



MERTHYR TYDFIL
County Borough Council
Cyngor Bwrdeistref Sirol
MERTHYR TUDFUL

ANNUAL GOVERNANCE STATEMENT 2015/2016

SEPTEMBER 2016

MERTHYR TYDFIL COUNTY BOROUGH COUNCIL

ANNUAL GOVERNANCE STATEMENT – 2015-16

1. SCOPE OF RESPONSIBILITY

Merthyr Tydfil County Borough 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. It is a requirement of the Local Government (Wales) Measure 2009 that Local Authorities make arrangements to secure continuous improvement in the exercise of their functions by identifying their own priorities for improvement.

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, which includes arrangements for the management of risk.

The Council has approved a Code of Corporate Governance which is consistent with the principles of the CIPFA/SOLACE Framework “Delivering Good Governance in Local Government”. (Chartered Institute of Public Finance and Accountancy/Society of Local Authority Chief Executives).

This Annual Governance Statement explains how the Council has complied with the CIPFA/SOLACE Framework and also meets the requirements of Part 3 of the Accounts and Audit (Wales) Regulations 2014. This includes the additional requirements as detailed in the addendum to the CIPFA/SOLACE framework and the Additional Chief Finance Officer (CFO) Requirements.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

A governance framework comprises the systems and processes, and culture and values, by which the Council and its activities are directed and controlled. It also embodies the way in which it accounts to, engages with, and leads the community. It enables the Council to monitor the delivery of its Corporate Priorities for Improvement and to consider whether this has led to improved outcomes for the citizen. 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 or deliver its priorities 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 and Corporate Priorities. It also evaluates the likelihood of those risks being realised and the associated impact should they occur, and identifies how the risks will be managed.

A governance framework has been in place at the Council for the year ended 31st March 2016 and up to the date of approval of the Annual Governance Statement and Statement of Accounts.

3. THE GOVERNANCE FRAMEWORK

The following is a description of the systems and processes that comprise the Council's governance arrangements including arrangements for:

(a) Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users:

The Corporate Plan sets out our ambition for Merthyr Tydfil to 2017. The Corporate Plan is the primary tool of the Council to communicate the purpose, vision and intended outcomes for citizens and service users. The Corporate Plan identifies the Council's top priorities which are referred to as our Priority Areas. These support the Vision and Priority Outcomes identified for Merthyr Tydfil which are set out in the County Borough's Single Integrated Plan 2013/17.

Priority Outcomes Single Integrated Plan	Priority Areas Corporate Plan 2013-2017
People in Merthyr Tydfil have the opportunity and aspiration to learn and develop their skills to maximise their potential.	Raising Standards of Attainment
People in Merthyr Tydfil benefit from a strong, sustainable and diverse economy.	Economic Development Employability
People, who live and work in Merthyr Tydfil are supported to enjoy a healthier and better quality of life.	Promoting Independence Meeting the needs of vulnerable children Active Lifestyles
People enjoy a vibrant, attractive, safe and sustainable place in which to live, work, play and visit.	Sustainable Environment

Delivery of the Single Integrated Plan (SIP) was the responsibility of the Merthyr Tydfil Local Service Board (LSB) until it was replaced by the Cwm Taf Public Service Board in May 2016.

As part of its production process the SIP underwent a statutory/public consultation exercise.

(b) Reviewing the vision for Merthyr Tydfil and its implications for the Council's governance arrangements:

The Council keeps the above under review and development. The annual review of governance arrangements will take into account any changes to the Vision in the future.

The Single Integrated Plan that contains the vision for Merthyr Tydfil will be subject to annual review by the Local Service board partners.

Each year the Council produces the Corporate Plan - Annual Delivery Document which provides an update to the Corporate Plan based on new planned activities and lessons learnt from in year self-evaluations. The Annual Delivery Document for 2015/16 was reported to Full Council in June 2015. The Council's Vision and priorities were reviewed again later in 2015 and the stated priorities confirmed.

(c) Translating the vision into objectives for the authority and its partnerships:

The Single Integrated Plan identifies clear outcomes that will have a positive impact for people.

The Corporate Plan supports the vision and priority outcomes identified for Merthyr Tydfil within the Local Service Board's Single Integrated Plan 2013 to 2017.

The priorities of the Single Integrated Plan focus on making progress on outcomes in partnership with other organisations, whilst the priorities in the Corporate Plan focus on those that are predominantly the responsibility of the Council.

(d) Measuring the quality of services for users for ensuring they are delivered in accordance with the Council's objectives for ensuring that they best represent the use of resources:

In July/August of 2013 a series of workshops were held to develop a Corporate Self Evaluation model; part of this covers quality of provision/service delivery and services are asked to identify the systems they have in place to measure, validate and challenge quality of service delivery. A Service Performance Challenge programme ran from September 2014 through July 2015. This programme reviewed service self-evaluations and provided challenge on service performance. The challenge helps the Council identify areas of improvement work within services.

During 2015/16 the self-evaluation process undertaken by services continued with all services producing a self-evaluation, however, there was a change to the service performance challenge with the establishment of the Performance Board. The purpose of the Performance Board is to create an arena where senior officers and elected members can discuss and challenge performance on a diverse range of service improvement related topics. The Performance Board met for the first time in November 2015 and then again in February and March 2016. There will be six Performance Board meetings each year and their focus will be on the four corporate strategies and the organisational improvement strategy.

Value for Money of services provided by the Council is considered as part of the Corporate Self Evaluation/Performance Service Challenge framework adopted by the Council. This is beginning to become intrinsically linked to the allocation of scarce resources through the budget setting process as evidenced through the Service Budget Review process for the 2015/16 budget. The budget for 2016/17 is set based on the principles of transformation and outcome focused redesign of council services. Arrangements are continuously evolving through the Change Management and Performance Framework although it is recognised that further progress needs to be maintained, monitored and applied consistently.

The Council's budget process establishes the resources required to deliver its services and Corporate Priorities for Improvement, which involves a review of the overall use of resources.

Internal Audit's annual plan of work includes reviewing the use of resources.

Consultation is used to gauge the public perception of services provided.

It is recognised that there is a need to implement a process to align priorities and resources to deliver the appropriate level of service and a process to determine which services need to be delivered in an alternative way.

The Wales Audit Office Annual Improvement Report 2015/16 made positive comments on the self-evaluation process stating that the council is developing its arrangements for improvement planning and self-evaluation, but that there are weaknesses in the Council's arrangements for responding to external regulatory reports.

The self-evaluation process aims to ensure that each service area has robust arrangements in place to provide information to enable quality of service to be measured.

As part of the partnership review undertaken in 2015/16 proposals have been made and are being implemented that will reduce costs in relation to staff time by streamlining partnership structures, however, it is recognised that arrangements do need strengthening including being able to better measure value for money. These are being looked at in terms of the new arrangements for the Public Services Board and the new Strategic Partnership Board.

The Service Improvement Framework sets out the key components of the Council's improvement planning process. This needs to be updated to reflect changes to the Council's updated approach and to meet the requirements of the Well-being of Future Generations (Wales) Act 2015.

The complaints procedure has undergone a review and an updated model was presented to, and adopted by Council in September 2014.

(e) Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions with clear delegation arrangements and protocols for effective communication:

The Council sets out the respective roles and responsibilities of Councillors and Senior Officers in the Council's Constitution.

All Committees and member bodies are set out in the Council's Constitution. The Scheme of Delegation details where responsibility for functions lie and in respect of decisions to be made, identifies which body or person makes those decisions which result in actions either being taken or not.

The constitution sets out the protocol on councillor/officer relations and sets out the specific role of councillors and officers and of the relationship that should exist.

(f) Developing, communicating and embedding codes of conduct, defining the standards of behaviours for members and staff:

There are codes of conduct in place which have been formally approved and communicated to all relevant staff. The Employee Code of Conduct and Members Code of Conduct form part of the Constitution. Copies of Codes are also available on the Council's Intranet and Internet site. Booklets are produced and disseminated to employees and councillors on request. All new starters with the Council receive a copy of the Employee Code of Conduct. All members of staff have been issued with a Staff Handbook which provides a summary of relevant policies and working practices.

(g) Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks:

The Constitution has been updated to reflect the changes both in terms of the political management structure arrangements and organisational structure in the Council. In addition, there have been a number of changes required as a result of the Local Government (Wales) Measure 2011. The Council's Constitution sets out how the Council operates, how decisions are made and the procedures followed to ensure that these are efficient, transparent and accountable to local people. Responsibility for decision-making, the role of the Council, the Cabinet, Committees and the process for determining the Council's key decisions are defined in the Constitution. Delegations are detailed so that the functions of the Council, Cabinet, Cabinet Members, Committees and Officers are specified.

The Constitution contains amongst other things, Rules of Procedure including the Financial Procedure Rules and the Procurement and Contracting Rules. The Procurement and Contracting Rules were revised and approved in April 2014. The Rules have been further amended to reflect the Public Contract Regulations 2015 and the updated Welsh Procurement Policy Statement which was issued in June 2015. These amendments were approved by Full Council in January 2016. The Financial Procedure Rules have been reviewed. It is recognised that they require amendment to reflect changes in structures, systems and processes operating within the Council and work to this effect is underway.

The Audit Committee has a role in reviewing and scrutinising the appropriateness of the Council's Risk Management arrangements, which should be supported and driven by a Risk Management Policy and Strategy.

In order to emphasise the importance of Risk Management across the Local Authority, the Deputy Leader of the Council is the Councillor Risk Management Champion as set out in the Policy and Strategy. The Policy and Strategy also clearly sets out Risk Management Roles and Responsibilities across the Council, including for the Chief Executive, Directors, Heads of Service, Operational/Team Managers, Employees and Councillors.

The Council's revised and updated Risk Management Policy and Strategy was approved by Full Council on 16th July 2014. Risk registers are in place which capture the risks and issues that could prevent or hinder the delivery of the Council's Corporate Strategies. The Council's Performance Board is an integral part of reporting on the Risk Registers

enabling the Local Authority to challenge services about risks and issues, whilst also supporting the identification of any new or emerging risks and issues.

(h) Undertaking the core functions of an Audit Committee, as identified in CIPFA's Audit Committee – Practical Guidance for Local Authorities:

The Council has established an Audit Committee, which undertakes the core functions of an audit committee as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities. In accordance with the Local Government (Wales) Measure 2011 one member of the Audit Committee is a Lay Member. The Audit Committee has an up to date terms of reference that is contained within the Council's Constitution. The Wales Audit Office have recently identified the need for the Council strengthen its arrangements for responding to regulatory reports including formalising a process and clarifying which committees should receive the reports.

(i) Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that the expenditure is lawful:

The Council has in place a framework of Procedures, Rules and Policies that sets out how policy decisions are made. Key roles are performed by statutory officers, including the Council's Head of Paid Service, Monitoring Officer, Section 151 Officer, Chief Education Officer, and Statutory Director of Social Services.

A regular programme of work is carried out by Internal Audit reviewing compliance with established procedures and expected controls. In addition, Scrutiny Committees, External Audit and External Inspection Agencies contribute to the review of the Council's compliance with its policies, procedures, laws and regulations.

A Risk Management Framework has been established which aims to embed risk management into the operational and strategic management of the Council. Key risks are identified in Service Risk Registers and a Corporate Risk Register and a Risk Management Strategy adopted.

The self-evaluation process has continued with all services producing a self-evaluation during the financial year.

The Council sets a balanced budget with revenue and capital budgets being integrated annually. This is embodied by the production of a Medium Term Financial Plan (MTFP), which sets out likely expenditure and income over a 3-year period which allows for more certain forward planning for the delivery of services and linking this to the level of resources potentially available. The MTFP is presented to the Council as part of the budget setting process.

Appropriate limits have been approved in line with the Prudential Code for Capital Accounting. Budgets are monitored regularly and members receive financial information that is relevant, understandable and consistent with the underlying financial records. Financial reserves are kept under review. Creation of the Budget Board in 2014/15 has had a significant impact in respect of accountability for budget management with surplus revenue budget outturns reported for 2015/16 and an adequate, healthy general reserves balance maintained.

There had been vacancies in Internal Audit in 2014/15. In order to help deliver the audit work plan the services of an agency auditor were obtained. It was recognised that the use

of external agency support is not an efficient long-term solution and the vacancies in the Service were filled in later in 2014/15. However during 2015/2016 the Service incurred further vacancies due to a number of reasons. Recruitment activity was undertaken as soon as possible to reduce the impact of these vacancies and the Service has successfully recruited to all vacant posts and will be fully resourced with effect from September/October 2016.

(j) Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability:

The Council has an approved Risk Management Strategy that includes a Corporate Risk Management Policy Statement. The Strategy and the inclusive Policy Statement is regularly updated to ensure it remains up to date and continues to reflect the Council's approach to Risk Management. The Council's Risk Management Strategy has been updated with approaches for managing risk in relation to partnerships and was approved by Council in July 2014.

Each Chief Officer has a Risk Register in place which captures the risks and issues that could prevent or hinder the delivery of the corporate strategies. Each Head of Service also has a Risk Register in place. The Council's updated Corporate Risk Register for 2015/16 was prepared using a combination of the following risk sources:

- Two Corporate Management Team Risk Identification Workshops;
- Corporate Risks that were identified in the Corporate Risk Register 2014/15;
- An analysis and grouping of the identified risks that were scored 12 or above in the Service Risk Registers and the identified issues in the Service Risk Registers.

Each Corporate Risk for 2015/16 was allocated to a Lead Director who has responsibility for ensuring their corporate risks are monitored, reported and managed. In addition, appropriate Cabinet Members were identified as Lead Councillors for specific corporate risks in the Corporate Risk Register for 2015/16.

The Council's Annual Risk Management Progress Report and the Updated Corporate Risk Register for 2015/16 were presented to Audit Committee and Cabinet in February 2016.

Risk management continues to be an integral part of the Council's Transformation Programme and Financial Planning and Budget setting processes.

(k) Whistleblowing and arrangements for receiving and investigating complaints from the public:

The Council has a Whistleblowing Policy which forms part of the Council's Constitution. The Whistleblowing Policy was updated and amended during 2014/2015 to incorporate legislative change. A full review of the process has taken place and arrangements publicised by posters and a staff survey which suggests that staff are aware of the process but further work needs to be done to boost staff confidence in the process and to ensure that everyone has full understanding and access. The Council also has an Anti-Fraud and Corruption Policy and it is recognised that the policy is in need of review. Both of these documents can be accessed via the Council's intranet site.

The Council has a Corporate Compliments, Comments and Complaints Procedure that was agreed by Council on 10th September 2014 and this document is available on the

Internet. Social Services also maintain their own departmental Complaints Policy which supports the implementation of the Social Services Complaints Procedures (Wales) Regulations 2014 and the Representations Procedure (Wales) Regulations 2014 and brings the complaints process for Social Services in line with the Model Concerns and Complaints Policy and Guidance and the NHS Complaints Procedure "Putting Things Right".

(l) Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training:

The Council's website contains policies relating to Employee Code of Conduct, Financial Procedure Rules, Procurement and Risk Management, Health and Safety etc. All Councillors are invited to attend induction-training courses when elected and may not take up office until they have received training in the Code of Conduct. Training is provided to Councillors based on their training needs analysis. Party leader also hold 1:1 meetings with their members and produce personal development plans.

Training needs assessments are undertaken for specific skill areas periodically. The Council has Training Officers who organise training courses for staff.

The Council maintains a Personal Professional Development Plan process for staff and a 'One to One and Annual Review/Appraisal' process is in place.

(m) Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation:

Consultation and engagement is one of the main tools the Council uses to inform and understand the opinions and views of local residents, customers and other stakeholders within the County Borough.

There has been clear sustained progress in all of the communication channels employed by the Council. These are principally:

- Contact Magazine
- Council's internal Intranet
- Use of local, regional and national media
- Use of service users for planning groups
- Chief Executive's Core brief
- Social Media including Facebook and Twitter
- Council's Website
- Electronic Signage Facilities
- Improved telecommunication access channels
- Specific consultation on change programmes e.g. Chief Executive Information Sessions

The Single Integrated Plan is reviewed on a yearly basis. During 2015/16, a mid-term review of the SIP took place which resulted in a more streamlined SIP focussing on the added value, collaboration and impact on the community. Throughout the review process, consideration of the impending implementation of the Future Generations Act has been given and a clear focus on future requirements has informed the changes being undertaken as part of the review. The revised SIP for 15/16 was presented to and approved by the LSB in October 2015 following approval by the Council in November 2015.

The revised SIP for 2015/16 is available on the Council's web-site and LSB partner's web-site.

There are clear channels of communication in place corporately for all consultation and engagement activity. This is done through the Cwm Taf Engagement Hub, Council's website, social media sites and the contact community magazine. In addition to this, there is a citizen panel for Merthyr Tydfil and a combined panel with Rhondda Cynon Taff to ensure that the Council is consulting and engaging with all sections of the community.

Responsibility for consultation and engagement now sits with the Corporate Communications and Consultation Team within the Council and is also supported collaboratively across the Cwm Taf footprint by the newly established Cwm Taf Public Engagement Group.

The Council is now more proactive with all consultation and engagement across the Cwm Taf Footprint through closer partnership working via the strategic and practitioners public engagement group meetings.

The Authority publishes a Community Magazine (Contact) which informs all our stakeholders of what is happening across the County Borough. The magazine is distributed to every household across the County Borough and is also published on the Council's website and staff internet site.

Regular progress updates are provided on all communication and consultation activity internally through the Communications and Consultation Group, the Transformational Steering Group and the Transformation Programme Board. Progress on certain consultation exercises are also communicated back to the Cwm Taf Public Engagement Group.

(n) Incorporating good governance arrangements in respect of partnerships and other joint working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the Authority's overall governance arrangements:

The Council works in partnership with a range of organisations in order to deliver its objectives and priorities. Some examples include:

- The Merthyr Tydfil Local Service Board, which included Police, Health Board, Third Sector, and a representative from the Welsh Government; (Replaced by the Cwm Taf Public Service Board from May 2016)
- The Cwm Taf Regional Collaboration Board which had a strong focus on collaboration across the region. The Board consists of senior representatives of Councils, Police, Health Board, Third Sector, and representatives from the Welsh Government; (Replaced by the Cwm Taf Public Service Board from May 2016)
- Key Strategic Partnerships for Health Social Care and Well Being; Children and Young People; and Community Safety combined to form a single Partnership Board for Merthyr Tydfil; (This has been replaced by the Cwm Taf Strategic Partnership Board from May 2016.)
- Cwm Taf Social Services and Wellbeing Partnership Board to prepare for and oversee implementation of the Social Services & Well Being Act.
- Welsh Local Government Association; and

- The City Deal – Ten South East Wales local authorities, in partnership with the Welsh Government, in developing and securing a City Deal with the UK Government.

The Council has developed a Partnership Risk Management Toolkit that has received approval from the Corporate Management Team. The Toolkit provides a framework for identifying and managing the risks associated with creating, establishing, managing and delivering successful partnerships. The Toolkit was piloted by a range of services across the Council to test its effectiveness and provide feedback on any necessary improvements. Following this trial and feedback received from services involved in the trial, the draft Toolkit has been updated where necessary to reflect the feedback from the pilot.

It has been proposed that the Toolkit will be an integral part of the new Partnership Board that has been established to ensure that all collaborative arrangements deliver improved outcomes and value for money for the people of Merthyr Tydfil. The Council are awaiting further direction from the Partnership Board on the utilisation of the Toolkit.

(o) Ensuring the Authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) and, where they do not, explain why and how they deliver the same impact:

The Section 151 Officer (Chief Finance Officer) is the responsible officer for administration of the Council's financial affairs under section 151 of the Local Government Act 1972.

The Chief Finance Officer reports strategically to the Chief Executive and operationally to the Corporate Director for Place & Transformation and is a member of Corporate Management Team.

The Chief Finance Officer is responsible for ensuring that appropriate advice is given on all financial matters, for maintaining proper financial accounts and records and maintaining an effective system of internal financial control.

In line with CIPFA's 'Statement on the Role of the Chief Financial Officer in the Public Service Organisations' (2009) and the 'Statement of the Role of the Chief Financial Officer in Local Government' (2010) the Council's Chief Financial Officer:

- Is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the Council's strategic objectives sustainably and in the public interest;
- Is actively involved in, and able to bring influence to bear on all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the Council's financial strategy; and
- Leads the promotion and delivery by the whole Council of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities the Chief Finance Officer:

- Leads and directs a finance function that is resourced to be fit for purpose; and
- Is professionally qualified and suitably experienced.

(p) Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained.

The Council has an approved Anti-Fraud and Corruption Policy which is currently being reviewed to ensure it is up-to-date. The Anti-Fraud and Corruption Policy is available electronically via the Intranet and members of staff have been made of aware of the Policy and its location. The Counter Fraud Service performance information is reported to the Council's Audit Committee. The Counter Fraud Team transferred to the Department of Work and Pensions in February 2016. It was agreed that Internal Audit would carry out internal fraud investigation work (non-benefits related) and other residual duties linked to Benefits would be carried by the Benefits Team.

(q) Ensuring the authority's assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010) and, where they do not, explain why and how they deliver the same impact.

The Audit Manager is CIPFA qualified with over 20 years' experience and leads a team of staff who provide a professional, cost effective and independent internal audit of the Council's systems of internal control, risk management arrangements and governance arrangements. Internal Audit work to a risk based plan and produce reports giving opinions on the standard of the Authority's internal control environment, it's compliance with established controls and its governance arrangements.

An Annual Internal Audit Report is compiled by the Audit Manager and reported to Audit Committee providing an opinion on the internal control framework, risk management arrangements and governance arrangements. The opinion formulated in this report is based on the work undertaken by Internal Audit during the financial year and the opinions given.

Financial Procedure Rules detail that the Chief Finance Officer and his audit representatives have the authority to directly access the Head of Paid Service, the Cabinet and the Audit Committee.

The Audit Manager works closely with the Audit Committee to provide challenge and support across the Council and improve governance, risk management and internal control. The Audit Manager is not a member of the Senior Leadership Team but is managed by and has direct access to the Head of Corporate Services who is a member of the Senior Leadership Team.

4. REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the Council who have responsibility for the development and maintenance of the governance environment, the Internal Audit Annual Report, and also by the comments made by the external auditors and other review agencies and inspectorates.

Throughout 2015/16 the Council has maintained and reviewed its system of internal control in a number of ways. In particular:

The Internal Audit Service has undertaken planned reviews of internal control procedures, risk management and governance arrangements across departments and across a range of functions within the Council. The Internal Audit Service worked to its Plan for 2015/16. Reports were published upon completion of assignments and circulated to management and members of the executive and action plans included in the Council's Audit, Inspection Action Plans system (AAPs) according to internal processes. Minutes and agenda papers of Audit Committee demonstrate that both internal audit, external audit (Wales Audit Office) and other external inspection/regulation agencies reports have been made to Audit Committee and also that officers have been called to the Audit Committee to discuss their respective reports and action plans and to subsequently provide further updates on progress at future Audit Committee meetings. Audit Committee Members have access to the Council's Audit Action Plan system so that they can view service action plans and monitor managements progress of completion of actions.

The Annual Internal Audit Report for the financial year 2015/2016 incorporating the Audit Manager's opinion was produced and reported to the Council's Audit Committee on the 18th July 2016. Based upon the work undertaken during the year Internal Audit gave a satisfactory opinion on the internal control environment, risk management arrangements and governance arrangements for 2015/16. (Further information can be found in the Annual Internal Audit Report 2015/16).

The scrutiny committees have examined a substantial number of issues as part of their work programme in 2015/16 as demonstrated in their Annual Report which was reported to Full Council in July 2016.

Information to be taken into consideration for producing the Annual Governance Statement includes performance management information, work completed by the Internal Audit Service, work completed by the External Auditor and other external inspection agencies, Scrutiny work, Risk Management and the Internal Control Framework including procedures, codes of conduct and policies and financial management controls as outlined in the CIPFA guidance.

The Internal Audit Service and key officers of the Council carried out a review based on CIPFA guidance to ensure that evidence was in place to support the production of the Annual Governance Statement, to identify gaps where that was not the case and to review the effectiveness of existing arrangements.

A draft version of the Annual Governance Statement has been produced for consultation and discussion at Corporate Management Team, Audit Committee and the Governance, Performance, Business Change and Corporate Services Scrutiny Committee and also

provided to the External Auditors for comment and feedback. The final version will be presented to Audit Committee and Full Council in September 2016 and published with the Statement of Accounts.

The Significant Governance Issues identified are shown in section 5 and take into account the definition identified in Appendix 1.

5. SIGNIFICANT GOVERNANCE ISSUES 2015/2016

Issues	2015/2016 AGS Position & Action Taken/Planned
<p>Estyn Report on Local Authority Services for Children and Young People</p>	<p>Estyn carried out a review of the quality of Local Authority Education Services for Children and Young People (LAESCYP) in Merthyr Tydfil and a report was produced in November 2012 detailing the outcomes of the review. The review resulted in 8 recommendations as follows:</p> <p>R1: Secure better outcomes for learners at all key stages and analyse and use performance data to identify and address underperformance. R2: Strengthen the level of challenge to schools and use the full powers available to the authority to improve leadership and management in underperforming schools. R3: Devise and apply better strategies to reduce the number of young people not in education, employment or training and build upon existing strategies to reduce the number excluded from school and improve pupil attendance rates, especially in primary schools. R4: Develop a robust self-evaluation framework for the work of the local authority's education services and introduce appropriate and challenging performance targets that drive improvement. R5: Develop a more rigorous scrutiny framework, supported by data analysis, to challenge the education services. R6: Ensure that data on the needs and attainment of all pupils with additional learning needs, and of vulnerable groups, is used at a strategic level to identify specific issues and trends that inform service planning. R7: Evaluate the impact of Youth Support Services in order to adjust the provision and rebalance resource allocation where necessary. R8: Develop and implement systems to judge whether initiatives and services have a positive impact on children and young people and offer good value for money.</p> <p>Following receipt of the report the authority was required to produce an action plan to show how it will address the recommendations within 50 working days of receipt of the report. A Post Inspection Action Plan (PIAP) was sent to Estyn on 7th June 2013.</p> <p>Following the Estyn Education Services inspection (LAESCYP) in November 2012 and the Welsh Government establishing a Recovery Board, the Council is making good progress towards addressing the recommendations. Robust plans have been established and a range of scrutiny and challenge processes put in place to oversee the delivery of these plans.</p> <p>Outcomes have improved considerably over the last 3 years. Final results up to KS3 and provisional results at KS4 show improved rates of attainment that are faster than in any other authority or region across Wales for the third year in a row and this improvement is consistent across nearly every indicator and across all phases.</p> <ul style="list-style-type: none"> • At age 7 results have improved by 5% this year and 12% since 2012. • At age 11 results have improved by 3% this year and 10% since 2012. • At age 14 results have improved by 7% this year and 17% since 2012. • At age 16 results have improved by 2% this year and nearly 20% since 2012. <p>Improvements in attainment are also reflected in improved rankings above where MTCBC would be expected to be in the context of the MID.</p> <p>The outcomes for 2014-15 will place MTCBC in Quartile 1 or 2 for 5 of the 7 National Strategic Indicators. In addition the numbers of young people Not in Education, Employment or Training (NEETs) have been significantly reduced, with a plan of action to sustain this. Attendance rates have improved in primary and secondary schools and exclusions have reduced significantly in secondary schools. The number of pupils leaving full time education without a qualification is consistently amongst the lowest in Wales.</p>

Issues	2015/2016 AGS Position & Action Taken/Planned
	<p>The final ESTYN monitoring inspection that took place in December 2015 concluded that the authority had made generally strong progress against the eight recommendations since the 2012 inspection. Formal notification was received from ESTYN in January 2016 confirming that Her Majesty's Chief Inspector of Education and Training in Wales considers that the authority no longer requires special measures and has removed it from follow-up activity.</p>
<p>Auditor General's Annual Improvement Report incorporating the Corporate Assessment Report 2014</p>	<p>The Annual Improvement Report for 2014/2015 was issued by the Wales Audit Office in June 2015. <i>"The Auditor General has concluded that the Council's track record, and its capacity and capability may mitigate the effectiveness of its arrangements to secure continuous improvement for 2015/2016. This judgement reflects the conclusion of his corporate assessment that the Council continues to face significant challenges and must continue to draw upon external support if it is to deliver its priorities."</i></p> <p><i>"The audit team found that the Council continues to deal with significant service and financial challenges with the benefit of external support...sound governance structures are mostly in place but there are weaknesses in safeguarding and whistleblowing arrangements and some other arrangements are not working as effectively as they might."</i></p> <p>The Council has developed a plan to address the weaknesses regarding Safeguarding including the creation and implementation of a Corporate Safeguarding Policy, performance reports to scrutiny committees and Cabinet and raising of awareness throughout the entire Council. The Whistleblowing Policy has subsequently been reviewed, amended and updated as required.</p> <p><i>"We also found that the Council has taken significant strides forward in its use of resources but needs to ensure it has sufficient capacity to meet the challenges ahead...the Council has improved its financial governance arrangements and is better monitoring and managing its finances, although it benefits from, and continues to need, additional support to improve the capacity of members and managers to robustly challenge financial and service performance...the Council's arrangements to manage and utilise its workforce have not been effective and it has an action plan in place to drive improvement."</i></p> <p><i>"Finally, we found that the Council's progress towards achieving its planned outcomes remains variable...The Council is benefiting from the support of the Education Recovery Board. This is having a positive impact on driving improvement in some key education areas but the scale and pace of improvement of educational attainment remains a significant challenge...The Council has not met the national targets for recycling but, following the award of a Welsh Government grant, it is piloting an alternative method of waste collection...Whilst overall performance against the national indicators improved, the Council fell short of meeting its targets and is reporting mixed progress towards achieving its improvement objectives."</i></p> <p>Within the Annual improvement Report for 2014/2015 the Auditor General made the following formal recommendations for improvement:</p> <p>R1 The Auditor General recommends that the Council following discussion with the Welsh Government continues to secure appropriate external support to enable it to deliver its statutory duty to deliver continuous improvement.</p> <p>R2 The Auditor General also recommends that the Welsh Government continues to provide support through the Education Recovery Board and that it keeps under review the support it provides to the Council generally.</p>

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	<p>With regards to R1, the Council engaged a Strategic Partner (PWC) in early 2015 to assist it in reviewing its operating model and also to identify improvements and identify savings that could be made in the Council's revenue budget. Considerable work has been done across the Authority and a number of savings and improvements made.</p> <p>In relation to R2, ESTYN carried out their final monitoring inspection in December 2015 and concluded that the authority had made generally strong progress against the eight recommendations since the 2012 inspection. Formal notification was received from ESTYN in January 2016 confirming that Her Majesty's Chief Inspector of Education and Training in Wales considers that the authority no longer requires special measures and has removed it from follow-up activity.</p>
<p>Financial Pressures: Limited financial resources versus increasing demand for services and capital projects causes budget pressures which impact upon the delivery of public services.</p> <p>E.g. Reduction in funding from the Welsh Government, lack of investment income, capital receipts, costly care packages, reductions in grant funding.</p>	<p>The Medium Term Financial Plan (MTFP) 2015/2016 to 2017/2018 was presented for approval to Council on 25th March 2015 and indicated an estimated budget deficit of £10 million over the period of the MTFP based on assumptions contained within the MTFP. The MTFP 2016/17 to 2019/20 was approved by Council on 23rd March 2016 indicating a revised estimated budget deficit of £20.3 million over the 4 year period, to be addressed through the Council's Corporate Change Programme. The Council's Strategic Partner would assist in identifying recurring budget reductions to be implemented primarily for 2016/17 and 2017/18.</p> <p>Council of 7th September 2016 considered an update to the MTFP 2016/17 to 2019/20, revising the projected budget deficit for 2017/18 to £4.671 million and for the period of the MTFP to £15.26 million.</p> <p>Although the Council aligns the MTFP with its priorities, it must be appreciated that a MTFP is a rolling programme continuously updated for changing circumstances, new developments and priorities. Consequently it was recognised that a significant amount of work was still required to fully align spending requirements to Corporate Priorities and available finance. The Council's Operating Model Design defines how the Authority is to carry out its business in moving forward and supports the Council's Corporate Strategy and Chief Officer's 'Strategies on a Page' leading to the outcome focused redesign of Council services and the further development of value for money assessments in challenging resource allocation. In addition 'Financial Sustainability' is a quality improvement theme within the Corporate Strategy incorporating both the financial sustainability and resilience of the Council led by the Chief Finance Officer. The Performance Board will monitor achievement against the measures of success and desired outcomes relating to the 'Financial Sustainability' 'Strategy on a Page'.</p> <p>A significant provisional revenue outturn surplus of £4.149 million is reported for 2015/16 with £102,000 transferred to General Reserves and £4.047 million to earmarked reserves, with General Reserves increasing to £4.627 million (4% of net revenue budget), remaining in line with the Budget Board's Terms of Reference. In addition a balance sheet review of debtors and creditors has resulted in a further transfer to earmarked reserves of £2.884 million. Both the Budget Board and Change Management Board have been instrumental in delivering this provisional surplus through robust scrutiny and challenge of Budget Managers, when identifying potential financial issues at an early stage thus supporting timely corrective action.</p> <p>For 2016/17 a surplus budget outturn is anticipated based on the position at 30th June 2016 (1st Quarter).</p>
<p>Scrutiny Arrangements</p>	<p>The Scrutiny function is developing following the Estyn Inspection in 2012. The Authority reviewed its scrutiny committee arrangements and now undertakes the scrutiny of its education services through the work of two scrutiny committees. The School's scrutiny committee focuses on school related services and school performance, and the Social Services and Social Regeneration scrutiny committee on the community facing education services. All the work programmes for 2014/2015 were designed to be more robust to ensure that key issues were addressed; relevant LAESCYP items were shared across</p>

Issues	2015/2016 AGS Position & Action Taken/Planned
	<p>committees; Cabinet Members attended specific meetings; and key corporate issues (e.g. budget, performance, transformation programme) were common to all committees. The WAO Annual Improvement Report for 2014/2015 found that:</p> <p><i>“Scrutiny challenge is developing but remains variable with strong and weak committees. A strong chair is critical to effective scrutiny management and good examples are evident, however there are also weaker examples where scrutiny remains too officer led. There are examples where the Council has used pre-decision scrutiny to good effect, and consideration should be given to extending its use to further reinforce the quality of key decision-making.”</i></p> <p><i>“Training for scrutiny members is in place, and has been supported by the Centre for Public Scrutiny (CfPS) to develop a training programme to help drive consistency and generally improve scrutiny as a whole.”</i></p> <p>In order to further strengthen the scrutiny process there was a further restructure of the scrutiny committees late 2014/15 with all LAESCYP matters now being considered by the Learning and LAESCYP Scrutiny Committee, and the responsibilities of the Scrutiny and Audit Chairs Liaison Group now being more formalised and the responsibility of the Governance, Performance, Business Change and Corporate Services Scrutiny Committee. The membership of the latter of the aforementioned scrutiny committees consists of the Chairs and Vice Chairs of all the scrutiny committees, together with the Chair of the Audit Committee.</p> <p>The final ESTYN monitoring inspection that took place in December 2015 concluded that the authority had made generally strong progress against the eight recommendations since the 2012 inspection. Formal notification was received from ESTYN in January 2016 confirming that Her Majesty’s Chief Inspector of Education and Training in Wales considers that the authority no longer requires special measures and has removed it from follow-up activity.</p>
<p>Internal Audit Service staff resource</p>	<p>There had been vacancies in Internal Audit in 2014/15. In order to help deliver the audit work plan the services of an agency auditor were obtained. It was recognised that the use of external agency support is not an efficient long-term solution and the vacancies in the Service were filled later in 2014/15. However during 2015/2016 the Service incurred further vacancies due to a number of reasons. Recruitment activity was undertaken as soon as possible to reduce the impact of these vacancies and the Service has successfully recruited to all vacant posts and will be fully resourced with effect from September/October 2016.</p>

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Councillor Brendan Toomey
Leader of the Council

Gareth Chapman
Chief Executive

Appendix 1

In determining what may constitute a significant governance issue, the following was taken into consideration:

A single definition of a significant governance issue is not possible. Councils need to exercise judgement in deciding whether or not a particular issue should be regarded as falling into this category, but factors that may be helpful in exercising that judgement include:

- The issue has seriously prejudiced or prevented achievement of a principal objective.
- The issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business.
- The issue has led to a material impact on the accounts.
- The audit committee, or equivalent, has advised that it should be considered significant for this purpose.
- The Audit Manager has reported on it as significant, for this purpose, in the annual opinion on the internal control environment.
- The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation.
- The issue has resulted in formal action being taken by the Chief Finance Officer and/or the Monitoring Officer.