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Annual Letter

**Rhondda Cynon Taf County
Borough Council**

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Status of this report

This document has been prepared for the internal use of Rhondda Cynon Taf County Borough Council as part of work performed in accordance with statutory functions, the Code of Audit and Inspection Practice and the 'Statement of Responsibilities' issued by the Auditor General for Wales.

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Summary

1. This Annual Letter sets out the key messages arising from work undertaken over the last twelve months up to the point when it was written by:
 - the Appointed Auditor under the Code of Audit and Inspection Practice (the Code); and
 - the Relationship Manager (RM) on behalf of the Auditor General under the studies and inspection powers of the Auditor General.
2. At Rhondda Cynon Taf County Borough Council (the Council), Gill Lewis is the Appointed Auditor and the Relationship Manager.
3. The Annual Letter includes a summary of audit and inspection work and reports progress against improvement actions. It draws on published reports of other inspectorates to provide an annual summary to the Council. The work planned for the year was set out in the Regulatory Plan 2007/2008 and more detail on the specific aspects of the work undertaken can be found in the separate reports that have been issued during the year.
4. The Annual Letter will be presented to all members in December 2008 and to the Audit Committee in January 2009.
5. The Appointed Auditor has completed the audit of accounts in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Code of Audit and Inspection Practice. We have concluded that:
 - The financial statements present fairly and were properly prepared. We did not identify any material weaknesses in internal control, but there are areas where continued improvement is required.
 - The Council's improvement planning arrangements complied with statutory requirements.
 - The Council had satisfactory arrangements in place to achieve economy, efficiency and effectiveness in its use of resources although there remain areas for improvement including:
 - partnership arrangements with health;
 - the continued development of business planning, performance and risk management; and
 - ensuring that impact of medium term financial planning is linked to service groups performance, as well as financial, priorities.
 - There are opportunities and some significant challenges for the Council as it secures the best use of resources and further improvement in its delivery of services. In particular:
 - managing financial cost pressures; and
 - resolving the position of its investment.

6. The Relationship Manager has concluded that:
- the annual risk assessment covered corporate and service arrangements separately and action now needs to be taken to respond to the themes and priorities;
 - during 2007 the Council restructured its Information, Communication and Technology (ICT) service and this has enabled it to begin to tackle the risks it faces;
 - the legal services division has coped well with demand but business planning is hampered by a lack of good quality performance information that makes it difficult to improve services;
 - the housing stock transfer has been properly accounted for although the Housing Revenue Account cannot be closed at present; and
 - the Council is engaging with the Wales Audit Office's initiatives to promote improvement and its approach to fleet management is making the best use of resources to support improvements in service delivery.

We recommend no statutory inspections this year

7. The Appointed Auditor is required each year to recommend whether, on the basis of audit work undertaken, the Auditor General should carry out a Best Value Inspection of the Council or whether Welsh Ministers should recommend a course of action, referred to as 'a direction' under section 15 of the Local Government Act 1999 (the 1999 Act). On the basis of audit work undertaken.
8. The Appointed Auditor:
- does not recommend that the Auditor General should carry out a Best Value Inspection of the Council under section 10A of the 1999 Act;
 - does not recommend that Welsh Ministers should give a direction under section 15 of the 1999 Act; and
 - has not identified any statutory recommendations on the procedures to be followed in relation to the Council's 2008 Improvement Plan.

Gill Lewis
Relationship Manager and Appointed Auditor
Date: 28 November 2008

Annual Letter

The Appointed Auditor's report

9. The financial statements are an essential means by which the Council accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. The Code identifies that it is the Council's responsibility to:
- put systems of internal control in place to ensure the regularity and lawfulness of transactions;
 - maintain proper accounting records; and
 - prepare financial statements in accordance with relevant requirements.
10. As auditors we are required to audit the financial statements and to issue an auditor's report which includes an opinion on whether the financial statements present fairly the financial position and transactions of the Council. The auditor's report also refers to compliance with relevant legislation, directions, regulations and applicable accounting standards.

The financial statements present fairly and we did not identify any material weaknesses in internal control

The 2007/2008 financial statements present fairly the Council's financial position and were properly prepared

11. International Standard on Auditing (ISA) 260 requires auditors to report to 'those charged with governance' the findings of our accounts audit. The Appointed Auditor's report *Audit of the Financial Statements – reporting to those charged with governance* was presented to the Council on 24 September 2008 and to the Audit Committee on 29 September 2008. A summary of the findings is set out in Exhibit 1.

Exhibit 1: ISA 260 reporting to the Council

Reporting requirement	Auditor's response
Modifications to the auditor's report.	No modifications to the auditor's report.
Unadjusted misstatements.	There were two unadjusted misstatements, one related to estimates for central establishment charges, the other following a recent decision on fire authority balances, which will need to be resolved during 2008/2009. There were a number of adjustments made during the audit, the most significant one being an additional provision of £14.1 million to meet the estimated costs of settling equal pay claims made under the 'Single Status Agreements'.
Material weaknesses in the accounting and internal control systems identified during the audit.	No matters arose that needed to be reported.
Views about the qualitative aspects of the entity's accounting practices and financial reporting.	The qualitative aspects of the Council's accounting practices and financial reporting continue to improve, given the complex accounting changes required to the 2007/2008 financial statements, although some areas will need further attention for future years.
Matters specifically required by other auditing standards to be communicated to those charged with governance.	No matters arose.
Any other relevant matters relating to the audit.	No matters arose.

12. The Council approved the unaudited financial statements on 25 June 2008. Following that date the ongoing negotiations relating to settling equal pay claims made under the Single Status Agreements resulted in an additional provision for £14.1 million being included in the 2007/2008 Income and Expenditure Account. Although recorded as an exceptional item, the Capital Finance and Accounting regulations permit councils to make an adjustment through the 'Statement of Movement on the Council Fund Balance'. As a result, although the provision is recognised in the 2007/2008 financial statements, the funding arrangements for these costs do not have to be accounted for until payment is actually made.
13. The Council has applied to the Assembly Government for a capitalisation direction, which should allow it to spread the cost over a longer period, and the impact of this will need to be recorded in the 2008/2009 and future years' financial statements.
14. The amended 2007/2008 financial statements were approved by the Council on 24 September 2008, and we issued an unqualified audit opinion on 30 September 2008.

An examination of the Council's significant financial systems did not identify any material weaknesses in internal control but there are areas where continued improvement is required

15. Our review of the Council's financial systems has involved documenting them and where necessary testing the operation of the internal controls. In particular we have considered:
 - high level controls including budgetary control, the main accounting system and accounts closedown arrangements;
 - significant financial systems; and
 - the work of Internal Audit (IA).
16. We have concluded that the Council's high level controls and the significant financial systems can be relied upon to produce materially correct outputs. We have however identified scope to improve controls in some areas and reported these to management.
17. In summary, the improvements required are:
 - ensure that all reconciliations are undertaken on a timely basis;
 - systems procedure notes still need to be reviewed and updated in a number of areas; and
 - there is scope to consider the arrangements for 'internal charging' between services where, at present, approximately 11,000 internal invoices are raised per year.
18. The financial procedures rules working group is responsible for ensuring procedure notes are reviewed and updated, and a further working group has been set up to review the arrangements for internal charging. Additional work should however be undertaken to ensure that reconciliation arrangements are more effective.
19. The IA section continues to provide assurance to management and the Audit Committee on the level of internal control. A number of their reviews highlighted significant weaknesses, and, although these were not considered material to the financial statements, follow up reviews will ensure the weaknesses are addressed.
20. We will continue to support the work of IA and the Audit Committee in their responsibilities for reviewing and monitoring internal control arrangements.
21. Our review of IA confirms that the development of an IA Charter and updating the IA Manual has enhanced its compliance with the CIPFA IA Standards. Interim management arrangements have been in place during 2007/2008 following the loss of some key staff, but plans are in place to resolve this during 2008/2009.

The Council made effective use of the National Fraud Initiative

22. The National Fraud Initiative (NFI) is a biennial computerised data matching exercise conducted across England and Wales. The Audit Commission is responsible for the exercise in England and the Auditor General is responsible for the exercise in Wales through his appointed auditors at local government bodies.

23. The exercise is designed to identify overpayments to suppliers and benefit claimants and to detect fraud perpetrated on public bodies. The referrals from the 2006/2007 exercise were released in January 2007 to participating bodies including local councils. The matches have been investigated and resulted in the identification of £4.7 million of fraud and overpayment across Wales. In May 2008, the Auditor General published a national report on the overall findings of the 2006/2007 exercise.
24. The Council reported savings of £131,306 in respect of NFI and took appropriate action to investigate the matches and to address instances of suspected fraud and error.
25. Data extractions for the 2008/2009 exercise commenced in October 2008 and authorities should receive data matches in early 2009. The Auditor General is undertaking the 2008/2009 exercise in accordance with the powers set out in the Serious Crime Act 2007 to conduct data matching exercises to assist in the prevention and detection of fraud in Wales. The Auditor General has recently published a Code of Data Matching Practice to help ensure that people's information is protected and processed appropriately during data matching exercises such as NFI.

Whole of Government Accounts returns were completed appropriately

26. In accordance with the Government and Resources and Accounts Act 2000 and relevant guidance issued by the Assembly Government, a return is prepared annually by the Council to assist HM Treasury with its production of the Whole of Government Accounts (WGA).
27. On behalf of the National Audit Office (NAO) as auditor of the WGA, the Wales Audit Office is required to audit the Council's return in accordance with statutory requirements and NAO audit instructions.
28. From our audit of the Council's return this year we found that there are satisfactory arrangements in place to produce the required return, which was consistent with the audited statutory accounts and corrected identified material transactions and balances with other WGA bodies.

We have certified that the audit has been completed in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Code of Audit and Inspection Practice and there were no formal questions or objections to the financial statements

29. In accordance with the Accounts and Audit (Wales) Regulations 2005 the Council has advertised the rights of local electors to:
- inspect and make copies of the financial statements;
 - question the auditor about the accounts; and
 - attend before the auditor and make objections to the accounts or any item in them.
30. These rights have not been exercised, although we continue to receive a range of questions from members of the public and other interested parties. None of these have been formal objections to the financial statements.

Our certification of the Council's grant claims and returns is nearing completion and we are beginning to see improvements in Housing Benefit claims processing, although concerns have been highlighted about the eligibility of some items of Communities First expenditure

31. The Council is reimbursed by the Department for Work and Pensions (DWP) for payments awarded to Housing and Council Tax Benefit claimants. This reimbursement, through submission of a subsidy claim to the DWP, exceeds £69 million. We are required to certify the subsidy claim by testing a significant sample of individual benefit claims.
32. In previous years we have found high error rates in the accuracy of the underlying claim information that has led to reductions in the Council's subsidy it received from the DWP, and a detailed action plan was put in place during 2007/2008 focusing effort on areas that were prone to error.
33. Our audit of the Council's Housing Benefits grants claim is ongoing and although we are still identifying errors, the level appears to be significantly lower than in previous years. The final outcome from this work will assess the improvements made and those still required and will be reported to officers as the claim is finalised.
34. We are also required to certify claims for Communities First expenditure incurred by 28 partnerships and totalling just over £5 million. Although the majority of this relates to staff employed by the partnerships, the claims also include costs for training, development and activities aimed at delivering the Communities First objectives. Our work, and that of the Council's grants administration team has highlighted items of expenditure claimed by the partnerships where it is unclear whether the costs are eligible under the scheme or, in some cases, appear excessive. We anticipate qualifying at least nine of the claims and referring these to the Assembly Government for their view on eligibility.

35. A detailed report will also be prepared jointly with the grants administration team for further consideration by officers and the Assembly Government's Communities First Unit.

The Council's improvement planning arrangements complied with statutory requirements

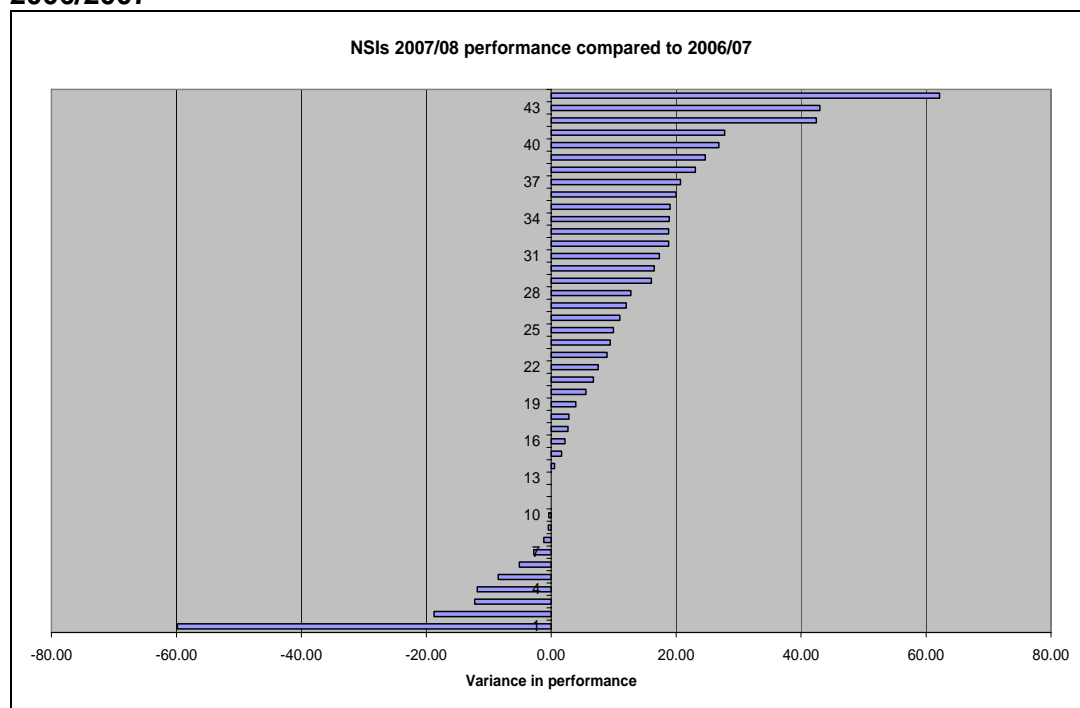
The Improvement Plan has been delivered appropriately and represents a balanced picture of performance in the last year

36. Under the Local Government Act 1999 and subsequent guidance issued by the Assembly Government in Circular 28/2005, an Improvement Plan must be published by 31 October each year. We are required to audit the Improvement Plan in accordance with statutory requirements and guidance, and to report our findings, including on the completion of the Joint Risk Assessment (JRA), our audit of the Council's Performance Indicators (PIs) and on its performance measurement arrangements.
37. The Plan was produced and published on time and complied fully with the guidance in Circular 28/2005:
- the detailed Plan reports a balance of good performance and areas for improvement;
 - it contains a very comprehensive range of over 350 performance indicators, although there are a small number of errors or inconsistencies in the PIs data or targets reported, this does not distort the information given in the Plan;
 - the Council's corporate objectives and key actions for achieving them are clearly set out; and
 - the 'Stage 1' information made available in June 2008 complies with the guidance in Circular 28/2005, and is reported in the final Improvement Plan.
38. A public summary was published on the Council's website in October, with distribution to all homes in the area as part of the next 'Outlook' distribution.
39. Detailed responsibilities, the scope of our work and the audit certificate are set out in Appendix 3.

Our audit of the National Strategic Indicators (NSIs) confirms that there are good arrangements in place for collecting and reporting performance indicators and that none of the NSIs were qualified

40. The 2008 Improvement Plan reports performance during 2007/2008 against 301 Performance Indicators (PIs). These indicators include:
 - NSIs - subject to audit;
 - Core Data Set indicators - collected by all councils and submitted to the Local Government Data Unit (LGDU); and
 - Local indicators – produced and used by the Council.
41. Our audit of the NSIs confirmed that good arrangements are in place to collect and report performance through the use of 'Self Assessment' forms, the quality assurance arrangements in place both corporately and by service performance officers. All of the relevant NSIs were collected and reported in the Improvement Plan and none of these have been qualified (for the second year running).
42. The Improvement Plan also reports performance indicators that are not subject to an annual external audit, including Core Service Indicators and local performance indicators. A sample of the Core Data Set and local indicators was reviewed by IA during the year, focusing on key indicators used to report performance to members through the quarterly performance reports. The overall conclusion from that work was that assurance could be placed on the collection, accuracy and reporting of 19 out of the 21 indicators tested. Concerns were expressed about two local indicators relating to asset management, and action is being taken to address this.
43. Of a total of 301 PIs, the Improvement Plan reports 71 per cent as having met their target and/or improved, 5 per cent where performance has been maintained, and 24 per cent where performance has decreased since last year.
44. Our analysis, based on the NSIs that are subject to statutory audit, and which report a measure of performance, supports this analysis and shows in Exhibit 2 that 70 per cent improved on the 2006/2007 position and 23 per cent deteriorated. Three indicators have maintained performance, but two of these were at 100 per cent.

Exhibit 2: National Strategic Indicators; performance compared to 2006/2007



45. Of those indicators that show a deterioration in performance, four relate to education, two to elderly services, two to supporting people (homelessness) and one each to highways and housing benefits. This has also been reflected in the outcomes from the Joint Risk Assessment where, in particular, education was identified as an additional priority for improvement.

The Council had satisfactory arrangements in 2007/2008 to help it achieve economy, efficiency and effectiveness in its use of resources although there remain areas for improvement

46. The Public Audit (Wales) Act 2004 requires auditors to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. This requirement is reflected in the Code.
47. Our conclusion has been reached as part of our annual audit of the accounts. We examined evidence of the existence of the Council's corporate performance management and financial management arrangements. In this work we do not comment on or provide assurance on the effectiveness of those arrangements during the year.
48. Separate value-for-money work does consider where arrangements or their operation could be improved. The results of such work carried out during 2007/2008 are set out later in this Annual Letter. This work informs our conclusion on the existence of arrangements but is not essential to it.
49. The auditor's report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources during 2007/2008 is set out in Appendix 1. The criteria used to assess this are set out in Appendix 2.

50. We have concluded that in 2007/2008 the Council had satisfactory arrangements in place to support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources. The detailed results of our assessment are summarised in Exhibit 3.

Exhibit 3: Assessment of proper arrangements

Aspect	Arrangement	Yes or No
Strategic and operational objectives	Has the Council put in place arrangements for establishing, reviewing and implementing its strategic and operational objectives?	Yes, with arrangements in place to develop new Community and Corporate Plans. Local Service Board arrangements being established, although partnership arrangements with the NHS sector are not yet an established way of working and delivering services and this has been identified as an area for improvement.
Meeting the needs of users and taxpayers	Has the Council put in place arrangements to ensure that services meet the needs of users and taxpayers, and for engaging with the wider community?	Yes. The 2006 Consultation Strategy is still in draft and needs to be finalised.
Internal controls	Has the Council put in place arrangements to ensure compliance with established policies, procedures, laws and regulations?	Yes, but more emphasis needs to be placed on ensuring governance and accountability of strategic partnerships.
Risk management	Has the Council put in place arrangements for identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and other forms of joint working or contracting?	Yes, at a corporate level, although at a service level risk management is not yet working as intended.
Resource management	Has the Council put in place arrangements for managing its financial and other resources, including arrangements to safeguard its financial standing?	Yes At a strategic level medium term financial planning is considered, but this needs to be more widely owned across the service groups, with a clear link to performance, as well as financial priorities.

Aspect	Arrangement	Yes or No
Reviewing performance	Does the Council have arrangements in place to monitor and review performance, including arrangements to ensure data quality?	Yes - there are good arrangements in place for collecting and reporting performance indicators but the level of challenge when setting targets need to be strengthened. Business planning continues to develop in terms of service performance, although there remains scope for improvement as the accountability theme is developed.
Standards of conduct	Has the Council ensured that its affairs are managed in accordance with proper standards of conduct and to prevent and detect fraud and corruption?	Yes
Overall conclusion	Has the Council put in place proper arrangements to secure 'economy, efficiency and effectiveness' in its use of resources?	Yes, although there remain areas for improvement.

There are opportunities and some significant challenges for the Council as it secures the best use of resources and further improvement in its delivery of services

The Council has a good record of achieving its revenue budget and has appropriate arrangements in place to manage and use its financial reserves, but faces increasing financial cost pressures

51. We are responsible for assessing whether the Council has put in place adequate arrangements to monitor, control and report on its financial standing. Our audit was based on a review of:
- setting the revenue budget and capital programme;
 - financial monitoring and reporting;
 - meeting financial targets; and
 - financial reserves.
52. We have examined budget reports and procedures and we are satisfied that:
- suitable arrangements are in place;
 - the Council's revenue and capital budgets cover all relevant areas of income and expenditure and are based on realistic assumptions; and
 - the Council has in place sound arrangements for financial monitoring and reporting which should ensure that any potential material misstatements and variances will be identified.

53. The Council has a good track record of operating within its revenue budget and this continued in 2007/2008 with a small underspend of £34,000. The most recent budget monitoring reports indicate that there is a projected overspend of £568,000 against budget for 2008/2009. Of this, £485,000 relates to unforeseen costs as a result of flood damage caused in September 2008. There are also a number of financial pressures that will need to be considered and managed over the next few years. These are described at Exhibit 4.

Exhibit 4: Financial pressures

Financial pressures	Implications
Job evaluation and single status	<p>The job evaluation process is continuing, although some key decisions and agreements need to be made about a number of general principles, such as pay protection periods. Whilst financial modelling has taken place, the final impact on the Council's overall pay costs has yet to be established.</p> <p>A provision for the costs of settling single status claims has been recognised in the 2007/2008 financial statements. The full impact on budgets will only be known when the Assembly has decided on the Council's application for a capitalisation direction, which should allow it to spread the cost over a longer term.</p>
Cost pressures	<p>In developing and monitoring its medium term financial planning and resources strategy, significant cost pressures have been identified both in terms of increasing costs (energy and fuel costs) and demographic and other service changes (such as primary pupil numbers and independent care sector fees). Initial assumptions suggest a gap of £14–15 million between budget requirements and funding in both 2009/2010 and 2010/2011.</p> <p>The Council will need to respond to a range of actions that are ongoing, including efficiency proposals, reviews of fees and charges, administration and accommodation costs, aimed at reducing these funding gaps.</p>
Local government settlement	<p>The 2009/2010 indicative settlement given last year and used in the Council's medium term financial planning was for a 2.6 per cent increase in funding. The Local Government settlement announced on 15 October 2008 was for a 1.8 per cent uplift, significantly less than the initial indicative figure.</p> <p>This will place increased pressure on delivering the 2009/2010 budget.</p>

54. Members and officers continue to review reserves annually to ensure that the reasons they were established remain valid and that the amount reserved is based on realistic assumptions of need. Exhibit 5 identifies that, as at 31 March 2008, the Council had some £55.8 million in cash-backed capital and revenue reserves (excluding school reserves) which is a £16.6 million increase compared to last year.

Exhibit 5: The Council's cash-backed reserves, 2006/2007 and 2007/2008

	2006/2007 £ million	2007/2008 £ million
Capital earmarked	6.5	8.5
PFI	4.2	6.1
Revenue earmarked	16.7	28.5
General	10.3	10.3
Housing Revenue Account (HRA)	1.5	2.4
Schools	5.1	6.5
Total	44.3	62.3

Source: Rhondda Cynon Taf County Borough Council Audited Accounts 2007/2008

55. Earmarked reserves have been increased this year primarily for known commitments such as the three year capital programme and potential future treasury and financial management pressures. The Council therefore has some reserves set aside to help it manage known future cost pressures. At £10.3 million general reserves are in line with the Council's policy on reserves. As part of the budget setting approval process the Council must continue to ensure that these reserves are appropriate and taken into account. The Council must also continue to work with primary schools, which account for £3.7 million of the total schools reserves to ensure that their reserves are appropriate.
56. As described in Exhibit 6, the Actuary identified a deficit of £289.5 million on the Council's Pension Fund (using the methodology within Financial Reporting Standard (FRS) 17) compared with £397.5 million in 2006/2007. The main reason for the decrease in the deficit is a change in the financial assumptions used by the Actuary to determine the impact of changes in the Local Government Pension Scheme.

Exhibit 6: The Council's Pension Fund valuation

	2006/2007 £ million	2007/2008 £ million
Estimated value of assets in the scheme	451.6	471.0
Estimated liabilities	849.1	760.5
Net liability	397.5	289.5

Source: Rhondda Cynon Taf County Borough Council Audited Accounts 2007/2008

57. Exhibit 6 refers to the Council's share of the wider Rhondda Cynon Taf Pension Fund (which includes the Council and a number of other bodies). The impact of the 2007 triennial revaluation of the Rhondda Cynon Taf Pension Fund is that overall the funding level has improved from 62 per cent to 70 per cent and, as a result, contribution rates have not been increased.
58. The recent fall in stock market values has affected the overall fund valuation, which has decreased from £1,345 million as at March 2008 to £1,075 million at the end of October 2008.

59. The Pension Fund, by its nature, has to be viewed over a long term timeframe. The investment strategy adopted has increased the diversification of investments, reducing the level of risk of being heavily exposed to any one class of asset, and the position of the fund continues to be closely monitored.

The Council has appropriate financial management arrangements in place and a clear treasury management strategy, although some of its investments remain at risk

60. To demonstrate financial stewardship, the Council needs to ensure effective financial management including:
- effective internal financial controls, such as robust standing orders and financial regulations, strong budgetary control and effective IA;
 - effective arrangements to prevent and detect fraud and corruption;
 - recognised standards of financial conduct; and
 - appropriate arrangements to ensure that the Council only enters into transactions where there is specific legal provision for it to do so.
61. We consider and have reported on the first two areas as part of the financial statements audit. Our review of the other areas found that, as in previous years:
- the ethical and financial conduct framework of the Council was operating effectively; and
 - effective arrangements were in place to ensure that the Council enters into transactions only where there is specific provision for it to do so.
62. Recent turmoil in financial markets has placed the spotlight on financial management of investments. The 2008/2009 Annual Investment Strategy, approved by members in March 2008, recognised the 'credit crunch' and confirmed that the Council would continue to favour security above return. The Strategy specified that investments would only be made with bodies with short term ratings at F1 or F1+ (strong capacity or exceptionally strong capacity for timely payments) and a high or above long term rating for issuer default.
63. Financial and maturity criteria were set, giving the Council assurance that it was only exposed to a low degree of risk in its investments, and the treasury management advisors were to inform the Council of any individual rating changes, or risk of changes (known as negative credit watch).
64. The Council, in line with its investment criteria invested £3 million in Heritable Bank on 17 September 2008 for one month. This is one of the Icelandic banks that went into administration on 7 October 2008 and there remains uncertainty about when, or how much of, the investment is likely to be released.

The Relationship Manager's report on behalf of the Auditor General

The annual Joint Risk Assessment (JRA) covered corporate and service arrangements separately and action now needs to be taken to respond to the Council's themes and priorities

65. The Council has completed, and agreed with its regulators, a risk assessment of its services and corporate functions. The outcomes of the risk assessment were reported in the Council's Improvement Plan, supporting the identification of its priorities for the next year.

The JRA identified four key corporate themes to assist the Council in improving its services which now need to be developed and incorporated into all areas of its business

66. Specific actions need to be developed to address these four themes and use them as a corporate approach to delivering improvement.
- **Ambition – set clear ambition for improvement:**
 - revise the Community Plan (and develop a Corporate Plan as the Council's contribution to the Community Plan);
 - ensure partner engagement and shared ownership; and
 - reshape the annual Improvement Plan to include partners.
 - **Accountability – business planning and reporting needs to ensure accountability through:**
 - clarifying responsibilities;
 - addressing individual performance appraisal and development;
 - setting service standards and targets – linked to priorities and customer contact; and
 - agreeing and using the Assembly Improvement Agreements.
 - **Use of resources – ensuring value for money for the community through:**
 - the efficiencies agenda (business and service re-engineering and working practices);
 - making the best use of assets (buildings, staff, ICT) and procurement; and
 - participating fully in the making the connections and shared services initiatives.
 - **Partnerships – need to clarify and breakdown barriers to ensure:**
 - shared objectives and targets;
 - shared performance information; and
 - shared finance and other resources.

The JRA re-affirmed the Council's priorities and added education as an additional priority; service business planning, reporting and monitoring processes now need to be used to ensure that plans to address those priorities are developed and implemented

67. The 2008 JRA focused on establishing a 'direction of travel' for all the Council's service areas. Using evidenced based criteria the assessment considered:
- past performance and proven delivery of outcomes,
 - present performance levels and comparative achievement of improvement;
 - how its improvement levels compare with others;
 - how much it has improved against its own baseline and the previous year's risk assessment; and
 - prospects for improvement, challenging the robustness and delivery of business plans.
68. Exhibit 7 summarises the outcomes from these assessments, together with comments on those services judged as 'not improving adequately'.

Exhibit 7: Outcomes from the JRA

Service group	Services areas improving well	Service areas improving adequately	Service areas not improving adequately	Comments on service not improving adequately
Corporate	6	14	1	Legal services – where caseload planning and management need to be improved.
Community & Children's Services	1	3	3	Both Children's and Elderly Services continue to face significant challenges in delivering service improvements.
Education & Lifelong Learning	1	4	3	Highlighted improvement required in libraries, school strategic planning and the level of educational attainment.
Environmental	7	6	6	Emergency planning needs a more corporate approach, transport and highways services require further improvement and the leisure services review is ongoing.
Total	15 (27%)	27 (49%)	13 (24%)	

69. In taking the conclusions from this work forward, the Council has re-affirmed the corporate and service priority areas initially identified through the Wales Programme for Improvement process in June 2005, and has added Education as a service priority area for the next three year period.

70. The service business planning, reporting and monitoring processes now need to be used to ensure that plans to address those areas identified as not improving adequately are developed and implemented.

The Council has responded positively to the recommendations of previous inspection work but further improvements are still required in social services

71. Together with CSSIW, we have followed up the implementation of recommendations arising from the Social Services Joint Review to ensure that the Council has appropriate mechanisms in place to respond to external challenge.
72. The review found that steps were taken to minimise the impact of major changes in the senior management team in social services (as a result of retirements) and that recruitment was undertaken without significant delay.
73. Investment has been made to ensure it has systems in place to monitor and manage improvement and there is a clear political and corporate commitment to improving social services. There are comprehensive arrangements in place to monitor, scrutinise and review performance – including progress on the joint review action plan (at both political and corporate level) but these arrangements could be strengthened if progress on business plans as well as performance indicators were regularly reported to scrutiny committee.
74. While there remain areas for further development the review found that the Council has a robust infrastructure in place to bring about the necessary improvements. It now needs to ensure that the infrastructure delivers the improvements required.
75. In children's services the Council has now begun to make progress in improving its performance. The review found a clear commitment to achieving improvement was evident but improvement had only recently begun to emerge and remains fragile. Sustaining this improvement must be a priority for the Council and this will require considerable ongoing commitment and support at all levels as well as scrutiny and challenge.
76. Financially, the 2007/2008 budget out-turn shows that there are continued pressures within the service. The original children's services budget was increased by £802,000 during the year but reported an overspend of £1,019,000 although the adult and elderly services budget underspent by £757,000.
77. The 2008/09 budget position (as at the end of September 2008) projects a small overspend within adult services, but shows continued pressures within children's services, anticipating a £255,000 overspend.
78. The challenge for the Council is to maintain a continued focus on improving social services by sustaining the progress that has been made. The emerging improvements into day to day practice need to be consolidated, achieving efficiencies through improved use of the in-house care providers, and addressing cost pressures within children's services.

During 2007 the Council restructured its Information, Communication and Technology (ICT) service and this has enabled it to begin to tackle the risks it faces

79. The 2007 JRA recognised the improvements made in recent years in respect of operational performance and identified some key risks for the Council in delivering the significant programme of development work necessary to support further improvement. In particular risks were identified in respect of:
- management arrangements (particularly maximising benefits from the centralisation and the Service Excellence Framework);
 - business planning and prioritisation;
 - disaster recovery; and
 - infrastructure.
80. Our review concluded that:
- the newly established management arrangements are comprehensive but they need time to settle down before anticipated benefits can be realised;
 - corporate priorities for 2008/2009 have been endorsed by the Strategic Steering Group and arrangements for determining the 2009/2010 priorities have been improved, including strengthening links with the revised corporate performance management framework and the new IT Strategy;
 - a review of Information Management strategies and arrangements will be undertaken during 2008/2009;
 - improvements to the ICT infrastructure are underway but final Cabinet approval will be needed to deliver the enhancements required;
 - feedback from service users on the quality of support is mixed and will need to be taken into account as the service excellence framework is rolled out during 2008/2009; and
 - a comprehensive Disaster Recovery Plan for ICT Services has been agreed although the current Corporate Business Continuity Planning exercise needs to inform and influence ICT's Disaster Recovery Plan.

The Legal Services division has coped well with demand but business planning is hampered by a lack of good quality performance information that makes it difficult to improve services

81. Our work in supporting the Legal Services division respond to the 2007 JRA considered legal services across the Council, business processes and making the best use of external advice.

82. Our overall conclusions are summarised in Exhibit 8.

Exhibit 8: Legal services review

Risk areas	Findings
Legal services across the Council	<ul style="list-style-type: none"> • There is a broad based model for providing legal services across the council, although not all legal services are sourced or delivered through the Legal Services division. • It is unclear how the division identify the impact of Council initiatives and developments on its work. • In-house delivery is the most effective delivery model.
Business processes and management systems	<ul style="list-style-type: none"> • External accreditation cannot be achieved until the division improves its management systems and documentation. • A customer care policy is in place. • The case management system is not fully operational. • The Court timetable is the major factor setting working priorities. • There is insufficient information to measure the impact of current staffing levels on service delivery. • Recruitment and retention of legal service staff could become an increasing problem for the Council.

The housing stock transfer has been properly accounted for although the Housing Revenue Account cannot be closed at present

83. Our work this year has focused on arrangements to ensure the correct accounting treatment of transactions arising from the housing stock transfer and in supporting the Council in establishing effective arrangements for the residual housing services that remain its responsibility.
84. Accounting for the stock transfer required a number of entries in the financial statements, summarised as follows:
- writing out the value of the housing stock and other assets transferred from the Balance Sheet (£252.8 million), as these are no longer owned by the Council;
 - Assembly Government funding (£106 million) to pay off an equivalent value of the loans outstanding that related to housing stock and other assets transferred, plus an additional £13 million to cover the charges for early repayment of these loans; and
 - recording the transfer agreement whereby RCT Homes would incur expenditure (£358.7 million) in bringing the housing stock up to the Welsh Housing Quality Standard.
85. The financial statements show a year-end balance on the Housing Revenue Account of £2.4 million. Guidance from the Assembly Government is being finalised on the arrangements to complete the Housing Subsidy Grant for 2007/2008, before establishing the final balance on the Account, which will subsequently be able to be transferred to the Council Fund balances.

86. Housing Services that remain with the Council are: housing strategy (including private sector housing renewal policy and neighbourhood renewal areas) and housing services (allocations, advice, repair and maintenance grants and the homelessness service). Service Level Agreements are in place with RCT Homes that cover a number of these areas and the management arrangements for these services are in the process of being revised.
87. We are currently reviewing the retained housing service in order to assess whether the council is effectively managing the impact of the housing stock transfer on its strategic and statutory functions.

The Council is engaging positively with the Wales Audit Office's initiatives to promote improvement

The Council is committed to using the Good Practice Exchange through shared learning

88. In 2007, the Wales Audit Office embarked on a long-term programme of promoting improvement across public services through the capture, evaluation and dissemination of good practice. Web-based facilities to support improvements in sickness absence management, fleet management, occupational health and grants management have been launched and the ability to access the Wales Audit Office case studies and facilities to share learning across public services have been developed.
89. This year we have focused on Smarter Ways of Working, aiming to provide a convenient stimulus for innovation and creative thinking in gearing the organisation of work – and the people who deliver it – to more flexible patterns. It aims to support an overall organisational strategy of improvement, generating benefits in relation to cost control, sustainability, and employee engagement. At the heart of smarter ways of working is citizen-centred service design.
90. The Council and Cardiff Council are currently working together in a Shared Learning Project focused on family support. The purpose of the project will be to facilitate communication between the two councils to assist them both in developing, delivering and evaluating better services for families. The Wales Audit Office will not be inspecting any of the family support services provided by the councils but there is potential to agree specific research requests in order to assist the shared learning.

The Council is committed to delivering the Making the Connections agenda and its approach to fleet management is making best use of resources to support improvements in service delivery

91. The Wales Audit Office is committed to an ongoing programme of work focusing on the Making the Connections (MtC) agenda across the public sector in Wales. In 2007 we completed a baseline assessment of progress made in implementing that agenda, following which we concluded that a phased review of asset management would provide a framework for future work.

-
92. The first phase of that work – on fleet management – was designed to identify whether public sector organisations’ arrangements made the best use of resources to support improvement in service delivery. The Welsh public sector collectively uses approximately 16,000 vehicles which cost some £200 million per annum to run. We estimate that these vehicles drive some 250 million miles per annum which generates some 110,000 tonnes of carbon dioxide (CO₂). Effective fleet management can improve service delivery, reduce operating costs and minimise the environmental impact of the fleet.
93. Overall our review found that the Council’s approach to fleet management is a very positive one through:
- strong administration of the fleet and monitoring of vehicle maintenance/servicing;
 - key performance indicators are set and reviewed regularly;
 - wide use of central contracting arrangements; and
 - procurement is a team effort, with involvement of drivers and other users.
94. Two examples from these arrangements have been included in the Wales Audit Office Good Practice Exchange – the carbon reduction strategy and ‘toolbox talks’.
95. We have highlighted the need to formally document the corporate fleet management strategy and to review and clarify the vehicle disposal policy.
96. Council has a clear corporate strategy for fleet management set out in a single document which is made readily available to staff. The strategy has clear links to other areas of asset management planning such as buildings and ICT equipment.

Appendix 1

Auditor's report on the arrangements for securing economy, efficiency and effectiveness in its use of resources in 2007/2008

Conclusion on the Council's arrangements for the year ended 31 March 2008 for securing economy, efficiency and effectiveness in its use of resources	
The Council's responsibilities	
The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and to ensure proper stewardship and governance. The Council is also responsible for regularly reviewing the adequacy and effectiveness of these arrangements.	
Auditor's responsibilities	
<p>I have a responsibility under section 17(2)(d) of the Public Audit Wales Act 2004, to conclude from my audit of the Council's annual accounts and other relevant information whether I am satisfied that it has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. For the purposes of my work in this area, I have assessed 'proper arrangements' as principally comprising an organisation's corporate performance management and financial management arrangements, significant elements of which are defined in paragraph 48 of the Auditor General's Code.</p> <p>I report if significant matters have come to my attention which prevent me from concluding that the Council has made such proper arrangements. In carrying out my work, I have not considered whether the arrangements in place represent all those that could be in place. I am also not required to consider, nor have I considered as part of this aspect of my work, the effectiveness of the arrangements in place in securing value for money during the year under review.</p>	
Conclusion	
<p>The following conclusion has been based on, and limited to, work carried out as part of my audit of the 2007/2008 accounts, together with any other information that I have considered to be relevant to my examination, to establish, in all significant respects, what arrangements the Council had in place during the year to support the achievement of its responsibility to secure economy, efficiency and effectiveness in its use of resources.</p> <p>Based on the Council's Statement of Internal Control and as a result of the work carried out, as described above, as part of my audit of the 2007/2008 accounts, and all other information that I have considered to be relevant, I am satisfied overall as to the existence of the arrangements that the Council had in place during the year to support the achievement of its responsibility for securing economy, efficiency and effectiveness in its use of resources. I have raised various issues with the Council, and made recommendations to improve its arrangements. These matters are further discussed and explained in the Annual Letter.</p>	
Gill Lewis Appointed Auditor November 2008	Wales Audit Office 24 Cathedral Road Cardiff CF11 9LJ

Appendix 2

Criteria for assessing the Council's arrangements during 2007/2008 for securing economy, efficiency and effectiveness in its use of resources

Corporate performance management and financial management arrangements	Questions on arrangements
Establishing objectives, determining policy and making decisions	1. Has the Council put in place arrangements for setting, reviewing and implementing its strategic and operational objectives?
Meeting needs of users and taxpayers	2. Has the Council put in place channels of communication with users and taxpayers, and other stakeholders including partners, and are there monitoring arrangements to ensure that key messages about services are taken into account?
Compliance with established policies	3. Has the Council put in place arrangements to maintain a sound system of internal control, including those for ensuring compliance with laws and regulations, and internal policies and procedures?
Managing operational and financial risks	4. Has the Council put in place arrangements to manage its significant business risks?
Managing financial and other resources	5. Has the Council put in place arrangements to evaluate and improve the value for money it achieves in its use of resources?
	6. Has the Council put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities?
	7. Has the Council put in place arrangements to ensure that its spending matches its available resources?
	8. Has the Council put in place arrangements for managing and monitoring performance against budgets, taking corrective action where appropriate, and reporting the results to senior management and the Council?
Monitoring and reviewing performance	10. Has the Council put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to the Council?
	11. Has the Council put in place arrangements to monitor the quality of its published performance information, and to report the results to Council members?
Proper standards of conduct etc	12. Has the Council put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business?

Appendix 3

Audit of the 2008/2009 Improvement Plan

Certificate

Respective responsibilities of the Council and the auditors

Under the 1999 Act the Council is required to prepare and publish a Best Value Performance Plan summarising:

- its assessments of performance; and
- its position in relation to its statutory duty to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

This was supplemented by further guidance on how the WPI will be implemented under sections 3, 5 and 6 of the 1999 Act as set out in the National Assembly's Circular 18/2002. Under this guidance, the statutory Best Value Performance Plan has been replaced by a statutory Improvement Plan.

Assembly Government Circular 28/2005 superseded Circular 18/2002 and requires the Plan to be published no later than 31 October of the financial year to which it relates.

The Council is responsible for preparing the Plan and for the information and assessments set out within it. The Council's future work programme set out in the Plan should connect to the outcomes of the updated risk assessment.

The Council is also responsible for establishing appropriate performance management and internal control systems from which the information and assessments in its Plan are derived, and for ensuring that it provides sufficient capabilities and capacity needed to manage change and improvement. The form and content of the Plan are prescribed in section 6 of the 1999 Act and the statutory guidance issued by the Assembly Government.

As the Council's appointed auditors, we are required under section 7 of the 1999 Act to carry out an audit of the Plan, to certify that we have done so, and to report whether we believe that the Plan has been prepared and published in accordance with statutory requirements set out in section 6 of the 1999 Act and statutory guidance and, where appropriate, recommending how the Plan should be amended so as to accord with statutory requirements; and to recommend:

- Where appropriate, procedures to be followed in relation to the Plan.
- Whether the Auditor General should carry out an inspection of the Council under section 10A of the 1999 Act.
- Whether the Assembly Government should give a direction under section 15 of the 1999 Act – eg, directing the Council to amend its Plan, carry out a review of a specific function or hold a local inquiry. Details of all possible directions can be found in the 1999 Act.

Scope of the Improvement Plan audit

We planned and performed our work to obtain all the information and explanations that we considered necessary in order to report and make recommendations in accordance with section 7 of the 1999 Act.

For the purposes of our report, we have interpreted compliance with the statutory guidance issued by the Assembly Government in the document, *Wales Programme for Improvement: Guidance for Local Authorities*, as being sufficient to meet the statutory requirements under section 6 of the 1999 Act.

We are not required to form a view on the completeness or accuracy of the information, or realism and achievement, of the Plan published by the Council. Our work therefore comprised a review and assessment of the Plan and, where appropriate, an examination on a test basis of relevant evidence, sufficient to satisfy ourselves that the Plan includes those matters prescribed in legislation and statutory guidance and that the arrangements for publishing the Plan complied with the requirements of the legislation and statutory guidance.

For the purpose of determining whether or not to make recommendations on procedures to be followed in relation to the Plan, our work included:

- a review and assessment and, where appropriate, examination on a test basis of evidence relevant to the adequacy of the systems set in place by the Council for collecting and recording specified performance information; and
- the testing of specific NSPIs selected on the basis of criteria set out by the Wales Audit Office.

The work we have carried out in order to report and make recommendations in accordance with section 7 of the 1999 Act cannot be relied upon to identify all weaknesses or opportunities for improvement.

We planned our work so as to collect sufficient evidence to satisfy ourselves that the Plan includes those matters prescribed in legislation and statutory guidance, and the arrangements for publishing the Plan, complied with the requirements of legislation and statutory guidance.

Appendix 4

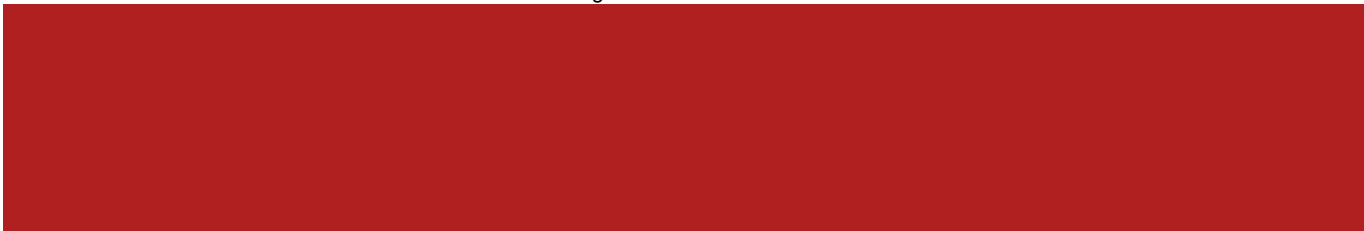
Audit and inspection fees

Your 2007/2008 audit and inspection fees were based on the risks identified and an assessment of the work needed to address those risks. They are currently expected to be in line with those set out in your Regulatory Plan as summarised below.

Audit and Inspection fees 2007/2008 (excluding VAT)

	2007/2008 planned (£)	2007/2008 expected actual (£)
Accounts	172,389	172,389
Performance audit	207,095	207,095
Performance inspection	51,313	51,313
Total	430,797	430,797

In addition to the fee above, we are required to certify your government grant claims and returns for which we must charge the actual time taken to undertake the work at skill related fee rates. This work is not complete: at this stage we anticipate this work will cost approximately £200,000 plus VAT.



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