



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Annual Improvement Report

Merthyr Tydfil County Borough Council

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About the Auditor General for Wales

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

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

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

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

Contents

Summary report and recommendations	4
Detailed report	
Introduction	6
Although it successfully delivered a number of key projects, the Council concluded that it was less successful in achieving targeted improvement in outcomes for citizens in priority areas, and we found performance across the range of Council services to be variable	7
The Council's reporting and evaluation of performance are improving although the lack of explicit consideration of the Council's priorities in the self-evaluations is currently a weakness	17
The Council has discharged its statutory improvement planning duties and is seeking external assurance that its arrangements for financial planning and service redesign are sufficiently robust	21
We are not yet able to conclude whether the Council is likely to comply with its requirements to make arrangements to secure continuous improvement for 2014-15	27
Appendices	
Appendix 1 Status of this report	28
Appendix 2 Useful information about Merthyr Tydfil and Merthyr Tydfil County Borough Council	29
Appendix 3 Annual Audit Letter	30
Appendix 4 Merthyr Tydfil County Borough Council's improvement objectives and self-assessment	33

Summary report and recommendations

- 1 Each year, the Auditor General must report on how well Welsh councils, fire and rescue authorities, and national park authorities are planning for improvement in delivering their services. This report sets out the findings of the work undertaken on behalf of the Auditor General by the staff of the Wales Audit Office; and also draws on the work of the relevant Welsh inspectorates. The report covers the Council's delivery of services, its evaluation of services in relation to 2012-13, and its planning of improvement for 2013-14. Taking these into account, the report records the Auditor General's conclusion on whether he believes that the Council will make arrangements to secure continuous improvement for 2014-15.
 - The Council's performance in delivering education services for children and young people remains well below acceptable levels; the pace of change remains slow and, whilst there are arrangements in place to secure more effective self-evaluation and scrutiny, some barriers remain to be overcome.
 - The performance of the Merthyr Tydfil Community Learning Partnership is excellent, and it has excellent prospects for improvement.
 - The Council continues to deliver social services well in partnership and collaboration with others, supporting its citizens to help them to retain their independence and is taking steps to deal with current and future financial challenges.
 - Whilst action has been taken to address the Welsh Language Commissioner's recommendations, further work is still required.
- 2 In 2012-13, although it successfully delivered a number of key projects the Council concluded that it was less successful in achieving targeted improvement in outcomes for citizens in priority areas, and we found performance across the range of Council services to be variable:
 - The Council concluded that it was successful in delivering five of the eight key projects in its Corporate Plan 2012-13. In terms of the longer-term priority outcomes for the County Borough, whilst improvements have been made, the Council has judged that the position is still unsatisfactory for three of its four priority outcomes.
- 3 We also found that the Council's reporting and evaluation of performance is improving although the lack of explicit consideration of the Council's priorities in the self-evaluations is currently a weakness:
 - The Council's Performance Report provides a fair and balanced assessment of performance. The Council has discharged its improvement reporting duties under the Measure although there is potential to strengthen its arrangements further.

- The Council is making steady progress in addressing our statutory recommendation through developing a corporate self-evaluation framework and working to improve the quality and consistency of its application by services.
- The Council is strengthening its performance management and reporting arrangements although their implementation is at an early stage, and the level of challenge provided by scrutiny committees is improving.
- The Council complied with its responsibilities relating to financial reporting and use of resources.

4 Finally, we found that, during 2013-14, the Council has discharged its statutory improvement planning duties and is seeking external assurance that its arrangements for financial planning and service redesign are sufficiently robust:

- the Council has discharged its improvement planning duties under the Measure but it should undertake a specific consultation to inform the selection of its Priority Areas in accordance with Welsh Government guidance;
- the Council has had difficulty in managing its revenue budget over the last two financial years and we do not yet have assurance that its arrangements for financial planning and service redesign are sufficiently robust for it to secure £16 million of savings over the coming four years; and

- the Council complied with its requirement to make arrangements to secure continuous improvement during the 2013-14 financial year.

5 Taking the above into account, we are not yet able to conclude whether the Council is likely to comply with its requirements to make arrangements to secure continuous improvement for 2014-15.

Recommendations

6 We make no new recommendations this year, and this report sets out the progress the Council is making to address the recommendations and proposals for improvement made in our previous reports. Those proposals for improvement are set out in our improvement assessment letters issued to the Council during the course of the year. These letters are available on our website www.wao.gov.uk.

Detailed report

Introduction

- 7 Under the Local Government (Wales) Measure 2009 (the Measure), the Auditor General must report each year on how well Welsh councils, fire and rescue authorities, and national park authorities are planning for improvement in delivering their services. **Appendix 1** provides more information about the Auditor General's powers and duties under the Measure. This work has been undertaken by staff of the Wales Audit Office, on behalf of the Auditor General. With help from Welsh inspectorates, Estyn (for education), the Care and Social Services Inspectorate for Wales (CSSIW), and the Welsh Language Commissioner we have brought together a picture of what each council or authority in Wales is trying to achieve, how it is going about it, and the progress the Council has made since the Auditor General published his last annual improvement report. The report also draws on the Council's own self-assessment. Finally, taking all this into account, the report records the Auditor General's conclusion on whether the Council is likely to make arrangements to secure continuous improvement for 2014-15.
- 8 We do not undertake a comprehensive annual review of all Council arrangements or services. The conclusions in this report are based on our cumulative and shared knowledge and the findings of prioritised work undertaken this year.
- 9 Given the wide range of services provided and the challenges facing the Council, it would be unusual if we did not find things that can be improved. The Auditor General is able to:
- make proposals for improvement – if proposals are made to the Council, we would expect them to do something about them and we will follow up what happens;
 - make formal recommendations for improvement – if a formal recommendation is made the Council must prepare a response to that recommendation within 30 working days;
 - conduct a special inspection and publish a report and make recommendations; and
 - recommend to Ministers of the Welsh Government that they intervene in some way.
- 10 We want to find out if this report gives you the information you need and whether it is easy to understand. You can let us know your views by e-mailing us at info@wao.gov.uk or writing to us at 24 Cathedral Road, Cardiff, CF11 9LJ.

Although it successfully delivered a number of key projects, the Council concluded that it was less successful in achieving targeted improvement in outcomes for citizens in priority areas, and we found performance across the range of Council services to be variable

The Council concluded that it was successful in delivering five of the eight key projects in its Corporate Plan 2012-13. In terms of the longer-term priority outcomes for the County Borough, whilst improvements have been made, the Council has judged that the position is still unsatisfactory for three of its four priority outcomes

11 The Council prioritised eight key projects for 2012-13 to contribute to the delivery of its four longer-term priority outcomes. In its *Annual Performance Report 2012-13*, the Council determined that it was successful in delivering the following five projects:

- Merthyr Reads, Merthyr Succeeds;
- Access to employment;
- Penderyn Square and multi-storey car park;
- Get Merthyr Active; and
- Residual waste

12 The Council considered that it had been unsuccessful in delivering the remaining three projects:

- Building enhancement scheme;
- Homes for Life; and
- Littering enforcement.

13 The Council's evaluation of its success is based upon the performance targets it had set for these projects; 22 targets were identified of which only nine were met or exceeded (41 per cent). The remainder of the targets were missed (59 per cent) mainly due to the lack of take-up of the Building Enhancement Schemes, the delay in the construction of two new care homes, and the littering enforcement scheme not progressing as planned.

14 The Council also considered the wider impact and outcomes of the delivery of the projects to provide an overall judgement of performance for each of its four priority outcomes (see [Appendix 4](#)). Despite delivering some of the key projects in each area the Council judged its improvement to be unsatisfactory for the following three priorities:

- people in Merthyr Tydfil have the opportunity and aspiration to learn and develop their skills to maximise their potential;
- people in Merthyr Tydfil benefit from a strong, sustainable and diverse economy; and
- people enjoy a vibrant, attractive and sustainable environment in which to live, work, play and visit.

- 15 The Council judged its performance to be adequate with regards to its fourth priority outcome:
- people, who live, work in and visit Merthyr Tydfil are safe and feel safe and are supported to enjoy a healthier and better quality of life.
- 16 These judgements are based on whether or not the Council had been successful in making improvements taking into account delivery of key projects, trend data against identified outcome measures, and how the Council had performed at a national level in terms of performance indicators.
- 17 In our view the *Annual Performance Report 2012-13* provides a fair and balanced assessment of the Council's performance, and we comment further on this in paragraphs 53 to 55 of this report.

The Council's performance in delivering education services for children and young people remains well below acceptable levels; the pace of change remains slow and, whilst there are arrangements in place to secure more effective self-evaluation and scrutiny, some barriers remain to be overcome

- 18 Last year, the Auditor General reported that the Minister for Education and Skills removed the Council's responsibility for education in February 2013 following the adverse findings of Estyn's inspection of education services for children and young people undertaken in November 2012. Subsequently, in June 2013, the Minister established a Recovery Board with a role to ensure that all of the Council's education functions are performed to an adequate standard.
- 19 In order to achieve improvements in its education services for children and young people the Council produced an appropriately detailed post-inspection action plan which included clear incremental steps to achieve the improvement needed. This action plan was approved by elected members, the chief executive, and corporate directors, and agreed with the Recovery Board. All acknowledged the need for fundamental reforms to the authority's working practices in order to remove barriers to progress and improve planning and performance management.

- 20 Estyn carried out a monitoring visit in February 2014 to review progress made by the Council against two of the eight recommendations arising from the inspection, related to the need for the Council to improve its arrangements for self-evaluation and scrutiny of its performance. Estyn published the outcome of its monitoring visit on 17 March 2014, and their findings are summarised in paragraphs 21 to 33 below.
- 21 Estyn concluded that the Recovery Board had established an effective working relationship with the Council, which has enabled the day-to-day functions of the 'education authority' to continue, while putting in place the necessary mechanisms for the Board to discharge its legal duties. The Recovery Board holds the Council to account well by regularly identifying specific lines of enquiry, which it pursues rigorously, calling elected members and officers to account for their work and evidence of its impact. This is leading to sharper focussed working, clearer reporting, and accountability that is more transparent.
- 22 Elected members and senior officers have shown they are committed to taking the difficult decisions needed if they are to improve provision and use resources more effectively. They have taken the important initial steps necessary to bring about improvements in the two recommendations monitored in this visit.
- 23 The Council has appropriately adopted a corporate approach to improve the way it undertakes self-evaluation. In order to develop a new self-evaluation framework the Council has consulted with external agencies, has used both the collective and individual expertise of members of the Recovery Board, and has modelled aspects of its new framework on the good practice of another Welsh local authority.
- 24 The chief executive and the leader are clearly committed to embedding the new self-evaluation framework across all the work of the Council. As a result, the Council has prioritised this work and committed the necessary resources, and has ensured that all service areas have undertaken an initial self-evaluation review.
- 25 Corporate directors and senior officers are responsible for assuring the quality of self-evaluation, both with regard to adhering to process and in ensuring the accuracy of the information produced. For example, the chief education officer meets regularly with heads of service and has supported them in this process. Heads of service produce position statements that highlight the strengths, areas for development and associated risks, which they present to elected members and senior officers in challenge sessions. These challenge sessions are beginning to be used to good effect in holding heads of service to account.

- 26 Formal self-evaluation reporting is still at an early stage. Schools and other partners have not yet contributed to the developing self-evaluation report, and an evaluation of the wider aspects of education service provision is yet to be included. Within the chief education officer's area of responsibility, education services use a self-evaluation calendar to identify the activities they need to undertake throughout the year. Key officers within the directorate are responsible for ensuring the completion of these tasks. This includes reporting to the Recovery Board and elected members on a regular basis. Although the education functions within the community services directorate are making clear and steady progress in the development of reflective practice approaches, they have yet to embed fully regular and ongoing self-evaluation activity. As a result, the Council does not yet know clearly enough how well it is performing.
- 27 The Council has begun to improve how it holds governing bodies and headteachers to account for the performance of their schools and the educational outcomes of pupils against a clear and developing framework. The Council has ensured all governing bodies have set up a standards committee, and given governors support and training to improve their understanding of school performance data. As a result, governors are developing their confidence and skills in challenging headteachers and senior managers about the standards achieved by pupils.
- 28 The Council successfully completed the update of the schools categorisation programme during the autumn term. This enabled the Central South Consortium and the Council to agree the appropriate level of support and challenge required for each school. In schools, accelerated improvement plans are being used to good effect and headteachers have presented the interim outcomes from these to the Council's Education Services Improvement Board and the Council's scrutiny committees. However, the Council is not able to assess the impact of wider partnerships on the outcomes of children and young people in the same way.
- 29 Following Estyn's inspection of 2012, the Council reviewed its scrutiny committee arrangements and put in place a programme for improvement. The Council now undertakes the scrutiny of its education services through the work of the Education Services Improvement Board and two scrutiny committees:
- the schools scrutiny committee, the focus of which is on school-related services and school performance; and
 - the social services and social regeneration committee that focuses on the community-facing education services.

- 30 The schools scrutiny committee has reviewed its operation and made changes to improve the way it prepares for meetings, and evaluates its performance. Meetings are now more regular enabling the committee to be more challenging with its work programme, with a better focus on the regular reporting of school and pupil performance. This focus includes calling in reports from a wider range of officers and headteachers. Committee members also carry out visits to schools in order to have a better understanding of how their schools work. The schools scrutiny committee has undertaken specific training to help them understand better, and interpret more accurately, school and pupil related data. The chairs of the schools scrutiny committee and the social services and regeneration committee have recently begun to meet to discuss issues of mutual interest about the Council's education services.
- 31 The Council has recently evaluated the performance of the schools scrutiny committee, which identified clearly the important challenges it still faces. This evaluation sets out effectively the agenda for change if this improvement process is to continue and to pick up pace. The evaluation highlights, in particular, the need for the scrutiny committee to hold the cabinet and portfolio holders to better account, as well as the need for committee members to reduce their reliance on officers to provide prompts and questions, and to develop for themselves more rigorous and challenging questions.
- 32 However, the Council has not undertaken a similar evaluation of the social services and social regeneration scrutiny committee. As this committee also looks at education services, such evaluation is important. As a consequence the Council has not shown how well the social services and social regeneration scrutiny committee undertakes this work, or how well the two committees work together to ensure that crossovers in provision, management and outcomes are properly linked and scrutinised.
- 33 Reporting by officers to the schools scrutiny committee is improving. Reports now include important and sharp messages about the scale of the challenge facing the Council and its schools. Although officers' reports contain more schools and pupil performance data, the presentation of this material and its volume may overwhelm readers without a background in the interpretation of data. Where reports contain large amounts of information, officers do not always explain clearly enough what the data demonstrates, and what the intelligence means. In these cases, scrutiny members are not able to challenge officers effectively or make informed decisions to drive forward improvements in planning and provision for education services.

The performance of the Merthyr Tydfil Community Learning Partnership is excellent, and it has excellent prospects for improvement

- 34 The Merthyr Tydfil Community Learning Partnership, in which the Council works with other providers to deliver adult community learning in the County Borough, was inspected by Estyn in November 2013. Estyn published its inspection report in February 2014 and this is available on its website www.estyn.gov.uk. Estyn's findings are summarised in paragraphs 35 to 38 below.
- 35 There are four main providers in the Merthyr Tydfil Community Learning Partnership:
- Merthyr Tydfil County Borough Council;
 - Merthyr College;
 - Merthyr Welsh for Adults Centre, and
 - The Workers' Educational Association.
- 36 The Council delivers around 15 per cent of the provision. Franchise provision is around 32 per cent, including Adult Basic Education (ABE) and English for Speakers of Other Languages (ESOL). The Workers' Educational Association (WEA) delivers around 53 per cent of the provision, including core provision and learn direct.
- 37 Estyn has judged the partnership's current performance as excellent because:
- the number of learners successfully completing their course in 2012 is one of the best in the sector;
 - learners from areas of deprivation achieve better than similar learners in other areas of Wales;
 - the partnership delivers a wide range of programmes that meet the learning and wellbeing needs of learners, employers and the community very effectively;
 - the curriculum is planned effectively to take very good account of national and local priorities and addresses the Welsh government's anti-poverty agenda exceptionally well; and
 - the partnership gives a high priority to courses that improve learners' literacy, numeracy and employability skills.
- 38 The partnership's prospects for improvement are also judged by Estyn as excellent because:
- the partnership is based on equality, honesty and a shared vision for Merthyr Tydfil;
 - partners share a high level of trust and mutual respect that allows them to support one another and to challenge outcomes and standards robustly;

- responsibility for priority areas of delivery is shared between the partners;
- strategic planning in the Merthyr Tydfil community learning partnership is very strong;
- there is a strong strategic direction to provide an all-encompassing service that promotes health and wellbeing alongside relevant learning; and
- curriculum and delivery of provision are planned very thoughtfully and there is an exceptional cohesion between the format and priorities in the single integrated plan, the corporate plan and the community learning strategy.

The Council continues to deliver social services well in partnership and collaboration with others, supporting its citizens to help them to retain their independence and is taking steps to deal with current and future financial challenges

39 There is clear strategic direction for the future of social services based on collaboration and partnership working. This has supported better services to people within their own community.

40 The Council focuses on supporting its citizens to help them retain their independence. Although the rate of people over 65 supported in the community per thousand of the population went down slightly last year it remains well above the Welsh average and more people over 65 are receiving a service at home.

41 The provision of joint health and social care services at Kier Hardie Health Park is testament to the strong partnership working between the Council and its partners. The Health Park has been open for a year and a range of enabling services are now provided from the Park. The progress with modernisation and working in collaboration with others identified through the work at the Health Park is highlighted as an area of progress in the CSSIW's *Annual Review and Evaluation of Performance 2012-13*.

42 The CSSIW also noted in their *Annual Review and Evaluation of Performance 2012-13* that: 'The impact of winter pressures saw an increase in numbers of delays in quarters two and three last year. Although there are mechanisms in place to deal with such increases, more work needs to be done with the local health board around identifying roles and responsibilities to ensure patients are not delayed unnecessarily in hospital in the future.' The Council has continued to work with its health partners to address delayed transfers of care and its performance improved significantly this year.

- 43 The Council also made progress in implementing its Homes for Life Strategy with the opening of two new residential care homes in 2013 providing state of the art accommodation for the elderly.
- 44 With regard to Children's Services, CSSIW reported: 'It has been a year of consolidation in children's services, with an emphasis on understanding changing patterns and trends for children and young people. There are a number of initiatives being progressed which have been based on both Welsh Government initiatives and the recognition of the benefits for the council to work with neighbouring authorities. These include regional arrangements for fostering and adoption services and the potential to deliver youth offending services across Merthyr Tydfil and Rhondda Cynon Taf.' The CSSIW concluded: 'Improvements have been made in children's services in relation to the timeliness of assessments, transition planning and developing a preventative approach. More work is needed in relation to adoption and fostering services whilst longer-term partnership arrangements are being developed.'
- 45 The CSSIW identified the following potential risks at the Council:
- budget pressures and the potential for ongoing and increasing budget deficits, especially in light of external factors like welfare reform;
 - increase in demand of a rising population on the delivery of services particularly in relation to older people; and
- the impact of winter pressures on demand for services and the impact on social services budgets, particularly when clarity is needed around financial responsibility for care home placements.
- 46 The CSSIW also highlighted the following areas of good practice:
- Safeguarding awareness training undertaken by social services staff in schools and nurseries across the borough. Over 400 staff were trained during the year.
 - The Gellideg Family Centre where the quality of the service provided has been recognised independently by the British Standards Institute (BSI) award and International Standards Organisation (ISO) 9001 kite mark, the first centre in Wales to achieve this status.
 - Merthyr Noise, a website for young people to air their views through the medium of websites and social networking which has been nominated for a national award.
- 47 The CSSIW's review of the Director of Social Services' annual report found that it is 'comprehensive and citizen focused. It sets out priorities for improvement and change that are clear in their intentions and easily readable for all audiences. Whilst it celebrates a number of achievements, it also recognises the particular need to concentrate on measuring outcomes for those who use services. It acknowledges the challenges faced by the authority, particularly the impact of diminishing budgets and the consequences of changes

to legislation over the next few years.' A full copy of CSSIW's annual report can be found at www.cssiw.org.uk.

48 The Council approved its 2014-15 budget on 26 February 2014. In setting the Community Services Directorate budget, the Council identified additional 'unavoidable' demands including:

- meeting the costs of placements in nursing and residential care resulting from increased demand and demographic pressures;
- individuals in transition from children's services requiring bespoke care packages;
- independent service provision – shared lives; increased demand to meet adult placements;
- increase in demand and fees for adult direct payments;
- increased demand for transport and fleet services for the elderly and disabled;
- increased service demand and direct payments for children with disabilities; and
- increased investment in adoption places for looked after children.

The Council has costed these demands (total £1.05 million) and provided funding within the directorate's 2014-15 budget. The directorate has a history of significant in-year overspends which have been challenging for the Council to manage. This targeted

funding will help in reducing the risk and magnitude of future overspend, although the particular volatility and high costs of this statutory service mean that risk cannot be fully mitigated.

49 Like other councils in Wales, the Council has to achieve significant savings over the medium term due to reductions in public expenditure under the austerity measures. Although social care is one of the Council's priorities, the Council's leadership has made it clear that the level of savings required is such that all service areas will be affected. The directorate's 2014-15 budget also includes efficiency savings which will be achieved by various means including:

- decommissioning of the Healthy Ageing Programme;
- the application of service eligibility criteria for children with disabilities to allow support to be focused on the families most in need;
- ceasing to provide the current Meals on Wheels Service (where people have been assessed as being in need of support with meal preparation, this will in future be provided through the home care services or other suitable alternatives);
- closing the Forest Road Older Person's Day Centre Service in Treharris and relocating the current service users to an alternative day centre;
- closing all part-time youth centres; and
- changing use of, and alternative methods of service delivery for community centres.

The Council risk assessed each of these efficiency savings proposals, including an assessment of their impact upon achievement of the Council's priorities, and carried out extensive consultation with citizens before taking the decision to support them. It is clear that the Council has sought to identify ways in which services no longer provided by the Council can be delivered by other means.

Whilst action has been taken to address the Welsh Language Commissioner's recommendations, further work is still required

50 The role of the Welsh Language Commissioner was created by the Welsh Language (Wales) Measure 2011. It is expected that new powers to impose standards on organisations will come into force through subordinate legislation by the end of 2014. Until that time, the Commissioner will continue to review Welsh language schemes by virtue of powers inherited under the Welsh Language Act 1993.

51 The Commissioner works with all local authorities in Wales to inspect and advise on the implementation of language schemes. It is the responsibility of local authorities to provide services to the public in Welsh in accordance with the commitments in their language schemes. Every local authority is committed to providing an annual monitoring report to the Commissioner outlining its performance in implementing the language scheme. The Commissioner analyses every monitoring report; provides a formal response and collects further information as required.

52 For 2012-13, the Commissioner reported that: 'The Council has taken steps to implement the recommendations of a statutory investigation conducted into the Council's Language Scheme in 2012, but further steps need to be taken to ensure progress in the long term. An internal Committee on the Welsh Language will need to be re-established in order to lead the work of implementing the Scheme. The Editorial Policy and Language Skills Strategy adopted as a result of the investigation will need to be implemented in order to ensure that the Council provides services in Welsh. The Council will need to continue to develop Welsh language pages on its website and ensure the continuation of editorial arrangements. Finally, the number of staff who received Welsh language training in 2012/13 was low. With the current restrictions on recruitment, improving skills through training is increasingly important and the Council will need to address this in the coming year.'

The Council's reporting and evaluation of performance are improving although the lack of explicit consideration of the Council's priorities in the self-evaluations is currently a weakness

The Council's Performance Report provides a fair and balanced assessment of performance. The Council has discharged its improvement reporting duties under the Measure although there is potential to strengthen its arrangements further

53 The Council published an assessment of its performance during 2012-13 in its *Annual Performance Report 2012-13* (the Report) before 31 October 2013 in line with statutory requirements. The Council has published a summary of its Report. Both the full version and summary are available on the Council's website, and hard copies are available at its main public buildings in Welsh and English.

54 The Report assesses the Council's performance in the preceding financial year (2012-13) and sets out how the Council has sought to discharge its duties under the Measure. The Report evaluates the Council's success in achieving its improvement objectives drawing upon a wider evidence base than in prior years to do so and generally presents its performance in a fair and balanced way. We consider that the Council would have benefitted from drawing on further evidence from its Director of Social Services' Annual Report to provide a fuller picture of the Council's social services, in particular to demonstrate successful outcomes in relation to the objective of promoting the independence of older people.

55 The Report includes details of performance and comparisons as measured by the national statutory performance indicators although there is scope to articulate more clearly what this information means and what the Council has done in light of it. The ways in which the Council has sought to collaborate are also outlined but could be strengthened by explaining more consistently the outcomes and benefits achieved from these collaborations.

The Council is making steady progress in addressing our statutory recommendation through developing a corporate self-evaluation framework and working to improve the quality and consistency of its application by services

56 In the Auditor General's Annual Improvement Report published in April 2013, we issued the Council with a statutory recommendation to:

- develop measures of performance that more clearly define what success in delivering its corporate improvement priorities will look like;
- develop its arrangements to ensure more rigorous self-evaluation of the performance of services, and of progress in delivering corporate priority outcomes; and
- ensure its citizens are provided with a fair, balanced and coherent picture of the Council's performance.

57 In the Auditor General's Improvement Assessment Letter issued in November 2013, we reported that further work was needed to address this statutory recommendation. We provide an update of the Council's progress below.

58 It is evident that the measures contained in the Corporate Plan 2013-17 are an improvement over those of previous years but the links between the measures and actions are still not always clear. Further work is still required in this area. The Council is now in the process of determining its corporate priorities for 2014-15 and is working to strengthen the links between its actions and measures as part of this process.

59 A new Service Improvement Framework is in place underpinned by a corporate approach to self-evaluation. The Council has recently completed its first self-evaluation culminating in the development of the Council's first Council-wide Self-Evaluation Report, which provides a series of judgements about the state of its services against three areas: outcomes, service delivery, leadership and management. It also includes an initial corporate leadership and management assessment. The definitions of the judgements are based on those used by Estyn. All services have been involved in the self-evaluation process which has included internal challenge from panels comprising Heads of Service, Cabinet, Members and Scrutiny and Audit Committee Chairs. The membership of these panels has been flexible in order to facilitate learning and communication.

60 The pace at which the Council has introduced its new framework and completed its first self-evaluation is to be commended. We are concerned, however, that the Council did not take the opportunity to evaluate its progress against its corporate priorities. The lack of explicit consideration of the Council's priorities in the self-evaluations is currently a weakness. We understand that the Self-Evaluation Report has been used to inform the Council's budget and priority setting as well as individual service business plans. We will be keen to see how this has worked in practice given the current disconnect between the Council's self-evaluation and its improvement priorities.

61 Moreover, a review of a sample of completed self-evaluations found their quality to be inconsistent. Services have not always answered the questions appropriately, and some of the evidence and information used was weak. We appreciate that this is the first time the Council has been through this process and it is reassuring that officers have already identified ways in which it can be improved. Overall, the feedback from officers and members involved in the process was positive. In the Auditor General's Improvement Assessment Letter dated 29 November 2014, he reported that the Council had presented its performance in a fair and balanced way in its Annual Performance Report 2012-13.

The Council is strengthening its performance management and reporting arrangements although their implementation is at an early stage, and the level of challenge provided by scrutiny committees is improving

- 62 There has been considerable activity and change in relation to performance management arrangements over recent months in line with the Council's focus on developing a culture of high expectations and accountability. The Council is reviewing and strengthening the way it monitors and reports performance. Performance is now monitored sooner after the end of each quarter. There is a timetable in place which sets out when performance against the corporate priorities and strategic service plans will be monitored by appropriate forums and committees. It is evident that there has been more detailed reporting of performance, particularly in relation to social services and education.
- 63 Until recently, the Council used Ffynnon¹ as the main vehicle to facilitate performance monitoring. However, Ffynnon will only be available until June 2014 as the Welsh Government is tendering for a new performance management software system. The Council has, therefore, developed report cards building on those already used in Social Services, to replace the use of Ffynnon. The report cards bring together a range of information to facilitate better evaluation and reporting of performance following Results Based Accountability principles.

- 64 Half-year progress against the Council's priorities was reported to Cabinet in January 2014 using these new report cards. Our review of the report cards identified gaps in the information and it is evident that further work is needed to ensure that they are completed consistently and comprehensively in order to provide Members with the information they need in order to monitor and challenge performance effectively. As such, it is clear that the use of the report cards is still in its infancy and the quality and consistency need to be improved. We will be particularly keen to see how the use and impact of the report cards develop over the next quarter.
- 65 Following a monitoring visit in February 2014, Estyn reported that the introduction of the Council's revised approach to performance management is at a very early stage. Senior officers in the Council have not yet had their performance management targets agreed. This means the process of setting objectives for individual officers which link the performance of the Council's departments and services to the corporate priorities, is not yet in place. Within the community services directorate, senior education staff have not had their performance management targets agreed and more generally, education officers have not routinely presented evidence of achieving objectives within the past 12 months.

¹ Ffynnon is a nationally procured software solution to meet the performance management requirements of local authorities, fire and rescue services, national park authorities and their partners.

66 The Council's scrutiny committees are maturing and the level of challenge is improving. The Council engaged positively in the Scrutiny Learning Exchange project and has made some changes to its scrutiny arrangements as a result. Training sessions have been held with Members to strengthen their questioning skills and it is evident from observing scrutiny committees in action that this has been beneficial. For example, members are keen to become more involved in the Council's self-evaluation process. Members' confidence to challenge officers is growing but they now need to ensure they ask follow-up questions with more rigour in order to confirm that they have received a full and appropriate response from officers. They should maximise the support offered by the Scrutiny Officer giving due consideration to the research and suggested questions provided.

67 The CSSIW reported in its *Annual Review and Evaluation of Performance 2012-13* that: 'There is effective scrutiny. This was evident when CSSIW attended a scrutiny committee meeting during which members effectively challenged senior officers around the new models of care proposed, as well as examination of performance information in children's services. There is recognition however that more work needs to be done with members corporately in order to fully understand and further develop their roles.'

The Council complied with its responsibilities relating to financial reporting and use of resources

68 The auditor appointed by the Auditor General recently gave his opinion on the Council's accounts, and provided the opinion that the Council complied with its responsibilities relating to financial reporting and use of resources. [Appendix 3](#) gives more detail.

The Council has discharged its statutory improvement planning duties and is seeking external assurance that its arrangements for financial planning and service redesign are sufficiently robust

The Council has discharged its improvement planning duties under the Measure but it should undertake a specific consultation to inform the selection of its Priority Areas in accordance with Welsh Government guidance

- 69 In our assessment of the Council's improvement objectives (known as Priority Areas) and its annual improvement plan, (called the Corporate Plan 2013-17) we concluded that the Council had discharged its improvement planning duties under the Measure but that it should act more in accordance with Welsh Government guidance.
- 70 The Council published its Corporate Plan (the Plan) together with a Public Summary on 25 June 2013. These documents are available on the Council's website in both English and Welsh, and hard copies are available in the main public buildings. For the week following their publication, users were signposted to the documents by the news headline on the front page of the website. The Council also used social media to promote greater citizen and stakeholder engagement with its plans.
- 71 In developing its Plan, the Council has also drawn on the significant consultation undertaken to inform the Single Integrated Plan for Merthyr Tydfil 2013-17. This included consultation with specific groups including children and young people, and the Third Sector.

- 72 The Council also held a series of road shows and made available an online survey as part of its Budget Consultation to ask the public if they agreed with the four Priority Outcomes identified in the Single Integrated Plan. The findings of this consultation are summarised in the Plan but the Plan does not outline how this consultation has specifically been used to influence the Council's Priority Areas. Moreover, the Council did not undertake specific consultation to inform the selection of its Priority Areas as required by Welsh Government guidance.
- 73 As highlighted earlier, we made a statutory recommendation last year for the Council to develop better measures of performance and the revised measures contained in the Plan are an improvement over those of prior years. It is evident that the increased engagement of services in selecting the Council's Priority Areas and developing more outcome-based measures this year have been beneficial. However, our assessment of the Council's Plan identified that further work is still needed to ensure that the links between actions, outcomes and measures are consistently clear. In addition, potential projects were identified and prioritised against a set of criteria identified by the Executive Board, and a short list was discussed with services and Cabinet Members. However, in the main, existing or in-train projects with established funding streams were selected, which raises questions as to the extent to which the Council's priorities are shaping its improvement activities, rather than capturing business as usual.

74 Our assessment of a sample of the Council's performance measures and operational data systems concluded that the Council has sound data validation arrangements in place which it is continuing to improve. The investment last year in an additional member of staff to work with services to improve quality assurance arrangements has been beneficial. The Council has good systems in place to produce performance indicator data, although some improvements could be made. We did not qualify any indicators at the Council.

75 We previously raised a proposal for improvement that the Council needs to evaluate the financial, workforce and asset implications of delivering its priorities so that its medium-term financial plan can be used as an effective planning tool to identify how the priorities are to be resourced. Work is underway to bring forward the corporate planning cycle to facilitate greater integration between priority setting and resource planning for 2014-15 and beyond.

The Council has had difficulty in managing its revenue budget over the last two financial years and we do not yet have assurance that its arrangements for financial planning and service redesign are sufficiently robust for it to secure £16 million of savings over the coming four years

76 2012-13 was a difficult year for the Council in financial terms; the revenue outturn for the year showed a budget deficit of £1.452 million. The most significant overspend occurred in the Community Services directorate, specifically in relation to Looked After Children placements. The Council has acknowledged that this budget area is volatile and can fluctuate a great deal as a result of decisions made to safeguard children at risk.

77 The Council's General Reserves at 31 March 2012 totalled £5.8 million. The budget deficit for 2012-13 reduced the level of those reserves by 25 per cent. The Council's S151 Officer reported to Cabinet on 31 July 2013 that '... it was evident that a continued budget overspend of this magnitude is unsustainable'.

- 78 When initially setting the budget for 2013-14, the Council forecast a deficit position of £3.404 million. Work was then undertaken to identify areas where savings could be made, and, in March 2013, the Council was able to present a balanced budget for 2013-14 within its Medium Term Financial Plan. The primary savings to bridge the budget deficit were identified from planned efficiency projects and Directorate budget reductions, and were agreed in consultation with Heads of Service.
- 79 However, by July 2013, the Council's first quarter revenue monitoring report showed a projected budget deficit for the year of £2.5 million. Measures to address this deficit were identified, including one-off savings and the use of re-allocated earmarked reserves. In October 2013 the S151 officer reported for the second quarter that '...a significant budget deficit of £1.495 million is still projected for the year despite the measures taken' and that this projected deficit 'will further significantly reduce the level of projected reserves at 31 March 2014. Even allowing for the potential utilisation of an additional £1 million re-allocated earmarked reserves, a further £495,000 of General Reserves will be required. This projected financial outlook is unsustainable and it is evident that every conceivable measure must be implemented with immediate effect to address the projected budget deficit for the current financial year.'
- 80 The latest position reported to the Council in February 2014 (third quarter) indicates that a significant budget deficit of £0.9 million is still projected for the 2013-14 year. This further reduction in the projected budget overspend has not been achieved by measures taken by the Council's Directorates to reduce expenditure. In fact it is evident that Directorates are experiencing further budget pressures over and above those subject to the initial expenditure reduction measures. Rather, it is attributable to the inclusion of £400,000 of previously earmarked grant which the S151 officer considers is available to be released to offset the projected budget deficit.
- 81 The final outturn against the 2013-14 Revenue budget is not yet available. Should this be an outturn deficit of £0.9 million in line with the latest projection, then the Council will be able to finance this from the utilisation of re-allocated Earmarked Reserves as planned. However, any budget deficit in excess of £0.9 million would require further utilisation of General Reserves which the Council can ill afford.
- 82 Looking forward, the Council faces further significant financial pressures over the next few years due to reduced funding and increasing demand for some services. In February 2014, revisions to projected budget deficits reported to Cabinet highlighted that the Council faces a cumulative £16.2 million shortfall over the four year period 2014-15 to 2017/18. Based on the Council's forecast deficit for 2013-14, its Council Fund general reserves will be reduced to £4.39 million at 31 March 2014 and are obviously insufficient to provide a safety net for the projected deficits for the period up to 2017-18.

- 83 The Council approved a balanced budget for 2014-15 on 26 February 2014. In his report to the Council the S151 Officer stated: 'General Reserves of £4.39 million is considered adequate but it must be recognised that a further budget overspend of the magnitude reported for 2013-14 (and requiring financing from General Reserves) is unsustainable as it will result in a dangerously low General Reserves balance.' The 2014-15 budget set incorporates net budget reductions of £6.641 million compared to the previous year, and will obviously present a challenge for the Council to deliver given its performance in the previous year.
- 84 The Council continues to gather and evaluate information to help identify how it can address potential shortfalls, building on the work it undertook to develop its Medium Term Financial Plan. It is prioritising its services to inform its allocation of resources through a number of ways including determining whether services are statutory or discretionary, reviewing which services are critical to the achievement of the Council's priorities and identifying unavoidable service pressures which need to be resourced. Services have also been tasked with developing a range of savings options. The Council is using the information gathered for modelling of future service provision, including non-provision, as well as considering workforce implications.
- 85 The Council has established a Transformation Steering Group which reports to a Transformation Board chaired by the Leader. The Steering Group has been working for some months, and has to date focussed upon mitigating the number of required compulsory redundancies through Voluntary Early Retirement and redeployment. The Council is confident that through these arrangements it will identify how service delivery models will need to be changed in order to achieve the scale of expenditure reductions required, for example by:
- review and modernisation of social services;
 - transferring leisure services to trust status to reduce expenditure; and
 - review of back-office support functions.
- 86 We plan to review the effectiveness of these arrangements, and revisit the Council's progress in managing its 2014-15 Revenue Budget as part of our Full Corporate Assessment scheduled for September 2014.
- 87 The Council, recognising the significance of the financial challenges it faces, is determined to secure additional assurance and insight to support its developing strategic financial plans. Accordingly, it is discussing with the Welsh Government how best such support might be provided.

The Council complied with its requirement to make arrangements to secure continuous improvement during the 2013-14 financial year

88 At the time of publishing the Auditor General's Improvement Assessment Letters in November 2013, the Council was at a critical stage. It no longer had responsibility for its education service and the Auditor General had issued it with a statutory recommendation. Its performance and capability were increasingly in the spotlight and it needed to demonstrate to the regulators and its public that it was taking decisive action to respond appropriately. Whilst the Council had acknowledged its failings and was demonstrating a commitment to improve performance and address the regulators' concerns, limited capacity meant that it was heavily reliant on external support, and new arrangements were in the early stages of development. It faced a significant budget shortfall and, at that time, it had not determined how it would address it. Accordingly, we were unable to conclude whether the Council was likely to comply with its requirement to make arrangements to secure continuous improvement during the 2013-14 financial year.

89 Over the subsequent four months we have monitored and reviewed the Council's progress in relation to these key issues. We are now able to conclude that the Council complied with its requirement to make arrangements to secure continuous improvement during the 2013-14 financial year. We have reached this conclusion because the Council has:

- Established an effective working relationship with the Recovery Board which holds the Council to account well. This is leading to sharper focussed working, clearer reporting, and accountability that is more transparent.
- Shown it is committed to taking the difficult decisions needed if it is to improve education provision and use resources more effectively.
- Appropriately adopted a corporate approach to improve the way it undertakes self-evaluation and the chief executive and the leader are clearly committed to embedding the new framework across all the work of the Council.
- Begun to improve how it holds governing bodies and headteachers to account for the performance of their schools and the educational outcomes of pupils against a clear and developing framework.

- Put a programme in place to improve its scrutiny committee arrangements, and the level of challenge provided by scrutiny committees is improving.
- Made steady progress in addressing my statutory recommendation.
- Strengthened its performance management and reporting arrangements although their implementation is at an early stage.
- Strengthened its planning for improvement and its arrangements to support improvement.

90 Whilst we do not yet have assurance that the Council's arrangements for financial planning and service redesign are sufficiently robust for it to secure £16 million of savings over the coming four years, it has set a balanced budget for 2014-15 and is seeking support and insight from the Welsh Government in relation to its strategic financial plans.

We are not yet able to conclude whether the Council is likely to comply with its requirements to make arrangements to secure continuous improvement for 2014-15

- 91 Based on evidence to date, it can be seen that the Council faces significant financial and service challenges. The arrangements that the Council has put in place appear appropriate although they remain to be tested. The Council has requested the support of the Welsh Government in relation to its strategic financial planning arrangements and we will draw our conclusion when we have carried out our full Corporate Assessment scheduled for September 2014.

Appendices

Appendix 1 Status of this report

The Local Government (Wales) Measure 2009 (the Measure) requires the Auditor General to undertake an annual improvement assessment, and to publish an annual improvement report, for each improvement authority in Wales. This requirement covers local councils, national park authorities, and fire and rescue authorities.

This report has been produced by staff of the Wales Audit Office on behalf of the Auditor General to discharge his duties under section 24 of the Measure. The report also discharges his duties under section 19 to issue a report certifying that he has carried out an improvement assessment under section 18 and stating whether, as a result of his improvement plan audit under section 17, he believes that the authority has discharged its improvement planning duties under section 15.

Improvement authorities are under a general duty to 'make arrangements to secure continuous improvement in the exercise of [their] functions'. Improvement authorities are defined as local councils, national parks, and fire and rescue authorities.

The annual improvement assessment is the main piece of work that enables the Auditor General to fulfil his duties. The improvement assessment is a forward-looking assessment of an authority's likelihood to comply with its duty to make arrangements to secure continuous improvement. It also includes a retrospective assessment of whether an authority has achieved its planned improvements in order to inform a view as to the authority's track record of improvement. The Auditor General will summarise his audit and assessment work in a published Annual Improvement Report for each authority (under section 24).

The Auditor General may also in some circumstances carry out special inspections (under section 21), which will be reported to the authority and Ministers, and which he may publish (under section 22). An important ancillary activity for the Auditor General is the co-ordination of assessment and regulatory work (required by section 23), which takes into consideration the overall programme of work of all relevant regulators at an improvement authority. The Auditor General may also take account of information shared by relevant regulators (under section 33) in his assessments.

Appendix 2

Useful information about Merthyr Tydfil and Merthyr Tydfil County Borough Council

The Council

The Council spends approximately £204 million per year (2012-13). This equates to about £3,500 per resident. In the same year, the Council also spent £18.3 million on capital items.

The average band D council tax in 2012-13 for Merthyr Tydfil was £1,376.09 per year. This has increased by 3.7 per cent to £1,426.56 per year for 2013-14. Ninety-three per cent of Merthyr Tydfil's housing is in council tax bands A to D.

The Council is made up of 33 elected members who represent the community and make decisions about priorities and use of resources. The political make-up of the Council is as follows:

- 24 Labour;
- 7 Independent Group;
- One Merthyr Independent, and
- One UK Independence Party.

The Council's Chief Executive is Gareth Chapman.

- Corporate Director – Community Services: Giovanni Isingrini
- Corporate Director – Customer Services: Gary Thomas

Other information

The Assembly Member for Merthyr Tydfil and Rhymney is Huw Lewis (Labour).

South Wales East Regional Assembly Members are:

- Mohammed Ashgar, Welsh Conservative Party
- Jocelyn Davies, Plaid Cymru
- William Graham, Welsh Conservative Party
- Lindsay Whittle, Plaid Cymru

The Member of Parliament for Merthyr Tydfil and Rhymney is Dai Havard (Labour)

For more information, see the Council's own website at www.merthyr.gov.uk or contact the Council at Civic Centre, Castle Street, Merthyr Tydfil, CF47 8AN.

Appendix 3

Annual Audit Letter

Gareth Chapman
Chief Executive
Merthyr Tydfil County Borough Council
Council Offices
Castle Street,
Merthyr Tydfil,
CF47 8AN

Dear Mr Chapman

Annual Audit Letter

This letter summarises the key messages arising from my statutory responsibilities under the Public Audit (Wales) Act 2004 as the Appointed Auditor and my reporting responsibilities under the Code of Audit Practice.

The Council complied with its responsibilities relating to financial reporting and use of resources

It is the Council's responsibility to:

- put systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
- maintain proper accounting records;
- prepare a Statement of Accounts in accordance with relevant requirements; and
- establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Public Audit (Wales) Act 2004 requires me to:

- provide an audit opinion on the accounting statements;
- review the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- issue a certificate confirming that I have completed the audit of the accounts.

Local authorities in Wales prepare their accounting statements in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This code is based on International Financial Reporting Standards. On 26 September 2013 the Appointed Auditor issued an unqualified audit opinion on the accounting statements confirming that they present true and fair view of the Council's financial position and transactions. The report of the Appointed Auditor is contained within the Statement of Accounts. The key matters arising from the accounts audit were reported to members of the Audit Committee in my Audit of Financial Statements report on the 23 September 2013.

In 2011/12 the Council's Estates team was working on the implementation of an integrated fixed asset management system ('Technology Forge') and a number of property related accounting issues arose as a result of the work performed at this time. In 2012/13, the system was fully implemented; further issues arose from the data quality work conducted as part of the implementation process. As a result a number of amendments to the financial statements were required to recognised asset transactions that had not been properly reflected in previous periods. The key adjustment was to increase the value of assets by £2.898 million where they had not previously been valued or recognised on the balance sheet. In addition, there were numerous reclassifications but, as a result, the Council now has more robust data available to in relation to its assets.

An independent valuation of all land and buildings was completed as at 31 March 2013, to complement the implementation of the new asset management system. Management has indicated that from 2013/14 the Council will be moving to a 5 year rolling programme of formal valuations.

My consideration of the Council's arrangements to secure economy, efficiency and effectiveness has been based on the audit work undertaken on the accounts as well as placing reliance on the work completed as part of the Improvement Assessment under the Local Government (Wales) Measure 2009. Overall, I am satisfied that the Council has appropriate arrangements in place. The Auditor General will highlight areas where the effectiveness of these arrangements has yet to be demonstrated or where improvements could be made when he publishes his Annual Improvement Report. I would like to highlight the following specific areas in this letter:

- The Welsh Government Minister for Education and Skills removed the Council's responsibility for education following an Estyn inspection in November 2012 which found that the Council's education service performance and its capacity to improve were both unsatisfactory. The Minister established a Recovery Board (the Board) in June 2013 to oversee the Council's implementation of plans to address the issues identified.
- The financial outlook for the Council remains challenging, and the Council is undertaking a comprehensive review exercise to identify efficiency savings to bridge the funding gap identified by its medium term planning process.

- 29 grant claims were certified by PwC in respect of 2011/12. Of those 21 were unqualified without amendment, three were unqualified with some amendment to the final figures, two required a qualification with no amendment and the remaining three were qualified and required some amendment to the final figures; and
- We continue to be able to place reliance on the work of Internal Audit.

The Appointed Auditor confirmed that the audit of the accounts has been completed within the audit opinion issued on 26 September 2013.

The financial audit fee for 2012-13 is currently expected to be in line with the agreed fee set out in the Annual Audit Outline.

Yours sincerely

A handwritten signature in black ink, appearing to read 'K.A. Williams', is positioned above the printed name.

Kevin Williams (PwC LLP)

For and on behalf of the Appointed Auditor
22 October 2013

Appendix 4

Merthyr Tydfil County Borough Council's improvement objectives and self-assessment

The Council's improvement objectives

The Council is required by the Welsh Government to make plans to improve its functions and the services it provides. Each year it must publish these plans along with specific 'improvement objectives' that set out the key things that the Council intends to do to improve. The Council must do this as soon as possible after 1 April each year.

The Council published its improvement objectives for 2013-14 in its Corporate Plan 2013-17 which can be found on the Council website at www.merthyr.gov.uk under the 'Council and Democracy' section. They are:

Priority outcomes 2012-13	Priority outcomes 2013-17
People in Merthyr Tydfil benefit from a strong, sustainable and diverse economy.	People in Merthyr Tydfil benefit from a strong, sustainable and diverse economy.
People, who live, work in and visit Merthyr Tydfil are safe and feel safe and are supported to enjoy a healthier and better quality of life.	People, who live and work in Merthyr Tydfil are supported to enjoy a healthier and better quality of life.
People in Merthyr Tydfil have the opportunity and aspiration to learn and develop their skills to maximise their potential.	People in Merthyr Tydfil have the opportunity and aspiration to learn and develop their skills to maximise their potential.
People enjoy a vibrant, attractive and sustainable environment in which to live, work, play and visit.	People enjoy a vibrant, attractive, safe and sustainable place in which to live, work, play and visit.

The Council's self-assessment of performance

The Council's self-assessment of its performance during 2012-13 can be found in its Annual Performance Report 2012-13 which can be found on the Council's website www.merthyr.gov.uk under the 'Council and Democracy' section.

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