained and the level of subsidy required to provide leisure services has fallen significantly, the continued impact of austerity presents a risk to the sustainability of these services.

R3 Councils are meeting rising demand for leisure services, but scrutiny and oversight of performance is not always effective

- The number of people using council leisure services increased by 3.4 per cent between 2009-10 and 2014-15, although there is a mixed picture between authorities as to how well leisure services are performing.
 - Councils do not always have the right data available to support effective decision-making and are not well placed to monitor and evaluate their approaches to leisure provision to target improvement and ensure that services are sustainable.
 - There is a wide variation in citizens' views on the quality, cost and availability of leisure services
4. The Auditor General for Wales concluded that council approaches to delivering leisure services focus on addressing immediate financial challenges rather than taking a longer-term strategic approach to future provision.

City of Cardiff Council Response

5. Members of the Audit Committee will be aware of the significant challenges that the Council faces in terms of budget reductions and an increasing demand for services. Members will also be aware of the Council's approach to Alternative Models of Delivery and specifically the work in respect of the Leisure Service.
6. The specific recommendations arising from the WAO Report will be reviewed to ensure that where appropriate the current processes are revised. This ensures that the Council has had due regard to recommendations arising from regulatory and audit reports.

Reason for Report

7. To present the Auditor General's findings and set out the process for providing assurance that the Council is having due regard to the output of regulatory activity

Legal Implications

8. There are no legal implications directly arising from this report

Financial Implications

9. There are no financial implications directly arising from this report

RECOMMENDATIONS

10. To note the work of the Auditor General and identify any issues which the Audit Committee consider relevant to their work programme.

CHRISTINE SALTER
CORPORATE DIRECTOR RESOURCES
18th January 2016

The following appendix is attached

Appendix 1: Wales Audit Office (WAO) Report on Delivering with Less - Leisure

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Archwilydd Cyffredinol Cymru
Auditor General for Wales

Delivering with less – Leisure Services



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



I have prepared and published this report in accordance with the Public Audit Wales Act 2004.

The Wales Audit Office study team was project managed by Nick Selwyn and comprised Huw Rees, Gareth Jones, Duncan Mackenzie and staff of PwC and KPMG under the direction of Jane Holownia.

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The Auditor General is independent of the National Assembly and government. He examines and certifies the accounts of the Welsh Government and its sponsored and related public bodies, including NHS bodies. He also has the power to report to the National Assembly on the economy, efficiency and effectiveness with which those organisations have used, and may improve the use of, their resources in discharging their functions.

The Auditor General, together with appointed auditors, also audits local government bodies in Wales, conducts local government value for money studies and inspects for compliance with the requirements of the Local Government (Wales) Measure 2009.

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.

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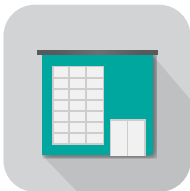
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Councils' approaches to delivering leisure services focus on addressing immediate financial challenges rather than taking a longer-term strategic approach to future provision

- 1 Leisure and recreation are crucial components of a balanced and healthy lifestyle. Leisure can encourage personal growth and self-expression and provide increased learning opportunities. For many people, participation in leisure and recreation also improves their physical and mental health. The Chief Medical Officer for Wales, in her most recent Annual Report, notes the importance of physical activity in dealing with public health concerns. Her Report highlights that the benefits of physical activity include: lower risk of cardiovascular disease, some types of cancers and diabetes; improvements in musculoskeletal health and body weight control; and positive effects on mental health development and cognitive processes¹.
- 2 The Welsh Government is committed to tackling public health issues and addressing inequalities in health and recognises the contribution of leisure services to increasing physical activity. The Welsh Government's 20-year vision for sport and physical activity, **Climbing Higher**² sets out how the Government plans to increase participation in sport and leisure activities to improve the quality of life and improve the health of the nation. The long-term aims of the Welsh Government in **Climbing Higher** is to make Wales a more physically and mentally healthier nation and recognises the importance of leisure services in supporting delivery of this ambition. In **Climbing Higher**, councils are in particular identified as playing a crucial role in providing, supporting and developing leisure and recreation services in Wales.
- 3 Councils provide a wide range of leisure facilities and services for their communities including:



Indoor and outdoor leisure facilities



Sports pitches, playing fields and playgrounds



Cycle ways and cycle routes



Public parks and open spaces



Sports development schemes

- 4 Councils also have an important community leadership and a key strategic role in developing leisure services to meet the needs and aspirations of the local population, and they work closely in partnership with Sports Wales to do so. Although all councils operate differently, with their own structures, policies, grant-in-aid criteria and schemes, the major emphasis within councils' vision for leisure services is the development of opportunities for all. Consequently, many councils have concessionary rates to encourage access to facilities and venues and work closely with the third sector to develop provision.

¹ **Healthier, Happier, Fairer**, Chief Medical Officer for Wales Annual Report 2013-14.

² Welsh Government: **Sport and active recreation webpage**

- 5 However, at a time of increasing demand on Welsh public services, discretionary³ services such as leisure are not being protected from cuts. In setting the budget for 2015-16⁴, the Finance Minister announced that the Welsh Government is prioritising investment to improve health and well-being, promoting growth and jobs, breaking the link between poverty and educational attainment, and supporting children, families and deprived communities. These are areas of work the Welsh Government has prioritised over others in setting budgets and deciding where reductions in public expenditure, especially grants, will be made. By highlighting these areas, other services get less priority and consequently less protection from the cuts that the Welsh Government has to make.
- 6 Local government receives the bulk of its funding through what is known as Aggregate External Finance (AEF). Our analysis shows that between 2010-11 and 2014-15, there was a real-terms reduction of £464 million (10 per cent) in the AEF⁵. The scale of cost reduction required means that councils will have to look beyond immediate short-term savings and think more radically about how to reduce costs, and how to sustain this in the longer term whilst still maintaining or improving services. Cutting spending requires councils to take a strategic overview to avoid an erosion of service quality in priority areas.
- 7 During 2015, staff of the Wales Audit Office, on behalf of the Auditor General, examined council leisure services under our series of 'delivering with less' thematic reviews. Our study methods are set out in [Appendix 1](#). These included an online survey for citizens to tell us about their experience of council leisure services, and audit fieldwork at four councils in Wales. Our methodology also included a budget and service performance assessment tool, and surveys with senior council officials and elected members.
- 8 Based on the findings of this study, the Auditor General has concluded that councils' approaches to leisure services focus on addressing immediate financial challenges rather than taking a strategic approach to future provision.
- 9 We found that although public sector ownership and management of leisure provision is starting to change with the transfer of some services and assets to other models of operation such as private sector trusts, strategic decisions on whether to transfer or continue with in-house provision of leisure services have not always been based on robust information or a consideration of all of the options open to councils. Whilst there has been an increase in the number of councils transferring their major leisure facilities to other models of delivery, the vast majority of leisure provision remains in council ownership. Strategies for leisure services do not always provide the clear direction needed to safeguard services at a time of reducing public expenditure.

3 Discretionary services are not statutory and a council has a choice about how, or if, it provides these services.

4 Written Statement of the Finance Minister, **Final Budget 2015-16**, 2 December 2014.

5 Comparing AEF across the period 2010-11 to 2014-15 is complicated for two main reasons. Firstly, the Welsh Government has incorporated into AEF grants that were previously provided separately. While this 'de-hypothecation' of grants results in an increase in AEF, it is not necessarily a net increase in funding. The net value of grants incorporated into AEF since 2010-11 is around £137 million in real terms (adjusted for inflation). In addition, the picture is complicated by the devolution of council tax benefit, which has been incorporated into the AEF. In addition, the picture is complicated by the devolution of Council Tax Benefit, which has been incorporated into the AEF.

- 10 Overall, council revenue budgets have fallen by around 10 per cent in the last four years and the reduction in spending on sports and recreation services has been marginally higher with a 10.5 per cent cut. Notwithstanding budget reductions, councils' income from sports and recreation services has been maintained and the level of subsidy required to provide leisure services has fallen by 15.2 per cent. However, the continued impact of austerity and slow progress in formally considering options for future delivery present a risk to the sustainability of these services.
- 11 Eighteen of the 22 councils have reduced how much they spend on sports and recreation services in the last five years, with the greatest savings being achieved where councils have transferred their major leisure facilities to trusts. Our analysis shows that on average councils who transferred all of their major leisure centres reduced their sports and recreation gross revenue expenditure by £2.4 million (approximately 40 per cent). The number of council staff delivering leisure services has fallen by 14.2 per cent, although some of these have transferred with services to other providers. The number of people using council leisure services also increased by 3.4 per cent between 2009-10 and 2014-15.
- 12 Because of the reduction in the level of subsidy for leisure services, these services are unlikely to be sustainable in the medium to long term and councils need to carefully consider what they are providing, how they provide it, what they charge for it and what they are ultimately seeking to achieve through their leisure provision. In considering their options, councils need to have a clear understanding of the financial, social, economic, equality and sustainability issues they, their citizens and communities face both at this time and also into the future.
- 13 The findings of our review, however, suggest that councils seldom focus on demonstrating the beneficial impact of leisure services on public health and well-being and some councils are still not well placed to monitor and evaluate their approaches to leisure provision to target improvement and ensure that services are sustainable in the longer term. This is consistent with the findings of our most recent reviews⁶ and highlights the continuing difficulty councils face in collating and evaluating data, and they need to address this if they are to make the right choices on how and what services they provide in the future.

Recommendations

14 The key recommendations arising from the work we carried out are listed below:

Recommendation	Responsible partners
<p>R1 Improve strategic planning in leisure services by:</p> <ul style="list-style-type: none"> • setting an agreed council vision for leisure services; • agreeing priorities for leisure services; • focussing on the council's position within the wider community sport and leisure provision within the area; and • considering the potential to deliver services on a regional basis. 	Councils
<p>R2 Undertake an options appraisal to identify the most appropriate delivery model based on the council's agreed vision and priorities for leisure services which considers:</p> <ul style="list-style-type: none"> • the availability of capital and revenue financing in the next three-to-five years; • options to improve the commercial focus of leisure services; • opportunities to improve income generation and reduce council 'subsidy'; • a cost-benefit analysis of all the options available to deliver leisure services in the future; • the contribution of leisure services to the council's wider public health role; • better engagement with the public to ensure the views and needs of users and potential users are clearly identified; • the impact of different options on groups with protected characteristics under the public sector equality duty; and • the sustainability of service provision in the future. 	Councils

Recommendation	Responsible partners
<p>R3 Ensure effective management of performance of leisure services by establishing a suite of measures to allow officers, members and citizens to judge inputs, outputs and impact. This should cover council-wide and facility specific performance and include:</p> <ul style="list-style-type: none"> • capital and revenue expenditure; • income; • council 'subsidy'; • quality of facilities and the service provided; • customer satisfaction; • success of 'new commercial' initiatives; • usage data – numbers using services/facilities, time of usage, etc; and • impact of leisure in addressing public health priorities. 	Councils
<p>R4 Improve governance, accountability and corporate leadership on leisure services by:</p> <ul style="list-style-type: none"> • regularly reporting performance to scrutiny committee(s); • providing elected members with comprehensive information to facilitate robust decision-making; • benchmarking and comparing performance with others; and • using the findings of internal and external audit/inspection reviews to identify opportunities to improve services. 	Councils

Part 1

Public sector ownership and management of leisure provision are changing with the transfer of services and assets to other models of operation, however, decisions have not always been based on robust information



- 1.1 The origins of council sport and recreation provision are rooted in a concern for public health and physical training. In the absence of any other organisations, local authorities became the main provider. However, with major cuts to public sector expenditure in Wales, councils face increasingly difficult decisions around what services to provide in future. In this part of the report, we consider the different options pursued by councils when deciding on future provision. We also outline the changes in management and ownership of major leisure facilities in recent years and set out the challenges these bring for authorities. Finally, we consider the findings of our survey of leisure service users and how effective councils have been in consulting on changes to service provision.

Councils are exploring different ways to provide leisure services but decisions are not always set within a clear strategic framework

- 1.2 Whilst councils continue to be key players in the provision and management of leisure services, many are changing the way in which these services are managed and provided. With the increasing pressure on local government finances, councils are questioning whether it is still appropriate or affordable to position themselves as the main leisure provider. Given the current diversity of provision, authorities need to ensure that what they provide is valued by local people, contributes to corporate objectives, and is cost effective. Austerity will remain a primary driver of change as the level of public expenditure continues to reduce, and leisure services will continue to be challenged on efficiency and effectiveness grounds.
- 1.3 The Well-being of Future Generations (Wales) Act 2015 will introduce, from April 2016, a statutory requirement for named public bodies, including local authorities, to make decisions in a sustainable way, by thinking about the long-term implications of their decisions and actions. That requirement will mean that councils will need to take account of the longer-term implications of decisions around the provision of leisure services, for instance on the health and well-being of their local populations; not just the immediate financial pressures. Councils will also need to consider the contribution of all of their services to delivering these strategic priorities, not just their leisure service. For example, the role of highways in delivering road improvements and investing in safe cycling routes which can support a growth in cycling and have a positive impact on the health of citizens.
- 1.4 We found that a growing focus for some councils is increasingly on achieving subsidy-free provision wherever possible mainly through: improving efficiency; having a more commercial focus; and rationalising facilities including, in some cases, facility closures. Councils should have a clear rationale for the investment of public money, and set a clear strategic direction for the provision of their major leisure services. The priorities for provision need to be articulated and the areas for improvement clearly set out for the service, its staff, local residents and the people who use leisure facilities. The strategy should also focus on the council's position within the context of the wider community sport and leisure provision.

- 1.5 Our fieldwork identified a wide variety of strategic priorities and approaches for the provision of council leisure services. These range from promoting direct in-house provision to focussing on reviewing options for externalising leisure facilities.
- 1.6 For example Denbighshire County Council has a strategic aim that 'by 2020 Denbighshire will be renowned for high quality, accessible leisure opportunities attracting high levels of participation and improving the well-being of its residents and visitors'. The Council continues to focus on in-house provision, recognising the important contribution leisure services can make to delivery of Council priorities and the benefit they bring for local residents. In developing its initial vision for leisure services in Denbighshire the Council consulted with all its elected members, town and community councils, the public, and sports clubs. The Council also held 14 stakeholder workshops, completed a detailed cost benefit analysis, including local market comparisons. This has provided the Council with detailed information about performance and customer satisfaction about each of its facilities and has allowed it to develop detailed operational plans for individual facilities to deliver its aim of making services both self-funding and central in improving the health of residents living in Denbighshire.
- 1.7 The Leisure Plan for the Isle of Anglesey Council, which was adopted in February 2015, is focussed on making the best use of resources. Within the plan, the Council clearly sets out the options that are available in taking forward leisure services. These range from the status quo to rationalising leisure centres to reflect the budgets that are available to maintain and operate facilities as well as adopting a more commercial approach which can include closing uneconomic facilities. Likewise, Powys County Council has a five-year leisure strategy focussed on enhancing facilities to the public. However, due to the changing financial position and the need to reduce expenditure, the level of capital investment needed to upgrade and improve leisure facilities has not been available and the Council is now considering alternatives to provide leisure services within Powys. Decisions for both the Isle of Anglesey and Powys councils is driven in part by the financial situation each faces, but also reflects the desire to improve current performance.
- 1.8 Finally, the Vale of Glamorgan Council leisure centre service is delivered by a private provider, and the priorities for leisure provision are set out in the 10-year contract specification signed between the Council and Parkwood Leisure⁷. The specification sets out the Council's aims and expectations for its leisure service for the duration of the contract. The Council's primary aim is to reduce the Council's leisure subsidy (contract fee) over the life of the contract, but also to generate savings of over £1 million over the life of the 10-year contract. The Council does not, as a consequence, have a leisure strategy as such and is simply focussing on both improving its financial position but also increasing customer satisfaction with the range and quality of services provided at leisure centres.

⁷ Parkwood Leisure are providers of Leisure Management provision in the UK, specialising in the development and operation of 84 leisure facilities working in partnership with 25 local authorities throughout England and Wales. The Vale of Glamorgan Council transferred management of its six leisure centres to Parkwood Leisure in August 2012.

- 1.9 The different strategic approaches adopted by councils is a balance of competing demands and aspirations. Some, such as Denbighshire are clear that the Council's leisure services are important and contribute to a range of corporate and wider public sector priorities in respect of health and wellbeing, although the Council has set no improvement objective for leisure services and has therefore not prioritised leisure services as a strategic priority for improvement at this time. Others, as in the case of the Isle of Anglesey and Powys, are constrained by the financial challenges they face and are consequently focussed on improving their financial and operating environment. Where councils have transferred assets and staffing to the private sector or trusts, their strategy direction has a more commercially oriented focus.
- 1.10 The Local Government Measure (Wales) 2009 places a general duty on councils to make arrangements to secure continuous improvement in the services they provide. In considering its general duty, a council must set improvement objectives based on a thorough evidence-based understanding of the communities they serve, local needs and their capacity to address them. Improvement objectives should also correspond directly with the council's priorities for improvement⁸. We found that only seven of the 22 councils have adopted improvement objectives that relate to health improvement and/or leisure services, and this includes the Isle of Anglesey, Powys and Vale of Glamorgan councils. The full list by council is set out in [Appendix 2](#) and highlights that many councils are not prioritising leisure services as a key priority at this time.
- 1.11 Through our surveys we found that 19 of the 22 senior leisure officers (Directors or Heads of Leisure Services in Welsh councils) felt that their council had a clear strategy for leisure services that provided a direction of travel for the council. However, only 66 per cent of elected members stated that their council had a strategy; 15 per cent stated that their council did not have a strategy; and 20 per cent that they did not know.

⁸ Welsh Government, Local Government Measure 2009. The Measure identifies a range of criteria to be used in selecting improvement objectives. These include: local priorities as set out in the council's community strategy; national and international priorities as expressed by the Welsh Government, UK Government and the European Union; or the global context, for example, threats to health, climate change and sustainability.

The value of leisure and physical activity to the general wellbeing of the public is not generally recognised, so we spend more and more on reactive Health measures rather than using some of that money for preventative work.

I am concerned for the future of leisure services as we are having to make a number of very difficult decisions due to the efficiency savings we are having to make. We are currently reducing our costs mainly by increasing income, to date this has achieved our goals. I am concerned that if prices keep rising customers will decide to attend less often or not at all. I feel this will start to have a detrimental effect on health, socialisation and sport. I feel that Leisure facilities are real community Hubs which are highly valued by the community and any erosion of the service will be strongly resisted.



Senior council officers' comments on the future of council leisure services

Source: Wales Audit Office, Senior Officer Survey, April 2015

Not all of the options open to councils have been reviewed when councils have considered changing their leisure services operating model

- 1.12 Given the difficult financial climate councils now operate in, many authorities are undertaking options appraisals to identify the most appropriate future delivery models based on capital and revenue considerations, cost/benefit analyses, and the needs of users and potential users. There is a variety of options that authorities have been, or are, exploring in providing leisure services. These include:
- a continuation of in-house provision;
 - b partnership with a private sector provider;
 - c setting up or transferring management to a new trust;
 - d transferring management to an existing trust;
 - e public private partnership;
 - f voluntary sector management; and
 - g some services being withdrawn and/or facilities closed.
- 1.13 Trust options are very much being promoted by the Welsh Government and are increasingly seen as offering a range of financial benefits in terms of the potential for attracting additional grant funding and possible tax and VAT savings, particularly in terms of National Non Domestic Rates (NNDR) relief. A trust with a charitable status is entitled to relief from rates on any non-domestic property which is wholly or mainly used for charitable purposes.
- 1.14 Where councils have chosen to follow a trust model of delivery, the leisure services are outsourced to a separate organisation/company that has a charitable status. In the main the council retains ownership of the facilities, which are then leased to the trust. There are a number of different models of operation for trusts but most involve some form of 'not for profit' organisation – such as a company limited by guarantee or an industrial and provident society – with any surpluses being reinvested.
- 1.15 However, there are some risks in pursuing a trust model, many of which fall on the council. For example, anticipated savings may not be realised leaving the trust requiring increased subsidy from the council, or having to make job and wage cuts as the trust struggles with the challenge of stand-alone management, company governance, and changes in the leisure market.

- 1.16 Transfer to a trust could also see a weakening in direct democratic control of the service by the council's elected members. Elected member representation on a trust is limited to less than 20 per cent of the Board. Company law requires that Board members must put the interests of the leisure trust before those of the council.
- 1.17 There are examples of financial and organisational failure resulting in insolvency of trusts, as has happened in England – for example Enfield Leisure Trust which went into liquidation in September 2006. Indeed, Denbighshire County Council had previously transferred leisure services to a Trust (Clwyd Leisure) which did not provide the standard of service expected and proved unsustainable. The Council subsequently opted to improve the service taking direct provision back in house with the aim of making leisure services self-funding and to re-focus its health improvement agenda.
- 1.18 From our fieldwork⁹ we found that nine councils had leisure services provided via trusts with the number of facilities managed by trusts increasing from 27 to 35 between 2012-13 and 2014-15 and five of these nine councils now have their major leisure facilities delivered via trusts. We also found that seven councils delivered leisure services through voluntary-sector and community-based organisations, with the number of facilities transferred by councils to voluntary-sector and community-based organisations increasing from 35 to 38.
- 1.19 However, the number of directly owned and managed council facilities remains high, only falling by 2.6 per cent from 600 to 584 in the last three years, and councils continue to be directly responsible for almost 90 per cent of leisure facilities, although the majority of these – roughly 70 per cent – are outdoor facilities such as pitches and bowling greens. Councils also closed seven leisure facilities in this period.
- 1.20 Due to the complexities of delivering budget cuts and understanding the impact of choices in deciding their future models of delivery, councils need good-quality information and a thorough analysis of evidence to support decisions. This is especially the case when opting to outsource services, transfer assets or close facilities. The evidence to support the favoured options needs to be fully understood and the potential impact identified at the time decisions are made and scrutinised. Without good quality information, councils are not well placed to respond to the immediate challenge of cuts to funding and longer-term challenges of providing sustainable leisure services.

⁹ This information is based on returns received from all 22 councils.

- 1.21 Key to supporting good decision-making in determining future choices for provision is having a robust options appraisal process in place. Option appraisal is a technique for setting objectives, creating and reviewing options and analysing their relative costs and benefits. Option appraisal should help develop a value-for-money solution that meets the objectives of the council by identifying the right options to pursue in respect of individual projects, facilities or service. Fundamentally, options appraisal should be based on good quality information and an informed council will routinely collect data on cost, activities and results; analyse it to expose issues or opportunities; and present informed options to decision-makers. [Appendix 3](#) sets out the key stages of options appraisal.
- 1.22 Our fieldwork identified a well-thought-out and detailed approach to options appraisal that was undertaken by the Vale of Glamorgan Council – [Exhibit 1](#) – which is consistent with the principles for effective options appraisal set out in [Appendix 3](#).

Exhibit 1 – Good Practice Example – Vale of Glamorgan Council

The Vale of Glamorgan Council presented an options appraisal to members initially in November 2009 and then an updated summary report in March 2010 on the future delivery of its leisure centre services. This followed advice from a number of leisure service and legal consultants as far back as 2006. The Council spoke to providers of a number of different delivery models including an existing leisure trust, private providers and where community asset transfer had occurred.

Elected members recognised that change was required as leisure centres required modernisation and were not financially viable without continued subsidy from the Council. An all-party Working Group, chaired by the Leisure Portfolio holder, was convened to consider the various options available and to seek advice from consultants. Following review the Council chose the option they considered presented the least financial risk going forward and also offered the best opportunity for savings.

The Council set criteria based on a 50 per cent score for quality and 50 per cent for price. The evaluation of bids was conducted against pre-determined criteria relating to the potential partners:

- Revenue and capital proposals
- Facility and Service development proposals
- Synergy with the Council's policy and strategy
- Performance against the Council's operational requirements (Method Statements)
- Proposed management model and legal issues

New facilities – fitness suites and catering have been provided by Parkwood Leisure and the Council has funded a number of repairs/physical improvements to several of the centres – for example, new reception areas at Barry and Penarth. The financial benefits are starting to be realised with the provider level of subsidy reducing and Parkwood now providing a fee to the Council.

- 1.23 Our review also identified a number of weaknesses in options appraisal processes in some councils.
- a Formal business cases presented to cabinet and/or scrutiny committees only consider a narrow range of choices. For example, our surveys found that as part of the options appraisal process all senior officers and 77 per cent of elected members confirmed that they had considered alternative models of delivery, such as the transfer of facilities to community trusts. However:
 - only 38 per cent of elected members and 47 per cent of senior officers confirmed that their council's options appraisal had considered collaborating with neighbouring councils;
 - only 46 per cent of elected members and 58 per cent of senior officers felt that the review considered the provision of leisure services by private providers and the impact of private provision on council services now and in the future; and
 - whilst 95 per cent of senior officers stated that options appraisals considered closing facilities or ceasing to provide some services, only 54 per cent of elected members stated that they had formally considered this option as part of their review.
 - b Key financial information and data that are needed to develop some promising options is often not collected or not readily available resulting in these options often being dismissed too early, discarded or not presented to Members to consider because key information is not present. Whilst 52 per cent of elected members felt that they had received clear and robust business cases, just over a third (36 per cent) did not feel they had been presented with this information and the need to change how their council provides leisure services.
 - c External consultation with service users is often not carried out or, where it is undertaken, not used to fully understand the needs of service users and provide legitimacy when deciding on options, particularly how best to meet their long-term needs. Our citizen survey found that only 18 per cent agreed or strongly agreed that their council had consulted effectively about changes to leisure services since April 2013 and only 24 per cent felt that their council had informed them of changes to leisure services in that time.
 - d Many of the options considered rightly focus on financial matters but do not always consider other important issues, such as the impact of decisions in respect of the public sector equality duty, socio-economic circumstances of the community or regulatory requirements. For example, we found that only 58 per cent of elected members confirmed that, when deciding on changes to leisure services, officers presented them with an equality impact assessment to consider as part of the decision-making process. Thirty-two per cent stated that they did not receive this information and 10 per cent could not recall if this information had been provided.

Only that I fear that given the bleak economic outlook for Local Authorities it will become increasingly difficult to sustain the level of provision of our leisure services.

Difficult to maintain the current standard of provision due to the cuts to the Council budget.

There are plenty of very nice reports about the importance of leisure services to people's health and wellbeing, but due to the forecast of large budget cuts to council budgets, most leisure facilities will face closure or part closure. But I am sure that there will be more reports about the importance of leisure facilities.

The financial savings that have been forced on local authorities will ultimately affect the leisure service as we know it, what do we cut, education, social services? No, what it will be, and it's already started, is leisure. They are not sustainable in their present form, with the cuts that have been forced upon us, leisure centres promote health and wellbeing and good community participation, what will the youth have today, our youth clubs have already gone, leisure centres are under threat as well as libraries. The question is what legacy are we leaving our children?

Due to lack of maintenance and investment council leisure services are under pressure and with further cuts may be lost for ever.

The end is nigh.



Elected Members' comments on councils' changing leisure services
Source: Wales Audit Office, Elected Member Survey, April 2015

- e In terms of the actual decision-making process when councils consider options, only 62 per cent of elected members believe that officers presented them with clear information summarising the options available to the council in terms of future leisure service provision compared to 86 per cent of senior officers. However, with regard to elected members robustly scrutinising proposed changes to leisure services before final decisions are taken, we found that 65 per cent of elected members felt this occurred, but a greater proportion of senior council leisure officers – 91 per cent – agreed, highlighting a concern that challenge and scrutiny of decisions are not as robust as they could be.

There are weaknesses in how effective councils are at engaging with citizens when planning changes in leisure provision

- 1.24 With regard to members of the public, we found a mixed picture of how informed they feel about the changes taking place to the provision of leisure services. Whilst 93 per cent of citizens who responded to our survey are aware that councils have to cut how much they spend on the services they provide, only 29 per cent believe that they have been informed about where their council plans to make savings and reduce expenditure. Indeed, a large proportion – 62 per cent – stated that their council had not told them how these cuts will impact upon the services they use.
- 1.25 We also found that there is a wide variation in the views of citizens, elected members and senior officers as to how effective councils have been in consulting on planned changes to leisure services. Whilst 82 per cent of senior officers felt that their council has consulted effectively on changes to leisure services, this compared to only 55 per cent of elected members and only 18 per cent of citizens. Only 24 per cent of the citizens who responded felt that their council had effectively told them about changes to leisure services since April 2013.
- 1.26 Most respondents have yet to see a significant change in how their council provides services to them. For example, only 12 per cent stated that their Council no longer provides the service they requested and 13 per cent stated that they are now paying for services that were provided free in the past. In addition, only 17 per cent of respondents believe that their council keeps them informed of how well the services they receive are performing, which is lower than the proportion who responded to the same question in our first **Delivering with Less** report on Environmental Health services. These survey responses highlight that councils need to do more to improve how they communicate with, inform and involve citizens in the services they provide and their plans for the future.

I was only recently told about some changes coming to classes in early 2015 following a discussion with staff regarding a class being cancelled. It was very much information shared 'in passing conversation', rather than officially being told.

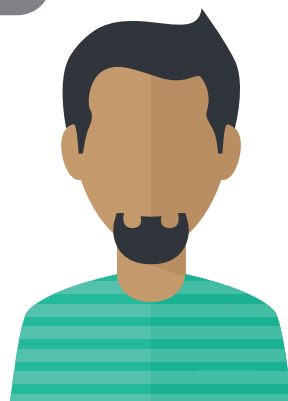
Although the Council has neither consulted nor told me of changes the information is available to me via the Internet, by asking at reception and I feel able to phone up either the centre or main office to get information or express concerns. The Council cannot do everything and I wouldn't want it to.

They were and remain very coy about facilities, and the facilities are ever decreasing. The consultation period and the sneaky tactics employed by the council, leading up to the closure of Plas Madoc were thoroughly shameful.

I believe Wrexham Council failed to factor in the cost benefit of improving residents health and welfare by encouraging them to exercise regularly. They have also recently forced a closed road sportive cycle event to close down so have a totally negative attitude to encouraging people to exercise which is extremely short sighted and out of touch with current research and thinking.

The Council has closed facilities down and increased fees without consulting with sporting groups and I forecast of a drop in numbers taking part in sport because of their policies.

As a user weekly 3/4 times a week I do not think that the council has consulted on and what the consumers want as a service.



Citizens' comments about councils' changing leisure services
Source: Wales Audit Office, Citizen Survey, April 2015

I honestly can't believe the proposed increase in pitch fees in the coming months. By doing this you are effectively killing local sport and betraying the loyal customers that have been paying to use your pitches for years. You should be ashamed of yourselves. How do you tell a child that they can no longer play the sport they love because the team can't afford the pitch fees. ABSOLUTELY DISGUSTED!

Were very underhand in how they handled the leisure centre take overs. Not trustworthy and lied about what would happen to staff.

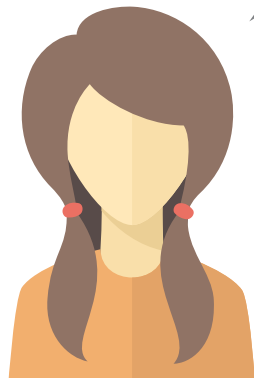
Their response to customer led suggestions for improvements is ambivalent.

I am aware of the changes to leisure facilities due to the amount of time I spend at my local centres and given to me through staff rather than official RCT Council announcements through social media etc. I don't know what, if any consultations went on to make the changes that have happened. They don't directly affect me as I only use the centre in the evenings straight from work and weekend mornings. However, friends I have that used the early morning facility and Sunday evening classes are very unhappy with the change in hours. Personally, if these changes that have been made are what it takes to keep it open and not affected further then we'll work around it.

Yes I feel the closure of Cymmer swimming pool is very unfair and people like me who use it to keep fit are over 65 are being penalised because we live in an already impoverished area where there is nothing left to do for the residents there as most of the leisure facilities have already been stopped and cut back on by the Council!!

Reduced opening times have a negative impact on usage.

They don't consult or inform people about anything, they just do.



Citizens' comments about councils' changing leisure services
Source: Wales Audit Office, Citizen Survey, April 2015

Part 2

Despite a reduction in facilities, budgets, staff numbers and council subsidy for leisure services, the continued impact of austerity presents a risk to the continued provision of services



- 2.1 Facilities are central to the delivery of council leisure services: they are the single largest leisure investment made by councils. However, as a non-statutory service the provision of leisure facilities is often not prioritised for investment. Many facilities were built in the last 50 years and have increasingly become run-down requiring significant investment to improve and upgrade them¹⁰. In addition, there are also other concerns that are having an increasingly negative impact on facility provision and council leisure management arrangements, particularly managing costs, increasing income, competing with private sector providers and needing to become more commercially driven. This is especially challenging in the current climate as councils have traditionally subsidised the cost of leisure provision, and charging for services has not always been driven by the need to cover all costs and operate commercially.
- 2.2 Given this context, in this part of the report, we review the change in council provision of leisure facilities. We examine how council leisure-service budgets, both income and expenditure, are changing and the impact of variations on staff numbers. We also consider the implication of these changes on councils in the future and the sustainability of leisure services.

The amount councils spend on sports and recreation services is falling

Recreation and sport revenue spending accounts for less than two per cent of all local government expenditure and has fallen by 10.5 per cent in the last six years

- 2.3 The amount of money that councils spend on leisure services is very small, relative to total local government spending. In 2014-15, total gross revenue expenditure by councils in Wales was approximately £8 billion on the services they provide, of which £153 million (some 1.9 per cent) was spent on leisure services. **Exhibit 2** shows that revenue expenditure on leisure services by councils is also reducing, falling by 10.5 per cent from £171.1 million in 2009-10 to £153 million in 2014-15. The reduction in funding for sports and recreation services of 10.5 per cent is marginally higher than the 10 per cent cut in the AEF for all council services noted above (**Paragraph 6**).
- 2.4 In 2014-15 the range of expenditure on these services also varies widely, from £2.4 million in the Vale of Glamorgan to £17.5 million in Cardiff. From our analysis of councils' budget and staff resources, we found that 18 of the 22 councils have seen reductions in their recreation and sports services' gross revenue budgets between 2008-09, 2009-10 and 2014-15. **Exhibit 3** illustrates that the largest reductions have been in Torfaen (-57.1 per cent), the Vale of Glamorgan (-53.3 per cent) and Bridgend (-38.6 per cent). Four councils increased expenditure in this period with the largest rises in Caerphilly (21.4 per cent) and Flintshire (12.5 per cent).

¹⁰ Sport Wales, **The Future provision of Sports Facilities in Wales**, August 2011.

Exhibit 2 – Recreation and sport revenue spending by Welsh councils 2009-10 to 2014-15

Expenditure on sports and recreation services has been fairly consistent but there has been a large drop in the last two years.

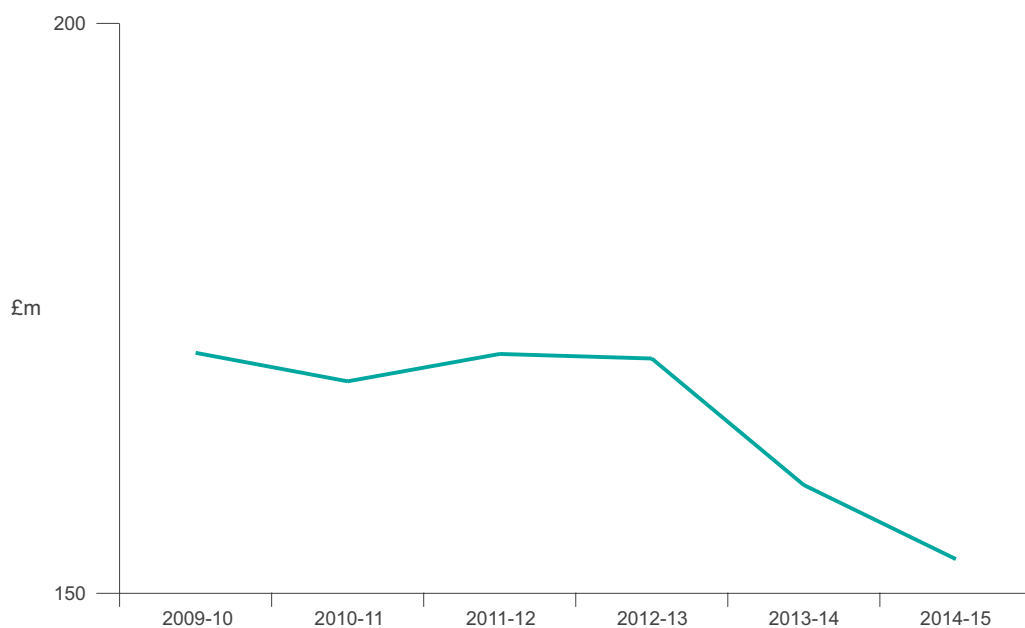


Exhibit source: Revenue outturn expenditure 2009-10 to 2014-15, StatsWales

- 2.5 Those councils that have changed their leisure services operating model also tend to have lower levels of expenditure for leisure services. For example, Torfaen, the Vale of Glamorgan, Bridgend, Blaenau Gwent and Neath Port Talbot have transferred their major facilities to leisure Trusts in recent years. Our analysis shows that following these five councils' decision to transfer these amenities to other providers the amount spent on recreation and sports services fell by £12.2 million between 2009-10 and 2014-15, an average reduction of £2.4 million per council. Proportionally, this equates to on average a 40 per cent reduction in expenditure.
- 2.6 In 2014-15 the range of expenditure on these services also varies widely, from £19.45 per head of population in the Vale of Glamorgan to £79.53 per head of population in Gwynedd ([Exhibit 4](#)). Again, those councils that have changed their operating model for their major and most expensive leisure facilities and now have less direct council-managed provision, are generally spending less per head of population on leisure services – Torfaen, Vale of Glamorgan, Bridgend, Blaenau Gwent and Neath Port Talbot.

Exhibit 3 – Difference in councils' gross spending on recreation and sports services in 2009-10 and 2014-15

Eighteen councils have reduced gross expenditure on recreation and sports services since 2009-10

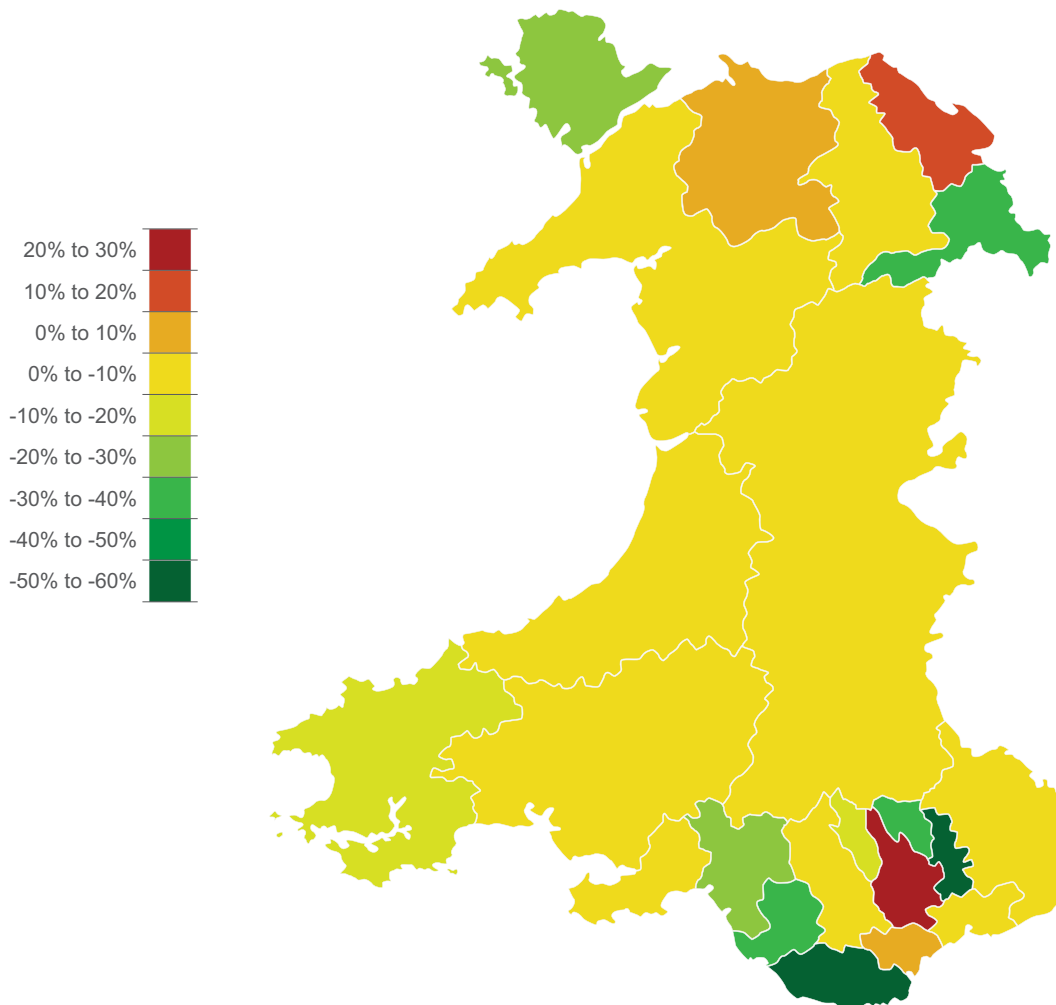


Exhibit source: Revenue outturn expenditure 2009-10 to 2014-15, StatsWales.

Exhibit 4 – Expenditure per head of population on sports and recreation services by councils 2014-15

Council expenditure on sports and recreation services per head of population ranges from £19.45 in the Vale of Glamorgan to £79.53 in Gwynedd.

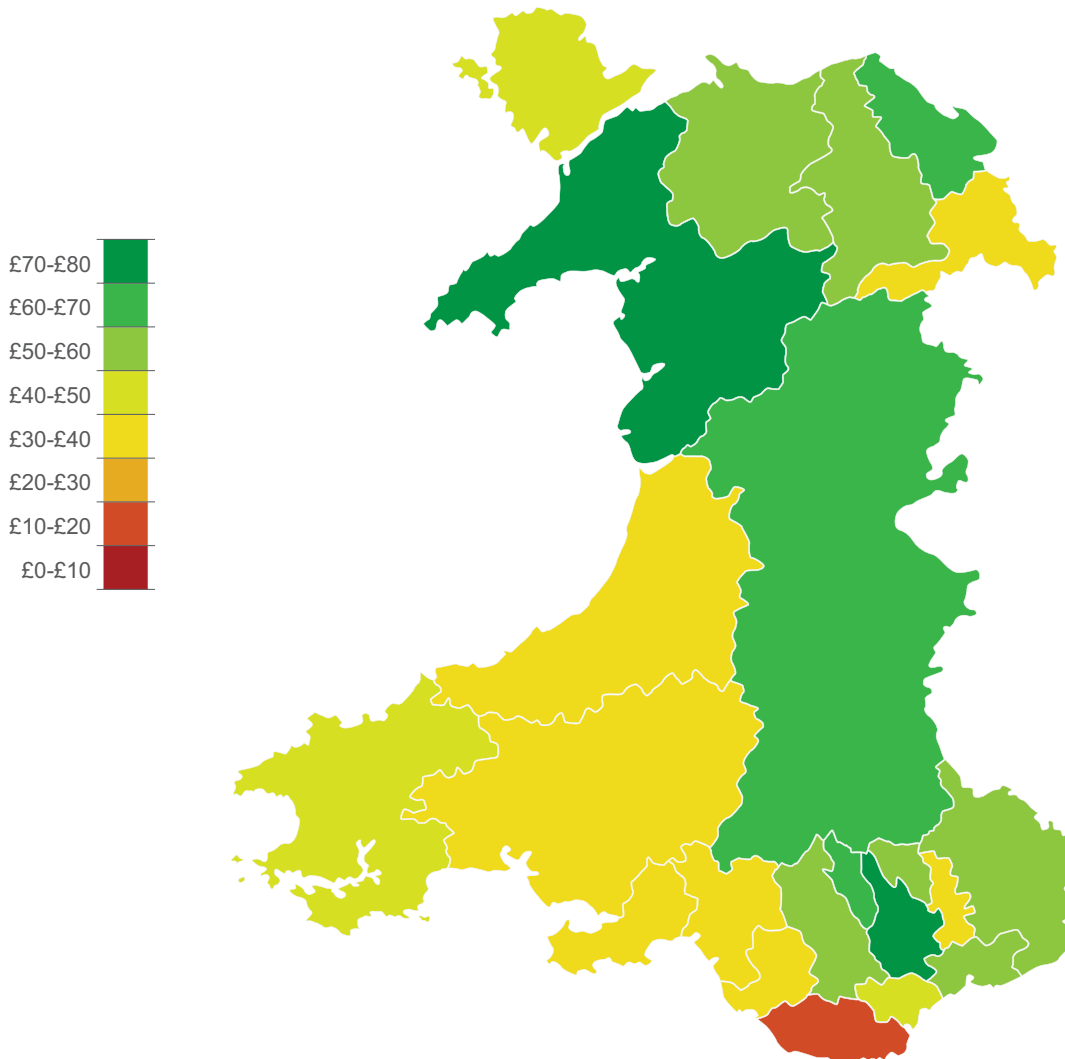


Exhibit source: Revenue outturn expenditure 2014-15 and Mid-Year Population estimates 2014, StatsWales.

Councils are reducing how much they spend on servicing, maintaining and improving their leisure facilities

2.7 Within the leisure service environment it is important to identify and address those factors which improve the safety of the customers, maintain high levels of services, quality of facilities and promote a healthy and safe working environment. Capital investment in asset maintenance and improvement, as well as considering when to build new modern facilities, is therefore extremely important. Exhibit 5 shows that expenditure by councils on maintaining their facilities has varied widely in recent years. Between 2012-13 investment rose from £13.2 million to £15.2 million, an increase in expenditure of 15 per cent. However, between 2013-14 and 2014-15 maintenance expenditure fell to £10.9 million, a fall of 28.2 per cent¹¹.

Exhibit 5 – Maintenance expenditure on leisure facilities 2012-13 to 2014-15

Overall, expenditure on maintaining and improving leisure facilities is reducing.

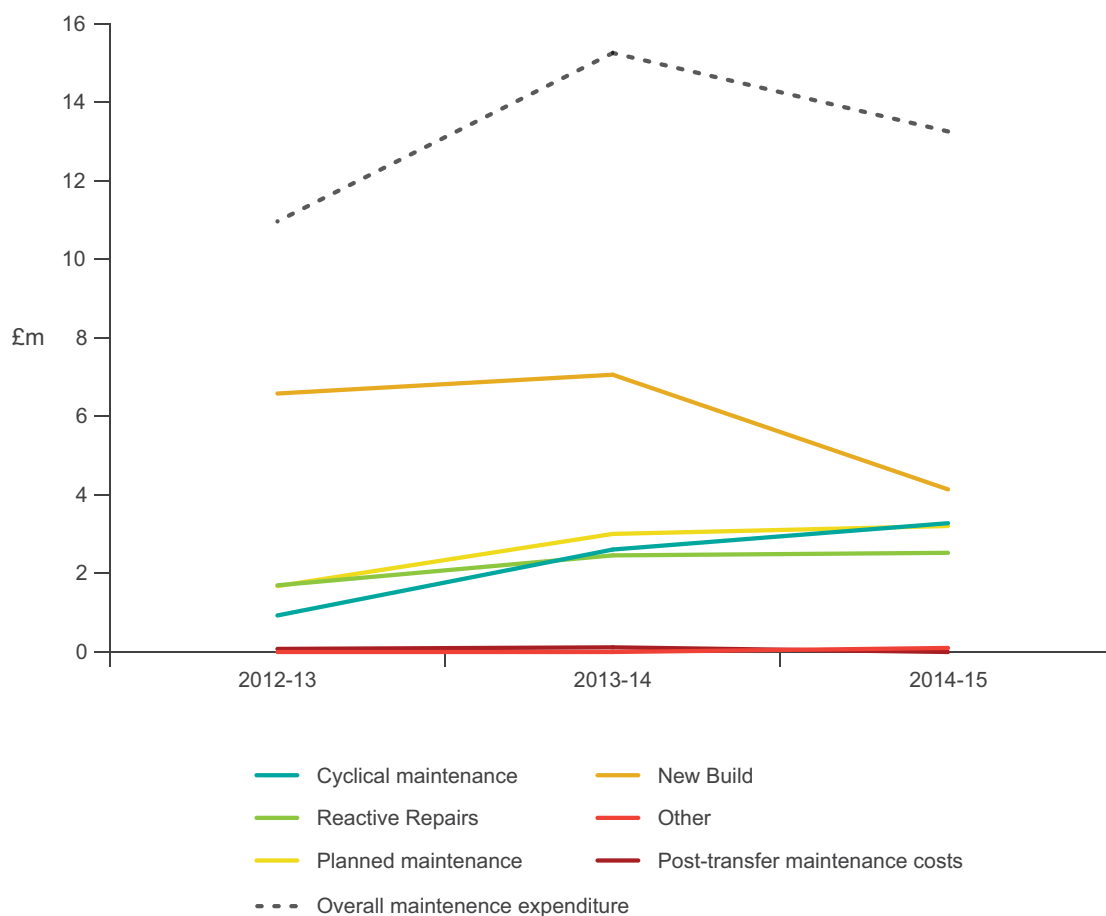


Exhibit source: Wales Audit Office Data Tool, April 2015.

¹¹ This information is based on returns received from 16 councils. This does not include data for Cardiff, Merthyr Tydfil, Monmouthshire, Neath Port Talbot, Newport or Swansea councils which did not provide the information we requested. A number of councils noted that their finance systems do not always code their maintenance spending and some were unable to provide detailed breakdowns by reactive, cyclical or planned expenditure.

- 2.8 The biggest changes in maintenance expenditure have been in planned and cyclical activity. Planned Cyclical Maintenance Programmes are used to carry out regular improvement works, which maintain facilities in sound condition, enhancing visual appearance, preventing costly rectification work while ultimately maintaining the value of capital investments and the life of the property. Our fieldwork found that councils do not always have up-to-date asset management plans or good quality property condition data for leisure facilities to identify and guide investment decisions. Cutting budgets without a detailed understanding of property conditions and future investment needs raises a risk that the condition of leisure facilities will deteriorate further and may cause higher unanticipated reactive repair costs in the future. We found that cyclical maintenance has fallen by 72 per cent from £3.3 million in 2012-13 to £0.9 million in 2014-15, and planned maintenance by 46.8 per cent, from £3.2 million to £1.7 million in the same period. However, investment in new facilities increased by 58.9 per cent, rising from £4.1 million to £6.6 million.
- 2.9 Responsive maintenance – those repairs that are identified on a day-to-day basis and undertaken to maintain a component within the leisure facility or asset – has also fallen by 36 per cent. Our fieldwork at Powys County Council for example identified that the net budget for maintenance of leisure services has reduced consistently year on year, to the extent that budgets only cover responsive maintenance.
- 2.10 A change in management arrangements can result in councils investing less in maintaining facilities. For example, capital expenditure at the Vale of Glamorgan Council has reduced, from £1.25 million in 2012-13 to £0.138 million in 2014-15. The decrease in maintenance expenditure can also be influenced by an absolute reduction in the number of directly owned council facilities, particularly where councils have closed facilities, as well as councils having to make savings by reducing capital and revenue funding to balance their leisure budgets.
- 2.11 Managing energy and water expenditure is also important, not just to ensure that councils are getting the best value from their supplier purchases but to also ensure that services and facilities are operating efficiently and optimising their usage. Our fieldwork found a variety of approaches from councils, with some leisure services no longer having access to the necessary management information in terms of energy use and costs.
- 2.12 However, we found that other councils had access to good quality information and a better understanding of energy use and costs. In some cases councils have engaged external experts, such as the Carbon Trust, to help them understand what actions could be taken to reduce energy use and costs, for example installing automatic lighting sensors. It was noted that some of these actions require capital investment with savings being accrued over a number of future years. One council was conducting energy surveys of all leisure buildings as well as increasing staff awareness of what actions they can take to reduce energy use. The returns we received showed very limited evidence of the use of recycled water within leisure facilities or solar energy generated on site, but two councils reported the use of biomass energy. Those councils reported that they anticipate reductions in overall costs through the use of such energy.

2.13 **Exhibit 6** summarises councils' expenditure on energy and water usage and shows that overall, spending has remained constant. In 2012-13, councils spent £11.6 million on energy and water supplies for their leisure facilities¹². This marginally increased to £11.8m in 2013-14.

Exhibit 6 – Councils' spending on energy and water supplies for leisure facilities 2012-13 and 2013-14

Councils' overheads for running leisure facilities are not increasing.

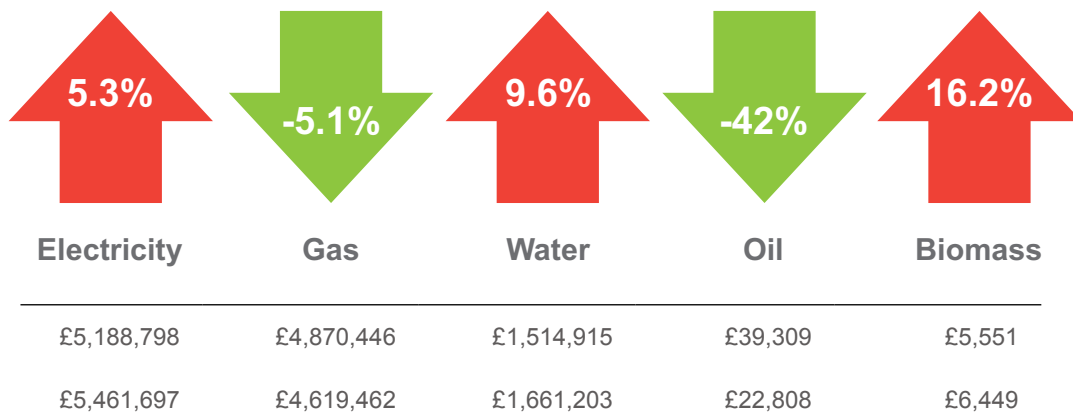


Exhibit source: Wales Audit Office Data Tool, April 2015.

¹² This information is based on returns received from 20 councils and does not include data for Merthyr Tydfil or Torfaen councils.

Since 2011-12 the number of council staff delivering leisure services has fallen by 14.2 per cent, although some of these have transferred with services to other providers

- 2.14 A council's workforce is one of its greatest assets and a significant proportion of council expenditure is on staffing. At a time of financial pressures, savings can often be achieved by reducing staff numbers through voluntary early release and vacancy management, where staff that leave are not replaced. This trend is set to continue as councils look to further reduce staff costs as part of their strategies for achieving balanced budgets.
- 2.15 **Exhibit 7** shows that the total number of full-time equivalent (FTE) staff working in council leisure services has fallen from 2,783 in 2011-12 to 2,387 in 2014-15, a fall of 14.2 per cent¹³. Whilst all staff roles have been subject to reductions, operational staff have proportionally experienced the greatest hit, falling by 19.8 per cent. Catering staff have reduced by 11.8 per cent and managers 8.9 per cent. Our review found that the only staff group to have increased in recent years are unpaid relief staff where the numbers working in council leisure facilities rose by 4.6 per cent.

Exhibit 7 - Number of full-time equivalent staff working in council leisure facilities 2011-12 to 2014-15

The number of council staff working in leisure services fell by 14.2 per cent between 2011-12 and 2014-15.

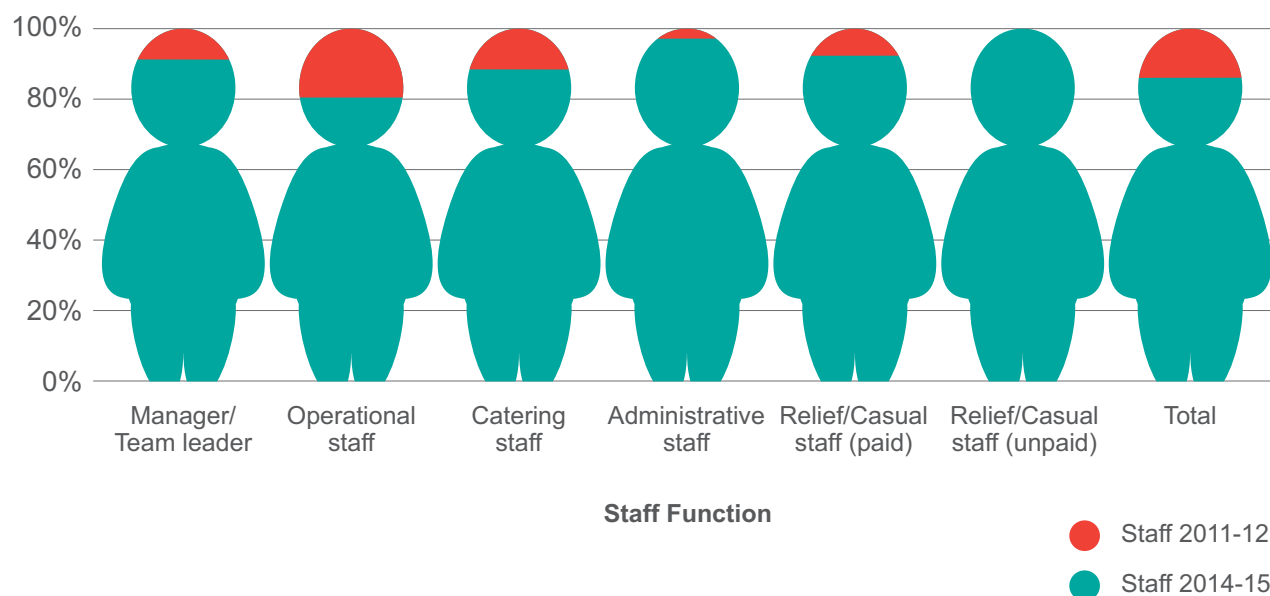


Exhibit source: Wales Audit Office Data Tool, April 2015.

¹³ This information is based on returns received from 18 councils. This does not include data for Cardiff, Carmarthenshire, Flintshire or Powys councils. The return from Rhondda Cynon Taf also included information on 'leisure' staff working in Community Parks and Open Spaces.

- 2.16 The reasons for reductions in staff numbers have a number of influences including cuts to balance budgets, out sourcing activity and transferring staff to the private sector or a leisure Trust. For example, the Vale of Glamorgan Council transferred management of its six leisure centres to a private provider (Parkwood Leisure) in August 2012. The Council still retains ownership of the centres and is responsible for major repairs and ongoing maintenance. The number of staff employed by the Council, however, reduced from 113 FTEs in 2011 to 28 in 2014 with the TUPE¹⁴ of staff from the Council to the new leisure provider in 2012.
- 2.17 However, many of the people responding to our survey are concerned that as councils cut staff they will find it increasingly difficult to respond to the challenges they face. Without adequate capacity and capability the council leisure sector is likely to struggle to manage change, which may undermine its performance and could well lead to a cycle of decline.
- 2.18 Over the last four years capacity has undoubtedly diminished at all levels but it is at the senior level where the impact is being felt the most. The loss of senior council personnel reduces the professional's ability to influence strategic decisions when councils consider the future of their public sector leisure provision. There is a fear amongst leisure professionals that in many parts of the leisure sector a leadership vacuum is developing. With limited capacity the current fragmented nature of the sector exaggerates the problem further. The available leadership is fully stretched and often over-focused on operational management so limiting their ability to influence the wider strategic agenda.
- 2.19 As well as an absolute reduction in staff numbers at some councils, the terms and conditions of employment for staff can also be amended. In some authorities, such as Powys County Council, the terms and conditions for employees have been affected by changes in how the service is provided such as hours of operation and opening and closing times of facilities. The Council has also recently completed a harmonisation process of staff terms and conditions which resulted in an increase in the hourly rate of pay. In other councils, such as the Vale of Glamorgan, staff have transferred under TUPE to a private company and there have been significant changes to pay, holiday entitlement and sickness absence arrangements. Whilst others, the Isle of Anglesey Council for example, have not seen any changes in employment terms, although the number of staff employed has fallen.

¹⁴ The Transfer of Undertakings (Protection of Employment) Regulations 2006 (SI 2006/246), known colloquially as TUPE, are the United Kingdom's implementation of the European Union Business Transfers Directive. It is an important part of UK labour law, protecting employees whose business is being transferred to another business.

Although councils' income from facilities is being sustained and the level of subsidy required to provide leisure services has fallen significantly, the continued impact of austerity presents a risk to the sustainability of these services

Despite a reduction in facilities and changes in management arrangements income for leisure services has only slightly reduced

2.20 Profits and surpluses generated through trading activities can be used to help hold down council tax and/or directed into frontline services. Income generated from charging for the costs of supplying discretionary services can also help the overall council's financial position. However, customer take-up of any leisure activity is voluntary; it relies on the customer's perception that participation will improve his or her quality of life, and inevitably competes with other calls on leisure time. Setting and achieving income targets will, therefore, never be an exact science and always remain vulnerable to market changes.

2.21 Information collated as part of this study in Exhibit 8 shows that despite a reduction in the number of leisure facilities councils directly provide, and changes in management arrangements, income is being maintained. In the last three years despite the changes in ownership, management and closures that have taken place, overall income for leisure services has only fallen by 1.7 per cent.

Exhibit 8 – Income for leisure facilities 2012-13 to 2014-15

Council's income for leisure services has marginally fallen by 1.7 per cent in the last three years.

Area of operation	2011-12	2012-13	2013-14	+/- %
Community centres and public halls	£1,654,470	£1,706,433	£1,787,118	8
Indoor sports and recreation facilities	£57,367,950	£57,161,285	£56,756,606	-1
Golf courses ¹⁵	£353,849	£202,163	£214,046	-39
Sports development and community recreation	£13,063,085	£13,038,876	£12,303,816	-5.8
Outdoor sports and recreation facilities	£2,568,506	£2,765,223	£3,022,175	17.6
Other	£2,094,625	£1,804,603	£1,677,256	-20
Total	£77,102,488	£76,678,585	£75,761,017	-1.7

Exhibit source: Wales Audit Office Data Tool, April 2015.

¹⁵ Merthyr Tydfil and Rhondda Cynon Taf reported that they had golf courses but recorded no income for these facilities for all three years we analysed.

2.22 Exhibit 9 shows that the overall level of council income for leisure services ranged from £0.1 million in Torfaen to just over £8 million in Cardiff.

Exhibit 9 – Income from sports and recreation services by council 2014-15

Council income from leisure services ranges from £0.1 million to £8 million.

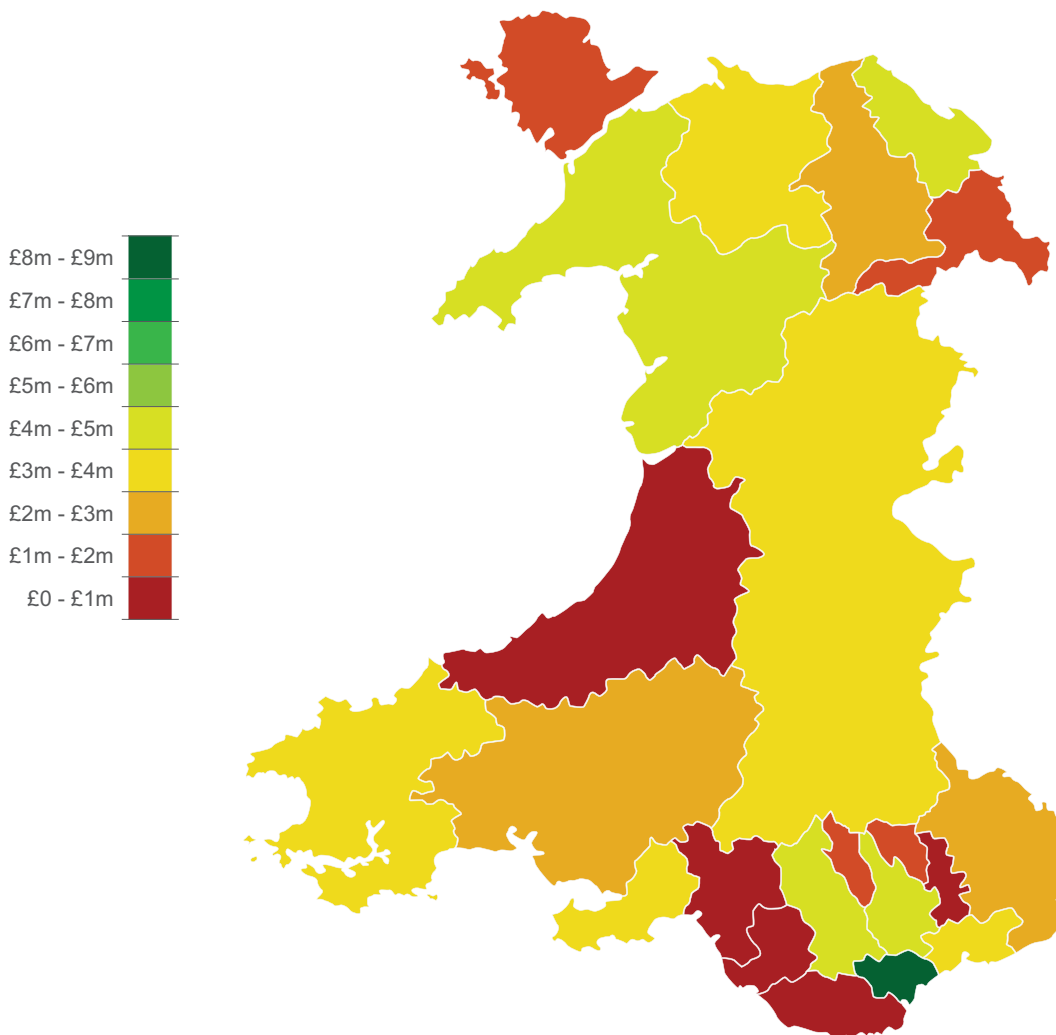


Exhibit source: Revenue outturn expenditure 2014-15, StatsWales.

2.23 **Exhibit 10** (below) shows that overall, 13 councils increased income in this period with the largest rises in Flintshire (26 per cent) and Newport (21 per cent). The sharpest reductions in council income from leisure services between 2012-13 and 2014-15 have been seen in the Vale of Glamorgan (-84 per cent), Torfaen (-63 per cent) and Neath Port Talbot (-47 per cent). These are three councils which have seen significant changes in their leisure provision and/or management arrangements. For example, the Vale of Glamorgan has six leisure facilities provided by a Trust and has seen its income from the leisure services reduce as a result of transferring its leisure centres from £3.6 million in 2011-12 to £0.6 million in 2014-15. Torfaen has transferred five leisure facilities to a Trust and Blaenau Gwent has closed one leisure facility and has recently transferred a further five to a Trust.

Exhibit 10 – Change in income for council leisure facilities 2012-13 to 2014-15

Thirteen councils have seen an increase in income from leisure services.

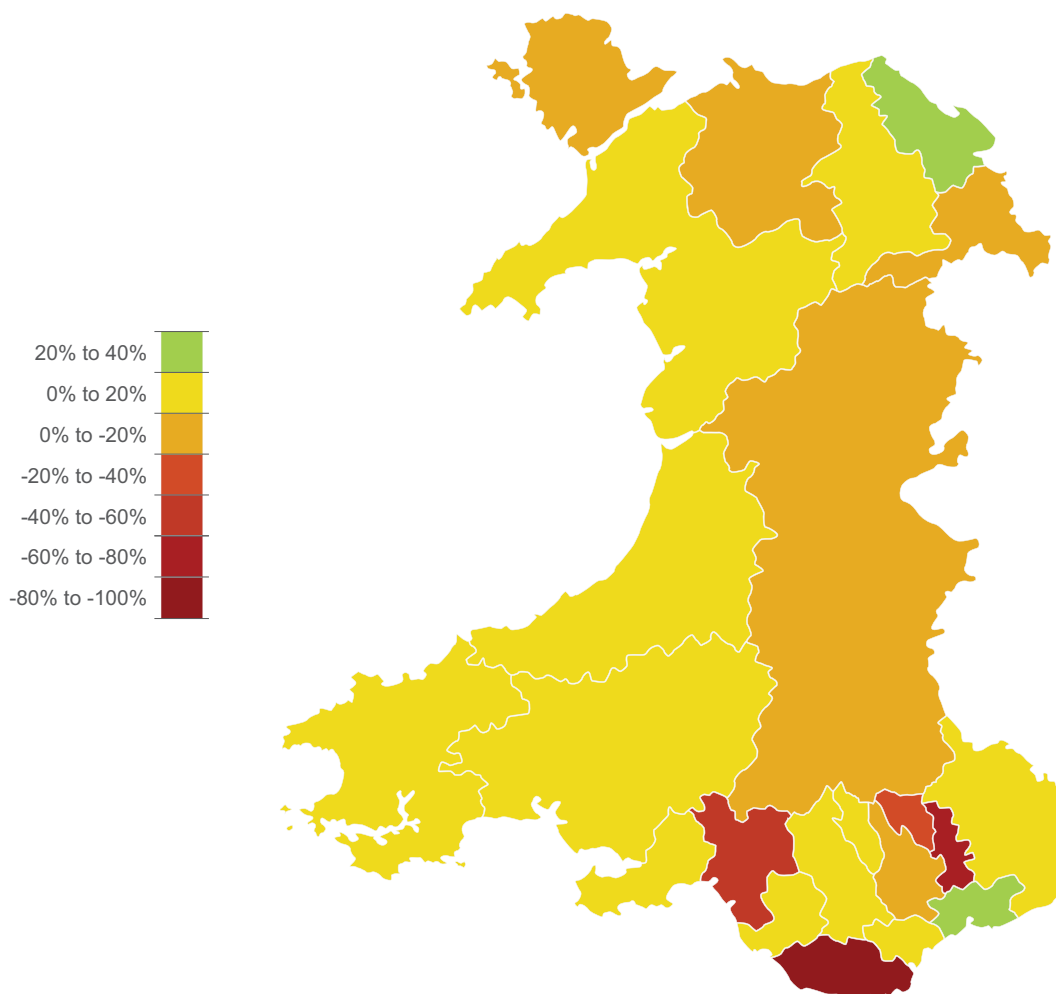


Exhibit source: Wales Audit Office Data Tool, April 2015.

The majority of councils have an improving financial position and the level of 'subsidy' required to fund leisure services has fallen by 15.2 per cent but with reductions in public funding set to continue, councils need to consider more efficient and effective ways of working if leisure services are to remain sustainable

- 2.24 There are big differences between how the private and public sectors operate. One of local governments' main objectives is the welfare of people whereas the bottom-line of a private company is more likely to be profit. With the current financial challenges facing the public sector, fiscal responsibility is ever more important and councils recognise that they need become even more financially disciplined when it comes to delivery of services.
- 2.25 Councils have a good track record in balancing budgets and managing within their means and since budget cuts began to hit hard, councils have found savings through everything from joint working to turning over management of services to volunteers. The other side of the equation is acting more commercially and generating money – what can councils do to increase their income from trading, commercial partnerships with the private sector or writing better commissioning contracts.
- 2.26 However, in doing this councils must also balance disparate agendas, and attempt to provide equal, accessible services for all residents, something private businesses do not have to consider. And, because councils' income is derived from a range of sources – the Revenue Support Grant from the Welsh Government; Council Tax; Non-Domestic (business) Rates; income for provision of services; and other specific grants – they are not operating in a purely commercial environment. By the very nature of their funding therefore councils are subsidising the cost of their services.
- 2.27 Subsidising leisure services is also driven by a desire to maximise take-up and usage for the good of local residents and to support delivery of the wider strategic public health role by encouraging healthy lifestyles and tackling health inequalities. Thinking of services in business terms nevertheless allows councils to consider their operating environment in a different way and subsequently allow for more informed decisions on the choices facing council leisure services as to how and what they provide.
- 2.28 Between 2009-10 and 2014-15 there has been a significant 15.2 per cent decrease in the absolute net cost¹⁶ for the 22 Welsh councils' leisure services with the amount councils fund services after income decreasing from £110 million in 2009-10 to £93.3 million in 2014-15. The smallest absolute levels of subsidy in 2014-15 are in the Isle of Anglesey and the Vale of Glamorgan at £1.8 million. The largest subsidies in 2014-15 are in Cardiff and Caerphilly with £9.5 million and £9.2 million respectively (the detailed information is set out in [Appendix 4](#)).
- 2.29 Our analysis also shows that 19 councils have an improving position where the level of subsidy is decreasing. For example, Pembrokeshire reduced its position from -£4.8 million in 2009-10 to -£2.5 million in 2014-15. Similarly, Torfaen reduced

¹⁶ Net cost is the bottom line of the income statement when revenues and gains are less than the aggregate operating expenses.

its operating position from -£4.3 million to -£2.6 million in the same period. We also found that three councils have seen the level of subsidy provided to fund recreation and sports services increasing. The largest increase was in Powys which rose from -£3.2 million in 2009-10 to -£5 million in 2014-15.

2.30 **Exhibit 11** highlights that 19 of the 22 councils have proportionally reduced the level of subsidy provided to leisure services and three have seen an increase in subsidy between 2009-10 and 2014-15. The proportional change in subsidy ranges from an improving position in Pembrokeshire where subsidy reduced by 47.9 per cent in this period to Powys where the level of subsidy required to deliver services rose by 57.3 per cent.

Exhibit 11 – Changing subsidy for recreation and sports services between 2008-09 and 2014-15 by council

All councils subsidise recreation and sports services but the level of subsidy varies widely and is improving in 19 of the 22 councils.

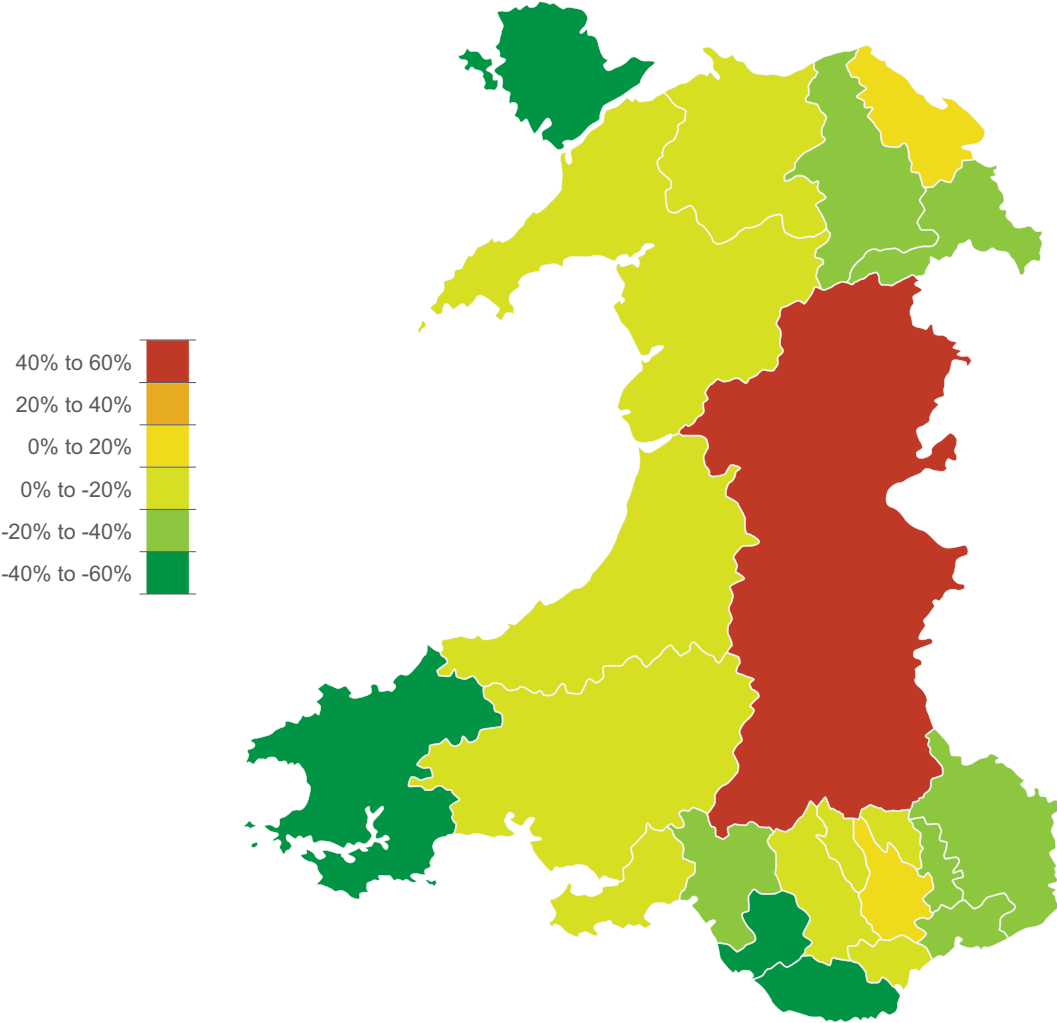


Exhibit source: Analysis of revenue outturn income and expenditure for council recreation and sports services in 2008-09 and 2014-15, StatsWales.

- 2.31 With reducing public monies and a challenging operating environment with often poor quality facilities, council leisure services face an uncertain future. As noted above a number of councils have transferred assets to Trusts to run, whilst others have closed uneconomic and/or poor quality facilities that are beyond repair. Given that the continued subsidising of services is unlikely to be sustainable in the medium to long term, councils need to carefully consider what they are providing, how they provide it, what they charge for it and what they are ultimately seeking to achieve through their leisure provision. As the provision of leisure facilities is a discretionary function, it is also a matter for councils to determine the nature and level of service that they can and want to provide in their current financial situation.
- 2.32 However, whilst it is reasonable for councils to conclude that the current levels of provision are no longer sustainable given the subsidy required to maintain these facilities, the implementation of closures or transfers needs to be carefully considered and handled sensitively to mitigate the impact on communities and citizens. Changing how services are managed or closing facilities is not simply about finances and needs to be balanced carefully with the needs of local residents and communities. Equally, the positive contribution of leisure services in addressing health inequalities and improving public health also needs to be considered.
- 2.33 In part one of this report we noted the importance of councils undertaking robust options appraisals that considered the broadest range of available options but also the impact of service changes on citizens. Under the Well-being of Future Generations Act 2015 councils will now be required to apply the sustainable development principle to the setting of objectives, and the steps taken to achieve them. This will require applying the five principles of: long term, integration, prevention, collaboration and engagement. This will have a major impact on governance and strategic decision-making within councils when they review their leisure provision and decide on their future strategic direction, as sustainable development will require decision-making to be informed by:
- an understanding of the long-term implications of decisions;
 - by a recognition of environmental limits; and
 - an integrated approach to economic, social, environmental and cultural well-being.
- 2.34 These are the defining features which distinguish sustainable development from business as usual. Consequently, councils will need to consider these implications carefully when balancing their sustainable development responsibilities with the financial pressures they face in deciding on the future of leisure services. And in considering the options for future leisure provision, councils need to have a clear understanding of the financial, social, economic, equality and sustainability issues they, their citizens and communities face both at this time but also into the future. Critical to delivering these expectations will be good quality and informed decision-making, and in the next section of our report we comment on the effectiveness of scrutiny and decision-making by councils.

Part 3

Councils are meeting rising demand for leisure services, but scrutiny and oversight of performance are not always effective



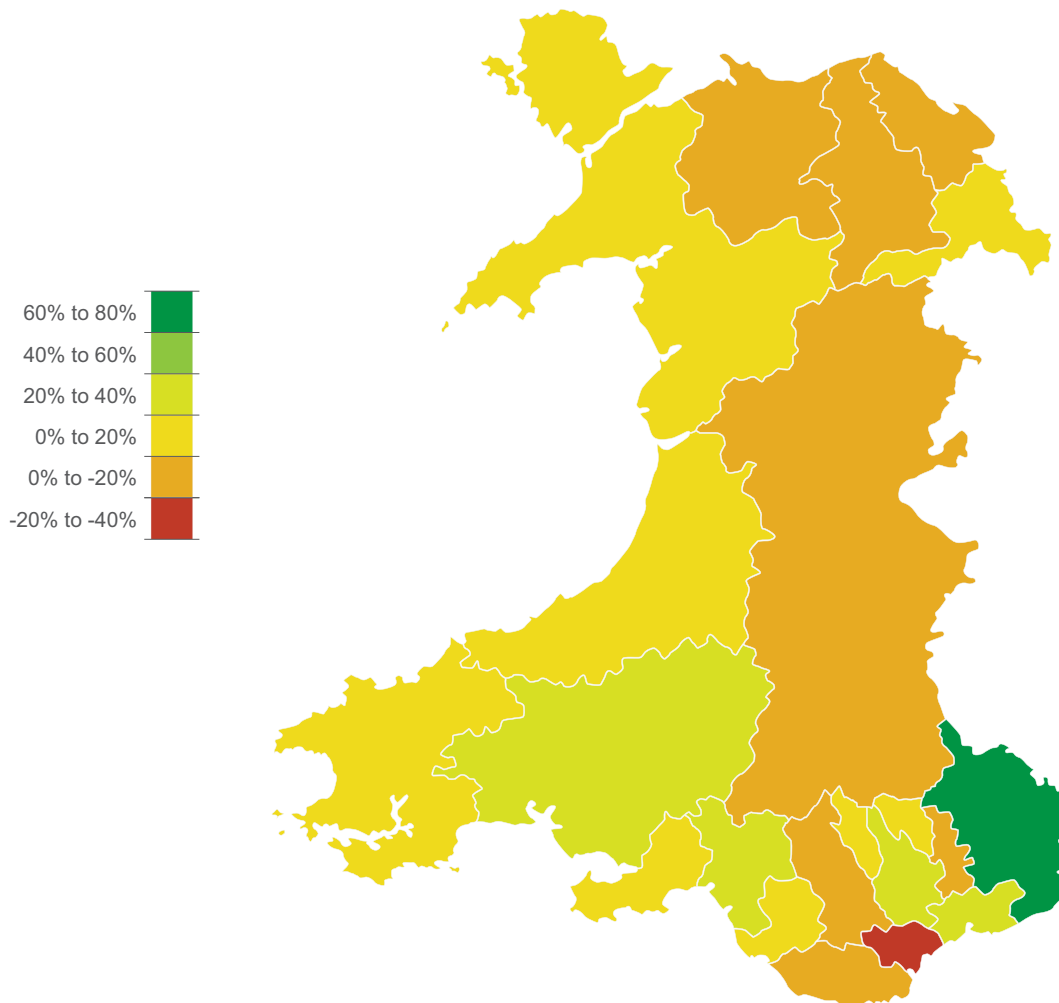
- 3.1 Local government in Wales faces a period of significant change driven by budget cuts, rising demand and a reform of public services led by the Welsh Government. By 2022, councils are likely to look very different than they do today. To navigate this difficult path councils will need to clearly prioritise which services matter most, based on an accurate, realistic assessment of the costs, benefits and risks. Critical to this approach is using data effectively to support decision makers to take informed and evidence-based policy and operational choices. Increasingly, therefore, evidence is going to be required that shows the relationship between inputs, outputs and outcomes.
- 3.2 In this final part of the report, we review how councils are performing in encouraging use of leisure services, how they manage and monitor current performance to identify opportunities for improvement. We also consider findings from our survey of leisure service users, elected members and senior council officers on current performance.

The number of people using council leisure services increased by 3.4 per cent between 2009-10 and 2014-15, although there is a mixed picture between authorities as to how well leisure services are performing

- 3.3 Councils make use of Key Performance Indicators (KPIs) both as part of their strategic planning activity and to manage operational performance and identify areas of improvement. KPIs can cover both financial and non-financial measures or metrics and allow a council to evaluate how successful it is, typically in terms of making progress towards its long-term goals. However, there is only one national KPI that all councils currently report their performance against. This KPI shows that there has been a 3.4 per cent increase in the number of people using council leisure facilities, rising from 25.8 million visits in 2009-10 to 26.7 million in 2014-15.
- 3.4 Increasing take up of leisure services can make both a positive contribution to improving public health but also positively impact on increasing income for councils. Our analysis of the performance of Welsh councils set out in [Exhibit 12](#) found that between 2009-10 and 2014-15, 14 councils have seen an increase in the number of people visiting council sport and leisure centres during the year where the visitor will be participating in physical activity. The largest increases have been in Monmouthshire (63.3 per cent), Newport (36.5 per cent) and Carmarthenshire (36.2 per cent). Of the eight councils where there has been a reduction over this period the largest was in Cardiff (26.5 per cent), followed by Denbighshire (14.6 per cent) and Flintshire (8.4 per cent).

Exhibit 12 – Percentage change in number of visits to council sport and leisure centres where the visitor will be participating in physical activity, 2009-10 to 2014-15

Fourteen of the 22 Welsh councils have seen an increase in the number of people using their services.



Source: Stats Wales, LCS/002a/LCS/002b.

Councils do not always have the right data available to support effective decision-making and are not well placed to monitor and evaluate their approaches to leisure provision to target improvement and ensure that services are sustainable

- 3.5 To effectively manage services and make the right strategic decisions, councils need to be clear about their strategic leisure intentions and focus on making better and smarter choices that prioritise interventions and service decisions based on 'cost: benefit: impact'. This allows councils to both identify the relative effect of decisions such as reducing expenditure or prioritising capital investment but also to be clear what the impact of these decisions will be on strategic and operational outcomes. In essence, this approach supports councils to see which of their decisions gets the best return for the council when considering future priorities.
- 3.6 Critical to this approach is using data effectively to support decision makers to take informed and evidence-based policy and operational choices. Increasingly, therefore, evidence is going to be required that shows the relationship between inputs (how much we spend), outputs (how much did we purchase/how many people used the service) and impact (what are the outcomes we achieved and how did we benefit our citizens). However, too much of the performance data collated measures quantity and sometimes quality (or satisfaction) but seldom focuses on understanding or showing the beneficial impact of leisure services on public health and well-being.
- 3.7 From our review, we found that this is an area of work that councils continue to have difficulties with. Because there is only one statutory leisure KPI, much of the current reporting of leisure activity focuses on operational performance of facilities – for example, participation rates, income generated at specific centres, staff sickness absence rates, percentage of savings realised and income raised by different payment methods. Whilst this provides good information on the operating environment, it does not provide the wider view of what the benefits for the service are on citizens and how leisure services contribute to addressing health inequalities and also what leisure services citizens will want in the future. Such limitations in data coverage, however, make it difficult to evaluate what benefits the leisure services are bringing, and councils need to address this if they are to make the right choices on how and what services they provide in the future.
- 3.8 From our fieldwork we identified a good approach to monitoring the performance of leisure services that is undertaken by Denbighshire County Council.

Good Practice Example – Denbighshire County Council

The Council has created a Quarterly Management Information ‘dashboard’ for each service area, where all results are reviewed and challenged. A comprehensive suite of measures has been set for each of the service plan outcomes covering areas such as participation rates (including specific demographic groups), income generated at specific centres, sickness absence rates and savings realised.

To monitor the uptake and demand for services, Denbighshire are also utilising their leisure membership system. When members register, they are issued with a membership card which they must present every time they use any facility. This provides ‘lifetime’ information about the level of usage experienced in all eight of its leisure facilities, including identifying peak usage times and which provisions and classes are most popular.

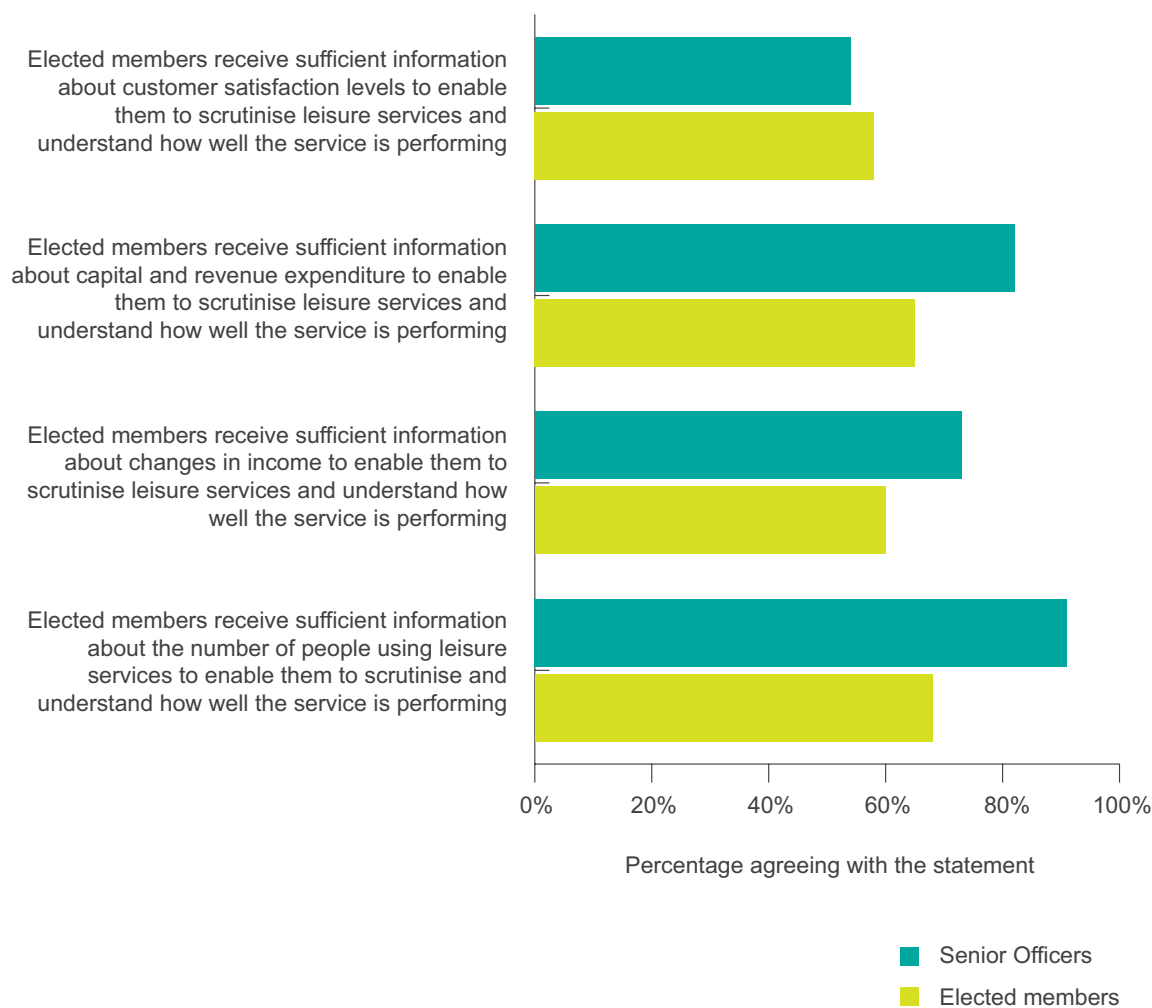
Officers use the data generated by the system to evaluate all services and make decision on which ones to expand or reduce. The system also provided demographic information about service users, which has enabled the Council to target services and campaigns where gaps are identified. This data is used to make decisions about where services need to be expanded or where services can be reduced.

Denbighshire County Council has improved the performance and efficiency of its six leisure centres that are shared with schools by identifying times in the day when school use is not required so allowing increased public access. It has achieved this by making clear to schools the unit cost for their use of the centres, so schools only get ‘charged’ for what they actually use and this is a good example of using data effectively to understand how best to provide services to the public and support good quality decision-making.

- 3.9 Scrutiny committees will continue to have a key role in overseeing performance of services, holding executive members and senior managers to account, reviewing the performance of services to identify opportunities for improvement and to challenge underperformance. We found that this is an area of work that councils have struggled with. The findings of our surveys highlight a difference in opinion between senior officers and elected members on the effectiveness of their council’s scrutiny work in overseeing and challenging the performance of council leisure services.
- 3.10 In **Exhibit 13** we summarise our survey findings with elected members and senior officers on the range information that is formally scrutinised by elected members.
- 3.11 We found that 91 per cent of senior officers agreed that elected members receive sufficient information about the number of people using leisure services to enable them to scrutinise and understand how well the service is performing. However, this is much higher than the responses from elected members where only 68 per cent agreed with this statement. Whilst elected members and senior officers are broadly in agreement that customer satisfaction information is scrutinised – 58 per cent and 54 per cent respectively – these proportions are not high enough.

Exhibit 13 – Comparison of elected members and senior officers strongly agreeing and agreeing that the scrutiny of leisure services is effective in key areas

Senior officers and elected members have different views on the effectiveness of scrutiny committees in overseeing the performance of leisure services



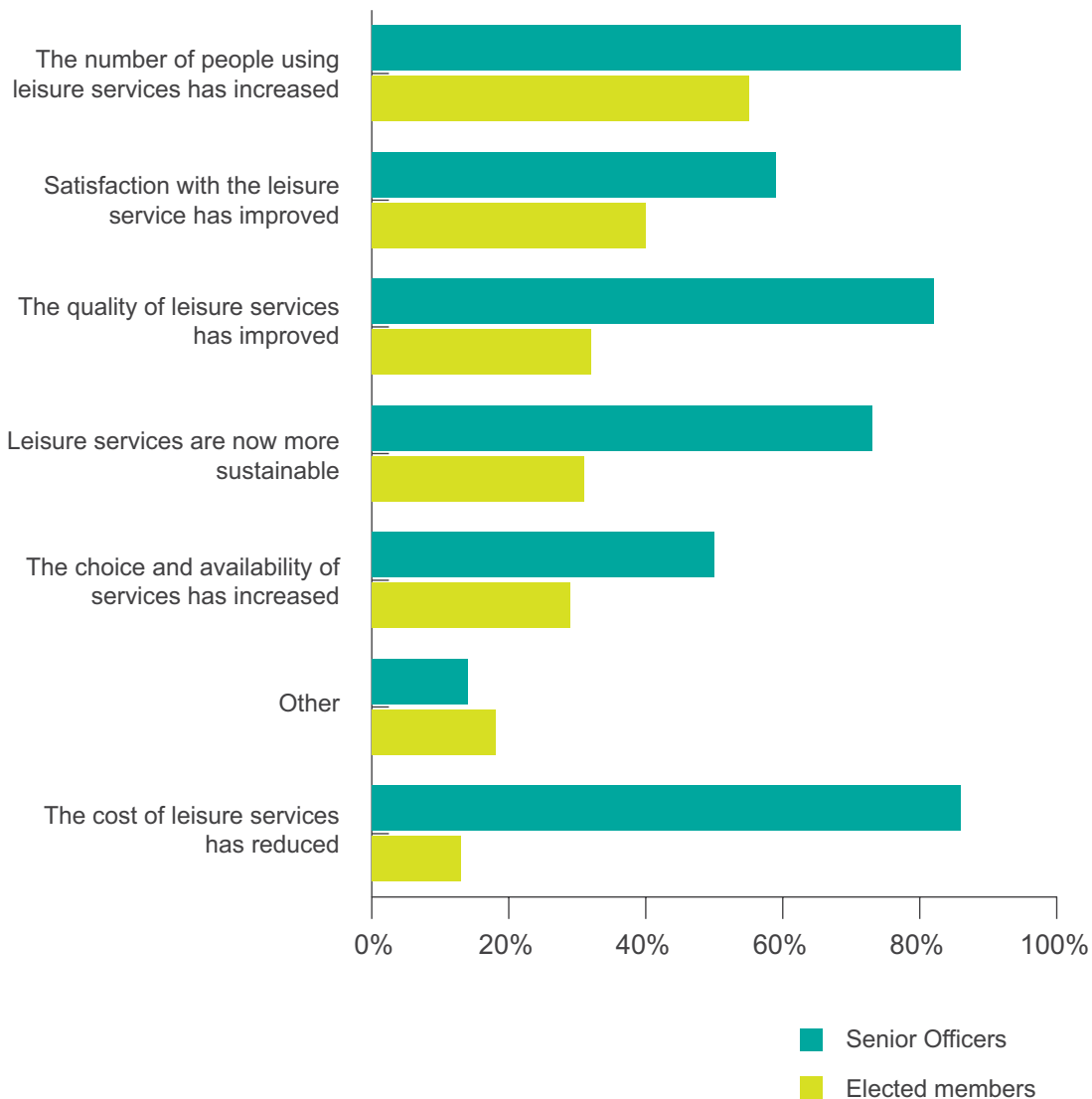
Source: Wales Audit Office, Elected Member and Senior Officer Surveys, April 2015.

3.12 In addition, three-quarters of senior officers and 60 per cent of elected members believe they have sufficient information on income derived from leisure services to effectively scrutinise performance. With regard to scrutinising information about leisure services’ capital and revenue expenditure, we found that 65 per cent of elected member survey respondents agreed that they had sufficient information to undertake this work effectively. This is lower than for senior officers, where 82 per cent agreed.

3.13 In Exhibit 14 we compare survey responses from elected members and senior officers in respect of the impact of changes to their council's leisure services since April 2012. Our analysis shows that senior officers believe there have been greater levels of improvement on six of the seven areas we surveyed.

Exhibit 14 – Comparison of elected members' and senior officers' views on the impact of changes to their council's leisure services since April 2012

Senior officers report significant improvements in their council's leisure services but elected members have seen less improvement on six of the seven standards we surveyed against.



Source: Wales Audit Office, Elected Member and Senior Officer Surveys, April 2015.

- 3.14 The difference in opinion between elected members and senior officers also varies widely. For example, 86 per cent of senior officers confirm that the cost of their leisure service has reduced compared to 13 per cent of elected members. Similarly, whilst 82 per cent of senior officers stated that the quality of their council's leisure services has improved, this is much higher than elected members where 32 per cent noted an improvement. Given the significant difference in opinion on these changes, it is clear that oversight and scrutiny of leisure services are not effective and councils need to improve how they monitor and evaluate performance.
- 3.15 Only 39 per cent of elected members believe that the quality of their council's leisure services has improved since April 2012, 26 per cent that the quality has deteriorated, and 34 per cent stated they did not have sufficient information to judge how services were performing. This compares less favourably with the views of senior leisure officers where we found that 72 per cent of senior officers felt the quality of leisure services was improving and 10 per cent that they were declining. However, only 23 per cent of elected members believe that the quality of their council's leisure services will improve in the next two years compared to 63 per cent of senior officers. In addition just under a half of elected members who responded to our survey believe that the quality of their council's leisure services will get worse.
- 3.16 Elected members and senior officers responding to our survey noted some significant challenges that face councils, in particular the reduction in public funding and changes to the model of provision having a potentially negative impact on users. There is also an acknowledgement that leisure services are still undervalued for their wider contribution, particularly the impact of changing and reducing leisure provision on health and social care services where the council has less direct control to influence activity. There is also recognition that councils need to have a better focus on what users want now and in the future, and information to underpin decisions, especially on commercial activity, needs to be improved.
- 3.17 We also found some weaknesses in how councils are monitoring the performance of their leisure services. The Vale of Glamorgan Council receives an annual report to its Scrutiny committee with responsibility for leisure services from Parkwood. This system had some weaknesses in its early operation. For instance, the Annual Report for 2013 was basic and lacked evidence of contract performance. The Annual Report included a range of performance indicators, but some indicator information was left blank and a lack of targets made it difficult for members of the scrutiny committee to challenge the performance of the contractor. The Council recognised that it needed to improve its approach to contract monitoring, and a list of measures and reporting requirements is now in place. The Council has also established a contract monitoring group to strengthen these arrangements.

There is a wide variation in citizens' views on the quality, cost and availability of leisure services

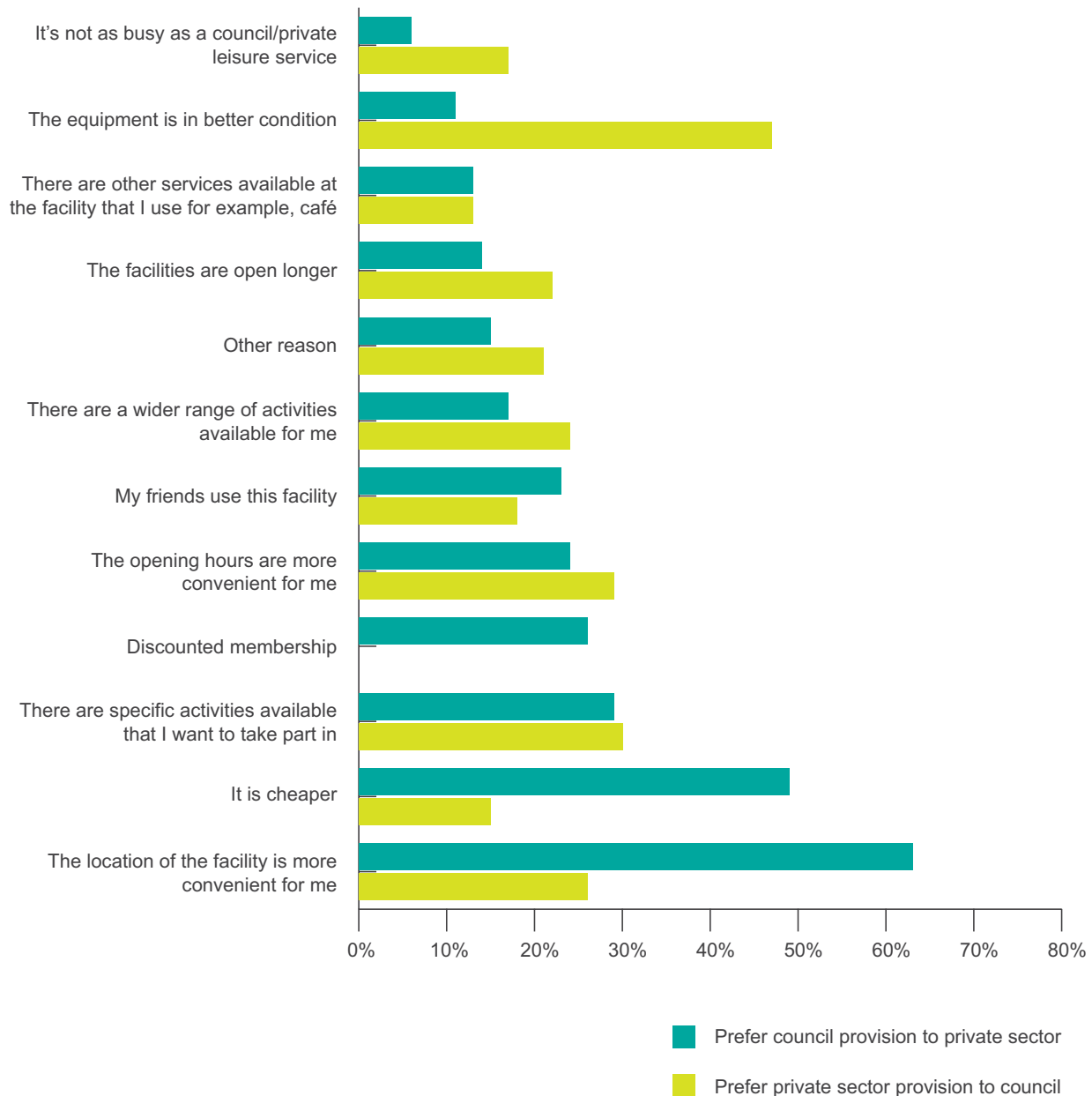
- 3.18 Historically, many councils have prioritised providing leisure facilities that are easily accessible and usable by the whole community, and the prices charged are set to encourage use, rather than designed to recover cost. The possibility of charging commercial prices for certain activities is now growing given the financial challenge councils face in maintaining services with less money. A small number of respondents to our survey noted increasing costs for activities at council leisure facilities. Some recognised that those increases were necessary given other pressures on council budgets but often increases were not well communicated to users.
- 3.19 Sixty-three per cent of our survey respondents felt that council leisure services are good value for money. However, 52 per cent of our survey respondents stated that they are paying more to use the service than a year ago but 27 per cent said they were not and 21 per cent did not know. Some 33 per cent of citizens did not know if the council charges less than private providers and only 37 per cent agreed that the quality of the leisure service has improved since January 2014. The responses from citizens highlight the increasing challenges for council leisure services in communicating service changes and the 'financial' value of the services they provide to their users.
- 3.20 However, we found that the vast majority of citizens responding to our survey – 83 per cent – told us that they did know the full range of leisure services provided by their council, and 77 per cent that they found it easy to obtain information about council leisure services in their local area; for example, opening times, cost of services and frequency of classes.
- 3.21 As part of our on-line survey we asked citizens their preference for using public or private leisure facilities. **Exhibit 15** summarises the responses received and shows that on the 12 preference measures¹⁷ we asked respondents to rate, citizens preferred public as opposed to private leisure facilities on just four of the 12 options which related to cost, location of the facility and whether their friends used the facility. The areas where private facilities were viewed more favourably were in respect of the quality of the equipment, which was seen as both more modern and in a better condition, how busy private facilities are compared to council facilities and the hours of operation.
- 3.22 The level of negative comments – that services have either declined in quality or are not as widely available – is much higher for this review of leisure services than the responses to our first **Delivering with Less**¹⁸ study reviewing Environmental Health services. This suggests that the reductions in public finances are now being felt more acutely in leisure provision, with the range and quality of the services that are available beginning to reduce and the cost of services for the user is starting to increase.

¹⁷ The preference measures we used cover issues such as affordability, opening times, location and range of activities, and taken together allow for a direct comparison of experiences of users of council and private leisure providers.

¹⁸ Wales Audit Office: **Delivering with less – the impact on environmental health services and citizens**, October 2014

Exhibit 15 – Comparison of citizens' preference for using public or private leisure services

Citizens rated private leisure services more favourably than council sector provision.



Source: Wales Audit Office, Citizen online survey, April 2015.

The hygiene and cleanliness standards were not acceptable.

The cleanliness of one of the swimming pools in my area is dreadful and despite completing customer comments forms, over the course of eight weeks no improvement has been made. Having affordable access to sports facilities is really important to my family and me, but I think that management could be improved to ensure that the facilities are kept in good order.

Quality of children's swimming lessons provided at the Council pool is very poor and badly managed and has been for years – the quality hasn't declined because it probably couldn't get much worse. Don't know anyone who is satisfied with the service. Many staff provide a strong impression that they couldn't care less about their work. Main problem is probably very poor management.

Llanishen Leisure centre is in a bad state of repair. The upper activity area ceiling is falling down, the building leaks, the mats used for circuits have not been changed for nearly 10 years, there is no family changing area, all the council pools are too shallow or unsafe to dive or jump in. The pool at Llanishen Leisure centre is only 20 metres across and is for leisure so unsuitable for proper training. The stamina swim session has been cancelled with no one sure when it is coming back. I also dislike the women only swim session offered at some facilities which only allow certain women to use it.

Changing facilities have been the same ever since I can remember – I learnt to swim there around 8 or possibly younger and am 23 now. It has taken me years (from about age 14) to drag myself back to using the facilities simply because I do not like how outdated they are and how the water is warm, the shower facilities are not good and the changing rooms sadly frequently smell slightly unpleasant. The hours are also slightly limiting and it's unfortunate that the student discount times are not after 4pm as that's usually when I can go.

In some facilities the lack of investment is evident and would appear to be part of a long-term plan to reduce provision.

Showers rubbish, multi sex changing rooms disgusting and expensive for what you get.



Citizens' comments about quality of services
Source: Wales Audit Office, Citizen Survey, April 2015

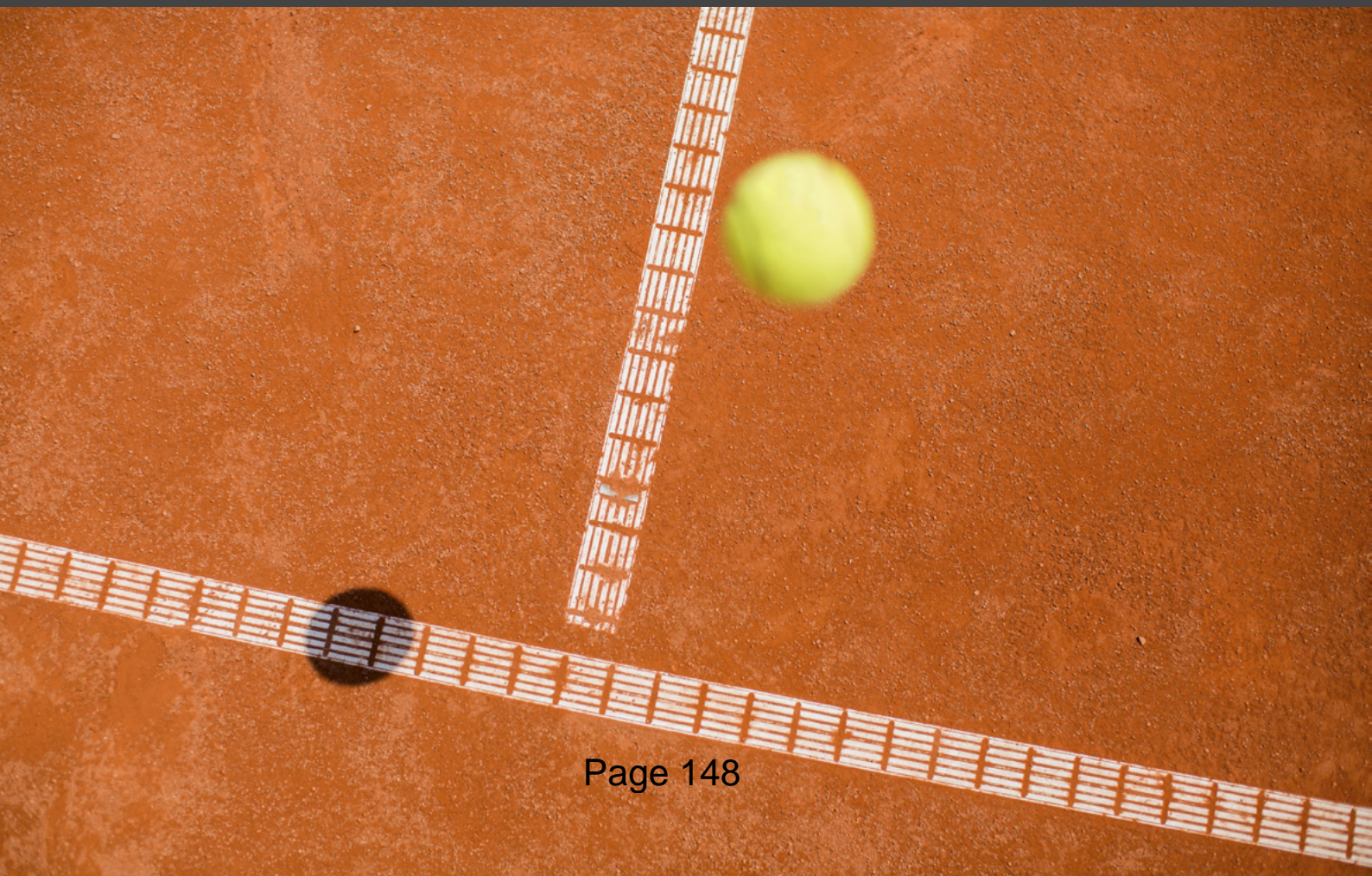
Appendices

Appendix 1 - Study Methodology

Appendix 2 - Council improvement objectives 2015-16
relating to leisure and health improvement

Appendix 3 - End-to-End Options Appraisal Flow Chart

Appendix 4 - Income, expenditure and net cost (subsidy)
by council in 2009-10 and 2014-15



Appendix 1 - Study Methodology

Review of literature, data and statistics

We have reviewed a wide range of documents and media, including:

- Welsh Government policy and guidance documents;
- performance indicator returns from local authorities to StatsWales, Sport Wales and the Benchmarking Hub; and
- relevant research and guidance from councils, representative bodies such as the Welsh Local Government Association and research bodies.

Analysis of council budgets and service usage data

We completed an assessment of councils' budgets for leisure services based on data returns provided by all 22 Welsh councils.

Fieldwork

We visited four local authorities in Wales, between November 2014 and April 2015. These were:

- Denbighshire County Council
- Isle of Anglesey Council
- Powys County Council
- Vale of Glamorgan Council

During the visits, we interviewed a range of council staff and elected members. We also reviewed council plans and strategies for leisure services. We also undertook fieldwork at a national level with representative bodies including the Welsh Government, Welsh Local Government Association and Sports Wales.

Surveys

We undertook a range of surveys:

- We made available an on line survey for elected members across Wales and received 169 responses.
- We surveyed heads of Leisure Services in each council and received responses from all 22 councils.
- Finally, we made available, and promoted, an online survey for Welsh citizens. The survey ran from November 2014 to April 2015 and we received 509 responses.

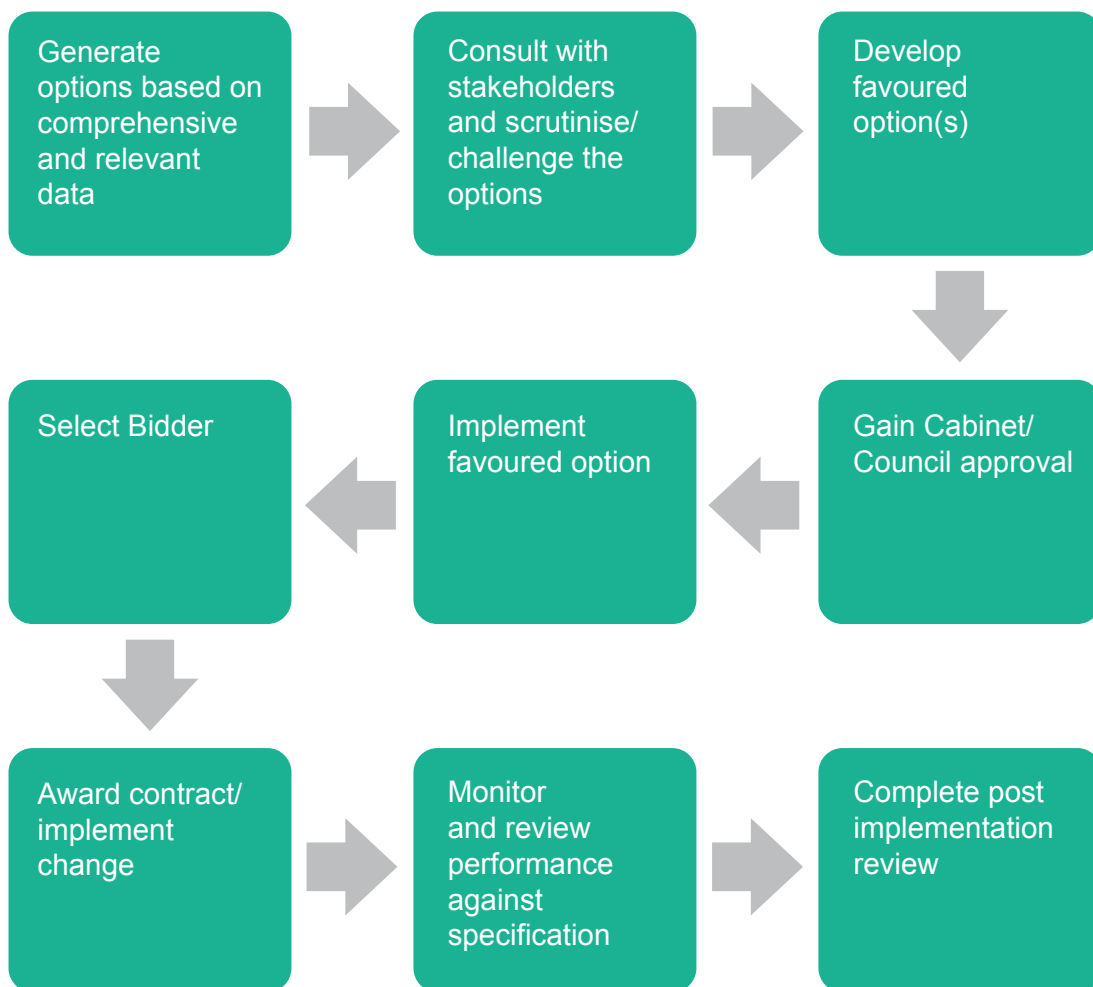
Appendix 2 - Council improvement objectives 2015-16 relating to leisure and health improvement

Council	Improvement objective
Bridgend	Working together to tackle health issues and encourage health lifestyles.
Conwy	People in Conwy are healthy and independent.
Isle of Anglesey	Transforming our leisure and library provision.
Merthyr Tydfil	People, who live and work in Merthyr Tydfil are supported to enjoy a healthier and better quality of life.
Powys	<p>Powys citizens will lead fuller and longer lives, be resilient, have good health and be more able to participate and contribute to their communities.</p> <p>Powys citizens will be supported and empowered to lead active and healthier lives.</p>
Vale of Glamorgan	Citizens of the Vale of Glamorgan are fit, healthy and have equality of outcomes, and through appropriate support and safeguards, the most vulnerable members of our community maximise their life opportunities.
Wrexham	All people are enabled to make healthy choices.

Appendix 3 - End-to-End Options Appraisal Flow Chart

The primary purpose of option appraisal is to help develop a value-for-money solution by making fair comparisons of different options. However, options appraisals should go beyond a traditional financial analysis and pick up broader social, environmental and economic effects, as well as how the service or project being appraised contributes to the strategic direction and priorities of the council.

The key stages of an options appraisal are summarised in the following diagram:



Appendix 4 - Income, expenditure and net cost (subsidy) by council in 2009-10 and 2014-15

Council	2009-10			2014-15		
	Expenditure £'000	Income £'000	Subsidy £'000	Expenditure £'000	Income £'000	Subsidy £'000
Isle of Anglesey	4,363	1,329	3,033	3,435	1,648	1,787
Gwynedd	9,739	4,390	5,349	9,724	4,707	5,017
Conwy	6,221	2,628	3,593	6,301	3,086	3,215
Denbighshire	5,239	2,309	2,930	4,785	2,547	2,238
Flintshire	9,250	3,909	5,341	10,411	4,528	5,883
Wrexham	7,508	3,787	3,721	4,922	1,997	2,924
Powys	8,580	5,391	3,188	8,174	3,158	5,016
Ceredigion	3,123	1,018	2,105	2,915	967	1,948
Pembrokeshire	7,264	2,473	4,791	5,961	3,465	2,496
Carmarthenshire	6,772	2,770	4,002	6,266	2,809	3,457
Swansea	9,603	3,354	6,249	9,224	3,295	5,929
Neath Port Talbot	6,781	668	6,113	4,572	389	4,183
Bridgend	7,827	306	7,522	4,805	495	4,310
Vale of Glamorgan	5,326	2,277	3,049	2,484	665	1,819
Rhondda Cynon Taf	13,688	4,319	9,370	13,195	4,299	8,896
Merthyr Tydfil	4,408	1,364	3,045	3,908	1,379	2,529
Caerphilly	11,398	2,911	8,487	13,836	4,662	9,175
Blaenau Gwent	5,611	2,802	2,809	3,841	1,233	2,608
Torfaen	6,440	2,056	4,384	2,762	116	2,646
Monmouthshire	5,519	2,006	3,513	5,206	2,461	2,745
Newport	9,163	2,905	6,258	8,756	3,746	5,011
Cardiff	17,287	6,115	11,172	17,535	8,056	9,479
Total	171,110	61,087	110,024	153,017	59,708	93,309

Note - **Green** = improving 'subsidy' position; and **Red** = 'deteriorating' 'subsidy' position.

Exhibit source: Analysis of Revenue outturn income and expenditure for council recreation and sports services in 2008-09 and 2014-15, StatsWales.

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CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD

AUDIT COMMITTEE: 22 MARCH 2016

Update on Wales Audit Office Work Programme (Improvement)

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 6.1(b)

PORTFOLIO: CORPORATE AFFAIRS

Reason for this Report

To provide the Audit Committee with an update on the improvement work conducted by the Wales Audit Office (WAO) for 2015/16.

Background

The Auditor General for Wales undertakes a range of audit work in relation to improvement under the Local Government (Wales) Measure 2009. The audit work falls into three categories

- National studies
- Local government studies
- Specific work in local authorities

In October 2015 the Council introduced a 'Tracker' to capture the output of regulators, in this case the work of the Wales Audit Office, which is maintained by the Improvement and Information Team.

This 'Tracker' sets out the programme of Wales Audit Office work together with the indicative timeframes for reports, the reports received, recommendations/proposals for improvement, the officer allocated as the lead officer within the Council (dependent on subject matter), and evidence of the actions being taken.

Work Programme

During 2015/16 the following work was scheduled to be delivered:

- Financial Resilience (National Study)
- Review of Corporate Safeguarding Arrangements (National Study)
- Welfare Reform (National Study)
- Delivering with Less – Leisure (National Study with local summary)
- Regional Consortia (National Study with local summary)
- Picture of Public Services (National Study)
- Independence of Older People (National Study with local summary)
- Public Procurement of national procurement (National Study)
- Welsh Government Interventions of Local Government (National Study)

The following reports were received by the Council:

- Review of Corporate Safeguarding Arrangements (National Study) was presented to the Childrens and Young People's Scrutiny Committee and to the Cabinet
- Welfare Reform (National Study) was presented to Policy Review and Performance Scrutiny Committee, the Cabinet and to Audit Committee as part of the Agenda of 23rd July 2015
- Financial Resilience (National Study) was presented to Audit Committee as part of the Agenda on 16th September 2015
- Delivering with Less – Leisure (National Study with local summary) is on the Audit Committee Agenda for this meeting
- Regional Consortia (National Study with local summary) is on the Audit Committee Agenda for this meeting
- Picture of Public Services (National Study) is on the Audit Committee Agenda for this meeting
- Corporate Assessment including the Certificates of Compliance and Data Quality Review (Council specific) is on the Audit Committee Agenda for this meeting

The following reports are currently outstanding:

- Independence of Older People (National Study with local summary)
- Management of Direct Payments for Adults (Local Government Study and local summary)
- Public Procurement of national procurement (National Study)
- Welsh Government Interventions in Local Government (National Study)

Reason for Report

To present the update on the Auditor General's improvement work programme and provide the Committee with confidence that the Council is having due regard for the findings.

Legal Implications

There are no legal implications directly arising from this report

Financial Implications

There are no financial implications directly arising from this report

RECOMMENDATIONS

To note the work of the Auditor General and identify any issues which the Audit Committee consider relevant to their work programme.

CHRISTINE SALTER
CORPORATE DIRECTOR RESOURCES
23rd February 2016

**WALES AUDIT OFFICE REPORT ON REGIONAL EDUCATION
CONSORTIA (NATIONAL STUDY)**

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 6.1 (c)

Reason for this Report

1. To present to the Audit Committee the Wales Audit Office (WAO) National Report on Regional Education Consortia.

Background

2. The Auditor General for Wales undertakes national studies across a range of functions and activities of local government. The report on Regional Education Consortia is a report published on 3rd June 2015 which seeks to identify not only the current position but some indicators of good practice.
3. As a result of the WAO's work the Auditor General concluded that after an uncertain start, the foundations for regional school improvement services are being established and there are positive signs of progress, but remaining weaknesses are hindering the development of the whole system and the effective governance and financial management of regional consortia

WAO's Comments and Recommendations

R1 To clarify the nature and operation of consortia

4. The WAO found there to be continuing uncertainty about some aspects of the nature of regional consortia and their present and future scope. WAO therefore recommend:
 - The Welsh Government should take full account of the statutory responsibilities of local authorities, and take appropriate legal advice, when considering changes to the roles it expects of local authorities and the regional consortia.
 - The Welsh Government should update the National Model to be less prescriptive on the structure under joint committees or boards whilst maintaining a focus on outcomes.
 - The Welsh Government and local authorities should develop and agree a consistent approach to the role of regional consortia and the

Welsh Government in school improvement interventions so that all parties are clear what they should be involved in and responsible for.

- Local authorities should clarify whether consortia services are jointly provided or are commissioned services (services provided under joint-committee arrangements are jointly provided services and are not commissioned services).

R2 To focus on outcomes through medium-term planning

5. WAO found that the development of effective regional consortia was hindered by a focus on short-term actions and uncertainty about the future of consortia (paragraphs 2.33 to 2.36; 3.16 to 3.17). WAO therefore recommend:

- As any possible local authority re-organisation will not be fully implemented until 2020, the Welsh Government and regional consortia should develop three-year plans for the further development, scope, and funding of regional consortia linked to appropriate strategic objectives.

R3 To develop more collaborative relationships for the school improvement system

6. The development of the National Model for Regional Working involved many school improvement partners but WAO found that this had not led to the development of sufficiently collaborative relationships (paragraphs 2.25 to 2.32). WAO therefore recommend:

- The Welsh Government should develop the present 'Review and Challenge' approach (where the Welsh Government hold regional consortia to account) to establish a more collaborative but robust comprehensive 'system review' approach in which all partners in the system share progress, challenges and issues openly.
- Regional consortia should develop improved arrangements for sharing practice and supporting efficiency (for example, one consortium could take the lead on tackling an issue or have functional responsibility for the development of a policy).
- The Welsh Government, local authorities and regional consortia should recognise the interdependency of all partners fulfilling their school improvement roles and agree an approach to information sharing and consultation about developments related to school improvement; developing collaborative relationships of shared accountability; and undertaking system wide reviews, and an alignment of the understanding and position of regional consortia across all Welsh Government relevant strategies.

R4 To build effective leadership and attract top talent

7. Regional consortia, local authorities and the Welsh Government have all found difficulties in recruiting to senior leadership for education and WAO

found there had been limited action to address this (paragraphs 2.37 to 2.40). WAO therefore recommend:

- The Welsh Government should work with local authority leaders to improve capacity and capability in the system to support strategic development and effective governance.
- The Welsh Government and local authorities should collaborate to improve the attractiveness of education leadership roles to attract the most talented leaders for the school improvement system.
- Local authorities should collaborate to support the professional development of senior leaders and to ensure appropriate performance management arrangements are in place for senior leaders.

R5 To improve the effectiveness of governance and management of regional consortia

8. Whilst continuing progress is being made, WAO found that regional consortia have not yet developed fully effective governance and financial management arrangements (paragraphs 3.2 to 3.36). WAO therefore recommend that local authorities and their regional consortia should:

- improve their use of self-evaluation of their performance and governance arrangements and use this to support business planning and their annual reviews of governance to inform their annual governance statements
- improve performance management including better business planning, use of clear and measurable performance measures, and the assessment of value for money
- make strategic risk management an integral part of their management arrangements and report regularly at joint committee or board level
- develop their financial management arrangements to ensure that budgeting, financial monitoring and reporting cover all relevant income and expenditure, including grants funding spent through local authorities
- develop joint scrutiny arrangements of the overall consortia as well as scrutiny of performance by individual authorities, which may involve establishment of a joint scrutiny committee or co-ordinated work by local authority scrutiny committees
- ensure the openness and transparency of consortia decision making and arrangements
- recognise and address any potential conflicts of interest; and where staff have more than one employer, regional consortia should ensure lines of accountability are clear and all staff are aware of the roles undertaken

- develop robust communications strategies for engagement with all key stakeholders.

City of Cardiff Council Response

9. The specific recommendations arising from the WAO Report are aimed at all partners within the Consortia. The City of Cardiff Council is a partner within the Central South Education Consortia and the findings and recommendations are aimed at all partners within the Consortia. The Director of Education and his team of officers has been working closely with the Consortia to bring about improvements.

Reason for Report

10. To present the Auditor General's findings and set out the process for providing assurance that the Council is having due regard to the output of regulatory activity

Legal Implications

11. There are no legal implications directly arising from this report

Financial Implications

12. There are no financial implications directly arising from this report

RECOMMENDATIONS

13. To note the work of the Auditor General and identify any issues which the Audit Committee consider relevant to their work programme.

CHRISTINE SALTER
CORPORATE DIRECTOR RESOURCES
18th January 2016

The following appendix is attached

Appendix 1: Wales Audit Office (WAO) Report on Regional Education Consortia

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Achieving improvement in support to schools through regional education consortia – an early view



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



I have prepared and published this report in accordance with the Government of Wales Act 2006 and the Public Audit (Wales) Act 2004.

The Wales Audit Office study team comprised Sally Evans, Rachel Harries, Sophie Knott and Stephen Martin under the direction of Alan Morris.

Huw Vaughan Thomas
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The Auditor General, together with appointed auditors, also audits local government bodies in Wales, conducts local government value for money studies and inspects for compliance with the requirements of the Local Government (Wales) Measure 2009.

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Foreword

This report presents an early view of the progress of the arrangements to achieve school improvement through regional education consortia. I asked for the study on which the report is based to be undertaken at this early stage in the development of the consortia as joint committees or companies because the approach is new and the effectiveness of the arrangements will be essential to the achievement of the improved outcomes for children and young people in Wales.

The intention was to provide assurance of progress and to identify areas where additional work may be required to ensure that the governance and financial arrangements for the system are appropriate. The fieldwork was undertaken jointly with Her Majesty's Inspectorate for Education and Training in Wales (Estyn) who undertook their work for a separate report for the Minister. I am pleased that the report notes that regional consortia have responded well to the feedback received from the fieldwork teams and that some aspects of the findings are already being addressed.

Huw Vaughan Thomas
Auditor General for Wales

Summary and recommendations



Summary

- 1 The Welsh Government has adopted a policy of requiring local authorities to work through regional education consortia to improve the efficiency and effectiveness of school improvement arrangements. This is a key element of its response to tackling what it regards as the under-performance of the education system in Wales:
 - a Since 2005, samples of children in Wales (aged 15) have participated in the Organisation for Economic Co-operation and Development (OECD) Progress in International Student Assessment tests (PISA). The PISA tests led to the publication of comparative rankings of the performance of countries. In 2013, the OECD published the 2012 test results, which found that ‘performance in Wales was lower than the rest of the United Kingdom’ and Wales’s ranking against other countries had fallen¹.
 - b Her Majesty’s Inspectorate for Education and Training in Wales (Estyn) inspects the quality and standards of the education and training services that the 22 local authorities in Wales provide for children and young people. During the 2010-2013 inspection cycle, Estyn assessed overall performance as excellent in only one local authority. Estyn identified more than two-thirds of local authority education services as requiring follow-up monitoring.
- 2 Local authorities have a duty under the **School Standards and Framework Act 1998** to promote high standards in the maintained schools in their area. Local authorities have historically discharged this through school improvement teams of advisers, which visit schools to challenge and support them to improve their performance.
- 3 In February 2011, the then Minister for Education and Skills set out 20 priorities for rapidly transforming standards of achievement in Wales. As part of this announcement, the Minister said that local authorities should work in consortia arrangements to raise standards and achieve efficiencies which should be re-directed to ‘the front-line’². He stated that local authorities would be financially penalised if they did not participate in those arrangements. In March 2011, the Independent Task and Finish Group, commissioned by the Minister and led by Vivian Thomas³, reported and said: ‘We conclude that education accountability structures are over complex or simply not clear enough in Wales at this time and that reform is required.’ The 22 local authorities agreed to work through four regional consortia from September 2012.

1 **Achievement of 15-Year-Olds in Wales: PISA 2012 National Report**, National Foundation for Educational Research, December 2013.

2 **Address to Welsh Local Government Association**, Minister for Education and Skills, March 2011.

3 **The Structure of Education Services in Wales**, Independent Task and Finish Group, March 2011.

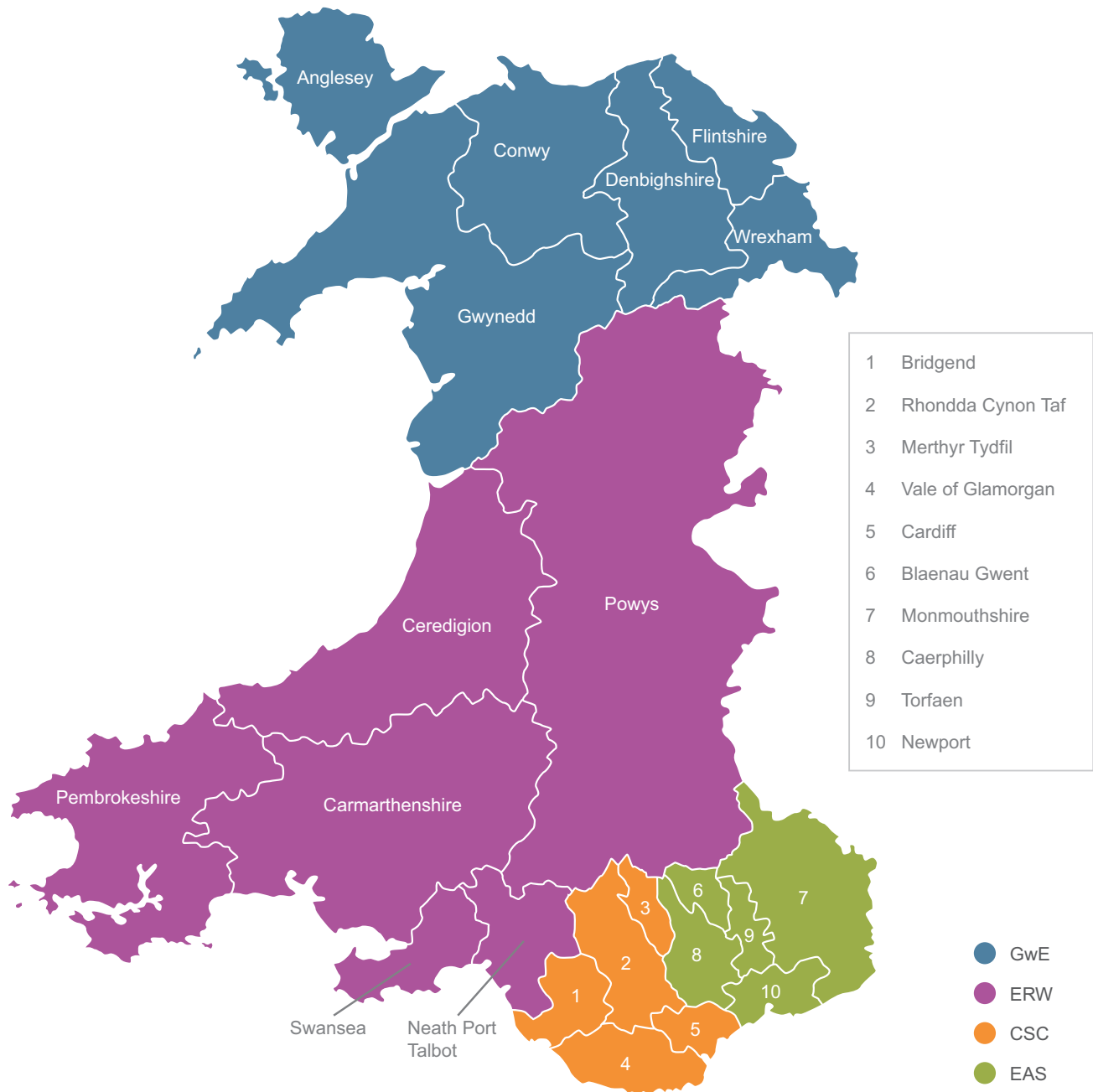
- 4 In June 2013, the Welsh Government published **The Future Delivery of Education Services in Wales**, a review led by Robert Hill⁴. Chapter six of the review tackles the issue of the respective roles and responsibilities of the local authorities, regional consortia and national government. It described these roles as ‘the area where there is the greatest urgency for decisions and action on the options for reform that I have identified’. The report described the arrangements for school improvement in Wales at the time as ‘profoundly unsatisfactory’. It offered a range of options for delivering school improvement services through regional consortia. The Welsh Government consulted on Hill’s review and options from June to September 2013⁵.
- 5 The Welsh Government published a **National Model for Regional Working** in February 2014. The model outlines the vision and arrangements for four, formally constituted, regional consortia as well as the roles of each tier (schools, local authorities, and regional consortia) within the education system. Local authorities agreed to adopt the National Model with implementation progressively achieved from 1 April 2014.
- 6 The local authorities have developed different formal structures for their consortia. Central South Consortium (CSC), Education through Regional Working (ERW) and North Wales School Effectiveness Service/Gwasanaeth Effeithiolrwydd Ysgolion Gogledd Cymru (GwE) are joint committees⁶ and Education Achievement Service (EAS) is a company limited by guarantee (further information about the form of the consortia is in [Appendix 3](#)). The four regional consortia cover the local authorities shown in [Figure 1](#).
- 7 Local authorities are expected to protect their funding for school improvement and transfer it to the regional consortia. The National Model calculated that this would result in core funding of £18.55 million in 2014-15.
- 8 School improvement is not a precise term. In the narrowest sense it has been used to refer to the work of some of the advisers who visit schools, challenge schools over their progress and support, and advise them with their plans for improvement. These advisers were known as ‘system leaders’ but the role was re-focussed as part of the development of the National Model to become ‘challenge advisers’. In a wider sense, school improvement also depends on the effectiveness of support for learners with additional needs, work to address attendance and behaviour issues, the quality of teaching and learning, the suitability of school buildings, engagement with parents and communities and much more. The Welsh Government wants the initial focus of regional consortia to be on the challenge and support for schools, although other matters including HR support, school governor training, 14 to 19 support, the foundation phase and some other areas are also expected to be transferred into the consortia.

4 **The Future Delivery of Education Services in Wales**, Robert Hill Consulting, June 2013.

5 **Consultation Document on The Future Delivery of Education Services in Wales**, Welsh Government, June 2013.

6 Sections 101 and 102 of the Local Government Act 1972 (and in the case of Executive Functions sections 19 and 20 of the Local Government Act 2000 and relevant Regulations made under these sections) enable the work of authorities to be discharged through a variety of internal arrangements, and, in this context, external arrangements involving, and working with, other authorities. In particular, these powers include the ability of two or more authorities to discharge any of their functions jointly, and where this occurs, to do so via a joint committee, and/or by their officers.

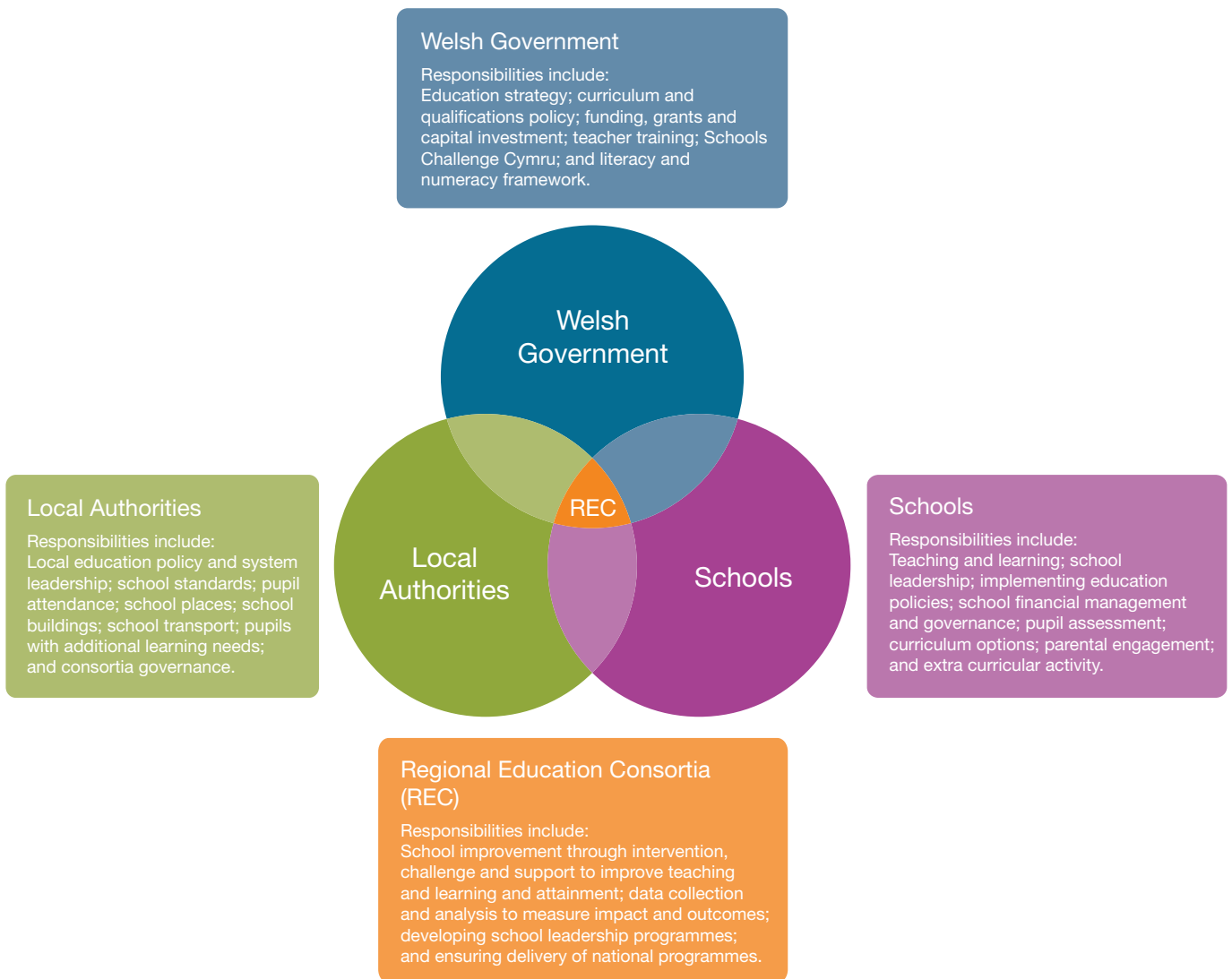
Figure 1 – The Regional Education Consortia in Wales



Source: Wales Audit Office

9 Achieving improvement in school outcomes is a complex system involving many stakeholders. Key partners, although not the only ones, are the Welsh Government, local authorities, schools, and regional education consortia (Figure 2).

Figure 2 – The School Improvement System showing responsibilities of key partners



Source: Wales Audit Office

- 10 On behalf of the Auditor General, Wales Audit Office staff have examined whether the Welsh Government's arrangements for regional consortia are likely to deliver the intended improvement in support to schools and local authorities. In reviewing the progress of regional consortia, we focused on the effectiveness of governance arrangements based on the Good Governance Standard for Public Services⁷. A summary of the methodology for this report is included as [Appendix 1](#). The main fieldwork for the study was undertaken between August 2014 and January 2015 in collaboration with Estyn which has prepared and published a thematic survey report on the work of regional consortia for school improvement services⁸. By working collaboratively, it has been possible to share and incorporate the insights from the perspectives of both agencies. The Estyn report focuses on the progress on providing improvement services to schools. The main findings and recommendations of the Estyn report are included in [Appendix 2](#).
- 11 We concluded that after an uncertain start, the foundations for regional school improvement services are being established and there are positive signs of progress, but remaining weaknesses are hindering the development of the whole system and the effective governance and financial management of regional consortia. We reached this conclusion because we found:
- a The National Model for Regional Working has provided a broadly agreed framework for a regional approach to school improvement. The Welsh Government, local authorities and regional consortia have shown a commitment to this approach and there are some positive signs of progress in the challenge provided to schools.
 - b However, we found some continuing uncertainties about the nature and scope of consortia, and that some relationships between partners did not reflect the need for all the main partners to collaborate to achieve improvement together. There has also been a lack of medium-term planning and insufficient focus on arrangements to assess value for money.
 - c The governance of regional consortia is developing but we found progress was hindered by limited capacity, incomplete management structures, inadequate scrutiny of overall consortia arrangements, weaknesses in financial and performance management and insufficient openness and transparency.
- 12 Feedback on the progress of the study was provided to the Welsh Government at various stages and to each regional consortium at the end of fieldwork by the Wales Audit Office and Estyn fieldwork teams. This has enabled issues identified to be considered as quickly as possible.

⁷ [The Good Governance Standard for Public Services](#), The Independent Commission on Governance Standards in Public Services and the Chartered Institute of Public Finance and Accountancy, January 2005.

⁸ [Improving schools through regional education consortia](#), Estyn, June 2015.

Recommendations

- 13 Arising from the study, the recommendations below are made. In addition, the report to the Minister by Estyn, for which fieldwork was carried out in collaboration with Wales Audit Office staff, includes recommendations to the Welsh Government, local authorities and regional consortia. These are included with the main findings of the Estyn report in [Appendix 2](#).

Recommendation

R1 To clarify the nature and operation of consortia

We found there to be continuing uncertainty about some aspects of the nature of regional consortia and their present and future scope ([paragraphs 2.2 to 2.20](#)). We therefore recommend:

- The Welsh Government should take full account of the statutory responsibilities of local authorities, and take appropriate legal advice, when considering changes to the roles it expects of local authorities and the regional consortia.
- The Welsh Government should update the National Model to be less prescriptive on the structure under joint committees or boards whilst maintaining a focus on outcomes.
- The Welsh Government and local authorities should develop and agree a consistent approach to the role of regional consortia and the Welsh Government in school improvement interventions so that all parties are clear what they should be involved in and responsible for.
- Local authorities should clarify whether consortia services are jointly provided or are commissioned services (services provided under joint-committee arrangements are jointly provided services and are not commissioned services).

R2 To focus on outcomes through medium-term planning

We found that the development of effective regional consortia was hindered by a focus on short-term actions and uncertainty about the future of consortia ([paragraphs 2.33 to 2.36; 3.16 to 3.17](#)). We therefore recommend:

- As any possible local authority re-organisation will not be fully implemented until 2020, the Welsh Government and regional consortia should develop three-year plans for the further development, scope, and funding of regional consortia linked to appropriate strategic objectives.

Recommendation

R3 To develop more collaborative relationships for the school improvement system

The development of the National Model for Regional Working involved many school improvement partners but we found that this had not led to the development of sufficiently collaborative relationships ([paragraphs 2.25 to 2.32](#)). We therefore recommend:

- The Welsh Government should develop the present ‘Review and Challenge’ approach (where the Welsh Government hold regional consortia to account) to establish a more collaborative but robust comprehensive ‘system review’ approach in which all partners in the system share progress, challenges and issues openly.
- Regional consortia should develop improved arrangements for sharing practice and supporting efficiency (for example, one consortium could take the lead on tackling an issue or have functional responsibility for the development of a policy).
- The Welsh Government, local authorities and regional consortia should recognise the interdependency of all partners fulfilling their school improvement roles and agree an approach to:
 - information sharing and consultation about developments related to school improvement;
 - developing collaborative relationships of shared accountability; and
 - undertaking system wide reviews, and an alignment of the understanding and position of regional consortia across all Welsh Government relevant strategies.

R4 To build effective leadership and attract top talent

Regional consortia, local authorities and the Welsh Government have all found difficulties in recruiting to senior leadership for education and we found there had been limited action to address this ([paragraphs 2.37 to 2.40](#)). We therefore recommend:

- The Welsh Government should work with local authority leaders to improve capacity and capability in the system to support strategic development and effective governance.
- The Welsh Government and local authorities should collaborate to improve the attractiveness of education leadership roles to attract the most talented leaders for the school improvement system.
- Local authorities should collaborate to support the professional development of senior leaders and to ensure appropriate performance management arrangements are in place for senior leaders.

Recommendation

R5 To improve the effectiveness of governance and management of regional consortia

Whilst continuing progress is being made, we found that regional consortia have not yet developed fully effective governance and financial management arrangements (paragraphs 3.2 to 3.36). We therefore recommend that local authorities and their regional consortia should:

- improve their use of self-evaluation of their performance and governance arrangements and use this to support business planning and their annual reviews of governance to inform their annual governance statements;
- improve performance management including better business planning, use of clear and measurable performance measures, and the assessment of value for money;
- make strategic risk management an integral part of their management arrangements and report regularly at joint committee or board level;
- develop their financial management arrangements to ensure that budgeting, financial monitoring and reporting cover all relevant income and expenditure, including grants funding spent through local authorities;
- develop joint scrutiny arrangements of the overall consortia as well as scrutiny of performance by individual authorities, which may involve establishment of a joint scrutiny committee or co-ordinated work by local authority scrutiny committees;
- ensure the openness and transparency of consortia decision making and arrangements;
- recognise and address any potential conflicts of interest; and where staff have more than one employer, regional consortia should ensure lines of accountability are clear and all staff are aware of the roles undertaken; and
- develop robust communications strategies for engagement with all key stakeholders.

Part 1

After a period of uncertainty, the foundations of the school improvement system are becoming established and there are positive signs of progress for some regional school improvement services



- 1.1 This section highlights some of the areas of progress in the development of regional consortia and the school improvement system.

Prior to publication of the National Model for Regional Working, significant differences had developed in the scope, approach and arrangements for regional school improvement services

- 1.2 The Association of Directors of Education in Wales (ADEW)⁹ began to work through five regional consortia¹⁰ in the year 2000 to develop common approaches to national performance management requirements for teachers. These long-standing collaboration arrangements also linked to various networks of local authority officers. The ADEW networks of directors subsequently re-grouped into four regions and developed into forums for regional collaboration on a range of education issues. The directors of education are the officers who are accountable to their local authorities for the statutory education functions of the authorities (Exhibit 1).
- 1.3 The structures for the management of education services vary between local authorities. For example, in some authorities education is part of a children and young people's department along with social services for children, whilst in others it has remained separate. Prior to the establishment of regional consortia, the scope and organisation of school improvement services varied with some significant variations in the funding and staffing levels of the services. The quality of school improvement services also varied; over the Estyn 2010-2013 inspection cycle, support for school improvement was assessed by Estyn as excellent in two authorities, good in five, adequate in 10 and unsatisfactory in five authorities.
- 1.4 When the Minister for Education and Skills announced, in February 2011, that he expected local authorities to deliver school improvement services through regional consortia it was the ADEW networks that undertook preparatory work to develop the regional approach. For instance, in North Wales, the ADEW network undertook the development of the business case for a regional school improvement service and developed the inter-authority service level agreement for a joint service that was agreed by their local authorities.
- 1.5 From 2011 to 2013, each region developed its own plans for regional collaborative school improvement services with different governance structures and different ranges of service included. In south-east Wales, the local authorities decided to establish their Education Achievement Service (EAS) as a company limited by guarantee. In central south Wales, the local authorities established the Central South Consortium (CSC) as a formal joint committee to operate with two distinct services areas, a Joint Education Service and a 'LINKS' service to provide support to schools. The North Wales grouping of local authorities and the mid and west Wales grouping have remained consistent, but elsewhere there were changes in the groupings with Caerphilly joining the south-east Wales region and Cardiff joining the Central South region.

⁹ The Association of Directors of Education in Wales (ADEW) is the professional group of local authority officers accountable for statutory education functions in each of the local authorities in Wales.

¹⁰ The ADEW consortia are referred to in this report as ADEW networks to distinguish them from the more formal consortia governed by a joint committee or company board.

Exhibit 1 – The statutory framework for the school improvement system

The **Education Act 1944** placed a duty on local authorities to offer universal free education. This duty was consolidated in the **Education Act 1996**, which requires local authorities to provide ‘sufficient schools in ‘number, character and equipment’” to offer education appropriate to age, ability and aptitude of pupils. The 1996 Act also placed a duty on local authorities to promote improved standards in schools and to appoint a fit person to be the chief education officer of the authority.

The **School Standards and Framework Act 1998** expanded on the 1996 Act and added the duty of local authorities ‘to promote high standards in primary and secondary schools’. The **Local Government (Wales) Measure 2009** placed a duty on local authorities to ‘make arrangements to secure continuous improvement’.

The statutory duties of schools are set out in a range of legislation including the **Education Act 2002**, which says, ‘the governing body shall conduct the school with a view to promoting high standards of educational achievement at the school’. The **Education (School Development Plans) (Wales) Regulations 2014** require schools to prepare three-year development plans showing their improvement priorities.

The **Government of Wales Act 1998** transferred the education and training functions from the UK government to the devolved assembly and subsequently to the Welsh Ministers by the **Government of Wales Act 2006**.

The **School Standards and Organisation (Wales) Act 2013** reformed the powers of local authorities and the Welsh Ministers to intervene in the conduct of schools maintained by local authorities that are causing concern. This Act also reformed the powers of Welsh Ministers to issue formal guidance, give direction and intervene in the exercise of education functions.

The **Local Government Acts of 1972 and 2000** enable two or more local authorities to discharge their work jointly in various ways via a joint committee and/or their officers. Section 111 of the 1972 Act gives a permissive power to establish a company (although not a trading company).

There is no legislation conferring any education duties on regional consortia.

Any role for regional consortia derives only from agreements made by the participating authorities to discharge their duties jointly through a consortium. However, in doing so, local authorities do not resile from the statutory duties conferred on them by current relevant legislation.

Whilst not addressing all issues, the National Model for Regional Working gave a broadly agreed scope and framework for a regional approach to school improvement

- 1.6 The report by Robert Hill in June 2013 made a series of recommendations about school improvement services. The Welsh Government decided that they could not consider a number of the recommendations in full until Welsh Government officials had made decisions in relation to the Commission on Public Service Governance (the Williams Commission), which reported in January 2014. However, Welsh Government officials considered two recommendations were sufficiently important to take immediate action in September 2013. The recommendations were:
- a local authorities to stop providing school improvement services; and
 - b to fund regional consortia directly by top-slicing the Revenue Support Grant.
- 1.7 Local authorities were opposed to these changes because local authorities retain statutory duties for school improvement and to top-slice funding would mean local authorities have statutory duties but do not control the related funding. In October 2013, following discussions with the Welsh Local Government Association (WLGA), the Minister for Education and Skills issued a written statement¹¹ outlining agreement with local government that would protect school improvement funding within the local government budget settlement whilst local government committed to develop greater consistency and uniformity across consortia business models. He also stated that work had begun to construct a National Model for Regional Working for the consortia.
- 1.8 The WLGA, the Welsh Government, an advisory panel of experts, and representatives from regional consortia, local authorities and headteachers worked together to co-construct the National Model for Regional Working for implementation from 1 April 2014. The Welsh Government published the final model on 17 February 2014. In a written statement¹², the Minister for Education and Skills stated:
- ‘Local government have given a commitment to adopt the national model with implementation progressively achieved from 1 April 2014. This is along with a ‘protection’ on the current level of spend to support regional school services. I have a commitment from them that if they fail to deliver then there will be a top-slice of the Revenue Support Grant from 2015.’
- 1.9 The National Model set out the vision and principles for the change and covered:
- a the scope of consortia work;
 - b responsibilities of consortia and local authorities;
 - c governance arrangements;
 - d accountability and relationships;

11 **Written Statement – The Review of the Future Delivery of Education Services in Wales: An Update**, Minister for Education and Skills, October 2013.

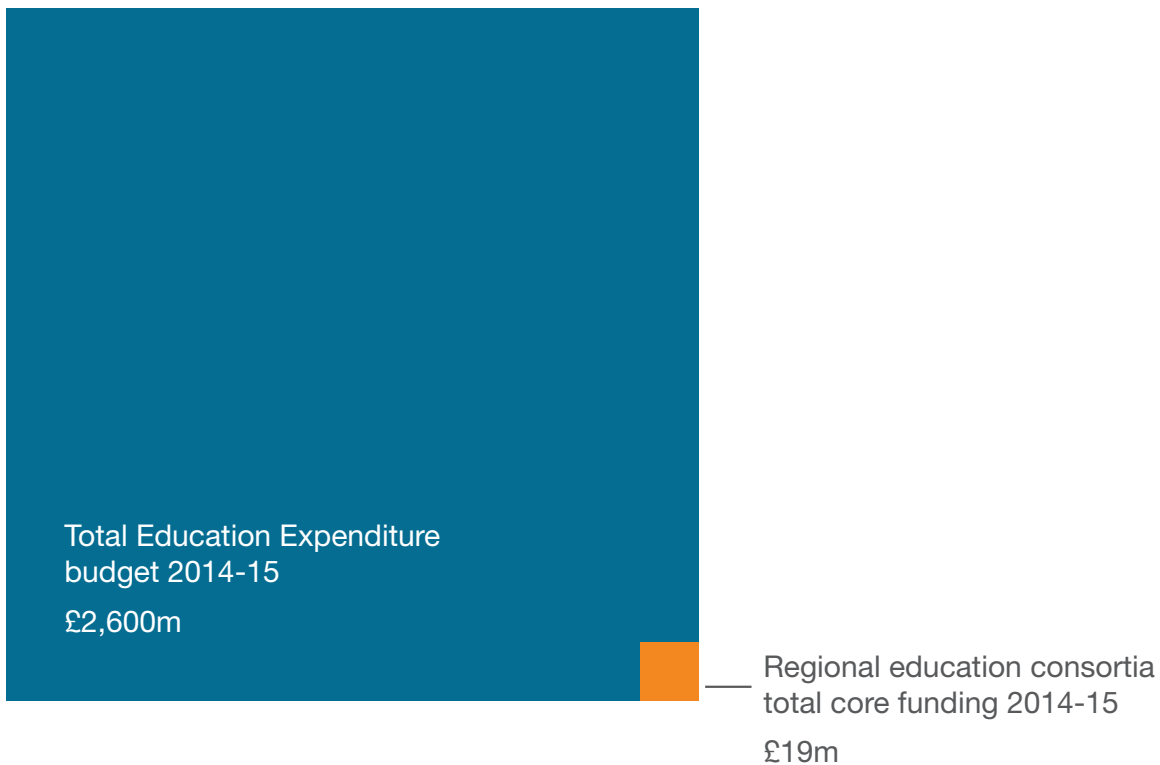
12 **Written Statement – The National Model for Regional Working**, Minister for Education and Skills, February 2014.

- e the organisation of consortia;
- f funding and finances; and
- g timescales.

1.10 The co-production of the National Model for Regional Working provided a measure of ‘buy-in’ for the framework and the WLGA gave a commitment that local authorities would adopt the model progressively from April 2014. We found consistent support for the principal elements of the National Model framework amongst those we spoke to in the Welsh Government, regional consortia, and local authorities.

1.11 The National Model provided a basis for establishing the core funding provided by local authorities for each consortium. The total core funding for 2014-15 was calculated from elements of the Welsh Government Revenue Support Grant as £18.5 million. To put this funding in context, the total budgeted revenue expenditure by local authorities on education for 2014-15 was £2,630 million and the element of this they are expected to provide for consortia is about 0.7 per cent (Figure 3).

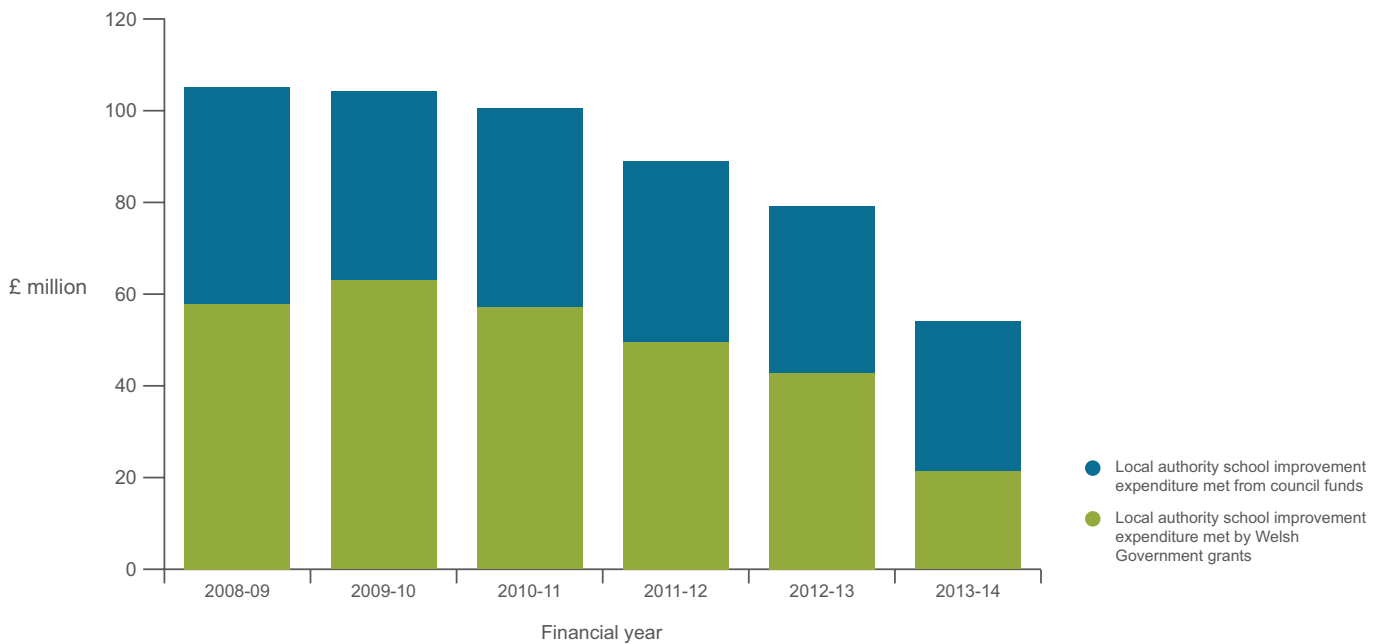
Figure 3 – In 2014-15, budgeted core funding for regional consortia was less than one per cent of local authority expenditure on education



Source: Welsh Government

1.12 As well as the core funding for consortia, local authorities report additional expenditure on ‘school improvement’ using other funding streams such as Welsh Government grants. During the five years to 2013-14, local authorities reported a reduction in their overall net expenditure on ‘school improvement’ of 49 per cent from £105 million in 2008-09 to £54 million in 2013-14 (Figure 4). During this period the level of delegation of funding to schools increased in all local authorities and the Welsh Government provided additional grant funding for schools, for example, through the Pupil Deprivation Grant, that is not included in the local authority school improvement expenditure figures.

Figure 4 – Between 2008-09 and 2013-14 local authorities reported that their net expenditure on school improvement reduced by almost 50 per cent



Source: Welsh Government

- 1.13 The regional consortia are also expected to have a role in some of the streams of grant expenditure from the Welsh Government, including some elements of School Effectiveness Grant, Pupil Deprivation Grant, Foundation Phase Grant and other grants. The Welsh Government can distribute these to regional consortia (through their lead local authority), local authorities or schools depending on the grant and the region. The Welsh Government reported that the grants related to school improvement totalled just over £250 million in 2014-15 (Figure 5).
- 1.14 The National Model set out an agreed structure for consortia. Each consortium was expected to adopt either a governance structure based on a joint committee or a company limited by guarantee. The National Model set out the expected role, responsibilities and membership of the joint committee, and an executive board and described the expected roles of the managing director, lead chief executive, and lead director of education. The Model provided a template for the developing consortia to work towards.
- 1.15 The National Model set out evidence-based approaches to school improvement. The approaches included an annual cycle of school improvement, the importance of school-to-school support, self-evaluation by schools, effective support and challenge from 'challenge advisers' and the development of a national system of school categorisation. These approaches draw on recognised good practice and were not challenged by stakeholders.

The National Model aimed to establish the consortia arrangements by April 2014 but all consortia experienced transition difficulties whilst moving to the new framework

- 1.16 The National Model says 'the aim in order to begin to deliver improved outcomes is to transition through the next few months to the consortia arrangements set out in this report by 1st April 2014'. However, the Model recognised that some of the school improvement services would not be delivered by that date. We found that the Welsh Government and some consortia and local authorities underestimated the complexity of the change to formal consortia and the time required to implement the changes. All the regional consortia experienced transition difficulties.
- 1.17 The use of formal joint committee or company board arrangements to lead the development of school improvement services is innovative and we have not found any comparative examples. Such structures were not part of the City Challenge school improvement programmes in London, Manchester or the Black Country¹³. The use of a joint committee for managing services with large staff groups, stakeholders and uncertainty is very different from the joint committees in Wales that have managed the development of shared capital projects or overseen some regional transport arrangements. Whilst the Independent Task and Finish Group, led by Vivian Thomas, criticised the complexity of education structures¹⁴, the chosen framework for regional education consortia was likely to add to the complexities of structure and accountability.

¹³ City Challenge was a UK Government programme run from 2008 to 2011 designed to improve educational outcomes in London, Manchester and the Black Country. The interventions used were characterised by a belief that school-to-school collaboration has a central role to play in school improvement; recognition of the importance of school leadership; and a data-rich approach to tackling issues and sharing learning.

¹⁴ The Structure of Education Services in Wales, Independent Task and Finish Group, March 2011.

Figure 5 – The Welsh Government issued grants of over £250 million in 2014-15 relating to school improvement

Welsh Government grant description	Welsh Government funding 2014-15 (£ million)
Grants related to school improvement being rationalised in 2015-16¹	
Foundation Phase Revenue Grant	97.9
School Effectiveness Grant	28.1
14 - 19 Learning Pathways	10.2
Minority Ethnic Achievement Grant	10.0
Welsh in Education Grant	5.6
Gypsy Children and Traveller Children Education Grant	1.1
Lead and Emerging Practitioner Grant	0.9
Reading and Numeracy Test Support Grant	0.8
Additional funding for Band 4 and 5 Schools	0.5
Induction	0.4
Higher Level Teaching Assistant Grant	0.2
Sub-total of grants to be rationalised	155.8
Other grants related to school improvement	
Pupil Deprivation Grant	68.5
Schools Challenge Cymru ²	20.0
GCSE support programme for Welsh/English and Mathematics	2.8
Youth Work Strategy Support	2.8
Family Learning Programme	1.8
Learning in a Digital Wales CPD	0.3
Policy Observatory Project	0.1
Sub-total of other grants	96.1
Total Welsh Government grant funding related to school improvement	251.9

Notes:

1 The Welsh Government is amalgamating 11 grants into a new 'Education Improvement Grant for Schools' in 2015-16. The total funding will be £141 million in 2015-16.

2 Schools Challenge Cymru funding is up to £20 million in 2014-15.

Source: Welsh Government

- 1.18 Each local authority provided different levels and structures for school improvement services and bringing these together was, not surprisingly, a complex task. As noted in [paragraph 1.12](#), local authorities had also been reducing their expenditure and making savings in their school improvement services. In many cases, this had involved some level of restructuring of the advisers to schools.
- 1.19 In some regions the transfer of staff to regional school improvement services began in 2012. The Transfer of Undertakings Protection of Employment (TUPE) regulations applied where staff were to be transferred to a new local authority. These regulations placed some limitations on the ability of the consortia to choose the staff they wished to have transferred in to a consortium. Most of the consortia have had at least one round of further reorganisation since establishing their initial staff complements to implement the change from system leader to challenge adviser and to develop the structures of the consortia.
- 1.20 The National Model clarified the expectation that consortia would develop joint committees or company boards and these were in place in CSC and EAS in 2012, GwE in 2013, and ERW in 2014. The committees or boards were then able to provide the necessary decision making and leadership. However, developing such bodies, drawn from across very different local authorities, into fully effective committees or boards is inevitably a longer process than bringing them into existence.
- 1.21 All the consortia struggled to complete their leadership teams and had vacancies or interim appointments during 2012 to 2014. During this transition period, the consortia have depended heavily on the involvement of the directors of education and particularly the lead director for each consortium. We found that all the lead directors provide good support and guidance to the managing directors of the consortium. The managing directors all now have a clear vision for the service they are seeking to develop, although in two regions this was not entirely shared by the directors of education and other local authority leaders.

The Welsh Government and local authorities have demonstrated their commitment to supporting school improvement through regional working and this has helped development

- 1.22 The Welsh Government, local authorities and independent reviews have drawn attention to the need to significantly improve pupil attainment in Wales. The challenge to local authorities to develop regional work to deliver more effective and efficient school improvement services has had strong leadership from Ministers. This leadership was backed up with: a fund of £1 million per consortium in 2012 to support transition; the secondment into the Department for Education and Skills of a group of initially four people with proven educational leadership roles to provide a link with, and to support, the four emerging consortia; and an increase in funding through specific grants to support school improvement related activities.

- 1.23 The Welsh Government has supported the drive to improve consistency in the challenge and support to schools by providing national training programmes for challenge advisers. The Minister and senior officials have developed and delivered termly 'review and challenge' events to monitor progress of consortia as well as a range of ongoing contacts. The development of the national system of schools categorisation and guidance related to this has also helped consortia improve the consistency of approach to schools.
- 1.24 Local authorities, through the WLGA and ADEW network representatives, engaged in the co-production of the National Model and made a commitment to work towards the model. We found that local authorities and regional consortia generally welcomed the Welsh Government commitment to supporting the development of consortia. We found that in each region, elected members and officers showed commitment to regional working and recognised some of the inherent issues in transition. For example, they generally accepted that there would be 'winners and losers' in the financial arrangements and were prepared to share local authority staff resources and work collaboratively to help develop the consortia.
- 1.25 This level of commitment to regional working provides an important foundation and will help the processes to withstand further pressures in the coming years when greater tensions over funding may be expected. Although we found some inconsistencies in the effectiveness of engagement there was generally a positive spirit and commitment to regional working.
- 1.26 Over the last year, we observed progress, momentum and developments across the system, including: the publication of Qualified for Life – a Welsh Government education strategy to 2020; a series of Ministerial speeches aimed at ensuring a coherent message about Government priorities; and developments in the governance and service delivery of regional consortia. The managers and leaders of the regional consortia were all working hard to develop the fledgling organisations. The teams from the Wales Audit Office and Estyn provided verbal feedback to each consortium following fieldwork. Without exception, the feedback was accepted and in many cases, the consortia have quickly acted upon identified issues.

There are some signs of progress in the challenge and support of schools although many weaknesses remain to be addressed

- 1.27 The National Model for Regional Working notes that the delivery of school improvement services should be 'underpinned by excellence of expertise in analysing and challenging schools' improvement needs' and the Welsh Government reiterated the role of regional consortia in **Qualified for Life** as follows:
'The role of regional consortia in the National Model is to deliver intervention and challenge. This challenge is essential to ensure that schools set ambitious and stretching targets for learner attainment.'

- 1.28 The report **Improving schools through regional education consortia** by Estyn identifies some signs of progress in the challenge to schools although many significant weaknesses remain. The main findings by Estyn are included in [Appendix 2](#) but some of the relevant points are:
- a Although the general improvements in standards of pupil attainment over the past three years cannot be solely attributed to the development of regional consortia, the published data reflects a gradual improvement in pupil attainment across all four regions. At key stage 2 pupils attain at similar levels across all regions but at key stage 4 there is greater variation in levels of pupil outcomes. Performance is consistently higher in GWE and ERW than in CSC and EAS, the latter two regions having comparatively greater levels of social deprivation. School inspection outcomes are broadly similar across the four regions.
 - b The regional consortia have strengthened their quality assurance arrangements for challenge advisers, particularly since September 2014, and there is greater consistency in the work of challenge advisers as a result. However, the arrangements are not always implemented rigorously enough and pre-inspection reports for schools still do not always match the outcome of inspections closely enough.
 - c None of the regional consortia has a coherent strategic approach to reduce the impact of deprivation on attainment. The regional consortia have not monitored closely enough how well schools are using the Pupil Deprivation Grant.
 - d All the consortia have suitable arrangements in place with local authorities for sharing useful information from many service areas relevant to their work, such as additional learning needs, social inclusion and wellbeing, finance and complaints. However, none of the consortia has a fully developed and consistently used system to collate, analyse and share information about the progress of pupils and schools.
 - e Regional consortia generally know how well many of their schools are currently performing through the work of challenge advisers, supported by their analysis of attainment data. Most headteachers and chairs of governing bodies report that the performance of their school is scrutinised closely and fairly by challenge advisers.
 - f Although challenge advisers generally know what assessment data indicates about a school's performance, this does not always mean that they know the school well enough. Challenge advisers are not always diagnostic enough in understanding why a school is performing well or not. Challenge advisers are not always involved enough in moderating teacher assessment and they are less effective at evaluating teaching and leadership than standards. However, weaknesses in challenge adviser work are not as prevalent as they were when consortia began to formalise in 2012. Regional consortia usually provide appropriate and timely information to local authorities about schools causing concern.

- g Overall, regional consortia are better at challenging schools about their current performance than supporting them to improve. All the consortia have an appropriately strong focus on supporting improvement in literacy and numeracy. However, support for schools in many other areas of learning, such as non-core subjects, is either weak, inconsistent or unavailable. The consortia are developing strategies to facilitate schools to support each other, although only CSC involves all schools in their strategy. The consortia do not monitor and evaluate well enough the impact of their support to improve schools, whether this support is provided directly or brokered or is school-to-school support that they facilitate.

Part 2

While the foundations are being established, remaining weaknesses are hindering the pace of development of a fully effective school improvement system across Wales



- 2.1 This section highlights some aspects of the school improvement system which are not yet fully effective.

Failure to adequately reflect a full and consistent understanding of the statutory education role of local authorities has hampered the development of effective governance and accountability arrangements

The arrangements proposed in the published National Model and subsequent version do not consistently reflect the statutory framework for school improvement

- 2.2 The National Model recognises that 'local authorities will retain the statutory accountability for school performance'. The Welsh Government published the Model following prolonged discussion with the WLGA and other advisers (paragraph 1.8), but it lacked sufficient appreciation of the statutory responsibility of local government for school improvement (Exhibit 1). Despite the innovative nature of the proposed arrangements, the Welsh Government failed to obtain sufficient legal advice on the model. Following publication, the WLGA obtained legal advice and shared it with the Welsh Government. This led to the circulation of an unpublished addendum, which revised the consortia executive board to an advisory board. However, the position of directors of education, portfolio holders and Chief Executives was not well covered in the National Model either. Most consortia have had difficulty working out these roles.
- 2.3 The unpublished revised version of the National Model retains several responsibilities for the renamed advisory board that may be inappropriate. These responsibilities include: determining the organisational arrangements for the consortia; and the role to oversee and support and challenge the strategy, business planning, budget, performance, risk management and senior appointments for the consortia. The National Model also says that the line management and accountability of the managing director should be to the chair of the advisory board.
- 2.4 The National Model prescribes the expected membership of advisory boards, which should include up to five members from a panel approved by the WLGA and the Welsh Government, at least one of whom is a serving local headteacher. The Welsh Government had not considered the full implications of the change from having an executive board to an advisory board. Nor had they considered the range of options available to a joint committee or company board which has the legal responsibility to determine its own sub-committees and delegation arrangements¹⁵. The resulting lack of clarity had added to the difficulty consortia have had in establishing these arrangements and contributed to delays in the establishment of appropriate structures of the consortia. Some of the weaknesses have still not been fully addressed and an appropriately revised National Model had not been published by the end of March 2015.

¹⁵ Sections 101 and 102 of the Local Government Act 1972.

- 2.5 We found that consortia were actively seeking to develop appropriate governance arrangements but felt constrained by the requirements of the National Model. One consortium, EAS, with agreement from the Welsh Government, has recently decided not to have an advisory board as set out in the National Model. Instead, they will appoint some of the expected members of an advisory board as non-executive directors to the company board and recognise the 'Joint Executive Group' (consisting of directors of education and cabinet lead members) as the co-ordinating group for commissioning and monitoring EAS but sitting outside the EAS structure. GwE has decided to recognise its ADEW network of directors of education as its management board, although it had not fully developed the terms of reference and arrangements by the end of January 2015.
- 2.6 There is a requirement in the National Model for the Welsh Government to 'sign off' consortia business plans. However, this provision gives insufficient weight to the statutory position, which is that the joint committees, or company boards, should determine their own business plans, whilst the Welsh Government may wish to comment on them.
- 2.7 The failure to fully appreciate the legal implications of regional working through consortia led to the failure to recognise that data sharing by the Welsh Government to consortia would be problematic and would need to be addressed.
- 2.8 The faith schools sector was not adequately represented in the discussion on the development of the National Model. Diocesan directors of education were not involved or consulted on the development of the National Model or on initiatives such as School Challenge Cymru despite their significant and formal role in education in Wales.

We found that some confusion about whether regional consortia were commissioned by local authorities or jointly provided services on behalf of local authorities contributed to inconsistencies over roles and responsibilities

- 2.9 Behind some of the difficulty that consortia and local authorities experienced in establishing appropriate governance was inconsistency about the nature of consortia. Some Welsh Government officials, consortia staff and local authority directors and councillors see the regional consortia as separate entities being commissioned by local authorities to deliver school improvement services, whilst others see consortia as the mechanism for collaboration between local authorities to jointly provide services. We found these different views contributed to confusion within the consortia over who was managing, overseeing and making decisions for the consortia; and who was responsible for monitoring, challenging and scrutinising the work of the consortia.
- 2.10 The Welsh Government's 2014 policy document, **Qualified for Life**, sets out the strategic objectives for education for 3 to 19-year-olds in Wales to 2020. The policy says 'the role of local authorities in the National Model is clear – as the democratically accountable body they are crucial as the conscience of the system, but the National Model is also clear about their role as commissioners not

providers'. This reflects the idea that consortia are separate from local authorities but since the voting members of the joint committee or company board are solely composed of representatives of the local authorities this misrepresents the position.

- 2.11 The consortia with joint committees (CSC, ERW and GwE) are clearly not commissioned by local authorities, but they are the means by which the authorities deliver a shared service. The consortium using a company, EAS, is closer to a commissioned service to the extent that the company is a separate legal entity, albeit wholly owned by the local authorities, and the company board directors are not the cabinet members with responsibility for education.
- 2.12 The consequence of this understanding is that for the joint committee consortia, those with statutory responsibilities are not separate from the consortia but part of the leadership and management of the service. For the quasi-commissioning position of EAS, the lead cabinet member and director can be more appropriately seen as outside the management and leadership of the consortia and have the role of leading the 'commissioning' for their authorities individually and collectively. The National Model says that local authorities should 'designate a lead officer ('an intelligent client') as the main point of contact with the regional consortium' but this is an insufficient description of the required roles.

The Welsh Government and regional consortia have not yet established a consistent approach to their scope, arrangements or role

The significant differences between the organisation of regional consortia largely reflect geographical, language, educational and performance differences and are not the main reason for differences in the pace of change

- 2.13 The four consortia have developed differently (Appendix 3). The two geographically more compact regions, CSC and EAS, have less emphasis on the use of 'hub' arrangements of pairs of authorities, whilst the two geographically spread regions, ERW and GwE, find this arrangement more important. The hub arrangement also helps recognise the variation in the predominant use of the Welsh language, which is easier to accommodate within hub arrangements than through operating across the whole region.
- 2.14 In the south and south-east, a greater proportion of local education authorities have been regarded as not operating well and were placed in 'special measures' or 'follow-up' categories following inspections by Estyn. In these regions, there has been a quicker commitment to delivery through regional consortia and the consortia having a broader scope. For example, EAS has developed the largest brokerage and support service of additional products and support, and CSC has channelled most grant expenditure through the consortium. In the Mid and West and North Wales regions some of the local authorities had more effective services and were understandably more reluctant to transfer services to new arrangements, which were untested and lacking in capacity and capability.

- 2.15 We found that whilst the reservations were understandable, and it is appropriate for all regions to undertake robust business case appraisals to inform any changes to service delivery, the consortia could do more to build their capacity to undertake such work and increase the pace of change.
- 2.16 Whilst there are differences in the structures of the four consortia, our assessment was that the structural arrangements were not the primary cause of differences in the pace of change.

The Welsh Government has been inconsistent in its engagement of consortia in some initiatives to support school improvement services

- 2.17 The implication of the agreement on the National Model was that the Welsh Government expected regional consortia to lead the delivery of improvement services to schools. However, the Welsh Government's decision to launch the Schools Challenge Cymru initiative in February 2014 to boost the performance of up to 40 of Wales' underperforming secondary schools, had limited involvement of local authorities or consortia prior to the announcement of the initiative. Many directors of education and consortia leaders saw this as confusing and undermining the approach in the National Model.
- 2.18 The appointment of a specific group of challenge advisers, the financial and communications arrangements with consortia and the role of consortia in relation to the named schools for Schools Challenge Cymru were issues that had to be worked out following the initial announcement of the programme. Whilst the desire of the Welsh Government to take decisive action to drive change was understandable, we found that many local authority and consortia officers felt that the way in which the initiative was initially launched could have involved consortia in a more effective way. We found that regional consortia and local authorities were also concerned about other instances where they perceived that the Welsh Government had not consulted adequately about how national initiatives would link with consortia work, for example, the National Support Programme for literacy and numeracy¹⁶.

The expected scope of the work of consortia is continuing to expand and presents challenges for consortia development

- 2.19 The National Model set out the expected scope of consortia and adopted a relatively narrow view focusing on the provision of support and challenge to schools, including in the Foundation Phase, and for courses for learners aged 14 to 19. Some related areas of governor training, human resources advice and the alignment of Welsh in Education arrangements were also included. The Welsh Government has also given each consortium £200,000 of funding for work to improve attendance.

¹⁶ The Welsh Government launched the National Support Programme in January 2013 and awarded the running of the programme to CfBT Education Trust. This programme offers specialist, additional support to help teachers, headteachers and learning and teaching assistants to implement the National Literacy and Numeracy Framework effectively.

2.20 In February 2015, the Welsh Government announced actions following consultation on raising the ambitions and educational attainment of children who are looked after in Wales. The Minister said that, from April 2015, responsibility for the looked-after-children element of the Pupil Deprivation Grant would be placed with the regional education consortia. It is not clear if the Welsh Government can determine the role of regional consortia without their agreement. Their task will be to ensure the delivery of strategic and coherent support, which makes a real, evidence based impact on the education of children who are looked after. Since looked-after children may attend special schools or provision outside the region's mainstream schools, this will require a significant extension of the scope of consortia in a very short timescale. Other recent announcements and reports involve anticipated additional roles for consortia in relation to national curriculum development and initial teacher training.

The financial objectives of the Welsh Government are not clear and there is a lack of focus on assessing value for money throughout the system

2.21 During a speech in November 2011, the then Minister for Education and Skills said, 'according to local authority financial returns, in 2010-11 they collectively spent around £43 million on school improvement – a rate of £80 per pupil. Based on modelling that I have seen to date there are significant efficiencies that can be realised to better support schools and drive up standards. I expect these efficiencies to be achieved' and 'a £20 million reallocation is not unreasonable.' He said, 'my challenge to each region is to identify how these resources will be refocused, either straight to the frontline, or directly on raising standards in our most challenged schools'.

2.22 It is not yet clear if delivery of school improvement services through regional consortia is providing more efficient services than previously. We found that whilst the Welsh Government is monitoring the level of delegation of funding to schools, it was not actively monitoring the efficiency of consortia arrangements. As noted in [paragraph 1.12](#), local authority returns show a significant reduction in 'school improvement expenditure'. Regional working has not led to any reduction in director of education posts and four additional managing director posts have been created. We found that many local authorities have ceased to have 'head of school improvement' posts during 2011-13 but have since re-instated similar roles to provide the local authority with a lead officer to interact with the relevant senior or principal challenge adviser for the consortium. Most consortia have spent significant funds on the cost of redundancy for staff transferred from local authorities and who did not have a place in their structures, for example, the GwE audited accounts for 2013-14 show the cost of exit packages as £781,000 financed from the contributions from each originating local authority. We found that neither the Welsh Government nor regional consortia had yet assessed whether these changes in expenditure showed that working through consortia is achieving greater cost effectiveness or had established any criteria for doing so.

- 2.23 The short-term funding for some initiatives, such as Schools Challenge Cymru, has had an impact on the funding of consortia. Some services and support that would have been funded by the core consortia budgets were replaced by Schools Challenge Cymru funding. Whilst there was additional funding as a result of Schools Challenge Cymru, we found the extent and impact of this change was given little financial consideration by regional consortia or the Welsh Government.
- 2.24 The high-level outcome objectives are clear¹⁷ and the Welsh Government and regional consortia are tracking progress of individual schools and groups of students. However, insufficient attention is given by regional consortia and the Welsh Government to the methodology required to assess the relative effectiveness of specific interventions and expenditure; whether one approach is better than another; or whether one short-term initiative is proving more effective than another. This will hinder attempts to assess the value for money of the change to regional working through consortia.

Relationships between main stakeholders do not strongly enough reflect a partnership approach

- 2.25 The Welsh Government promoted the development of consortia as a means of improving efficiency and effectiveness of school improvement services. The consortia approach reflected the Welsh Government's lack of confidence that local authorities, working on their own, were likely to achieve the progress in school improvement that all stakeholders agreed was needed.
- 2.26 The Ministerial statement announcing the National Model noted that if consortia 'fail to deliver then there will be a top-slice of the Revenue Support Grant from 2015'¹⁸. This threat of withdrawal of funding from local authority remains.
- 2.27 The expectations of consortia by the Welsh Government are very high. But the arrangements are new and untested and some local authorities have been reluctant to transfer responsibilities, particularly whilst consortia lacked their full leadership and management capacity (paragraph 2.37).
- 2.28 The co-production of the National Model has not led to the development of collaborative relationships between the Welsh Government, consortia and local authorities in which strengths, weaknesses, developments and problems are shared, and the best solutions sought. Some regional consortia and local authority officers perceived that the Welsh Government does not always listen to the consortia and that trust levels were low. The lack of confidence between partners at this early stage has contributed to defensiveness in the relationships which has hindered progress. For example, the 'review and challenge' process by which the Welsh Government monitors the progress of consortia is a potentially helpful process. But, in practice, we found evidence of defensiveness and lack of openness by consortia have reduced the effectiveness of this process.

¹⁷ The Welsh Government's Education strategy 'Qualified for Life' (2014) states that 'success will be measured by the attainment of our learners relative to that of learners in other countries' and that progress will be measured by improvements in learner's standards of literacy and numeracy; reductions in the attainment gap between learners eligible for free school meals and their non-free school meals peers; and improved confidence in the education system among parents, employers, further and higher education institutions'.

¹⁸ **Written Statement – The National Model for Regional Working**, Minister for Education and Skills, February 2014.

- 2.29 The defensiveness about the difficulties consortia have experienced has led them to be competitive with each other rather than to try to maximise their learning and co-operation with each other. We found less sharing than we expected by consortia and reluctance to acknowledge common issues.
- 2.30 The confused understanding of the accountability of the main partners affects the relationships between them. To achieve effective school improvement all the main partners need to fulfil their roles well (Figure 2). Whilst schools see themselves as accountable to parents, children and communities, local authorities are accountable to their local electorates and the Welsh Government is accountable to the national electorate. Regional consortia do not have a direct accountability to an electorate but are wholly created agents of their local authorities and are therefore part of their accountability and scrutiny frameworks. Local and national governments are scrutinised by elected scrutiny bodies.
- 2.31 Within the school improvement system the Welsh Government – for example, by the threat to withdraw funding – appears to see local authorities and the consortia they establish as accountable to the Welsh Government and this hierarchical approach underlies the existing review and challenge process. Insufficient emphasis has been put on a ‘system review’ process by which all the main partners share in holding each other to account for their roles within the system and seek to build mutual trust and support to achieve improvements together.
- 2.32 We found that regional consortia and local authorities felt that the quality of communications with the Welsh Government was poor on some occasions, which affected the relationships within consortia and between consortia and the Welsh Government. Examples cited included the handling by the Welsh Government of communications about in-year grants’ claw-back in autumn 2014 and the delays in providing information on changes to grants that will apply from April 2015.

The uncertain future for the present arrangements has led to a short-term focus

- 2.33 The uncertain position regarding possible local government mergers and the agreed priority to seek rapid improvement in educational outcomes have contributed to a desire to establish formal consortia, in line with the National Model, very rapidly. The Welsh Government expected the regional consortia to produce business plans showing what they would deliver by April 2014 and by April 2015. The regional consortia produced 2014-15 business plans quickly although the joint committees or boards did not agree the plans until during 2014, some as late as December 2014. The Welsh Government assessed that all the plans had weaknesses, for example, in the specific proposals for individual local authorities.
- 2.34 The desire to inject pace into the new arrangements to deliver effective school improvement services and the need to try to work to very short timescales has affected the rigour of some processes, such as the quality of business planning, and contributed to the defensiveness within the system.

- 2.35 We found this lack of rigour was also reflected in weaknesses in some of the grant monitoring arrangements by regional consortia. For example, most consortia were not effectively monitoring the use of the Pupil Deprivation Grant. Uncertain funding streams do not necessarily lead to the most efficient and effective use of resources.
- 2.36 The decision by the Welsh Government not to proceed with the submitted proposals for local government mergers should enable the Welsh Government and local authorities to foresee that regional consortia, on their present geographical and structural basis, are likely to continue for at least three years. This should enable the development of medium-term (three-year) delivery and financial plans which will support sustained development and may also make posts within consortia more attractive.

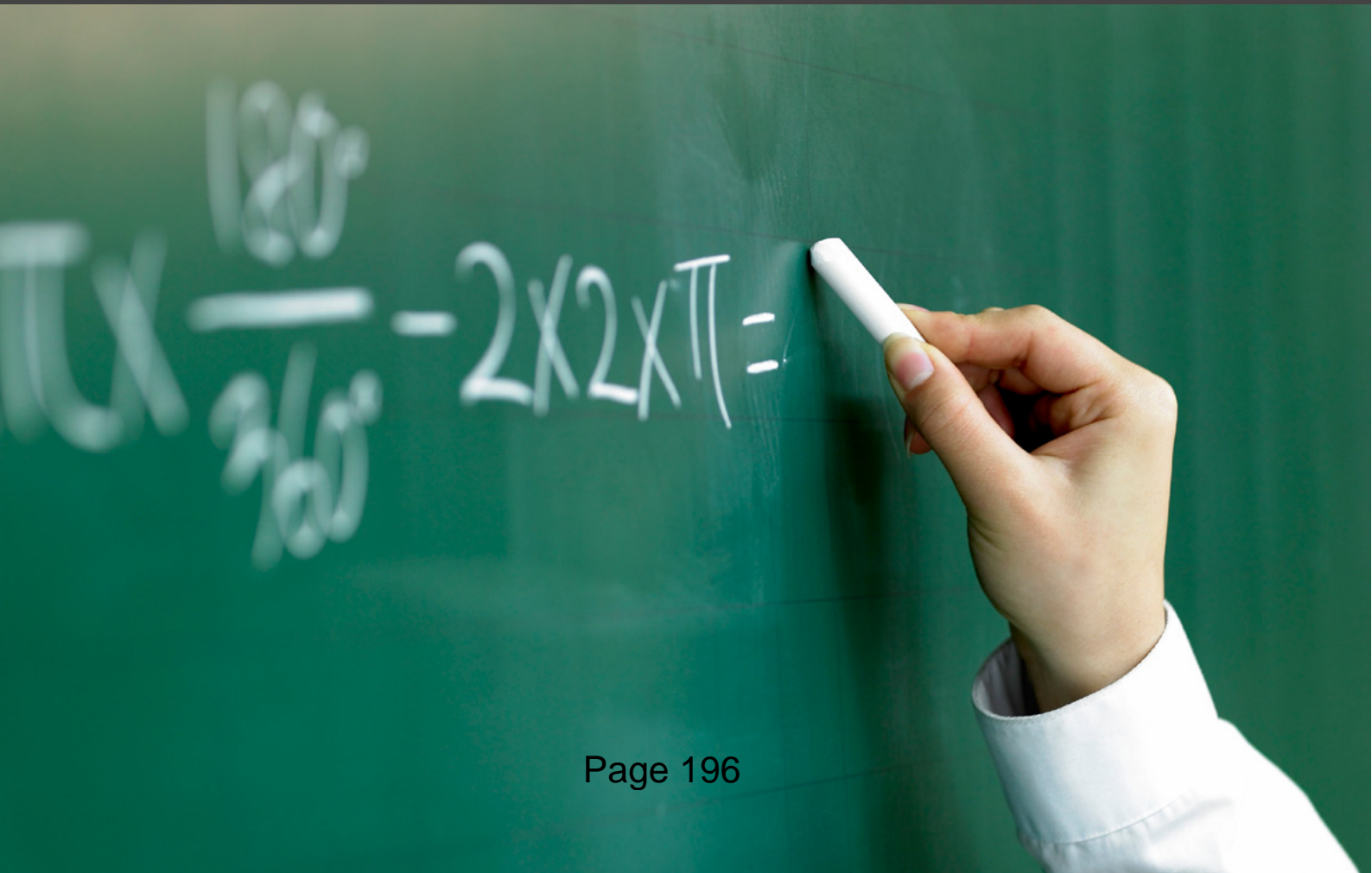
There has been limited action to improve the attractiveness of senior roles or to develop the capability of post holders

- 2.37 An acknowledged weakness in Wales has been continued difficulty of recruitment to leadership roles for education in schools, local authorities and Welsh Government. Local authority leadership has been criticised in inspection reports by Estyn and several local authorities have experienced difficulties filling posts at director-of-education level. There is a need to attract the best talent from within Wales and elsewhere to such roles. The National Model reiterated the expectation that each consortium should appoint a managing director to provide strategic and collaborative leadership. Since their initial establishment in 2012, most regional consortia experienced recruitment difficulties, with GwE and CSC managing only 'interim' appointments for a managing director after initial rounds of recruitment and some consortia only having one final applicant for senior posts. Recruitment difficulties have also affected the next tier of consortia leadership; GwE only managed to complete its senior leadership team in April 2015. The difficulties in recruitment to senior leadership roles in the regional consortia have had a detrimental effect on the pace of development of the consortia.
- 2.38 The Welsh Government recognised internal capacity and capability issues and partly tackled this by the appointment of secondees with experience of leadership roles within education. This positive development has helped the departmental officers develop their understanding of the local implications of Welsh Government proposals and policies although it is uncertain whether the Welsh Government will sustain this arrangement and the benefits. In the same way the regional consortia have developed part-time challenge adviser roles for some seconded headteachers, the Welsh Government could consider the wider use of part-time secondments across the school improvement system to increase sharing of knowledge and understanding.

- 2.39 The Welsh Government has taken action to develop the skills and role of headteachers in Wales through the appointment of the National Leadership Development Board and the 'New Deal', announced in March 2015, supported by the development of the National Professional Learning Model.
- 2.40 Since the difficulties in recruiting education leaders in Wales were acknowledged, we found that there had been only limited attention to how the Welsh Government and local authorities can together develop the attractiveness of leadership positions in consortia, local and national government. We have been informed of work being developed by the WLGA, ADEW and the Virtual Staff College for a Leadership Development programme for directors and aspiring directors across Wales. This is to be welcomed but we found a more strategic approach to attracting and developing the most talented people to education leadership roles in consortia, local and national leadership was lacking.

Part 3

Regional consortia are continuing to develop and broadly reflect the expected model, but effective governance and financial management arrangements are not yet fully in place



3.1 This section highlights aspects of the governance and financial management of regional consortia where further development is needed.

All regional consortia continue to have weaknesses in their capacity and capability to deliver

- 3.2 We found that significant developments were taking place at all regional consortia, examples included:
- a development of a formal communication plan and improved engagement with all key stakeholders including headteachers and governors (CSC);
 - b development of more school-to-school support, to ensure greater sustainability and embedding of change (EAS);
 - c appointment of a strategic Head of Human Resources and the creation of a 'virtual HR team' and the development of several common policies (ERW); and,
 - d a strong focus on under-performing schools which was showing some early positive progress (GwE).
- 3.3 However, the consortia were coming from different situations and the pace of change was inconsistent. As noted in [paragraph 2.37](#), the consortia have only recently come close to operating at full capacity in senior roles.
- 3.4 There was a general under-estimation of the scale of change required within regional consortia by the Welsh Government, local authorities and the regional consortia ([paragraph 1.16](#)). This is particularly evident in relation to the business management at each consortium. Most regional consortia did not put in place sufficient central resources for aspects such as finance, human resources, communications and business support. EAS, being a limited company, did not adequately consider the capacity required for a company secretary role. These issues have led to a lack of support for the core functions of regional consortia and overloading of work on key individuals.
- 3.5 Some regional consortia are still not ready to take on all the functions in the National Model. The National Model provides flexibility for a delay in the transfer of some services from local authorities to regional consortia until April 2015. The most common services delayed were 14 to 19 support, specialist human resources advice for schools, and governor support services, with CSC, ERW and GwE not delivering these functions regionally in 2014-15. However, ERW and GwE are still intending to leave the staff for these services within local authorities. This could create a variation in service provision and a lack of central contact point for schools and challenge advisers. ERW has established regional leads and 'virtual teams' to co-ordinate the services centrally.

- 3.6 There have particularly been inconsistencies in the specialist human resources support provided to schools, both across and within all regional consortia. To address this, consortia have sought to co-ordinate approaches across their regions. For example, ERW has been active in working with local authority human resources teams to develop a common approach across the region to various issues, including consultation with trades unions over performance management arrangements for teaching staff. This communication and engagement approach by ERW should provide more consistency in the advice given to avoid confusion and mixed messages. Local authorities and consortia representatives have also been working with the Welsh Government on a 'people management framework' to be developed as part of the National Model. This was published in April 2015.
- 3.7 Regional consortia have not consistently identified or engaged with partners who can assist with their senior capacity and capability. For example, the National Model indicates that the advisory board should include up to five individuals with expertise in education, leadership and corporate governance, but most regional consortia have typically been slow to engage with relevant individuals, who would be able to provide additional knowledge and support.

Management structures below the joint committees or board are not yet functioning effectively in all regional consortia

- 3.8 Only CSC had established a fully functioning advisory board as expressed in the National Model by the end of January 2015. In EAS, prospective members of the advisory board have now been appointed as non-executive members of the full Board, with no advisory board in place. The 'Joint Executive Group', comprising the lead cabinet councillors and the directors of education, will lead the monitoring of EAS on behalf of the local authorities.
- 3.9 The directors of education have differing roles at each of the regional consortia. There is uncertainty within most of the regional consortia as to the appropriate extent of the involvement and influence of directors of education. In some cases, meetings of the regional directors forums do not adequately distinguish between consortia and non-consortia responsibilities. It can be unclear whether they are making decisions on behalf of the consortia or the local authority and meeting minutes do not report decisions in ways that are open or able to be scrutinised. This creates a lack of transparency.
- 3.10 In some regional consortia, senior management teams are not demonstrating effective strategic and operational management to meet the needs of the National Model. The GwE management team was incomplete until April 2015. Whilst CSC demonstrated a clear strategic approach, in some other consortia we found that senior consortia managers focused on the management of their teams and made a limited contribution to the strategic development of their consortium.

- 3.11 There is a lack of strategic risk management processes at all regional consortia. Three of the four consortia had a basic risk register in place but these did not always include significant risks, such as poor relationships undermining progress. Risk management was not an integral part of the management approach in most consortia, although CSC has included discussion of the risk register as a standing item at their joint committee from December 2014. Since our fieldwork, EAS has proposed establishing an audit committee for the company which will include the monitoring of risk management in its role.

Scrutiny and audit functions are developing but are not yet fully established

- 3.12 Each local authority undertakes scrutiny of the regional consortia in relation to their individual local authority's performance. The level of scrutiny between local authorities, both within each regional consortium and nationally, is inconsistent. Scrutiny has typically been high-level, had little focus on financial information and value for money and in most cases has been on a reactive rather than proactive basis. However, some regional consortia are developing common scrutiny processes. For example, ERW is working with Scrutiny Officers from each local authority to establish a timetable detailing a set of mutual topic areas for each local authority to scrutinise, and the related data that the consortium will provide. This should provide reassurance to each local authority that they are scrutinising the key areas, and enable the consortium to better plan its use of resources.
- 3.13 None of the regions is undertaking scrutiny on each regional consortium as a whole. Chairs of the relevant local authority scrutiny committees were unlikely to have met each other. Regional working is intended to spread best practice across each region. An effective joint scrutiny function could consider the overall impact of regional working and whether the performance of individual authorities and the region as a whole is improving.
- 3.14 There are weaknesses in the audit function for most regional consortia. All four regional consortia have appointed one local authority to provide internal audit services and there has been varying levels of review conducted. In CSC, internal audit reports annually to the Joint Committee on the internal control environment. However, in other consortia, audit reports identified issues that were not reported to joint committees or Boards. Local authority audit committees have little involvement in most regional consortia despite being responsible for signing the local authority Annual Governance Statements, which cover the work of joint committees. As noted above, EAS is proposing to create an audit committee for the company. The proposed terms of reference suggest the committee will perform a traditional audit function and a joint scrutiny role, both of which are important for overall accountability of the consortia.

Performance management is not strong enough to assess the effectiveness of activity

- 3.15 There was a lack of overall strategic direction in relation to coherent, agreed success measures for Wales until the publication of Qualified for Life in October 2014. All the regional consortia had prepared business plans for 2014-15, but not all business plans identified clear actions, with associated timescales and resources, or the expected impact of these actions, particularly in relation to local authority appendices. These deficiencies have contributed to a limited degree of effective performance reporting against business plans. Formal reporting against more detailed key performance indicators would clearly identify progress and areas of weakness for senior officers, both within the consortia and in local authorities.
- 3.16 The business plans for 2014-15 focused on a single financial year and had no element of medium-term planning, which would have provided direction and a strategic overview for a longer period.
- 3.17 For 2015-16, a business plan template has been provided by the Welsh Government and lists 16 priority areas (referencing the Qualified for Life strategic objectives and the National Model priorities). The template requires each consortium to indicate its own educational outcomes and key performance indicators for each of the priority areas.
- 3.18 There are inconsistent approaches to attainment target setting across the regional consortia. Attainment targets may be set at an individual pupil level, school level, local authority level and regional level. In some regional consortia, the regional targets set are higher than the aggregate of local authority or schools targets. This reflects the aspiration of the consortia but it creates confusion and mixed expectations for schools and local authorities.
- 3.19 There are varied methods of collating and analysing school and individual pupil level data at each regional consortium and these systems are typically under-developed. Each regional consortium has given little consideration to the approaches taken by the other consortia to data management. A more collaborative approach would save consortia resources and provide challenge advisers with consistent data for analysis.
- 3.20 Due to data sharing constraints, the Welsh Government cannot pass data directly to the regional consortia, which must access data via local authorities. This causes time delays and additional inconsistencies in the data consortia receive. The Welsh Government is currently working with local authorities and regional consortia on addressing this issue.

- 3.21 A key area of national focus for the Welsh Government is addressing the impact of deprivation on pupils' progress; however, the approach to the issue of deprivation is weak across the regional consortia. Some of the regional consortia have assigned a service lead for deprivation and poverty; but we found work had been limited to date and not all consortia staff were aware of the role. In ERW, senior management highlighted concerns over rural poverty, due to the geographical nature of the region, but had not sufficiently developed an approach to quantify and address the issue.
- 3.22 School-to-school support is a key element of the consortia interventions and noted in the National Model. However, none of the regional consortia have considered the degree to which their school improvement activities may have unintended consequences, such as the increased use of supply teachers. Reports issued by the Auditor General and Estyn in 2013 found that the use of supply teachers hampered learners' progress in developing skills, knowledge and understanding. By considering the extent and impact of covered lessons, regional consortia could identify whether this constituted a significant factor in improving outcomes and could propose changes where appropriate.
- 3.23 All regional consortia produce annual self-evaluation reports, and provided an updated report for this study. The reports generally focused on school performance and support interventions but typically had little evaluation of governance of the consortia. Most self-evaluation reports tended to be overly positive and did not appear to fully identify weaknesses across all aspects of their work. As the leaders in education improvement, consortia should be role models in the quality and objectivity of any form of self-assessment or self-evaluation report.

Financial management arrangements at most consortia are not sufficiently robust to assess the value for money achieved

- 3.24 The level of school improvement funding that passes through the regional consortia differs greatly in each region, for both the local authority core contributions and school improvement related grants. For example, in ERW, local authorities retain the majority of their core contributions as most staff are employed by each local authority. In 2014-15, they agreed to pass only £250,000 to ERW for centrally employed staff. The majority of grants do not flow through the consortium with decisions about approximately £60 million of grant funding being made by directors of education, local authorities or schools. In CSC, for example, the majority of staff are employed centrally and all local authority contributions and most grant funding flow through the consortium and are distributed out where relevant. This totalled £58.4 million in 2013-14.
- 3.25 Most consortia are not adequately monitoring and reporting on all relevant school improvement income and expenditure, particularly where the funding does not flow through the consortium. This means senior management does not always have sufficient information to know the exact level of total expenditure related to consortia activities. In one consortium, each local authority employs a set number

of staff and it has not been quantified what this costs each local authority and how it compares with the suggested contribution detailed in the National Model. This means we have been unable to produce a direct comparison of spending between consortia.

- 3.26 Financial budget management is weak across most regional consortia. The 2014-15 business plans typically contained a basic budget with no detailed information on income and expenditure, and little consideration of grant funding. Reporting against budget to senior management and joint committees or boards is often unsatisfactory.
- 3.27 There is an inconsistent approach across the regional consortia to decision making related to grant expenditure. Some consortia have responsibility for allocating specific grants. This enables consortia to direct the grants in relation to their strategies. In other cases, local authorities decide the allocations, providing less control for regional consortia. Once allocated, there has generally been insufficient consideration of how best to monitor grant spending and there are variations in the approach to monitoring grant spending across consortia. There have been a number of qualifications of audits on school improvement related grants.
- 3.28 Funds are being spent without clear expenditure criteria being given to schools or local authorities in some cases. For example, GwE allocated around £500,000 across all schools to enable school-to-school support, however, there was initially limited guidance as to what schools should spend this on.
- 3.29 None of the regional consortia have set appropriate financial objectives, for example, in relation to gaining efficiencies from consortia working. Having objectives would provide a greater focus on financial planning and could help mitigate future financial pressures.
- 3.30 Most regional consortia have not adequately considered how to evidence the value for money of their activities. One regional consortium, EAS, is developing a tool intended to track each intervention a school has received, including its cost, against changes in the performance and school inspection category. While currently at a basic level, this shows a vision to consider value for money routinely and provide evidence for future intervention planning.

Regional consortia have not yet ensured an appropriate level of openness and transparency

- 3.31 Two regional consortia do not make joint committee and board meeting agendas and minutes available publically, either on their own website or on local authority websites. In some cases, the minutes that are recorded are inadequate. For example, at the time of the review, in ERW the joint committee minutes did not clearly identify whether members have voting rights. This means the public do not have sufficient clarity over what participants are discussing in meetings or transparency over decision-making.

- 3.32 Regional consortia have not given enough acknowledgement of possible conflicts of interest within their operations. We identified instances of contracted part-time challenge advisers who also provide additional support to schools within that region as an external education consultant. By not actively identifying and managing conflicts of interest, the integrity of consortia work could be undermined.
- 3.33 In one regional consortium, CSC, there are potential issues of blurred accountability, which CSC had not adequately considered. Due to difficulties in filling posts, two of the senior challenge advisers also work as senior managers at a local authority. While this promotes a strong link between the consortium and the local authority, it is not clear who they are accountable to and creates inconsistency with the other local authorities. CSC is now proposing to establish joint roles in all local authorities which are held to account through termly impact reviews. We also found other situations in which challenge advisers worked part time for a consortium and part time for another agency. Consortia were not alert to the potential conflicts of interest involved in such situations.

Regional consortia are developing their engagement with the range of stakeholders and staff

- 3.34 Some regional consortia have established positive staff engagement. EAS holds a service review day at the end of each term for all staff to discuss progress, feedback from local authorities, success stories and plan improvements. This keeps all staff informed and engages them in the future success of the consortium.
- 3.35 Although all regional consortia undertake ad hoc engagement activities with key stakeholders, most have not yet fully developed a robust communications strategy. For example, GwE has been late to develop its own branding and identity, and currently operates through a pre-existing 'North Wales Consortium' website, which includes very little information about GwE and its activities. GwE has contracted an external company to replace this with a dedicated site. Conversely, CSC has a detailed communications plan, which includes a comprehensive website and monthly newsletter to key stakeholders. This means stakeholders are aware of the consortium's activities and future plans, and are more likely to engage with the consortium.
- 3.36 Only one regional consortium, GwE, has formally involved the faith-school sector in its governance arrangements by having a diocesan representative as a non-voting joint committee member. The diocesan directors of education stated the working relationship with all regional consortia has improved although there is no formal protocol for working together. This would better support faith schools and ensure regional consistency.

Appendices

Appendix 1 – Study methods

Appendix 2 – Main findings and recommendations from the Estyn report on the work of regional consortia for school improvement services

Appendix 3 – Regional consortia arrangements



Appendix 1 – Study methods

Review of literature, data and statistics

We reviewed a wide range of documents and data, including:

- Welsh Government strategic documents and policies relating to school improvement, including the National Model for Regional Working.
- Welsh Government and local authority expenditure and grant data relating to school improvement.
- Reviews commissioned by the Welsh Government, including those undertaken by Robert Hill Consulting and the Commission on Public Service Governance and Delivery.
- External reviews, including those undertaken by Estyn and the Organisation for Economic Co-operation and Development.
- Governance frameworks including **The Good Governance Standard for Public Services** published by the Independent Commission on Good Governance in Public Services, January 2005.

Interviews with the Welsh Government

We interviewed a range of Welsh Government officials with responsibility for school improvement, as well as officials in areas of finance, legal services and internal audit.

Visits to regional consortia

We visited all four regional consortia between November 2014 and January 2015. We carried out the visits in conjunction with Estyn which undertook a ‘thematic survey’ to evaluate the work of regional consortia for school improvement services as part of their remit work for the Minister for Education and Skills.

During the visits, we interviewed a range of individuals including regional consortia management, senior local authority officers and elected members.

We also considered a range of documents provided by each consortium up to 31 January 2015 including legal agreements, business plans, policies, budgets, financial analysis, meeting minutes, and self-evaluations.

Other work

We attended the autumn 2014 ‘review and challenge’ meetings between the Welsh Government and each of the regional consortia.

We also spoke to the WLGA in relation to school improvement services.

Appendix 2 – Main findings and recommendations from the Estyn report on the work of regional consortia for school improvement services

Estyn undertook work in response to a request from the Welsh Government in the Minister's annual remit letter for 2014-15. Estyn examined the governance and leadership of the regional consortia, and the effectiveness of the services to schools, in the context of current school and pupil performance. Their report, **Improving schools through regional education consortia**, based on the visits to regional consortia carried out with Wales Audit Office staff and other shared evidence, has been published together with this report and is available from www.estyn.gov.uk.

Main findings

Although the general improvements in standards of pupil attainment over the past three years cannot be solely attributed to the development of regional consortia, the published data reflects a gradual improvement in pupil attainment across all four regions. At key stage 2 pupils attain at similar levels across all regions but at key stage 4 there is greater variation in levels of pupil outcomes. Performance is consistently higher in GWE and ERW than in CSC and EAS, the latter two regions having comparatively greater levels of social deprivation.

School inspection outcomes are broadly similar across the four regions, although there has been a notably higher proportion of schools causing concern in EAS in recent years. In ERW a comparatively high number of schools requiring follow-up activity after their inspection have not made enough progress and as a result have had their level of follow-up escalated.

The regional consortia have been slow to fully implement governance arrangements in line with the Welsh Government's National Model for Regional Working. All the regional consortia struggled to fill senior posts, which adversely affected their capacity to direct and manage work and highlights the lack of a national strategic approach to develop senior leaders. It is too early to judge the effectiveness of the governance arrangements and senior leadership and management of the consortia.

All the consortia prepared business plans for 2014-2015 that focus appropriately on the most important areas for improvement. However, all the plans have important weaknesses in them. In particular, the plans do not identify well enough what impact is expected from actions taken and how and when this will be measured. This is particularly the case for the sections that set out how the consortia tailor their work to meet the needs of individual local authorities. None of the consortia has a medium term plan in place to guide a strategic approach to school improvement.

While there are examples of robust scrutiny by elected members of how a regional consortium is working with individual schools at a local authority level, scrutiny committees do not hold their senior officers and representatives to account well enough for their role in ensuring that the consortium meets the needs of the authority's schools. In addition there is no joint approach to scrutinising the effectiveness of the consortium as a whole in any region.

The self-evaluation reports produced by the regional consortia are in the main overly positive. These reports identify strengths more accurately and convincingly than shortcomings.

Most of the regional consortia have engaged effectively with local authority officers, school leaders and trade unions in developing their regional priorities and policies for school improvement. However, none of the consortia has engaged enough with diocesan authorities.

The regional consortia have strengthened their quality assurance arrangements for challenge advisers, particularly since September 2014, and there is greater consistency in the work of challenge advisers as a result. However, the arrangements are not always implemented rigorously enough and pre-inspection reports for schools still do not always match the outcome of inspections closely enough.

The EAS and CSC have more than twice as many schools involved in the Schools Challenge Cymru programme as the other two regions. In these regions, the consortia are unclear about their working relationship with the schools in the programme. The consortia are also unclear about how they will evaluate their specific role in improvements in these schools and the implications this has for any wider evaluation of school improvement across Wales.

None of the regional consortia has a coherent strategic approach to reduce the impact of deprivation on attainment. The regional consortia have not monitored closely enough how well schools are using the Pupil Deprivation Grant.

All the consortia have suitable arrangements in place with local authorities for sharing useful information from many service areas relevant to their work, such as additional learning needs, social inclusion and wellbeing, finance and complaints. However, none of the consortia has a fully developed and consistently used system to collate, analyse and share information about the progress of pupils and schools.

Regional consortia generally know how well many of their schools are currently performing through the work of challenge advisers, supported by their analysis of attainment data. Most headteachers and chairs of governing bodies report that the performance of their school is scrutinised closely and fairly by challenge advisers.

Although challenge advisers generally know what assessment data indicates about a school's performance, this does not always mean that they know the school well enough. Challenge advisers are not always diagnostic enough in understanding why a school is performing well or not. Challenge advisers are not always involved enough in moderating teacher assessment and they are less effective at evaluating teaching and leadership than standards. However, weaknesses in challenge adviser work are not as prevalent as they were when consortia began to formalise in 2012.

Overall, regional consortia are better at challenging schools about their current performance than supporting them to improve. All the consortia have an appropriately strong focus on supporting improvement in literacy and numeracy. However, support for schools in many other areas of learning, such as non-core subjects, is either weak, inconsistent or unavailable. In the EAS and CSC, there is not enough support for Welsh-medium schools. The consortia are developing strategies to facilitate schools to support each other, although only CSC involves all schools in their strategy. The consortia do not monitor and evaluate well enough the impact of their support to improve schools, whether this support is provided directly or brokered or is school-to-school support that they facilitate.

Regional consortia usually provide appropriate and timely information to local authorities about schools causing concern. Although local authorities are using their statutory powers of intervention more readily, a minority are still reluctant to intervene even when their regional consortium provides a clear mandate for action. Once a local authority issues a statutory warning notice to improve to a school, the regional consortium usually works well with both the school and the local authority to agree a suitable plan and monitor progress.

Estyn and the Wales Audit Office provided verbal feedback to the regional consortia following visits to gather evidence for this survey. The consortia have responded positively to their feedback and have already begun to address many of the issues raised in this report.

Recommendations

Regional consortia should:

- R1 Improve performance management arrangements by:
- planning for the medium term to ensure a strategic approach to school improvement;
 - ensuring that plans contain actions that are specific and measurable, with appropriate targets, costings and milestones for delivery;
 - capturing, sharing and using data (from pupil level up) efficiently and effectively;
 - monitoring the progress of pupils and schools regularly;
 - taking a more robust approach to identifying and managing risks;
 - realistically self-evaluating their strengths and shortcomings; and
 - tightly managing the individual performance of their staff.
- R2 Secure greater consistency in the quality of challenge advisers' evaluations of schools, particularly in relation to teaching and leadership.
- R3 Develop clearer strategies to address the impact of deprivation upon education outcomes and ensure that all actions are coherent in this purpose.
- R4 Improve the quality and range of support for schools and in particular:
- develop clearer strategies for maximising the potential of school-to-school support; and
 - provide or broker better support for teaching and learning in non-core subject areas.
- R5 Involve diocesan authorities effectively in the strategic planning and evaluation of regional services.

Local authorities should:

- R6 Support their regional consortium to develop medium-term business plans and ensure that all plans take account of the needs of their local schools.
- R7 Develop formal working arrangements between scrutiny committees in their consortium in order to scrutinise the work and impact of their regional consortium.

The Welsh Government should:

- R8 Improve its strategy to develop senior leaders and managers for education at local authority and regional consortia level.
- R9 Work more collaboratively with consortia and local authorities to agree short and medium-term business plans and reduce requests to change and add to plans mid-year.
- R10 Ensure that school categorisation is rigorously moderated across the consortia.
- R11 Develop an agreed understanding between teachers, schools, local authorities, regional consortia and Welsh Government about the purpose and use of attainment targets.
- R12 Engage more effectively with diocesan authorities in developing its strategy for school improvement.
- R13 Ensure that consortia, local authorities and diocesan authorities are clear about their respective roles and responsibilities for schools in the Schools Challenge Cymru programme.

Appendix 3 – Regional consortia arrangements

EAS

EAS is a company set up by five local authorities which commission EAS to provide school improvement services.

EAS staff are employed by the company.

South East Wales Consortium (SEWC) brings together the five local authority education directors and EAS managing director who co-ordinate the strategic direction of EAS and other aspects of education that are beyond the remit of EAS, on a regional basis.



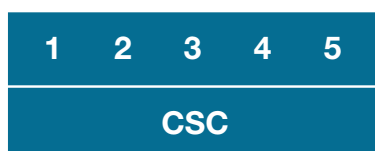
- 1 Blaenau Gwent
- 2 Caerphilly
- 3 Monmouthshire
- 4 Newport
- 5 Torfaen

CSC

CSC is a Joint Committee of five local authorities providing a joint school improvement service.

CSC staff are employed by Rhondda Cynon Taf.

The CSC Director's Strategic Group enables the local authority education directors to contribute as a steering group of the consortium.



- 1 Bridgend
- 2 Cardiff
- 3 Merthyr Tydfil
- 4 Rhondda Cynon Taf
- 5 Vale of Glamorgan

GwE

GwE is a Joint Committee of six local authorities providing a joint school improvement service.

Local authorities are organised into three hubs for delivery of service.

GwE staff are employed by Gwynedd.

The North Wales Consortium of the six education directors organises other aspects of education at a regional level, including aspects that other consortia include in their service. The Consortium also acts as a Management Board for GwE.



- Hub 1 - 1 Anglesey + 2 Gwynedd
- Hub 2 - 3 Conwy + 4 Denbighshire
- Hub 3 - 5 Flintshire + 6 Wrexham

ERW

ERW is a Joint Committee of six local authorities providing a joint school improvement service.

Local authorities are organised into three hubs for delivery of service.

Central ERW staff are employed by Pembrokeshire. All other staff are employed by individual local authorities. The central function is smaller in ERW than in the other consortia.

The local authority education directors sit on ERW's advisory board.



- Hub 1 - 1 Ceredigion + 2 Powys
- Hub 2 - 3 Carmarthenshire + 4 Pembrokeshire
- Hub 3 - 5 Neath Port Talbot + 6 Swansea

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CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD

AUDIT COMMITTEE:

**Wales Audit Office Report: A Picture of Public Services
(National Study)**

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 6.1(d)

PORTFOLIO: CORPORATE AFFAIRS

Reason for this Report

To present to the Audit Committee the Wales Audit Office (WAO) 'A Picture of Public Services' National Report.

Background

The Auditor General for Wales undertakes national studies across a range of functions and activities of Welsh Public Services. The 'Picture of Public Services' was published on 17th December 2015 and it sets out his audit perspective on what has happened with public spending in Wales and the management of public services in the period since his last report in 2011. It also sets out his perspective on the big issues for public services in the coming years.

The report is based on a combination of new analysis of published information, a survey of public service leaders, and the Wales Audit Office national and local audit work.

The AGW determined that he would not make specific recommendations in this report and instead has set out his key messages for public services. It is intended that the Wales Audit office will use these messages to test if public services are rising to the challenges they face.

Summary

The report shows that public services have faced significant and growing financial, demand and capacity pressures since the 2011 Picture of Public Services report.

The AGW states that:

- some areas of performance have improved, notably some key indicators of population well-being, service quality in health, measures of educational attainment and some other council services
- public services have responded through a combination of improved efficiency and some reduction in service levels

- the way public bodies manage their finances is generally getting better. However, on a more negative point states that there is still too much of a short-term focus on annual budgets
- the Welsh Government and other public service providers have expended considerable effort to lay the foundations for transforming public services, but the pace of change on the ground has been slow
- there is a clearer direction for public services, with a particular emphasis on involving the public more in designing and providing services, but there are still many obstacles to overcome before wholesale transformation can be a reality
- that public services still have a way to go to take a whole-systems approach to understanding and managing the impacts of reductions in levels of services

WAO's key messages

Expand the horizons

Despite some progress, Wales' public services are still too focused on short-term organisational pressures. Many still follow a cycle of managing annual budgets and performance targets. Public services need to expand their horizons in many different directions. They need to better understand and plan for the huge future opportunities and challenges from things like demographic change and technological innovation.

Public services need to go further in adopting preventative approaches that will reduce future pressures on, and demand for, services. They need to do more to get beyond organisational boundaries to find new ways to join up services at the frontline. And there are lessons to be learnt from looking outside organisational and geographical silos to see what is being done well elsewhere. The WAO fully understand that pressures on immediate capacity mean it is difficult. But our public services need to change now to meet the long-term challenges.

Take well-managed risks to innovate

Radical service reform is the sustainable solution to financial and demand pressures on public services. Doing things differently means taking risks. The pressures are such that not doing things differently might be a bigger risk. But that does not mean public services should throw caution to the wind. Risks need to be properly identified, mitigated and managed and where things do not turn out as planned, public services need to be prepared to recognise, share and learn from failure.

Be realistic

Public services need to be ambitious but also realistic about the scale of the pressures they face and what that means. Some of the key areas where we think public services need to be more realistic are:

- The level of savings that can be achieved by individual scheme and the time it takes to achieve them
- The need for some cuts to service levels and the impacts on the public
- The financial and capacity consequences of creating new duties and responsibilities
- The barriers to radically reshaping services, including political and cultural barriers, and the hard work needed to overcome them

Measure the things that matter

What gets measured gets managed' – so goes the saying. While Welsh public services are increasingly adopting 'outcome' measures, there remains a tendency to measure and manage how much activity is going on and how long it takes. Given the growing emphasis on personal and population outcomes, a greater focus is needed on making sure that (a) individuals and communities are better off as a result of what public services do and (b) the efforts add up to an overall improvement in our collective well-being.

Work together to manage the impacts of reductions in the level of services

The WAO survey shows that most parts of the public services are expecting cuts to service levels. So far, the approach to managing the impact of reductions in service levels has not been sufficiently robust. It is in the interests of all public services to work together through the difficult choices, to have clear and consistent priorities, to understand the short- and long-term impacts for the public and other public services, and to mitigate those impacts where possible.

City of Cardiff Council Response

The Council has put in place a range of scene setting and service delivery models in response to the significant challenges that the Council and our public service partners face. Some examples of these are:

- Liveable Cities Report which sets out Cardiff's position in comparison to other core cities and other Welsh areas. It shows where the city is performing well and where Cardiff needs to improve to become an even better place for people to live, work and visit
- The Council has approved a Medium Term Financial Strategy which considers the outlook for the three years 2017/18 to 2019/20. The Strategy includes an assessment of the key pressures facing the Council including the impact of changes to legislation and the significant demographic pressures affecting schools and social services in the city. Potential savings opportunities to bridge the budget gap in future years have also been identified. The Budget Report for 2016/17 also included a potential view out to 2029/30
- Citizen engagement around priorities as part of the Budget Strategy to help our citizens understand the impact on a reducing resources and to help set the Council's priorities
- Organisational Development Programme which is the driver for reviewing the shape and scope of the organisation together with the way that services are delivered
- Shared Regulatory Service based in the Vale of Glamorgan Council providing services across Cardiff, the Vale and Bridgend council areas
- Regional Adoption Agency based in the Vale of Glamorgan providing service across Cardiff, the Vale, Rhondda Cynon Taff and Merthyr council areas
- National Adoption Agency run by Cardiff delivering across Wales
- A Digital Strategy setting a direction for the Council to become digital by default
- A focus on commercialisation through investigating alternative ways of delivering frontline services e.g. leisure, and infrastructure

- Refresh of the Local Service Board into a Cardiff & Vale Partnership Public Services Board to set the strategic direction of partnership working across the public service and third sector
- The Council is aware of the potential benefits of adopting preventative approaches in response to increasing demand for services and the 2016/17 Budget includes a number of measures particularly in relation to social services.

Reason for Report

To present the Auditor General's findings and set out the process for providing assurance that the Council is having due regard to the output of regulatory activity

Legal Implications

There are no legal implications directly arising from this report

Financial Implications

There are no financial implications directly arising from this report

RECOMMENDATIONS

To note the work of the Auditor General and identify any issues which the Audit Committee consider relevant to their work programme.

CHRISTINE SALTER
CORPORATE DIRECTOR RESOURCES
11th February 2016

The following appendix is attached
Appendix 1: Wales Audit Office (WAO) 'A Picture of Public Services'

Archwilydd Cyffredinol Cymru
Auditor General for Wales

A Picture of Public Services 2015



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



I have prepared this report for presentation to the National Assembly under the Government of Wales Acts 1998 and 2006.

The Wales Audit Office study team comprised Mark Jeffs, Rachel Harries, Nigel Blewitt and Verity Winn under the direction of Matthew Mortlock with input from staff across the Wales Audit Office

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The Auditor General is independent of the National Assembly and government. He examines and certifies the accounts of the Welsh Government and its sponsored and related public bodies, including NHS bodies. He also has the power to report to the National Assembly on the economy, efficiency and effectiveness with which those organisations have used, and may improve the use of, their resources in discharging their functions.

The Auditor General, together with appointed auditors, also audits local government bodies in Wales, conducts local government value for money studies and inspects for compliance with the requirements of the Local Government (Wales) Measure 2009.

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.

For further information please write to the Auditor General at the address above, telephone 029 2032 0500, email: info@audit.wales, or see website www.audit.wales.

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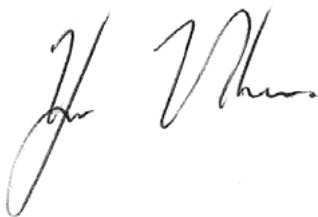
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Foreword

- 1 In October 2011, I published the second Picture of Public Services report. The two previous reports examined the financial challenges facing Welsh public services and how well placed public services were to respond. The period since 2010-11 has, arguably, been the most challenging for public services in the UK since the development of the modern welfare state after World War Two. Certainly, it has been the longest period of sustained real spending cuts.
- 2 I am publishing this report to set out my audit perspective on what has happened with public spending in Wales and the management of public services in the period since 2011. I also set out my perspective on the big issues for public services in the coming years. I need to emphasise that while this report sets out the scale and nature of the funding pressures, **it does not comment on the merits of budget decisions by the UK Government or Welsh Government, including those set out in the draft budget of 8 December.** Those decisions are matters of policy for elected governments.
- 3 With a £1.2 billion cut to the spending allocated to devolved public services, all parts of Wales' public services have faced financial pressures since 2010-11. This report paints a balanced and mixed picture in terms of public services' response. It is positive to see that despite the financial pressures, some measures of population well-being and service performance have got better. But some public services are clearly struggling to sustain service levels and performance in key areas. The report shows that despite some progress, public services are yet to develop the long-term and radical change that is needed to respond effectively to the pressures they have and will continue to face.
- 4 Looking forwards, Welsh public services face the prospect of further spending cuts and continued demand pressures. In this report, I have chosen not to make specific recommendations. Instead, I want to set out my key messages for public services. These are the kinds of things I will be looking out for in my work in future to test whether public services are indeed rising to the growing challenges they face.

Huw Vaughan Thomas
Auditor General for Wales



Key messages to public services

Expand the horizons

Despite some progress, Wales' public services are still too focused on short-term organisational pressures. Many still follow a cycle of managing annual budgets and performance targets. Public services need to expand their horizons in many different directions. They need to better understand and plan for the huge future opportunities and challenges from things like demographic change and technological innovation. They need to go further in adopting preventative approaches that will reduce future pressures on, and demand for, services. They need to do more to get beyond organisational boundaries to find new ways to join up services at the frontline. And there are lessons to be learnt from looking outside organisational and geographical silos to see what is being done well elsewhere. We fully understand that pressures on immediate capacity mean it is difficult. But we need our public services to be changing now to meet the long-term challenges.

Take well-managed risks to innovate

Radical service reform is the sustainable solution to financial and demand pressures on public services. Doing things differently means taking risks. Indeed, the pressures are such that not doing things differently might be a bigger risk. But that does not mean public services should throw caution to the wind. Risks need to be properly identified, mitigated and managed. And where things do not turn out as planned, public services need to be prepared to recognise, share and learn from failure.

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Public services need to be ambitious but also realistic about the scale of the pressures they face and what that means. Some of the key areas where we think public services need to be more realistic are:

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- the barriers to radically reshaping services, including political and cultural barriers, and the hard work that will be needed to overcome them.

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Work together to manage the impacts of reductions in the level of services

Our survey shows that most parts of the public services are expecting cuts to service levels. So far, the approach to managing the impact of reductions in service levels has not been sufficiently robust. It is in the interests of all public services to work together through the difficult choices, to have clear and consistent priorities, to understand the short- and long-term impacts for the public and other public services, and to mitigate those impacts where possible.

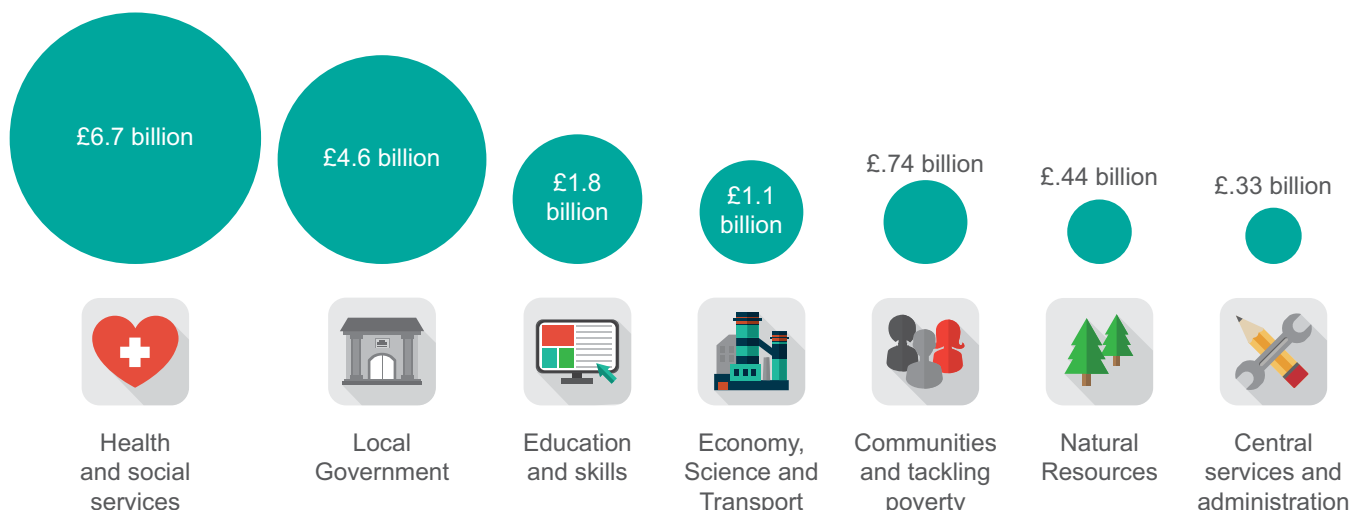
Summary

- 5 On behalf of the Auditor General, Wales Audit Office staff have prepared this report to paint a picture of devolved public services' response to the challenges they have been facing and their plans to face the future pressures. The report is based on a combination of new analysis of published information, a survey of public service leaders, and our national and local audit work. Detail on our methods and the sources of supporting data can be found in the appendices. Some key technical points to bear in mind when reading this report are:
- Not all public policy in Wales is devolved. For the purposes of this report, when referring to the spending and performance of Welsh public services, we mean the devolved functions. That covers the Welsh Government and its sponsored bodies, local councils, NHS bodies, fire and rescue services, and national parks. It excludes welfare payments. However, we are aware that in many cases, non-devolved and devolved services must and do work closely together. So when we talk about reform of public services in Wales, in particular collaboration, we are referring not just to devolved services but to all services. We include those in the voluntary and community sector, that work together to provide services and support to the Welsh public.
 - Throughout this report, all spending figures are in 'real terms'. Real terms means the figures have been adjusted to take account of inflation. Over time, the price of goods and services generally goes up. As a result, the purchasing power of money goes down. To enable us to compare spending and budgets over time, we have adjusted all of the figures using 'GDP deflators' produced by the UK Government. GDP deflators measure inflation across the whole economy. We used the GDP deflators issued in November 2015 to put all figures into 2014-15 prices.
- 6 This report shows that public services have faced significant and growing financial, demand and capacity pressures since our 2011 Picture of Public Services report. Public services have responded through a combination of improved efficiency and some reduction in service levels. Positively, some areas of performance have improved, notably some key indicators of population well-being, service quality in health, measures of educational attainment and some other council services. However, some public services have struggled to sustain service levels in the face of increasing financial and demand pressures. The way public bodies manage their finances is generally getting better but there is still too much of a short-term focus on annual budgets. The Welsh Government and other public service providers have expended considerable effort to lay the foundations for transforming public services, but the pace of change on the ground has been slow. Looking forwards, there is a clearer direction for public services, with a particular emphasis on involving the public more in designing and providing services, but there are still many obstacles to overcome before wholesale transformation can be a reality. And public services still have a way to go to take a whole-systems approach to understanding and managing the impacts of reductions in levels of services.

In managing a £1.2 billion funding cut since 2011, Wales has made some different spending choices to other parts of the UK

- 7 The bulk of devolved expenditure in Wales comes from the block grant that the UK Government allocates to the Welsh Government. The block grant is determined through the Barnett formula (see **Box 1** on **page 20** of the main report). The Welsh Government allocates the block grant across its departments and the block grant also funds other bodies including the National Assembly for Wales and the Auditor General for Wales. **Figure 1** sets out how the Welsh Government allocated its funding across departments in 2014-15.

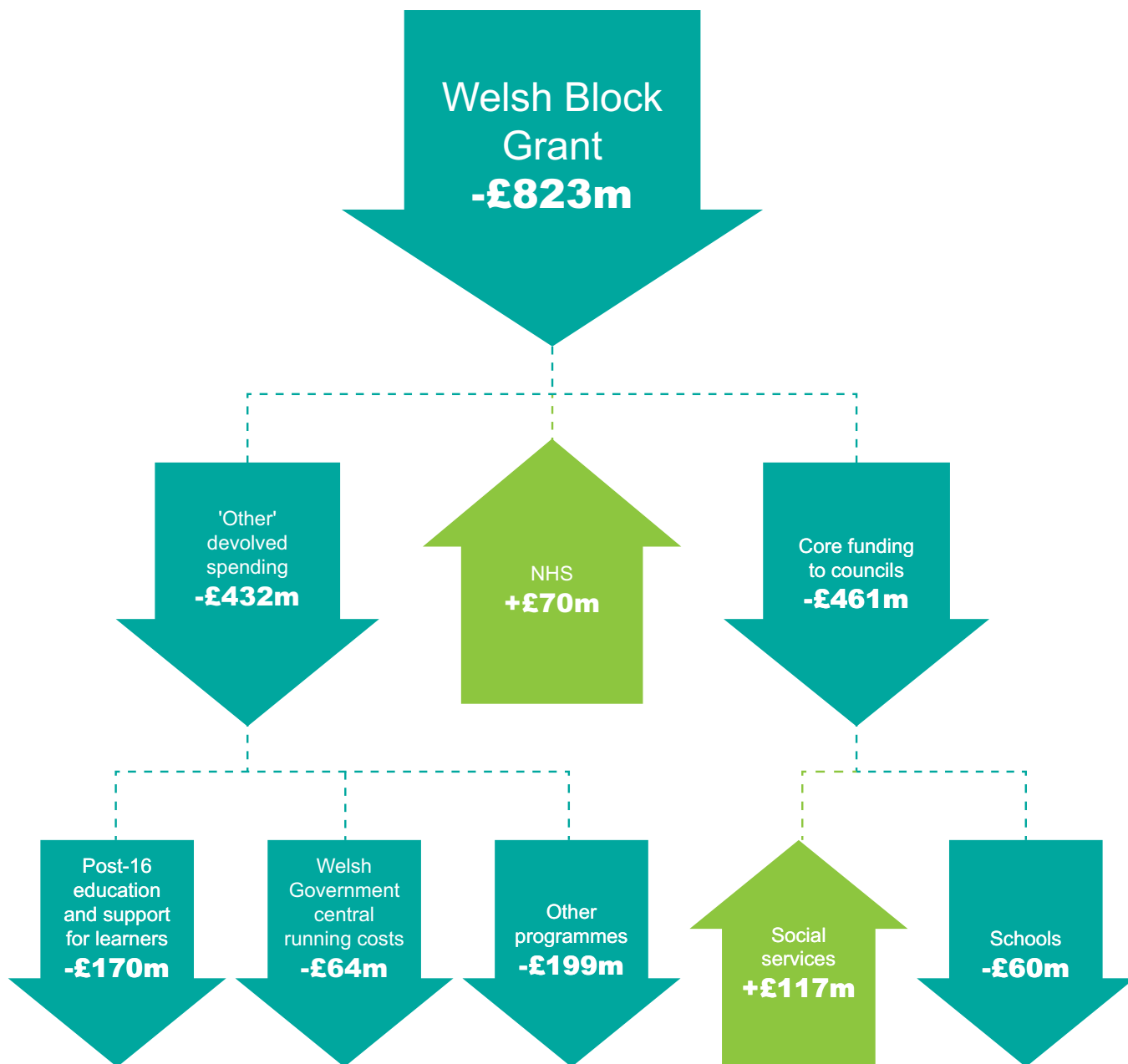
Figure 1 – Welsh Government departmental spending in 2014-15



Source: Welsh Government 2nd supplementary budget 2014-15

- 8 Since the UK Government set its austerity programme in the 2010 spending review, the block grant to the Welsh Government has fallen from £16.5 billion to £15.3 billion; a reduction of £1.2 billion (seven per cent). That cut is made up of a £0.8 billion reduction in ‘revenue’, which funds the day-to-day running of public services, and a £0.4 billion cut to ‘capital’, which funds projects such as constructing new buildings, roads and other infrastructure.
- 9 The cuts from the UK Government have been distributed across Welsh public services through the Welsh Government’s own budgets and then those of individual organisations. Initially, the Welsh Government set out indicative plans to protect spending on the NHS only in cash terms. This planned protection meant that budgets for the NHS would not rise in line with inflation. In practice, the Welsh Government has responded to pressures on the NHS by providing additional funding for health. As a result, cuts to the Welsh Government’s funding for councils have been larger than initially planned and some other bodies have been required to make savings at short notice.

Figure 2 – Allocation of revenue cuts to the Welsh Government’s block grant: 2014-15 compared with 2010-11



Note: this diagram reflects the distribution of cuts to the Welsh block grant. It does not include income, including increases in council tax which have partly offset cuts to local government funding. 'Other' programmes include changes to funding for programmes and grants that are passed on to other bodies, including local government, national park authorities and sponsored bodies.

Source: Wales Audit Office analysis of Welsh Government budgets, HM Treasury Public Expenditure Statistical Analysis and local government revenue settlement

- 10 Devolution means that different countries in the UK will have different priorities, which will be reflected in their budget decisions. Between 2010-11 and 2014-15, health spending per head of population in Wales fell more than in the other UK countries. However, that masks a significant recent change in the underlying trend, with spending on health in Wales rising faster than the rest of the UK in 2014-15. Spending on social care and schools in Wales has seen greater protection than other parts of the UK across the period. Spending on children's social services in Wales has risen particularly sharply.
- 11 Some of the largest spending cuts have fallen outside the relatively protected areas of health and social care and schools. Councils have made some large cuts to spending on economic development and environment initiatives and more modest but still significant cuts in areas like sports and leisure, culture and libraries.

Despite funding cuts, some measures of well-being are getting better, but there are signs of strain in the service and financial performance of some key public services

- 12 To give a broad picture of the overall well-being of Wales, we tracked progress against the Welsh Government's sustainable development indicators and drew from the National Survey for Wales. We recognise that these indicators are not comprehensive and the Welsh Government is currently consulting on a new set of well-being indicators. We found that well-being, as measured by the indicators, showed some good signs. Wales' economy is catching up with most other parts of the UK. Employment statistics show a positive direction of travel. People are living longer and are less likely to die in infancy than in 2010-11. People are more highly skilled and qualified. Overall, people tend to report being more positive about their own well-being and the communities they live in. But there are some areas of concerns. Wales is producing more carbon and greenhouse gases than in 2010-11. Levels of poverty remain high in Wales and are not falling as fast as in the rest of the UK.
- 13 We recognise that it is difficult for public services to continuously improve performance in all areas while seeing substantial reductions in their spending power alongside growing and changing demand from the public. Data on the performance of Welsh public services show a mixed picture. Some key areas, notably education, have shown signs of improvement. Overall, the NHS has improved against some public health measures and against some of its key performance measures on quality. But against a context of rising demand and activity in some areas, notably cancer care, performance against measures of waiting times - for elective care, emergency care and cancer care - have deteriorated. Councils have improved against most of the national indicators of performance. There have been notable improvements in education across Wales, albeit from a relatively low base in some places. But there may be signs of pressures in adult social care, with a significant reduction in the number of people getting any kind of support from councils. While that reduction could reflect a positive trend of reducing demand through prevention, there is a risk that the reduction reflects a tightening of eligibility criteria.


- 14 We recognise that the indicators that public services have used to report performance are not always the best ones. Too often they measure activity and how long things take. In some cases, these indicators may be important but they may not be the best measure of what matters to service users. The Welsh Government has emphasised to us that other measures of outcomes can paint a different picture. For example, cancer survival rates are improving, whereas the tier 1 target focuses solely on how long cancer patients wait for treatment. It is positive that public bodies have recently taken steps to develop more measures that focus on outcomes for people and for the wider population.
- 15 Audit work since 2011 shows that financial planning is generally getting better across public services. In the NHS, the move to a three-year framework that integrates service, workforce and financial planning has been a step forwards. And even though some NHS bodies continue to overspend or require more funding, there is now a more open and transparent discussion between the NHS and Welsh Government about the problems. But there is still much work to be done to move the NHS beyond the focus on the end-of-year position. Councils have so far set, and generally delivered, balanced budgets. However, more needs to be done to develop robust medium-term plans. In particular, councils face potential criticism for continuing to build up reserves without a clear plan for using those reserves to support transformation and new ways of working.
- 16 We have some significant concerns about the way public services have planned and managed reductions to levels of services. Councils have been clear that the financial pressures will impact the nature and level of services they provide. While our survey suggests that most in local government think they have plans in place to manage the impacts of those cuts, our work suggests those plans are often not robust, where they exist. In the NHS, we know that financial decisions have been a factor behind growing waiting times for elective patients. In our view, the NHS as a whole needs to be more realistic and open in its planning and recognise it faces tough choices on priorities and the extent to which it can sustain levels of all services.
- 17 As well as financial pressures, Welsh public services have had to manage rising and changing demand alongside staffing and other capacity constraints. Growing numbers of older patients with multiple conditions have placed particular pressure on emergency services with knock-on effects for other parts of the health system. These pressures have been amplified by capacity constraints. Hospitals in Wales have bed occupancy rates above levels recommended by professional bodies and recent research suggests shows most are full at parts of the day, with almost no spare beds. As a result of capacity pressures, some patients face long waits in emergency departments or having their planned operation cancelled because there are no beds to which to admit them. Many hospitals are struggling with staffing capacity: to recruit doctors and consultants, and to ensure sufficient nurses are on duty to safely staff wards.

- 18 There are also demand and capacity pressures across local government services. In education, there are growing numbers of pupils but falling numbers of teachers. Despite these pressures, results have improved. But there are concerns that workload pressures are not sustainable and some teaching staff may be considering leaving the profession. In children's social care, the numbers of children on the child protection register and being taken into care continues to rise. In adult social care, demographic pressures mean demand is rising. Councils have increasingly focused only on those with high levels of need. There are particular concerns about the sustainability of the residential care home sector in Wales. The Care and Social Services Inspectorate Wales' (CSSIW) annual report suggests Wales is very reliant on small residential care homes that operate at the margins of economic viability.
- 19 The sustainable response to the pressures on public services is to transform services so that they can achieve positive results with less financial and staffing resource. Our survey shows that most respondents think their organisation has changed services, either incrementally or through transformation. We have seen some examples of innovative initiatives in individual organisations and cross-sector collaborative work, for example between health and social care. The NHS has made progress in developing and consulting on plans to reconfigure some services to make them more cost-effective and safe. However in our view, despite an increase in the scale and pace of transformation, it has not been enough to enable public services to sustainably meet future challenges. The promising initiatives and projects do not add up to the necessary sea-change in the way public services are planned, managed and delivered.
- 20 Since 2011, we have reported on some high-profile failings in governance at some Welsh public services. These have included serious concerns about the way that the pay and conditions of senior managers have been set in some public bodies. At a time when the public is seeing services cut and staff see real-terms wage cuts, these kinds of governance failings risk undermining confidence and trust in public services. Our work and other independent reviews have also found significant failings in governance in a small number of NHS bodies and councils, which contributed to weaknesses in safeguarding vulnerable young people and providing basic care to patients.

Continued financial, demand and other pressures mean Wales needs to build on its strengthened vision for reform and radically increase the pace and scale of service change

- 21 The financial pressures that public services have faced are likely to continue over the medium term. Almost all respondents to our survey cited financial pressures as one their three biggest challenges in the future. The November 2015 spending review shows that there will be further spending cuts in Wales, with the overall budget falling by £0.5 billion between 2015-16 and 2019-20. With capital funding protected, the reduction is made up almost entirely of revenue funding. In total, the period of austerity from 2010-11 to 2019-20 will see a like-for-like reduction of £1.8 billion (11 per cent).
- 22 The demographic pressures on public services will continue into the future. The older population and younger population are set to grow both in absolute terms and as a proportion of the population. That we are living longer and more people are having children is undoubtedly a positive outcome for Welsh society. But, it poses challenges. People consume more public resources in their youth and in their old age than at any other period. In the coming years, these demographic changes mean that there will be new demand and cost pressures on schools and for health and social care. Most respondents to our survey cited demographic trends as one of the top-three challenges they face in the future, with NHS respondents particularly likely to see this issue as a key challenge. Looking ahead, there are a range of other opportunities and challenges for Welsh public services (Figure 3).

Figure 3 – Some of the key future opportunities and challenges

	Opportunities	Challenges
<p>Local Government re-configuration</p> 	<p>To use process of change to re-shape services</p>	<p>To engage staff worried about their position in the new organisations and avoid focus on structures rather than services</p>
<p>Demographic change</p> 	<p>To draw on skills and capabilities of older people and younger people to help improve outcomes</p>	<p>To manage impact of increased demand for services, especially health, social care and schools</p>
<p>New powers</p> 	<p>To use tax raising powers and new laws to further policy goals</p>	<p>To understand and manage volatility and cost implications of new duties for the wider public sector</p>
<p>Technology</p> 	<p>To find more effective and low cost ways of providing services</p>	<p>To engage and convince a sometimes sceptical public on the benefits</p>

- 23 Looking at service reform, we think that the Welsh Government now has a clearer direction for public services. While the reform agenda will have specific impacts for different parts of Welsh public services, the emphasis is increasingly on working as 'one public service'. So our analysis focuses on the collective challenge rather than those for each sector. The Well-being of Future Generations (Wales) Act embeds important principles of long-term planning, prevention, collaboration, integration and engagement into the governance framework for public services. These principles are also reflected in key policy and legislative developments for individual sectors, including the approach to prudent healthcare in the NHS and the focus of reform in social services.
- 24 The Welsh Government's updated vision and narrative for public services move on from previous versions in key respects. In particular, they recognise that 'more of the same' is not an option and that previous approaches to managing services and reform have not worked as intended. The focus on co-production has potential to reshape services in radically new ways that make the most of the increasingly scarce public sector resources and the capacity, capabilities and commitment of individuals and communities. Our survey shows that public services leaders know that the pace and scale of change needs to increase in the coming years.
- 25 The challenge for the Welsh Government and public bodies is putting the vision into practice and addressing the issues that have hampered change in the past. We set out our view on the risks and challenges in detail in **Part 3** of the report. We do not think the obstacles are insurmountable. Indeed, we point to examples of where they have been addressed. But we need to be clear about the challenges and the need to address them if public services in Wales are to make the journey from where they are now to where they need to be. Public service leaders have told us that reductions in service levels are likely to increase in the coming years. We therefore want to see a comprehensive and collective effort to understand and where possible, mitigate the impacts of these cuts on the public. In this report, we are not making specific recommendations. Instead, **the foreword** sets out the Auditor General's key messages for public services to support them in dealing with continued financial, demand and other pressures.

Part 1

In managing a £1.2 billion funding cut since 2011, Wales has made some different spending choices to other parts of the UK

- 1.1 This part of the report looks at the key changes in public spending between 2010-11 and 2014-15. We are not making any judgements about whether the spending decisions by the UK Government, Welsh Government and councils are the right ones. These decisions are a matter of policy for democratically accountable bodies. Our intention is to provide an objective analysis of spending patterns.
- 1.2 **Part 2** of the report considers in more detail how public bodies have managed and responded to the financial and other pressures they have faced. **Part 3** looks at their plans going forwards. Therefore, this section on spending patterns set the context for **Parts 2 and 3** of this report.
- 1.3 In this part of the report, we have adjusted all figures into 'real terms' to take account of the impact of inflation, unless otherwise stated. We have used the GDP deflators issued by HM Treasury in October 2015 to convert historic budget and spending figures into 2014-15 money. We draw on various sources of data, include Welsh Government budgets, HM Treasury spending data, NHS accounts and local government spending statistics. In some cases, the definitions may vary between different data sources so the numbers may not always reconcile. The methods section at the end of this report (**Appendix 1**) sets out the different data sources and explains any adjustments that we have made to the data.

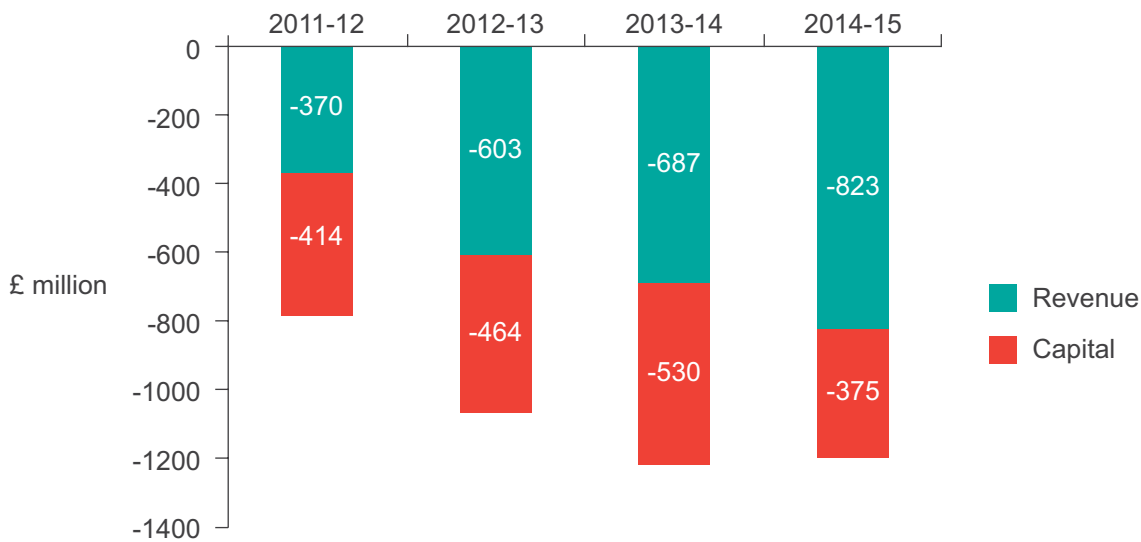
Since 2010-11, the Welsh Government has had less funding from the UK Government and has had to revisit its own spending plans in light of pressures on the NHS

Cuts to overall revenue spending have been largely as set out in the 2010 spending review, and smaller-than-expected cuts to capital spending have been partly due to changes to the way capital is classified

- 1.4 In 2010-11, the UK Government planned to eliminate the UK's structural deficit by the end of 2014-15. It planned to do so by reducing public spending and increasing some taxes. In practice, those plans proved to be optimistic. The UK Government reduced spending on public services largely as it intended. However, slow growth in the economy and wages meant that the UK Government received less tax than it initially expected. As a result it needed to borrow more money, which slowed down the repayment of the deficit. The UK Government now plans to eliminate the deficit and create a budget surplus in 2020.

- 1.5 Changes in the amount of funding provided to the Welsh Government are set through the Barnett formula (Box 1). In October 2010, the UK Government's spending review determined how much funding would be provided in the Welsh block grant, to 2014-15. In practice, cuts to revenue funding have been broadly in line with the October 2010 plans¹. Figure 4 shows that by 2014-15, real revenue spending by the Welsh Government was around £823 million less than in 2010-11 (six per cent). In total, the revenue from the UK Government to fund devolved services has fallen from £14.6 billion in 2010-11 to £13.8 billion in 2014-15.
- 1.6 Capital spending in Wales has fallen much less than was planned in 2010, with a 20 per cent reduction – from £1.9 billion to £1.5 billion – compared to the original plans for a 40 per cent cut. However, the change in capital is partly because capital spending now includes financial transactions. Financial transactions are loans and equity investments in private sector schemes rather than investment in traditional infrastructure projects. Resources earmarked for financial transactions have increased from zero in 2010-11 to £0.1 billion in 2014-15, with a further rise to £0.2 billion in 2015-16. Overall, cuts to revenue spending have been lower in Wales than the UK average but cuts to capital have been slightly higher.

Figure 4 – Cumulative changes to the Welsh block grant, including council tax benefit, from 2010-11 (2014-15 prices)



Note: in 2013-14, the UK Government abolished the existing Council Tax Benefit Scheme and transferred the budget to the Welsh Government. (The Welsh Government used the funding to create the Council Tax Reduction Scheme.) We have included the council tax benefit spending in the Welsh Government spending figures for 2010-11, 2011-12 and 2012-13.

Source: Wales Audit Office analysis of Public Expenditure Statistical Analysis outturn data

¹ In 2011, we calculated that there would be a £1.2 billion reduction in revenue spending. Since then, inflation has been much lower than expected. The difference between the actual £823 million cut and £1.2 billion estimate is almost entirely accounted for by lower inflation.

Box 1 – The Barnett formula

The Barnett formula determines how much the budgets of the devolved nations will go up or down each year. The Barnett formula is not based on need. It is based on a combination of spending decisions in England and population size. If the UK Government chooses to spend more, for example on a devolved spending area such as the NHS, there will be a corresponding increase in the funding available to the devolved countries. If the UK Government chooses to cut spending on education, there will be a corresponding cut to the budget for the devolved governments.

While the Barnett formula determines the annual changes to the overall budget, the devolved governments are free to decide how to allocate the funding across the areas of policy for which they have responsibility. There is no requirement for devolved governments to match the UK Government's increases or decreases in spending on specific areas.

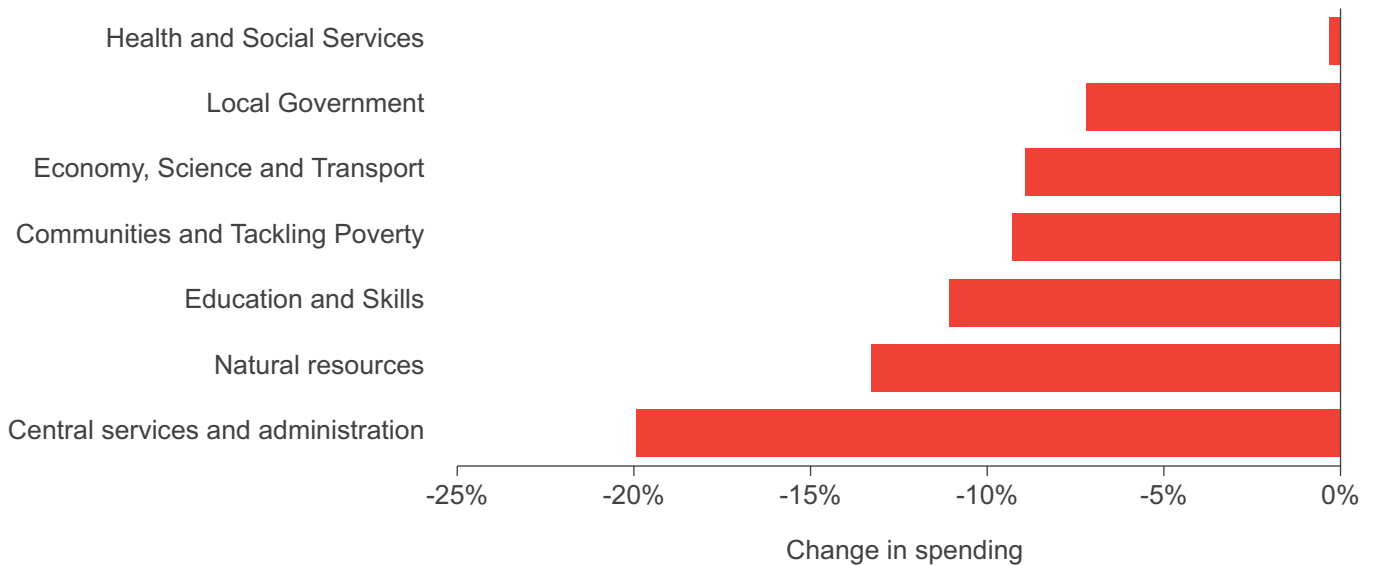
- 1.7 Between 2010-11 and 2014-15, Wales has also received £1.5 billion in European Union structural funds to be distributed among public, third sector and private sector organisations. It is important to note that there are strict conditions limiting the use of European Union structural funds to specific purposes and specific geographical regions. Our 2014 report on the management of the 2007 to 2013 structural funds programme sets out more detail on the funds and how well they have been used in Wales.

Cuts have fallen more heavily on some departments with health and social services having the smallest real-terms reduction of any department and specific areas, including post-16 education, facing large cuts

- 1.8 **Figure 5** shows how the Welsh Government has apportioned the revenue funding cuts across the Welsh Government. Our **Picture of Public Services 2011** report set out the Welsh Government's December 2010 spending plans following the October 2010 spending review. The budget included an indicative 'cash terms' protection for the health budget. In other words, the budget would stay largely the same and not go up in line with inflation or cost pressures. The Welsh Government intended to afford greater protection to local government in order to help mitigate the risk that cuts to social care would increase demand and pressure on healthcare services. When the Institute for Fiscal Studies (IFS) analysed departmental budgets in September 2013, it found that the Welsh Government had indeed given most protection to the Department for Local Government.

1.9 The initial December 2010 plans were ‘indicative’ and in practice the National Assembly approves a new budget before the start of each financial year. Since the IFS reported in September 2013, the spending pattern has changed. In response to pressures in the NHS, including those identified by the Nuffield Trust in 2014, the Welsh Government has increased spending on health. It has also reduced its funding for local government and other areas. Nevertheless, both local government and the NHS have received a higher level of protection than other areas. The largest proportionate reduction has been to central services and administration.

Figure 5 – Change in departmental revenue spending between 2010-11 and 2014-15 (2014-15 prices)



Notes:

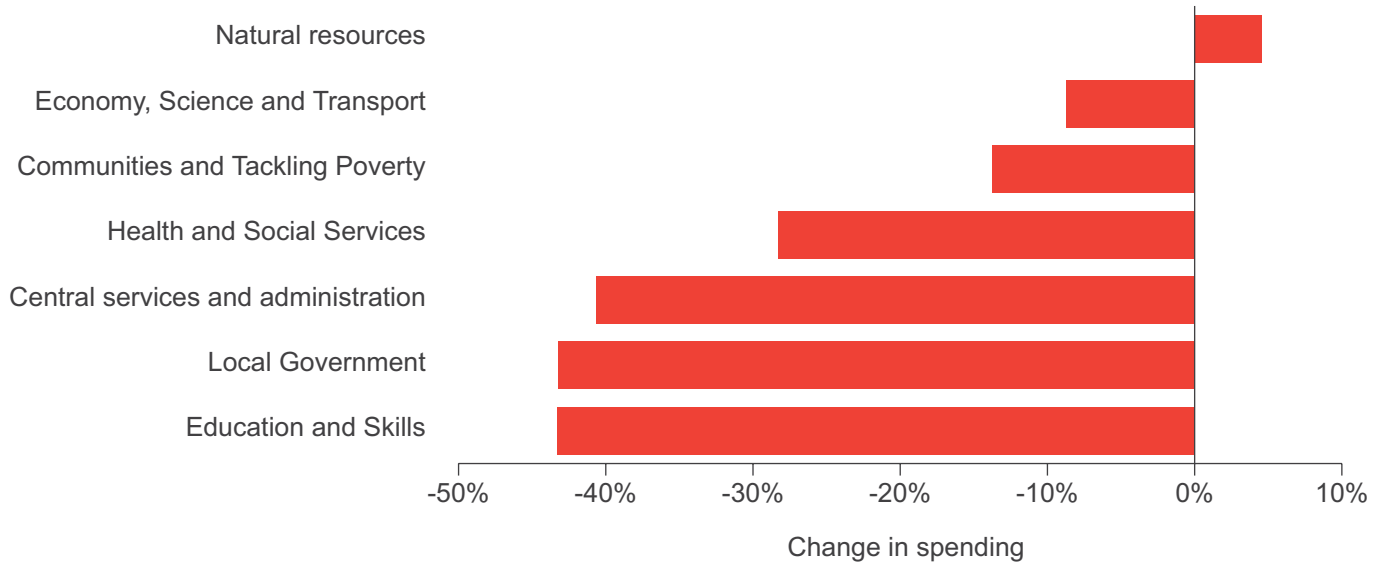
- 1 The local government figure is adjusted for the transfer of budget provision in recognition of the abolition of Council Tax Benefit.
- 2 ‘Education and skills’ does not include the core funding for schools, which is allocated through the budget for the local government department.

Source: Wales Audit Office analysis of Welsh Government 2nd supplementary budgets, 2010-11 to 2014-15

- 1.10 It is important to note that the spending on education and skills excludes core spending on schools. Core schools funding is included as part of local government settlement and has received some protection ([paragraph 1.25](#)). There have been significant changes to other areas of education spending between 2010-11 and 2014-15, particularly post-16 education with a £128 million (20 per cent) cut to the post-16 education budget and a £42 million (61 per cent) cut to 'support for learners'.
- 1.11 The Welsh Government provides funding for the Welsh Government sponsored bodies. The change in core grant funding from the Welsh Government for the largest sponsored bodies between 2010-11 and 2014-15 is set out below²:
- the Arts Council of Wales has seen a 14 per cent reduction;
 - the Sports Council for Wales has seen a 13 per cent reduction;
 - the National Museum Wales has seen a nine per cent reduction;
 - the National Library of Wales has seen a 10 per cent reduction; and
 - the Care Council for Wales has seen a 14 per cent reduction.
- 1.12 The pattern of changes to capital funding has been quite different from that for revenue. The Welsh Government manages capital spending differently from revenue. In addition to departmental core capital budgets, the Welsh Government allocates additional capital centrally to projects in alignment with strategic investment priorities. While [Figure 6](#) shows that the Department for Local Government has faced the largest cut, the specific local government budget line is relatively small. In practice, much of councils' capital spending is funded from grants within the budget lines for other Welsh Government departments, councils' reserves or through using unsupported borrowing. [Paragraph 1.29](#) shows that councils' capital funding fell by just one per cent between 2010-11 and 2013-14. The Welsh Government departments which have seen the smallest reductions or even an increase have been:
- Natural Resources, which has responsibility for major projects such as flooding prevention schemes and energy efficiency schemes to help tackle fuel poverty;
 - Economy, Science and Transport, which includes capital spending on roads, business development and strategic major projects; and
 - Communities and Tackling Poverty which includes significant capital spending on housing projects.

² Natural Resources Wales, the largest sponsored body, was formed in April 2013, bringing together the Countryside Council for Wales, Forestry Commission Wales and the Environment Agency Wales. Between 2013-14 and 2014-15, its core revenue grant from the Welsh Government reduced by 13 per cent.

Figure 6 – Change in departmental capital funding between 2010-11 and 2014-15 (2014-15 prices)



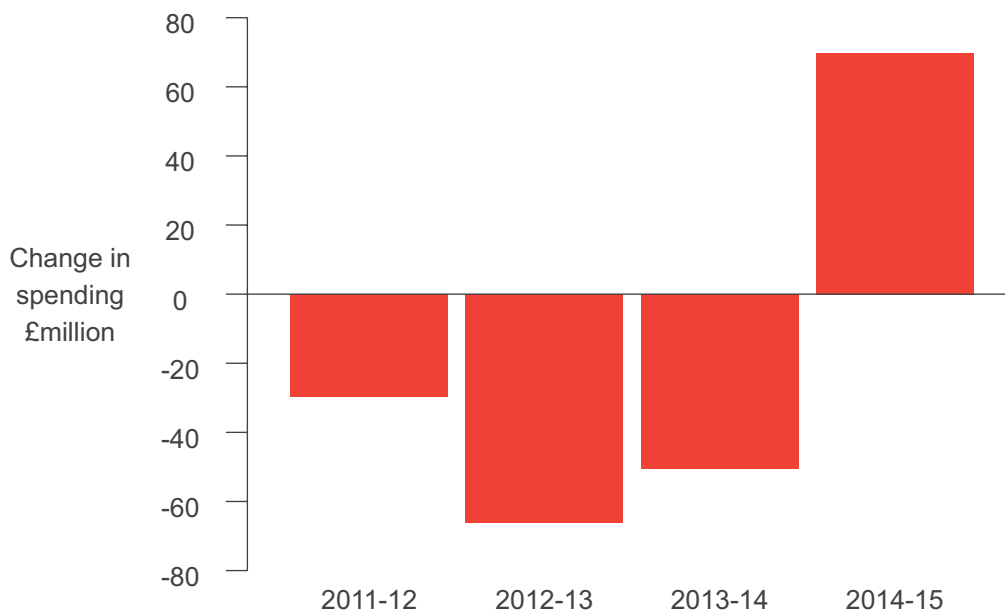
Source: Wales Audit Office analysis of Welsh Government budgets

Overall, revenue spending on health remained below 2010-11 levels until it rose in 2014-15, when the trend of growth in health spending in Wales lagging behind other parts of the UK was reversed

In each year since 2010-11, the Welsh Government has provided more revenue to the NHS than initially planned

1.13 Paragraphs 1.8 and 1.9 set out the Welsh Government's initial intention to protect health spending in 'cash terms' and subsequent changes. Health spending in 2011-12, 2012-13 and 2013-14 was lower than in 2010-11 in real terms. Additional Welsh Government funding to the NHS in 2014-15 means that the £6.3 billion revenue spending on health that year was around £70 million (one per cent) higher than 2010-11 (Figure 7). The Welsh Government intends to provide a further real-terms increase to support the NHS again in 2015-16.

Figure 7 – Change in health spending from 2010-11 baseline (2014-15 prices)



Source: Welsh Government 2nd supplementary budgets 2011-12 to 2014-15

1.14 In part, the additional funding the Welsh Government has provided to the NHS has been managed in a planned way, through revisions to the final budget³, which is set out before the start of each financial year. But each year, in order to manage pressures on NHS bodies, the Welsh Government has also provided additional revenue funding from reserves, other departments or transferring capital to revenue. The Welsh Government has allocated around £1 billion additional funding for health between 2011-12 and 2014-15 compared to the 2010 plan. Of that, £574 million (58 per cent) has come from in-year allocations. Spending on health now takes up a growing proportion of the Welsh Government's revenue expenditure: up from 43 per cent in 2010-11 to 46 per cent in 2014-15.

Health boards' accounts show an increase in spending on hospital and community services and a decrease in spending on primary care that is mostly explained by targeted action to reduce the overall cost of prescription medicines

1.15 The seven health boards are responsible for the vast majority of health expenditure in Wales. They commission and provide almost all primary, community and secondary care services. As well as the seven health boards, there are three NHS trusts: Velindre NHS Trust which mainly provides specialist cancer services; Public Health Wales NHS Trust; and the Welsh Ambulance Trust. Health boards and trusts operate under different accounting rules. We have focused our analysis of NHS bodies' accounts on those of the health boards, but have made adjustments to take account of any significant transfers of responsibility and funding during the period 2010-11 to 2014-15 ([Appendix 1](#)).

1.16 The majority of spending in the NHS goes towards the costs of providing hospital and community based healthcare services. Our analysis of health boards' accounts shows that between 2010-11 and 2014-15, spending on these services has increased by around £52 million (1.4 per cent). Health boards also commission services from other providers on behalf of the patients that live in their area. The total amount that health boards spent commissioning services reduced by about £65 million (three per cent) between 2010-11 and 2014-15. Health boards spent £26 million less on services from other Welsh NHS bodies. The main areas of real-terms spending growth in commissioning were:

- voluntary sector services, which increased by £7.3 million;
- services from non-Welsh NHS bodies which increased by £6.4 million; and
- private sector services, which increased by £6.5 million.

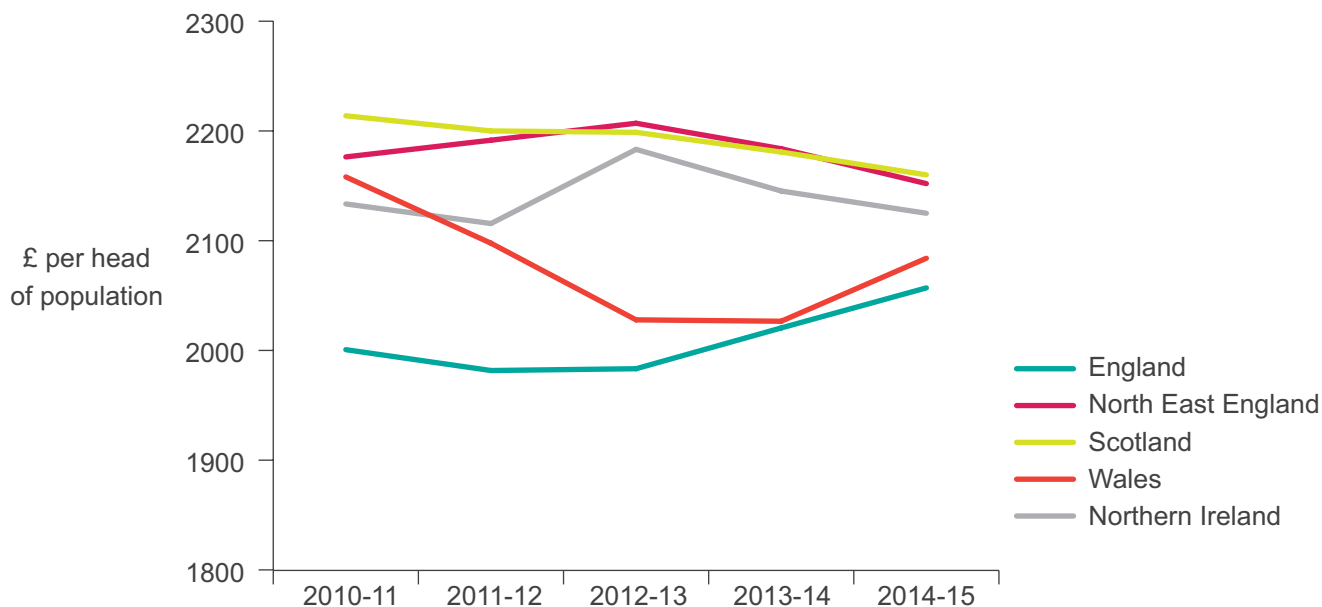
³ The 'final budget' is the budget that the National Assembly votes on ahead of the start of the financial year. Although it is called 'final', the budget is actually updated through supplementary budgets during the year.

- 1.17 Spending on primary care covers the healthcare provided by GPs, including the cost of prescriptions. Our analysis of health boards' accounts showed that spending on primary care has fallen by around £63 million (five per cent). The largest part of the reduction in spending has come through a £43 million reduction in spending on primary care prescribing, which reflects targeted action to secure savings on the overall cost of prescription medicines. There was also a £13 million reduction in spending on 'general medical services': the services provided by GPs and their staff.
- 1.18 While the audited accounts are a key published source of data on health boards' spending, the spending trends they show need to be treated with some caution. The way funding is classified into categories may have changed between years. Also, the Welsh Government told us that some of the funding for primary care that is provided from the Welsh Government Department of Health and Social Services' central budgets (therefore outside of the core funding) may not be reflected within the 'primary care' category in the accounts. The accounts combine spending on hospital-based services with community based services, whereas it may be more helpful to consider community and primary care spending together.

While Wales has seen the largest reduction in health spending per head of population between 2010-11 and 2014-15, the trend of growth in spending in Wales lagging behind other parts of the UK was reversed in 2014-15

- 1.19 Comparison of regional spending data shows that spending on health per head of population in Wales has fallen more than in any of the four nations of the UK between 2010-11 and 2014-15. However, that comparison at two points in time masks a more complex story. Wales initially lagged behind the growth in other parts of the UK but that picture was reversed in 2014-15 (Figure 8). Spending on health per head in Wales was higher than in England throughout the period. Between 2010-11 and 2012-13, the gap between England and Wales narrowed. But in 2014-15, spending per head in England grew more slowly than in Wales, while falling in Scotland and Northern Ireland. Because England as a whole has different health needs, it is generally considered more appropriate to compare Wales to the north east of England. The comparison paints a similar picture. In 2013-14, health spending per head of population was eight per cent higher in the north east of England than in Wales. However, a reduction in spending in the north east of England and a rise in spending in Wales meant that in 2014-15 the gap had narrowed to three per cent.

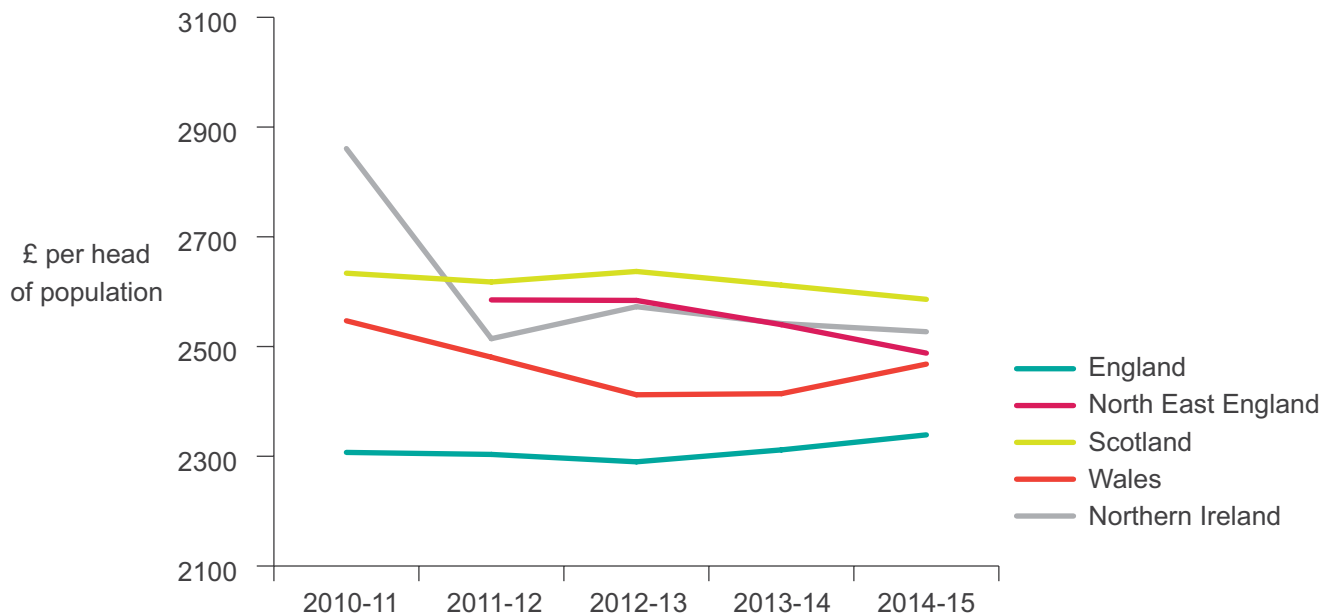
Figure 8 – Spending on health per head of population 2010-11 to 2014-15 (2014-15 prices)



Source: HM Treasury Country and Regional Analysis November 2015

1.20 Because health and social care systems are closely linked, we have also included a comparison that combines health spending with spending on social services for older people and those with a disability/sickness (Figure 9). The picture painted broadly mirrors that for health. Between 2010-11 and 2014-15, total spending per head on health and these social care services fell by more in Wales than Scotland and England. There was a large reduction in the Northern Ireland spend, though that may be distorted by higher-than-normal spend in the baseline year 2010-11. Again, the overall picture masks variation over time. Spending in Wales remained higher than in England as whole and the trend of England catching up with Wales and a growing gap with the north east of England was reversed in 2014-15. In 2014-15, Wales spent just £20 less per head on health and these social care services than the north east of England, compared to £126 in 2012-13.

Figure 9 – Spending on health and social services for disability/sickness/old age per head of population 2010-11 to 2014-15 (2014-15 prices)



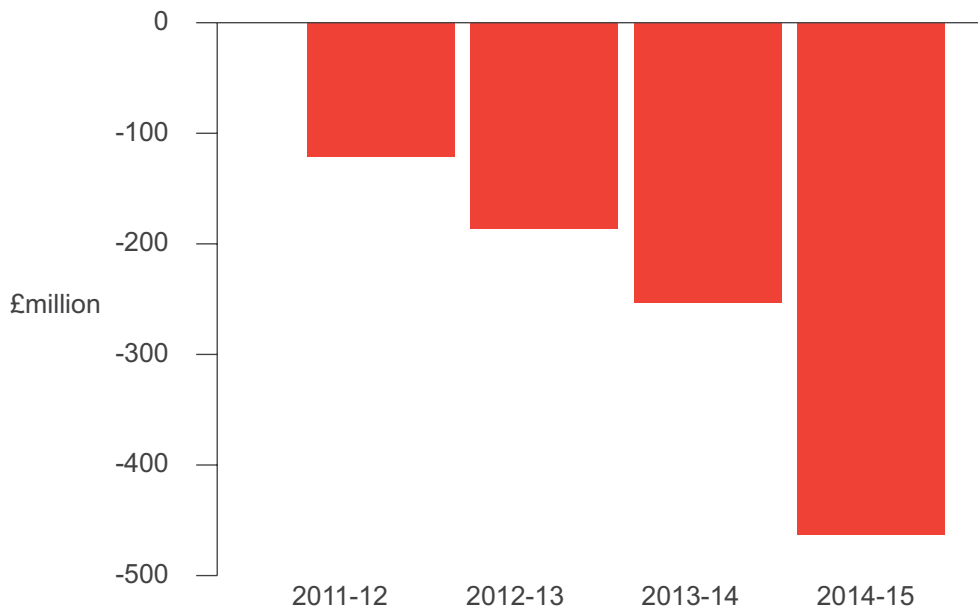
Note: We have included social care for older people and those with a disability or sickness because in our view, they form part of the same system. We have not included social services for families and children because they generally involve quite different services related to child protection and safeguarding, which form part of a separate system that is more closely linked to education.

Source: HM Treasury Country and Regional Analysis November 2015

While local government has seen substantial funding cuts, spending on schools and social care has been protected more than in other parts of the UK and councils have added to reserves

1.21 Local government receives much of its revenue funding through what is known as Aggregate External Finance (AEF). This funding comprises the revenue support grant from the Welsh Government and non-domestic rates. Comparing AEF across the period 2010-11 to 2014-15 is complicated for two main reasons. Firstly, the Welsh Government has incorporated some grants that were previously provided separately, into the revenue support grant. The net value of grants incorporated into AEF since 2010-11 is around £139 million. The picture is further complicated by the abolition of council tax benefit and the introduction of the Council Tax Reduction Scheme with funding provided through the AEF. In Figure 10, we have adjusted for these factors as best we can, to make the figures comparable. Our analysis shows that there was a real-terms reduction of £461 million (10 per cent): from £4.6 billion in 2010-11 to £4.1 billion in 2014-15.

Figure 10 – Change in central funding for councils from 2010-11 baseline (2014-15 prices)

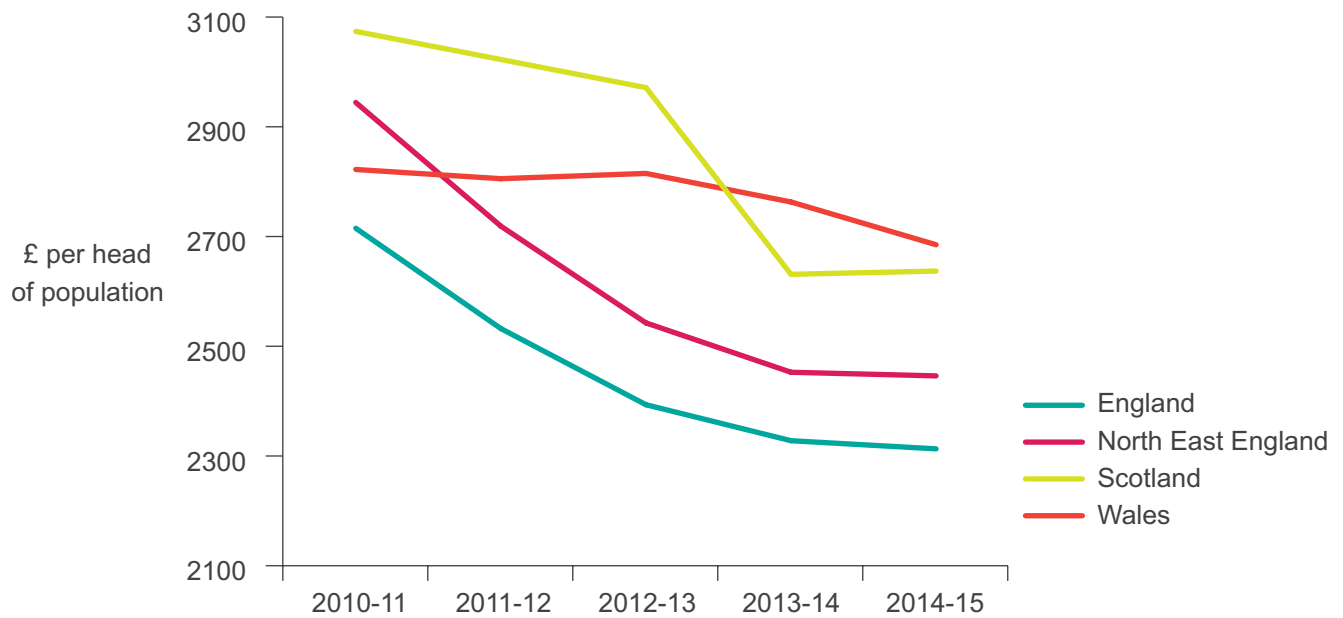


Source: Wales Audit Office analysis of local government revenue settlement

- 1.22 The reduction in local government funding is almost £200 million more than councils had expected. Based on the Welsh Government’s indicative settlements set out in 2012, councils expected a real reduction of around £262 million (six per cent). The main factor behind the cut being larger than anticipated has been the Welsh Government’s decision to prioritise funding for the NHS.
- 1.23 Despite a funding cut of £461 million, gross revenue spending on services across Welsh councils has fallen by £264 million: from £9.2 billion in 2010-11 to £8.9 billion in 2014-15. While the gap is partly explained by a £105 million increase in income from council tax, the other key difference is that councils put £135 million less into reserves in 2014-15 than in 2010-11. But councils still added a total of £10 million to their reserves in 2014-15. In 2014-15, councils had £832 million in reserves that have been earmarked for specific purposes, and £196 million in ‘general’ reserves.

1.24 Spending across local government in Wales appears to have fallen less sharply than in most other parts of the UK (Figure 11). HM Treasury figures, which include spending on police services in England and Wales, indicate that between 2010-11 and 2014-15, spending per head of population by English local government fell by 15 per cent. By contrast, the HM Treasury data shows spending by Welsh local government fell by just five per cent. While the figures show a drop in Scotland in 2013-14, this is primarily a technical accounting issue with spending on policing moving from local government to the Scottish Government. In 2014-15, local government in Wales spent more per head of population than all parts⁴ of the UK apart from London.

Figure 11 – Local government spending per head of population 2010-11 to 2014-15 (2014-15 prices)



Note: These figures need to be treated with some caution as local government has some different responsibilities in different parts of the UK. It is therefore possible, as is the case with Scotland, that the data is not entirely like for like.

Source: HM Treasury Country and Regional Analysis November 2015

⁴ Please note that arrangements for local government in Northern Ireland differ significantly from the rest of the UK, with many of the functions of local government in other parts of the UK carried out by central government, so it is excluded from the analysis.

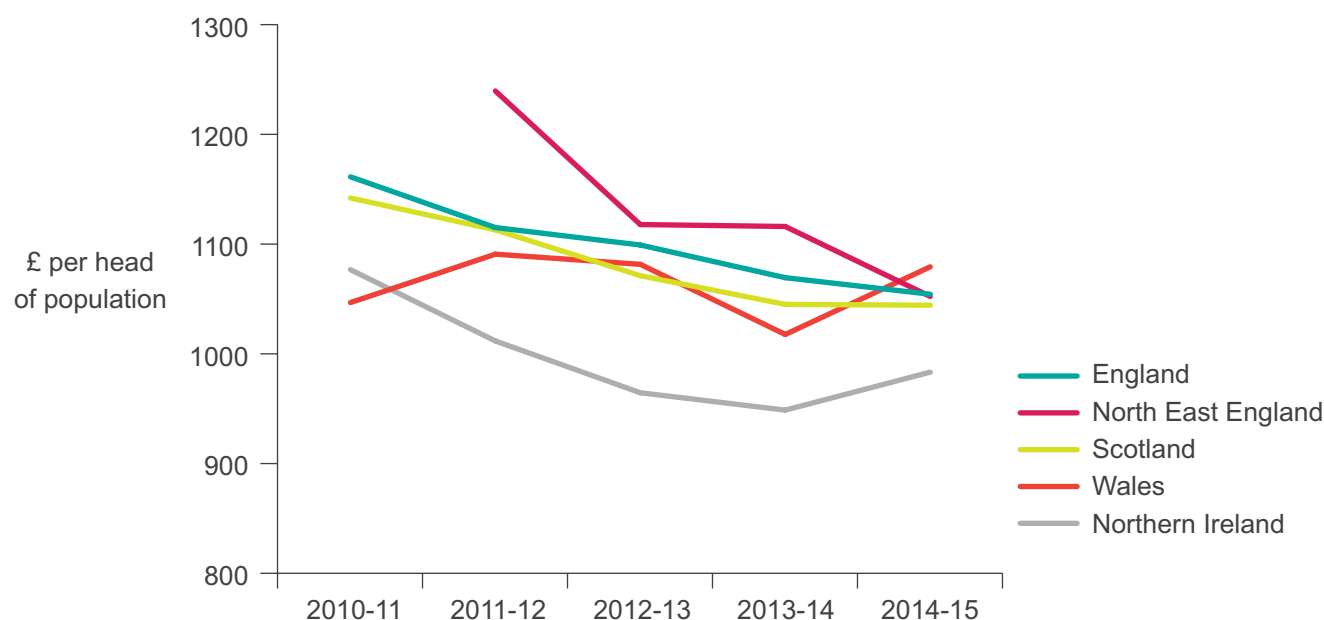
School budgets have had some protection and Treasury data suggests Wales has protected school spending more than other parts of the UK although the Welsh Government has some concerns about the comparability of spending data

- 1.25 At £2.8 billion, spending on schools accounted for almost a third (31 per cent) of councils' revenue spending across Wales in 2014-15. In 2010, the Welsh Government announced that it expected councils to protect schools spending. It provided funding to allow councils to fund schools at one per cent more than the change in the funding the Welsh Government received from the UK Government. So, for example, if the Welsh Government's budget was cut by two per cent, it supported councils to limit any cuts to the schools budget to one per cent. Local government revenue spending on schools reduced by £60 million (two per cent) in real terms between 2010-11 and 2014-15.⁵ If central spending by local government on behalf of schools – for example on school transport – is excluded, the figures show a spending increase of five per cent on primary and secondary schools. Councils' capital spending on education fell by two per cent. Capital spending on secondary schools was 35 per cent higher in 2014-15 than in 2010-11. Capital spending on primary schools and special schools fell substantially in 2014-15, reversing a trend of increases between 2010-11 and 2013-14.
- 1.26 HM Treasury data shows that between 2010-11 and 2014-15, Wales has gone from spending the least per head of population on schools to the most (Figure 12). However, this comparison should be treated with some caution. Wales's Chief Statistician has raised concern that due to the different way in which the academy schools in England are funded and possible inconsistencies in the way different governments categorise spending, school spending data may not be directly comparable with England. The full concerns are set out on the Welsh Government's website⁶.

5 The reduction may partly be explained by the reclassification of spending on the Flying Start Programme. Prior to 2013-14, it was included in local government outturn as education spending. From 2013-14, it has been classed as spending on social care. While we were able to adjust for this change in the social service data, we were unable to adjust for it in our analysis of spending on schools as it is unclear whether local authorities recorded Flying Start as part of schools or non-schools education spending.

6 www.gov.wales/docs/statistics/2015/150511-chief-statisticians-update-issue-4-en.pdf

Figure 12 – Spending on primary and secondary schools per head of population 2010-11 to 2014-15 (2014-15 prices)



Notes:

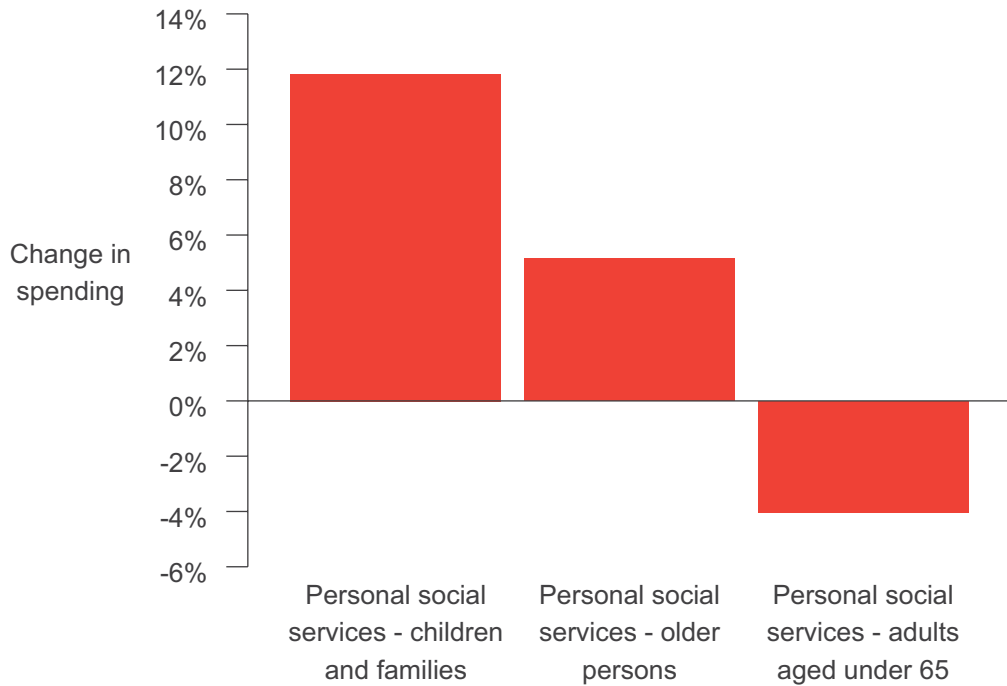
- 1 Wales's Chief Statistician has expressed some concerns about whether Wales and England categorise school spending in the same way in this dataset. There is some year-on-year volatility in the figures that underpin this analysis.
- 2 We do not have 2010-11 figures for the north east of England.

Source: HM Treasury Country and Regional Analysis November 2015

Spending on social care has been protected more than most other parts of the UK

1.27 Social services account for just over a fifth (22 per cent) of councils' revenue spending across Wales. Spending on social services increased by six per cent between 2010-11 and 2014-15. Figure 13 shows that spending on social services for children and young people has increased the most: a 12 per cent increase (£61 million). Spending on services for older people has seen a more modest increase of five per cent (£37 million). Spending on services for adults under 65 fell by four per cent (£26 million). Overall, spending on social services has increase by £117 million (six per cent). Capital spending across social services reduced by around four per cent. HM Treasury data show that Wales spent more per head than Northern Ireland and England in 2014-15 and spent more than the north east of England (Figure 14). Scotland spent slightly more per head than Wales in 2014-15.

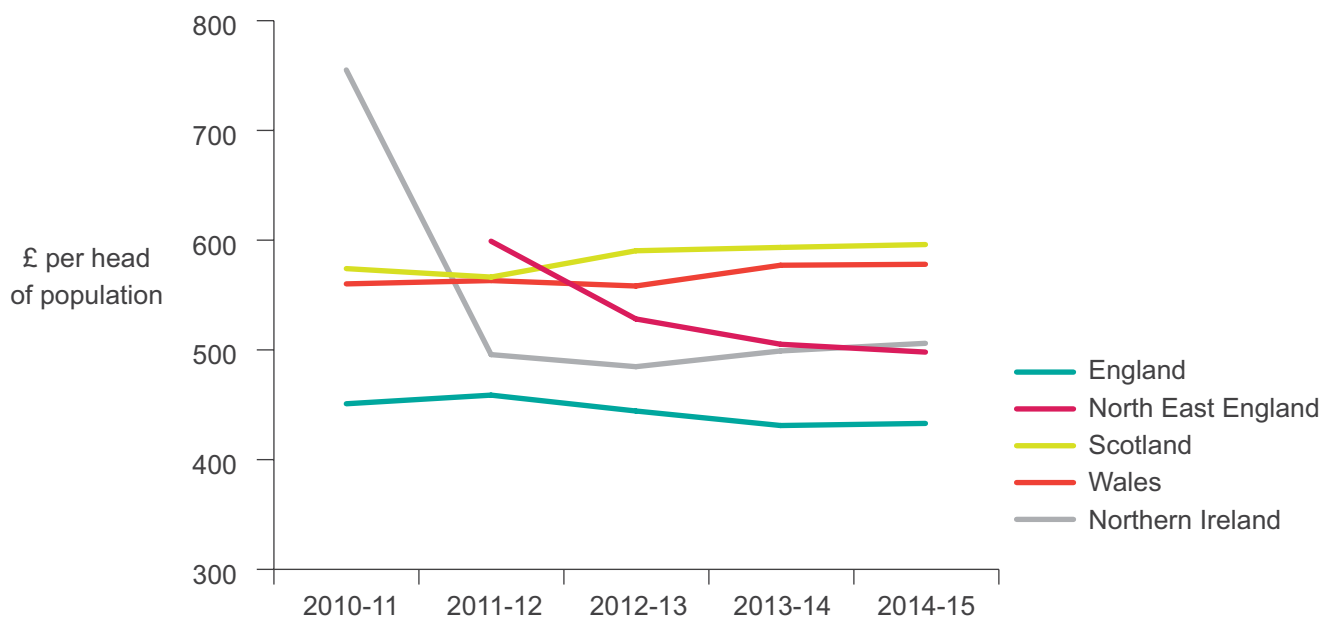
Figure 13 – Change in spending on social services across Wales between 2010-11 and 2014-15 (2014-15 prices)



Note: we have adjusted the figure for personal social services – children and families – to take account of the reclassification of Flying Start in 2013-14.

Source: StatsWales revenue outturn data: gross expenditure

Figure 14 – Spending on social services per head of population 2010-11 to 2014-15 (2014-15 prices)

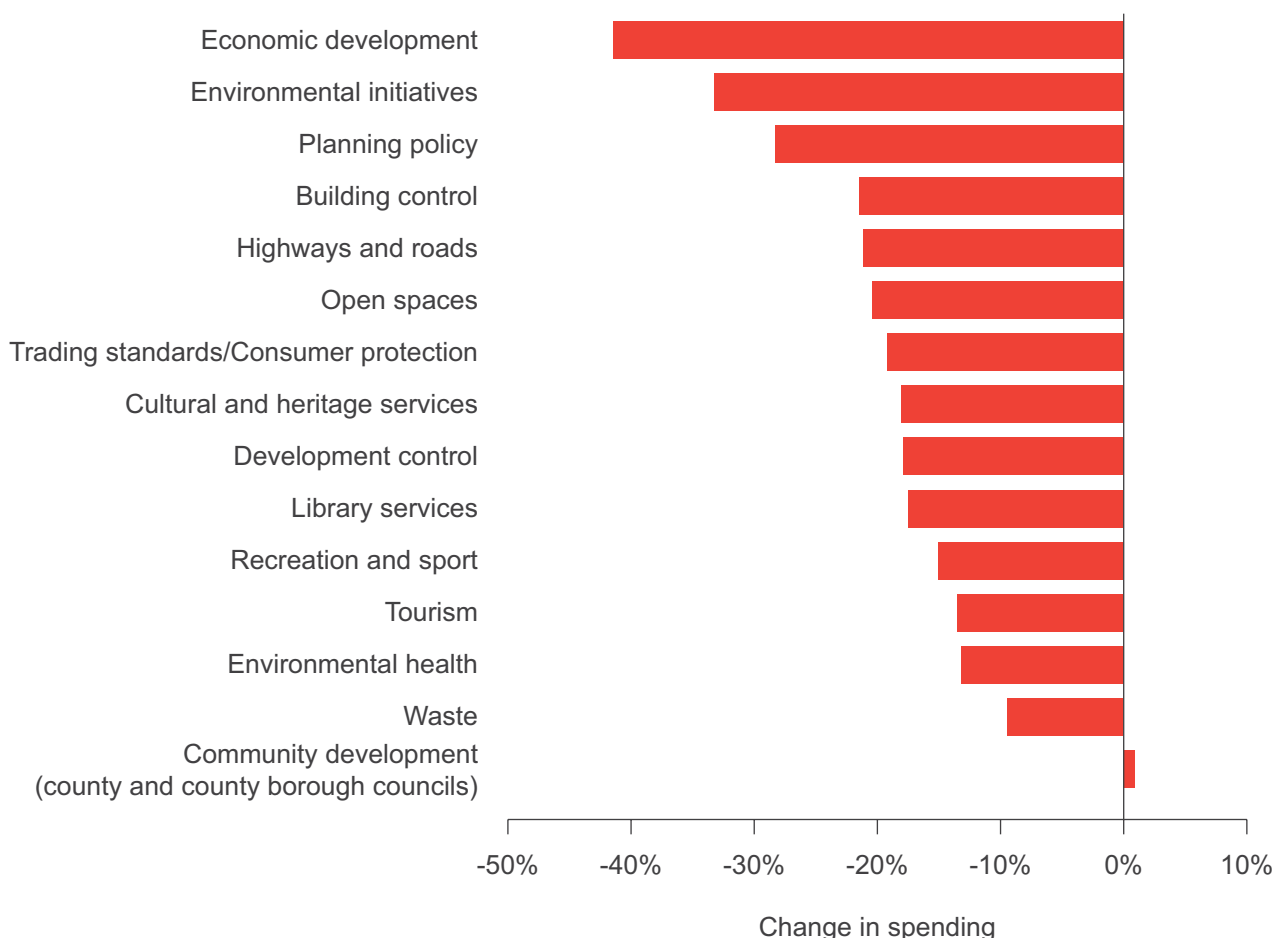


Source: HM Treasury Country and Regional Analysis November 2015

Many other services, particularly environmental and economic development services, have seen large spending cuts

1.28 With councils seeking to protect spending on schools and social care, which account for 53 per cent of the total spending, spending cuts have fallen more heavily on other areas. **Figure 15** shows the changes in spending across a range of the non-protected spending areas between 2010-11 and 2014-15. It shows that the largest cuts have fallen on economic development, which includes the costs of letting premises to businesses as well as general activity to promote economic development in an area. The second-largest cuts have fallen on environmental initiatives, which range from surveys of derelict land to environmental awareness projects with schoolchildren. As our 2014 report on environmental health services stated, the extent of spending reductions in specific areas can vary significantly from council to council.

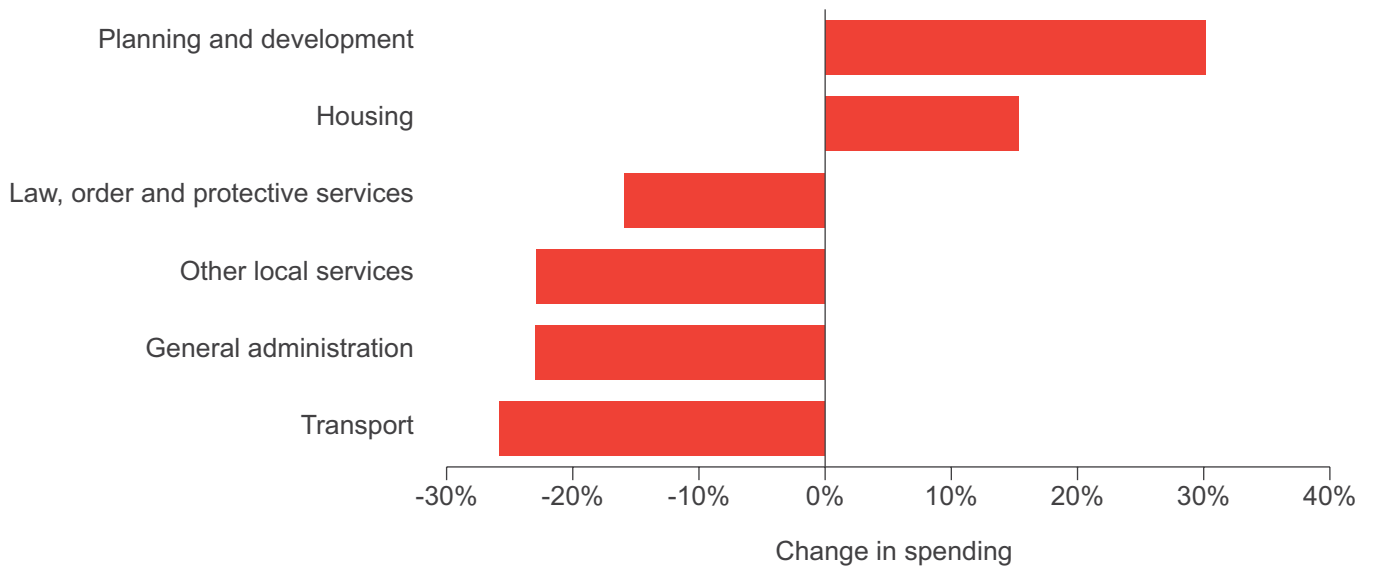
Figure 15 – Change in council spending on services other than schools and social care between 2010-11 and 2014-15 (2014-15 prices)



Source: Wales Audit Office analysis of revenue outturn data

1.29 The position on capital spending for non-protected services is mixed. Local government capital outturn data show that the largest increase has been in planning and development⁷, with a 30 per cent increase (Figure 16). The largest reductions were in transport. Over the period, the source of capital funding for councils has changed significantly. Capital grants from public and private bodies have fallen by around 27 per cent. Grants from the Welsh Government fell by 30 per cent and sponsored bodies by 71 per cent. Increases in European Union grants partly offset these reductions. Councils are now far more reliant on funding their infrastructure spending from revenue (104 per cent increase) and from unsupported borrowing (51 per cent increase). Relying on revenue to fund infrastructure reduces the amount of money that councils have to fund the day-to-day delivery of services.

Figure 16 – Change in capital expenditure between 2010-11 and 2014-15 (2014-15 prices)



Source: Wales Audit Office analysis of StatsWales data

⁷ In the published data, 'planning and development' covers strategic planning and policy development. It does not refer to town and country planning or economic and community development.

Fire and rescue authorities and national park authorities have seen reductions in their funding

1.30 The local government family also includes the fire and rescue authorities and national park authorities. The vast majority of fire and rescue authorities' funding comes from the councils in the areas they cover. The fire and rescue authorities themselves set the levels of contribution that local authorities pay them. Between 2010-11 and 2014-15, fire and rescue authorities have allocated a nine per cent reduction in the funding they receive from local authorities. The accounts show that the three authorities have reduced spending on 'firefighting' by an average of 12 per cent. Two of the three authorities have reduced expenditure on 'community safety' which includes preventative activities, with an average cut of 13 per cent. National parks receive funding from both local government and the Welsh Government. The Welsh Government's national parks grant covers 75 per cent of the core funding for the national parks, with levies to the constituent councils making up the remaining 25 per cent. Between 2010-11 and 2014-15, the parks have seen an average reduction in their funding from the Welsh Government of 13.1 per cent and a reduction in the funding from local councils of 12.1 per cent.

Part 2

Despite funding cuts some measures of well-being are getting better, but there are signs of strain in the service and financial performance of some key public services

- 2.1 This part of the report considers how well public services have responded to the challenges they have faced. We look at what has happened to some key measures of well-being. We consider whether services have got better, using their own measures of success. The measures we draw on include the sustainable development indicators, tier 1 targets in the NHS and the national strategic indicators for local government. We also draw from the National Survey for Wales⁸. In many cases, these show high levels of public satisfaction with services. And while that is of course to be welcomed, even if just five or 10 per cent of service users are not satisfied, it suggests there is scope to improve the experiences of a significant number of people.
- 2.2 We go on to consider how well public services are managing their finances. Finally, we look at whether public services have responded to the financial challenges by changing the way they do things. Because they make up the bulk of devolved public spending in Wales, this part of the report mostly focuses on the NHS and councils.
- 2.3 This part of the report also draws on our survey of public service leaders in Wales ([Appendix 1](#)). In the survey we grouped together councils, fire and rescue authorities, and national park authorities as 'local government'. Therefore, where we refer to 'local government' in this section and in [Part 3](#), we are referring to all three types of body in the local government family. Where we refer to councils, we are referring specifically to the 22 unitary authorities.

Well-being indicators show improvement in the economy and in general health, skills, personal well-being and community cohesion, although some environment and poverty indicators remain a concern

- 2.4 Public services in Wales generally aim to improve 'outcomes'. In other words, they aim to improve the 'well-being' of people, communities and the environment we live in. There are many ways of measuring outcomes or well-being. At the time of drafting this report, the Welsh Government is consulting on a set of outcome-based 'well-being indicators' to support its Well-being of Future Generations Act 2015. As the Welsh Government has not yet finalised the indicators, for this report we use the existing sustainable development indicators⁹. We have not been able to use all of the sustainable development indicators as many have not been updated for several years (see [Appendix 1](#)). The Sustainable Futures Commissioner has commented that these indicators have not been sufficiently central to the way the Welsh Government reports its performance¹⁰. We have also supplemented our analysis of outcomes to incorporate some findings from the National Survey for Wales.

⁸ The National Survey for Wales is an annual survey of 14,000 people and covers a range of questions concerning well-being and satisfaction with services.

⁹ The sustainable development indicators are different in scope to the well-being indicators in which the Welsh Government is consulting at the time of drafting this report. While they are not interchangeable, they provide a broad overview of some of the key areas against which the Welsh Government has measured its impact on high-level population and environmental outcomes.

¹⁰ Sustainable Futures Commissioner's commentary in [One Wales: One Planet, The Sustainable Development Annual Report 2013-14](#), Welsh Government

- 2.5 It is important to note that we are not saying that any changes in well-being are a direct result of the actions of any particular part of the public sector nor any changes in funding. The well-being of a country, community or individual is the result of the complex interplay between a range of factors. Public services can help make a big difference. But other local and global factors also play a role in shaping our well-being.
- 2.6 There has been positive progress in some important areas of health and social care. The latest data (up to 2013) shows that infant mortality rates have continued to fall while life expectancy has continued to rise. And there has been a marked increase in the proportion of the population with level 2 and level 4 qualifications¹¹. We consider some other indicators of education in [paragraphs 2.19 to 2.23](#).
- 2.7 The data suggests that the economy of Wales is getting stronger albeit from a relatively low base. Gross Value Added (GVA)¹² has been rising. Wales has the lowest GVA per head of any region in the UK, with 71.4 per cent of the UK average¹³. However, between 2010 and 2014, Wales closed the gap to every region other than London. People are less likely to be out of work in Wales than in 2010-11 and less likely to be living in households where nobody works. For a short while at the end of 2013, Wales had a lower unemployment rate than the UK.
- 2.8 Despite some positive data on the economy, there is concern about the persistence of poverty in Wales¹⁴. Rates of child poverty were the same in 2013-14 as 2010-11. In Wales, 31 per cent of children lived in a household with less than 60 per cent of the median income after housing costs. This is the second highest of any part of the UK, behind London. Progress in reducing child poverty has lagged behind the rest of the UK, in particular the north east of England. Pensioner poverty in Wales has increased sharply between 2010-11 and 2013-14. Rates of overall poverty in Wales are higher than almost all other parts of the UK¹⁵.
- 2.9 Indicators of the quality of the environment in Wales paint a mixed picture. The most recent data show that emissions of greenhouse gases were higher in 2013 than in 2010. Carbon dioxide emissions were higher in 2013 than at any point since 2001. Also, people in 2013 were more likely to use the car to get to work and less likely to walk, cycle or use other modes of transport. Positively, the longer-term trend on air quality is improving in both urban and rural settings. Households produced less waste in 2013-14 than in 2010-11. And significantly more of that waste is being recycled. The National Survey for Wales also points to improvements in home energy efficiency.

¹¹ Level 2 qualifications are GCSE grade A to C and equivalent, and level 4 qualifications include certificates of higher education and national vocational qualifications level 4.

¹² The Office for National Statistics defines GVA as 'the contribution to the economy of each individual producer, industry or sector in the United Kingdom'.

¹³ The UK average figure is impacted by the increasingly dominant position of London as the source of economic growth in the UK. Since 1997, all regions of the UK – except London and the north east – have been declining against the UK average.

¹⁴ See for example, Communities, Equalities and Local Government Committee, **Inquiry into Poverty in Wales: Poverty and Inequality**, 2015

¹⁵ Poverty rates are part of the sustainable development indicators. We have used updated data from the Department of Work and Pensions' **Households Below Average Income** report, June 2015.

2.10 The National Survey of Wales provides data on several aspects of well-being. We have focused on two key elements: personal well-being and community cohesion. The National Survey shows that between 2012-13 and 2014-15, there has been an improvement against these well-being indicators. People in Wales in 2014-15 indicated that they were more satisfied with their life, found doing activities more worthwhile, reported greater levels of happiness and lower levels of anxiety. Over the same period, people were more likely to agree they felt a sense of belonging to their local area, that people of different backgrounds in their local area got along, and that people in their area treated each other with respect and consideration.

While some aspects of public services are improving, there are signs of deterioration against some key measures of performance

2.11 The Welsh Government reports its progress in several different ways. The Welsh Government does not provide many services directly. Instead, it sets the policy and strategic direction for others. Each public body has its own responsibilities and accountabilities for delivery. Nonetheless, the overall performance of public services against measures set by or agreed with the Welsh Government can be seen, to some extent, as a proxy indicator of the Welsh Government's own performance. The National Survey for Wales reports public satisfaction with the Welsh Government. In 2014-15, survey respondents rated the Welsh Government at 5.6 out of 10 in terms of how well it is doing its job, similar to the mark of 5.8 in 2012-13. A comparison of the 2012 data suggests¹⁶ the Welsh Government has the fourth-highest rating compared with 29 other European countries.

2.12 The Programme for Government sets out the Welsh Government's key priorities. It provides a helpful steer to public services on the outcomes the Welsh Government intends to achieve and the actions it expects public services to take in contributing to those outcomes. The Welsh Government produces an annual report on progress against the Programme for Government. We have not reviewed the annual reports in detail. Overall, the reports paint a positive picture of progress against the Welsh Government's commitments.

¹⁶ This comparison is based on comparing the results of the National Survey for Wales with the results of the European Social Survey. There are some methodological differences that may impact the comparability. As a result, we have referred to the results as 'suggesting' rather than demonstrating conclusively relative satisfaction levels. More detail can be found in Appendix 1.

2.13 The Welsh Government also produces a wide-ranging annual report on sustainable development. Again, these annual reports paint a positive picture of progress against the Welsh Government's plans. We note, however, the comments of the Sustainable Futures Commissioner in the latest (2013-14) report on sustainable development, that the Welsh Government's reports have excluded some important issues and tended to 'focus on strategies developed and investment made, rather than outcomes achieved'. He also notes that future annual reports will need to 'address the material issues, be focused on outcomes, include lessons from failures and be accessible to all'. The Welsh Government intends that the Well-being of Future Generations (Wales) Act 2015 will strengthen reporting of progress.

Measures of public health and some indicators of service quality show signs of improvement but NHS performance has deteriorated against some of the key tier 1 priorities

2.14 The NHS in Wales provides care in many places: from high-intensity critical care wards to care in people's own homes. It treats patients with serious and minor illnesses. The NHS has millions of contacts with patients every year. These span millions of GP and outpatient appointments, attendances at emergency departments and hundreds of thousands of routine and life-saving operations. And it runs public health programmes to help stop people getting ill in the first place. Explaining how well such a complex system is performing is difficult. For our analysis, we focus on some broader indicators of public health alongside the areas that the Welsh Government has decided are the most important: the tier 1 priorities. We have used Welsh Government data on performance against these measures, some of which is in the public domain. This part of the report does not compare performance in Wales and the rest of the UK. In 2014, the Nuffield Trust produced a report that concluded that no one country clearly outperformed the others. Nonetheless, it found some key areas – notably waiting times for treatment – where Wales was lagging behind other parts of the UK.

2.15 National surveys consistently show high levels of public satisfaction with the Welsh NHS. The National Survey for Wales showed that 91 per cent of people who had seen a GP in 2014-15 and 92 per cent of people who had attended a hospital were satisfied with the care they received. Comparison of 2012 results suggest that satisfaction with health services was relatively high, ranking ninth out of 30 European countries. Taking a broader view, there is a positive picture on public health: the Welsh population is less likely to smoke and drink excessively. We are slightly more likely to be involved in physical activity and, despite a reduction in the numbers getting enough fruit and vegetables, the rise in obesity seems to have been halted in recent years. The recent health and behaviour survey in school-aged children in Wales paints a mixed picture. There have been improvements in self-reported health among young people and a reduction in the proportion drinking alcohol and smoking but a static picture in terms of obesity and some evidence of a decline in healthy eating.

- 2.16 The NHS has improved in some important areas of performance against its tier 1 targets. Welsh Government data shows that the NHS has improved some of the key measures of quality. There has been an improvement in mortality rates: suggesting that hospitals are getting safer. Patients are significantly less likely to contract two of the 'super bugs' (C-Difficile and MRSA) while they are in the care of the NHS although rates of MSSA are increasing¹⁷. The NHS admitted or readmitted fewer patients to hospital because of chronic conditions. The NHS did better against measures of mental health services, though it is not yet meeting all of its targets. Patients have access to more GP surgeries during the evenings and weekends. Fewer patients faced delays in their discharge from hospital than in 2010-11 although the improvement has stalled in recent years. For three out of five childhood vaccinations¹⁸, rates of take-up were higher at the end of 2014-15 than at the end of 2013-14. However, during 2014-15 there was a decline in take-up across all five vaccinations.
- 2.17 Despite the positive trends outlined above, and in a context of rising demand and activity in some areas (see [paragraph 2.47](#)), the NHS is doing worse in some of the most high-profile tier 1 areas than in 2010-11. In 2014-15, patients waited longer for ambulances to arrive and for emergency treatment in hospitals. Patients also waited longer for planned treatment, and for a range of tests and therapies. Waiting times to start treatment for suspected cancer got longer between 2010-11 and 2014-15. Fewer patients who had a stroke got the timely treatment they needed than was the case in 2012.
- 2.18 It is important to bear in mind some key limitations of an analysis based on the tier 1 measures. The measures are highly focused on hospital activity. The targets for length of time waited generally do not have a clear clinical basis and can distort priorities¹⁹. They may not be the best measures of the quality of healthcare or patient experiences. For example, the tier 1 target focuses on time taken to start treatment for cancer but survival rates could be seen to be a more important indicator. Cancer survival rates show significant improvement over time. The Welsh Government recognises the limitations of the tier 1 targets and is developing a set of more outcomes-focused measures for use in future.

¹⁷ The full names are **Clostridium Difficile and Meticilin-resistant Staphylococcus aureus (MRSA)**. MSSA is a form of MRSA that is distinguished by the extent to which it is resistant to a particular form of antibiotic (flucloxacillin).

¹⁸ The three that saw an improvement were: Meningitis C vaccine at age one; MMR vaccine at age one; and PCV vaccine at age two. The two that saw a reduction in uptake were: Hib/Meningitis C vaccine at age two and 5-in-1 vaccine at age one.

¹⁹ See for example, our report on elective waiting times and previous reports on the ambulance service.

Overall, councils' performance has improved against priority measures but there is significant variation, some councils' education services remain in special measures and there are pressures on social care for older people

- 2.19 Councils provide local services that range from protecting children from abuse to cutting the grass at the side of the road. Councils also have an important leadership duty to help shape the social, economic and environmental well-being of their areas. The National Survey of Wales showed that in 2014-15, the majority of the public agreed with the statement that their local council provided high-quality services. However, the figures show a decline, with 57 per cent agreeing with the statement in 2012-13 compared to 53 per cent in 2014-15. The National Survey shows a slight increase in the public's rating of education services, from a mark of 6.4 out of 10 in 2012-13 to 6.6 in 2014-15. Comparison of 2012 survey results suggest the score for Wales is seventh highest of 30 European countries. We look in more detail at how well councils have done since 2010-11 using the national strategic indicators. These are a set of indicators used by all councils to report the performance of local services.
- 2.20 Taken as a whole, councils improved against most of the indicators between 2010-11 and 2014-15. School pupils are getting better results at all stages. The results of looked-after children have got better although there is still a large gap between the results of looked-after children and the rest. The only education indicator that has got worse is the time taken to process statements of special education need. Measures of children's social care services also show improvement. Councils are getting better at keeping in touch with looked-after children and those children achieve better outcomes once they grow up.
- 2.21 The measures of adult social care are less positive. Councils are supporting fewer older people in the community, in care homes and to live independently in their own homes. A reduction in the number of people receiving residential support could be seen as positive if it is accompanied by a shift towards preventative services. However, the fact that there has been a reduction in people getting lower-level support suggests that the reduction reflects a tightening of eligibility criteria rather than a strategic shift towards prevention. One local government director commented in our survey: 'the pattern for Social Services is year on year reduction in numbers of people receiving services despite evidence of increasing numbers of people in need'. Also, Age Concern Cymru and the Older People's Commissioner reported to us concerns about people not getting support, or in some cases, having their existing support reduced.

- 2.22 The performance measures for 'other' council services are limited but generally show improvement. Councils are helping to ensure better supply of affordable housing. Councils are quicker at processing claims for grants to install facilities in the homes of people with disabilities. And councils are recycling more waste and taking less to landfill. Less positive is a decline in the number of visits to libraries and leisure centres²⁰. Also, councils have got worse at helping to reduce the number of empty private sector houses. That some services have less protection does not mean that they are not important. For example, we have found that transport services, advice services, public toilets and libraries are an important source of support to enable older people to live independently. The apparent lack of focus on performance in the areas that are under greatest financial pressure means that it is difficult to track the impact of changes and reductions in service provision.
- 2.23 The above analysis of the strategic performance indicators masks some deeper problems. Firstly, the measures themselves are not comprehensive and some are too focused on activity rather than impacts. For example, the adult social care indicators tell us little about the quality or impact of councils' efforts to help older people. The national picture also masks differences between councils. Most councils have improved their education results, for example, but some are still doing much better than others. And while councils have improved, some have done so from a relatively low base. Independent reviews such as PISA showed that there is still a long way to go in improving education. Between 2010 and 2013, Estyn assessed overall performance as excellent in only one local authority. Estyn concluded that more than two-thirds of local authority education services required follow-up monitoring, although most have since been taken out of monitoring. Since 2010, six councils have been placed in special measures. Two of these councils were taken out of special measures in 2014 after making improvements.

Performance data covering Wales' fire and rescue authorities show sustained improvement across all areas between 2010-11 and 2014-15

- 2.24 Fire and rescue services provide a range of statutory and non-statutory services, including firefighting, rescue and prevention work. National performance measures paint a picture of the fire and rescue authorities' performance, although they do not cover all of the services that the fire and rescue authorities provide. The number of fires per head of population has fallen, with a reduction in both accidental and deliberate fires. The number of fatalities appears to fluctuate over time but remains low. There has been a sustained reduction in the number of fire-related injuries. The number of fires in dwellings without fire safety equipment has fallen as has the number of malicious false alarms.

²⁰ The baseline year for visits to leisure centres is 2012-13.

National park authorities have improved against their national strategic indicators on planning

2.25 The three national park authorities are quite different from each other and therefore set many of their performance measures locally. Their key externally focused national indicators relate to their responsibilities for planning. The annual reports show a picture of improvement in the timeliness with which the national park authorities deal with planning applications between 2010-11 and 2014-15. While all show improvement, there is considerable variation between authorities. The national park authorities also report on the number and success of appeals against their planning decisions. Small numbers of appeals mean it could be misleading to report trends over a short period, but it appears that overall performance has been sustained.

Sponsored bodies' annual reports paint a broadly positive picture of performance but some are struggling with aspects of participation

2.26 We reviewed the performance data set out in the Welsh Government sponsored bodies' annual reports. The depth and coverage varied considerably between different bodies. Most report improvements across a range of areas and those that report performance against targets are achieving more than they are missing. But some bodies have struggled in some key areas. Some have struggled with targets on raising income. There is a mixed picture for those whose key purpose is to get the public participating in social, cultural, sporting or education activities. Museum Wales has seen record numbers of visitors in the period since 2010. The National Library has faced difficulties at times in sustaining and increasing the number of visitors to the library but has increased the number of people making use of its online services. Sport Wales' reports generally show increasing participation in sport and physical activity but it has struggled more recently in some areas with declining participation in swimming and young people's membership of sports clubs. The Arts Council's reports show that it has reduced funding to arts bodies and has needed to help those bodies to increase participation.

Financial planning is generally getting better but remains too short-term and approaches to managing the impact on the public of cuts to services are not robust enough

In general, budget setting and monitoring is getting better but remains too focused on short-term pressures

2.27 Since 2010-11, the Welsh Government has not overspent against the budget limits set by the UK Government. To live within its means, the Welsh Government has had to be flexible and update its financial plans to react to spending pressures in the NHS. The Welsh Government sets aside a contingency fund in its annual budget to manage unexpected pressures. In recent years, this contingency fund has been insufficient to cover overspending in the NHS. As a result, the Welsh Government has needed to find in-year savings from other departments. These cuts are sometimes then passed on to other organisations. The need to change plans and make in-year cuts has created uncertainty and frustration in some areas, particularly where bodies are asked to make savings at relatively short notice. The comments below illustrate a wider view expressed by several public service leaders about what they considered to be short-notice changes to their budgets. The Welsh Government considers that it provides as much information as it can, as early as possible, working within the UK Treasury budget cycle.

'Because we do not have 3-5 year budget settlements the majority of the cuts have to be based on projected settlement figures that change including in year cuts. This does not allow a planned and systematic approach to budget/service reductions... The clear lack of Welsh government thinking has led to piecemeal cuts with little strategic thinking.'

National park authority senior manager

'Intimations from Welsh Government of a reduction in funding but without sufficient, or indeed for quite a period of time any, indication of the level of reduction required of us. This meant a lot of work from officers in preparing a number of scenarios for making efficiencies together with cutting services which wasted time, created uncertainty within the organisation and was inefficient in planning for the future.'

Local government cabinet/authority member

2.28 Our work on health finances has shown that in general, financial management across the NHS has got better. Since the move to three-year integrated planning²¹ in 2014, NHS bodies have focused more on the links between finances and wider service and workforce plans. Several respondents to our survey spoke positively about the move towards three-year integrated plans (see comments below). The Welsh Government has challenged NHS bodies to improve their financial, service and workforce planning. Six out of 10 NHS bodies did not have an approved three-year plan for 2014-15 and three still do not have one. While there is a positive direction of travel, our work suggests that the NHS as a whole still has some way to go on financial management and planning. We found that financial planning and management is generally focused on in-year pressures. The previous trend of NHS bodies initially predicting they would break even and then requiring extra funding late in the year has come to an end. However, this pattern has been replaced with a situation where many NHS bodies start the year with plans that show an end-of-year deficit. In many cases, there is no clear means for funding that gap other than additional Welsh Government funding. While the problem of the NHS requiring additional in-year funding has not gone away, there now is a more mature and transparent discussion and shared understanding of the scale of the problem.

'The IMTP planning process is now being embedded into the organisation and is proving helpful in concentrating minds on the challenges we face.'

NHS Board Member

'The Integrated Medium Term Planning process has brought a stronger focus and discipline on planning, but its probably still overly process driven and need to evolve to show demonstrable changed.'

NHS senior manager

'The move to a 3 year financial plan was, I believe, a sensible step in encouraging longer term planning and accountability.'

NHS Board Member

²¹ The National Health Service Finance (Wales) Act 2014 requires NHS bodies to produce three-year plans that integrate financial, service and workforce planning. For health boards, the requirement to break even each year was replaced by a requirement to break even over a rolling three-year period.

- 2.29 Councils have built on their strong track record of delivering a balanced budget but their financial plans and management are starting to show signs of strain. Our audit work has found that annual budget setting and monitoring is generally sound. Medium-term planning is still less well developed. Councils have been hampered to some extent by the uncertainty caused by the Welsh Government's reprioritisation of funding away from local government to the NHS. This reprioritisation meant that the Welsh Government cut its funding to councils by £200 million more than they expected with relatively limited notice. Nonetheless, almost all councils have delivered a surplus each year. As a result, the amount of funding held in reserves has increased. Reserves provide councils with some flexibility and a source of funding to support new ways of delivering services. However, there are concerns that without a clear strategy for utilisation of reserves as part of the medium-term financial plan, some councils may be criticised for holding funds without a clear and agreed purpose.
- 2.30 We have not carried out detailed audit work looking at the quality of financial management at the sponsored bodies, although we are currently looking at the development of Natural Resources Wales. Some sponsored bodies told us they had concerns about the way that the Welsh Government allocates its funding to them. The Welsh Government allocates funding on a one-year basis, which makes medium-term planning difficult. Some bodies have also expressed concerns to local auditors about short-term changes to their budgets in year.
- 2.31 Our work at national park authorities suggests that they have focused on short-term financial pressures. This has in part been as a result of in-year reductions to their budgets from the Welsh Government. Our annual improvement reports show that there is a need for national park authorities to improve their medium-term financial planning. Similarly, fire and rescue authorities have a strong track record of setting and achieving a balanced budget. However, when we produced our last round of improvement assessments, two out of the three authorities had published a medium-term financial plan and the third was being developed.

The quality of plans to deliver savings varies across public services with most focused on reducing staffing costs

- 2.32 Staffing is one of the major areas of public spending in Wales. It is unsurprising therefore that our February 2015 report on early departures showed that public services have focused on making savings on their staffing bills. Between 2010-11 and 2013-14, the wage bill across devolved public services reduced by £250 million²². Some of the reduction in staffing numbers and costs comes from early departure/voluntary exit schemes. But public bodies have also used other approaches to reducing staff costs. These include not recruiting to vacant posts, redeploying staff, reducing use of agency staff and overtime, and changing working patterns. Our report showed that the governance of early departure schemes appears to have been satisfactory. While the average costs of early departure schemes varied significantly between and within sectors, overall they have contributed to a reduction in staff costs. But the impact on services is not always clear.

²² This figure differs from our 2015 report on early departures because it excludes the police and covers a different timeframe.

- 2.33 The Welsh Government's plans to save money on its operating costs have relied heavily on reducing its wage bill. Between 2010-11 and 2014-15, the Welsh Government's wage bill reduced by around £58 million. Between March 2010 and March 2015 it has reduced the number of staff by 587 full-time equivalent (10 per cent). The Welsh Government told us it had made further reductions since. Our report on early departures showed a particularly sharp reduction in the period April 2010 and October 2011. It has also run a range of schemes, asking for staff ideas to improve internal efficiency and reduce costs. We have not assessed the impact of these schemes nor the level of savings they have achieved.
- 2.34 Cost pressures in the NHS outstrip inflation. The Nuffield Trust has estimated that the NHS in Wales faces real-terms annual cost pressures of around 3.2 per cent. Therefore despite receiving a small real increase over the period 2010-11 to 2014-15, NHS bodies have still been faced with making savings. It is therefore positive that since 2011, the NHS has reported making around £800 million in savings. The vast majority – 64 out of 71 – of NHS respondents to our survey said that their organisations' financial savings had come entirely or mostly from improved efficiency. NHS leaders were more likely to say that their savings had come from efficiency than their counterparts in local government. The level of reported savings in the NHS has been declining: from around £250 million in 2011-12 to around £150 million in 2014-15. While the reported savings reflect a lot of hard work to make real cost reductions, some of the claims are likely to be overstated. In particular, our work on health finances has identified that reported savings on workforce may be overstated. Spending on staffing has risen by £14 million and staff numbers have increased by around 700 between 2010-11 and 2014-15, driven in part by an increasing focus on safe staffing levels (paragraph 2.48).
- 2.35 Our work on health finances also found that savings plans in the NHS tend to be focused on the short-term. The process of finding savings has tended to start over every year and the NHS finds itself relying on achieving the bulk of its savings in the final quarter of the financial year. In every year since 2010-11, NHS bodies have fallen some way short of achieving their savings plans. The move to a three-year planning timeframe has scope to address the short-term focus but it has not yet been fully embedded in health boards. Comments we received from NHS leaders in our survey reflect the difficulties that some have had in delivering savings.

'Financial savings will be made this year but probably not as much as we have scheduled in our budget.'

NHS Board Member

'The ability to make financial savings is probably insufficient, partly because we have predicted unrealistic savings, and partly because we lack understanding and control over demand for services.'

NHS board member

- 2.36 Around two-thirds (86 out of 134) of local government respondents in our survey said that all or most of their savings had come from improved efficiency. Most councils have focused on reducing staffing costs. Between 2010-11 and 2013-14, councils reduced their workforce by almost 11,000 full-time-equivalent members of staff (nine per cent). They reduced the wage bill by almost £180 million (six per cent). With fewer staff, councils have cut back some discretionary services. There have been efforts to make savings on administrative costs. A recent report by KPMG for the Welsh Government suggests there remain opportunities to make greater savings although local government is not entirely in agreement with the figures in the report. All councils have introduced above-inflation increases to council tax. Many have also increased income in areas like car parking, highways management and leisure services although there is limited evidence of a strategic approach to income generation. Despite these short-term actions, our work on councils' financial resilience found that few councils had full comprehensive plans to make the necessary savings over the medium term. Many had not fully developed savings plans for the 2014-15 financial year at the time the budgets were approved.
- 2.37 The sponsored bodies report having made a range of different types of savings, including reducing staff numbers. Seven of the 24 respondents from sponsored bodies told us that they had made all of their savings from efficiency savings. The majority said that their savings had involved at least some reduction in service levels. Several of the sponsored bodies report that they were unable to take forwards plans and ideas due to a lack of funding.

- 2.38 National park authorities have also focused on reducing the number of staff and vacancy management in order to make cost reductions. We have seen evidence that some have considered the potential impact on services and have refused to allow staff to exit on the basis that it would undermine their ability to achieve their goals. Nonetheless, national park authorities recognise that some reductions have impacted on their delivery of services. One has cut its support for local bus services and rationalised its tourist information centres. Others recognise that the loss of some staff has meant that they cannot take forwards some activities, such as marketing, nor are they as well placed to take advantage of emerging opportunities.
- 2.39 Fire and rescue authorities have also made savings through reducing staffing numbers and vacancy management. Our annual improvement reports show that the authorities went through extensive review and engagement with staff in making the reductions. They have also reviewed and changed the way fire and rescue services are provided and streamlined processes and procedures in order to minimise the impact of lower staffing rates. The changes have included the closure of some facilities following an evidenced-based review and extensive consultation.

Some parts of the Welsh public service have not yet developed a clear priority based approach to reducing levels of service and there is insufficient consideration of the impacts on the public

- 2.40 Since 2010, we have set out our view that the scale of funding pressures is such that efficiency savings alone were unlikely to bridge the gap between declining spending and rising demand. The vast majority of respondents to our survey (192 out of 229) reported that at least some of the savings their organisation had made between 2011-12 and 2014-15 came from reducing service levels. Almost a quarter said that half or more had come from reducing service levels. In making tough decisions, public services needed to be clear about what their priorities were and were not. We have also said that public services need a robust approach to mitigating the impacts for service users where spending and activity is reduced in non-priority areas. The vast majority of respondents in our survey (179 out of 229) said they had plans in place to mitigate the impacts of budget reductions on service users. NHS respondents were, however, much less likely to say they had such plans in place.
- 2.41 In setting its budgets, the Welsh Government has been increasingly clear about its priorities. The Welsh Government has taken steps to understand the impact of budget decisions on services and service users, particularly vulnerable groups. Its approach to equalities impact assessments has been sharpened based on a review by the Equalities and Human Rights Commission. The impact assessments have helpfully looked at the impact of changes to some specific lines and programmes which could impact on vulnerable groups. For example, the impact assessments are clear that the reduction in further education budgets is likely to lead to negative impacts. The assessments recognise that such impacts may affect some groups with protected characteristics (women and black/ethnic minority) more than others.

- 2.42 We consider that the equality impact assessments should give greater consideration to the potential impacts of key changes in funding to the NHS and local councils. The impact assessments refer to the benefits of ‘protecting’ the NHS. They do not recognise the risks involved in providing the NHS with the tightest financial settlements in its history. The assessments correctly note that ultimately, the impacts of funding cuts to councils will depend on local decisions. However, in our view they could have been clearer as to the risks to protected groups given the likelihood that cuts to local government funding would fall on discretionary services. In England, the Comptroller and Auditor General has similarly commented on the need for the UK Government to ‘be better informed about the situation on the ground among local authorities across England, and to be clear about the knock-on effect of the various funding decisions taken by departments in Whitehall’.²³
- 2.43 Our work on health finances and performance found that the NHS is not good at prioritising. In 2012-13, we recommended that the Welsh Government review whether its targets were realistic and develop a framework for prioritising. Despite accepting the recommendation, the Welsh Government continued to insist that all NHS bodies must meet every tier 1 target and there has been no clear provision for NHS bodies to deprioritise any area. It is clear that some NHS bodies are deprioritising in practice. Our survey showed that more than half – 44 out of 71 – of respondents from the NHS recognised that at least some savings had involved reductions in service levels. Examples of de-prioritisation that we have found include decisions that result in deteriorating performance against targets for waiting times. The comments below reflect the views of several NHS leaders in our survey who commented on the difficulties they have faced in balancing financial and service targets.

‘Challenges around Tier 1 Targets, financial deficit and political expectations all led to decisions which had a significant impact on increasing waiting times for some specialties. Decisions to make things balance in year caused us to then have an insurmountable challenge the following year (i.e. stopping elective surgery to cope with flow meant our 36 and 52 week waits for orthopaedic surgery dramatically increased as did the cost of dealing with it.’

NHS senior manager

‘There is a disconnect with the financial challenges we face and the need to provide levels of service, while ensuring quality and safety, and meeting the range of targets set by the Welsh Government.’

NHS board member

‘It is proving especially difficult to meet the service delivery targets especially those for unscheduled care and waiting times.’

NHS board member

²³ Amyas Morse, Comptroller and Auditor General, in *The art of spending public money wisely*, 2015, National Audit Office.

- 2.44 Our observation is that the approach to target setting and prioritisation between 2010-11 and 2014-15 has contributed to unrealistic financial and service planning across the NHS. Our work on health finances has shown that many NHS bodies have not met their financial targets and required extra funding. Our work on waiting times sets out in detail the cycle of health boards producing optimistic service improvement plans and trajectories for meeting targets that they then do not achieve. The move to three-year integrated planning has helped to improve service planning and encouraged NHS bodies to better understand demand and capacity. But under the three-year planning process, the Welsh Government initially required NHS bodies' plans to show improvement in all areas of service provision and all targets being met. This approach left little scope for plans to explicitly prioritise and set out what is achievable within the constraints. And it limited the scope for plans to set out how NHS bodies will mitigate negative impacts on patients of reducing service levels. The Welsh Government told us that in reviewing integrated plans for the three years from 2015-16, it has been more understanding of the need for NHS bodies to balance service and financial targets.
- 2.45 Our reports on financial resilience in local government and annual improvement assessments show that councils recognise that the financial and demand pressures they face mean that they cannot do everything that they did in 2010-11. In our survey, 127 of 134 responses from local government recognised that at least some cuts had come through cuts to service levels. Over a third reported that half or more of the savings had come from reducing service levels. Twelve out of the 134 local government respondents said that their organisations' savings had come mostly through reducing levels of services. While there are examples of good practice, our work has found that many councils are not adequately engaging the public to help shape the decisions they face. And those that do engage tend not to provide sufficient feedback about the impacts of public consultation.

'Financial cuts have led to redundancies and cutting some services we would have liked to continue.'

Local government cabinet/authority member

'Mostly [savings proposals] has resulted in staff reductions and reconfiguration of operations. There has been some impact in some areas on service provision for residents.'

Local government cabinet/authority member

2.46 We think that councils are over-optimistic about the extent to which they have plans to mitigate the impacts of budget cuts. Our survey found that almost all senior leaders in local government thought they had plans to mitigate the impact of cuts on service users. However, local government leaders' perceptions of their plans do not match findings from our detailed audit work. Our 2015 report on financial resilience in local government found that few councils robustly assessed the potential impact of proposed savings or changes to services before they went ahead. Few councils have effective arrangements to evaluate the impact of their savings plans on citizens. Few councils are using management information effectively to report on the impact of reduced funding or efficiency savings. For example, our 2014 report on environmental health services found that scrutiny of activity and understanding of the impact of budget cuts is not always comprehensive and not effectively communicated to citizens.

Demand and capacity pressures mean some parts of the Welsh public service have become increasingly stretched

2.47 Our reports on health finances, waiting times and unscheduled care found that since 2010 there have been small increases in the number of people attending emergency departments, and a small increase in the number of patients referred for planned – or elective – treatment. There has also been a significant increase in the number of people referred with suspected cancer. Alongside the increase in numbers, there has been a significant change in the age profile of patients, particularly those requiring unscheduled care, with more patients aged over 85 and fewer young patients. The NHS has struggled to cope with these changes in demand, even though they were largely predictable. Part of the problem is that with the rises in demand and declining numbers of beds, Wales' hospitals are close to full. At 86 per cent, bed occupancy rates in 2013-14 were higher than the north east of England and higher than the 82 per cent that the Royal Colleges recommend. The NHS reports occupancy rates based on a census taken at midnight. A recent report for the Welsh Government²⁴ found that in the afternoon, the vast majority of wards had bed occupancy rates of 100 per cent or higher²⁵. High bed occupancy rates can mean patients get 'stuck' in emergency departments, sometimes in ambulances, because there is no bed for them. As our reports on elective waiting times and local reports on the use of operating theatres have shown, some elective patients have faced having their operations cancelled because there are no beds available.

24 Dr Aled Jones, Dr Tom Powell, Dr Sofia Vougioukalou, Dr Mary Lynch & Professor Daniel Kelly, **Research into Nurse Staffing Levels in Wales**, May 2015, published by the Welsh Government

25 Bed occupancy rates can exceed 100 per cent where hospitals use temporary 'step up' beds in order to accommodate patients.

2.48 Even though staff numbers have gone up, staffing is still under pressure across the NHS. Our report on unscheduled care found difficulties recruiting clinicians in some areas. Our waiting times report also showed how increasing specialisation means some services struggle if a few specialists are off work. Several NHS respondents to our survey commented on the challenges they face in recruiting staff (see below). The NHS in Wales is also increasingly reliant on agency and locum staff. There are challenges around ensuring safe levels of nursing, which the Welsh Government has sought to address through its nursing principles²⁶. A recent study for the Welsh Government showed that most health boards were technically compliant with the guidelines of one registered nurse per eight patients. However, the figures can be misleading as they average out the number of nurses over a day. The report illustrates this with an example where a ward was only compliant at the point of ‘handover’ when the nurses starting and finishing their shifts were on the ward at the same time. Other than for those brief moments, there was one nurse for every 14 patients. The Welsh Government told us that it did not recognise the picture painted of such high nurse to patient ratios. The main nursing union in Wales has repeatedly raised concerns since 2011 about nursing workloads and the impact on their well-being.

‘Due in part to a lack of capacity and capability within the organisation, a lack of pace in delivery and some problems in recruiting suitable staff, the establishment of the organisation has not increased in line with the available funding. As such, the organisation is having to spend on overtime and external service provision at a premium rate in order to maintain capacity and therefore performance levels.’

NHS board member

‘Our key issue is to stabilise the workforce from which significant savings will flow (due to the cost of agency, locum and overtime working) but this is requiring us to look to new markets for staff across Europe and beyond. This work is new to us and we are learning whilst doing – hence the risk to delivery.’

NHS senior manager

‘Key concerns are about availability of qualified staff, particularly nurses and doctors, which is a UK wide issue.’

NHS senior manager

²⁶ The Welsh Government nursing principles were published in October 2012 and set out principles for the level of nurses to patients on wards and the proportion of staff to be qualified to certain levels. The Welsh Government required health boards to comply with the principles by April 2014.

- 2.49 As with the NHS, demand for services is a significant driver of costs for councils. Demographic changes at either end of the age scale – a growing population of older people and a rise in the birth rate – have implications for council services. Also, as our report on welfare reform showed, wider social, economic and UK Government policy changes can impact on demand for council services. Our report on the financial resilience of councils found that some services struggled to predict demand for services, leading to over-optimistic assumptions about cost pressures.
- 2.50 Overall, demand for state schools in Wales has risen since 2010-11. The school census figures show that the number of primary school pupils has risen significantly although the number of secondary pupils has fallen. Overall, the number of teachers has fallen, from 38,770 in March 2011 to 37,335 in March 2015²⁷. The composition of the teaching workforce has changed in line with the trends in pupil numbers. The proportion of teachers employed in primary schools has increased while the proportion in secondary schools has decreased. Overall, the teaching workforce in Wales is more experienced, with an increase in the proportion of teachers with more than 10 years' experience compared to March 2011. The picture of improved outcomes combined with increasing pupil numbers but a declining workforce suggests real efficiency gains in the education sector over the period. However, one of the main teaching unions has raised concerns about the sustainability of this position. It points to rising workloads and its own survey showing many teachers in Wales considering leaving the profession.
- 2.51 There is a picture of rising demand for social care services and concern about capacity constraints. There is a wealth of evidence that underlying demand for social care for older people is rising. However, the number of people aged over 65 in receipt of services has gone down. The evidence suggests that many councils have restricted access to services for those with lower levels of need. CSSIW has noted that there are capacity pressures, particularly in care homes²⁸. Occupancy rates are higher in Wales than any other part of the UK. There are challenges of financial viability, with care homes struggling to balance the books. Independent analysts Knight Frank²⁹ estimates that to be viable and attract investment, care homes need to have at least 60 occupants. The average in Wales is 33. CSSIW has also noted staffing capacity constraints, in particular difficulties recruiting residential care home managers and nursing staff.

27 Education Workforce Council, **Annual Statistics Digest**, 2015: www.ewc.wales/site/images/documents/statistics/EWC/EWC_Stats_Digest_2015_English.pdf

28 Care and Social Services Inspectorate Wales, **Annual Report 2013-2014**

29 Frank Knight, Care Homes Trading Performance Review, 2014: www.knightfrank.co.uk/research/reports/care-homestrading-performance-review-2014-2365.aspx

- 2.52 Demand for social care for children and families has increased. There has been a nine per cent rise in the number of children on the child protection register between 2011 and 2014. Overall, the number of looked-after children has also risen since 2011 although the numbers fell in 2014-15. The number of looked-after children is proportionately higher than in other parts of the UK. There has been an increase in registered staff working in children's services. There appears to be a degree of volatility in the children's services workforce, which may impact capacity. In 2013-14, just a quarter of children's care home managers had been in post for more than five years. This compares to more than half of managers in homes for adults.
- 2.53 There is limited evidence on demand for other types of council services. We expect demand for economic development services and planning services to increase as the economy continues to recover. The evidence suggests that demand for some culture and leisure services is rising. And with growing car ownership and falling oil prices, demand for road and transport services is likely to grow. Given that these areas are largely unprotected, the capacity to meet those demands is diminishing. Much of the reduction in councils' workforce appears to have come from these non-protected areas.

The pace of service change across public services is still too slow although there are pockets of innovation across Wales

- 2.54 As stated in our previous Picture of Public Services reports, public services need radical transformation if they are to manage increased demand in an environment of shrinking budgets. In this section, we look at the progress that has been made since 2011. Almost all public service leaders that took part in our survey said their organisation had embarked on service changes. The majority said they had made incremental changes although a significant minority reported making transformational change in at least some services. The extent of the change varies across the different parts of Welsh public services and we consider the issues in more depth below.

There are pockets of innovation and good practice in the NHS but it has not transformed sufficiently

- 2.55 The answer to financial, demand and capacity pressures in the NHS is not simply more beds and staff. As our reports on unscheduled care and elective waiting times showed, there is scope to make better use of existing capacity. Our work and that of the Nuffield Trust has shown that overall, efficiency in the acute sector has been improving. Hospitals make more use of day surgery. Elective patients spend less time in hospital. The lengths of stay for emergency patients have been held broadly static despite rising numbers of older patients, who tend to stay longer. More people are admitted on the day of surgery. And a smaller proportion of patients with chronic conditions are being admitted or readmitted to hospital. These incremental improvements have not freed up sufficient capacity to meet demand. The Welsh Government recognises that to free up capacity in hospitals, and ensure that services are safe, systemic changes are needed. These changes include centralising some hospital services and shifting some services from hospitals into the community and primary care. These ideas have been long discussed and have formed the centrepiece of strategies for NHS Wales for at least a decade. But progress in putting these ideas into practice has been slow.
- 2.56 In terms of changing where services are provided, progress has been made in consulting the public and setting out plans. In several cases, the proposals have attracted considerable opposition from parts of the public and some political representatives. An independent review by a former chief executive of the NHS identified elements of good practice and also a range of ways in which the consultation and engagement exercises could have been improved. Some of the NHS respondents to our survey cited the political cycle and local politics as a critical barrier to reform.
- 2.57 Several respondents cited capital funding and the NHS estate being barriers to progress. [Part 1](#) showed the 28 per cent reduction in capital funding available to the Department of Health and Social Services. Some respondents raised concerns about a lack of clear links between capital investment and reconfiguration, funding being allocated late in the year and a general lack of investment in what they saw as the poor state of the NHS estate. Our work on health finances has identified the positive steps that the Welsh Government has taken to develop clearer strategic priorities for capital funding and infrastructure projects across the Welsh NHS. The Welsh Government has accepted our 2014 recommendations to work with NHS bodies to further improve capital planning and project prioritisation and has developed updated guidance for infrastructure spending across the NHS.

2.58 The other key area of planned change is shifting services to the community and primary care. The move to integrated health boards, which took place before 2011, should put the NHS in a strong position to shift the focus of care and resources away from hospital settings. Our 2014 report on managing chronic conditions found that while there is a clear vision for this shift in focus, there has been a lack of underlying plans to actually deliver the necessary changes. It found that while there had been some progress, local services to provide an alternative to hospital admission were patchy and limited. While the report identified that progress needed to be made, as the Nuffield Trust found in 2014 and this report sets out in [paragraph 2.16](#) there have been reductions in the number of patients being admitted and readmitted to hospital with a chronic condition. The report stated that there has been a small increase in the number of nurses employed to work in the community between 2010-11 and 2013-14. However, our review of the accounts showed that across Wales, spending on primary care has fallen. Only one health board (Cardiff and Vale University Health Board) has sustained the level of investment in primary care since 2010-11. Many respondents to our survey referred to shifting the emphasis to primary care as a future challenge and opportunity rather than something that had been achieved.

'[We] need to progress faster the shift to primary care, which will make progress this year, but ideally would like to do more – community estate is one confounding problem, including primary care estate.'

NHS senior manager

'The challenge of moving services from a predominantly hospital based service to a model of treating patients in the community is difficult in the extreme without 'double running' both through the transition period which is heavily constrained due to financial pressures.'

NHS board member

'[This year we] need to engage and release the potential of a primary and community care service and focus and reduce reliance on secondary care.'

NHS senior manager

2.59 While the overall pace of change has been slow, we know that it has increased. The Welsh Government has invested a lot of time and effort in developing and promoting the prudent healthcare agenda. Our waiting times report commented positively on how, if applied, the principles of prudent healthcare could free up capacity, reduce cost and improve patient experiences. We consider prudent healthcare in more detail in [Part 3](#) which looks at the future plans for transforming services. In our survey, all respondents from the NHS said their organisation had made some changes to the way they deliver services. NHS respondents were more likely than their counterparts in local government to say the changes had been incremental rather than transformational. But there are many examples of staff and teams who have changed services and aspects of services. Some NHS respondents to our survey cited specific examples of service change (see comments below). In some cases, the demand and capacity pressures have led staff and managers to recognise that without quick and significant change, the service would be unable to cope. Examples include using high-street opticians to carry out tests previously done in hospitals, and using GPs and senior nurses to see and treat audiology patients in the community instead of hospitals. The NHS, through the 1000 Lives Programme, has made progress in training a wide range of staff in methods for improving services.

‘Over the last year we have undertaken significant modernisation in service delivery areas – for example microbiology services, through introducing new technology and automation which has had a resulting impact on staff workflows. We have an invest to save and save to invest approach which results in 1% internal reinvestment savings as part of business planning. the focus for this for 15/16 has been to more align to strategic priorities, create additional resource for new and developing work, improve existing work and build infrastructure where required.’

NHS senior manager

‘We have responded by ensuring that better alternatives than admission are sought, and where an admission is needed, that we expedite return home. This helps flow of patients through the hospital. We are also changing care pathways to ensure that we more systematically offer support for lifestyle change and patient self-management, so we prevent poor health and delay progression.’

NHS senior manager

While many councils say they have transformed services, they have not reinvented themselves to meet these challenges like some of their counterparts in England

2.60 Councils generally recognise that current approaches to providing social services are not sustainable. Many have shown an interest in developing new ways of working. There are several examples of interesting and promising practice. Some have redesigned their approach to providing aspects of social care. However, a 2014 review of social care commissioning by CSSIW, conducted in partnership with Healthcare Inspectorate Wales and the Wales Audit Office, found that:

‘Local authorities have not effectively engaged the public to inform them of the need to change services. Furthermore, whilst most local authorities articulate an intention to transform services, at this stage they have not evolved into robust and financially sustainable plans. The move towards integrating health and social care services is evident, but progress is slow. Regional commissioning is mostly at the development level and, where it is happening, it is still tends to be confined to high cost, low volume services. Some innovation in service provision is evident but there is little evidence of planned, strategic activity by commissioners to encourage innovation.’

2.61 In the field of leisure and culture, there have been several examples where local authorities have adopted alternative models, such as social enterprises, to enable services to continue. Examples include Neath Port Talbot, where many leisure services are provided by a social enterprise. Some have considered and are continuing to look at transferring assets to community councils and community groups. In [paragraph 3.39](#), we set out some of the risks and benefits of adopting this approach.

‘Rationalisation of services has seen the creation of a Charitable Leisure Trust which hopefully will deliver improved services in both sports and theatre. In addition we have seen the creation of a public sector company to manage property services. Reduction in funding has forced the forthcoming closure of some libraries which will be replaced by community hubs and these will provide services in one place.’

Council leader/cabinet member

- 2.62 In our survey, all local government respondents said that their organisations had changed the way they delivered services. Respondents were split 50/50 between those who said they had made significant incremental changes and those that had made transformational changes. Senior officers in local government were more likely to say they had transformed services than the cabinet and board members.
- 2.63 There is some divergence between local government’s own views of the progress it has made with transformation and the findings of our audit work. Our 2015 report on the financial resilience of councils contrasts the position in Wales to that of England where several councils have fundamentally changed their service models. The types of approaches seen in England vary widely. Some have become ‘commissioning councils’ and largely withdrawn from direct service provision. Others have developed a co-operative model based around social enterprise. Some have developed locality based approaches to encourage joined-up early intervention using co-production principles. In Wales, few councils have gone through this fundamental rethinking and redesign of how they work.

Comments suggesting little transformation had taken place

‘The changes in the past have largely been comparatively minor tweaks and ‘salami slicing’ of services in light of modest cuts. ... In hindsight these measures have made us a leaner and more focused organisation...which is clear on its core business. Looking forward service redesign at a more systemic level will be required and we will have to stop doing some things completely.’

Local government senior manager

‘The challenges were broadly manageable. Actions centred on efficiencies and what can be described as ‘salami slicing’. Typically budgets were given percentage reductions and these were usually delivered without transformative action.’

Local government cabinet/authority member

‘I would say that the savings we've had to make up until 2014/15 have been ‘efficiencies’. In all honesty the kind of savings we should be making anyway: improvements in procurement, travel and sickness management, reduction in management costs, removal of certain benefits from staff like essential car user allowances and so on... There has also been some real change to what residents have been used to, however.’

Local government senior manager

Comments suggesting that transformation has taken place

'In 2010 anticipating the forthcoming period of austerity, we conducted a service wide review to identify more efficient ways of working to reduce cost and effect savings. Not knowing the extent of budgetary reductions or the duration of austerity, we developed a range of measures which could be implemented if required in order to meet a varying degree of budget reduction requirements. Many of these measures concerned changes to established working practices and these were unquestionably the most challenging to implement.'

Local government senior manager

'We have undertaken a comprehensive review of services, developed a whole council efficiency programme and are delivering on this programme. We accept that not all can be achieved from this approach so we have also developed a programme of Alternative Delivery Models (Tecal, mutual, collaboration) which we are now embarking upon. We have also engaged with local communities in relation to community assets and have embarked on a programme of asset transfer.'

Local government leader/cabinet member

The Welsh Government has laid the foundations for collaborative service reform and improvement but the pace of change in some areas has been slow

2.64 The Welsh Government has invested a considerable amount of time and effort since 2011 in encouraging and facilitating public bodies to work together more. One of the ways it has sought to do this is by bringing together senior public sector leaders to develop new ideas and new ways for working. In 2010, the Welsh Government set up the Efficiency and Innovation Board, which in 2011 was replaced by the Public Services Leadership Group, which was then disbanded in 2014. In 2014, the Welsh Government set up the Public Services Panel and the work of many of the original work-streams still continues. Wales Audit Office staff attended these groups and their working groups as observers. Our overall observation is that overtime the groups lost their initial focus on the financial pressures and the need to rethink public services to ensure they could be more sustainable. In particular, a lot of the discussion at the group meetings since 2011 focused primarily on the complexities of collaboration between councils. Nevertheless, the working groups have got on with important work around procurement, asset management and improving services for vulnerable people (Box 2). Despite spending considerable time developing a measurement framework, the framework has not been used as envisaged to track progress and measure the impacts of the collective efforts.

Box 2 – The Public Service Leadership Group

The Public Service Leadership Group (the Group) ran between 2011 and 2014. The Group was chaired by the Minister for Local Government and Communities and was made up of senior officials from across public services. It aimed to provide leadership across various areas of public service reform. The Group's work was underpinned by four work-streams, which led on a number of projects, and a Measurement Framework group which focused on capturing the benefits and impacts of the Group's work.

Organisational development and Simpson implementation: this work-stream focused on developing detailed business cases for collaboration between local authorities on a service-by-service basis. It produced a final report highlighting areas where there were potential benefits from collaboration and identifying other areas where further work was needed. The focus on local government collaboration meant that the organisational development work that had been started by the previous Efficiency and Innovation Board, such as developing lean/systems thinking, seems to have lost some momentum.

Effective services for vulnerable groups: this work-stream continues to date. It has focused on identifying good practice in some of the areas of most importance to vulnerable groups. Its approach is to identify, test and disseminate good practice. Since 2011, areas the work-stream has covered include: helping to prevent domestic abuse; reducing the incidence of young people not in employment, education or training (NEETs); supporting vulnerable families; mental health and housing; and supporting people with 'dual diagnosis' of mental health and substance abuse problems. Some of the work-streams work has resulted in changes to policy and practice across Wales, notably in terms of NEETS and supporting vulnerable families. The challenge for the group is to ensure that its key messages are heard widely and acted upon.

Procurement: this work-stream continues to date. The Procurement Board provides the governance mechanism for the implementation and delivery of public procurement policy across Wales. It aims to promote good practice in public procurement policy. Board membership is made up of representatives from across the public sector in Wales, including the Welsh Government, local authorities, the NHS, higher and further education, and police and fire services. The focus of the Procurement Board is the adoption of the 10 procurement principles set out in the Wales Procurement Policy Statement by all public sector organisations in Wales. It also oversees the work of Value Wales and reviews regular progress reports from the Director of the National Procurement Service.

Asset management: this work-stream continues and has focused on developing an 'all-Wales' asset register along with developing and sharing good practice on a number of areas of asset management. The work-stream has also developed a protocol to help Welsh public sector bodies reduce transaction costs when transferring assets between themselves. The work-stream has identified that asset management across Wales needs to improve and the challenges ahead for the work-stream will be fitting in activities around the day job and communicating its key messages to stakeholders.

- 2.65 Our 2011 Picture of Public Services report highlighted the challenges involved in the Welsh Government's efforts to encourage councils to work together to provide services. Since then, progress has been slow. In part, the appetite for collaboration on the part of local government has been tempered by concerns that the potential benefits may not outweigh the costs and complexities involved. While these complexities can be overstated, our report on regional education consortia shows that there are real challenges in establishing clear accountabilities, legal structures and good governance. Nevertheless, we found that despite the challenges, progress is being made and we expect the regional education consortia to continue to improve. In other areas, the agenda of collaboration between councils has to a considerable extent been overtaken by the Welsh Government's response to the recommendations of the Williams Commission³⁰ in 2013 to reduce the number of local authorities in Wales (paragraphs 3.17 to 3.19).
- 2.66 The collaboration agenda has made more progress in areas which involve different parts of the public sector – like health, social care, police, fire and rescue – working together to a common purpose. Examples of such initiatives include regional commissioning consortia for some aspects of social care and regional multi-agency safeguarding hubs for vulnerable people.
- 2.67 One of the key areas for collaboration is health and social care, particularly care for older people. Many older people have both health and social care needs and at times the distinction between the two seems artificial. The Welsh Government and councils have worked together to lay the foundations for greater collaboration. Many regions have developed joint initiatives between council social services and local health boards to promote the independence of older people. These include projects like Gwent Frailty, the Virtual Ward in Powys, and the Wyn Campaign in Cardiff and the Vale of Glamorgan. As our report on the independence of older people found, The Intermediate Care Fund has proved valuable in supporting collaborative health and social care services that enable older people to live independently. However, we found that the short-term nature of the funding, and some limitations in partnership working and evaluation, means it is difficult to ascertain if the transformation in delivery that was desired is being achieved. While the various individual projects combining aspects of health and social care are benefiting people, they do not yet add up to a comprehensive integrated system. The Williams Commission found that:

'If the two services [health and adult social care] are to be both efficient and effective, they need to interact harmoniously at both the strategic and operational levels, providing a seamless service for the growing number of users of both. . . However, the prevailing view is that that is a long way from reality. We received a wide range of evidence expressing strong dissatisfaction with the current arrangements under which local authorities provide social care while the NHS provides health care. Many of those who responded to our public consultation commented that the two services were fragmented.'

2.68 Our survey suggests that many public service leaders are frustrated at the slow pace of collaboration and integration between health and social care. Several comments noted that there were still disputes between the NHS and councils about who should be paying for care and an apparent lack of incentives for social care services to reduce the pressures on the NHS. More commonly, as the sample of comments below show, respondents talked about the health and care integration as a challenge for the future, rather than one that had been addressed to date.

‘To meet tight financial targets and to deliver best service to people, we need to reduce unnecessary hospital admissions and to enable people to return home from hospital with appropriate support at the earliest. Plans are therefore dependent on a seamless service with social care. Major concern is our partners capacity to deliver the necessary social care provision in an equitable and timely manner.’

NHS board member

‘The inter-dependence between health and social care needs to be translated into action to enable proper funding and service alignment.’

Local government senior manager

‘There are major challenges around health and social care both in terms of effective demand management and improved partnership working.’

Local government senior manager

- 2.69 The Welsh Government has also sought to encourage innovation across Welsh public services through the Invest to Save fund. The fund provides a repayable loan to public bodies to support projects that have up-front costs but potential to achieve savings over the medium to long term. In May 2014, an independent evaluation by SQW Ltd³¹ for the Welsh Government found that Invest to Save provided value for money. SQW identified gross cash-releasing savings of £3 for every £1 spent. Of 23 projects reviewed, SQW found that at least 15 had delivered cash-releasing savings.
- 2.70 The SQW evaluation also suggests that the projects were generally – though not exclusively – lower risk and less innovative than might have been expected if Invest to Save had sought to test new forms of service delivery. It has generally delivered incremental rather than radical change in terms of service delivery and outcomes. The largest area of Invest to Save spending covered voluntary exit schemes. The Welsh Government acknowledges in its 2014 Annual Report on I2S that it has not monitored whether the significant funding for voluntary exit schemes has enabled transformation of services. The SQW evaluation and a review by Public Policy Institute Wales found that there was a need to do more to share learning from the projects and initiatives that had benefited from Invest to Save funding.

Some aspects of governance in public services show improvement but there have been some high-profile governance failings since 2011

- 2.71 Good governance is essential at all times. But it is particularly important during times of austerity. The public is seeing vital services under pressure and some services it has come to rely on being reduced or cut all together. Public bodies need to be able to demonstrate that they are on top of the challenges and making the right decisions. Where public bodies and individual officials fail to act in line with the principles of probity or even within the law, there is a risk that public confidence is undermined.
- 2.72 We have produced several reports since 2011 that have identified unlawful practices in the setting of senior managers' pay and conditions. We found that payments made to senior officers in lieu of pension contributions in Pembrokeshire and Carmarthenshire county councils were unlawful. We also found that the setting of senior managers' pay and certain transport and travel allowances in Caerphilly Council Borough Council was unlawful. Alongside broader governance failings, we found that staff and board members of Caldicot and Wentlooge Levels Internal Drainage Board had unlawfully set pay levels and used public money for 'inspection' visits to Italy and Northern Ireland.

- 2.73 Over the period covered in this report, there have been independent reports highlighting failings in care and governance at some health boards. In particular, the independent Trusted to Care report highlighted failings in the basic standards of care of frail older patients on some wards within the Abertawe Bro Morgannwg University Health Board area. Also our joint work with Healthcare Inspectorate Wales has highlighted significant and ongoing failings in the governance arrangements at Betsi Cadwaladr University Health. These failings alongside concerns in a number of other specific areas of service delivery have ultimately resulted in the Minister for Health and Social Services placing the Health Board into special measures. The Welsh Government and the health boards have taken action to tackle the problems and to check that they do not reflect wider weaknesses across the NHS. In September 2015, a review following up the recommendations made in the Trusted to Care report found that Abertawe Bro Morgannwg University Health Board was making progress against the recommendations although further improvements were required.
- 2.74 The Welsh Government's response to the problems in North Wales reflects its significantly strengthened approach to escalation and accountability. The revised escalation framework sets out a more robust approach to identifying and addressing issues of significant concerns. It more clearly sets out the contribution of and collaboration between the Welsh Government, the Auditor General and Healthcare Inspectorate Wales.
- 2.75 Since our previous Picture of Public Services report in 2011, we have also carried out special inspections looking at governance in two councils. Our 2012 special inspection at Pembrokeshire County Council followed a joint report by the education and social service inspectorates identifying serious weaknesses in safeguarding of vulnerable children. We found that while there were positive relationships between councillors and officers, they could sometimes be too informal and insufficiently challenging. Subsequent audit work showed how Pembrokeshire County Council addressed the key weaknesses identified in audit and inspection reports. Our 2014 special inspection at Caerphilly County Borough Council followed the issues outlined in [paragraph 2.72](#). We found that in 2010, the council's new leadership had sought to change the pace of transformation and delivery but at times had neglected to reflect those changes in updated governance arrangements. Subsequent audit work showed that the council has made progress in addressing most of the areas of weakness.

- 2.76 The importance of effective scrutiny is magnified as public services respond to financial and demand pressures whilst continuously seeking to improve services. Effective scrutiny can improve the evidence base for decisions on the allocation of resources as well as ensuring that decisions are transparent and in accordance with the needs of the local community. Scrutiny also has an important role to play in contributing to developing policy, undertaking specific reviews and in monitoring performance. Our 2014 review of scrutiny across Welsh councils concluded that local government scrutiny in Wales is improving but councils need to do more to develop consistently rigorous scrutiny to increase public accountability in decision making. Councils demonstrated a genuine commitment to learning and improvement throughout the course of the study, and in many councils scrutiny practice at committees has improved.
- 2.77 Following our report, the Wales Audit Office, in partnership with the Welsh Government, Centre for Public Scrutiny, the Welsh Local Government Association and Cardiff Business School, held a conference on scrutiny. There was a clear commitment from delegates across the sector to make scrutiny more effective and governance more transparent. Delegates also discussed some innovative ideas. The impetus created by the conference has continued with many councils continuing to focus on improving scrutiny, aided by some expert support from the Centre for Public Scrutiny. The Welsh Government has also sought to promote better scrutiny in local government, and has set out a range of ideas in its White Paper on local government reform.

Part 3

Continued financial, demand and other pressures mean Wales needs to build on its strengthened vision for reform, and radically increase the pace and scale of service change

3.1 This part of the report looks at the future pressures on Welsh public services. It looks at a combination of financial pressures, demand pressures and other pressures such as changes in legislation. We look at the kinds of changes that public services are planning to make in response. We consider the overall vision for public services in Wales. We then add our thoughts on what the vision means in practice and where we see the biggest challenges for public services as they go ahead with delivering that vision.

Further UK Government funding cuts mean continuing austerity for Welsh public services

3.2 The UK Government's November 2015 spending review set out further cuts to the Welsh Government's budget to 2019-20. The UK Government's goal is to create a budget surplus by 2019-20. It intends to achieve this through a combination of increased tax receipts and a reduction to spending on public services and welfare benefits. These cuts to UK Government departments translate to a reduction of £0.5 billion (four per cent) in revenue funding through the block grant between 2015-16 and 2019-20 (Figure 17). Capital spending will remain the same in real terms. By 2019-20, the Welsh block grant and non-domestic rates are set to be £1.8 billion (11 per cent) less than in 2010-11.

Figure 17 – Welsh block grant and non-domestic rates 2015-16 to 2019-20 (£ billions) (2014-15 prices)

	2015-16	2016-17	2017-18	2018-19	2019-20
Block grant revenue	12.7	12.6	12.5	12.3	12.2
Non-domestic rates	0.9	0.9	1.0	1.0	1.0
Capital	1.5	1.5	1.4	1.5	1.5
Total	15.2	15.0	14.9	14.8	14.7

Note: to keep figures comparable with those in Part 1 of the report, we have included non-domestic rates in the figures even though they no longer form part of the block grant (see paragraph 3.12). We have used the Welsh Government's projections for non-domestic rates. These projections are based on simple assumptions and do not represent policy intentions.

- 3.3 The UK Government's spending plans could turn out to be optimistic. In particular, they rely on a significant turnaround in productivity across the economy. Since the 2008 financial crash, the so-called 'productivity puzzle' has seen UK productivity fall significantly below pre-2008 levels and a growing gap to many other advanced economies. Low productivity growth leads to low wage growth which in turn leads to lower-than-expected tax receipts. Without a sustained and significant improvement in productivity, public funding could be further constrained if the UK Government sticks to its target of a budget surplus by 2019-20.
- 3.4 As well as the direct funding reductions from the spending review, there are some changes made in previous budgets that will start to affect Welsh public services in the coming years. These include changes to national insurance payments. The Welsh Local Government Association estimates that these changes will add £60 million to the pay bill in 2016-17. There is likely to be a similar impact in other parts of the public sector. There is also likely to be an impact from the introduction of the 'national living wage'³². In particular, the private social care sector has traditionally been reliant on paying staff around the minimum wage. Increasing the wages of staff will have benefits for those individuals and potentially the wider economy. But if private contractors are unable to absorb those cost increases, it is likely to exacerbate the financial pressures on some parts of the public service that are already under significant strain.
- 3.5 Financial pressures are clearly a major concern for public services in Wales in the coming years. Almost all (213 out of 230) respondents to our survey cited financial pressures as one of the top-three challenges they face in the medium to long term. Just 67 out of the 230 respondents were 'very confident' they would make the savings they needed to in the 2015-16 financial year. Concerns were highest in the NHS, where three out of four chief executives said they were not confident that their organisation would deliver the necessary savings.
- 3.6 The Welsh Government published its draft budget for 2016-17 on 8 December 2015. In this report, we do not intend to analyse or comment on these spending plans. They will be scrutinised and ultimately voted on by the National Assembly in the coming months.

³² The 'national living wage' was introduced in the summer 2015 budget. In essence, it represents an increase to the existing minimum wage for people aged over 25: from £7.20 to £9.00 an hour by 2020. The 'national living' wage is separate from the 'living wage' which is a voluntary wage level set by the Living Wage Foundation.

Public services face growing challenges and opportunities from changing demographics, new tax-raising powers and structural reform

Demographic changes at either end of the age spectrum are likely to increase demand and costs for some services

- 3.7 Changing demographics are both an opportunity and a challenge. More than half of the respondents to our survey cited demographic change as one of the three biggest challenges they face in the coming years. That figure rose to almost three-quarters of NHS respondents. The overall population is set to grow, which will itself create increased demand for services. That growth will not be spread equally across ages. With more of us living for longer, a growing proportion of the Welsh population will be aged 75 or over. Between 2015 and 2025, the number of over-65s is expected to grow by 110,000. By 2025, there will be 57,000 more people aged over 90. The trend of an ageing population is set to continue over the longer term, with over-65s rising from 20 per cent of the population in 2015 to 25 per cent of the population by 2035.
- 3.8 The fact that people are living for longer is a positive sign of progress. Growing old is something that almost everybody aspires to. Older people make an enormous contribution to society for example through helping families with childcare, volunteering and acting as community leaders. But the so-called 'ageing society' does raise certain challenges. The older we are, the more likely we are to use public services, particularly health and social care. For example, a 2015 Institute for Fiscal Studies analysis shows that hospital spending rises significantly with age.³³
- 3.9 The impact of an older population on health and social care depends to a significant extent on whether the increase in overall life expectancy is being matched by an increase in 'healthy life expectancy'. If increased life expectancy means a longer period of ill health at the end of our lives, then the financial costs will be much higher. The evidence is currently mixed. National statistics suggest that healthy life expectancy is keeping track with overall life expectancy. However, a 2015 international study published in the Lancet found that life expectancy in the UK has increased more quickly than healthy life expectancy³⁴.

33 Institute for Fiscal Studies (2015) **Public hospital spending in England: evidence from National Health Service administrative records**, www.ifs.org.uk/publications/7960

34 GBD DALYS 2013 and HALE collaborators (2015) **Global, regional, and national disability-adjusted life years (DALYs) for 306 diseases and injuries and healthy life expectancy (HALE) for 188 countries, 1990–2013: quantifying the epidemiological transition**, the Lancet

- 3.10 There are also demographic pressures at the other end of the age scale. As a result of a 'baby boom', the number of children and young people of school age (3-16) is set to increase by around 27,000 by 2025. To put that into perspective, that is equivalent to twice the population of Aberystwyth. Those children will need schools to go to, and teachers to teach them. And there is a chance that some of those children and their families may need some support from social care. Public services therefore also face demand and cost pressures from the growth in the numbers of young people.
- 3.11 The impact of demographic change is not simply a matter of age. There is a well-established link between poverty, public service use and well-being. Poverty and deprivation are among the key factors that determine how public funding is allocated to the largest public bodies in Wales, including health boards and councils. **Paragraph 2.8** set out concerns at relatively high levels of poverty in Wales. Looking forwards, the Institute for Fiscal Studies has reported that planned changes to benefits could further exacerbate the problems of poverty and lead to increased levels of poverty across the UK. Therefore, if population growth is accompanied by a growth in the number of children and older people living in poverty, the pressures on public services are likely to be exacerbated.

New tax-raising and borrowing powers are an opportunity for Wales but will increase volatility in the Welsh budget and will require careful management

- 3.12 The Wales Act 2014 sets out a legislative framework to devolve some limited tax-raising and borrowing powers to the Welsh Ministers, in response to recommendations of the Silk Commission on devolving further powers to Wales. The act devolves both stamp duty land tax and landfill tax from April 2018, together with full powers to retain all business rates collected in Wales from April 2015. It also includes a provision for the Welsh Government to take responsibility for raising some income tax, subject to a referendum.

Box 3 – Tax-raising powers under the Wales Act 2014

Business rates: non-domestic rates (sometimes known as business rates) are paid by owners or users of non-domestic property. The financial management of the rates in Wales was devolved from 1 April 2015. This means that the Welsh Government's budget will now be directly affected by the amount of business rates revenues generated in Wales. Previously, changes to the budget were wholly determined by changes to the spending plans of UK Government departments, via the Barnett formula. In 2013-14, revenue from non-domestic rates was £960 million in Wales, equivalent to 6.4 per cent of the overall Departmental Expenditure Limit.

Stamp duty land tax and landfill tax: from April 2018, the Welsh Government will have complete control over stamp duty land tax and landfill tax in Wales. The Welsh Government will determine how its replacements for the existing stamp duty land tax and landfill tax will be collected and managed. Stamp duty land tax revenue in 2013-14 was £148 million in Wales³⁵. HMRC estimates that revenues from landfill tax in Wales totalled £50 million in 2013-14. The UK Government will adjust the block grant to the Welsh Government to reflect the reduction in revenues from stamp duty and landfill tax after discussion with the Welsh Government. The Welsh Government will then be responsible for managing the volatility of the income from the devolved taxes.

Income tax: The Wales Act (2014) makes provision for the Welsh Government to hold a referendum on the introduction of a Welsh rate of income tax should it wish to do so. If a Welsh rate of income tax is introduced, the main UK rates of tax would be reduced by 10p for Welsh taxpayers and the National Assembly would set a new Welsh rate of income tax each year which would be added to the reduced UK rates. Revenue from income tax in Wales in 2013-14 was £4,785 million³⁶. If the Welsh Government introduces a Welsh rate of income tax, there would be a transitional period to manage the risks where the block grant would be reduced based on a reduction of income tax by 10p regardless of whether the Welsh Government sets the Welsh rate above or below this level. After this transitional period, adjustments to the block grant from the UK Government would be based on a deduction indexed against growth in the corresponding UK tax base. The Welsh Government has no plans currently to hold a referendum on income tax.

- 3.13 The devolution of tax-raising powers offers a number of opportunities to the Welsh Government. At the time of drafting, the Welsh Government had not yet proposed any specific changes but it has consulted on options for stamp duty land tax and landfill tax and the Finance Minister has published a set of tax principles. Although there is not yet any detail on what changes a future Welsh Government will make, it is clear that there is some potential for the new land transaction tax and landfill disposals tax to be used to promote particular policy goals and/or to increase revenue. The Welsh Government has also postponed any revaluation of business rates until 2017, following similar announcements in England and Scotland.

³⁵ Stamp duties statistics – UK Government

³⁶ HMRC, *A disaggregation of HMRC tax receipts between England, Wales, Scotland and Northern Ireland*, October 2014

3.14 There are also risks that the Welsh Government will need to manage. One of the key risks is the introduction of volatility to the Welsh budget driven in part by the economic cycle which, for example, has a direct bearing on annual transaction volumes in the residential and commercial property markets on which stamp duty is levied. **Figure 18** shows that the value of the devolved taxes, particularly income tax if it is taken up, represents a significant proportion of the Welsh Government's spending power. If the Welsh Government does not collect as much tax as it expects, there will be a direct impact on the amount of funding it has available to spend on public services. In order to help to manage this volatility and also any unexpected delays in revenue collection, the Wales Act 2014 sets out additional revenue borrowing powers for Wales. Under these powers, the Welsh Government can borrow up to £200 million a year from 2018-19 to a maximum of £500 million in total.

Figure 18 – Forecast value of taxes devolved under the Wales Act (2014)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Income tax	£2,023m	£2,124m	£2,267m	£2,400m	£2,528m	£2,681m
Stamp duty land tax	£163m	£184m	£204m	£227m	£251m	£273m
Landfill tax	£46m	£44m	£40m	£40m	£42m	£47m
Total	£2,172m	£2,352m	£2,511m	£2,677m	£2,821m	£3,001m

Source: Office for Budget Responsibility, **Economic and fiscal outlook**, November 2015

3.15 There are practical risks around the administration of taxation. The Welsh Government does not have experience of managing tax or setting fiscal policy. It has set up a Tax Advisory Group for Wales and the Welsh Government Tax Forum to support the process of transferring powers to Wales. The Welsh Government will be establishing a Welsh Revenue Authority (which will operate at arms-length from ministers), and intends that this will work in partnership with HMRC and Natural Resources Wales in managing the collection of the taxes. To give effect to the new arrangements, the Welsh Government has introduced the Tax Collection and Management (Wales) Bill which is currently going through the National Assembly. We understand that the Welsh Government will not receive additional funding from Westminster to cover the administrative costs associated with collecting the various taxes.

3.16 Alongside the revenue-raising and borrowing powers, the Wales Act 2014 also sets a new capital borrowing limit at £500 million with annual limits of up to £125 million from 2018-19 onwards. The act enables the Welsh Government to borrow within these limits for any capital purposes without HM Treasury consent. The additional powers offer an opportunity to invest in Welsh infrastructure. But all borrowing would need to be repaid from future revenue, which would potentially reduce the remaining amount available for day-to-day spending on services.³⁷ The Welsh Government has announced that it intends to use its new borrowing powers to proceed with improvements to the M4 motorway.

Structural change in local government offers opportunities and challenges which are yet to be fully worked through

- 3.17 A good deal of the future debate about Welsh public services is likely to focus on the structural reform of local government. As we noted in **Part 2**, much of the focus when we produced the 2011 Picture of Public Services report was on local authorities collaborating with each other. By April 2013, the Welsh Government had become frustrated with the pace of change and the First Minister set up the Commission on Public Service, Governance and Delivery (the Williams Commission). The Williams Commission's January 2014 report described weaknesses in the capacity, capability and long-term sustainability of local government in Wales. The report proposed that the existing 22 local authorities merge to create larger units of 10, 11 or 12 local authorities across Wales. The Williams Commission stated that programme arrangements for the mergers should be agreed by the Welsh Government, local authorities and key stakeholders by Easter 2014, and the programme should be completed in 2017-18. It also recommended that the Welsh Government incentivise early adopters wanting to merge voluntarily.
- 3.18 Since the Williams Commission published its report, there have been several developments. Some authorities applied for voluntary mergers, but the Minister for Public Services rejected them in January 2015 on the basis that none of the proposals met the Welsh Government's criteria for merging. The Welsh Government introduced the Local Government (Wales) Act (2015) to enable the preparatory work for the programme of mergers. In June 2015, the Minister for Public Services announced two maps showing options for local government restructure. Option one proposed nine local authorities and option two, eight. Under the current plans, the new local authorities will not fully come into being until April 2020. The timeframe reflects the need for preparatory work, including setting up new shadow authorities to operate in the interim, and drafting and passing the necessary legislation. Our survey suggests that many in local government are concerned about reconfiguration diverting attention away from reforming services towards managing structural changes. Just over half of local government respondents in our survey (69 out of 135) cited structural change as one of the top-three challenges in the medium to long term and the sample of comments below reflect the views in many more comments from senior leaders. A chief executive of a fire and rescue service also noted the challenges that reorganisation could pose in developing collaborative working.

³⁷ We say 'potentially' because capital expenditure could directly generate revenue (through, for example, fees or tolls) or have a beneficial impact on the local economy that results in an increase in the amount paid in taxes and an overall net revenue gain to the Welsh Treasury.

'Local government reorganisation dragging on is singularly unhelpful – it makes sense to get on with it quickly to enable us to get on with the real task of designing services that are sustainable and meaningful for the public. Further delays will only make our task more difficult and drawn out.'

Local government senior manager

'The current focus is about 'the map' for local government reorganisation. This is shuffling the deckchairs and retaining the existing public services model. We need something more radical for Wales... All the talk of LGR is a big distraction and a huge cost, for in the end something that is simply not radical enough... It's not about 'local government' it's about 'public services'.'

Local government senior manager

'Local Government Reorganisation is unhelpful; it is difficult to plan long term due to the continuing decline in resources and the uncertainty of what the 'map' will look like in 3/4 years, and what will be the priorities for a new enlarged Council area.'

Local government senior manager

- 3.19 While there are risks from local government reorganisation, there is scope for considerable benefits if councils use the opportunity of change to rethink and reshape services. One senior manager from a Welsh Government sponsored body commented that 'Changes in Local Authority organisation, although disruptive initially may give us opportunities to develop new ways of working'. One council chief executive told us that rapid reorganisation was also necessary to ensure financial and service resilience: 'More widely, it is my firm conviction that local government reorganisation should happen by 2018 – although realistically I do not think it will given the current hiatus. This is purely on the basis of financial resilience. If it does not, then I believe that it is highly likely that there will be a major service and/or governance failure somewhere in Welsh local government by around 2018 – give or take.'

Legislative changes offer opportunities but many in public services are concerned about the costs of meeting increasing responsibilities

- 3.20 Since acquiring new primary law making powers in 2011, the Welsh Government has introduced a range of legislation. This legislation is designed to help further the Welsh Government's commitments and ambitions to improve the well-being of the people of Wales. Examples of new legislation include laws on organ donation, housing, planning, the environment, well-being of future generations and social services.

- 3.21 In our survey, just under a third – 73 out of 229 – of respondents cited ‘legislative and regulatory changes’ as one of the top-three challenges for their organisation in the medium to long term. Local government respondents were most likely to identify ‘legislative and regulatory changes’ as a top challenge, but sponsored bodies also identified challenges of having additional responsibilities but no additional funding to meet them. Two pieces of legislation in particular attracted comments from respondents to our survey: the Well Being of Future Generations Act (2015) and the Social Services and Well-being (Wales) Act 2014. We consider both of these acts in more detail below (paragraphs 3.23 to 3.48) as part of our commentary on plans for public service reform. In addition to the acts above, there are other pieces of legislation that will have impacts for public services. For example, our 2014 report on environmental health services reported concerns that budget cuts would make it difficult to meet future statutory responsibilities. In particular, the Public Health (Wales) Bill potentially introduces new responsibilities that are likely to fall to environmental health services.
- 3.22 The responses to our survey illustrate wider concerns about the extent to which the Welsh Government understands the costs of meeting the obligations it creates through legislation. In our 2014 report on environmental health services, we reported concern amongst council members and staff that the introduction of new powers and duties³⁸ at a time when services are being significantly cut back would prove unworkable. The Auditor General provided detailed commentary on the Welsh Government’s initial Regulatory Impact Assessment of the Well-being of Future Generations Act. That analysis set out our view that the Welsh Government had underestimated the costs to public bodies and emphasised the need for further engagement with the public sector. It also noted that the Welsh Government disagreed with our assessment. The Welsh Government subsequently produced an updated assessment with revised figures, which we have not reviewed. The Welsh Government has produced an impact assessment of changes under the Social Services and Well-being (Wales) Act. These set out the Welsh Government’s view that there will be a cost-neutral impact from changing the eligibility criteria so that more people with lower-level needs are eligible for services (paragraph 3.42) and shifting the emphasis to preventative services. Many in local government remain concerned that the bill will initially lead to more activity and cost.

³⁸ Our report specifically referred to the Food Hygiene Ratings (Wales) Act 2013 as well as the then draft Housing (Wales) Bill and plans for a new public health act.

Public services will need to make radical changes to the way they provide services and engage with service users if they are to build effectively on the reforming approach being adopted in Wales

There is clearer direction for public service reform based on citizens being more involved, early intervention and a seamless 'one public service'

- 3.23 Our 2011 Picture of Public Services report noted the pan-public service efforts to build on the vision of collaborative, citizen-centred services set out in Making the Connections in 2005. We said the challenge was to develop clearer methods for actually putting that vision into practice. Since 2011, the direction and vision for Welsh public services has been further developed. Here, we consider two key drivers of reform: the Well-being of Future Generations (Wales) Act 2015 and the Welsh Government's vision/narrative for public services.
- 3.24 The Well-being of Future Generations (Wales) Act provides the governance framework for decision making about public services in Wales. It requires most public bodies to set well-being objectives, which are outcome focused, and requires public bodies to pursue sustainable development in the way they go about meeting those objectives. It sets out a requirement for public services to take a long-term, integrated and collaborative approach that focuses on preventing problems and involves the public. If fully embraced, the act could provide a major challenge to the way public services are planned and delivered.

Box 4 – Well-being of Future Generations Act (2015): key points

The Well-being of Future Generations (Wales) Act (2015) is about improving the social, economic, environmental and cultural well-being of Wales. It requires the 43 public bodies listed in the Act (these include local government bodies, NHS bodies and the Welsh Government) to think more about the long term, work better with people and communities and each other, look to prevent problems and take a more joined-up approach.

The Act puts in place seven well-being goals:

- A prosperous Wales
- A resilient Wales
- A healthier Wales
- A more equal Wales
- A globally responsible Wales
- A Wales of vibrant culture and thriving Welsh language
- A Wales of cohesive communities

Each public body must carry out sustainable development. The action a public body takes in carrying out sustainable development must include:

- a) setting and publishing objectives ('well-being objectives') that are designed to maximise its contribution to achieving each of the well-being goals; and
- b) taking all reasonable steps (in exercising its functions) to meet those objectives.

The Act puts in place a 'sustainable development principle' which tells organisations how to go about meeting their duty under the act. To demonstrate they are acting in line with that principle, organisations need to take into account five aspects:

- a. long term: the importance of balancing short-term needs with the need to safeguard the ability to also meet long-term needs;
- b. prevention: how acting to prevent problems occurring or getting worse may help public bodies meet their objectives;
- c. integration: considering how the public body's well-being objectives may impact upon each of the well-being goals, on their other objectives, or on the objectives of other public bodies;
- d. collaboration: acting in collaboration with any other person (or different parts of the body itself) that could help the body to meet its well-being objectives; and
- e. involvement: the importance of involving people with an interest in achieving the well-being goals, and ensuring that those people reflect the diversity of the area which they serve.

The act creates the office of the Future Generations Commissioner and sets out the responsibilities of public bodies, the Future Generations Commissioner and the Auditor General to report on progress. The act also sets up new public service boards for local areas that will lead on assessing the needs of an area, will produce a local well-being plan and report on progress.

- 3.25 The Welsh Government developed its updated vision for public services as part of its response to the Williams Commission's report and recommendations (paragraph 3.17). The vision builds on the previous approach set out in Making the Connections: collaborative, citizen-centred services. It also has a stronger emphasis on 'co-production', personal responsibility and focusing on prevention. These principles are reflected in key policy and legislative developments for individual sectors, including the approach to prudent healthcare in the NHS (Box 7, page 88) and the focus of reform in social services.

Box 5 – The Welsh Government's vision for public services

Our public services must evolve to reflect a new relationship between the people who deliver services and those who benefit from them. In particular, public services must increasingly be delivered not to people, but with people.

This means involving people in the design and delivery of services, recognising people's own strengths and tailoring services accordingly.

It means recognising that people have a role to play and a responsibility for their own well-being – though it does not mean withdrawing services and leaving people to cope alone.

It means supporting and providing a safety net for our most vulnerable people, but it also means acting earlier to help people take action preventatively to improve their lives, rather than only responding when things go wrong.

It means putting people's needs foremost, working to engage a wide range of partners to act as 'one public service'.

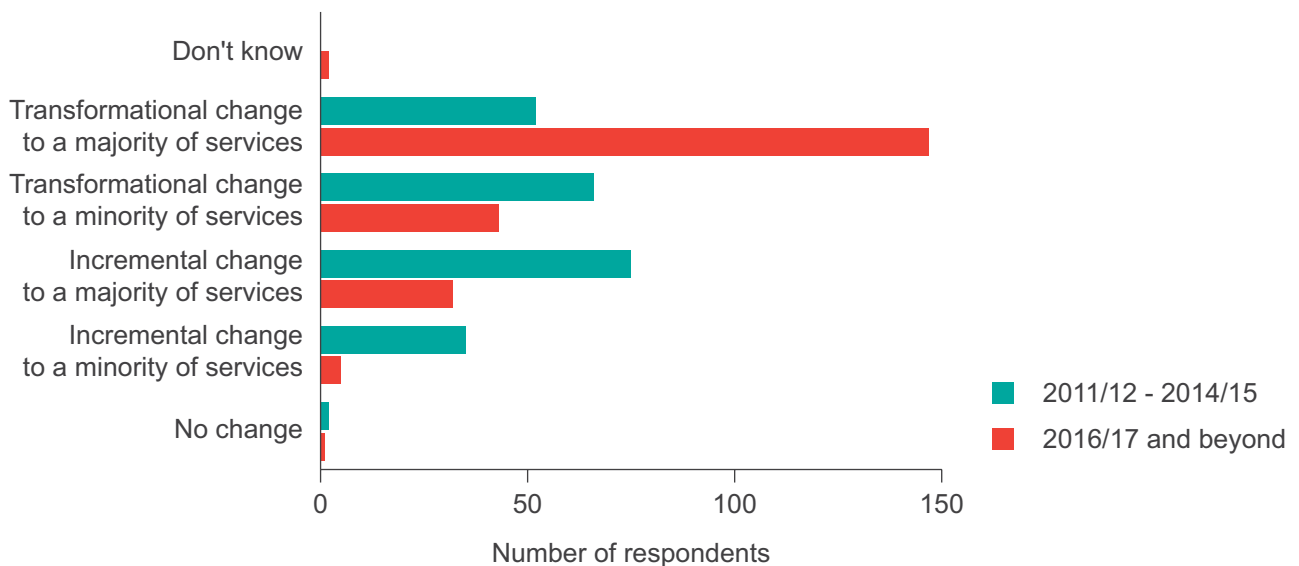
It means supporting collaboration and trust between public service partners, rather than encouraging damaging and divisive competition which risks failing the most vulnerable people in society.

It means innovating and constantly seeking to improve to meet our highest ambitions.

Source: **Devolution, Delivery and Democracy: Improving public services for people in Wales, 2014**

- 3.26 The Welsh Government has also worked with senior officials from across the public sector to develop a ‘narrative’ of public service reform. The purpose of the narrative is to tell a clear story of a public service that is ‘smaller but better’ and to clearly articulate that ‘the status quo is not an option’. The intention is to set out the impacts and implications of reform for service users and staff through stories and real-life examples. The key principles underpinning the narrative are that it:
- radically shifts the emphasis around the **purpose** of public services (they should be enablers whose role is to equip and empower people to resolve their own problems with support from family, friends and communities – and not create dependence or seek to justify ongoing provision where it is not needed);
 - radically shifts the emphasis around the **focus** of public services (so that they are about prevention and resolve the underlying issue not the presenting issue); and
 - radically changes the way in which people **experience** service (so that every contact counts and effort on joining up is focused at the frontline where it actually matters to people).
- 3.27 In our view, the Well-being of Future Generations (Wales) Act, the updated vision and the narrative provide a clearer direction for transforming public services than has existed in the past. While many of the core messages are familiar, there is now a much clearer recognition that previous approaches have not worked as intended and that radical change is required. The narrative’s focus on reform where it matters – at the frontline of service delivery – could help to move on from a tendency to see the production of strategies and plans as a solution to practical problems. The approach also is clearer in explicitly identifying co-production as a method of reshaping and redesigning services at the frontline. Below, we set out some of the key challenges and opportunities for Welsh public services in translating that vision and direction into practical change. Our survey found that public service leaders expect to see a significant shift away from incremental change towards more radical transformation across a wider range of services (Figure 19).

Figure 19 – Public service leaders’ views on the types of changes they have made and intend to make



Source: Wales Audit Office survey of public service leaders

The Welsh public service will need to take brave decisions to move from managing performance, based on activity and time taken, to enabling outcomes

3.28 The question of ‘how well’ public services are doing depends on what exactly it is that public services are supposed to be achieving. The Well-being of Future Generations Act and the Welsh Government’s vision emphasise the importance of focusing on ‘outcomes’. As we said in Part 2, in public services ‘outcomes’ generally refers to a condition of well-being. Broadly speaking, there are two different types of outcome:

- ‘population outcomes’ like ‘a healthy society’ or ‘well-educated children’; and
- ‘personal’ outcomes for the service user – like ‘I feel in control of my life’.

- 3.29 In essence, the questions public services need to answer are: 'is anybody better off?' and 'in what ways?' Too often, the performance measurement and management systems currently in place are not well designed to answer those questions. The analysis in **Part 2** of this report shows that many of the measures public services use focus on how much activity is going on and how long it takes. As we found in our report on elective waiting times, how long people wait may be important if it impacts on their health and well-being. But it may not be the thing that matters most to the service user or the wider population.
- 3.30 There is a saying that 'what gets measured gets managed'. In other words, measures and targets drive the behaviour of public services: where they focus their effort and resources. The Institute for Public Policy Research and others argue that traditional performance management is not well-suited to tackling complex problems to improve population or personal outcomes. At best, the focus in performance management on targets and activity generate energy and action to remedy a narrow problem in one part of a system. But at its worse, the focus on targets leads to energy and effort going into the wrong areas and encourages people to do things to show how they are meeting the target, which may not be the best things to improve people's lives. In short, hitting the target but missing the point. The problems of distorted priorities resulting from time and activity based targets have been well-documented, including in our reports on unscheduled care and elective waiting times.
- 3.31 In Wales, there has been a shift in focus towards outcomes. As we said in previous Picture of Public Services reports, there has been a growing interest in Results Based Accountability. There are examples of this approach being adopted in specific schemes, like Communities First as well as in broader strategic areas such as the Well-being of Future Generations Act and Social Services and Well-being (Wales) Act. There is also a growing interest in measuring 'personal outcomes'. The Social Services and Well-being (Wales) Act 2014 requires councils to assess and manage services based on what matters to the service users. In other words, the focus is on 'personal outcomes'. The Welsh Government's National Outcomes Framework for social care sets out a range of measures linking population outcomes, personal outcomes and performance measures. In developing the framework, public services in Wales drew on the work of the Scottish Joint Improvement Team's 'Talking Points' (**Box 6**).

Box 6 – Scottish Joint Improvement Team: Talking Points

Talking Points: personal outcomes approach is an evidence-based, organisational approach that puts people using services and their carers at the heart of their support. At the centre of the approach is a conversation with an individual using services or an unpaid carer that seeks to understand the extent to which they are achieving the outcomes important to them in life. These conversations form a core part of relationship building between practitioners, people who use services and their families.

This engagement about outcomes is the essential first step in implementing outcomes-based working. Secondly, there is the recording of relevant outcomes identified through the conversation in the support plan, to enable the person to work towards their outcomes. At a later point, it is essential that the outcomes be reviewed with the individual to assess progress and to find out if any changes to the plan are required. Thirdly, information recorded from these conversations should be collated, analysed and used to inform decisions at an organisational level in relation to the planning and commissioning of services. This use of information puts outcomes for individuals at the centre of decision-making processes and ensures that improvements are driven by the priorities of service users and carers.

Below is an example of how personal outcomes approach can be used from individual outcomes through to national outcomes.

Outcome Level	Focus	Examples
Individual/ personal	Defined by the person as what is important to them in like	I want to be able to get back to the bowling club
Service/ project	Defined by a project or service as a key focus to work towards with people	We work with older people to improve their ability to get out and about
Organisational	Defined by a local authority, NHS board or provider as a key area to work towards. Will increasingly need to be defined across organisations	Improve the social inclusion of people we work with
National	Defined by government to focus activity across organisations and sectors	We live longer, healthier lives. Our people are able to maintain their independence as they grow older and access appropriate support as they need it

Source: Cook and Miller, **Talking Points: Personal outcomes approach, Practical guide**, 2012

3.32 As the Auditor General said in his report on elective waiting times, it will take brave leadership to move away from existing targets, especially those based on timeliness. The Welsh Government has taken bold steps to shift the focus in some areas. In 2015, it started to pilot a new approach to measuring the performance of the ambulance service, with less focus on targets for time taken to respond to calls and greater emphasis on how well the service performs at improving clinical outcomes and patients' quality of life. In its narrative for public services, the Welsh Government recognises the need for a new performance management framework. The requirement for all public bodies to set outcome-focused goals under the Well-being of Future Generations Act provides an opportunity for Welsh public services to develop a new collaborative, outcomes-based approach to measuring and managing the performance of public services.

Co-production and behaviour change offer opportunities to improve public services but often require public services to take radically different approaches

3.33 The Welsh Government describes co-production as: the concept of genuinely involving people and communities in the design and delivery of public services, appreciating their strengths and tailoring approaches accordingly. As set out in its vision, co-production is fundamentally about doing things 'with' rather than 'to' people. As the Carnegie Trust pointed out at our 2014 conference for public service leaders:³⁹ in some cases, co-production may be about public services stepping back and enabling a person to get the support they need from within their community or family. The idea of co-production also features prominently in key plans for specific parts of the public services, particularly health and social care (Box 7). The Social Services and Well-being (Wales) Act (2014) requires service users and providers to jointly agree what outcomes the service user wants to achieve and what actions they will jointly take. In health, 'achieve health and wellbeing with the public, patients and professionals as equal partners through co-production' is one of the principles of prudent healthcare. And under the Well-being of Future Generations Act, involving people is embedded as part of the sustainable development principle.

39 Jennifer Wallis of the Carnegie's speech to our conference Same Picture: Different Lens, November 2014

Box 7 – Prudent healthcare

The Health Minister described prudent healthcare as: ‘healthcare that fits the needs and circumstances of patients and actively avoids wasteful care that is not to the patient’s benefit’. Prudent healthcare was developed by the Bevan Commission and is based around four principles:

- achieve health and well-being with the public, patients and professionals as equal partners through co-production;
- care for those with the greatest health need first, making the most effective use of all skills and resources;
- do only what is needed, no more, no less; and do no harm; and
- reduce inappropriate variation using evidence-based practices consistently and transparently.

Our report on elective waiting times showed how applying an earlier set of prudent healthcare principles could help to free up capacity and achieve more patient-focused services.

- 3.34 The focus on co-production is not uniquely Welsh, and the current interest is reflected in the work of UK think-tanks as well as a local groundswell. But the underlying principles of co-production resonate deeply with some of the public service innovations that came from Wales in the last century. Many of the public services of today have their origins in co-productive initiatives from Wales. For example, the community led healthcare provision in the South Wales valleys is often seen as the inspiration and source of the modern NHS. Many of the schools and libraries still being used across Wales were initially funded and managed by communities anxious for their children to get a better start in life. These links into a deeper narrative of Welsh history and reform potentially give co-production an advantage over technocratic arguments for reform in being accepted and embraced by the public and by staff working at the frontline.
- 3.35 Our survey showed that there are differing views of the importance of co-production across Welsh public services. Respondents from the NHS were most likely to choose ‘involving service users in the design and delivery of services’ as one of their top-three actions for transforming services. In part, the high priority given to co-production in the NHS probably reflects the clear prioritisation of co-production in the prudent healthcare agenda. There are some examples of engaging service users in improving services in the NHS (see C.H.A.a.T case study in [Appendix 3](#)). Local government respondents were far less likely to include this in their top three. However, across all sectors, the second-most-common action for transforming services was ‘lean/business process improvement’. The Wales Public Services 2025 think-tank outlined how co-production could be combined with lean and whole-systems methods to reshape public services. Monmouthshire County Council used such an approach as part of the transformation of its approach to supporting older people and adults with a physical disability ([Box 8](#)).

'The need for co-production and service user involvement is immense but this is poorly understood in the public sector and the investment required in people, skills and culture change is a long term fundamental requirement.'

Local government cabinet/authority member

'There is a chance of more resilient and active communities, taking direct responsibility for organising resources themselves. This needs to ensure social capital is utilised where it is available, and enabled or still supported where there is less of it.'

Local government cabinet/authority member

'On a positive note the NPA needs to morph from service delivery to working more with communities and partnership and provide the tools for communities to take the initiative. The constraints on this approach are obvious in that those communities with residents who have ability to deliver benefit whereas more remote and disadvantaged communities can't step up.'

National park authority board member

'We need to get patients carers and families to design services as they always design pathways that make the most impact on people and are less medicalised and therefore less expensive and do less harm.'

NHS senior manager

'Opportunities: Really embed co-production with current and future service users.'

NHS senior manager

Box 8 – Monmouthshire County Council – putting people at the heart of support services

Monmouthshire County Council, working with partners, has redesigned parts of its adult social care service. Its aim has been to better meet demand by helping people live independently. In 2011, Monmouthshire County Council conducted a systems review of services for adults with a physical disability. As a result, it expanded its Short Term Assessment and Reablement Team (START) which brings together professionals from health and social services as a single team. Staff focus on the positive approach of 'reabling' people by asking questions around what matters to the individual rather than on the negative side of what is wrong with them. Staff then work with people to connect them to support they need (not necessarily a council service) to help them live independently and avoid long-term intervention until it is absolutely necessary. In May 2014, Monmouthshire County Council introduced the Community Coordination project to support individuals to 'lead the life they choose'. Two community coordinators work with people to identify their gifts and strengths, and then connect them to community services to make the best use of their strengths.

The council reports that the majority of people they help through the START scheme remain independent for about two and a half years, and those that do need care typically require a much lower level of support. The project has led to a reduction in the amount of traditional care the council commissions and the council reported that £1.5 million in care costs were avoided as a result in 2014. Staff have also reported benefits to people as the service is user friendly, responsive and provides easy access to skilled professionals.

- 3.36 The gold standard of co-production is for people to consciously engage with, and embrace their involvement in, public services. But there is also a growing interest in more subtle 'nudge' techniques based on behavioural economics. These approaches use people's unconscious tendencies to behave in certain ways to achieve positive goals. In England, these methods have been used to increase the number of people who pay their taxes promptly by changing the wording of letters. Other examples include increasing uptake of healthy options in cafeterias by changing where the fruit and vegetables are placed. In many cases, nudge is about making the right thing to do the easiest thing to do. A Welsh example is making organ donation the default option rather than something people actively have to opt in to. We are currently running a good practice project aiming to build capacity and share knowledge on behavioural change in Welsh public services.

3.37 Embracing co-production in practice throws up many challenges. When asked to engage in designing and delivering services, the public may have different ideas and expectations to those providing the service. Around half of the respondents to our survey cited 'public expectation' as one the three biggest challenges facing their organisation. Respondents from the NHS were most likely to cite this as a challenge. In their comments, many NHS leaders described the challenges they had faced with the public opposing proposed changes to services. It is also clear from our survey that many senior public service leaders see the political cycle and politics as a barrier to reform. This is particularly prevalent in comments from senior leaders in the NHS. The sample of comments below reflect the picture of our survey where the NHS knows that changes to the configuration of services is necessary and that tough choices must be made. But in their view, the combination of local public and political opposition makes achieving actual change very difficult and very slow. If co-production is to become more common across Wales, public services will need to develop new skills in navigating the complexities of disagreement and how they move forwards with the public where there is not consensus.

'The difficulty in having a frank discussion with the public about the challenges of increasing the health of an ageing population and responding to new medical advances, against the background of reducing public expenditure in a highly charged party political atmosphere.'

NHS board member

'In summary, balancing public expectation about the availability of services, [particularly local access, against the need to concentrate many services to ensure safety, quality and sustainability. A national debate is needed on these issues; local approaches to strategic change are too easily challenged by the public and are often then not supported by politicians.'

NHS senior manager

'Radical service reorganisation is needed and there needs to be true political buy in to the need for this.'

NHS senior manager

- 3.38 The Welsh Government's Communities First programme has very similar goals to those of co-production: building the capacity of communities to engage with, and shape, public service delivery. Our 2009 report on Communities First found that the programme had done a reasonable job of building community capacity. However, it also found that public services were not well placed to listen and respond to communities when they wanted to influence service provision. Similarly, our report on public engagement in local government found few examples of collaborative engagement where the public was actively involved in decisions and reshaping services. We understand that lessons from our work were reflected in revisions to the Communities First programme introduced in 2013. But it is important that lessons from that programme are also considered as part of plans for the wider application of co-production across public services in all parts of Wales.
- 3.39 Co-production also challenges the Welsh Government's approach to 'voice' as an alternative to 'choice' in public services. Applying co-production would indeed mean that public services are guided by the user's voice. But people's 'voices' may be used to demand more options in terms of what it is they want to help them achieve their outcomes. To cite a real example, instead of going to a council day centre, an older person with lower-level social care needs may actually just want an occasional trip to a local garden centre. Public services have often evolved to provide services at scale rather than offer personalised support. It seems likely that the more responsive public services are set to become, the greater the need for diverse and small-scale provision. In England and Scotland, the Community Catalysts programme is working to develop small-scale solutions to the gaps in provision. In many cases, this builds on co-production principles by building the capacity of community groups and individuals to offer support.

Box 9 – Community Catalysts – supporting small-scale enterprises in health and social care

Community Catalysts is a social enterprise established by the charity Shared Lives Plus to support initiatives that provide care and support for people across a range of sectors including social care, healthcare and housing. In England and Scotland, local authorities have an obligation to support market diversity under the Care Act (in England) and Self Directed Support (in Scotland). Community Catalysts are usually invited by a local authority to set up in their area to create choice in the social services and health sectors. Community Catalysts was set up to support communities to develop solutions at the same time as encouraging a more diverse market. The business models used by small or 'micro' community enterprises vary from fully commercial to entirely voluntary, and many involved older and disabled people in their design and delivery. Community Catalysts help address governance concerns about small community enterprises. They provide advice on the legal or regulatory frameworks they need to consider when setting up a new enterprise and help people to decide whether to proceed based on whether their business idea is practical, sustainable and legal.

There is more detail in the full case study in [Appendix 3](#).

3.40 Several councils have already ‘spun out’ some of their services by making them standalone social enterprises (see, for example, our case study on Beacons Creative in [Appendix 3](#)). Many councils expect this to continue and around a third of local government respondents cited outsourcing to a social enterprise as one of their top-three actions to transform services. Some are also considering devolving responsibility for some local services to town and community councils. While there may be advantages to this shift, it does carry risks that will need to be managed. Our report on the Regional Investment Fund for Wales highlighted the need to put in place clear and strong governance arrangements where public bodies set up private companies to deliver public functions. Our December 2015 report on leisure services explores some of the legal and governance issues surrounding the setting up of new organisations to deliver leisure services. Our September 2015 report on financial management and governance at community and town councils showed that too many have had their accounts qualified in recent years. If town and community councils are to take responsibility for more services, there needs to be a stepping up in the quality of governance.

Public services will need to take managed risks to shift resources towards more preventative services

3.41 The Welsh Government and many in public services recognise that many of the most-expensive services we have at present are set up to provide services to people who are in some form of crisis. The new direction for public services is to help people to resolve problems before they reach a crisis. In some cases, this is about all of us taking more responsibility for our health. Some examples we have seen in our work include weight loss and exercise schemes to help patients with orthopaedic problems. In other cases, prevention is about helping people with low level of needs to basically ‘get on top of things’. Several think-tanks, such as the RSA⁴⁰ Public Services 2020, call this approach to working with people, families and communities to resolve problems at an earlier stage ‘demand management’.

3.42 Under the Well-being of Future Generations (Wales) Act, public bodies will be required to strengthen their focus on prevention. Prevention and long-term thinking make up two of the five key aspects of the sustainable development principle which public bodies are required to consider in their decision making. This emphasis on intervening earlier and helping people resolve issues before they reach a crisis point is reflected in the approach to care and support under the Social Services and Well-being (Wales) Act. From 2017, the existing assessment criteria that determine whether people are eligible for support will stop being used. Instead, councils will work with the person to identify what outcomes they want to achieve in their day-to-day life, and to what extent support and preventative services can help them to achieve those outcomes. In practice, making the shift to prevention is not simple. Few would argue that the approach of waiting until people reach a crisis is the right one. However, a lot of money and effort is invested in services for people in severe need and people are very reliant on them. With little funding available for ‘double-running’ – running new services alongside the old ones for a transition period – the challenge is to disinvest in these expensive services to free up funding and staff capacity to provide support to people at an earlier stage.

⁴⁰ The full name of the RSA is the Royal Society for the encouragement of Arts, Manufactures and Commerce.

3.43 In our view, this fundamental shift towards prevention will require a shift in the roles, skills and behaviours of many professionals. As an audit body, we are particularly concerned to encourage development of the finance profession in Wales. Some of our recent reports have commented on the lack of financial capacity and capability in many of the bodies we audit. The finance function has traditionally been about budget setting, control and compliance. In some cases, the finance function is seen as a barrier to innovation and change where it is averse to risk (see our case study on the Health Precinct in [Appendix 3](#)). In the future, finance professionals will have a greater role as a strategic partner to services, offering insight for example to support business plans for new ways of working. Finance and other professionals will need to take a long-term view of the costs and benefits of changes in the round.

Practical and cultural barriers at the frontline present challenges to public services as they seek to achieve real 'seamless' integration of services

3.44 Many people who come into contact with public services have multiple needs. In order to solve their problems or achieve the outcomes they want, they may need support from many different services. The Williams Commission's report showed how fragmented service delivery patterns and arrangements make it very difficult for service users to navigate this complexity. The Welsh Government's narrative for public services makes clear that the service user should experience these various services as though they were 'one public service'. Eight out of 10 respondents to our survey cited collaboration as one of the top-three, most-important changes that their organisation intends to make in order to transform services.

3.45 As we noted in [Part 2](#), there has been progress in collaboration between different sectors to join up service provision. Some of the examples from Wales include 'team around the family' type approaches, which bring together a range of services to help families to resolve their problems. A 2015 Welsh Government evaluation reports that while the approaches across Wales are at different stages in development, many have delivered benefits for the families and there is indicative evidence that the approach could achieve savings for the public sector, though further long-term evidence is required. There are also examples of multi-agency 'hubs' focused on safeguarding or specific problems such as missing children. These hubs physically bring together staff from different agencies in a single place to encourage them to work together and to share information about vulnerable individuals. The Welsh Government has also introduced powers under the Social Services (Well-being) Act 2014 to enable and compel bodies to cooperate to provide integrated health and social care services.

- 3.46 Integration and collaboration make up two of the five aspects of the sustainable development principle of the Well-being of Future Generations Act. The act sets up new public service boards to encourage integration and collaboration of local services. It requires public service boards to produce a local well-being plan and individual organisations to take steps to deliver their objectives and report progress. While these elements may be necessary, they are not sufficient by themselves to ensure real changes to the services people experience. Based on our experience of efforts to transform services in the past, we see a risk that a great deal of effort goes into demonstrating compliance – producing plans and reports, developing frameworks and arrangements and setting up boards to talk about those things – while making limited actual change to services.
- 3.47 As the Welsh Government says in its narrative for public services, the focus of transformation needs to be shifted to the frontline staff and the users of public services. It requires people across public services to embrace the spirit of reform as well as the letter of legislation and guidance. It needs a focus on finding practical solutions to problems that have hampered progress in the past. These include: reshaping the public sector estate to enable different services to locate together, enabling professionals to share information, clarifying personal and organisational accountabilities, getting ICT systems in different sectors and departments to ‘talk to each other’; and addressing the complexities of differing working cultures and terms and conditions. The work of the effective Services for Vulnerable Groups work-stream and our own Good Practice Exchange events show that these problems are commonplace, but can be overcome. The challenge is to more widely share learning from what works, and what doesn’t, to encourage more examples of services being joined up around the service user.
- 3.48 We found no complete examples of what the Welsh Government’s vision for public services looks like in practice. However, we consider the transformation of services that has been carried out in Stoke appears to tick many of the boxes. The case study below shows how the council developed a ‘locality’ based approach that brings together service providers, focuses on ‘the real issues in people’s lives’ and seeks to intervene before people reach crisis point.

Box 10 – Cooperative Services: Stoke-on-Trent

Cooperative working is a new approach to delivering services in Stoke-on-Trent. Cooperative Working is based on a successful pilot in 2013 with vulnerable households or individuals experiencing a high level of intervention from the council and partner agencies. Stoke-on-Trent City Council worked with partner agencies to carry out a system review. The review tracked real cases and showed that many people had multiple interactions with different public services, without getting to the bottom of their problems. This process was expensive for public services and frustrating for the people involved who saw their circumstances deteriorate to the point that crisis intervention was required.

Following the system review, the city council and partners piloted a locality based model in a few parts of the city. The approach aimed to deliver services based on the real issues in people's lives and getting to the root cause of issues. Cooperative Working cuts down on the number of professionals and organisations each customer has to engage with by allocating a generic key worker who assesses each individual's needs and coordinates support from a range of council departments and external partners including the police, fire service and NHS.

The initiative presented an opportunity to save money by delivering services more efficiently at the same time as improving the experience for vulnerable people using those services. It focused on reducing demand for public services by avoiding duplication and taking a preventative approach. The pilot supported 190 households and resulted in a 23 per cent reduction in anti-social behaviour and a 17 per cent reduction in rent arrears in the area. The council has since rolled out the approach to more areas in the city.

There is more detail in the full case study in [Appendix 3](#).

Making better use of technology and exploiting the benefits of investment in broadband can lead to reduced costs if the public can be persuaded to change the way they use services

- 3.49 Digital First sets out the Welsh Government's plan to make public services 'digital by default'. Digital First recognises that, as the Williams Commission found, the use of information and technology in public services is not good enough to meet either expectations of the public or the needs of the organisations concerned. Our 2012 report on the use of information technology by councils identified some positive local developments. But it found that councils' plans were not lined up with national plans and priorities, and systems were not being designed to work across boundaries and support collaboration. Our report on next generation broadband services found that the Welsh Government's arrangements to support and measure the wider benefits from the public sector investment in digital infrastructure have been weak but are developing. The Welsh Government expects Digital First to lead to a 'step change in' online public services.

3.50 Technology is seen as both an opportunity and a challenge by public service leaders. In our survey, around one in seven respondents – rising to one in four NHS respondents – cited technological change as one of the three biggest challenges their organisation faces. Around four in 10 chose ‘moving services online/making more use of technology’ as one of the three main changes their organisation planned to make. Respondents from the NHS were least likely to choose this option. That several NHS respondents cited technological change as a challenge perhaps reflects concerns that have been expressed to us about the quality of existing NHS IT systems (see, for example, our report on waiting times). It may also reflect wider research evidence that new technology is the largest single driver of additional cost in healthcare systems around the world⁴¹. Several respondents to our survey commented positively on the potential for technology to help them manage future pressures.

‘Technology is offering new ways of delivering services, managing processes and even engaging with our communities.’

Local government senior leader

‘The utilisation of technology to enable all the public sector bodies to work together, in collaboration with the private sector where appropriate, will deliver financial savings and more effective and efficient services to the public in Wales.’

NHS senior manager

‘Huge opportunities to digitise access, and offer self-management of council interactions for services - however the investment in IT infrastructure, and training offer is very depleted, and unlikely to get extra resources, other than by grant bids etc.’

Local government senior manager

‘The opportunities to unlock innovation and technology are growing... which will help to support changes in the absence of significant new funding.’

NHS senior manager

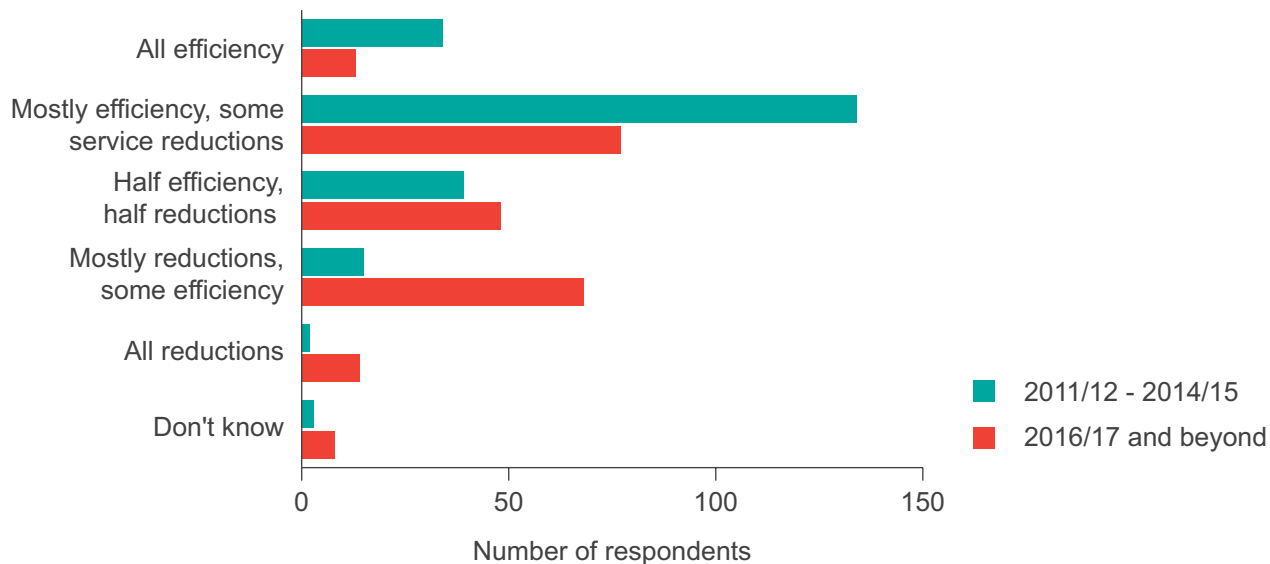
⁴¹ See for example, King's Fund (2013) **Spending on health and social care over the next 50 years: Why think long term?** King's Fund, London

3.51 Digital First recognises the potential to reduce costs by moving services online. At the same time, it recognises that savings should not be the driving factor and that services need to be redesigned to deliver a better experience for service users. Digital First acknowledges that some cannot, or do not want to, use online services. The Welsh Government plans to ensure support to those who need it and to develop 'a compelling digital offering that makes the digital approach the preferred approach'. A 2013 National Audit Office report suggested that winning over reluctant users may be a significant challenge. The National Audit Office's survey indicated that the vast majority of those who were 'offline' did not plan to get online in the immediate future. And that a significant majority of users with internet access choose not to use services even though they are aware of them. The National Audit Office cited preferring face-to-face to the internet. Also, its survey shows that many people have concerns about sharing information online. The key risk is that if the public is not persuaded to change the way it accesses services, the expected savings may be difficult to achieve and public services could end up paying more in order to provide both online and offline versions.

With many public service leaders expecting to make deeper cuts to services, a more rounded and long-term approach is needed to mitigate impacts on the public

3.52 This report emphasises that radical change in the way public services are provided is the sustainable response to the financial and demand pressures that public bodies face. However, we, like many of the respondents to our survey, are sceptical about the extent to which such reform will be able to bridge the gap between shrinking resources and growing demand. In part, this reflects the fact that changes and reform take time whereas the cost and other pressures are immediate. The comments below reflect wider comments from many of the respondents to our survey from across the different sectors who reported that they had reached a point where the scope to squeeze out more efficiency savings was close to exhausted. Just over half of the respondents said they thought that savings they were making for 2015-16 would have a detrimental impact on service levels or quality. Around a quarter of the NHS respondents thought that in the coming years, around half or more of their savings would come from reducing services levels. The picture in local government is more stark, with more than three-quarters saying that at least half of the savings would come from reducing service levels. More than half of local government respondents said their savings would mostly, or all, come from reducing services. **Figure 20**, taken from our survey, shows the changing balance, with respondents saying they have made more savings through efficiencies so far but are expecting the balance to shift to service cuts from 2016-17 onwards.

Figure 20 – Public service leaders’ views on the balance of savings in the past and future



Source: Wales Audit Office survey of public service leaders

<p>‘All the traditional areas of efficiency are now exhausted and the ability to deliver this level of savings from 15/16 is not sustainable without considering service reductions.’ NHS senior manager</p>	<p>‘We will not be able to protect schools from budget cuts and also that Adult Social Services will be curtailed.’ Local government cabinet/authority member</p>	<p>‘We have however, reached the end of the line as far as efficiency is concerned. The band that sits between being inefficient through over provision and conversely from under provision is very narrow and further budget reductions beyond 2016-17 cannot be achieved without a reduction in the standard of the services we provide.’ Fire and rescue authority senior manager</p>
<p>‘We no longer have opportunities for efficiency savings or salami slicing. We are now developing a strategic vision for the medium and long term which will define what service areas remain and what has to be discontinued.’ Local government senior manager</p>	<p>‘I believe we are at the point of having to withdraw services to make further savings that keep us in budget. This may prove to be unpalatable to the public and staff.’ NHS board member</p>	

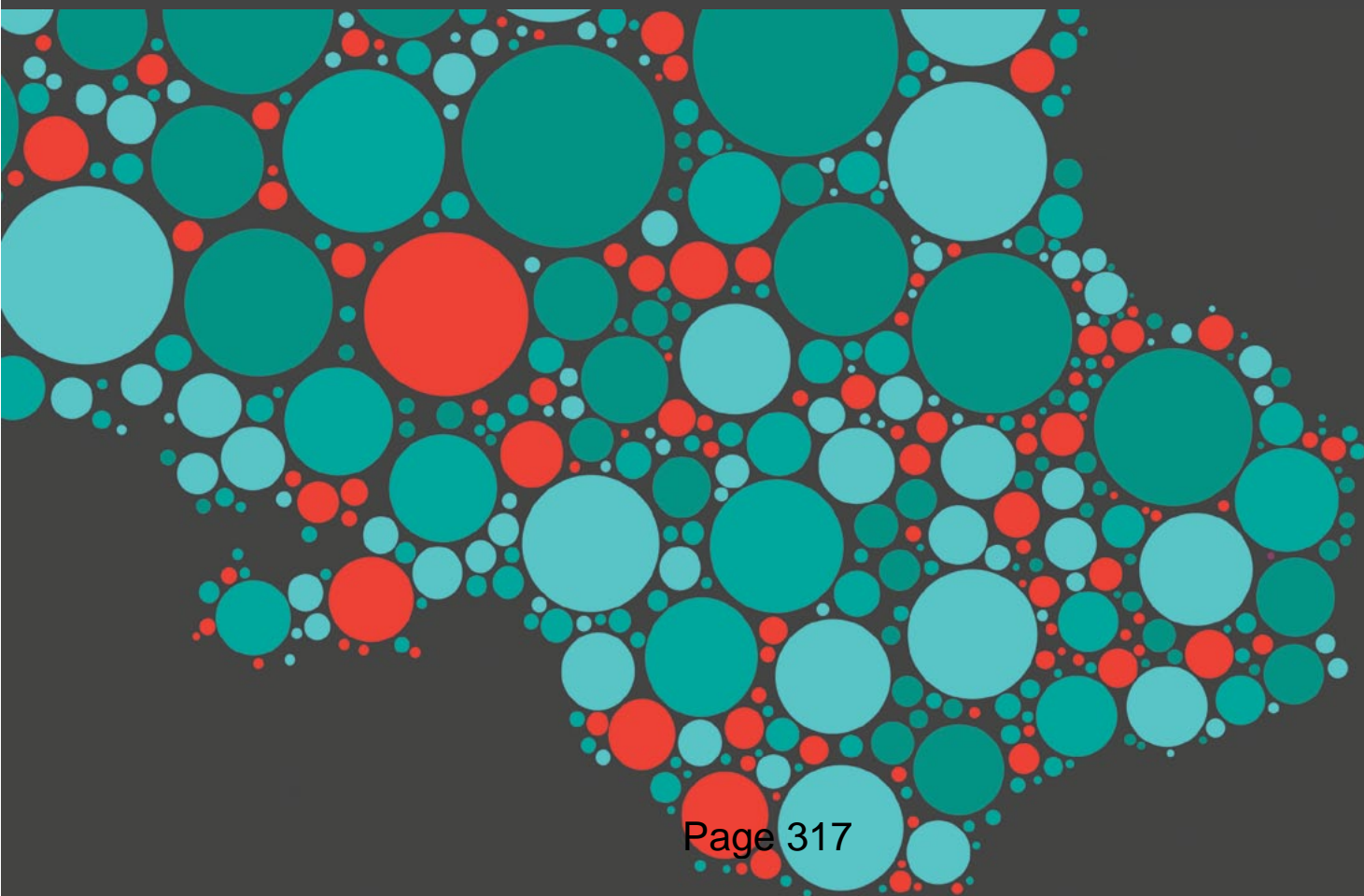
3.53 Public services in all sectors have seen some reduction in service levels since 2010-11 and many are expecting to see more. As we have been saying since 2010-11, it is essential that these cuts are managed effectively. One of the key risks we have flagged is that of focus on short-term savings without giving due consideration to the wider and longer-term impact of changes made to deliver cost reduction. This can result in a false economy, shifting costs from one part of the public service system to another. We have already seen examples of cuts to preventative services. This approach is not sustainable in the medium to long term, and risks storing up costs and problems for the future. Just as public services are moving towards more whole-systems approaches to reforming services, we need a similar approach to managing reductions to services. Like the reform agenda, it needs to be based on outcomes: cutting in a way that causes least harm to personal and population outcomes. As with public service reform, the Well-being of Future Generations Act offers the potential to develop a clear framework for cuts that are soundly based and managed. But considerable work is needed to create the space for open and mature debates between and within sectors and organisations about how to take this agenda forwards.

Appendices

Appendix 1 - Methods

Appendix 2 - Auditor General for Wales'
reports referred to in the report

Appendix 3 - Case studies



Appendix 1 - Methods

The analysis in this report is based on a range of methods. In large part, it draws from published Auditor General reports. [Appendix 2](#) sets out the reports that we have referred to in the report. We have also analysed financial and performance information. This appendix sets out the sources of the analysis and explains any adjustments we have made to published data in order to make it comparable over time.

Financial analysis

Real terms: the real-terms figures in this report are calculated using the HM Treasury GDP deflator series issued in November 2015.

Welsh block grant: our analysis of the overall reduction in devolved spending is based on HM Treasury's Public Expenditure Statistical Analysis. The figures used in the report exclude depreciation.

The overall figures have been adjusted to take account of the changes to the Council Tax Reduction Scheme. The UK Government scrapped the Council Tax Benefit Scheme from 2013-14 and devolved the budget to the Welsh Government. The Welsh Government replaced council tax benefit with a new Council Tax Reduction Scheme. To make the overall spending figures comparable, we have included the budget for the Council Tax Benefit Scheme in Welsh Government figures for 2010-11, 2011-12 and 2012-13.

Welsh Government departmental budgets: our analysis of Welsh Government departmental expenditure is taken from Welsh Government budgets. Specifically, we have used the 2nd supplementary budget for each financial year. The 2nd supplementary budgets are produced in February and include most of the in-year changes to budgets and spending.

Between 2010-11 and 2014-15, the budgets for Welsh Government departments have changed to reflect changes in ministerial portfolios and other technical changes. In order to compare over time, we have had to make adjustments to reflect those changes, for example where responsibility and the budget for a particular programme has moved from one department to another. The full list of spending areas we have moved are set out below:

- Support and sustain a strong arts sector via the Arts Council and others
- Museums, archives and libraries
- Delivery of effective sports and physical activity programmes
- Media and publishing
- Conserve, protect, sustain and promote access to the historic and natural environment
- Tourism
- Social enterprise
- Wales European Funding Office
- Children, young people and families

- Supporting communities and people
- Inclusion – refugees, asylum seekers and migrant workers
- Gypsy travellers
- Community cohesion
- Housing policy (housing)
- Homes and places (regeneration)
- Rural affairs
- Substance misuse
- Match funding
- Gypsy travellers
- Equalities
- Community cohesion
- Public services
- Welsh language

Health spending: we have used two main sources for our analysis of spending on health services in Wales. We have used the Welsh Government's 2nd supplementary budgets to work out 'health revenue' spending. It covers all health spending, including public health and central budgets managed by the Department for Health and Social Services. This is consistent with the approach used in our three reports on health finances since 2010-11. Consistent with our previous reports, the figures in health revenue in this report have been adjusted to remove non-cash capital charges from 2010-11.

We have also analysed NHS bodies' expenditure using their audited accounts. Our analysis focuses primarily on the seven local health boards. We have adjusted the figures to remove non-cash items, including impairments and depreciation. We have also adjusted the figures to reflect the transfer of responsibility and budget for the National Leadership for Innovation Agency for Health (NLIAH). This budget was previously managed by Abertawe Bro Morgannwg University Health Board but has moved primarily to Velindre NHS Trust and Public Health Wales. We have also adjusted to remove the funding and expenditure for the Welsh Risk Pool. This programme was managed by Betsi Cadwaladr University Health Board but it is now managed by Velindre NHS Trust.

Council spending: we have based our analysis of council spending patterns on the 'revenue outturn' data and 'capital outturn' data held on StatsWales. We have made no adjustments to this data other than to convert it to real terms.

Other public bodies: for fire and rescue services, sponsored bodies and the national park authorities, we have taken information on their core funding from the organisations' audited accounts or from information provided by the Welsh Government.

Comparisons with other parts of the UK: we have used HM Treasury's Country and Regional Analysis, which forms part of the Public Expenditure Statistical Analysis, as the basis of spending comparisons between Wales and other parts of the UK.

Performance data

Sustainable development indicators: we looked at the sustainable development indicators to look at changes in overall well-being in Wales. Some of these overlap with indicators of performance for health and local government. We were unable to use several of the indicators because they had not been updated for some time. More detail on the sustainable development indicators can be found at:

www.gov.wales/statistics-and-research/sustianable-development-indicators/?lang=en.

Indicator	Latest data
Biodiversity conservation	2008
Ecological footprint	2006
Waste arisings by management methods	2007-08
Number of trips per person per year by main mode	2011-12
Bird populations	2012
Long-term changes in the ranges of widespread breeding birds between 1968-1972 and 1988-1991, by major habitat group	1991
Ecological impacts of air pollution	2010-2012
River quality	2010
Soil quality	2007
The ratio of carbon dioxide emissions to GVA at current prices	2012
Electricity from renewable sources	2012
Household SAP (energy efficiency) ratings	2008
Percentage of households where the time taken to reach local facilities on foot or by public transport is 15 minutes or less	2011-12
Percentage of people volunteering on a formal or informal basis at least once a month in the last 12 months	2010-11

NHS performance data: for our analysis of the NHS's performance, we have drawn on the tier 1 measures. We have used these measures in our two reports that cover service and financial performance across the NHS. Some of the measures have changed over time. We have focused on those measures where we have data that covers the period 2010-11 to 2014-15. The full list of tier 1 targets in place for 2013-14 and 2014-15 can be found at: www.gov.wales/docs/dhss/publications/130524frameworken.pdf.

Council performance: for council performance, we have used the national strategic indicators. These are a set of measures that are used by all councils to measure and compare performance. Full details on the national strategic indicators can be found at: www.gov.wales/statistics-and-research/national-strategic-indicators/?lang=en.

National Survey for Wales: the National Survey for Wales is a face-to-face survey of people across Wales. Each year, over 14,000 people aged 16 and over were asked for their opinions on a wide range of issues affecting them and their local area. Respondents are selected at random to ensure the results are representative. In this report, we have drawn from comparisons of the 2012-13 National Survey to the European Social Survey in 2012. There are some methodological differences, outlined below, that mean some caution is needed when comparing, which is why we say the comparison only 'suggests' a particular position.

- The National Survey question is prefaced with a clarification about what counts as 'health services', 'education system' and 'devolved government' for the purposes of the question. It prompts people to think about the full definition when answering the question. We might reasonably surmise that, in the absence of the introduction, the European Social Survey respondents think about a more narrow range of provision (probably that closest to their own experience).
- In the National Survey, the questions come relatively late in the interview – after a series of questions asking people about their experience of health services and local authority provision. The European Social Survey asks these questions just after a series of questions on political affiliation and, importantly, views on the economy. We may well expect respondents, having just focused on their views on the previous questions, to answer about their views in a somewhat different light to the National Survey.
- There are other differences between the meaning of the words 'health service' and 'educational system' in different countries.

WAO Survey of Public Service Leaders: we sent a total of 688 surveys to local government, fire and rescue services, national park authorities, health boards and Welsh Government sponsored bodies. We invited responses from chief executives and members of senior leadership teams as well as from board members and (for councils) leaders and cabinet members.

We asked people to indicate in their response which sector they were from and their role. Other than this, we did not ask for any identifying information and the survey was anonymous. We received 230 completed surveys – a response rate of 33 per cent. For each sector, the response rate was: local government, 33 per cent; NHS, 38 per cent, sponsored bodies, 26 per cent.

The survey asked 13 questions. These covered the period 2011-12 to 2014-15, the 2015-16 financial year and their views on future pressures and opportunities. In this report, we have drawn on comments that illustrate particular points we are making in the report and are reflective of the balance of opinion across the comments. We have published a separate summary of the findings of the survey on our website: www.audit.wales.

Document review: as part of this work, we have reviewed and considered a wide range of documents and files. These include reports by other audit, inspection and regulation bodies from around the UK and in Wales. We have reviewed key strategy documents produced by the Welsh Government, including its strategic plans for reforming public services and reconfiguring local government. We have considered reports by committees of the National Assembly. We have reviewed a wide range of research reports, including reports by research and policy organisations and think-tanks that specialise in public service reform.

Appendix 2 - Auditor General for Wales' reports referred to in the report

The analysis in this report is firmly rooted in our financial and performance audit work across Welsh public services. Throughout the report, we refer to specific reports in the shorthand 'our report on . . .'. The table below gives a full reference for each of the reports referred to in the report.

Our report on . . .	Full reference
Leisure services	Managing with Less: Leisure Services (December 2015)
Independence of older people	Supporting the Independence of Older People: Are Councils Doing Enough? (October 2015)
Financial management and governance at community and town councils	Financial Management and Governance in Community and Town Councils 2013-14 (September 2015)
Regional Investment Fund for Wales	Regeneration Investment Fund for Wales (July 2015)
Regional education consortia	Achieving improvement in support to schools through regional education consortia – an early view (June 2015)
Next generation broadband	Welsh Government investment in next generation broadband infrastructure (May 2015)
Financial resilience in local government	The financial resilience of councils in Wales (April 2015)
Early departure schemes	Managing early departures across Welsh public bodies (February 2015)
Welfare reform	Managing the Impact of Welfare Reform Changes on Social Housing Tenants in Wales (January 2015)
Elective waiting times	NHS Waiting Times for Elective Care in Wales (January 2015)
Management of the 2007 to 2013 structural funds	European Union Structural Funds 2007-2013 (April 2014)
Managing chronic conditions	The Management of Chronic Conditions in Wales – An Update (March 2014)
Environmental health services	Delivering with less – the impact on environmental health services and citizens (October 2014)
Unscheduled care	Unscheduled Care – An update on progress (September 2013)
Use of information technology by councils	Use of Technology to Support Improvement and Efficiency in Local Government (December 2012)
Public engagement in local government	Public Engagement in Local Government (June 2012)
Communities First	Communities First (July 2009)

Appendix 3 - Case studies

Cooperative Working in Stoke-on-Trent

Cooperative Working is a new approach to delivering services in Stoke-on-Trent. The city council and its partners aim to deliver services based on understanding the real issues in people's lives. At the same time, Cooperative Working cuts down on the number of professionals and organisations each customer has to engage with by allocating a generic key worker. The key worker will assess each individual's true needs and coordinate support from a range of council departments and external partners including the police, fire service and NHS. Cooperative Working is based on a pilot in 2013 with vulnerable households or individuals experiencing a high level of intervention from the council and partner agencies. Stoke-on-Trent City Council worked with partner agencies to analyse data on the levels of intervention in the pilot area to identify customers to work with. The high level of intervention for these households was expensive but also meant that customers had to repeat their story many times to different professionals. The initiative presented an opportunity to save money by delivering services more efficiently at the same time as improving the experience for vulnerable people using those services. It focused on reducing demand for public services by avoiding duplication and taking a preventative approach. The pilot supported 190 households and Stoke-on-Trent City Council reports that it resulted in a 23 per cent reduction in anti-social behaviour and a 17 per cent reduction in rent arrears in the area.

Cooperative Working has now been expanded to cover more of the city, supported by a Transformation Challenge Award from the UK Government of £4.9 million. Stoke-on-Trent City Council reports that this funding has been key to the success of the project in providing additional staff to deliver the pilot without impacting services in other parts of the city. Other success factors the city council identified include collecting and sharing data to demonstrate the benefits of the approach, communicating key messages about the project throughout the council and with partner organisations to generate 'buy-in', and using the pilot approach to learn lessons in a controlled environment and retain the flexibility to adapt to change. The Cooperative Working initiative is expected to save the city council and partners in the city between £36 million and £46 million over the next three years (dependant on economic modelling version).

The pilot has resulted in a restructure of council services which reduced the number of managers and increased the number of generic workers to deliver the initiative. In the future, Cooperative Working will provide a new way of commissioning services based on information from service users about the support they require. Developing new ways of working and partnership arrangements with other agencies has been a challenge but the team has developed information-sharing arrangements and continually reinforces key messages about the benefits of the project. Julie Griffin, Head of Cooperative Working at Stoke-on-Trent City Council, told us that 'the appetite for this kind of project is there as a result of austerity – partners are realising they can't keep salami slicing, we have to rethink the way that services are delivered'.

Beacons Creative

Beacons Creative (Wales) Limited is a social enterprise producing candles and other products whilst providing employment opportunities for people with a disability, learning difficulties or those who are furthest from finding work. There are four branches of the business: candles, skincare, a wholefood shop and a café. The company started out as Beacons Candles, a local authority day care service for people with learning disabilities run by Powys County Council. It became a company limited by guarantee in 2009 when several of the people they were supporting to find work said that they would prefer to work at the candle workshop. The council responded by looking at whether Beacons Candles could be run as a social enterprise. The company is managed by a voluntary board of directors including a representative from Powys County Council and members with a commercial background to provide an alternative perspective to traditional day care providers. It aims to develop the day care services into a profitable business at the same time as providing a safe environment for supported employment opportunities.

Beacons Creative now employs a number of people with learning disabilities including young people aged 14-19 on Saturdays. The company has won Powys Business awards twice and the team has increased from three to 14 staff in five years. The organisation operates as a commercial business and working arrangements such as enforced break times have been developed to encourage service users to feel like valued employees. Social workers have to make appointments outside manufacturing hours and the distinction between service user and provider has been removed so that all participants are colleagues. Whilst Beacons Creative was not created in response to budget cuts, the project team recognises that the financial pressures in the subsequent years may have led to the end of provision. The social enterprise model has provided a sustainable alternative to the traditional service model.

Beacons Creative faced a number of challenges as it transformed into a social enterprise. The three-year process involved redundancies at the candle workshop to fund a new manager post. There are also challenges associated with generating the income required to provide a sustainable service. Since 2009, the financial contribution from Powys County Council has reduced in line with their five-year plan, and income from sales will increasingly be used to fund the gap.

At the beginning of the process, the council set up an externalisation team and spent a lot of time engaging with relevant stakeholders including trade unions, legal and HR representatives. Service users were put at the heart of these discussions and one person attended a meeting of the social services board to promote the benefits of the project. Hazel Jukes, Team Manager of Reablement at Powys County Council and one of the directors of Beacons Creative, told us that the enthusiasm and knowledge of the team was a key factor in the success of the project.

Care Home Ask and Talk (C.H.A.a.T) volunteer service

The C.H.A.a.T. volunteer service provides an opportunity for older people living in care homes within the Aneurin Bevan University Health Board area to talk about their experiences, discuss what works well and identify areas for improvement. Prompted by investigations into the abuse of adults in care homes such as Winterbourne View in England and Operation Jasmine in Gwent, members of the NHS Retirement Fellowship wrote to the chief executive of the health board asking what was being done to protect older people in care homes. The health board started to work with the Fellowship on a project to collect patient experiences and share good practice. They developed a pilot project in four care homes where volunteers visit the homes and speak with older people and their relatives. Volunteers spoke to more than 100 residents and relatives in the four homes and feedback from patients and their families showed that they welcomed the opportunity to discuss their views and evaluate the service they received. Discussions centred around issues like access to the community to go shopping or visit family, and access to healthcare.

The care homes in the pilot were selected as homes without escalating concerns in order to set a benchmark. Whilst the work did not identify any serious concerns with the pilot care homes, there were areas for improvement which were addressed as a result. The care homes improved residents' access to the community, choices around end-of-life care, and recreational activities on offer. The volunteers also found that many older people did not feel engaged in the planning prior to their move to a care home, the information about each home was poor and many people did not feel equipped to make an informed decision. They wanted to see 'real' live feedback from the people living there or relatives who visited. A Trip-Advisor-style website for care homes has been developed as a solution. People can leave reviews of their care home and homes with an 'enhanced profile' of the scheme can respond. The health board is considering using a similar approach for patients to review hospital wards in the future. They are also piloting a scheme where C.H.A.a.T. volunteers and a psychologist work with older people to help them make a decision about which home to choose. The C.H.A. a. T project has made links with the Soldiers, Sailors, Airmen and Families Association to ensure that ex-service personnel living in care homes can access the support they need.

The C.H.A.a.T. volunteer service was the first of its kind and developing the project involved lots of work to ensure that the model was right, governance arrangements were effective and training for volunteers appropriate. Retaining the motivation and enthusiasm of volunteers whilst the model was being developed was a challenge but now the project is up and running experienced volunteers provide an induction for new volunteers, cutting down on staff time. It also took time to build the trust of care homes in the pilot and assure them that C.H.A.a.T. was not another form of inspection. The project team used the findings from the pilot to adapt the approach and made changes to the discussion topics as a result.

There are more than 1,500 NHS-funded patients living in care homes in the health board area but many are reluctant to talk to officials about their concerns. Using volunteers from the NHS Retirement Fellowship, the C.H.A.a.T. project provides a confidential service for older people and their families to discuss any concerns. The model has now been adopted by the Royal Volunteer Service for use in residential homes. There are plans to further develop the service in hospitals and the community, and the initiative won a National Patient Experience Award in 2015 in the Communicating Effectively with Patients and Families category. The service also won the Kate Granger Compassionate Care Award in September 2015. There are also plans in the longer term to make C.H.A.a.T. independent of the health board with charity status.

Community Catalysts

Community Catalysts is a social enterprise established by the charity Shared Lives Plus to support initiatives that provide care and support for people across a range of sectors including social care, healthcare and housing. The organisation provides practical and innovative solutions across these sectors by supporting small community enterprises, groups, individuals and initiatives that offer care or support for people. Community Catalysts do this through a range of methods including events, scoping exercises, expert advice and project management.

In England and Scotland, local authorities have an obligation to support market diversity under the Care Act (in England) and Self Directed Support (in Scotland). Community Catalysts are usually invited by a local authority to set up in their area to create choice in the social services and health sectors. The organisation has worked in 40 local authority areas in England and Scotland over the past eight years, typically staying for two years in each area. During this time, it identifies professional experts to act as advice givers in a range of fields, collects market intelligence and works with local authorities to remove barriers restricting new enterprises. They advise people of the legal or regulatory frameworks they need to consider when setting up a new enterprise and help people to decide whether to proceed based on whether their business idea is practical, sustainable and legal. Community Catalysts also work with local authorities to change their organisational culture and systems to help them commission innovative community projects.

Community Catalysts was developed in response to a number of 'big problems' in the health and social care sector including weaknesses in the traditional care market in providing choice for the individual, lack of integration between health and social care systems, and increasing financial pressures. Community Catalysts was set up to address these issues by supporting communities to develop solutions at the same time as encouraging a more diverse market. The business models used by small or 'micro' community enterprises vary from fully commercial to entirely voluntary, and many involved older and disabled people in their design and delivery. Ninety per cent of unsupported small enterprises fail in their first year but Community Catalysts has a failure rate of just four per cent over three years. Over two years in a local authority area, Community Catalysts helps around 125 potential entrepreneurs and 60 community enterprises. These community enterprises generally support around 700 older or disabled people, creating over 100 jobs and 70 volunteering opportunities.

The organisation has identified common barriers or issues affecting small enterprises, including:

- generating confidence from professionals making referrals about how safe and reliable they are;
- getting onto local authority approved provider lists which can be restricted by local authority procurement rules;
- marketing their services to potential customers;
- legal and regulatory frameworks can make it difficult to provide informal support or care;
- it can be difficult for small providers to interact with local authorities when processes and systems are set up to deal with larger organisations; and
- community enterprises tend to be used by self-funders but social services users do not have the same opportunities.

Community Catalysts also run a service and website called Small Good Stuff⁴² which links people or organisations who offer support or care with people who may require their services.

⁴² www.smallgoodstuff.co.uk/community-catalysts-launches-small-good-stuff/

The Health Precinct

The Colwyn Bay Health Care and Well-being Precinct is a partnership between Betsi Cadwaladr University Health Board, Conwy County Borough Council and the Welsh Rugby Union. It aims to improve the health of people living in Conwy through community based physical activity. This can be to prevent ill health, manage chronic illnesses, or form part of rehabilitation programmes. The initiative was developed in response to a number of issues including reducing budgets, increasing demand for physiotherapy services, a lack of space in hospital for the intermediate care team⁴³ to work in, and a growing recognition of the contribution physical activity can make to a range of health conditions.

During the refurbishment of Conwy Leisure Centre, the health board's Head of Therapy Services and Conwy County Borough Council's Head of Active and Creative Lifestyles worked together to create space for the Intermediate Care Team in the centre. A dedicated area within the leisure centre gave the team more space and access to a range of fitness facilities. The team also saw potential for this arrangement to provide a model for health and social services initiatives in the future. The health precinct concept has created a place where health and social care professionals can work together to provide appropriate solutions for local people. Health professionals working in the leisure centre have also benefited from the proximity to physical activity opportunities which have led to additional projects at the precinct including activities for people with diabetes and Parkinson's disease. The precinct now includes more than 20 projects, has reduced facilities costs for the Intermediate Care Team and reduced waiting lists in physiotherapy.

The project overcame a series of challenges during its development. The project team found gaining support from finance teams at both organisations its most significant challenge. The structure of budgets at the council and the health board presented barriers to the project. The project team had to overcome initial concerns that the council was subsidising healthcare because the Intermediate Care Team paid a lower rate to hire leisure centre facilities. The project team emphasised to staff that the principles behind the precinct were based on the wider view that the council and health board share a common goal to improve the health of local residents. There were also concerns from community councils about the impact on services at the leisure centre as a result of health professionals moving into the building. Officers dealt with these concerns by explaining the purpose and benefits of the project. Some physiotherapists were initially reluctant to refer patients to exercise professionals, but quickly developed strong working relationships after both sides started to understand the level of expertise on offer. Negative perceptions from patients expecting to receive their treatment in hospital also had to be overcome, but patients adjusted to the new environment over time.

It took about three years for the precinct to overcome the initial concerns of the respective finance teams, and generating buy-in from those teams was a vital step in securing resources for the project. Strong leadership from officers with a good understanding of the benefits of physical activity and a shared commitment to the project was also crucial to its success.

The project is now firmly established and has won a number of awards. It will be expanded to two further sites in Llanrwst and Llandudno, and will form part of the long-term approach to reducing demand for unscheduled care in the area. The health board has plans to expand the initiative throughout North Wales in the future.

⁴³ A team of 35 people from a range of medical disciplines including district nurses, psychiatric nurses and physiotherapists.

Monmouthshire County Council – putting people at the heart of support services

In 2008, Monmouthshire County Council worked with Aneurin Bevan University Health Board to deliver an integrated approach to supporting older people and adults with a physical disability. They set up the Short Term Assessment and Reablement Team (START) which includes a range of staff including nurses, social workers, therapists and care workers. Whilst staff are funded individually by each organisation, Monmouthshire County Council manages the whole team which provides a clear direction and shared objectives. In 2011, Monmouthshire County Council conducted a systems review and transformed the way it delivers social care support. There are now geographical 'hubs' across the county which use the Finding Individual Solutions Here (FISH) model to put the individual at the heart of service delivery. Staff focus on the positive approach of building on people's strengths by asking questions around what matters to the individual rather than on the negative side of what is wrong with them. If people require support, staff will use a 'reabling' approach driven by personal outcomes for each individual. Staff then work with people to connect them to the service of support they need which helps them live independently and avoid long-term intervention until it is absolutely necessary. The strengths-based approach is aimed at preventing future demand by having the right conversations early on before problems escalate.

In May 2014, Monmouthshire County Council introduced the Community Coordination project as another way of reducing demand on health and adult services by supporting individuals to 'lead the life they choose'. Two community coordinators work with people to identify their gifts and strengths, and then connect them to community services to make the best use of their assets. Project staff have developed networks with a range of voluntary and public sector organisations across Monmouthshire which are performing a similar community coordination role. Partners are now working together to promote the community coordination approach and develop methods for evaluating the initiative.

Julie Boothroyd, Head of Adult and Children's Social Services at Monmouthshire County Council, told us that the project benefited from strong working relationships with Aneurin Bevan University Health Board and support on a corporate level from Monmouthshire County Council. The team also worked with local politicians to generate buy-in for the initiative. The biggest challenge was in 'changing the DNA of staff' used to helping people more directly rather than supporting them to make changes in their own lives. Staff received training on the FISH approach and some have also been given the opportunity to gain a fresh perspective on their work by experiencing different working environments. In the future, the council hopes to use the FISH approach for adults with mental health issues and learning disabilities.

More than 2,000 people have used the START service since 2008 and more than half have been supported to live independently. Longitudinal studies have shown that the majority of these people remain independent for about two and a half years, and those that do need care typically require a much lower level of support. The project has led to a reduction in the amount of traditional care the council commissions and the Council reported that £1.5 million in care costs were avoided as a result in 2014. Staff have also recognised the benefits to people as the service is user friendly, responsive and provides easy access to skilled professionals. In the future, Monmouthshire County Council hopes to use information gathered through the project to reshape the way it delivers services. This could mean that skilled social workers will focus on people with more complex needs whilst other professionals provide a range of support based on what individuals actually say they need.

The Council has also introduced a new approach to support people with dementia. The Raglan project is a pilot project supporting 14 people living with dementia. The project provides a new model for domiciliary care where staff work with each individual to discuss their changing daily needs rather than performing a list of predetermined tasks. Minimum service levels remain but there is flexibility within each care plan to respond to the needs and choices of individuals. Relationship-based care promotes choice and independence, and recognises that people have emotional and social needs as well as physical needs to be supported.

The project employs five staff on full-time rather than minimum-hours' contracts. Planned hours change with the daily choices of each individual but staff work flexibly across a geographical area to manage this variation. The project has resulted in a number of positive outcomes for individual service users but also created a stable working environment for staff where they are treated with respect and have time to develop positive working relationships with the people they support. The new model of care is being delivered at no additional cost to the Council and will be expanded to 17 new areas in Monmouthshire in the near future. In the long term, the approach will inform Monmouthshire County Council's approach to commissioning domiciliary services based on the needs of its citizens.

The Bromford Deal

Bromford is a social landlord with 26,000 properties across England, and some parts of Powys. In 2012, the organisation developed the Bromford Deal to respond to the many challenges that austerity posed to the organisation and its tenants. It was also an opportunity to radically change the relationship between tenants and housing officers from one where housing officers act on behalf of tenants, to one where they discuss each tenant's needs with them and collectively agree a way forward. At the time, new social housing cost around £150,000 per property and Bromford wanted to make this investment about more than just bricks and mortar.

Bromford aims to challenge negative associations for tenants applying for social housing by getting them to sign up to the Bromford Deal to make a difference in their lives. Tenants agree to a range of conditions, such as looking after their property and resolving disputes with neighbours, and get a home and a range of support from Bromford as a result. Officers also work with tenants on a 'to do list' based on their needs and ambitions. Tenants can get support to find work, help with managing their tenancy agreement, money advice, access to training and learning opportunities, and a range of other support such as confidence building, or help with addiction or other health issues. Marketing of the scheme emphasises the role that tenants or customers play and what they get as a result. A video on Bromford's website asks 'have you got what it takes to be a Bromford customer?'⁴⁴ If tenants do not keep their side of the deal, they put their tenancy at risk.

Bromford funds the scheme itself as part of its 'core offer' for tenants. The first 12 months of the scheme involved more work for officers having more lengthy conversations with tenants to get the initiative right, but after this, officers saw a reduction in the reactive work they had to do to manage issues with tenancies and disputes between tenants. The Bromford Deal has led to a reduction in the number and level of rent arrears, positive outcomes from individual tenants and fewer anti-social behaviour disputes.

The organisation has also developed the 'Starting Well service' for tenants with more complex needs who receive 12 weeks of support from specialist coaches on a range of areas. In the future, Bromford will analyse data to see whether the initiative has resulted in improvement to the length of tenancies. Bromford is also supporting tenants to move to direct housing payments where housing benefit is paid directly to them and they in turn pay rent to Bromford. This is to help prepare for the changes expected with universal credit and has involved support for tenants on managing money. This support has also led to a decrease in rent arrears.

Bromford has developed strong partnerships with other agencies working in the area but also with local employers so that it can offer training to meet the needs of the job market. It has also worked with large employers such as Debenhams and Premier Inn to deliver recruitment events on Bromford's premises to give tenants the best opportunity to gain employment locally.

⁴⁴ www.bromford.co.uk/join-bromford/the-bromford-deal/

The Bromford Deal has generally been well received by tenants, but there were challenges in changing organisational culture. There was healthy debate in the organisation, with some people who were concerned about the conditions tenants were expected to meet to keep their homes. Bromford was able to reassure people that tenants' goals are self-defined and tenancies are not subject to tenants finding employment. Bromford is also reviewing whether internal targets on employment and training need to be revised to reflect that fact that many tenants are a long way from the job market and require a range of support to get to this stage. It also took time to work out the best type of intervention for tenants. The biggest challenge was in moving housing officers away from a traditional 'rescuer' role to that of 'enabler' or coach – supporting tenants to make their own changes rather than doing things for them. Bromford ran a 12-month training scheme to support staff including role plays with actors to address this issue.

The Bromford Deal is the process used for all new tenants except those in temporary or supported accommodation but there are plans to extend the initiative to these tenants in the future. In the future, Bromford aims to reduce the number of houses each officer deals with to improve the quality of service for tenants. The organisation is also looking at whether more services can be delivered by one individual so that tenants could get money, employment and tenancy advice from the same person rather than engaging with a number of different professionals.

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AUDIT COMMITTEE: 22 MARCH 2016

**WALES AUDIT OFFICE CORPORATE ASSESSMENT FOLLOW
ON REPORT**

REPORT OF THE CHIEF EXECUTIVE

AGENDA ITEM: 6.2

Reason for this Report

1. To enable the Audit Committee to consider the Wales Audit Office Corporate Assessment Follow On report of the City of Cardiff Council.

Background

2. The Auditor General for Wales must report on an annual basis on how well Welsh councils, fire and rescue authorities, and national parks are planning for improvement in delivering their services. In addition, the Auditor General must conduct a Corporate Assessment of every local authority in Wales once every four years. The Auditor General for Wales has powers to:
 - make proposals for improvement;
 - make formal recommendations for improvement;
 - conduct a special inspection and publish a report and make recommendations;
 - recommend to Ministers of the Welsh Government that they intervene in some way.
3. In March 2014, the Wales Audit Office undertook a Corporate Assessment of the Council, which sought to assess if the Council was capable of delivering its priorities and improved outcomes for citizens. This assessment, which focused on performance in 2013/14, entailed reviews of key documents, interviews with Members and officers, focus groups, and observation at a broad range of meetings. The assessment also drew on the work of other Welsh inspectorates, such as CSSIW and Estyn.
4. In May 2014, the Cabinet established a comprehensive Organisational Development Programme which was designed to reshape the Council in response to a range of critical challenges including the marked deterioration of the Council's financial position, demand-led pressures on services, and the inadequate performance of a number of statutory services.

5. On 1 September 2014, the Wales Audit Office published its findings in the form of a Corporate Assessment report, which was received formally by the Cabinet on 18 September 2014. This report provided a critical assessment of the Council's performance. In summary, it concluded that:

"Fragmented leadership and management have meant that weak performance in key service areas has not improved".

6. As a result, the Wales Audit Office Corporate Assessment report of September 2014 made one proposal for improvement:

"The Council ensures the implementation of its Organisation Development Plan resolves the range of issues identified in this assessment".

The report also committed the Wales Audit Office to carry out a follow on corporate inspection in 2015 to determine whether the issues identified in the Corporate Assessment report had been satisfactorily resolved.

7. A follow on visit to assess progress was undertaken by the Wales Audit Office in October 2015. In addition, two 'tracer reviews' were undertaken prior to the visit, which examined the decision making processes in relation to revisions to the Council's leisure services and its progress in taking forward alternative delivery models, and to revisions to the Council's waste strategy and associated arrangements.

8. The Wales Audit Office published its Corporate Assessment Follow On report on 26 February 2016. The report was considered by the Council's Policy Review and Performance Scrutiny Committee on 8 March 2016 and received formally by the Council's Cabinet on 10 March 2016. A copy of the report is attached as **Appendix A** to this report.

9. The Corporate Assessment Follow On report includes the Auditor General for Wales's Assessment of Performance and compliance certificates. It contains one statutory recommendation and 14 proposals for improvement, which relate specifically to the following key areas:

- leadership & management;
- governance;
- performance reporting; and
- corporate enablers (including human resources, use of assets, financial planning processes; IT arrangements and information governance arrangements).

10. The single statutory recommendation of the Wales Audit Office is that the Council must ensure that it addresses these proposals for improvement to deliver improved outcomes within the next 12 months.

11. In addition, the report makes reference to a technical breach of the Local Government (Wales) Measure 2009 due to the Council's failure to provide an overall assessment of performance for each of the Council's improvement objectives in its annual assessment of performance in 2014/15, which was published in October 2015. This relates to the publication of the Council's statutory Annual Improvement Report

2014/15. An additional report was published subsequently in February 2016 which set out an evaluation methodology, together with the evaluation of each of the Council's Improvement Objectives. This report was published to pave the way for the Annual Improvement Report 2015/16, which is due to be published in October 2016.

12. In response to the formal recommendation of the Corporate Assessment Follow On report, the Council must prepare a 'Statement of Action' and proposed timetable within 30 days of receipt of this report. This is due to be considered by the Cabinet on 21 March 2016. A copy of the Cabinet report, including the proposed Statement of Action, is attached as **Appendix B** to this report.

Reason for Recommendations

13. To enable the Cabinet to receive the Wales Audit Office Corporate Assessment Follow On Report.

Financial Implications

13. There are no direct financial implications arising from this report. Any resource requirements resulting from the implementation of improvement actions will be found from within existing budgets.

Legal Implications

14. Relevant legal implications, deriving from the Local Government (Wales) Measure 2009, are referred to in the text of this report.

RECOMMENDATION

The Committee is recommended to note the Corporate Assessment Follow On Report and proposed Statement of Action.

PAUL ORDERS

Chief Executive
16 March 2016

The following appendices are attached:

Appendix A: Wales Audit Office Corporate Assessment Follow On Report

Appendix B: Cabinet Report, 21 March 2016 – Wales Audit Office Corporate Assessment Follow On Report

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WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Corporate Assessment Follow On

City of Cardiff Council

Issued: February 2016
Document reference: 735A2015



This Corporate Assessment Follow On report has been prepared on behalf of the Auditor General for Wales by Non Jenkins, Chris Pugh, David Wilson, Sara-Jayne Byrne, Allison Rees, Phil Morgan, Avril Watkins, Andrew Strong and Emily Owen delivered the work, under the direction of Alan Morris.

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

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

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

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

Cover image credit - Kieran Ridley

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Summary report

The Council has put in place better arrangements to support improvement and to address longstanding issues, but is now at a critical point in embedding them if it is to achieve a step change in delivering improved outcomes

- 1 In September 2014 we reported our Corporate Assessment of the City of Cardiff Council, which concluded that 'Fragmented leadership and management have meant that weak performance in key service areas has not improved.' We came to this conclusion because:
 - a political and managerial instability over a number of years has meant that the Council has been unable to develop the culture and framework necessary for continuous improvement;
 - b the Council has identified what it wants to achieve for its citizens but has lacked an effective means of delivery;
 - c some processes intended to ensure good governance are not being implemented, and decision-making processes are inefficient and lack transparency;
 - d whilst there have been some recent changes, performance management has failed to consistently secure improvement in the past;
 - e although the Council ensures a balanced budget, prospects for achieving proposed savings in 2014-15 are uncertain and the anticipated level of future funding means current methods of service delivery are unsustainable;
 - f corporate human resource arrangements are founded on positive practice but are not being implemented consistently;
 - g the Council is improving its use of information technology and its information management arrangements;
 - h the Council is not managing its land and property assets well; and
 - i the Council engages well in collaboration with others and is able to demonstrate improved outcomes for citizens.
- 2 The Corporate assessment report made one proposal for improvement, which was that 'the Council ensures the implementation of its Organisational Development Plan resolves the range of issues identified in this assessment'.
- 3 This follow-on review seeks to answer the question: 'Is the Council effectively addressing the issues raised in the Corporate Assessment?'

- 4 In order to inform our Corporate Assessment Follow-on we also undertook two tracer reviews of the decision-making processes in relation to:
- a revisions to the Council’s leisure services and its progress in taking forward alternative delivery models; and
 - b revisions to the Council’s waste strategy (and associated arrangements).

The findings of these tracer reviews have informed our corporate assessment follow-on work and have been incorporated into this report.

- 5 Our follow-on review concludes that: **‘The Council has put in place better arrangements to support improvement and to address longstanding issues, but is now at a critical point in embedding them if it is to achieve a step change in delivering improved outcomes.’**

- 6 We came to this conclusion because:

- a overall, the Council has responded positively to the Corporate Assessment findings, and put better arrangements in place to support improvement and address longstanding issues; and
- b the Council is now at a critical point in ensuring that improved arrangements are embedded and implemented consistently and constructively across the organisation in order to achieve a step change in delivering improved outcomes.

Recommendations and Proposals for Improvement

- 7 In this report, the Auditor General has made one formal recommendation and 14 proposals for improvement as follows.

Recommendations

Recommendation	
R1	The Council must ensure that it addresses the proposals for improvement as set out in this report to deliver improved outcomes within the next 12 months.

Proposals for Improvement

Proposals for Improvement	
Leadership and management	
P1	Develop further engagement opportunities with staff and Members to consistently embed a constructive performance management culture across the organisation to help deliver improved outcomes.
Governance	
P2	Clarify the roles and responsibilities within the Council's decision making framework. In particular: <ul style="list-style-type: none">a ensuring that meetings of the Informal Cabinet meetings are recorded appropriately;b ensuring that the title and roles of Assistants to Cabinet Members' are applied consistently ensuring that their limited roles and responsibilities do not cloud any accountabilities;c review the role and membership of Cabinet Advisory Groups to ensure that those members involved do not sit on any Scrutiny Committee responsible for scrutinising the same/similar issues; andd ensure that a decision is made on the issue about whether to delegate executive decision-making to individual Cabinet Members.
P3	Further strengthen the Council's scrutiny function by: <ul style="list-style-type: none">a developing an approach to scrutinising cross cutting issues; andb ensuring that any vacancies on scrutiny committees are filled quickly.
P4	Ensure that all committee agendas, minutes and decision-logs are published in a timely manner on the Council's website, and increase the number of committees that are webcast.
P5	Enhance Member accountability by: <ul style="list-style-type: none">a ensuring that the Standards and Ethics Committee plays a more proactive role in promoting and enforcing the Cardiff Undertaking for Councillors and supporting policies in relation to Member conduct and behaviour; andb strengthening member development and learning programmes based on competency assessments to improve skills and understanding to enable them to undertake their roles more effectively; andc determining what training should be considered essential for Members to discharge their role effectively.

Proposals for Improvement

Performance Reporting

- P6 Further strengthen **performance reporting arrangements** to support decision making by:
- a including SMART performance measures within directorate delivery plans, and ensure that these are reported to Cabinet and scrutiny to demonstrate progress;
 - b consistently using and reporting on a Red/Amber/Green rating for Corporate Plan commitment actions and Directorate Plan actions in quarterly reports provided to Scrutiny;
 - c mandating consistent service level plans; and
 - d prioritising key performance indicators (KPIs) where the Council will seek to demonstrate improved performance and outcomes.

Corporate Enablers

- P7 Adopt a more cohesive and co-ordinated approach to **corporate enabler functions** to better help the Council drive improvement.
- P8 Further develop the Council's **performance management arrangements** by
- a enhancing the Council's performance management strategy to include guidelines timescales, processes and procedures to support a consistent approach; and
 - b increasing the level of performance management and challenge undertaken by the central performance team.
- P9 Further develop the Council's **Human Resource** processes and strategies by:
- a strengthening the Council's staff appraisal process by including explicitly measurable objectives, capturing information on training on a corporate basis, and developing links to staff's future career aspirations to support workforce and succession planning; and
 - b further embedding the Council's workforce strategy and integrating this with financial and service planning.
- P10 Complete the data capture exercise relating to the **use of assets** and develop a single system to hold appropriate asset management information.
- P11 Ensure all outstanding actions from the Construction Excellence Wales review of the Council's building maintenance framework are completed.

Proposals for Improvement

Corporate Enablers

- P12 Further strengthen the Council's **financial planning processes** by:
- a developing more explicit links between the Medium Term Financial Plan and the Council's improvement planning arrangements;
 - b strengthening links between the Medium Term Financial Plan and service plans;
 - c ensuring that savings proposals owned by Directorates are linked to the Organisational Development Programme where relevant, are fully costed, and that delivery is driven by the Organisational Development Programme Board; and
 - d ensuring all budget savings plans are fully developed as appropriate with realistic timescales when the annual budget is set.
- P13 Further strengthen the Council's **IT arrangements** by:
- a further developing the draft Digital ICT strategy and formally agreeing this strategic vision for delivering digitally enabled services;
 - b deploying the Customer Relationship Management system fully to appropriate services across the Council;
 - c implementing the mobile scheduling and flexible working technologies where appropriate; and
 - d expanding the number and depth of ICT KPIs measured and reported, to cover the whole ICT service, and benchmark against public service comparators.
- P14 Further strengthen the Council's **information governance arrangements** by:
- a completing the outstanding actions from the Information Commissioner's Office audit on data protection and information confidentiality;
 - b increasing the level of staff completion of the Council's information confidentiality and data protection e-learning training programme;
 - c fully implementing the Electronic Records Management System across the Council;
 - d improving the Council's response rates against statutory targets in respect of data protection subject access requests and Freedom of Information Act requests; and
 - e completing a Caldicott principles into practice self-assessment.

- 8 The Council must respond to the formal recommendation by preparing a statement of action and proposed timetable within 30 days of receipt of this report.

Detailed report

Overall, the Council has responded positively to the Corporate Assessment findings, and put better arrangements in place to support improvement and address longstanding issues



The Council's leadership and management have become more cohesive, have improved engagement with members and staff, and have put in place a clear strategic direction

- 9 Since our Corporate Assessment in September 2014, the Council's leadership is more cohesive. The Leader was appointed in March 2014, and a new Cabinet was put in place following a competitive selection process.
- 10 The Council's leadership and management have improved the culture of the organisation by promoting better engagement with members and staff and encouraging greater openness and self-awareness of the Council's weaknesses and strengths.
- 11 The leadership has taken a number of steps to develop and promote an engaging culture, including the practice of involving opposition leaders in various discussions. For example:
 - a opposition leaders continue to be routinely invited to attend Cabinet meetings in order to raise any issues and ask questions directly of the Cabinet;
 - b the Leader continues to hold regular meetings with opposition leaders;
 - c opposition leaders are invited to attend and partake in the Council's Challenge Forum meetings;
 - d the Chair of the Policy Review & Performance Scrutiny Committee is invited to attend the Council's Challenge Forum meetings in an observer capacity; and
 - e there is clear commitment to supporting the development of the skills of Members via a Member development strategy.
- 12 During our review, we identified a significant consensus of support for the Chief Executive, both from officers and Members. Like the Leader, the Chief Executive has adopted an inclusive approach to engaging with officers, regularly meeting with front line staff and middle tier managers to discuss the Council's improvement progress.
- 13 There is a clear and open commitment, both politically and managerially, to recognise and address the Council's longstanding poor performance.
- 14 The Council has established a clear strategic direction. The Council's Corporate Plan 2015-17 identifies four priorities which are supported by 11 improvement objectives. To assess whether the Council will be successful in delivering its priorities and objectives, national and local indicators to measure performance have been identified. Mandatory directorate delivery plans have been introduced containing the actions and indicators from the Corporate Plan 2015-17, to drive and deliver improvement at a service level.

- 15 The Council has more recently responded proactively to the Welsh Government's long-term strategy of achieving zero waste, addressing the fact that previously it has not achieved Welsh Government targets in relation to recycling. The Council's new waste strategy was consulted on as part of Ask Cardiff 2015, and approved by Cabinet in April 2015. In developing the new strategy, there was appropriate scrutiny with clear, timely and transparent decision making. The impact of the waste strategy on the Council's recycling rates is uncertain as the final performance against recycling targets for 2015-16 is not yet known.
- 16 Following a review of potential alternative delivery models for leisure services in January 2014 by Max Associates, the Council's Cabinet decided to carry out a procurement process for the future management of 11 leisure facilities and two Arts venues. Officers and Members had consistent views in relation to the desired outcomes and the delivery model for leisure services in the future. Residents were consulted on the proposals via Ask Cardiff 2015 and a project board has been established to oversee the project. The new Director of City Operations has a proactive role in this project to embed accountability arrangements.
- 17 The CSSIW published its Annual Review and Evaluation of the Council's Performance 2014-2015 in October 2015 which reported that:
- a The director for social services presents a clear picture of the challenges and areas of progress made within the directorate over the past year. The director also sets clear aims to deliver improvements over the coming year.
 - b The Council is undertaking a strategic overview of services which is enabling the Council to begin to plan for changes within the department.
- 18 During October 2015, Estyn undertook a Significant Improvement visit at the Council to review progress against recommendations made during a monitoring visit in February 2014. One of the recommendations was to 'Improve the effectiveness of the joint planning across the range of partnership working'. In respect of this recommendation, Estyn reported that there is now a more strategic approach to building a culture of partnership working where partners are working more closely to improve wellbeing in order to address underachievement. In addition Estyn reported that there is an increase in the effectiveness of the Council's consultation, and this shift in culture has resulted in better engagement between the Council and its schools.
- 19 Estyn concludes that overall, improvements in partnership working are contributing to better outcomes in schools. Over the period 2013-2015 there has been an improvement of around nine per cent in the proportion of Cardiff pupils achieving the level 2 threshold including English or Welsh and mathematics. During the same period, there have also been improvements in the proportion of pupils achieving the Foundation Phase Outcome Indicator and the core subject indicator at key stage 2. Although secondary attendance levels did not improve in 2014-

15, historical increases from previous years have been maintained. However, the Council has been less effective in working with partners to reduce exclusions and increase the proportion of young people who are engaged in education, employment or training.

- 20 The Council's restructure of its senior management was completed in June 2015, reducing the number of Directors from 11 to seven to help reduce silo working between departments and improve co-ordination and communication amongst the senior management team. Through our interviews with officers and Members we found that overall the restructure was seen as a positive action, and was starting to help improve the effectiveness of delivering services as well as reducing silo working.

Improving governance arrangements are helping to promote a better culture of accountability and risk management

- 21 Cabinet meetings are conducted in an appropriate manner, and Cabinet members are settling into their roles with robust challenge provided via the opposition leader's questioning. From our observations, reports provided to Cabinet are well written and presented effectively.
- 22 The Council's scrutiny function is improving. Actions from scrutiny meetings are issued to the relevant Cabinet member by the Scrutiny Committee Chair, and our review found that Cabinet members respond promptly.
- 23 The Council's Standards and Ethics Committee has a clear remit to monitor the conduct of members. The Committee, in liaison with the Council's Monitoring Officer, has also organised various training events for Members, including sessions on the appropriate use of Social Media and Data Protection. The Committee's members have also started to attend various Council committee meetings to observe.
- 24 The Council's Audit Committee has an important status within the Council, with the Leader and Chief Executive attending to make presentations on relevant issues. In October 2015, the Committee introduced a tracker system to monitor external regulator reports and Council actions in respect of relevant recommendations and proposals for improvement.
- 25 The quality and impact of the Council's wider accountability processes have improved. These improvements include appraisals for the Leader and Cabinet Members as well as the Chief Executive, and the introduction of a number of mechanisms to directly challenge directorate performance and increase personal accountability of senior managers. For example, the introduction of the Challenge Forum and the Star Chamber.

- 26 The Council has improved the way it identifies and manages risks. The corporate risk register identifies 25 corporate risks and sets out how these are to be managed. The risk management policy contains clear definitions and guidance to officers when determining levels of risk. The Cabinet reviews the risk register on a bi-annual basis and corporate risks are included within the quarterly performance reports to Cabinet.
- 27 The Council has addressed the recommendations from the Information Commissioner's Office 'Undertaking'¹ from August 2013, relating to arrangements for responding to data protection subject access requests. In June 2014 the Information Commissioner's Office found that 'reasonable assurance' could be taken from the Council's information governance arrangements, whilst providing a number of recommendations for improvement. A follow-up review was undertaken in October 2014 and found that further progress had been made.
- 28 The Council has developed an Information Management Strategy for the period 2014-18. A Records Management Policy has also been developed to support the Information Management Strategy which sets out the Council's record retention arrangements. A corporate wide Electronic Records Management System has been piloted and implemented in a small number of areas across the Council as part of the Information Management Strategy. In September 2015 the Council updated its Information Governance Training strategy, with the Information Management Strategy and Records Management Policy being embedded into its e-learning modules for staff.

The Council's leadership and management are committed to establishing a better performance management culture and improved arrangements are in place to monitor outcomes

- 29 Longstanding performance management weaknesses are beginning to be addressed and a better performance management culture is emerging. The Leader and Chief Executive are leading efforts to ensure consistent application of performance management across the Council. A performance management strategy has been developed that conveys the importance of reliable, consistent, timely and accurate performance information.
- 30 Quarterly performance reports relating to the Council's directorate delivery plans are presented to Cabinet and Scrutiny Committees. These reports provide both an update on key actions and targets and identify any emerging challenges and risks, which are accompanied by mitigating actions.
- 31 The Council has also introduced the 'Star Chamber' to enable the Leader, Cabinet Members and the Chief Executive to scrutinise directors in respect of their quarterly performance reports. Our observation of the Star Chamber identified that it offers a robust mechanism to question and challenge directorate performance.

¹ There are a number of tools available to the Information Commissioner's Office for taking action to change the behaviour of organisations and individuals that collect, use and keep personal information. One option is the issuing of an 'undertaking' committing an organisation to a particular course of action in order to improve its compliance. [Taking Action - Data Protection page on The Information Commissioner's website](#)

- 32 Cabinet Members recognise the Council's National Strategic Indicators (NSIs) and Public Accountability Measures (PAMs) as important measures of progress and success. The Council has shown ambition by stating in its Corporate Plan that for 2015-16 and 2016-17 it is aiming for over 50 per cent of its NSIs and PAMs to be ranked in the top half when compared against all Welsh Councils.
- 33 As part of our review, we carried out an examination of a sample of the Council's Performance Indicators and operational data systems. Data quality reviews are undertaken to gain assurance that the Council's performance measurement systems are robust and that resulting performance data is accurate. We examined six performance indicators (four National strategic indicators and two local indicators) and the underlying systems used to compile the results.
- 34 For those indicators we reviewed we found that the performance measurement systems are robust and that resulting performance data was generally accurate. Support is provided by the central performance team to assess and verify performance information.

The Council has improved its arrangements for financial planning, HR management, and asset management and IT

The Council's medium term financial plan has been extended to cover a longer period, and there is increased engagement with directorates in the setting of targets and reshaping of the budget

- 35 The Council's Medium Term Financial Plan now covers the period 2016-17 to 2018-19. Positive steps have been taken to improve the identification of savings for 2016-17 and for the medium term, through engagement with directorates and an exercise to reshape the base budget. Members and directorates are actively involved in the process of setting the savings targets.
- 36 The Council has also raised the profile of financial resilience in a number of ways, including: finance training programmes; member seminars; and the sharing of summarised budget and financial information via a Financial Resilience Dashboard.

The Council's Human Resource arrangements are helping to strengthen staff capacity and capability

- 37 A revised Personal Performance and Development Review policy was implemented in April 2015. The policy sets out the performance appraisal purpose, relevant roles and responsibilities and the procedure for setting objectives and rating staff performance. A target has been set for 90 per cent completion of staff appraisals by quarter four of 2015-16. As at January 2016, the Council's compliance rate with performance reviews has improved, with 90 per cent of staff having completed the appraisal process.
- 38 The Council has made improvements to days lost to sickness absence by implementing a range of proactive and reactive measures. These include; introducing specific objectives for managers relating to sickness absence, a revision of the Attendance and Well Being policy, a tool kit and a training programme.
- 39 The Council has developed a Workforce Strategy for the period 2015-2018, which recognises the need to respond to future financial and delivery challenges. The strategy is aligned with the Council's vision, values and priorities as set out in its Corporate Plan 2015-17, and places an increased emphasis and priority on workforce planning, identifying the gaps in the current workforce and what the future human resource requirements will be. The strategy contains a basic profile of the current workforce and a clear action plan, with explicit outcomes for seven priority areas:
- a workforce planning,
 - b performance management;
 - c employee voice;
 - d trade union partnership;
 - e learning and development;
 - f health and wellbeing; and
 - g the employee charter.
- 40 Progress against the strategy is reported on a quarterly basis to the Enabling and Commissioning Programme Board and the Organisational Development Board.

The Council is developing a more strategic and co-ordinated approach to the management of assets

- 41 The Corporate Asset Management Plan identifies the strategic importance of utilising its assets more effectively and sets targets for reduced costs and appropriate ownership. The Asset Management Board and Asset Management Working Group bring together managers from across the Council and its partners to manage assets as a corporate resource, rather than on an individual directorate basis.
- 42 Information held on assets has also improved. The Council now maintains a register of all properties including detailed information about them, such as running costs, floor area and backlog maintenance. Awareness amongst staff of the importance of asset management has been raised via a poster campaign.

The Council has taken steps to develop and deploy digital services and flexible working technologies

- 43 A draft Digital Strategy is being further developed to deploy a 'digital first' approach to redesigning services. This approach is designed to enable the public to communicate and transact with the Council electronically, whilst paying for services using mobile technologies through fully automated IT systems. The Council acknowledges that modern technology needs to be combined with a customer-focussed approach to ensure services are easy to use and efficient. The Council is aiming to converge the IT systems used across the organisation to focus on fewer corporate solutions and standards for the storing of information.
- 44 The deployment of a new Customer Relationship Management system is planned for December 2015. This maintains all public contacts and services in a single IT system, enabling new channels for a more automated based service delivery; for example, reporting a missed bin collection via a mobile device. The Council has developed a three-year phased implementation plan for the system and aims to move all services online by 2018-19.
- 45 The Council has also begun implementing flexible working technologies across service areas. From May 2014 mobile scheduling was introduced to Community Maintenance to automate and redesign services, allowing Council staff to work in a more agile and efficient way. Mobile scheduling is currently planned for deployment in Adult re-ablement by the end of 2015.

The Council is now at a critical point in ensuring that improved arrangements are embedded and implemented consistently and constructively across the organisation in order to achieve a step change in delivering improved outcomes

The commitment of the Council's Leadership and Management to a cohesive and inclusive culture is not always being engaged with consistently or constructively across the Council

- 46 The Council's leadership and management have demonstrated increased cohesion and engagement and set out clearer strategic aims regarding performance and accountability. However, the extent to which these arrangements and new opportunities are constructively engaged with is not consistent across the Council. We found that the extent to which performance management and accountability was embedded throughout the organisation was variable.
- 47 The Council has acknowledged strategic weaknesses within Adult Social Care, and commissioned the services of a peer reviewer to undertake a diagnostic assessment of the service. The diagnostic identified that professional leadership in the service has been underpowered, and while the senior team operated effectively as individuals there has been limited collective action. The Council reported this to its Community and Adult Services Scrutiny Committee, which shows its openness and a commitment to surface and address longstanding issues collectively in an engaged manner.
- 48 Whilst it is clear that most Members and officers we spoke to as part of this review are positive about the direction in which the Leadership and Management are developing a more engaged culture, they were also clear that the arrangements and new opportunities to engage are not being consistently or constructively engaged with by all. Variable Member engagement and attendance are observed at Scrutiny Committee meetings, the Leader's meetings with opposition leaders, the Challenge Forum, Member Training and Member Briefing sessions. However, commitment to attending and engaging in full Council meetings, which are always webcast to the public, is strong.

There are a number of weaknesses in governance arrangements, some of them longstanding, that are yet to be fully addressed

- 49 The Council's Standards and Ethics Committee is not sufficiently proactive in taking action relating to concerns we identified regarding the conduct of a small number of Members. The Council has in place the 'Cardiff Undertaking' for Members, setting out expectations in relation to their conduct. The Standards Committee has also set out in its Annual Report the 10 general principles of public life and its commitment to play a positive and proactive role. However, the Committee could do more to visibly enforce the principles and the Cardiff Undertaking, as it appears that Member engagement is not consistently positive, professional and constructive. Some Members have openly disengaged in Council business and feel the need to engage with the media and social media to get their points across.

- 50 The Standards and Ethics Committee, in liaison with the Monitoring Officer, organises various training for Members. However, it should give further consideration to how it can increase the number of members attending the training sessions, and what training should be considered essential for Members to discharge their role effectively, for example, the use of social media and data protection.
- 51 The Council has Informal Cabinet meetings, as is the usual practice in most Councils. However, the role and responsibilities of the Informal Cabinet need to be clarified and communicated to Members and officers. Appropriate documentation and records of discussions as well as actions should be kept to enable a clear decision making trail (including recording when it has been agreed not to take a decision or not to consider a specific option).
- 52 Three Assistants to Cabinet Members have been appointed. Their functions are clearly defined in the Council's constitution, but during our review they were often referred to as Assistant Cabinet Members, which are posts that are not permissible. This lack of clarity raises the risk that they may be perceived to be members of the Cabinet or inappropriately become directly involved in the decision making process. However, the Council advised us that they did not do so.
- 53 An Affordable Housing Advisory Group, which provides advice to the Cabinet on specific policy issues, has been established. There are two Members who are both part of the Advisory Group and a Scrutiny Committee whose remit covers the policy area being developed by the Advisory Group that they sit on. This clouds accountability arrangements and the independence of Scrutiny.
- 54 Decisions relating to the Council's executive functions are taken by the Cabinet as a whole or delegated to its Senior Officers. These arrangements are set out in the Council's constitution and recorded in its decision register, both of which are available on the Council's website. The Council has started to consider whether to delegate some of these executive decisions to individual Cabinet Members so as to help speed up executive decision-making, in line with the comments we made in our September 2014 Corporate Assessment report. However, the issue of whether to delegate executive decisions to individual Cabinet Members has not yet been resolved by the Council.
- 55 The Scrutiny Committees have a number of vacancies, and often have low member attendance. Not all Members are perceived to be fulfilling their democratically elected roles, and the responsibilities entrusted to them to constructively challenge policy and decision makers. This undermines the potential effectiveness and impact of Scrutiny.
- 56 Transparency via the Council's webcasting is not consistent. Currently only full Council and, since November 2015, Planning Committee meetings are webcast live. The Council is developing the wider use of webcasting through the use of trials, but it has yet to be fully implemented for all committee meetings.

- 57 Whilst improvements have been made in ensuring that committee minutes are promptly and accurately published on the Council's website, there are still some instances where this is not the case.
- 58 The Council is aware that a number of the recommendations made by the Information Commissioner in June 2014 during its review of the Council's information governance arrangements have yet to be fully addressed.
- 59 The Council is currently below its target for completion of information confidentiality and data protection e-learning. As at October 2015, 81 per cent of staff had completed the training for 2015 against a target of 85 per cent.
- 60 The Council started to implement a corporate Electronic Records Management System during 2015. However, this has only been piloted in a small number of areas and not rolled out across the whole Council.
- 61 The Council monitors its response to data protection subject access requests and Freedom of Information Act requests against statutory targets. At the time of our review, data protection information subject access requests have been measured at 86 per cent against a compliance target of 90 per cent for responses within 40 days. All Freedom of Information Act requests must be responded to within twenty days. At the time of our review, the Council had only achieved this in respect of 75 per cent of requests managed by the corporate information management team, and 71 per cent in respect of requests managed by the Council's directorates.
- 62 In April 2014 the Council formally acknowledged the Director of Social Services as the Caldicott Guardian². Whilst it is good practice to complete a Caldicott Principles into Practice self-assessment on the Council's Caldicott arrangements, as at December 2015 this has not been done.

The Council is yet to demonstrate a step change in improvement in some key service areas and does not consistently report performance measures effectively

- 63 During October 2015, Estyn undertook a Significant Improvement visit at the Council to review progress against recommendations made during the monitoring visit in February 2014. One of the recommendations being followed up was 'Reduce exclusions and reduce the proportion of young people who are not in education, employment or training post-16'. In respect of this recommendation, Estyn identified that the percentage of young people who are not in education, employment or training (NEET) in Cardiff continues to fall. Despite this, the Council continues to be one of the worst performing in Wales and the variation across schools is too great. In Cardiff schools in 2014, Year 11 NEETs ranged from 0.4 per cent to 13 per cent.

² Caldicott Guardians ensure that all organisations working in Health and Social Care have appropriate policies and processes in place to protect sensitive information, in the form of patient-identifiable data, from unnecessary and insecure disclosure. NHS Wales Informatics Service, **Caldicott (Principles into Practice (C-PIP) Foundation Manual for Caldicott Guardians**, Second Edition 2012.

- 64 The CSSIW published its Annual Review and Evaluation of the Council's Performance 2014-2015 in October 2015, which reported that performance indicators that demonstrate some key areas of performance still require improvement. CSSIW, **Performance Evaluation Report 2014–15: The City of Cardiff Council social services**, October 2015.
- 65 There are 18 NSI and PAMs relating to adult and children services. The Council's performance declined between 2013-14 and 2014-15 in respect of fourteen of these performance indicators, with three improving and one remaining unchanged.
- 66 In 2013-14 the Council did not meet the Welsh Government target of 52 per cent for recycling, only achieving 49.7 per cent, ranking it twentieth out of twenty two when compared to all Councils in Wales. In 2014-15 the Council exceeded the 52 per cent target, achieving 53.3 per cent. However, the Council has acknowledged that this improvement was, in part, due to the inclusion in the figures of a stockpile of street sweepings, which was a one-off inclusion. The Welsh Government recycling target for 2015-16 is 58 per cent. The Council will require a step change in performance to meet this target, and it has launched a new strategy to help it achieve this. The Council is confident that this target will be met, however, until the end of 2015-16 this is uncertain.
- 67 Based on the National Strategic Indicators (NSIs) and Public Accountability Measures (PAMs), the Council's overall performance has declined. The 2014-15 NSI and PAM data shows 26 indicators declined with 18 improving and one unchanged.
- 68 The content and presentation of information in the quarter one performance report presented to Cabinet varied between Directorates. The report set out all of the indicators against which the Council measures progress, including NSIs, PAMs and other local indicators. Progress against target for these indicators is reported using a Green/Amber/Red rating where: Green is on target; Amber is not on target but is recoverable in relation to its target; and Red is not on target and significant work is required to recover it to a position of being on target. In respect of these indicators 62 are rated as Green, 34 as Amber and 14 as Red. Whilst each Directorate sets out how many Corporate Plan Commitment actions and Directorate Plan actions are Green, Amber or Red, the narrative does not consistently explain which rating is attached to the specific actions.
- 69 Scrutiny Committees receive the quarterly performance reports in the same format as those presented to Cabinet. Therefore, the weaknesses relating to performance reporting to Cabinet are replicated during the scrutiny process.
- 70 Both officers and Members acknowledge that, due to current financial constraints, the Council can no longer improve the performance of all NSI and PAM indicators. However, our interviewees were uncertain which indicators the Council should target to improve performance.

- 71 The Council's Corporate Plan 2015-17 and directorate delivery plans do not always contain baseline data to provide the necessary context for the Council's performance. The quality of performance measures varies in the directorate delivery plans, as measures are often not outcome focussed. In addition, not all plans contain information in relation to partners, or links to the Council's Medium Term Financial Plan.
- 72 Service Level plans are not mandatory, and those that are in place are inconsistent. We reviewed four service plans, which three had different timescales: 2015-16; 2015-17; and 2015-18. There is also a lack of consistency in the performance measures contained within the service level plans against which improvement can be measured, and services held to account.

Corporate enabler functions are not operating in a sufficiently cohesive way to drive improvement

- 73 Corporate enabler functions should support the efficient and effective delivery of Council services. The Council's enabling functions, such as Performance Management, Human Resources, Asset Management, Procurement, Finance and IT, are being strengthened. However, they are not yet working in a sufficiently cohesive way to provide the necessary strong core of support and challenge to help the Council drive service improvement.
- 74 Performance management arrangements are underpowered and are not implemented fully across the Council. The Council has produced a performance management strategy that conveys the importance of performance management information. However, the strategy lacks the guidance, timescales, processes and procedures necessary to ensure a consistent approach and to support accountability. Our interviews identified mixed views on the level of challenge provided by the central performance team to the directorates. It appears to us that the role of the central performance team is to monitor rather than support the management and improvement of performance. In October 2015 the Council published its annual assessment of performance in respect of the previous year, in accordance with the Local Government (Wales) Measure 2009 (the Measure). The Council failed to provide an overall assessment of performance for each of the Council's improvement objectives, and therefore failed to satisfy the requirements of the Measure.
- 75 Whilst the Council has a workforce strategy in place, it is unclear how workforce planning is embedded in and integrated with financial and service planning. The staff appraisal process does not consistently contain sufficiently explicit measurable objectives. Nor does the appraisal process produce corporate information on training received and delivered, and the workforce's future career aspirations.

- 76 Improved arrangements to manage assets are yet to be fully established. The Council has yet to complete its assessment of the current use and suitability of its assets its future accommodation needs. Management information relating to assets is not drawn from a single system, instead coming from a range of sources requiring manual collation to produce management reports. This inefficient arrangement is hindering the Council from being able to fully deliver its Corporate Asset Management Strategy.
- 77 The Council has responded to a review of its building maintenance framework by Construction Excellence Wales in June 2015. The report contained a number of criticisms concerning accountability, the management of property assets, communication, decision-making, inefficiencies and waste, and the non-management of performance. A detailed action plan has been developed and its progress was reported to the Audit Committee in November 2015. However, whilst some actions in the plan have been completed a number are outstanding and were not achieved by the target completion date.
- 78 As part of the Council's decision to consider alternative delivery models for leisure services, we identified that the original timescale for the procurement process relating to the future management of a number of leisure venues was not achieved. We found that it was uncertain when the procurement process would conclude and when Cabinet would be required to make a decision. We also identified that the support provided to Cabinet Members to facilitate the decision making in relation to the procurement could have been strengthened. For example, by providing briefings to Members on the complexities in the procurement process. Delays in the procurement process may impact on the achievement of the Council's 2015-16 savings, although the Council is confident that the required savings will be achieved elsewhere within the same directorate.
- 79 The Council is developing financial savings plans but these are not yet fully developed or underpinned by a robust delivery strategy. The Council reported a net surplus of £1.741 million on its 2014-15 budget. This was achieved by application of one-off savings not originally anticipated, and the use of the centrally held £4 million contingency budget to mitigate planned savings not being achieved. In-year service overspends are reported transparently, but the year-end position is balanced using corporate flexibilities, including the contingency budget savings.
- 80 The outturn position included a shortfall on the 2014-15 savings target of £6.9 million. Current projections are that £2.8 million of this shortfall, along with £5.7 million of the 2015-16 target savings are unlikely to be achieved by 31 March 2016. Undelivered savings mainly relate to service delivery changes which have not happened or are taking longer to implement than anticipated, resulting in either a part-year or no in-year saving. This suggests that savings plans are not sufficiently advanced when the budget is set.

- 81 The Council has forecast a Medium Term Financial Plan shortfall of £116 million for the period 2016-17 to 2018-19, which includes a target of £44 million for policy-led savings. The Council recognises that the budget gap for future years is subject to change and key variables will need to flex to reflect this. The Council's Organisational Development Plan is the key driver for reviewing the shape and scope of services that can be delivered within the budget available. However, savings plans included in the Medium Term Financial Plan are not directly linked to work streams or projects in the Organisational Development Plan.
- 82 During 2015-16, we undertook a separate review in relation to the Council's financial resilience. The report has been issued separately to the Council and summarised in this report.
- 83 The pace at which the Council has deployed new initiatives using technology to deliver service modernisation and support business transformation has been slower than planned. The Council intended to start the three-year roll out of the Customer Relationship Management System in October 2015, but at the time of reporting this has not occurred. It is also uncertain whether the Council will be able to manage the deployment of the Customer Relationship Management system to meet the timescales identified in the strategic three-year road map, and deliver the expected benefits. Given current financial constraints, the Council is facing a challenge to provide sufficient capital and revenue budget to upgrade ageing IT systems.
- 84 The pace of deployment of business process change projects has been slow until more recently. For example, the roll out of mobile scheduling has not yet been implemented consistently across the Council. Service redesign and cultural changes have also not occurred consistently to allow the Council to increase the pace of the roll-out of mobile scheduling to automate manual processes.
- 85 ICT KPIs have been developed and aligned to the emerging corporate performance management approach developed in 2014. The KPIs on the ICT service are reported quarterly at a directorate and corporate level. However, this small number of KPIs provide limited information and do not cover wider ICT service criteria such as cost measures. In addition, assessment of the Council's ICT service performance does not include benchmarking against comparators.

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CITY OF CARDIFF COUNCIL

AUDIT FEES





Audit fees 2015-16:

- At the March 2015 Audit Committee Members asked for some additional information about the audit fee.
- WAO agreed to provide further information when presenting the 2016 Audit Plan



How is the audit fee built up?

In general terms:

- The audit fee is based on a number of factors:
 - The nature, size, complexity and risks associated with an organisation,
 - The internal controls and governance arrangements,
 - The financial management arrangements, and
 - The accounts closedown and quality of the accounts process.

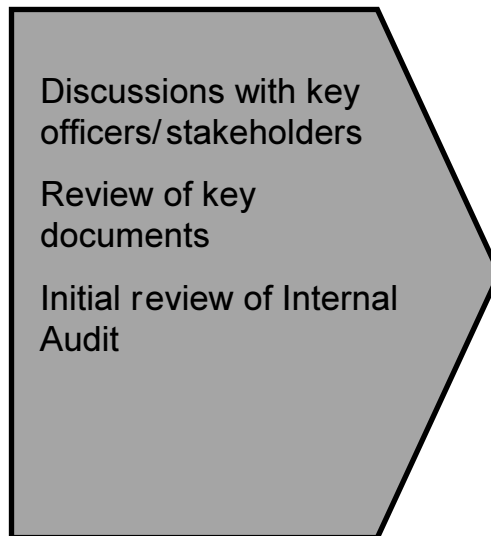


How do we work out what we need?



Planning and risk assessment

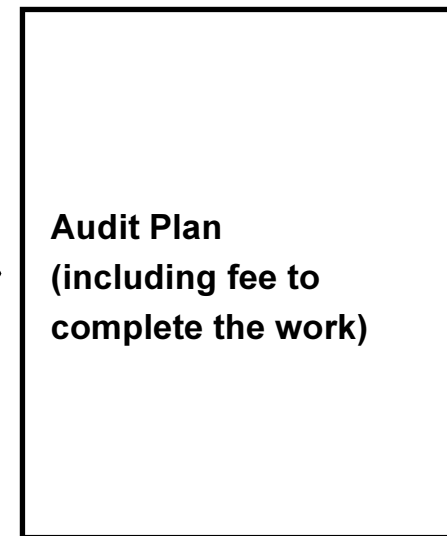
Key tasks



Objectives



Output





Other assumptions



The other main assumptions in setting the estimated fees will be that:

- appropriate accommodation and facilities are provided to enable the audit team to deliver our audit in an efficient manner;
- the financial statements and supporting working papers have been subject to review and validation by management, to provide the RFO with assurance that they are ‘true and fair’;
- all appropriate officers will be available during the audit;
- you have all the necessary controls and checks in place to enable the RFO to provide all the assurances required in the Letter of Representation; and
- IA has completed its planned programme of work and that management has taken all necessary remedial action on issues that could have affected the financial statements.



Calculation of Fee



Once we know what work we need to do we

- Work out the time needed to complete the work to give sufficient assurance on issues identified;
- Consider the relevant skill mix to deliver the audit;
- Multiply the time and skill mix needed by our fee rates;

This gives us the cost of the audit



Fee Rates



- Our hourly rates are published in our Fee Scheme annually, which is approved by the Assembly
- Fee rates are benchmarked and subject to scrutiny by the WAO Board and the Finance Committee of the National Assembly for Wales.
- the Wales Audit Office cannot make profits; we can only recover “no more than the cost” of the work we undertake.
- If we make a ‘profit’ this goes back to the audited body, conversely if an audit takes more work additional fee is agreed and charged.



How do you compare?



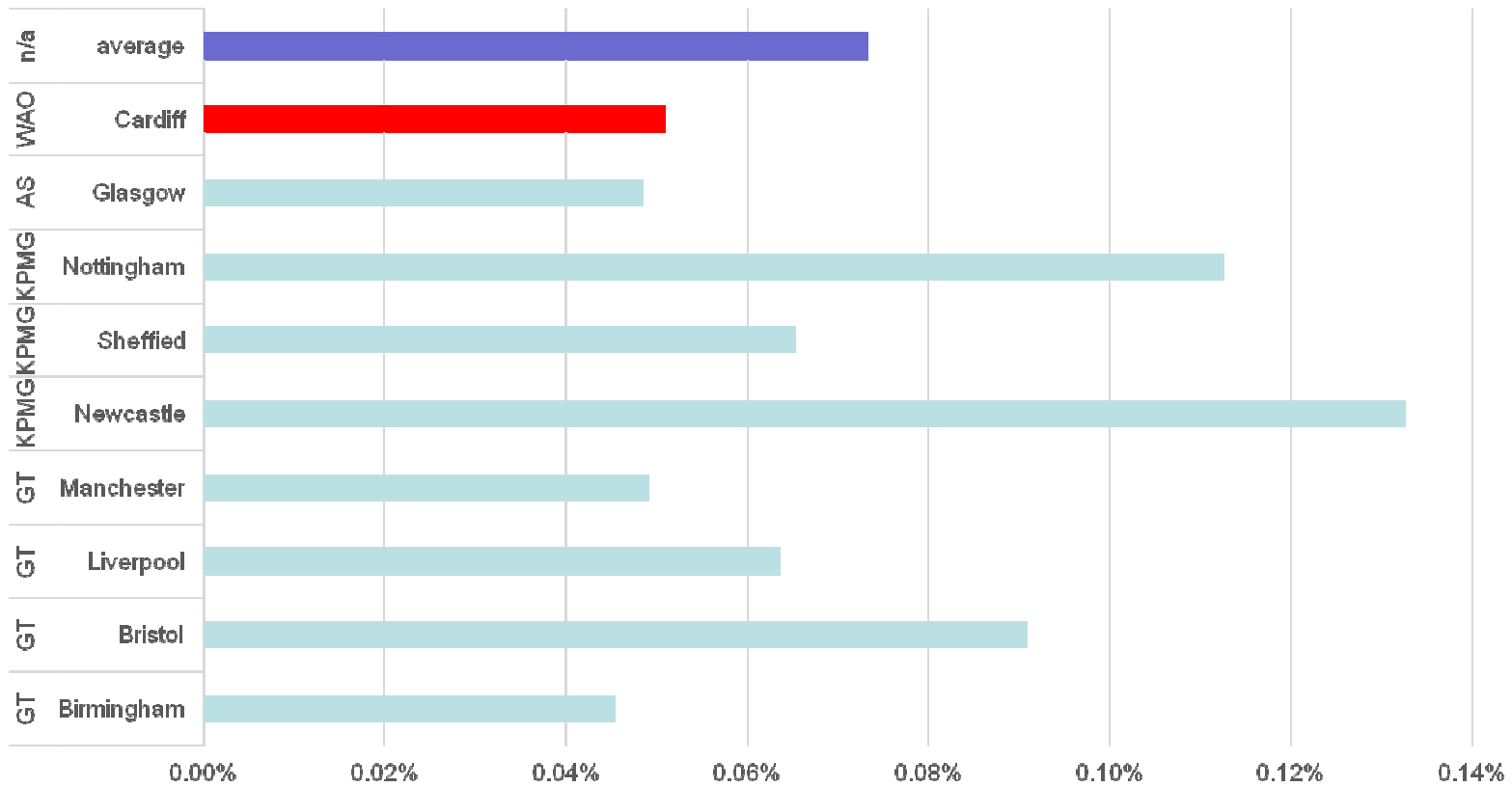
- To give the Audit Committee and idea of how the fee compares to other bodies we've undertaken some comparisons.
- We compared the Council's audit fee to the Core Cities family that the Council uses to benchmark itself, the audit fee was 0.05% of the net cost of services which was below the average of 0.07%.
- This is obviously a simplistic comparison as we were unable to identify what risks had been identified at each Council but it does provide a feel for how our fee compares.



Comparison to Core Cities



Audit Fees as a % of net cost of service





Compared to Welsh Councils



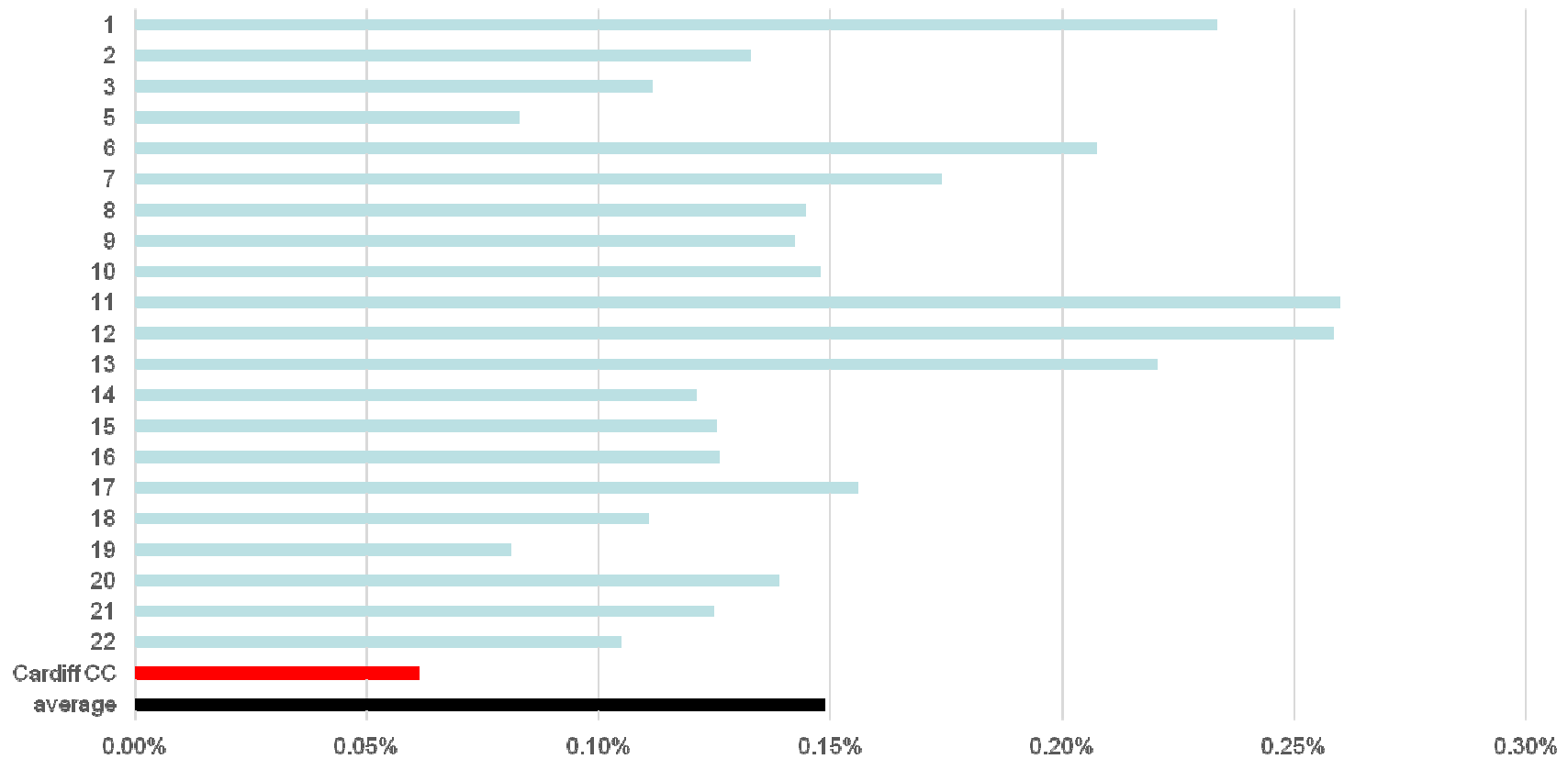
- We also compared the financial and performance audit fees as a percentage of net cost of service and as a percentage of RSG against the other Welsh local authorities, the results are shown on the following slides.
- In all of the comparisons fees are below the average.



Comparison to Welsh Councils Financial Audit fee



Financial Audit Fees as a % of net cost of services

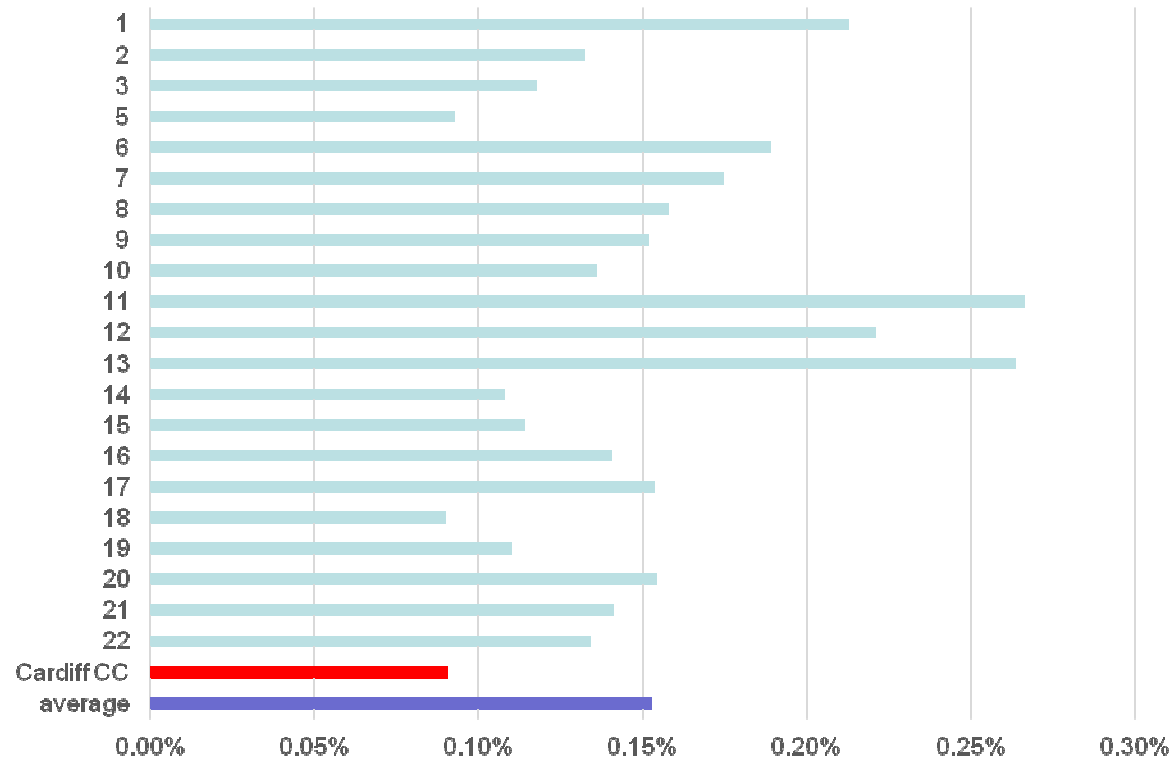




Comparison to Welsh Councils Financial Audit fee



Financial Audit Fees as a % of RSG

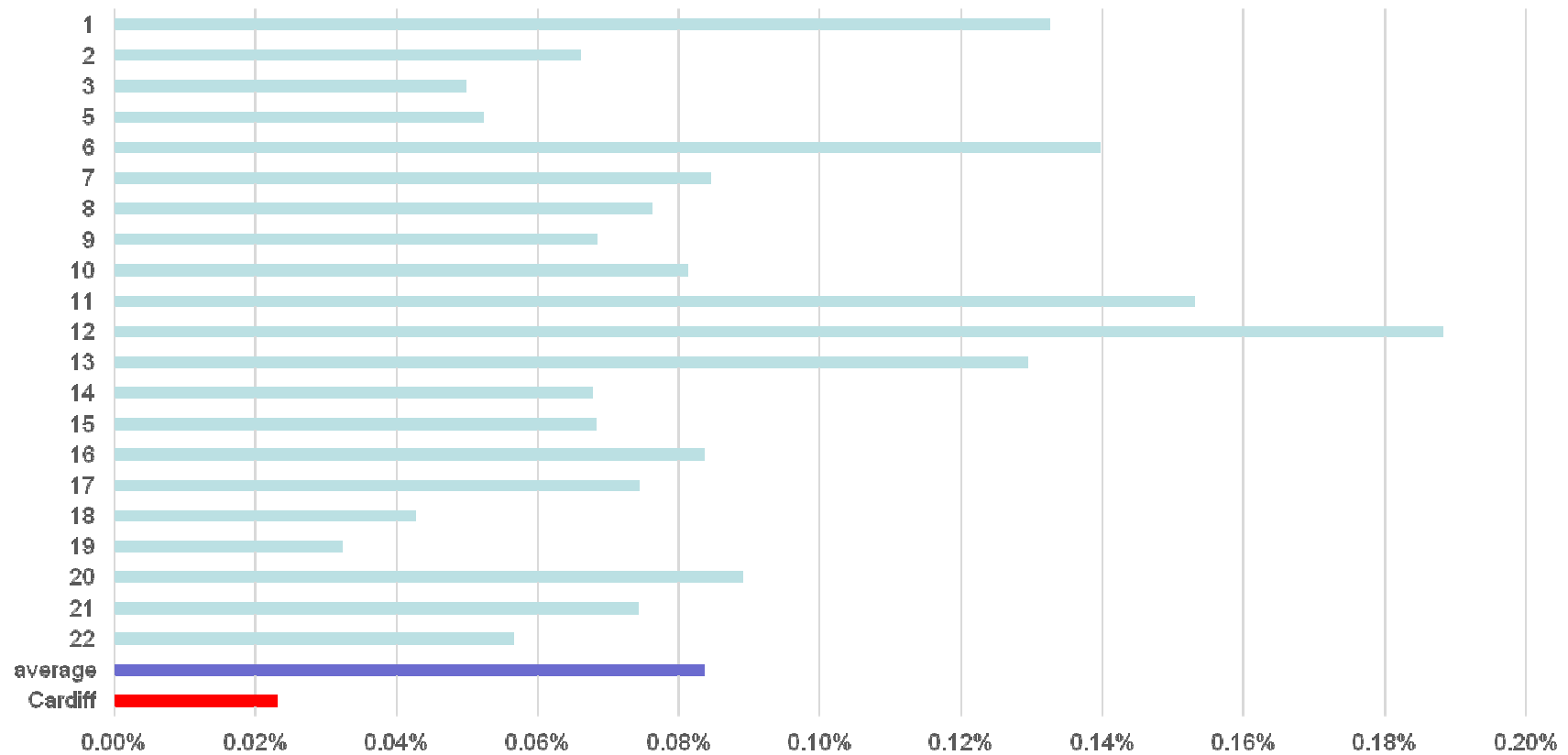




Comparison to Welsh Councils Performance Audit fee



Performance Audit Fee as a percentage of net cost of service

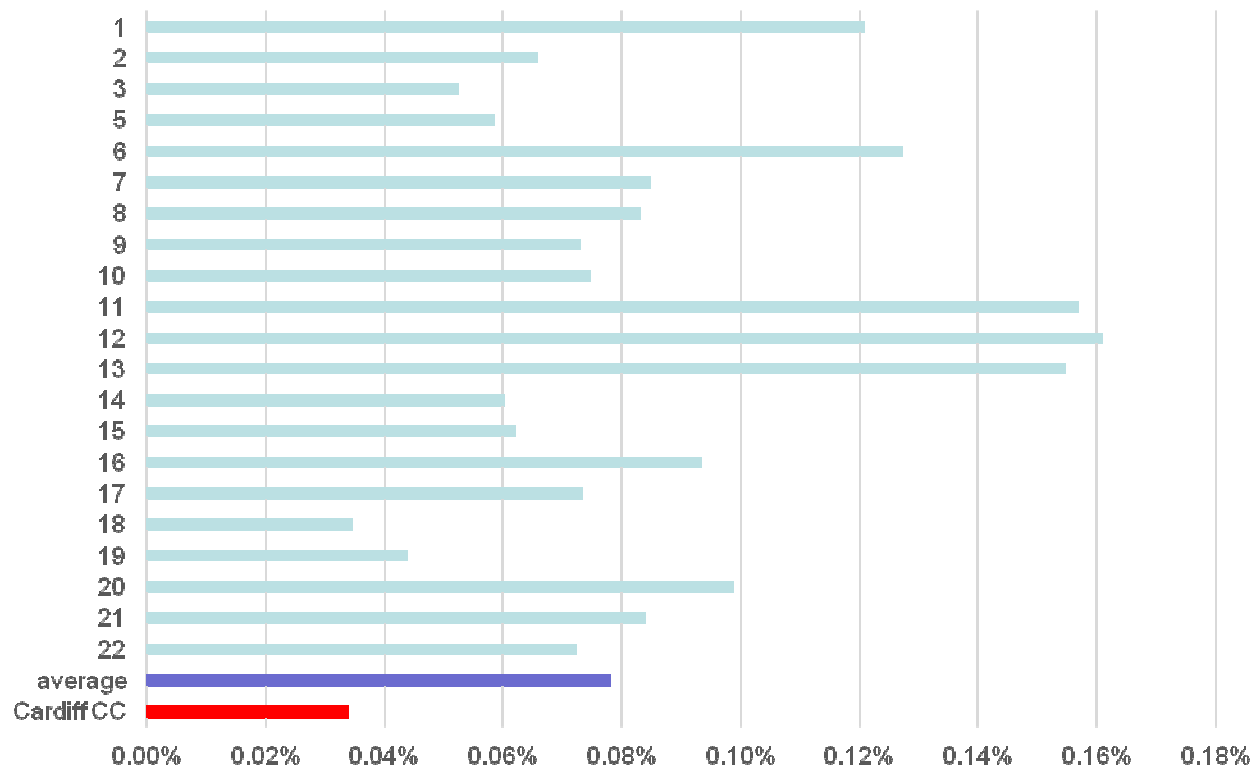




Comparison to Welsh Councils Performance Audit fee



Performance fee as a % of RSG





Year on Year analysis of Fees

- Finally, the following table compares the Council's fee over a 3 year period for information.

	2013-14	2014-15	2015-16	
Financial Audit	323,288	312,284	291,200	
Performance Audit	108,774	108,774	108,774	
Total Fee	432,062	421,058	399,974	



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2016 Audit Plan

Cardiff and Vale of Glamorgan Pension Fund

Audit year: 2016

Issued: February 2016

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Status of document

This document has been prepared for the internal use of Cardiff and Vale of Glamorgan Pension Fund as part of work performed/to be performed in accordance with statutory functions.

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2016 Audit Plan

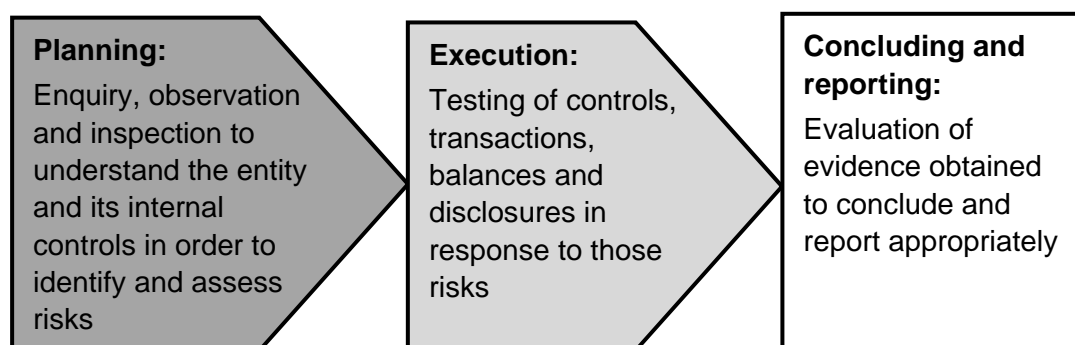
Summary

1. As your external auditor, my objective is to carry out an audit which discharges my statutory duties as Auditor General and fulfils my obligations under the Code of Audit Practice to examine and certify whether Cardiff and Vale of Glamorgan Pension Fund (the Pension Fund) accounting statements are 'true and fair'.
2. The purpose of this plan is to set out my proposed work, when it will be undertaken, how much it will cost and who will undertake it.
3. There have been no limitations imposed on me in planning the scope of this audit.
4. My responsibilities, along with those of management and those charged with governance, are set out in [Appendix 1](#).

Audit of Pension Fund accounts

5. It is my responsibility to issue a report on the accounting statements which includes an opinion on their 'truth and fairness'. This provides assurance that the accounts:
 - are free from material misstatement, whether caused by fraud or error;
 - comply with statutory and other applicable requirements; and
 - comply with all relevant requirements for accounting presentation and disclosure.[Appendix 1](#) sets out my responsibilities in full.
6. The audit work I undertake to fulfil my responsibilities responds to my assessment of risks. This understanding allows us to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the Pension Fund accounts as a whole. My audit approach consists of three phases as set out in [Exhibit 1](#).

Exhibit 1: My audit approach



7. The risks of material misstatement which I consider to be significant, and which therefore require special audit consideration, are set out in **Exhibit 2** along with the work I intend to undertake to address them.

Exhibit 2: Financial audit risks

Financial audit risk	Proposed audit response
<p>Investment Managers</p> <p>The systems and records of the investment managers generate account entries made to the Pension Fund Account and Net Assets Statement.</p> <p>The investment managers provide internal controls reports on the investments held on behalf of the Pension Fund. These are independently audited and provide the Pension Fund with assurance on a wide range of controls, eg, valuation of the investment portfolio held.</p> <p>There is a risk that the internal controls reports will not be available for assurance purposes, and/or cover all our required audit assertions.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • assess the investment managers as a service organisation; • check that investments have been made in accordance with the Statement of Investment principles; • obtain direct confirmation from the investment managers and custodian of year-end investment balances and holdings; and • assess whether the investment manager's internal control reports for all investment managers provide assurance over a wide range of relevant controls, including valuation of investments held.
<p>Unquoted Investments</p> <p>Year-end valuations of unquoted investments eg, private equity investments, are provided by investment managers which are based upon forward looking estimates and judgements. As there is no quoted market price, there is a greater risk for the reasonableness of valuation bases of these investments.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • confirm the investment valuations to audited financial statements; and • seek additional assurance over the valuation basis from controls assurance reports where available.
<p>Financial Statements Production</p> <p>The timetable for producing the financial statements remains demanding.</p> <p>Management will need to ensure that appropriate arrangements for the preparation and oversight of robust financial statements, in addition to good quality working papers, are provided on the commencement of the audit, with both having been subject to appropriate senior management review.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • provide support and advice to the Council wherever possible without compromising our independence; • provide an audit deliverables report to assist the Council in the preparation of relevant working papers in support of the financial statements; • review closedown plans to assess that arrangements are in place to produce robust financial statements within the prescribed timetable; and • agree a timetable for the audit and certification of the financial statements.

Financial audit risk	Proposed audit response
<p>Benefits Payable</p> <p>Changes introduced last year made the calculation of benefits payable on employee retirement more complicated.</p> <p>Benefits payable information provided to the actuary also needs to be correct in order for the Pension Fund liability to be reasonably estimated.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> recalculate a sample of benefits payable to ensure the outputs of the system are correct; and reconcile the information outputs of Altair to that provided to the actuary.
<p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> test the appropriateness of journal entries and other adjustments made in preparing the financial statements; review accounting estimates for biases; and evaluate the rationale for any significant transactions outside the normal course of business.

8. I do not seek to obtain absolute assurance that the Pension Fund accounting statements are true and fair, but adopt a concept of materiality. My aim is to identify material misstatements, that is, those that might result in a reader of the accounts being misled. The levels at which I judge such misstatements to be material will be reported to the Audit Committee, as those charged with governance for Cardiff Council (the Council), as the administering authority of the Pension Fund as a whole, prior to completion of the audit. My reports will also be sent to the Pension Investment Advisory Panel for information.
9. For reporting purposes, I will treat any misstatements below a 'trivial' level (the lower of five per cent of materiality or £100,000) as not requiring consideration by those charged with governance and therefore I will not report them.
10. My fees are based on the following assumptions:
 - information provided to support the financial statements is timely, to the quality expected and has been subject to quality assurance review;
 - appropriate accommodation and facilities are provided to enable my audit team to deliver my audit in an efficient manner;
 - all appropriate officials will be available during the audit;
 - you have all the necessary controls and checks in place to enable the Responsible Financial Officer to provide all the assurances that I require in the Letter of Representation addressed to me; and
 - Internal Audit's planned programme of work is complete and management has responded to issues that may have affected the financial statements.

Pension Fund annual report

11. In addition to including the Pension Fund accounts in their main accounting statements, administering authorities are required to publish a Pension Fund annual report which must include the Pension Fund accounts.
12. I am required to read the Pension Fund annual report and consider whether the information it contains is consistent with the audited Pension Fund accounts included in the Council's main accounting statements.
13. I also issue an audit statement confirming the consistency of the accounts included in the annual report with the audited Pension Fund accounts.

Fee, audit team and timetable

Fee

14. Your estimated fee for 2016 is set out in [Exhibit 3](#).

Exhibit 3: Audit fee

Audit area	Proposed fee for 2016 (£)	Actual fee for 2015 (£)
Audit of Pension Fund accounts	31,777	34,277 *

* Actual fee charged was £2,500 more than the estimate due to staff changes and problems reconciling numbers on the Altair system.

15. Planning will be ongoing, and changes to my programme of audit work, and therefore my fee, may be required if any key new risks emerge. I shall make no changes without first discussing them with the Corporate Director of Resources.
16. Further information on my [fee scales and fee setting](#) can be found on the Wales Audit Office website.

Audit team

17. The main members of my team, together with their contact details, are summarised in [Exhibit 4](#).

Exhibit 4: My team

Name	Role	Contact number	E-mail address
Ann-Marie Harkin	Engagement Lead – Financial Audit	02920 320652/ 07967 321350	ann-marie.harkin@audit.wales

Name	Role	Contact number	E-mail address
Janet McNicholas	Financial Audit Manager	02920 872259	janet.mcnicholas@audit.wales
Roy Blake	Financial Audit Team Leader	02920 872258	roy.blake@audit.wales

18. I can confirm that my team members are all independent of the Pension Fund and its officers. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

Timetable

19. I will provide reports, or other outputs as agreed, to the Pension Investment Advisory Panel and Audit Committee and where necessary to the Council, covering the areas of work identified in this document. My key milestones are set out in [Exhibit 5](#).

Exhibit 5: Timetable

Planned output	Work undertaken	Report finalised
2016 Audit Plan	January to February 2016	March 2016
Financial accounts work: <ul style="list-style-type: none"> Audit of Financial Statements Report Opinion on Financial Statements 	February to September 2016	September 2016
2017 Audit Plan	December 2016 to January 2017	February 2017

Appendix 1

Respective responsibilities

The Council is the administering authority of the Pension Fund. This Audit Plan has been prepared to meet the requirements of auditing standards and proper audit practices. It provides the Council with an outline of the financial audit work required for the Pension Fund accounts.

As amended by the Public Audit (Wales) Act 2013, the Public Audit (Wales) Act 2004 sets out my powers and duties to undertake your financial audit. It is my responsibility to issue a certificate and report on the Pension Fund accounting statements which includes an opinion on their 'truth and fairness', providing assurance that they:

- are free from material misstatement, whether caused by fraud or error;
- comply with the statutory and other applicable requirements; and
- comply with all relevant requirements for accounting presentation and disclosure.

My audit work does not relieve management and those charged with governance of their responsibilities which include:

- the preparation of the financial statements and Annual Report in accordance with applicable accounting standards and guidance;
- the keeping of proper accounting records;
- ensuring the regularity of financial transactions; and
- securing value for money in the use of resources.

Management agrees to provide me with:

- access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- additional information that I may request from management for the purpose of the audit; and
- unrestricted access to persons within the authority from whom I determine it necessary to obtain audit evidence.

Management will need to provide me with written representations to confirm:

- that it has fulfilled its responsibilities for the preparation of the financial statements;
- that all transactions have been recorded and are reflected in the financial statements;
- the completeness of the information provided to me for the purposes of the audit; and
- to support other audit evidence relevant to the financial statements or specific assertions in the financial statements if I deem it necessary or if required by ISAs.

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2016 Audit Plan

The City of Cardiff Council

Audit year: 2015-16

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Status of document

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2016 Audit Plan

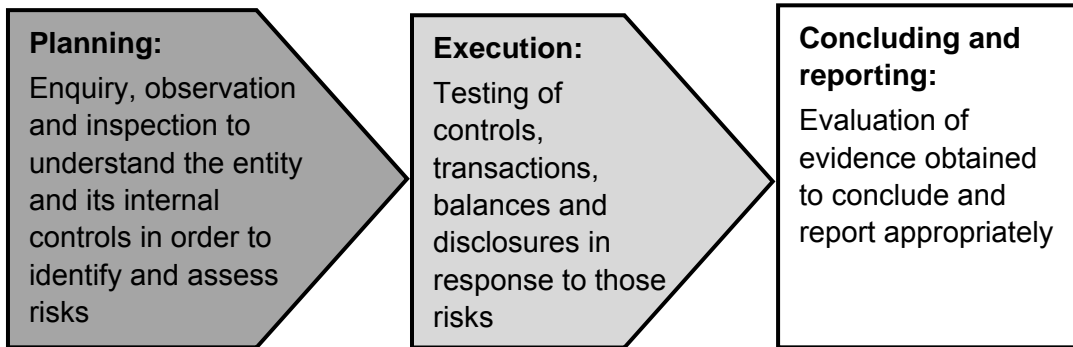
Summary

1. As your external auditor, my objective is to carry out an audit which discharges my statutory duties as Auditor General and fulfils my obligations under the Public Audit (Wales) Act 2004, the Local Government (Wales) Measure 2009 (the Measure), the Local Government Act 1999, and the Code of Audit Practice, namely to:
 - examine and certify whether your financial statements are ‘true and fair’;
 - assess whether you have made proper arrangements for securing economy, efficiency and effectiveness in the use of resources;
 - audit and assess whether you have discharged duties and met the requirements of the Measure; and
 - undertake studies to enable me to make recommendations for improving economy, efficiency and effectiveness or for improving financial or other management arrangements.
2. The purpose of this plan is to set out my proposed work, when it will be undertaken, how much it will cost and who will undertake it.
3. There have been no limitations imposed on me in planning the scope of this audit.
4. My responsibilities, along with those of management and those charged with governance, are set out in [Appendix 1](#).

Financial audit

5. It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on their ‘truth and fairness’.
6. I also consider whether or not the City of Cardiff Council (the Council) has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and report by exception if the Annual Governance Statement does not comply with requirements.
7. [Appendix 1](#) sets out my responsibilities in full.
8. The audit work I undertake to fulfil my responsibilities responds to my assessment of risks. This understanding allows me to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the financial statements as a whole. My audit approach consists of three phases as set out in [Exhibit 1](#).

Exhibit 1: My audit approach



9. The risks of material misstatement which I consider to be significant and which therefore require special audit consideration, are set out in **Exhibit 2** along with the work I intend to undertake to address them.

Exhibit 2: Financial audit risks

Financial audit risk	Proposed audit response
<p>Cardiff Capital Region (the region) City Deal:</p> <p>City deals are arrangements negotiated with government that give greater accountability for actions in return for new powers to help encourage growth and jobs. The region's deal involves 10 South Wales local authorities. To take forward negotiations a City Deal Partnership Board has been formed which is supported by a number of groups. In November 2015 the region made a headline submission for a £1.28 billion City Deal to the UK Treasury with the Welsh Government committing to providing up to £580 million of capital funding. Such a significant programme will have financial, governance and delivery risks that need to be managed.</p>	<p>Liaising closely with the external auditors of the other nine Local Authorities, my audit team will monitor progress with the region's City Deal bid and carry out early work as necessary to assess the existing and proposed financial and governance arrangements. We will also take into account the work undertaken by HM Treasury to scrutinise the effectiveness of the region's governance arrangements.</p>
<p>Financial Challenges:</p> <p>The Council continues to face significant financial challenges in common with the rest of the public sector. These financial pressures increase the risk of manipulation of balances in the financial statements to achieve the projected year-end position.</p>	<p>My audit team will reflect the Council's financial position in planning the audit and will direct audit testing to the areas of greatest risk.</p>

Financial audit risk	Proposed audit response
<p>Asset management</p> <p>The Council has a number of schemes planned or ongoing which involve alternative delivery models, redevelopment and regeneration, disposal of assets, potential asset transfers etc. There are risks that the financial implications of these schemes will not be correctly reflected in the accounts.</p>	<p>My audit team will review how these schemes have been accounted for to ensure accounting entries are correct.</p>
<p>Capitalisation of expenditure</p> <p>In 2014-15 we identified that some revenue expenditure had been incorrectly capitalised in the accounts. This was not material in 2014-15 but processes for identifying and capitalising relevant expenditure needed to improve.</p>	<p>My audit team will review the revised processes in place to ensure that the CIPFA Code requirements for the capitalisation of expenditure are applied.</p>
<p>Voluntary severance scheme/Exit packages</p> <p>The need to make financial savings in recent years has resulted in a significant reduction in staff numbers, with more scheduled to leave in 2015-16. There are risks that, with a significant number of staff leaving, there will be insufficient focus on the operation of key financial and management controls and that the cost of the voluntary redundancy scheme will not be correctly reflected in the accounts.</p>	<p>My audit team will review key controls for material financial systems to ensure controls are still effective and ensure that all costs associated with the departures are captured accurately within the service expenditure areas and provisions.</p>
<p>Financial Statements Production</p> <p>The timetable for producing the financial statements remains demanding.</p> <p>Management will need to ensure that appropriate arrangements for the preparation and oversight of robust financial statements, in addition to good quality working papers, are provided on the commencement of the audit, with both having been subject to appropriate senior management review.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • provide support and advice to the Council wherever possible without compromising our independence; • review closedown plans to assess that arrangements are in place to produce robust financial statements within the prescribed timetable; and • agree a timetable for the audit and certification of the financial statements.

Financial audit risk	Proposed audit response
<p>Fraud Risks</p> <p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk at all audits.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • test the appropriateness of journal entries and other adjustments made in preparing the financial statements; • review accounting estimates for biases; and • evaluate the rationale for any significant transactions outside the normal course of business.

10. I do not seek to obtain absolute assurance on the truth and fairness of the financial statements and related notes, but adopt a concept of materiality. My aim is to identify material misstatements, that is, those that might result in a reader of the accounts being misled. The levels at which I judge such misstatements to be material will be reported to the Audit Committee prior to completion of the audit.
11. For reporting purposes, I will treat any misstatements below a 'trivial' level (the lower of five per cent of materiality or £100,000) as not requiring consideration by those charged with governance and therefore I will not report them.
12. My fees are based on the following assumptions:
 - information provided to support the financial statements is timely, to the quality expected and has been subject to quality assurance review;
 - appropriate accommodation and facilities are provided to enable my audit team to deliver the audit in an efficient manner;
 - all appropriate officials will be available during the audit;
 - you have all the necessary controls and checks in place to enable the Responsible Financial Officer to provide all the assurances that I require in the Letter of Representation addressed to me; and
 - Internal Audit's planned programme of work is complete and management has responded to issues that may have affected the financial statements.
13. In addition to my responsibilities in respect of the audit of the Council's statutory financial statements set out above, I am also required to certify a return to the Welsh Government which provides information about the Council to support preparation of Whole of Government Accounts.

Certification of grant claims and returns

14. I have been requested to undertake certification work on the Council's grant claims and returns as set out in [Appendix 2](#).
15. My audit fee for this work is set out in [Exhibit 5](#).

Overall issues identified

16. **Exhibit 3** summarises the more significant and/or recurring issues I identified when undertaking grant certification work in 2014-15.

Exhibit 3: Overall issues relating to grant claim and return certification

Qualified grant claims and returns qualified in 2014-15

Of the eighteen 2014-15 grant claims and returns that we certified, we qualified two compared to nine in 2013-14. This represents 11 per cent of the total, which was an improvement on the 35 per cent qualified in 2013-14. The issues on which we qualified concerned the lack prior approval for virements and late payment of accruals.

Effectiveness of grant coordination arrangements

All of the eighteen claims and returns for 2014-15 that required certification were submitted on time, an improvement over the four out of 25 received late in 2013-14. The majority of claims were delivered with working papers of an acceptable standard.

Issues related to specific grant claims and returns

17. In addition to the overall issues identified above, I summarise the more significant issues I have identified relating to individual grant claims and returns in **Appendix 2**.

Other work undertaken

18. I am also responsible for the audit of:
- Cardiff Harbour;
 - Cardiff Port Health Authority;
 - Glamorgan Archives Joint Committee;
 - Project Gwyrdd; and
 - Welsh Purchasing Consortium.
19. My audit fee for this work is set out in **Exhibit 5**.

Performance audit

20. The components of my performance audit work are shown in **Exhibit 4** and have been designed in order to help deliver the high-level objectives [set out in our 2013-2016 corporate strategy](#).

Exhibit 4: Components of my performance audit work



21. Local government in Wales is going through an unprecedented period of change. Austerity continues to bite, audited bodies will be required to adopt the principle of sustainable development from April 2016, and the draft Local Government (Wales) Bill proposes fewer councils and a renewed performance framework. The Minister for Public Services has publicly stated that he would like to see a refreshed audit regime in advance of the legislative timetable with a view to supporting change. In January this year the minister advised me of a substantial reduction in the grant that subsidises my local government performance audit work under the Measure.
22. However, for 2016-17 the Measure will still be in place, and I will still need to examine whether authorities will meet their duty to make arrangements for continuous improvement. The challenge for me in these uncertain times is to balance my existing, new and proposed statutory duties with the need to continue to undertake meaningful, risk-based and proportionate audits and assessments.
23. In spring 2016 I will be engaging in a consultation with public service bodies on how I can best discharge my various duties whilst striking the most appropriate balance and adding value by:
 - providing assurance on the governance and stewardship of public money and assets;
 - offering insight on the extent to which resources are used wisely in meeting people's needs; and
 - identifying and promoting ways by which the provision of public services may be improved.

-
24. Taking all these factors into consideration, I am presently unable to be specific about my programme of performance audit work in local government. I am working through the practicalities of designing an appropriate programme of work, and examining the implications of the reduction in grant funding with a view to ensuring, as far as I am able, that there is little adverse impact on local authorities through fees.
 25. As soon as practical, I will write to confirm my 2016-17 programme of work.

Fee, audit team and timetable

Fee

26. The Wales Audit Office does not generate profits on fees. Legislation requires that the fees charged may not exceed the full cost of exercising the function to which the fee relates. The fee rates are set at a level to recover that full cost. My fee rates have been held static for 2016 and my audit teams will continue to look for efficiencies in their audits and welcome working with you constructively on this.
27. Your estimated fee for 2016 is set out in [Exhibit 5](#) (on page 11). This figure represents a five per cent decrease compared to the fee set out in the 2015 audit plan.

Exhibit 5: Audit fee

Audit area	Proposed fee (£) ¹	Actual fee last year (£)
Financial audit work¹	291,200	312,284
Performance audit work²	108,774	108,774
Total fee	399,974	421,058
Grant certification work³	80,500	87,125
Other audit work		
Cardiff Harbour ⁴	17,333	17,333
Cardiff Port Health Authority ⁴	2,373	2,373
Glamorgan Archives Joint Committee ⁴	2,373	2,373
Project Gwyrdd ⁴	2,373	2,373
Welsh Purchasing consortium ⁴	2,373	2,373
Total fee for other audit work	26,825	26,825

Notes:

¹ Payable November 2015 to October 2016.

² Payable April 2016 to March 2017.

³ Payable as work is undertaken.

⁴ Payable on conclusion of audit work

28. Planning will be ongoing, and changes to my programme of audit work and therefore my fee, may be required if any key new risks emerge. I shall make no changes without first discussing them with the Council.
29. Further information on my [fee scales and fee setting can be found on the Wales Audit Office website](#).

¹ The fees shown in this document are exclusive of VAT, which is no longer charged to you.

Audit team

30. The main members of my team, together with their contact details, are summarised in Exhibit 6.

Exhibit 6: My team

Name	Role	Contact number	E-mail address
Ann-Marie Harkin	Engagement Director/ Engagement Lead – Financial Audit	02920 320500	ann-marie.harkin@audit.wales
Alan Morris	Engagement Lead – Performance Audit	02920 320500	alan.morris@audit.wales
Janet McNicholas	Financial Audit Manager	02920 872259 02920 872258	janet.mcnicholas@audit.wales
Jon Martin Roy Blake	Financial Audit Team Leaders	02920 872259 02920 872258	jon.martin@audit.wales roy.blake@audit.wales
Non Jenkins	Performance Audit Manager	02920 320500	non.jenkins@audit.wales
Chris Pugh	Performance Audit Lead	02920 320523	chris.pugh@audit.wales

31. I can confirm that my team members are all independent of the Council and your officers. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

Timetable

32. I will provide reports, or other outputs as agreed, to the Council covering the areas of work identified in this document. My key milestones are set out in [Exhibit 7](#).

Exhibit 7: Timetable

Planned output	Work undertaken	Report finalised
2016 Audit Plan	January/February 2016	March 2016
Financial accounts work: <ul style="list-style-type: none">• Audit of Financial Statements Report• Opinion on Financial Statements• Financial Accounts Memorandum	February – September 2016	September 2016 September 2016 October 2016
Performance work: <ul style="list-style-type: none">• I am presently unable to be specific about my programme of performance audit work in local government	April 2016 to March 2017	As soon as is practical I will write to confirm my 2016-17 programme of work.
2017 Audit Plan	January 2017	February 2017

* Subject to timely clearance of draft findings with the Council.

Future developments to my audit work

33. The Well-being of Future Generations (Wales) Act 2015 (the Act) requires me to have undertaken an examination in each of the public bodies specified within the Act and to have provided a report to the National Assembly, by 2020.
34. As referred to in [paragraph 25](#), I will be consulting on my proposed response to the Act in spring 2016. This consultation will feature a commitment to engage and work collaboratively with public bodies in developing an audit approach which is rigorous, meaningful and proportionate. I propose using 2016-17 as a transition year during which my teams work with a limited number of public bodies to develop and test my approach.
35. As we confirm our audit approaches and respond to continuing consultation from the Welsh Government, we will be talking to audited bodies about the implications for their fees from 2017-18 onwards and will be exploring alternative funding models with the next National Assembly's Finance Committee.

Appendix 1

Respective responsibilities

Financial audit

As amended by the Public Audit (Wales) Act 2013, the Public Audit (Wales) Act 2004 sets out my powers and duties to undertake your financial audit. It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on:

- Their 'truth and fairness', providing assurance that they:
 - are free from material misstatement, whether caused by fraud or error;
 - comply with the statutory and other applicable requirements; and
 - comply with all relevant requirements for accounting presentation and disclosure.
- The consistency of information in the Annual Report with the financial statements.

I must also state by exception if the Annual Governance Statement does not comply with requirements, if proper accounting records have not been kept, if disclosures required for remuneration and other transactions have not been made or if I have not received all the information and explanations I require.

The Public Audit (Wales) Act 2004 requires me to assess whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in the use of resources. To achieve this, I consider:

- the results of the audit work undertaken on the financial statements;
- the Council's system of internal control, as reported in the Annual Governance Statement and my report thereon;
- the results of other work carried out including work carried out under the Local Government (Wales) Measure 2009 (the Measure), certification of claims and returns, and data-matching exercises;
- the results of the work of other external review bodies where relevant to my responsibilities; and
- any other work that addresses matters not covered by the above, and which I consider necessary to discharge my responsibilities.

The Public Audit (Wales) Act 2004 sets out the rights of the public and electors to inspect the Council's financial statements and related documents, to ask me, as the Appointed Auditor questions about the accounts and, where appropriate, to challenge items in the accounts. I must also consider whether in the public interest, I should make a report on any matter which comes to my notice in the course of the audit.

My audit work does not relieve management and those charged with governance of their responsibilities which include:

- the preparation of the financial statements and Annual Report in accordance with applicable accounting standards and guidance;
- the keeping of proper accounting records;

-
- ensuring the regularity of financial transactions; and
 - securing value for money in the use of resources.

Management agrees to provide me with:

- access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- additional information that I may request from management for the purpose of the audit; and
- unrestricted access to persons within the Council from whom I determine it necessary to obtain audit evidence.

Management will need to provide me with written representations to confirm:

- that it has fulfilled its responsibilities for the preparation of the financial statements;
- that all transactions have been recorded and are reflected in the financial statements;
- the completeness of the information provided to me for the purposes of the audit; and
- to support other audit evidence relevant to the financial statements or specific assertions in the financial statements if I deem it necessary or if required by ISAs.

Performance audit

The Measure places a general duty on improvement authorities to 'make arrangements to secure continuous improvement in the exercise of [their] functions'. It also places specific requirements on authorities to set improvement objectives, and to publish annual improvement plans and assessments of performance. Improvement authorities are defined as county and county borough councils, national park authorities, and fire and rescue authorities.

The Measure also requires me to carry out an improvement assessment for each improvement authority every year, to determine whether the authority is likely to comply with its general duty and requirements of the Measure. The Auditor General must also carry out an audit of whether the authority has discharged its improvement planning and reporting duties.

The Auditor General may also in some circumstances carry out special inspections (under section 21), in respect of which he will provide a report to the relevant authorities and Ministers, and which he may publish (under section 22). The Auditor General will summarise audit and assessment reports in his published Annual Improvement Report (under section 24). This will also summarise any reports of special inspections.

Appendix 2

Summary of grant claim certification work

Name of scheme	Period of scheme	Total/annual expenditure	Issues identified in 2014-15
Housing Benefit Subsidy	2014-15	£151,943,937	No significant issues, but an amendment was made to the claim for a technical matter that had no impact on the total value of the claim.
21st Century Schools	2014-15	£2,743,278	The claim had not been properly completed. The resulting amendments had no value impact.
Butetown Regeneration Project	2007-13	£397,755	None.
Flying Start – Revenue	2014-15	£8,448,092	The claim was amended to remove expenditure incurred outside 2014-15 and qualified because Welsh Government approval had not been sought for virements.
Flying Start - Capital	2014-15	£2,515,908	The claim had not been properly completed. The resulting amendments had no value impact.
Families First	2014-15	£5,401,077	None.
Substance Misuse Action Fund	2014-15	£3,646,679	None.
Housing Revenue Account Subsidy	2014-15	£14,676,193	Adjustment was made for a calculation error also made in the previous year.
Non domestic Rates Final Contribution	2014-15	£173,425,351	None.

Name of scheme	Period of scheme	Total/annual expenditure	Issues identified in 2014-15
Sustainable Waste Management	2014-15	£7,390,126	None.
Teachers' Pensions Return	2014-15	£26,871,929	None.
Communities First – Cardiff East Cluster	2014-15	£639,485	This claim was amended to remove expenditure relating to the previous year.
Communities First – Cardiff West Cluster	2014-15	£793,412	The quality of working papers and supporting information provided by the third party cluster management team needs improvement.
Communities First – BRG Cluster	2014-15	£694,538	Amendments were made to the claim. The quality of working papers and supporting information provided by the third party cluster management team needs improvement.
Communities First – STAR Cluster	2014-15	£744,385	Amendments were made to the claim. The quality of working papers and supporting information provided by the third party cluster management team needs improvement.
Social Care Workforce Development	2014-15	£830,138	None.
Local Transport Fund	2014-15	£1,687,000	Approval was not sought from Welsh Government for virements made within the claim.
Free Concessionary Travel by Elderly and Disabled People on Local Bus Services in Wales	2014-15	£10,584,922	None regarding the claim. However, the process for collating Smartcard (electronic bus pass) usage data needs improvement.

Appendix 3

National value-for-money studies

The Council may also be interested in the national value-for-money examinations which I undertake, some of which will be of particular relevance to, and may involve evidence gathering across, local government. These studies are funded by the National Assembly. Reports are presented to the National Assembly's Public Accounts Committee to support its scrutiny of public expenditure and potentially support scrutiny by other National Assembly committees.

The table below covers all of the value-for-money studies work currently programmed. The programme includes all-Wales summaries of audit work undertaken locally in the NHS and reactive examinations into specific issues of public concern that have been raised with me. In addition to the work outlined below, I may decide during the year to prepare other national reports summarising local audit work or based on the findings of reactive examinations.

Further updates on my programme of value-for-money studies will be provided to you within the regular progress reports prepared by my team.

Topic	Anticipated publication timeframe
Welsh Government acquisition and ownership of Cardiff Airport	Late January 2016
The development of Natural Resources Wales	Early February 2016
Operating theatres	February 2016
Impact of private practice on NHS provision	February 2016
Wales Life Sciences Investment Fund	March 2016
Welsh Government responses to audit recommendations (memorandum for the Public Accounts Committee)	Spring 2016
Coastal flood and erosion risk management	Spring 2016
Rail services	Spring 2016
Governance of the National Library of Wales	Spring 2016
Welsh Government oversight of further education institutions' finances and delivery	Autumn 2016
Public procurement (including development of the National Procurement Service)	Winter 2016

Topic	Anticipated publication timeframe
Early intervention and behaviour change	Spring/summer 2017 ²
Welsh Government interventions in local government	TBC ³

I have been considering over recent months the inclusion in my programme of a number of new studies on:

- the NHS Wales Informatics Service;
- capital investment in schools (21st Century schools programme) and school places;
- further education finances;
- waste management;
- the Supporting People programme; and
- access to public services for people whose first language may not be English or Welsh and those who may be disadvantaged without access to specialist interpretation services.

With the exception of the further education study, referred to in the table above, firm plans for these new studies are yet to be confirmed, although initial scoping work is underway.

² My programme of good practice work includes a project that will aim to explore the range of behaviour change work across Welsh public services and opportunities to improve practice, deliver better outcomes for citizens, and achieve better value for money. The project will include a range of engagement events and the development of a community of practice to share learning and experience. I anticipate that the information and evidence gathered through this work will support the production of a report on this topic, although this is unlikely to be a traditional audit report and it would not be prepared until the first half of 2017.

³ Plans for this work have been under review in light of the Welsh Government commissioned review of the Anglesey intervention by the Public Policy Institute for Wales, and also to consider the implications for the work of plans for local government reform.

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Cynllun Archwilio 2016

Cyngor Dinas Caerdydd

Blwyddyn archwilio: 2015-16

Cyhoeddwyd: Chwefror 2016

Cyfeirnod y ddogfen: 173A2016

Statws y ddogfen

Paratowyd y ddogfen hon at ddefnydd mewnol Cyngor Dinas Caerdydd/Cyngor Dinas Caerdydd fel rhan o'r gwaith a gyflawnir yn unol â swyddogaethau statudol.

Nid oes unrhyw gyfrifoldeb ar yr Archwilydd Cyffredinol na staff Swyddfa Archwilio Cymru mewn perthynas ag unrhyw aelod, cyfarwyddwr, swyddog na chyflogai arall yn unigol, nac i unrhyw drydydd parti.

Os gwneir cais am wybodaeth y gallai'r ddogfen hon fod yn berthnasol iddi, tynnir sylw at y Cod Ymarfer a gyhoeddwyd o dan adran 45 o Ddeddf Rhyddid Gwybodaeth 2000. Mae Cod adran 45 yn nodi'r arfer a ddisgwylir gan awdurdodau cyhoeddus wrth ymdrin â cheisiadau, yn cynnwys ymgynghori â thrydydd partiön perthnasol.

Mewn perthynas â'r ddogfen hon, mae Archwilydd Cyffredinol Cymru a Swyddfa Archwilio Cymru yn drydydd partiön perthnasol. Dylid anfon unrhyw ymholiadau ynglŷn â datgelu neu aildefnyddio'r ddogfen hon i Swyddfa Archwilio Cymru yn infoofficer@wao.gov.uk.

Cynnwys

Cynllun Archwilio 2016

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Cynllun Archwilio 2016

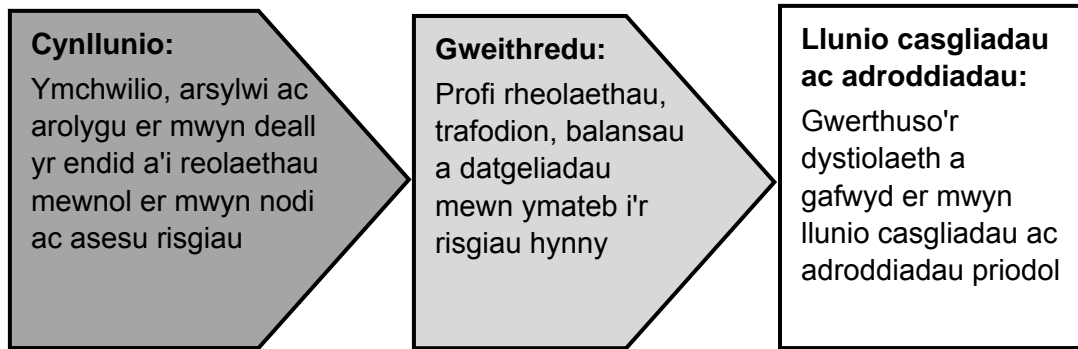
Crynodeb

1. Fel eich archwilydd allanol, fy amcan yw cynnal archwiliad sy'n cyflawni fy nyletswyddau statudol fel Archwilydd Cyffredinol a'm rhwymedigaethau o dan Ddeddf Archwilio Cyhoeddus (Cymru) 2004, Mesur Llywodraeth Leol (Cymru) 2009 (y Mesur), Deddf Llywodraeth Leol 1999, a'r Cod Ymarfer Archwilio, sef:
 - archwilio eich datganiadau ariannol ac ardystio pa un a ydynt yn 'gywir a theg';
 - asesu a ydych wedi gwneud trefniadau priodol i sicrhau darbodusrwydd, effeithlonrwydd ac effeithiolrwydd o ran y defnydd o adnoddau;
 - archwilio ac asesu a ydych wedi cyflawni eich dyletswyddau ac wedi bodloni gofynion y Mesur; a
 - chynnal astudiaethau i'm galluogi i wneud argymhellion ar gyfer gwella darbodusrwydd, effeithlonrwydd ac effeithiolrwydd neu ar gyfer gwella trefniadau rheoli ariannol neu drefniadau rheoli eraill.
2. Diben y cynllun hwn yw nodi'r gwaith y bwriadaf ymgymryd ag ef, pryd yr ymgymmerir ag ef, faint y bydd yn ei gostio a phwy fydd yn ymgymryd ag ef.
3. Ni chyfyngwyd arnaf wrth gynllunio cwmpas yr archwiliad hwn.
4. Nodir fy nghyfrifoldebau, ynghyd â chyfrifoldebau'r rheolwyr a'r rheini sy'n gyfrifol am lywodraethu, yn [Atodiad 1](#).

Archwilio ariannol

5. Fy nghyfrifoldeb i yw cyhoeddi tystysgrif ac adroddiad ar y datganiadau ariannol sy'n cynnwys barn ar eu 'cywirdeb a'u tegwch'.
6. Rwyf hefyd yn ystyried a yw Cyngor Dinas Caerdydd (y Cyngor) wedi gwneud trefniadau priodol i sicrhau darbodusrwydd, effeithlonrwydd ac effeithiolrwydd o ran ei ddefnydd o adnoddau ac yn adrodd drwy eithriad os nad yw'r Datganiad Llywodraethu Blynyddol yn cydymffurfio â gofynion.
7. Mae [Atodiad 1](#) yn nodi fy nghyfrifoldebau yn llawn.
8. Mae'r gwaith archwilio a wneir gennyf er mwyn cyflawni fy nghyfrifoldebau yn ymateb i'm hasesiad o risgiau. Mae'r ddealltwriaeth hon yn galluogi i mi ddatblygu dull archwilio sy'n canolbwyntio ar fynd i'r afael â risgiau penodol gan roi sicrwydd ar yr un pryd ynglŷn â'r datganiadau ariannol yn eu cyfanrwydd. Mae tri cham i'm dull archwilio fel y nodir yn [Arddangosyn 1](#).

Arddangosyn 1: Fy null archwilio



9. Nodir y risgiau o gamddatganiadau perthnasol yr ystyriaf eu bod yn sylweddol ac y mae angen rhoi ystyriaeth archwilio arbennig iddynt o ganlyniad i hynny yn [Arddangosyn 2](#), ynghyd â'r gwaith y bwriadaf ymgymryd ag ef i ymdrin â hwy.

Arddangosyn 2: Risgiau archwilio ariannol

Risg archwilio ariannol	Ymateb archwilio arfaethedig
<p>Bargen Dinas Prifddinas-Ranbarth (y rhanbarth) Caerdydd:</p> <p>Trefniadau a gaiff eu negodi gyda'r llywodraeth yw bargeinion dinas sy'n rhoi mwy o atebolrwydd dros gamau gweithredu yn gyfnewid am bwerau newydd i helpu i annog twf a swyddi. Mae borgen y rhanbarth yn cynnwys 10 awdurdod lleol yn Ne Cymru. Er mwyn bwrw ati â'r broses negodi, lluniwyd Bwrdd Partneriaeth Bargen Dinas a gefnogir gan nifer o grwpiau. Ym mis Tachwedd 2015, gwnaeth y rhanbarth brif gyflwyniad am Fargen Dinas gwerth £1.28 biliwn i Drysorlys y DU gyda Llywodraeth Cymru yn ymrwmo i ddarparu hyd at £580 miliwn o gyllid cyfalaf. Bydd risgiau ariannol, llywodraethu a darparu yn gysylltiedig â rhaglen mor sylweddol, a bydd angen rheoli'r risgiau hynny.</p>	<p>Gan gysylltu'n agos gydag archwilwyr allanol y naw Awdurdod Lleol arall, bydd yn fy nhîm archwilio yn monitro cynnydd gyda chynnnig Bargen Dinas y rhanbarth a chyflawni gwaith cynnar fel y bo angen i asesu'r trefniadau presennol ac arfaethedig o ran ariannu a llywodraethu. Byddwn hefyd yn ystyried y gwaith a wnaed gan Drysorlys EM i graffu ar effeithiolrwydd trefniadau llywodraethu'r rhanbarth.</p>

Risg archwilio ariannol	Ymateb archwilio arfaethedig
<p>Heriau Ariannol:</p> <p>Mae'r Cyngor yn parhau i wynebu heriau ariannol sylweddol fel gweddill y sector cyhoeddus. Mae'r pwysau ariannol hyn yn cynyddu'r risg y caiff balansau yn y datganiadau ariannol eu camdrafod er mwyn cyflawni'r sefyllfa a ragwelwyd ar gyfer diwedd y flwyddyn.</p>	<p>Bydd fy nhîm archwilio yn adlewyrchu sefyllfa ariannol y Cyngor wrth gynllunio'r archwiliad a bydd yn cyfeirio profion archwilio at y meysydd lle ceir y risg fwyaf.</p>
<p>Rheoli asedau</p> <p>Mae nifer o gynlluniau gan y Cyngor yn yr arfaeth neu'n mynd rhagddynt sy'n cynnwys modelau darparu amgen, ailddatblygu ac adfywio, gwaredu asedau, achosion posibl o drosglwyddo asedau ac ati. Mae risgiau na chaiff goblygiadau ariannol y cynlluniau hyn eu hadlewyrchu'n briodol yn y cyfrifon.</p>	<p>Bydd fy nhîm archwilio yn adolygu sut y rhoddwyd cyfrif am y cynlluniau hyn er mwyn sicrhau bod cofnodion cyfrifyddu yn gywir.</p>
<p>Cyfalafu gwariant</p> <p>Yn 2014-15, gwnaethom nodi bod rhai enghreifftiau o wariant referniw wedi'u cyfalafu'n anghywir yn y cyfrifon. Nid oedd hyn yn berthnasol yn 2014-15, ond roedd angen gwella'r prosesau ar gyfer nodi a chyfalafu gwariant perthnasol.</p>	<p>Bydd fy nhîm archwilio yn adolygu'r prosesau diwygiedig sydd ar waith er mwyn sicrhau bod gofynion Cod CIPFA ar gyfer cyfalafu gwariant yn cael eu cymhwyso.</p>
<p>Cynllun diswyddo gwirfoddol/Pecynnau ymadael</p> <p>Mae'r angen i sicrhau arbedion ariannol yn ystod y blynyddoedd diwethaf wedi arwain at ostyngiad sylweddol yn nifer y staff, a disgwylir i fwy o staff adael yn 2015-16. Mae risgiau, gan fod nifer sylweddol o staff yn gadael, na fydd digon o ffocws ar y broses o weithredu rheolaethau ariannol a rheolaethau rheoli allweddol ac na chaiff cost y cynllun diswyddo gwirfoddol ei hadlewyrchu'n briodol yn y cyfrifon.</p>	<p>Bydd fy nhîm archwilio yn adolygu'r rheolaethau allweddol ar gyfer y systemau ariannol perthnasol er mwyn sicrhau bod y rheolaethau yn effeithiol o hyd ac er mwyn sicrhau y caiff yr holl gostau sy'n gysylltiedig â staff yn ymadael eu nodi'n gywir o fewn meysydd gwariant a darpariaethau'r gwasanaeth.</p>
<p>Llunio'r Datganiadau Ariannol</p> <p>Mae'r amserlen ar gyfer llunio'r datganiadau ariannol yn heriol o hyd. Bydd angen i'r rheolwyr sicrhau bod trefniadau priodol ar waith ar gyfer paratoi a goruchwylio datganiadau ariannol cadarn, ac y darperir papurau gwaith o ansawdd da, ar ddechrau'r archwiliad, gyda'r ddau yn cael eu hadolygu gan uwch reolwyr priodol.</p>	<p>Bydd fy nhîm archwilio yn:</p> <ul style="list-style-type: none"> • rhoi cymorth a chyngor i'r Cyngor lle bynnag y bo'n bosibl heb beryglu ein hannibyniaeth; • adolygu cynlluniau cau cyfrifon er mwyn sicrhau bod trefniadau ar waith i lunio datganiadau ariannol cadarn o fewn yr amserlen benodedig; a • chytuno ar amserlen ar gyfer archwilio ac ardystio'r datganiadau ariannol.

Risg archwilio ariannol

Risgiau o ran Twyll

Mae risg y bydd rheolwyr yn diystyru rheolaethau ym mhob endid ar hyn o bryd. Am nad oes modd rhagweld sut y gallai rheolaethau gael eu diystyru yn y fath fodd, ystyrir ei bod yn risg sylweddol ym mhob archwiliad.

Ymateb archwilio arfaethedig

Bydd fy nhîm archwilio yn:

- profi priodoldeb cofnodion mewn dyddlyfrau ac addasiadau eraill a wnaed wrth baratoi'r datganiadau ariannol;
- adolygu amcangyfrifon cyfrifyddu i ganfod unrhyw duedd; a
- gwerthuso'r rhesymeg dros unrhyw drafodion sylweddol nad oes a wnelont â busnes arferol.

10. Nid wyf yn ceisio cael sicrwydd llwyr ar gywirdeb a thegwch y datganiadau ariannol a'r nodiadau cysylltiedig, ond mabwysiadaf gysyniad o berthnasedd. Fy nod yw nodi camddatganiadau perthnasol, hynny yw, y rheini a allai gamarwain y sawl sy'n darllen y cyfrifon. Caiff y lefelau a ddefnyddiaf i farnu bod camddatganiadau o'r fath yn berthnasol eu nodi yn fy adroddiad i'r Pwyllgor Archwilio cyn cwblhau'r archwiliad.
11. At ddibenion adrodd, byddaf yn ymdrin ag unrhyw gamddatganiadau sydd islaw lefel 'ddibwys' (pump y cant o berthnasedd neu £100,000, pa un bynnag sydd isaf) fel materion nad oes angen i'r rhai sy'n gyfrifol am lywodraethu eu hystyried ac felly ni fyddaf yn cyflwyno adroddiad arnynt.
12. Mae fy ffioedd yn seiliedig ar y tybiaethau canlynol:
 - bod y wybodaeth a ddarperir i ategu'r datganiadau ariannol yn amserol, o'r ansawdd disgwylidig a'i bod wedi'i hadolygu at ddibenion sicrwydd ansawdd;
 - bod safleoedd a chyfleusterau priodol yn cael eu darparu i alluogi fy nhîm archwilio i gyflawni'r archwiliad yn effeithlon;
 - y bydd yr holl swyddogion priodol ar gael yn ystod yr archwiliad;
 - bod yr holl reolaethau a gwiriadau angenrheidiol ar waith gennyh i alluogi'r Swyddog Ariannol Cyfrifol i roi'r holl sicrwydd sydd ei angen arnaf yn y Llythyr Sylwadau a anfonir ataf; a
 - bod rhaglen waith arfaethedig y gwasanaeth Archwilio Mewnol wedi'i chwblhau a bod y rheolwyr wedi ymateb i faterion a allai fod wedi effeithio ar y datganiadau ariannol.
13. Yn ogystal â'm cyfrifoldebau o ran archwilio datganiadau ariannol statudol y Cyngor a nodwyd uchod, mae hefyd yn ofynnol i mi ardystio datganiad a gyflwynir i Lywodraeth Cymru sy'n rhoi gwybodaeth am y Cyngor i gefnogi'r gwaith o baratoi Cyfrifon y Llywodraeth Gyfan.

Ardystio hawliadau a ffurflenni grant

14. Gofynnwyd i mi wneud gwaith ardystio ar hawliadau a ffurflenni grant y Cyngor fel y nodir yn [Atodiad 2](#).
15. Nodir fy ffi archwilio ar gyfer y gwaith hwn yn [Arddangosyn 5](#).

Materion cyffredinol a nodwyd

16. Mae **Arddangosyn 3** yn crynhoi'r materion pwysicaf a/neu'r materion a gododd dro ar ôl tro a nodwyd gennyf wrth wneud gwaith ardystio grantiau yn 2014-15.

Arddangosyn 3: Materion cyffredinol sy'n ymwneud ag ardystio hawliadau a ffurflenni grant

Hawliadau a ffurflenni grant a amodwyd yn 2014-15

O'r 18 o hawliadau a ffurflenni grant ar gyfer 2014-15 a ardystiwyd gennym, amodwyd dau ohonynt o gymharu â naw yn 2013-14. Mae hyn yn cyfateb i 11 y cant o'r cyfanswm, sef gwelliant o gymharu â'r 35 y cant a amodwyd yn 2013-14. Roedd y materion a gafodd eu hamodi yn ymwneud â diffyg cymeradwyaeth ymlaen llaw mewn perthynas â throsglwyddiadau ac achosion o dalu cronïadau yn hwyr.

Effeithiolrwydd trefniadau cydgysylltu grantiau

Cyflwynwyd pob un o'r 18 o hawliadau a ffurflenni ar gyfer 2014-15 yr oedd angen eu hardystio yn brydlon, sef gwelliant o gymharu â'r pedwar allan o 25 a gafwyd yn hwyr yn 2013-14. Cyflwynwyd y rhan fwyaf o'r hawliadau gyda phapurau gwaith o safon dderbyniol.

Materion sy'n ymwneud â hawliadau a ffurflenni grant penodol

17. Yn ogystal â'r materion cyffredinol a nodwyd uchod, rwyf yn crynhoi'r materion mwy sylweddol a nodwyd gennyf mewn perthynas â hawliadau a ffurflenni grant unigol yn **Atodiad 2**.

Gwaith arall a wnaed

18. Rwyf hefyd yn gyfrifol am archwilio'r canlynol:
- Harbwr Caerdydd;
 - Awdurdod Iechyd Porthladd Caerdydd;
 - Cydbwyllgor Archifau Morgannwg;
 - Prosiect Gwyrdd; a
 - Chonsortïwm Prynu Cymru.
19. Nodir fy ffi archwilio ar gyfer y gwaith hwn yn **Arddangosyn 5**.

Archwilio perfformiad

20. Nodir elfennau fy ngwaith archwilio perfformiad yn **Arddangosyn 4** ac fe'u cynlluniwyd er mwyn helpu i gyflawni'r amcanion lefel uchel [a nodwyd yn ein strategaeth gorfforaethol ar gyfer 2013-2016](#).

Arddangosyn 4: Elfennau o'm gwaith archwilio perfformiad



21. Mae llywodraeth leol yng Nghymru yn mynd drwy gyfnod o newid na welwyd mo'i debyg o'r blaen. Mae effeithiau caledi yn amlwg o hyd, bydd yn ofynnol i gyrff a archwilir fabwysiadu'r egwyddor datblygu cynaliadwy o fis Ebrill 2016, ac mae Bil Llywodraeth Leol (Cymru) drafft yn cynnig llai o gynghorau a fframwaith perfformiad newydd. Mae'r Gweinidog Gwasanaethau Cyhoeddus wedi datgan yn gyhoeddus yr hoffai weld cyfundrefn archwilio newydd cyn cyflwyno'r amserlen ddeddfwriaethol gyda'r bwriad o gefnogi newid. Ym mis Ionawr eleni, fe'm hysbyswyd gan y gweinidog y byddai gostyngiad sylweddol yn y grant sy'n ategu fy ngwaith archwilio perfformiad llywodraeth leol o dan y Mesur.
22. Fodd bynnag, ar gyfer 2016-17, bydd y Mesur ar waith o hyd, a bydd angen i mi ystyried p'un a fydd awdurdodau yn cyflawni eu dyletswydd i wneud trefniadau i sicrhau gwelliant parhaus o hyd. Yr her i mi yn ystod y cyfnod hwn o ansicrwydd yw cydbwysu fy nyletswyddau statudol presennol, newydd ac arfaethedig â'r angen i barhau i gynnal archwiliadau ac asesiadau ystyrion a chymesur sy'n seiliedig ar risg.
23. Yn ystod gwanwyn 2016, byddaf yn cymryd rhan mewn ymgynghoriad gyda chyrrff gwasanaeth cyhoeddus i drafod y ffordd orau o gyflawni fy amrywiol ddyletswyddau tra'n sicrhau'r cydbwysedd mwyaf priodol ac ychwanegu gwerth drwy:
 - roi sicrwydd o ran y ffordd y caiff arian cyhoeddus ac asedau eu llywodraethu a'u gwarchod;
 - rhoi cipolwg defnyddiol o'r graddau y defnyddir adnoddau yn ddoeth i ddiwallu anghenion pobl; a
 - nodi a hyrwyddo ffyrdd y gellir gwella'r broses o ddarparu gwasanaethau cyhoeddus.

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24. Gan ystyried yr holl ffactorau hyn, ni allaf fod yn benodol am fy rhaglen o waith archwilio perfformiad llywodraeth leol ar hyn o bryd. Rwyf wrthi'n ymdrin â'r elfennau ymarferol sy'n gysylltiedig â llunio rhaglen waith briodol, ac yn ystyried goblygiadau'r gostyngiad mewn cyllid grant gyda'r bwriad o sicrhau, hyd y gallaf, mai bach yr effaith andwyol ar awdurdodau lleol drwy ffioedd.
 25. Cyn gynted ag y bo'n ymarferol, byddaf yn ysgrifennu i gadarnhau fy rhaglen waith ar gyfer 2016-17.

Y ffi, y tîm archwilio a'r amserlen

Ffi

26. Nid yw Swyddfa Archwilio Cymru yn gwneud elw o ffioedd. O dan y ddeddfwriaeth, ni chaiff y ffioedd a godir fod yn uwch na'r gost lawn sy'n gysylltiedig â chyflawni'r swyddogaeth y codir y ffi amdani. Pennir y cyfraddau ffioedd er mwyn adennill y gost honno'n llawn. Ni fu unrhyw newid yn fy nghyfraddau ffioedd ar gyfer 2016 a bydd fy nhimau archwilio yn parhau i geisio sicrhau arbedion effeithlonrwydd yn eu harchwiliadau ac maent yn awyddus i weithio gyda chi mewn modd adeiladol yn hyn o beth.
27. Nodir eich ffi amcangyfrifedig ar gyfer 2016 yn **Arddangosyn 5** (ar dudalen 11). Mae'r ffigur hwn yn cynrychioli gostyngiad o bump y cant o gymharu â'r ffi a nodwyd yng nghynllun archwilio 2015.

Arddangosyn 5: Ffi archwilio

Maes archwilio	Ffi arfaethedig (£) ¹	Y ffi wirioneddol y llynedd (£)
Gwaith archwilio ariannol¹	291,200	312,284
Gwaith archwilio perfformiad²	108,774	108,774
Cyfanswm y ffi	399,974	421,058
Gwaith ardystio grantiau³	80,500	87,125
Gwaith archwilio arall		
Harbwr Caerdydd ⁴	17,333	17,333
Awdurdod Iechyd Porthladd Caerdydd ⁴	2,373	2,373
Cydbwyllgor Archifau Morgannwg ⁴	2,373	2,373
Prosiect Gwyrdd ⁴	2,373	2,373
Consortium Prynu Cymru ⁴	2,373	2,373
Cyfanswm ffioedd ar gyfer gwaith archwilio arall	26,825	26,825

Nodiadau:

¹ Yn daladwy rhwng mis Tachwedd 2015 a mis Hydref 2016.

² Yn daladwy rhwng mis Ebrill 2016 a mis Mawrth 2017.

³ Yn daladwy wrth i'r gwaith gael ei wneud.

⁴ Yn daladwy ar ôl cwblhau'r gwaith archwilio.

28. Bydd y broses gynllunio yn un barhaus, ac efallai y bydd angen newid fy rhaglen o waith archwilio ac, felly, y ffi os bydd unrhyw risgiau newydd allweddol yn codi. Ni fyddaf yn gwneud unrhyw newidiadau heb eu trafod â'r Cyngor yn gyntaf.
29. Ceir rhagor o wybodaeth am fy [ngraddfeydd ffioedd a'r broses o bennu ffioedd ar wefan Swyddfa Archwilio Cymru](#).

¹ Nid yw'r ffioedd a ddangosir yn y ddogfen hon yn cynnwys TAW, gan na chodir TAW arnoch mwyach.

Tîm archwilio

30. Ceir crynodeb o brif aelodau fy nhîm, ynghyd â'u manylion cyswllt, yn **Arddangosyn 6**.

Arddangosyn 6: Fy nhîm

Enw	Rôl	Rhif cyswllt	Cyfeiriad e-bost
Ann-Marie Harkin	Cyfarwyddwr Ymgysylltu/Arweinydd Ymgysylltu – Archwilio Ariannol	02920 320500	ann-marie.harkin@audit.wales
Alan Morris	Arweinydd Ymgysylltu – Archwilio Perfformiad	02920 320500	alan.morris@audit.wales
Janet McNicholas	Rheolwr Archwilio Ariannol	02920 872259 02920 872258	janet.mcnicholas@audit.wales
Jon Martin Roy Blake	Arweinwyr y Tîm Archwilio Ariannol	02920 872259 02920 872258	jon.martin@audit.wales roy.blake@audit.wales
Non Jenkins	Rheolwr Archwilio Perfformiad	02920 320500	non.jenkins@audit.wales
Chris Pugh	Arweinydd Archwilio Perfformiad	02920 320523	chris.pugh@audit.wales

31. Gallaf gadarnhau bod holl aelodau fy nhîm yn annibynnol ar y Cyngor a'ch swyddogion. At hynny, nid wyf yn ymwybodol o unrhyw wrthdaro buddiannau posibl y mae angen i mi dynnu eich sylw ato.

Amserlen

32. Byddaf yn cyflwyno adroddiadau, neu allbynnau eraill y cytunwyd arnynt, i'r Cyngor sy'n ymdrin â'r meysydd gwaith a nodir yn y ddogfen hon. Nodir fy ngherrig milltir allweddol yn [Arddangosyn 7](#).

Arddangosyn 7: Amserlen

Allbwn arfaethedig	Gwaith a wnaed	Llunio'r adroddiad terfynol
Cynllun Archwilio 2016	Ionawr/Chwefror 2016	Mawrth 2016
Gwaith cyfrifon ariannol: <ul style="list-style-type: none">Adroddiad ar yr Archwiliad o Ddatganiadau AriannolBarn ar y Datganiadau AriannolMemorandwm Cyfrifon Ariannol	Chwefror – Medi 2016	Medi 2016 Medi 2016 Hydref 2016
Gwaith perfformiad: <ul style="list-style-type: none">Ni allaf fod yn benodol am fy rhaglen o waith archwilio perfformiad llywodraeth leol ar hyn o bryd	Ebrill 2016 i fis Mawrth 2017	Cyn gynted ag y bo'n ymarferol, byddaf yn ysgrifennu i gadarnhau fy rhaglen waith ar gyfer 2016-17.
Cynllun Archwilio 2017	Ionawr 2017	Chwefror 2017

* Yn amodol ar gymeradwyo'r canfyddiadau drafft mewn modd amserol gyda'r Cyngor.

Datblygiadau yn y dyfodol i'm gwaith archwilio

33. Mae Deddf Llesiant Cenedlaethau'r Dyfodol (Cymru) 2015 (y Ddeddf) yn ei gwneud yn ofynnol i mi gynnal archwiliad o bob un o'r cyrff cyhoeddus a ddynodir yn y Ddeddf a darparu adroddiad i'r Cynulliad Cenedlaethol erbyn 2020.
34. Fel y nodir ym [mharagraff 25](#), byddaf yn ymgynghori ar fy ymateb arfaethedig i'r Ddeddf yn ystod gwanwyn 2016. Bydd yr ymgynghoriad hwn yn cynnwys ymrwymiad i ymgysylltu a chydweithio â chyrff cyhoeddus i ddatblygu dull archwilio sy'n drylwyr, yn ystyrlon ac yn gymesur. Bwriadaf ddefnyddio 2016-17 fel blwyddyn drosiannol lle y bydd fy nhimau yn gweithio gyda nifer gyfyngedig o gyrff cyhoeddus i ddatblygu a phrofi fy null.
35. Wrth i ni gadarnhau ein dulliau archwilio ac ymateb i ymgynghori parhaus gan Lywodraeth Cymru, byddwn yn siarad â chyrff a archwilir am y goblygiadau i'w ffioedd o 2017-18 ymlaen ac yn ystyried modelau ariannu amgen â Phwyllgor Cyllid y Cynulliad Cenedlaethol nesaf.

Atodiad 1

Priod gyfrifoldebau

Archwilio ariannol

Fel y'i diwygiwyd gan Ddeddf Archwilio Cyhoeddus (Cymru) 2013, mae Deddf Archwilio Cyhoeddus (Cymru) 2004 yn nodi fy mhwerau a'm dyletswyddau i gynnal eich archwiliad ariannol. Fy nghyfrifoldeb i yw cyhoeddi tystysgrif ac adroddiad ar y datganiadau ariannol sy'n cynnwys barn ar y canlynol:

- Eu 'cywirdeb a'u tegwch', gan roi sicrwydd eu bod:
 - yn rhydd o gamddatganiadau perthnasol pa un a gawsant eu hachosi drwy dwyll neu wall;
 - yn cydymffurfio â'r gofynion statudol a gofynion cymwys eraill; ac
 - yn cydymffurfio â'r holl ofynion perthnasol ar gyfer cyflwyno a datgelu o ran cyfrifyddu.
- Cysondeb y wybodaeth yn yr Adroddiad Blynyddol â'r datganiadau ariannol.

Mae'n rhaid i mi hefyd ddatgan drwy eithriad os nad yw'r Datganiad Llywodraethu Blynyddol yn cydymffurfio â'r gofynion, os na chadwyd cofnodion cyfrifyddu cywir, os na wnaed y datgeliadau gofynnol ar gyfer cydnabyddiaeth a thrafodion eraill neu os nad wyf wedi derbyn yr holl wybodaeth ac esboniadau sydd eu hangen arnaf.

Mae Deddf Archwilio Cyhoeddus (Cymru) 2004 yn ei gwneud yn ofynnol i mi asesu a yw'r Cyngor wedi gwneud trefniadau priodol i sicrhau darbodusrwydd, effeithlonrwydd ac effeithiolrwydd o ran ei ddefnydd o adnoddau. Er mwyn cyflawni hyn, ystyriaif y canlynol:

- canlyniadau'r gwaith archwilio a wnaed ar y datganiadau ariannol;
- system rheolaeth fewnol y Cyngor, fel y nodir yn y Datganiad Llywodraethu Blynyddol a'm hadroddiad cysylltiedig;
- canlyniadau gwaith arall a wnaed gan gynnwys gwaith a gynhaliwyd o dan Fesur Llywodraeth Leol (Cymru) 2009 (y Mesur), ardystiadau o hawliadau a ffurflenni, ac ymarferion paru data;
- canlyniadau gwaith cyrff adolygu allanol eraill, lle bo hynny'n berthnasol i'm cyfrifoldebau; ac
- unrhyw waith arall sy'n ymdrin â materion nas cwmpeisir gan yr uchod, ac yr wyf o'r farn ei fod yn angenrheidiol i gyflawni fy nghyfrifoldebau.

Mae Deddf Archwilio Cyhoeddus (Cymru) 2004 yn nodi hawliau'r cyhoedd ac etholwyr i archwilio datganiadau ariannol y Cyngor a dogfennau cysylltiedig, gofyn cwestiynau i mi, fel yr Archwilydd Penodedig, am y cyfrifon a, lle y bo'n briodol, herio eitemau yn y cyfrifon. Rhaid i mi hefyd ystyried pa un a ddylwn lunio adroddiad, er budd y cyhoedd, ar unrhyw fater a ddaw i'm sylw wrth i mi gynnal yr archwiliad.

Nid yw fy ngwaith archwilio yn rhyddhau rheolwyr, na'r rhai sy'n gyfrifol am lywodraethu, o'u cyfrifoldebau sy'n cynnwys:

- paratoi'r datganiadau ariannol a'r Adroddiad Blynyddol yn unol â safonau a chanllawiau cyfrifyddu cymwys;

-
- cadw cofnodion cyfrifyddu cywir;
 - sicrhau rheoleidd-dra trafodion ariannol; a
 - sicrhau gwerth am arian o ran y defnydd o adnoddau.

Mae'r rheolwyr yn cytuno i roi'r canlynol i mi:

- mynediad i'r holl wybodaeth y mae'r rheolwyr yn ymwybodol ohoni sy'n berthnasol i'r gwaith o baratoi'r datganiadau ariannol megis cofnodion, dogfennaeth a materion eraill;
- gwybodaeth ychwanegol y gallaf ofyn amdani gan y rheolwyr er mwyn cynnal yr archwiliad; a
- mynediad anghyfyngedig i unigolion o fewn y Cyngor y byddaf yn penderfynu ei bod yn angenrheidiol cael tystiolaeth archwilio ganddynt.

Bydd angen i'r rheolwyr roi datganiadau ysgrifenedig i mi er mwyn cadarnhau'r canlynol:

- eu bod wedi cyflawni eu cyfrifoldebau ar gyfer paratoi'r datganiadau ariannol;
- bod pob trafodyn wedi'i gofnodi ac wedi'i adlewyrchu yn y datganiadau ariannol;
- bod y wybodaeth a roddwyd i mi er mwyn cynnal yr archwiliad yn gyflawn; ac
- ategu tystiolaeth archwilio arall sy'n berthnasol i'r datganiadau ariannol neu honiadau penodol yn y datganiadau ariannol os ystyriaf fod hynny'n angenrheidiol neu os yw'n ofynnol o dan y Safonau Rhyngwladol ar Archwilio.

Archwilio perfformiad

Mae'r Mesur yn gosod dyletswydd gyffredinol ar awdurdodau gwella i 'wneud trefniadau i sicrhau gwelliant parhaus wrth gyflawni [eu] swyddogaethau'. Mae hefyd yn gosod gofynion penodol ar awdurdodau i bennu amcanion gwella, ac i gyhoeddi cynlluniau gwella blynyddol ac asesiadau o berfformiad. Diffinnir awdurdodau gwella fel cynghorau sir a chynghorau bwrdeistref sirol, awdurdodau parciau cenedlaethol, ac awdurdodau tân ac achub.

Mae'r Mesur hefyd yn ei gwneud yn ofynnol i mi gynnal asesiad gwella ar gyfer pob awdurdod gwella bob blwyddyn, er mwyn pennu a yw'r awdurdod yn debygol o gydymffurfio â'i ddyletswydd gyffredinol a gofynion y Mesur. Rhaid i'r Archwilydd Cyffredinol hefyd gynnal archwiliadau i nodi pa un a yw'r awdurdod wedi cyflawni ei ddyletswyddau o ran gwella, cynllunio ac adrodd.

O dan rai amgylchiadau gall yr Archwilydd Cyffredinol hefyd gynnal arolygiadau arbennig (o dan adran 21), y bydd yn cyflwyno adroddiad i'r awdurdodau a'r Gweinidogion perthnasol mewn perthynas â hwy, ac y gall eu cyhoeddi (o dan adran 22). Bydd yr Archwilydd Cyffredinol yn crynhoi'r adroddiadau archwilio ac asesu yn ei Adroddiad Gwella Blynyddol cyhoeddedig (o dan adran 24). Bydd yr adroddiad hwn hefyd yn crynhoi unrhyw adroddiadau ar arolygiadau arbennig.

Atodiad 2

Crynodeb o waith ardystio hawliadau grant

Enw'r cynllun	Cyfnod y cynllun	Cyfanswm/gwariant blynyddol	Materion a nodwyd yn 2014-15
Cymhorthdal Budd-dal Tai	2014-15	£151,943,937	Dim materion sylweddol, ond gwnaed diwygiad i'r hawliad o ganlyniad i fater technegol na chafodd unrhyw effaith ar gyfanswm gwerth yr hawliad.
Ysgolion yr 21ain ganrif	2014-15	£2,743,278	Ni chwblhawyd yr hawliad yn gywir. Ni chafodd y diwygiadau a ddeilliodd o hynny unrhyw effaith o ran gwerth.
Prosiect Adfywio Butetown	2007-13	£397,755	Dim.
Dechrau'n Deg - Refeniw	2014-15	£8,448,092	Diwygiwyd yr hawliad er mwyn dileu gwariant yr aed iddo y tu allan i 2014-15 ac fe'i hamodwyd gan na ofynnwyd am gymeradwyaeth gan Lywodraeth Cymru ar gyfer trosglwyddiadau.
Dechrau'n Deg - Cyfalaf	2014-15	£2,515,908	Ni chwblhawyd yr hawliad yn gywir. Ni chafodd y diwygiadau a ddeilliodd o hynny unrhyw effaith o ran gwerth.
Teuluoedd yn Gyntaf	2014-15	£5,401,077	Dim.
Cronfa Weithredu ar Gamddefnyddio Sylweddau	2014-15	£3,646,679	Dim.

Enw'r cynllun	Cyfnod y cynllun	Cyfanswm/gwariant blynyddol	Materion a nodwyd yn 2014-15
Cymhorthdal y Cyfrif Refeniw Tai	2014-15	£14,676,193	Gwnaed addasiad ar gyfer gwall cyfrifo a wnaed yn ystod y flwyddyn flaenorol hefyd.
Cyfraniad Terfynol Ardrethi Annomestig	2014-15	£173,425,351	Dim.
Rheoli Gwastraff yn Gynaliadwy	2014-15	£7,390,126	Dim.
Ffurflen Pensiynau Athrawon	2014-15	£26,871,929	Dim.
Cymunedau yn Gyntaf - Clwstwr Dwyrain Caerdydd	2014-15	£639,485	Diwygiwyd yr hawliad hwn er mwyn dileu gwariant a oedd yn ymwneud â'r flwyddyn flaenorol.
Cymunedau yn Gyntaf - Clwstwr Gorllewin Caerdydd	2014-15	£793,412	Mae angen gwella ansawdd y papurau gwaith a'r wybodaeth ategol a ddarperir gan dîm rheoli trydydd parti'r clwstwr.
Cymunedau yn Gyntaf - Clwstwr BRG	2014-15	£694,538	Gwnaed diwygiadau i'r hawliad. Mae angen gwella ansawdd y papurau gwaith a'r wybodaeth ategol a ddarperir gan dîm rheoli trydydd parti'r clwstwr.
Cymunedau yn Gyntaf - Clwstwr STAR	2014-15	£744,385	Gwnaed diwygiadau i'r hawliad. Mae angen gwella ansawdd y papurau gwaith a'r wybodaeth ategol a ddarperir gan dîm rheoli trydydd parti'r clwstwr.
Datblygu'r Gweithlu Gofal Cymdeithasol	2014-15	£830,138	Dim.
Y Gronfa Trafnidiaeth Leol	2014-15	£1,687,000	Ni ofynnwyd am gymeradwyaeth gan Lywodraeth Cymru ar gyfer trosglwyddiadau a wnaed o fewn yr hawliad.

Enw'r cynllun	Cyfnod y cynllun	Cyfanswm/gwariant blynyddol	Materion a nodwyd yn 2014-15
Teithio Rhatach am Ddim i'r Henoed a Phobl Anabl ar Wasanaethau Bws Lleol yng Nghymru	2014-15	£10,584,922	Dim mewn perthynas â'r hawliad. Fodd bynnag, mae angen gwella'r broses ar gyfer coladu data ar y defnydd o Smartcard (tocyn bws electronig).

Atodiad 3

Astudiaethau gwerth am arian cenedlaethol

Efallai y bydd gan y Cyngor hefyd ddi-ddordeb yn yr archwiliadau gwerth am arian cenedlaethol a gynhelir gennyf, y bydd rhai ohonynt yn arbennig o berthnasol i lywodraeth leol, ac efallai'n cynnwys casglu tystiolaeth ar draws llywodraeth leol. Ariennir yr astudiaethau hyn gan y Cynulliad Cenedlaethol. Cyflwynir adroddiadau i Bwyllgor Cyfrifon Cyhoeddus y Cynulliad Cenedlaethol i'w helpu i graffu ar wariant cyhoeddus ac o bosibl i hwyluso trefniadau craffu pwyllgorau eraill y Cynulliad Cenedlaethol.

Mae'r tabl isod yn cwmpasu'r holl waith mewn perthynas ag astudiaethau gwerth am arian sydd ar y gweill ar hyn o bryd. Mae'r rhaglen hon yn cynnwys crynodebau Cymru gyfan o'r gwaith archwilio a wnaed yn lleol yn y GIG ac archwiliadau ymatebol o feysydd penodol sy'n peri pryder i'r cyhoedd a godwyd â mi. Yn ogystal â'r gwaith a amlinellir isod, mae'n bosibl y byddaf yn penderfynu paratoi adroddiadau cenedlaethol eraill yn ystod y flwyddyn a fydd yn crynhoi gwaith archwilio lleol neu a fydd yn seiliedig ar ganfyddiadau archwiliadau ymatebol. Cyflwynir adroddiadau diweddar pellach ar fy rhaglen o astudiaethau gwerth am arian i chi o fewn yr adroddiadau cynnydd rheolaidd a baratoir gan fy nhîm.

Pwnc	Amserlen gyhoeddi ddisgwyliedig
Llywodraeth Cymru yn caffael a pherchnogi Maes Awyr Caerdydd	Diwedd Ionawr 2016
Datblygiad Cyfoeth Naturiol Cymru	Dechrau Chwefror 2016
Theatrau llawdriniaethau	Chwefror 2016
Effaith ymarfer preifat ar ddarpariaeth y GIG	Chwefror 2016
Cronfa Fuddsoddi Gwyddorau Bywyd Cymru	Mawrth 2016
Ymatebion Llywodraeth Cymru i argymhellion archwilio (memorandwm ar gyfer y Pwyllgor Cyfrifon Cyhoeddus)	Gwanwyn 2016
Rheoli'r perygl o lifogydd ac erydu arfordirol	Gwanwyn 2016
Gwasanaethau rheilffyrdd	Gwanwyn 2016
Llywodraethu Llyfrgell Genedlaethol Cymru	Gwanwyn 2016
Goruchwyliaeth Llywodraeth Cymru o gyllid a darpariaeth sefydliadau addysg bellach	Hydref 2016

Pwnc	Amserlen gyhoeddi ddisgwyliedig
Caffael cyhoeddus (gan gynnwys datblygu'r Gwasanaeth Caffael Cenedlaethol)	Gaeaf 2016
Ymyrraeth gynnar a newid ymddygiad	Gwanwyn/haf 2017 ²
Ymyriadau Llywodraeth Cymru mewn llywodraeth leol	I'w gadarnhau ³

Yn ystod y misoedd diwethaf, bûm yn ystyried cynnwys nifer o astudiaethau newydd ar y canlynol fel rhan o'm rhaglen:

- Gwasanaeth Gwybodeg GIG Cymru;
- buddsoddiad cyfalaf mewn ysgolion (rhaglen ysgolion yr 21ain Ganrif) a lleoedd ysgol;
- cyllid addysg bellach;
- rheoli gwastraff;
- rhaglen Cefnogi Pobl; a
- gallu pobl nad Cymraeg neu Saesneg yw eu mamiaith a'r rheini a all fod o dan anfantais ac na allant fanteisio ar wasanaethau cyfieithu ar y pryd arbenigol i gael gafael ar wasanaethau cyhoeddus.

Ac eithrio'r astudiaeth addysg bellach y cyfeirir ati yn y tabl uchod, ni chadarnhawyd cynlluniau pendant ar gyfer yr astudiaethau newydd hyn, er bod gwaith pennu cwmpas cychwynnol yn mynd rhagddo.

² Mae fy rhaglen o waith arfer da yn cynnwys prosiect a fydd yn anelu at ystyried yr amrywiaeth o waith newid ymddygiad ar draws gwasanaethau cyhoeddus yng Nghymru a chyfleoedd i wella arfer, cyflawni canlyniadau gwell i ddinasyddion a sicrhau gwell gwerth am arian. Bydd y prosiect yn cynnwys amrywiaeth o ddigwyddiadau ymgysylltu a threfniadau ar gyfer datblygu cymuned ymarfer i rannu dysgu a phrofiad. Rwyf yn rhagweld y bydd y wybodaeth a'r dystiolaeth a gesglir drwy'r gwaith hwn yn ategu'r broses o lunio adroddiad ar y pwnc, er nad yw'r adroddiad hwn yn debygol o fod ar ffurf adroddiad archwilio traddodiadol ac nad yw'n debygol o gael ei baratoi tan hanner cyntaf 2017.

³ Bu'r cynlluniau ar gyfer y gwaith hwn yn cael eu hailystyried yn dilyn yr adolygiad a gomisiynwyd gan Lywodraeth Cymru o ymyriadau Sefydliad Polisi Cyhoeddus Cymru mewn perthynas ag Ynys Môn, ac er mwyn ystyried goblygiadau'r cynlluniau i ddiwygio llywodraeth leol ar gyfer y gwaith.

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**CITY OF CARDIFF COUNCIL
CYNGOR DINAS CAERDYDD**

AUDIT COMMITTEE:

22 MARCH 2016

**TREASURY PERFORMANCE REPORT AS AT 29 FEBRUARY
2016**

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 7.1

Appendix 1 of this report is not for publication as it contains exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972

PORTFOLIO: CORPORATE AFFAIRS

Reason for this Report

1. The Audit Committee Terms of Reference sets out their responsibility for undertaking scrutiny of the accounting, audit and commercial issues in relation to the Council's Treasury Management Strategy and practices.
2. This report has been prepared to provide Audit Committee Members with performance information and a position statement on Treasury Management as at 29 February 2016 and highlight key changes from the previous report received as at 31 December 2015.

Background

3. The report attached at Appendix 1 provides the Committee with a snapshot of treasury performance together with position statements on investments and borrowing.

Performance

4. Forecast interest income on investments and external interest payable remain at levels previously reported. Assumptions around external interest payable reflect an underspend due to deferral of the timing of borrowing in the current financial year. Without any further borrowing during the year, the level of internal borrowing at 31 March 2016 is projected to be £50 Million, however this is dependant on timing and funding of capital expenditure and completion of the Council's Outturn position.

Investments

5. Pages 2 and 3 of the Performance Report consider the position on investments. The charts on the Performance Report show the position at a point in time and investments should be closely monitored.

6. The current investments list details each investment, the interest rate, the start date and maturity date. It also links this back to the credit criteria by a colour coding which indicates the perceived strength of the organisation.
7. The balance of investments is at a point in time and will fluctuate depending on the timing of income and expenditure e.g. payments to suppliers, receipt of grants, capital receipts etc.
8. The charts that surround this table provide additional information and the key areas to highlight are shown below.
 - **Counterparty Exposure** displays actual investment against the maximum permitted directly with an organisation – This demonstrates that the council is not exceeding any exposure limits.
 - **Remaining Maturity Profile of Investments.** Maturities of investments have been spread to achieve a balanced profile.
 - **Investments by Institution.** This expresses the investments held with different institutions as a percentage of the total. It can be seen that investments remain diversified over a number of organisations.
 - **Geographic Spread of Investments** as determined by the country of origin of relevant organisations. All countries are rated AA and above as per the council's approved criteria.
 - **Investments by Financial Sector.** The majority of investments are with banks.

Borrowing

9. The December report indicated that £11 million of the eligible £12.975 million of preferential rate (Project Rate) PWLB borrowing to be undertaken by the end of 2015/16 was drawn down. The balance of £1.975m was taken in February 2016 at the average rate and period set out in the report. As part of the WG Vibrant and Viable places scheme, an interest free loan of £0.5 Million was received from WG Financial flexibilities funding and used towards providing a loan towards the Tramshed development in Grangetown.
10. At 29 February 2016, the total level of borrowing is £666.3 million. No further PWLB borrowing is planned to be undertaken during the remainder of the year.

Interest Rate Forecasts

11. The latest interest rate forecasts from the Council's Treasury advisors has pushed back the timing of the start of increases in Bank Rate towards the start of 2017. The pace of increases thereafter is assumed to remain remain slow and gradual.

Training

12. It is important to ensure that Committee members have the necessary information and skills to carry out their responsibility for scrutiny. Officers have provided an introductory training session previously supported by the Council's Treasury advisors. Officers have also met individually with members

of the committee to provide on to one information and background which you may have found useful. Where members feel they need further information or support either individually, on a collective basis, or via further specific reports to committee similar to the benchmarking information provided previously we would be happy to arrange where feasible.

Reason for Report

13. To provide Audit Committee Members with an update on the treasury management position as at 29 February 2016.

Legal Implications

14. No direct legal implications arise from this report.

Financial Implications

15. Treasury management activities undertaken by the Council are governed by a range of policies, codes of practice and legislation. This report indicates the treasury management position at one point in time and makes a number of assumptions in forecasts which will be updated in future reports. The report provides a tool for indicating to Members the treasury position. Future reports will highlight main changes since this report.

RECOMMENDATIONS

16. That the Treasury Performance Report for 29 February 2016 be noted.

CHRISTINE SALTER
CORPORATE DIRECTOR RESOURCES
4 March 2016

The following appendix is attached
Appendix 1 – Cardiff Council Treasury Management Performance Report

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By virtue of paragraph(s) 14, 21 of Part(s) 4 and 5 of Schedule 12A of the Local Government Act 1972.

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**PROPOSED TREASURY MANAGEMENT PRACTICES - APRIL
2016 ONWARDS**

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM 7.2

Appendix 1 of this report is not for publication as it contains exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972

PORTFOLIO: CORPORATE AFFAIRS

Reason for this Report

1. The Audit Committee Terms of Reference sets out their responsibility for undertaking scrutiny of the accounting, audit and commercial issues in relation to the Council's Treasury Management Strategy and Practices.
2. This report has been prepared to provide Audit Committee Members with the proposed Treasury Management Practices (TMP's) to apply from April 2016.

Background

3. The Council carries out its treasury management activities in accordance with a code developed for public services in 2011 by the Chartered Institute of Public Finance and Accountancy (CIPFA). This requires the preparation of what are termed 'Treasury Management Practices' and the areas which these must cover are specified.
4. The purpose of TMP's are to demonstrate that the Council's Treasury Management activities are carried out in an open and transparent framework. These are reviewed periodically under delegation FS5 to the Corporate Director Resources.

Issues

5. The code covers controls, processes and practices in the following twelve areas:-
 - Treasury risk management.
 - Credit and counterparty risk management.
 - Liquidity risk management.
 - Interest rate risk management.
 - Exchange rate risk management.
 - Refinancing risk management.
 - Legal and regulatory risk management.
 - Fraud, error and corruption, and contingency management.
 - Market risk management.
 - Performance management.
 - Decision-making and analysis.
 - Approved instruments, methods and techniques.
 - Organisation, clarity and segregation of responsibilities, and dealing arrangements.
 - Reporting requirements and management information arrangements.
 - Budgeting, accounting and audit arrangements.
 - Cash and cash flow management.
 - Money laundering.
 - Training and qualifications.
 - Use of external service providers.
 - Corporate governance.
6. Internal Audit review of the TMP's as part of their periodic audit of the Treasury Function was undertaken in early 2015 including testing of treasury processes and systems. No significant concerns were raised and the next review is planned to be undertaken within the next 6 months.
7. The Audit Committee previously received the Treasury Management Practices in March 2015. Whilst there has been some changes to wording, the main changes in this updated version reflect:
 - Minor update for the approved 2016/17 Treasury Management Strategy and criteria for investment approved by Council in the February 2016 Council budget
 - Changes in finance organisational structure and roles and
 - Removal of Housing Finance Subsidy reform from the review of the Treasury risk register

Reason for Recommendations

8. To note and provide comments on the proposed treasury management practices to apply from April 2016 which assists in the review and assessment of the risk management, internal control and corporate governance arrangements of the authority in relation to treasury activities.

Legal Implications

9. No direct legal implications arise from this report.

Financial Implications

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

RECOMMENDATIONS

11. Audit Committee to note the Treasury Management Practices to be implemented from April 2016, with any internal audit recommendations arising from review of these practices being implemented by the Corporate Director Resources and included in future updates to Treasury Management Practices.

CHRISTINE SALTER
CORPORATE DIRECTOR RESOURCES
4 March 2016

The following appendix is attached

Appendix 1 – Treasury Management Practices and Appendices – Valid from April 2016

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By virtue of paragraph(s) 14, 21 of Part(s) 4 and 5 of Schedule 12A of the Local Government Act 1972.

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**CITY OF CARDIFF COUNCIL
CYNGOR DINAS CAERDYDD**

AUDIT COMMITTEE: 22 March 2016

EXECUTIVE SUMMARY REPORT, QUARTER 4, 2015-16

REPORT OF CORPORATE DIRECTOR - RESOURCES

AGENDA ITEM: 8.1

Appendix A of this report are not for publication as it contains exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972

Reason for Report

1. The Audit Committee's Terms of Reference requires that Members consider reports from the Audit & Risk Manager on Internal Audit's findings during the year.
2. Full details of audit work undertaken during quarter 4 will be reported as part of the Annual Internal Audit report for 2015-16, which will be presented to the first meeting of the Audit Committee in the new financial year (June), as it needs to reflect the full year findings and opinions.
3. This report serves to provide an interim position relating to any audits of particular concern to members where there has been a "Limited" or "No" Assurance audit opinion and to provide assurance that these are monitored and regularly acted upon, seeking to enhance the internal control environment.

Background

4. For each audit undertaken and reported, the auditor provides an overall audit opinion. This reflects on the scope and original objectives set at the outset of the audit and provides an overview of audit findings in context. This opinion is based on both positive aspects of the audit, where there is evidence to show benchmarking controls are in place and followed, and negative aspects, where there are gaps in control and non compliance with Council rules or best practice processes.
5. All final reports are issued to the appropriate Director or Chair of Governors, with associated managers copied in, and with the covering email making clear the audit opinion. Those with "Limited" or "No" Assurance are highlighted. Audit Management attend Governing Body meetings when a Limited Assurance audit report is being considered.
6. For all audits where there is a "Limited" or "No" Assurance opinion, an Executive Summary report is produced and sent with the final report.

7. Each Executive Summary is provided to the Section 151 Officer who updates Informal Cabinet and the Audit & Risk Manager provides copies and discusses each with the Chief Executive.
8. Should the opinion be “No” Assurance or relate to a follow up audit, where the opinion remains “Limited” or “No” Assurance, this is reported immediately to the Audit Committee.
9. All follow up audits are undertaken after 6 months to seek assurance remedial action has been taken. A key factor in this assessment will be the extent to which previously agreed recommendations have been implemented.
10. A tracker system has been introduced to record all audits with “Limited” or “No” Assurance opinions, updated to show any actions taken in relation to these audits.

Issues

11. The updated tracker is shown at Appendix A, which provides an update in relation to all such audits.
12. This highlights that there was only one final report issued this quarter with “Limited” Assurance i.e. Land Charges. The Executive summary has been issued to the Director who has welcomed the report and accepted all the recommendations. This Executive summary will be shared with the Corporate Director –Section 151 Officer and the Chief Executive prior to meeting with them.
13. The tracker also identifies some draft reports completed and issued where it is considered likely these will be “Limited” Assurance. Of particular note are two, relating to Stores at Brindley Road and Payroll overpayments which are both follow up reports and thus there is concern over the limited progress made to improve controls. If agreed as “limited” once finalised, the Executive summaries for these will be reported direct to Audit Committee as per agreed protocol.

Legal Implications

14. There are no legal implications arising from this proposal.

Financial Implications

15. There are no financial implications arising from this proposal.

Recommendations

16. Audit Committee note the content of this report.

Derek King
Audit & Risk Manager
March 2016

The following Appendix is attached:
Appendix A: Tracker

By virtue of paragraph(s) 14, 21 of Part(s) 4 and 5 of Schedule 12A of the Local Government Act 1972.

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CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD

AUDIT COMMITTEE: 22 MARCH 2016

INTERNAL AUDIT STRATEGY 2016-17

REPORT OF CORPORATE DIRECTOR RESOUECES

AGENDA ITEM: 8.2

Reason

1. The Audit Committee's Terms of Reference requires that Members approve the Internal Audit Strategy comprising the risk-based internal audit plan, which contains the internal audit resources (resources include; Audit, Investigations, Risk & Governance and Programme and Project Assurance Teams).
2. To provide members of the Audit Committee with details of the Internal Audit Strategy for the financial year commencing 1st April 2016.

Background

3. At the commencement of each financial year, consideration is given to updating key documents which form part of the Internal Audit Strategy to set the scene for the twelve months ahead.
4. The key elements of the Strategy form the basis for planning and service delivery and by updating key documents this enables new challenges to be identified and objectives and performance measures set out for the next twelve months. This work sits alongside a risk assessment process of the audit universe to provide an outline Annual Audit Plan.
5. With continuing emphasis on risk based auditing there has been a move towards a more dynamic annual audit plan and increasingly, with the pace of change and constantly changing risk profile, the Annual Plan is becoming at best, a yardstick to measure performance against. The pattern is that priorities change even within a few months of the start of a new financial year and it is vitally important that Internal Audit reacts to this in prioritising its work and that there is flexibility in the Annual Audit Plan to accommodate this. This dynamism needs to be borne in mind when considering this report.
6. Greater engagement with directors, through our relationship manager arrangements has proved successful for both Internal Audit and Directors with quarterly meetings continuing to ensure that new and innovative ways of delivering services are considered, along with the risks and impacts this may have on fundamental financial control.

Issues

7. The Strategy 2016-17, as shown at Appendix A, brings together a number of key documents relating to the twelve months ahead.

8. This document includes an overview of audit resources and the role of audit, together with background scene-setting information for the 2016-17 Plan. Key in demonstrating compliance with the Public Sector Internal Audit Standard is an updated Audit Charter and the Strategy also provides an update on aspects of the Quality Assurance & Improvement Programme and sets out the key aims and objectives for the year.
9. The aims and objectives will allow a more detailed Service Delivery Plan to be prepared in April setting out the tasks associated with delivering the objectives and how this will be measured.
10. It is worth noting that in order to seek approval before the commencement of the new "audit" year, the Strategy was produced by the outgoing Audit Manager (who is leaving at the end of March) and the new Manager will need to develop some of the detail early in the new financial year.
11. It will also be important to take account of audit work undertaken up until the year end, to decide on any carry forward work to be prioritised, and ongoing discussion will continue with directors into April, around their priorities in coming months. This will culminate in a more detailed plan of audit coverage to be made available to Members at their June meeting.
12. The Plan will be maintained on the audit planning and management database and used to assign audits as the year progresses. Regular monitoring will be undertaken and priorities reviewed on an ongoing basis. Regular reports will be made comparing Plan vs Actual and a number of key performance statistics.

Legal Implications

13. There are no legal implications arising from this proposal.

Financial Implications

14. There are no financial implications arising from this proposal.

Recommendations

15. To consider and approve the content of the Audit Strategy 2016-17, including the Audit Charter and overview Audit Plan.

**CHRISTINE SALTER
CORPORATE DIRECTOR RESOURCES**

Appendix A: Internal Audit Strategy 2016-17



CORPORATE RESOURCES INTERNAL AUDIT SECTION

City of Cardiff Council

INTERNAL AUDIT STRATEGY 2016-17

Mission Statement

Our aim is to provide a high quality service to existing and potential clients and to attain wide recognition as a lead provider of audit and investigative services, based on achieving a high standard of professionalism and expertise in service delivery.

Open

We are open and honest about the difficult choices we face, and allow people to have their say on what's important to them and their communities

Fair

We champion fairness, recognising that with less resource we need to prioritise services for those who need them most

Together

We work with our communities and partners across the city to deliver the best outcomes for the people of Cardiff



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FOREWORD

As Section 151 Officer for the City of Cardiff Council, I have responsibility for financial stewardship and to ensure that resources are used effectively to secure positive results. The Budget Strategy Report 2016/17 and the Medium Term Financial Plan 2017/18 – 2019/20 have set out an extremely challenging medium term position, which is being addressed through various saving driver and income generation options. A budget gap over the medium term necessitates a need to rethink how and what services are delivered and the most effective means of delivery within budget constraints.

The provision of an effective cornerstone of good governance within the Authority rests with Internal Audit and the work it does in terms of providing assurances around governance, risk management and internal controls. The team provides assurance that is independent and objective and as part of this review of the year the Audit Manager provides an opinion on internal control.

March 2016 sees the retirement of the Audit and Risk Manager, who has championed improvements in risk, governance and internal control by effectively steering the activities of the Internal Audit service for more than thirty years. The loss of such an experienced, knowledgeable and valued audit leader will provide a significant challenge going forward.

The Audit & Risk Manager's retirement has provided an opportunity to reassign risk management arrangements outside of Internal Audit, to strengthen the independence and objectivity of the Internal Audit function. An Audit Manager without specific risk management responsibilities will be appointed, to enable the Internal Audit function to focus on risk management assurance with a reduced role in coordinating risk management work.

I continue to support the independent activity of the Internal Audit team at a time when resources are limited and see their role as vitally important in providing challenge and assurance within the Authority to uphold sound financial stewardship. The year ahead presents some significant challenges in maintaining sound financial arrangements, with a need to be open to more commercial opportunities for income realisation and to deliver savings via different models of working. Throughout this period of change compliance with Council rules and regulations will be vital and the Audit team will be key in providing assurances in these areas.

**Christine Salter,
Corporate Director Resources (Section 151 Officer)**

1. Purpose of the Strategy

The Internal Audit Strategy serves a number of purposes:

- ❖ To provide an overview of the Audit service and its resources; included in an updated Audit Charter;
- ❖ To identify key aims and objectives for the coming 12 months;
- ❖ To provide an overview of the audit work planned for 2016-17, based on assessment of risks, at the time the Audit Plan is prepared.

2. Audit Service Overview

Resources

Audit Manager – 1 FTE - responsible for leading and managing the audit and investigation teams in delivering their roles, as set out within the Public Sector Internal Audit Standards (PSIAS), and other professional Codes of Practice. Also a member of the Finance Management Team.

Audit Team – 11 FTE - who undertake system based audits, financial audits, provides advice and guidance to clients on a wide range of matters and undertake work around efficiency and value for money. (This assumes the Principal Auditor - Risk & Governance remains within Internal Audit)

Investigation Team – 2.3 FTE - dedicated to the prevention, detection and investigation of suspected fraud or financial impropriety.

3. All audit staff are required to maintain the highest standards of professional practice, and comply with professional Code of Practices. For the Audit team, the Public Sector Internal Audit Standard is followed in all aspects of work undertaken and many of the principles of the Standard are followed in the other team.
4. The Section is managed by a CCAB qualified Accountant with audit and finance experience. In the Audit team, there are a further 3 qualified Accountants, and most other auditors are qualified Accounting Technicians. A Principal Auditor is studying CIPFA and 4 are studying for the Certified Internal Audit qualification. The Investigation team is led by a Group Auditor who has the CIPFA Certificate in Investigative Practice and investigators are Professional trained investigators (PINS).
5. An Organisational Structure, outlining staff resources, is available from the Audit Manager.
6. We value the professionalism and commitment of all Auditors and Investigators, and their ongoing development and training are fundamental to the delivery of the many challenging targets that are part of the Section's overall aims and objectives. The Council's Personal Performance and Development Scheme is fully adopted within Audit where all members of the team have an opportunity to consider how their skills match the roles they fulfil and how they look to meet the

objectives they have been set, relating to their role. This helps to identify team and individual development and training opportunities to ensure all team members remain up to date with best professional practice.

7. With the ongoing management restructure and a decision yet to be taken regards the impact of transferring risk management out of Internal Audit, it is difficult to know the final budget position for 2016-17 and more accurate figures will be reported early in the new financial year. Indicative figures are shown in Table 1 below, with a trend analysis over the past 3 years.

Table 1 – Internal Audit Budget for period 2014-15 to 2016-17

	2014-15 £k (FTE)	2015-16 £k (FTE)	2016-17 £k (FTE)
Audit	564 (14.0)	560 (14.0)	477 (12.0)
Investigations	355 (8.0)	134 (2.3)	133 (2.3)
Total	885 (22.0)	694 (16.3)	610 (14.3)

Notes:

- The figures do not include £31k cost of admin building – non controllable cost.
 - The figures do not include recharge figures or a contribution from an Earmarked Reserve (fraud) of £66k, primarily to help meet savings target for 2016-17.
 - The figures do include staffing costs for Principal Auditor – Risk & Governance, assuming the post will remain in Audit.
 - The figures have been adjusted to reflect a saving in management costs, circa £25k.
8. Of the £610k it is noted that £581k relates to staff related costs (95%), which highlights the minimal budget remaining for non-staffing related matters, as a consequence largely of year on year savings. This is a key factor whenever budget savings are being considered, as there is very little other than posts to look for, when savings have to be found.
9. The table shows that staff resources have reduced on last year, with a Principal Auditor and Senior Auditor post being given up as part of budget savings. The main impact of this reduction relates to programme and project assurance where some key appointments were made in the ODP management structure, which allowed Internal Audit to take a step back and to focus more on providing an independent audit / assurance functions, making use of CRSA approach, as the means of maximising resources in this area. Audit also continues to play an active role as “critical friend” to provide assurance on a wide range of evolving projects.
10. Further savings of £66k for 2016-17 have been met through contributions from an Earmarked Reserve, held for fraud prevention, detection and investigation work. The reserve relates to when the Council was rewarded for successful fraud sanctions and from contributions it received, to establish a Corporate Fraud team when SFIS was established. The use of this Reserve is welcomed, to avoid further staff cuts during 2016-17, and gives the opportunity over the next 12 months to seek more innovative ways of charging and developing new income streams.

Service Delivery

11. The Audit Charter attached at **Appendix A**, sets out the definition, objective and scope for Internal Audit and how we comply with professional standards. It also sets out the main types of work we undertake, information relating to our independence, relationships with clients, some key quality standards and our Customer Care Statement.
12. The content of the Charter is aimed at demonstrating compliance with that recommended by the PSIAS. A comprehensive self-assessment exercise has been undertaken to measure the degree of conformance to the standard and the opportunity taken to ensure the Charter captures all key elements. This will be key for the external assessment scheduled for later in the year and is used by WAO to help with their assessment of how effective Internal Audit performs.
13. Our terms of reference in respect of audit and investigative work are contained in the [Council's Financial Procedure Rules at Section 4](#), which also sets out the authority that Auditors have to fulfil their roles. The Council's [Fraud, Bribery & Corruption Policy](#) also outlines the processes where there is suspected fraud or financial impropriety, where the Audit Section has a significant role to play.
14. We have developed a tried and tested Audit Protocol which sets out the audit process and reporting arrangements and our inter-relationship with our clients and we work to Service Level Agreements which sets out the service we aim to deliver and what we expect from our clients to enable us to perform our duties effectively. A copy of these documents is available on request from the Audit Manager.

Quality Assurance and Improvement Programme - QAIP

15. We have continued to be proactive in developing a wide range of measures to capture different aspects of performance, covering elements of time, cost, general performance and quality, recognising the importance of monitoring how we provide a service and seeking continuous improvement. This gained further prominence following the Finance Service Review, where a decision was taken to adopt an in house approach to delivering an audit and investigation service, and it became more important to be able to demonstrate an economic, efficient and effective service.
16. The PSIAS recognises a need to maintain a QAIP and **Appendix B** sets out a number of measures we have in place to support such a programme. Again this will be a key element of our business when we are externally assessed later in the year.

Key Aims and Objectives

17. In considering our key aims and objectives, and what we aim to achieve over the coming year ahead, we have been mindful of our SWOT analysis and current risks, which are dynamic and updated on a regular basis and as circumstances change. More information on these is available from the Audit Manager.

18. Our key aims and objectives for the 2016-17 are set out at **Appendix C**. In setting these out we have strived to ensure that we continue to deliver high professional standards for our core business, and at the same time look to see how we can be more effective in the approach we adopt, given the reduction in resources, at a time where we are experiencing an increasing demand for our services.
19. We are keen to make the best of our opportunities over the next 12 months, but we also recognise a number of risks which may impact on us achieving our objectives.
20. An understanding of our challenges and risks will help to shape these aims and objectives in producing a new Internal Audit Service Delivery Plan for 2016-17, which will be drawn up early in the new financial year. This will identify the key tasks and the expected outcomes from targeting the objectives as set out. It will also provide insight into the performance measures used to monitor actions and key skills required to target the objectives.
21. The Section's Service Delivery Plan will link, where possible, to the Finance Services key deliverables and with the Corporate Plan, which then enables a "golden thread" for individuals to set personal objectives as part of the Performance Development framework.
22. Many of our performance measures are reported to the Corporate Director - Resources & Section 151 Officer. The Head of Finance and Audit Committee on a regular basis and others feature in the Annual Internal Audit report. Audit is proactive in benchmarking with other Councils across Wales and the UK (CIPFA Benchmarking Club) and more recently with the UK Core Cities Group.

The Internal Audit Planning Process

Audit Approach

23. A risk-based approach is used for audit planning which focuses our resources on providing assurance in the areas of highest risk, while ensuring that we complete the required levels of assurance work for the Council's S151 Officer and Corporate Governance Framework.
24. We have been in a privileged position in that we have played an active role in developing the Corporate Risk Register and have engaged on a regular basis with service areas (the Service Area Risk Champions network) regarding their operational risks. This has provided us with valuable information of key risks at any point in time. We have also been instrumental in the work that prepares the Annual Governance Statement so are aware of any significant matters arising from this and we have worked closely with Directors in preparatory work for this.
25. Our annual assessment process is based on our Audit Planning database, which captures the audit universe built up over years, which in effect provides a record of all potential audits. This is maintained throughout the year with information of audits undertaken and is used to identify and provide a timeline of when audits were last undertaken. Each year, the database is reviewed for any

changes made to the risk assessment for individual audits, based on current knowledge, taking account of a number of factors, including business risk, level of internal control and the time since the last audit.

26. For the 2016-17 plan, consideration was given to the risks identified in the Council's Corporate Risk Register, the Annual Governance Statement and Senior Management Assurance Statement. An assurance map was developed using the "three lines of defence" model, which identified the work being done to mitigate the risks to the Council. Internal Audit analysed all the reports considered by Cabinet and all Scrutiny Committees during the year in order to identify where others have sought assurances in key areas of Council business. This approach was also used to assess the extent to which such reports provide assurance around the mitigation of these risks.
27. The Group Auditor and two Principal Auditors then undertook an audit needs assessments and considered the approach to these risks in order to identify planned audit engagements for 2016-17.
28. Using this approach, a proposed list of audits was produced. The Plan is analysed over 3 Tiers:
 - Tier 1 - incorporating the fundamental financial systems and high risk governance audits. The aim will be to deliver these 100% over the 12 month cycle of the Plan.
 - Tier 2 - incorporating some high and medium risks including those relating to Directorates and some value for money studies. Every effort will be made to target these but much will depend on changing risk profiles etc as the year proceeds.
 - Tier 3 - incorporating advice and guidance and other management tasks. Again, every effort will be made to deliver on these tasks but they are most likely to "slip" if other pressures arise during the year of the Plan.
29. Fundamental financial systems require an annual assessment, in terms of assurance to the Corporate Director Resources & Section 151 Officer, and these are included within a "Corporate" element of the Audit Plan. Wales Audit Office also review fundamental financial systems and may review the work undertaken by Internal Audit in these areas. Where such fundamental systems rarely change, a full systems audit may not be considered necessary every year, but follow up work and sample testing may be appropriate. Introducing a CRSA approach to these has helped target key areas and save audit time, and this approach will be expanded in 2016-17.
30. Once potential coverage for the year ahead is set out, this is shared with Directors giving them an opportunity to contribute to audit coverage for the coming 12 months. This will normally be through Relationship Manager meetings, where engagement with Senior managers across directorates helps to confirm that the risk assessment scoring assigned as part of the risk assessment process is robust. Managers have the opportunity to challenge proposed audit priorities and experience shows that they rarely change.

31. There is flexibility built into the Annual Audit Plan to enable managers' views to be taken into account, but care is taken not to compromise basic assurance work. Senior management in Finance are also consulted and the Corporate Director Resources & Section 151 Officer and Head of Finance, plays key roles with overall responsibility for financial stewardship in terms of input to the overall Audit Strategy and planned coverage.

Audit Plan 2016-17

32. The risk assessment undertaken within Internal Audit and discussions with senior management then shape the Annual Audit Plan. This becomes the yardstick for performance management and deciding priorities as the year proceeds.

33. An exercise was undertaken to examine the different aspects of the work of the Investigation team assessing priorities for the coming year where returns on time spent would be maximised. A full report and assessment have been provided to the Head of Finance setting out an analysis of days across the different areas of fraud – available on request from the Audit Manager.

34. The following is a summary of days for 2016-17, with figures for previous years shown for comparison purposes. The figure for allotable days in 2014-15 was adjusted to take account of the workforce agreement in place during that year.

Table 2: Trend analysis of Planned Days for period from 2013-14 to 2016-17

		FTE	Total Days	Available Days	Allotable Days
Audit	2014-15	14.0	3,660	2,511	2,385
	2015-16	14.0	3,733	2,966	2,640
	2016-17	12.0	3,310	2,532	2,300
Investigation	2014-15	8.0	2,043	1,641	1,360
	2015-16	2.3	650	510	430
	2016-17	2.3	620	490	400

Notes:

- The Audit Manager role will no longer have responsibility for risk and will be managing the audit and investigation team full time.
- Assumption has been made that the Principal Auditor – Risk & Governance, will remain in Audit to undertake audits independently in risk and governance and other key high risk areas to provide the necessary level of assurances.

35. An outline of planned audit coverage is set out at **Appendix D**. This provides an overview of planned days analysed over fundamental audits, corporate governance and other assurance audits, those audits undertaken in relation to directorate, external clients / grant audits and some managerial tasks. A detailed analysis of days for each directorate in assignment detail is maintained by the Audit Team and provided to Senior Managers as appropriate. This is reviewed quarterly at Relationship Manager meetings, where priorities for coming months are discussed. A more detailed report of planned work is provided in June, following more detailed discussion with clients.

Monitoring of Plan & Performance

36. Over the course of the year, priorities are continually reviewed and tasks assigned accordingly. This takes account of the changing risk profile of the authority and knowledge of the organisation and its own changing priorities. Introducing the Relationship Manager concept has allowed greater engagement with key stakeholders to capture changing risks and priorities to ensure the Section continues to add value in a professional manner. Over the past 5 years, the Council has been on a journey of business change and undergoing some significant remodelling of service delivery, which requires careful monitoring, so that internal audit resources can be targeted to best effect. There are also ongoing restructures with ownership of functions moving around the business which needs ongoing monitoring.
37. Monthly meetings are held with the Corporate Director of Resources & Section 151 Officer and Head of Finance, where there is an opportunity to discuss any matters relating to planned coverage or matters arising from audits undertaken and every quarter a progress report is prepared and discussed. This highlights any significant variances in the Plan and provides an update on other key performance data.
38. The Audit Manager also meets every two months with the Chief Executive, providing an opportunity to discuss audit matters and with the Audit Committee Chair at least quarterly.
39. The Audit Manager provides a quarterly report to Audit Committee providing an update on audits completed (with an associated audit opinion) and some key performance indicators. He also provides additional information on benchmarking and other aspects of audit work.

Derek J King CPFA
Audit & Risk Manager

Derek.King@cardiff.gov.uk

MISSION STATEMENT

Our aim is to provide a high quality service to existing and potential clients, and to attain wide recognition as a lead provider of audit and investigative services, based on achieving a high standard of professionalism and expertise in service delivery

A professional, independent and objective Internal Audit service is one of the key elements of good governance in Local Government. Cardiff Council's Internal Audit Section is compliant with the Public Sector Internal Audit Standards which forms a foundation for an effective Internal Audit service. Through compliance with these standards all members of the section adhere to the Code of Ethics stipulated within the Standards.

DEFINITION, OBJECTIVE AND SCOPE OF INTERNAL AUDIT

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The work of the Audit team is based around complying with the Public Sector Internal Audit Standards and undertaking assurance and consultation work on risk, governance, controls and fraud matters in accordance with the Accounts and Audit Regulations 2015. Our audit universe covers internal control throughout the Council.

We are committed to a proactive approach to risk management to ensure management of risk becomes embedded within the Council. By being more risk aware, the Council will be better placed to manage threats and take advantage of opportunities. This will lead to a more effective use of resources and direct improvements to the services we provide as well as improve corporate governance and performance.

We provide a framework for programme and project management, an independent assurance function and consultancy service, to ensure sound governance arrangements in areas where new projects and business changes are being explored and developed.

We undertake work to prevent and detect fraud and provide a professional investigative service into all aspects of suspected fraud, corruption and malpractice.

For the purpose of the Public Sector Internal Audit Standard, the Audit Committee acts as the "Board" and the Corporate Director of Resources & Section 151 Officer is the Senior Manager overseeing the Internal Audit Function. The Audit Manager is the Chief Audit Executive.

INDEPENDENCE AND OBJECTIVITY

We are independent of the activities we audit and maintain an objective approach to our areas of responsibility. The section is not responsible for any operational responsibilities and has no authority over any of the activities audited. Independence renders impartial and unbiased judgements which are essential to the proper conduct of an audit. All members of the section are required annually to complete an Internal Audit Staff Declaration Form which confirms their compliance to the standards, including the Code of Ethics, demonstrating the importance of integrity, objectivity, confidentiality and competency of individuals.

The Chief Audit Executive will confirm to the board, at least annually, the organisational independence of the internal audit activity.

REPORTING LINES

The Chief Audit Executive reports direct to the Corporate Director of Resources, who is the Section 151 Officer and has direct access and freedom to report to all senior management, including the Chief Executive and Members as he/she considers appropriate.

The Chief Audit Executive also reports quarterly to an Audit Committee, consisting of Councillors and independent members, who receive relevant reports to consider internal audit matters. The Chief Audit Executive also has the opportunity to meet with the Chair of the Audit Committee as deemed necessary.

The Corporate Director of Resources & Section 151 Officer sets the budget for Internal Audit in consultation with the Chief Audit Executive.

ORGANISATION

The Board (Audit Committee) will

- Approve the internal audit charter.
- Approve the risk based internal audit plan.
- Receive communications from the Chief Audit Executive on the internal audit activity's performance relative to its plan and other matters.
- Make appropriate inquiries of management and the Chief Audit Executive to determine whether there is inappropriate scope or resource limitations.

INTERNAL AUDIT PLAN

At least annually, the Chief Audit Executive will submit to senior management and the Board an internal audit plan for review and approval. The Chief Audit Executive will communicate the impact of resource limitations and significant interim changes to senior management and the Board.

The internal audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input of senior management and the Board.

The Chief Audit Executive will review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to the Board through periodic activity reports. Approval for any new audit engagements which exceed 10 planned audit days will be sought from the Audit Committee Chairperson.

RELATIONSHIPS WITH OUR CLIENTS

All Auditors and Investigators are suitably qualified and collectively offer a wide range of skills, experience and knowledge.

We aim to adopt a participative approach to audit and to maintain a good working relationship with all our clients.

Each Director has a designated Senior Auditor who acts as a Relationship Manager and they meet every quarter to discuss risks, objectives, directorate specific issues, audits undertaken and completed and outstanding audit actions. Service Level Agreements are in place and a Protocol is agreed with each Director to ensure appropriate reporting arrangements are in place.

AUTHORITY

The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of Cardiff Council's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities.

Financial Procedure Rules and Audit protocols set out our rights in terms of access to records etc and what we expect from our clients in assisting the role we fulfil.

The Fraud, Bribery & Corruption Policy sets out the relationship between Internal Audit and directorates, outlining respective roles in relation to the investigation of suspected fraud and financial impropriety, key to this being the requirement for Senior Management to immediately notify the Chief Audit Executive as soon as any suspicion of this nature, comes to light.

Internal audit activity will also have free and unrestricted access to the Board.

We act as a technical support for the Audit Committee, whose Terms of Reference is available on the Council's website and we contribute to their work programme and setting of Agendas for their meetings.

The Chief Audit Executive attends all Audit Committee meetings and has the opportunity to meet separately with the Chair, as required.

INTERNAL AUDIT SERVICES

We perform consulting and assurance audit engagements related to governance, risk management and control as appropriate for the organisation.

Roles will be performed by Internal Audit officers directly, or via commissioned specialists, in order to meet resource requirements.

As part of the roles below, we take a lead in reviewing key governance documents determining financial control, examples include; Financial Procedure Rules, Contract Standing Orders and Procurement Rules, and associated guidance documents; we lead on the Fraud, Bribery and Corruption Policy, the Risk Management Policy, Strategy & Methodology and the Project Quality Assurance Handbook.

We also play a major role in the review of many other governance and Human Resources policies and procedures, to ensure a robust consideration of risks and financial controls.

The scope of the section includes the following:

Systems Based Audit	Assessing risk and appraising the adequacy and effectiveness of internal control within a system. Forming an opinion and reporting on areas where improvements can be made to strengthen control.
Financial Audit	Testing systems to ensure accuracy and reliability of financial records to provide management assurance.
Value for Money (VFM) / Efficiency Reviews	Improving the efficiency and cost effectiveness of a system, with a view to achieving savings. This is often undertaken alongside a systems or financial audit.
Fraud Investigations	Assisting management in the prevention and detection of fraud and confidential investigations into all aspects of suspected fraud, corruption and malpractice.
Financial Advice	Giving financial advice on a confidential basis, as and when required.
System Development	Acting as a critical friend where any new and innovative ways of working or systems are being developed – ensuring a robust consideration of risks, the internal control environment and VFM.
Risk Management	Championing Risk Management at a corporate level and providing advice, training and workshops on the Risk Management Policy, Strategy and Methodology.
Governance	Engaging with senior management and leading on the preparation of key governance documents e.g. Annual Governance Statement
Programme & Project Assurance	Reduce risk in delivering major change through managing the programme & project governance framework; provision of independent assurance; identifying improvement actions and skills development.

QUALITY AND STANDARDS

We are committed to providing a professional, effective, efficient and quality service to both internal and external clients. The following control standards have been implemented:

- Adherence to relevant Codes of Practice and Standards.
- Compliance with Professional Accountancy / Audit and the Council's Codes of Conduct.
- A range of Business Objectives, Targets and Performance Indicators/Benchmarking.
- Annual Report and quarterly reporting to the Section 151 Officer and to Audit Committee.
- External Scrutiny e.g. the Wales Audit Office.
- Continuous Staff Development and Learning & Development Training Programme.
- Quality Assurance Questionnaires and feedback through relationship manager arrangements.

CUSTOMER CARE STATEMENT

Encompassing the authority's customer care policy, we aim to respond to all our customers' enquiries quickly and effectively by our guarantee to:

- Involve clients in all stages of the audit process and more recently introduce a Relationship Manager for each Directorate.
- Initial response within 24hrs to enquiries on suspected fraud / financial malpractice.
- Provide an initial response to letters from the public within 7 working days and a full response within 14 days.

- Despatch written reports within time set out in the Terms of Reference.
- Regularly review the level and range of services we provide to ensure they support the objectives of the Council and continue to "add value".
- Staff the office between: 8.30am to 5.00pm Monday -Thursday
8.30am to 4.30pm Friday, with answer phone service and [web page](#) for fraud referrals outside normal office hours.

If you wish to comment on any aspect of our service, please contact the Chief Audit Executive via one of the following options:

Email: Derek.King@cardiff.gov.uk, or internalaudit@cardiff.gov.uk

Telephone: (029) 2087 2248

Address: City of Cardiff Council, Internal Audit, Room 357, County Hall, Atlantic Wharf, Cardiff, CF10 4UW

Website: [Audit Internet Site](#)

QUALITY ASSURANCE & IMPROVEMENT PROGRAMME

The following matters help to inform our QAIP:

1. We maintain a database of audits to control and monitor audit priorities which provides data for a Plan v Actual analysis of performance. All staff complete timesheets with time recorded for tasks or audits every 15 minutes, allowing a detailed analysis of time spent to be produced, which can be used to focus and improve on productive time.
2. Standard working practice requires that every audit assignment has to undergo a quality assurance review by a more Senior Officer and every report requires clearance before being sent. For any with Limited or No assurance these require sign off by the Audit Manager. A robust audit process has been developed over many years. SharePoint is used for all audits.
3. At the conclusion of every audit a Post Audit Assessment Form is completed where both the auditor and the reviewer score elements of the audit against key competency skills and any development needs are identified.
4. For every audit we contact the respective Line Manager and a quality assurance questionnaire is completed. These are reviewed by the Audit Manager who will contact client management if any concerns are raised. This process provides clients with an opportunity to suggest any improved ways of working. Current satisfaction rating is 100%.
5. All recommendations are monitored to assess the extent to which these are agreed by management as an indicator they are adding value to their business. Current satisfaction is 99%.
6. All reports issued are monitored until all actions are completed and the audit "closed". There are subject to review at Relationship Manager meetings with Directors.
7. All audit staff have regular meetings with their manager to review their portfolio of audits and every 6 months this culminates in a formal PPD review where strengths and weakness and identified. Milestones are used to ensure effective and timely completion and issue of reports.
8. We periodically undertake a separate exercise to assess the skills within the Section using a skills and competency questionnaire. This was last completed in the autumn of 2015 and helped inform the personal development and training plans for all staff.
9. We regularly update our Audit Charter, Audit Protocol and SLA to ensure they are fit for purpose and reflects the current service demands. This helps our clients understand our processes and what we expect of them.

10. Relationship Managers meet quarterly with Directors which provides an opportunity to discuss any audits completed, ongoing and planned and Directors' views on the service provided are sought through these meetings. Last autumn we also undertook a quality assurance questionnaire with directors and results were very encouraging.
11. We engage with benchmarking exercises to compare performance with "like" organisations to gauge our own performance and we report on significant variances. Last year we joined the UK Core Cities Group which is already helping share ideas and best practice.
12. We report regularly on many of the performance indicators we use and are subject to detailed scrutiny by Wales Audit Office and the Audit Committee.
13. In more recent times, much work has been done to review our audit processes and procedures with 'lean' thinking in mind, which has resulted in a number of new initiatives which are underway, all designed to improve the efficiency and effectiveness of the services we provide. These arrangements have become formalised through the section's Quality Assurance and Improvement Programme (QAIP) required by the Public Sector Internal Audit Standards.
14. The extended management team in the section meet on a monthly basis to consider aspects of the teams improvement programme such as the development of an opportunities log to develop the efficiency and effectiveness of the team.
15. Annually, the Audit Manager undertakes an annual assessment of the Section to identify areas which may be in need of improvement, which will inform the Audit Strategy for the forthcoming year. The assessment is structured around the requirements of the Public Sector Internal Audit Standards.
16. Work has commenced on assurance mapping to gather any information which will provide assurance in relation to governance, risk management or internal control. This will be used to inform the risk assessment in developing the Audit Plan to avoid duplication of effort and to maximise the limited audit resource available.
17. A Service Review Action Plan is continually reviewed and updated with key tasks monitored in driving improvement and efficiency. This will very much link to the QAIP to ensure improvement actions are implemented through 2016-17.
18. The intention during 2016-17 is to arrange for an external assessment as set out in the PSIAS. All the work undertaken as part of the QAIP should stand us in good stead for this assessment but we will need to continue to achieve high standards of professionalism in our role over coming months.

KEY AIMS AND OBJECTIVES FOR 2016-17**Internal Audit**

1. To manage a seamless transition with the Audit & Risk Manager leaving the Council, with 45 years of experience, (30 of which as Manager). The new person in the role will need to get up to speed quickly, to provide the leadership and direction required at the start of a very busy year ahead.
2. To deliver a high level, professional audit service, that conforms fully with the Public Sector Internal Audit Standards (PSIAS).
3. To prepare an Audit Plan, maximising available resources, targeting high risk audits and effectively monitoring priorities against the Plan, which will provide assurance to the Section 151 Officer and Audit Committee. Key to this challenge is achieving this with a reduction in resources at a time where the authority is undergoing a major change and efficiency drive.
4. To prepare and deliver an external assessment of the Internal Audit service during the year building on the preparations already underway. Any lessons learned from the review will need be actioned to ensure full compliance to the PSIAS.
5. To maintain a strong audit profile through working closely with the Chief Executive, Audit Committee Chair and members, the Section 151 Officer and the Head of Finance, who champion the role of the Audit teams and develop the 'Relationship Manager' role, working closely with Directors to maintain our awareness of changes in the Authority's risk profile, and to sustain audit knowledge to ensure effective controls are maintained, at a time of strategic and operational change in directorates.
6. To continue our "Critical Friend role" through proactive input to the development of new systems to ensure adequate consideration of risks and internal controls. In fulfilling this role, we need to protect the objectiveness and independence of the internal audit service.
7. To support compliance to the internal control frameworks throughout the Council, at a time of strategic and operational change, to protect the basic control principles, through high quality advice and guidance to clients, including an update of key financial governance documents.
8. To deliver an effective audit service through continual review of 'lean' working practices, with best use of new technology. This is to include greater use of 'Control Risk Self Assessments' to maximise use of audit resources and encourage greater ownership of risks and the control environment.
9. To continue to maximise the opportunity of being a member of the UK Core Cities group and to remain proactive in relation to benchmarking and comparison of key data to seek to enhance economic, effective and efficient service delivery.

10. To continue to develop an approach to assurance mapping to better understand the contribution other bodies are able to contribute, providing assurance in relation to governance , risk management and internal control, with the aim of reducing duplication and enabling audit resources to be more effectively deployed.
11. To provide training and education to directorates via involvement in the Institute of Leadership & Management training courses, in order to encourage directorates to pro-actively develop, implement and review controls and risks. This to be part of targeting demand management.
12. To contribute to assurance relating to sound governance, management of risks and internal controls in relation to all projects. With the pace and complexity of change and move towards new business models, we will need to review the development of appropriate Corporate Governance Standards for programme & project management.
13. To embed the CRSA approach to all projects (ODP and wider), working with Programme and Project Managers.

Investigations

14. To deliver a professional investigation service, with a reduction in resources at a time when demand for our expertise is increasing. In doing so, to remain compliant with appropriate Codes of Practice and professional standards.
15. To provide training, mentoring and education to directorates, trade unions and employees in order to reduce the likelihood of fraud being committed, to promote the work of Internal Audit and the Investigation team and to encourage referrals when there is a suspicion of Fraud, Bribery, Corruption or financial irregularity. This is to be key in delivering the new Disciplinary Policy mandatory training requirements.
16. To contribute to the review of policies and procedures in order to ensure the consistent approach to investigations and sanctions.
17. To deliver an effective investigation service through continual review of lean working practices, with best use made of new technology.
18. To act as main contact and system administrator for the NFI.

All Teams

19. To promote talent management and staff development as key elements of the success of the business and by continued support of the Council's personal development scheme. To support opportunities for staff to train and develop so that they remain competent, efficient and effective in undertaking the tasks expected of them. Through training, look to address any lack of skills in specific areas e.g. ICT audit.

20. To encourage, mentor and support those recently enrolled to study CIA and ICT specific qualifications to achieve a rich balance of highly qualified team members across the Section.
21. With the pace and degree of change and the fundamental role finance plays in all aspects of Council business the team will need to continue to support the Chief Corporate Services & Section 151 Officer, Head of Finance and Audit Committee with their roles in terms of audit and investigation matters.
22. To consider a more commercial approach to service provision, exploring opportunities for reducing charges and generating income. This to consider working with others to deliver services.

DRAFT AUDIT PLAN OVERVIEW FOR 2016-17

Audit	
Fundamental Audits - S151 Assurance (Tier 1)	Estimated Days
Creditor Payments & Processing	45
Payroll related	70
Council Tax	15
NNDR	15
Local Housing Allowances	15
Treasury Management	10
Main Accounting	10
Debtors	15
Asset Management	10
Housing Rents	15
Total	220
Corporate Governance Assurance – Audit (Tier 1)	Estimated Days
Risk management arrangements	20
Governance arrangements	30
Ethics and values	15
Performance management	15
Information Governance	20
Delegation and decision making	20
Programme and Projects (including ODP)	60
Procurement	20
Total	200
Other Assurance (Tier 2)	Estimated Days
Contract Audit	130
Education - SOP	30
Computer Audit	100
Driving Improvement - Value for Money studies	70
Systems Development – critical friend role	50
Pensions & Investments	10
Insurance	10
Mileage & subsistence	15
Stores	15
Health and Safety	15
Business Continuity	15
Total	460

Audit	
Service specific audits (Tier 2)	Estimated Days
City Operations	150
Communities, Housing and Customer Services	120
Economic Development	70
Education and Lifelong Learning	280
Governance and Legal Services	20
Resources	60
Social Services	250
Total	950
External (Tier2)	Estimated Days
External Clients	10
Grants	20
Total	30
Management (Tier 3)	Estimated Days
Corporate work - committees, WAO etc.	50
Assurance mapping	20
CRSA development	20
Work for Management	20
Planning, monitoring & reporting	20
Process Development	20
Consultancy – advice and guidance - Review of rules	70
Total	220
Contingency	220
TOTAL AUDIT DAYS	2,300
Investigations	
	Estimated Days
Prevention – policies, training, advice	30
Directorate referrals	110
Other proactive investigations including NFI	150
National Fraud Initiative	110
TOTAL INVESTIGATION DAYS	400

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DRAFT Audit Committee Work Programme 2015-16

Key: One-off Items

Topic	Monday 01.02.16 at 2pm (CR4)	Tuesday 22.03.16 at 2pm (CR4)	Wednesday 22.06.16 at 2pm (CR4)	September '16 (workshop)
Wales Audit Office	Corporate Assessment Update	Corporate Assessment Update	Corporate Assessment Update	Corporate Assessment Update
		Annual Financial Audit Outline (to include revised statement of responsibilities) and Fee information 2016/17	Annual Improvement Report	
		Cardiff & Vale Pension Fund Audit Plan	Regulatory Prog. Update	Audit of Financial Statement Report (ISA260)
	Report progress updates and Value for Money studies	Report progress updates and Value for Money studies	Report progress updates and Value for Money studies	Report progress updates and Value for Money studies
Treasury Management	Performance Report	Performance Report	Performance Report	Performance Report
	Strategy 2016-17	Treasury Management Practices		Annual Report
Finance	Budget Update and Financial Resilience Update	Budget Update and Financial Resilience Update	Budget Update and Financial Resilience Update	Budget Update and Financial Resilience Update
			Draft Statement of Accounts 2015-16 (including the AGS)	Annual Report Statement of Accounts & Audit of Statements Report
				Audit of the Financial Stat't Report – Cardiff & Vale of Glamorgan Pension Fund
Internal Audit	Progress Update	Progress Update/Limited Assurance	Progress Update – Highways Audit Feedback	Progress Update
		Audit Strategy 2016-17	Internal Audit Annual Report 2015-16	
Governance and Risk Management	Audit Committee Annual Report Discussion	Audit Committee Draft Annual Report 2015-16	Audit Committee Annual Report 2015-16	
	Audit Committee Annual Self-Assessment Review 2014-15			Self-Assessment Workshop (pre Committee meeting exercise)
	Risk Appetite Exercise		Corporate Risk Register (Year End)	
	AGS 2014-15 Action Plan (Mid-Year)	Draft Annual Governance Statement '15/16	Audit / Scrutiny Protocol	
Operational matters / Key risks			Education – Briefing on Schools in Deficit	

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Audit Committee – Action Plan

Item 11

(Updated following meeting held on 01 February 2016)

Minute No. /Agenda No.	Actions	Timeline	Action Owner
Finance (Budget)			
AN4.1 23.03.15	Audit Committee to receive a report highlighting how the Committee can add value, on behalf of the Council, in setting the Budget.	Ongoing as part of financial update comments	CS
Governance & Risk Management			
MN31 30.11.15	Constructing Excellence Wales on Bldg. Maintenance Framework and Action Plan That Internal Audit follow up on the action plan and the work on the future framework arrangements on a 6 monthly basis and report as necessary to Audit Committee;	September '16	Audit
MN48 01.02.16	Audit Committee Annual Report 2015-16 Any Members who may wish to comment on the Annual Report do so in writing to the Chairperson via email. The change in the Audit Management structure be included in the Annual Report.	22.03.16 22.03.16	Committee Chair
Items of Interest for Members			
Wales Audit Office (WAO)			
MN51 01.02.16	The Committee be provided with further information / intelligence on how the fee of the WAO's work is formulated e.g. benchmarking / comparisons with other local authorities. WAO Report Progress Update and Value For Money Studies Progress reports on track. A further report would be considered at the March meeting of the Committee and relevant attendees would be invited to attend.	22.03.16 22.03.16	WAO Viv Pearson
Treasury Management			
Internal Audit			

Minute No. /Agenda No.	Actions	Timeline	Action Owner
<p>MN55 01.02.16</p> <p>MN34 30.11.15</p>	<p><u>Value for Money</u></p> <p>The Audit Manager provide a further report on VFM studies to Audit Committee at its meeting in December 2016, and consider benchmarking with others on agency spend and standby and give further consideration to the possible introduction of business cases for standby arrangements.</p> <p>The Audit & Risk Manager to consider whether a random check of 'High/Satisfactory' school CRSA's should be undertaken.</p>	<p>Dec. '16</p> <p>2016-17 Plan</p>	<p>Audit</p> <p>Audit</p>
Outstanding Actions			
<p>AN10.2 22.06.15</p> <p>AN10.2 22.06.15</p> <p>MN57 01.02.16</p>	<p><u>Education – Governance</u></p> <p>The Director of Education to provide a further briefing on school balances.</p> <p><u>Director Strategic Planning & Highways – Response to Internal Audit Report</u></p> <p>That the Committee receives a further progress report in six months.</p> <p>An update will be provided at the Committee's meeting on the VFM exercise on supply teachers.</p>	<p>22.06.16</p> <p>22.06.16</p> <p>22.06.16</p>	<p>NB</p> <p>Audit</p> <p>Audit</p>
Work Programme			
<p>MN22 16.09.15</p>	<p>That the WAO reports expected for 2015-16 be added to the work programme.</p>	<p>When available</p>	<p>Audit</p>
Matters Arising			