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Bridgend County Borough Council
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Ask for / Gofynnwch am: Sarah Daniel

Our ref / Ein cyf:
Your ref / Eich cyf:

Date / Dyddiad: Friday, 19 June 2015

Dear Councillor,

AUDIT COMMITTEE

A meeting of the Audit Committee will be held in Committee Rooms 2/3 on **Thursday, 25 June 2015 at 2.00 pm.**

AGENDA

1. Election of Chairperson
2. Election of Vice Chairperson
3. Apologies for Absence
To receive apologies for absence (to include reasons where appropriate) from Members/Officers.
4. Declarations of Interest
To receive declarations of personal and prejudicial interest (if any) from Members/Officers in accordance with the provisions of the Members' Code of Conduct adopted by Council from 1 September 2014
5. Approval of Minutes 3 - 8
To receive for approval the minutes of the Audit Committee of 16 April 2015
6. WAO Report 9 - 68
7. Head of Audits Outturn Report April 2014 to March 2015 69 - 94
8. Unaudited Statement of Accounts 95 - 226
9. Annual Governance Statement 227 - 250
10. Completed Audits Report 251 - 262

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|-----|---|-----------|
| 11. | <u>Outturn Report April and May 2015</u> | 263 - 270 |
| 12. | <u>Updated Forward Work Programme</u> | 271 - 274 |
| 13. | <u>Internal Audit Shared Service Update</u> | 275 - 280 |
| 14. | <u>Urgent Items</u>
To consider any other items(s) of business in respect of which notice has been given in accordance with Rule 4 of the Council Procedure Rules and which the person presiding at the meeting is of the opinion should by reason of special circumstances be transacted at the meeting as a matter of urgency. | |

Yours faithfully

P A Jolley

Assistant Chief Executive Legal and Regulatory Services

Distribution:

Councillors:

GW Davies MBE
RC Jones
JR McCarthy
JE Lewis

Councillors

M Reeves
C Westwood
D Sage
CL Jones

Councillors

DK Edwards
G Davies
CA Green
E Dodd

Lay Member:

Mrs J Williams

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD IN COMMITTEE ROOMS 2/3,
CIVIC OFFICES ANGEL STREET BRIDGEND CF31 4WB ON THURSDAY, 16 APRIL 2015 AT
2.00 PM

Present

Councillor E Dodd – Chairperson

G Davies
JR McCarthy
DK Edwards

GW Davies MBE
M Reeves

CA Green
C Westwood

JE Lewis
HM Williams

Officers:

Darren Gilbert

Steve Barry

John Herninan

Mark Galvin

Sarah Daniel

Randal Hemingway

Emma Samways

KPMG

Wales Audit Office

Wales Audit Office

Senior Democratic Services Officer

Democratic Services Officer

Head of Finance & ICT

Principal Auditor

172. APOLOGIES FOR ABSENCE

Apologies for absence were received from the following Member and Officer for the reasons so stated

Councillor RC Jones – Holiday

Helen Smith – Chief Internal Auditor – Unwell

173. DECLARATIONS OF INTEREST

None

174. APPROVAL OF MINUTES

RESOLVED: That the minutes of a meeting of the Audit Committee held on the 15 January 2015 were approved as a true and accurate record of the meeting, subject to adding to the list of attendees Councillor JE Lewis

175. EXTERNAL AUDIT PLAN 2014-15

A representative from the Wales Audit Office presented a report to Committee on the External Auditors Annual Audit Plan 2014-15 and asked the Committee to note the Plan. He highlighted the key elements of the audit engagement of the Appointed Auditor in the attached appendix attached to the report

The key elements of the audit engagement of the Appointed Auditor are outlined in Appendix A of the report. The Appointed Auditor is required to:

- examine and certify whether our financial statements are ‘true and fair’;
- assess whether we have made proper arrangements for securing economy, efficiency and effectiveness in the use of resources;

- audit and assess whether we have discharged duties and met requirements of the Measure; and
- undertake studies to enable him to make recommendations for improving economy, efficiency and effectiveness.

He confirmed that the plan included details of both financial audit and performance Audit and set out a number of risks both agreed and addressed including timeframes and work in respect of Grant Certification.

A main element of the Performance Audit shown in paragraph 27 of the plan would be the undertaking of a Corporate Assessment so that the Audit could look to deliver continuous improvement

A Member asked if there would be a follow- up report on the Porthcawl Harbour Authority undertakings. The representative advised that legislation requires the Harbour Authorities to produce and show receipt of their annual accounts, and once these have been completed they would be detailed in a future audit report.

RESOLVED: That the Committee noted the content of the External Auditors Annual Audit Plan 2014-15

176. CERTIFICATION OF GRANTS AND RETURNS 2013-14

A representative from KPMG presented the Council's External Auditor's report on the grant work undertaken for 2013-14. He highlighted in the report the certification results as follows:

- 100% of the non-WEFO grant claims were submitted in accordance with the awarding body's deadline (this was consistent with 2012-13), but there were delays due to information being unavailable at the agreed audit date on the two WEFO grants;
- 22 non-WEFO certificates were unqualified with no adjustments, but qualifications were necessary for 2 grants, one qualification related to issues reported in a previous year and another to issues outside of the Authority's control;
- 4 grants were unqualified but required minor adjustments which increased the amount of funds payable to the Authority by £481

The relevant fees charged for the certification of various grants and returns were shown on page 16 of the appendix attached to the report

RESOLVED: That Members noted the content of the External Auditor's report on the grant work undertaken for 2013-14 attached as an appendix to the report

177. COMPLETED AUDITS

The Principal Auditor presented to the Committee the findings of the audits recently completed by the Internal Audit Shared Service. She drew attention to the recently completed audits that were summarised in Appendix A to the report, in particular the DBS Follow up Audit which had been previously given a Limited Assurance. She advised the Committee that a new system had been brought in so that the DBS checks could be processed through a secure online system. Subsequently the Audit had been given a rating of Reasonable Assurance.

Since 3rd November 2014 applications for both standard and enhanced DBS checks are processed through a secure online system called 'E-Bulk' which makes the system paperless. 'E Bulk' is a connection between a registered body and the DBS, where there's access to the E Bulk system meaning the applicant can complete the application at home rather than in the office, possibly freeing up administrators time.

RESOLVED: That Committee noted and gave consideration to the completed audits report so as to ensure that all aspects of their core functions were being adequately reported

178. **INTERNAL AUDIT SHARED SERVICE SELF ASSESSMENT AGAINST THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS 2014 - 2015**

The Principal Auditor presented a report regarding the above matter.

She explained to Committee that the report reflected compliance with the relevant standards. The one area that the IASS was not compliant related to external assessment. She also informed Members that the IASS would need to be subject to an external assessment by the end March 2018 and that it was currently looking into options on how this should be undertaken and who should complete it; for example a neighbouring Authority or External Auditors.

Appendix A to the report gave a summary of the self -assessment while appendix B contained more detail regarding self-assessment questions.

RESOLVED: Members noted compliance with the PSIAS

179. **ANNUAL OPINION REPORT OF THE HEAD OF INTERNAL AUDIT FOR THE PERIOD APRIL 2014 TO MARCH 2015**

RESOLVED: Following advice from the Principal Auditor, the Committee agreed to defer the above item to the next meeting of the Committee due to the absence of the Chief Internal Auditor,

180. **AUDIT COMMITTEE TERMS OF REFERENCE**

The Principal Auditor presented a report advising the Committee of proposed the amendment to the Audit Committees Terms of Reference.

The change was shown in appendix A to the report where the words "and approve" were deemed required in the 9th bullet point, after the words 'To review'.

A Member asked if the Committee are to start receiving reports from External Regulators such as Estyn if they could they be provided with training in this and other specific areas to ensure they thoroughly understand the subject matter. A representative of the WAO advised Members that they would support a training rollout to Committee in certain areas where required under their training programme.

The Head of Finance and ICT added that he would also look into the issue of any training initiatives for Members of the Audit Committee if/where required

RESOLVED: That Committee noted that the amended Terms of Reference be presented to Council for approval.

181. INTERNAL AUDIT SHARED SERVICE CHARTER 2015/16

The Principal Auditor presented Members with the Councils Internal Audit Shared Service Charter for 2015/16.

She advised that the Public Sector Internal Audit Standards requires the Head of Audit to review the charter periodically but final approval resides with the Audit Committee. She added that there were no changes to the Charter of 2014/15. The Charter for 2015/16 attached to appendix A of the report had been reviewed to ensure that it continued to reflect the requirements of the PSIAS.

RESOLVED: That Committee approved the Internal Audit Shared Service Charter for 2015/16

182. DRAFT INTERNAL AUDIT STRATEGY AND ANNUAL RISK BASED AUDIT PLAN APRIL 2015 TO MARCH 2016

The Principal Auditor presented the Committee with the Council's draft Internal Audit Strategy and draft Annual Risk Based Plan for the year April 2015 to March 2016.

She highlighted that the Plan provided for 1,296 productive days being delivered during 2015/16 which equates to approximately 7 full time equivalent employees which is 47% of the shared services overall resources split between Bridgend and the Vale of Glamorgan Council's. The proposed plan for this year (attached at Appendix 1 to the report), was compiled following discussion with Directorate Management Teams and following consideration of the Council's Risk Register, the Corporate Plan and Directorates Business Plans, and includes the significant risks facing the Authority. The document had also taken account of feedback from inspections of Council services undertaken by Regulators such as the CSSIW and Estyn. The draft plan had been shared with the Corporate Management Board (CMB) for comment. The Principal Auditor also informed Members that if risks changed throughout the year the Auditors had Contingency time so that they were able to undertake work in particular areas should emerging risk arise.

.. She

A member asked if there are currently any vacant posts in the Internal Audit team. The Principal Auditor explained that there were 3 which were currently being recruited for. Interviews and assessments were expected to take place shortly. She said that the Committee would be kept informed of the outcome of the interviews.

A member asked if the ICT systems audit related to the Children's Service. The Principal Auditor advised that the audit days being referred to did relate to the Children's Directorate and that they would be looking at the IT systems that support the schools. There are other days in the plan for a review of the ICT systems in other areas of the Authority.

RESOLVED: That Committee approved the draft Internal Audit Strategy and draft Annual Risk Based Audit Plan for 2015/16

183. FORWARD WORK PROGRAMME - 2014-15

AUDIT COMMITTEE - THURSDAY, 16 APRIL 2015

The Principal Auditor presented Members with the 2014-15 Forward Work Programme, shown at Appendix A to the report.

RESOLVED: That Members gave due consideration to the updated 2014-15 Forward Work Programme to ensure that all aspects of their core functions are being adequately reported.

184. PROPOSED FORWARD WORK PROGRAMME - 2015-16

The Principal Auditor presented a report for the approval of the proposed Forward Work Programme for 2015-16.

The Committee asked if they could revisit the Forward Work Programme when the Annual Opinion Report of the Head of Internal Audit for the period April 2014-March 2015 (deferred item) had been presented to the Committee and Officers agreed to this course of action being pursued at the appropriate time.

RESOLVED: That Members gave due consideration and approved to the proposed 2015-16 Forward Work Programme and schedule of agenda items shown at appendix A to the report, to ensure that all aspects of their core functions are being adequately reported.

185. URGENT ITEMS

There were no Urgent Items reported.

186. EXCLUSION OF THE PUBLIC

RESOLVED: That under Section 100A(4) of the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007, the public were excluded from the meeting during consideration of the following item of business as it contained exempt information as defined in Paragraph 14 of Part 4 and Paragraph 21 of Part 5 of Schedule 12A of the said Act.

The Legal Officer explained the public interest test, and following this, Members resolved that pursuant to the provisions of the Act referred to above, to consider the undermentioned item in private with the public being excluded from the meeting as it would involve the disclosure of exempt information as stated above:-

187. APPROVAL OF EXEMPT MINUTES

RESOLVED: That the exempt minutes of a meeting of the Audit Committee dated 15th January 2015 be approved as a true and accurate record

The meeting closed at 2.35 pm

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BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO THE AUDIT COMMITTEE

25 JUNE 2015

REPORT OF THE CORPORATE DIRECTOR - RESOURCES

WAO REPORT ON COUNCILS' FINANCIAL RESILIENCE

1 Purpose of Report.

- 1.1 The purpose of this report is to present a recent Wales Audit Office report on "The financial resilience of councils in Wales.

2 Connection to Corporate Improvement Plan / Other Corporate Priorities.

- 2.1 This report is consistent with the Council's Corporate Priorities.

3 Background

- 3.1 The Wales Audit Office has undertaken a review of the financial resilience of councils in Wales. The scope of the report covers all local authorities in Wales, considering financial planning and governance arrangements in the context of significant funding changes, and compares findings to a similar study carried out by Grant Thornton on English local authorities.

4 Current situation / proposal

- 4.1 The report does not make any specific observations or recommendations in relation to individual councils, but concludes that

"Councils in Wales are under significant financial stress and have been active in meeting the challenge. However, the next few years will see increasing financial pressures and councils will need to improve strategic financial planning in order to effect transformation and protect their financial resilience."

The report makes reference to changes that English authorities have implemented, developing "highly sophisticated financial management arrangements that, four years ago, were not imagined"

- 4.2 The Wales Audit Office intends to undertake further work in this area including a reporting system covering financial and workforce performance.

5 Effect upon Policy Framework & Procedure Rules.

- 5.1 None

6 Equality Impact Assessment.

- 6.1 There are no equality issues.

7 Financial Implications.

7.1 None

8 Recommendation.

8.1 That Members note the content of the report.

Ness Young
Corporate Director - Resources
2 April 2015

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Background Documents

The financial resilience of councils in Wales – report by the Auditor General for Wales

Archwilydd Cyffredinol Cymru
Auditor General for Wales

The financial resilience of councils in Wales



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



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

The Wales Audit Office study team was project managed by Nick Selwyn and Huw Rees and comprised Martin Gibson, Jackie Joyce, Terry Lewis, Deryck Evans and John Dwight as well as colleagues from PwC, KPMG and Grant Thornton UK LLP under the direction of Alan Morris.

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

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

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

The Auditor General undertakes his work using staff and other resources provided by the Wales Audit Office, which is a statutory board established for that purpose and to monitor and advise the Auditor General.

For further information please write to the Auditor General at the address above, telephone 029 2032 0500, email: info@wao.gov.uk, or see website www.wao.gov.uk.

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Contents

	Summary	4
	Recommendations	10
1	Most councils demonstrate clarity of vision and set coherent corporate objectives but need to ensure their medium term financial plans and operational plans are sufficiently aligned to deliver their objectives	12
2	Financial management and controls are sound in most councils, although many need to improve budget setting and monitoring and ensure there is sufficient capacity and capability in the finance team to meet the challenges ahead	28
3	Whilst financial governance arrangements are comparatively robust, the quality of performance and cost information being used and the level of scrutiny and challenge in Welsh councils varies significantly, which can undermine the effectiveness of decision making	34
4	Councils are under significant stress and financial management arrangements that were once good enough will not remain fit for purpose in the face of increasing financial pressures	39
5	The experience of English councils shows that it is possible to tackle significant reductions in funding but to be successful requires a step change in strategic and operational financial planning	45
	Appendices	
	Appendix 1 – Methodology	50
	Appendix 2 – Selected case studies from England	51
	Appendix 3 – The differences in the way local government is funded in Wales and England	56

Summary Report

Councils in Wales are under significant financial stress and have been active in meeting the challenge. However, the next few years will see increasing financial pressures and councils will need to further improve strategic financial planning in order to effect transformation and protect their financial resilience



Summary

- 1 Councils in Wales are experiencing significant reductions in the level of funding they receive from the Welsh Government. So far, most councils have managed these cuts successfully but the scale of annual reductions is set to increase in the period leading up to 2015-16 and beyond. Overall, councils in Wales had a £155 million (3.8 per cent) real-terms reduction in their revenue funding from the Welsh Government in 2011-12. Funding levels are continuing to decline where revenue funding from the Welsh Government was approximately £283 million (seven per cent) lower in 2013-14 than 2010-11. In October 2013, the Welsh Government announced reductions in core funding of £175 million for 2014-15 and a further £65 million in 2015-16. By the end of 2016 the Welsh Local Government Association expects the local government shortfall will be in the region of £460 million.
- 2 In England, councils have already faced dramatic cuts in their government funding over the five year period of the Comprehensive Spending Review from 2011-12 to 2015-16. The Local Government Association in England calculates that this will represent a reduction of 40 per cent of core funding for local government in real terms by 2015-16, requiring total savings of £20 billion over this period. Whilst the level of reductions to grant income appear low compared to those seen in England, it should be noted that there is a greater predominance of councils that are highly grant dependent in Wales so the cuts have been deeper than they at first appear.
- 3 Welsh Councils are still allocated specific grants, whereas this ring-fencing has been largely eliminated in England. Councils and the Welsh Local Government Association are of the view that this grant funding should be un-hypothecated and included as part of the revenue settlement. At the timing of the annual funding settlement, the details of the allocations for a number of specific grants can still be subject to finalisation, creating further uncertainty for councils in their financial planning and budget setting.
- 4 To manage the impact of these budget decreases will require significant changes in the way that local council finances are managed and governed, as approaches to financial management that were once good enough, are now unlikely to be fit for purpose to continue to deliver strong financial outcomes in the future.
- 5 The Welsh Local Government Association has continued to raise concern over the stability of funding allocations and the annual incremental budget setting by Welsh Government. Annual budget setting, together with late changes to budget settlements and in-year reductions to grant funding, impacts upon councils' ability to effectively plan and agree their own budgets.

- 6 We reviewed the robustness of management and planning arrangements to support financial resilience at each council, focusing on how councils plan and then deliver their budget commitments. These reviews involved external audit teams undertaking fieldwork of each council's financial planning arrangements.
- 7 As we undertake further work on the financial resilience of councils we intend to develop a 'traffic light' reporting system covering financial and workforce performance and identify where further improvements are required. This approach to assessing financial resilience is similar to that taken by Grant Thornton in England¹ and will enable useful comparisons to be made. We intend to develop this approach to report more fully on financial resilience and will discuss the methodology we intend to use with councils and other stakeholders in coming months.
- 8 The third and final element of this study draws comparisons with the experience of English councils, based on similar analysis conducted in 2013-14 by Grant Thornton. By making these comparisons, the report identifies some key lessons to support Welsh councils in becoming financially resilient in the future. Councils in England have faced significant financial challenges earlier than councils in Wales. There is therefore an opportunity for Welsh councils to learn from and draw upon the experience of councils in England.
- 9 This work was undertaken by staff of the Wales Audit Office and Grant Thornton on behalf of the Auditor General. The focus of the review is the 2014-15 financial planning period and the delivery of 2013-14 financial plans. We have also analysed the financial performance track-record of councils in 2011-12 and 2012-13. There were three main elements to our work.
- 10 Based on the findings of this audit, the Auditor General has concluded that **Councils in Wales are under significant financial stress and have been active in meeting the challenge. However, the next few years will see increasing financial pressures and councils will need to improve strategic financial planning in order to effect transformation and protect their financial resilience.**

¹ *Rising to the challenge - The evolution of local government*, Grant Thornton, November 2014.

Most councils demonstrate clarity of vision and set coherent corporate objectives but need to ensure their medium term financial plans and operational plans are sufficiently aligned to deliver their objectives

- 11 Robust strategic planning is crucial to the future financial resilience of councils. Effective planning requires a focus on a suitably long-range financial horizon, an understanding of financial risks and the development of contingencies within medium term financial plans. Our analysis found areas for improvement in most of the key areas we reviewed, and without improvements, planning arrangements will become increasingly unable to deal with and address the growing financial pressures on councils.
- 12 Arrangements will need to evolve to reflect changing patterns of delivery and proficiency in financial management will need to improve significantly to ensure financial resilience in future years. If financial arrangements do not evolve and improve, councils will increasingly 'have to run to stand still' each year and their financial positions may see a corresponding decline.
- 13 Across Wales, a greater number of councils failed to accurately forecast the budget shortfalls they would need to bridge by the end of the 2013-14 financial year than for 2012-13. However, the difference between the anticipated levels of savings required at the time of setting the budget and those actually required during the year were relatively small in most cases, limiting their exposure to financial risk.
- 14 The majority of councils were able to identify specific savings measures to address budget shortfalls. However, an increasing number of councils had not fully identified savings proposals to manage their funding gaps and were still developing their detailed savings plans at the time their budgets were approved.
- 15 Whilst most councils identified the funding gap to be met by savings plans for 2014-15 and beyond, a significant number have not identified plans to fully meet the shortfall. There are also a few councils where poor performance on delivering savings plans would have a significant impact on financial resilience if not mitigated by some other means. The assumptions and arrangements that underpin savings plans, when judged against SMART² principles, are not sufficiently robust and significant development is needed in all areas. Further work on assumptions will be a key area of focus for councils in Wales over the next few years. In England, this area of financial planning has required the most improvement but, encouragingly, has also seen the highest level of evolution and innovation.
- 16 A general pattern of increases in reserve balances suggests that councils in Wales are managing to deliver surpluses in spite of the financial challenges they face. These surpluses offer the opportunity to build up a financial buffer and to invest in service transformation as well as supporting delivery of local priorities. However, there are concerns that without a clear strategy for utilisation of reserves as part of the medium term financial plan, some councils may be criticised for hoarding funds without a clear and agreed purpose.

² SMART stands for specific, measurable, achievable, relevant and time bound.

- 17 Our analysis shows that the majority of councils in Wales are deemed to hold adequate levels of reserves. There were a very small number of councils identified where the ratio of reserves to Gross Revenue Expenditure (GRE) is declining, indicating that reserves are being drawn down to support revenue expenditure, a significant indicator of financial stress. For those councils holding low levels of useable reserves, there is a risk that they will not be able to maintain a balanced budget if savings plans fall short or if there is significant slippage on the budget due to cost pressures.

Financial management and controls are sound in most councils, although many need to improve budget setting and monitoring and ensure there is sufficient capacity and capability in the finance team to meet the challenges ahead

- 18 Overall arrangements for financial management and control were sound at the majority of councils and should provide a good foundation that councils can build on to address future pressures. However, we found that performance is mixed and noted significant risks in all key areas we reviewed. Few councils are fully exploiting the potential to generate income. Importantly, the effectiveness of budget setting and control and the capacity and capability of finance managers are both issues of concern in many councils.

Whilst financial governance arrangements are comparatively robust, the quality of performance and cost information being used and the level of scrutiny and challenge in Welsh councils varies significantly, which can undermine the effectiveness of decision making

- 19 Councils current performance on financial governance is better than in other areas of financial management we reviewed. However, areas of weakness included oversight and accountability for ensuring savings plans are delivered. Major failings in governance are rare, but where they do occur, they can have far-reaching financial and other negative consequences. The report from the Commission on Public Service Governance and Delivery (January 2014) highlights some of the changes that will be required to support good and effective governance in order to meet the challenges of future local government reforms and deliver the expected reductions in funding.

Councils are under significant stress and financial management arrangements that were once good enough will not remain fit for purpose in the face of increasing financial pressures

- 20 The financial management arrangements at Welsh councils are under significant stress, and are not consistently delivering strong financial outcomes. Experience of funding reductions suggests that management arrangements that were once good enough will not remain fit for purpose without significant evolution.

The experience of English councils shows that it is possible to deal effectively with significant reductions in funding through redesigned service delivery models supported by sophisticated financial planning

- 21 Whilst some councils in England are potentially facing a financial tipping point, it is encouraging that the majority continue to deliver a sustainable financial position. To maintain a stable financial position has required a fundamental re-think about what services should be delivered; who should receive them, and the models by which they should be delivered to reduce cost and improve efficiency. This service re-design has, in turn, required the development of highly sophisticated financial management arrangements that, four years ago, were not imagined. Given the response of councils to the step change in England, it is imperative that Welsh Councils focus on developing their future model of delivery and revise their service delivery structures to reflect this model. Failure to do so will increase the risk of councils being unable to deliver their statutory responsibilities and remain financially viable.

Recommendations

Recommendation

Councils need to make informed assumptions about the future trajectory of central funding in the absence of definitive guidance and identify the desired role of the council within a chosen delivery model for the future.

[Section 1]

R1 Councils should ensure that their corporate plan:

- **is the core driver for the service plans and other supporting strategies including workforce, information technology and capital expenditure;**
- **maintains at least a three to five year forward view and is aligned with the medium term financial plan and other supporting strategies; and**
- **should clearly articulate the desired role of the council in five years - the model for delivering priority services and the infrastructure and resources needed to deliver future priorities within available finances.**

Adverse financial scenarios should be anticipated and mitigated against in the medium term financial plan, with built-in flexibility to deal with risks using reserves and other contingencies.

[Section 1]

R2 Councils should ensure that their medium term financial plan identify the major financial risks and key assumptions and senior officers and councillors should subject them to effective scrutiny and challenge before adopting the plan.

Annual savings requirements must be realistic and achievable and avoid 'back-loading' towards the latter years of the medium term financial plan. Savings in the latter years of the medium term financial plan should focus on service transformation projects that need to be developed well in advance of any projected financial benefit.

[Section 1]

R3 Councils need to ensure that funding deficits are accurately projected and fully reconciled to detailed savings plans for each year over the life of the medium term financial plan.

Failure to deliver planned savings will have a severe cumulative effect on a council's ability to continue to be financially resilient in the future.

[Section 1]

R4 Councils should regularly review the adequacy of the financial assurance arrangements that underpin the delivery of annual savings plans, including the level of scrutiny and challenge provided by councillors.

Recommendation

A reserves strategy should form part of the medium term financial plan and should clearly demonstrate the rationale for reserves in light of financial risks. The plan should include a policy on the use of revenue surpluses.

[Section 1]

R5 Councils should ensure that they have a comprehensive reserves strategy that outlines the specific purpose of accumulated useable reserves as part of their Medium term Financial Plan.

A better understanding of income for subsidised activities can help inform investment and service delivery decisions. Profit share arrangements with commercial organisations and the commercialisation of some council services should also form part of strategic planning discussions.

[Section 2]

R6 Councils should develop corporate wide policies on income generation.

It will be increasingly important that Council financial management systems, including budget setting and monitoring, are regularly tested. This is to ensure they continue to be effective and provide councils with assurance that their internal systems are fit for purpose.

[Section 2]

R7 Councils should

- **strengthen budget setting and monitoring arrangements to ensure financial resilience; and**
- **review the coverage and effectiveness of their internal and external assurance financial systems and controls to ensure they are fit for purpose and provide early warning of weaknesses in key systems.**

Any proposed reductions in finance team capacity should be carefully considered in light of the need for enhanced finance skills to manage the challenges councils face. These skills include commercial awareness and cash-flow management, as well as the ability to engage with councillors, service managers and the public. Recruitment, cover and succession planning arrangements need to be strengthened.

[Section 2]

R8 Councils must review their finance teams and ensure that they have sufficient capacity and the right skills to meet future demands.

The effectiveness of financial overview and scrutiny will be increasingly tested as the financial pressures intensify. Councillors will have to become more skilled at addressing financial risks and understanding the financial implications of their decisions. Council officers will play an important role in helping to equip and support councillors to deliver these demanding expectations.

[Section 3]

R9 Council officers need to equip councillors with the knowledge and skills they need to deliver effective governance and challenge by extending training opportunities and producing high quality management information.

Part 1

Most councils demonstrate clarity of vision and set coherent corporate objectives but need to ensure their medium term financial plans and operational plans are sufficiently aligned to deliver their objectives



- 1.1 In this section of the report, we focus on the effectiveness of councils strategic financial planning arrangements. For the purposes of our review, we have used the following as the key characteristics of effective strategic financial planning.

Characteristics of Effective Strategic Financial Planning

- Focus on achievement of corporate priorities is evident through the financial planning process.
- The medium term financial plan focuses resources on priorities.
- Service and financial planning processes are integrated.
- The medium term financial plan includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working.
- Annual financial plans follow the longer-term financial strategy of the Council.
- There is regular review of the medium term financial plan and the assumptions made within it. The Council responds to changing circumstances and manages its financial risks.
- The Council has performed sensitivity analysis on its financial model using a range of economic assumptions including the impact of funding guidance from central government.
- The medium term financial plan is linked to and is consistent with other key strategies, including workforce KPIs can be derived for future periods from the information included within the medium term financial plan.
- Zero-based budgeting is used to improve strategic prioritisation during the financial planning cycle.
- Effective treasury management arrangements are in place.

Most councils translated their corporate vision into a coherent set of improvement objectives but did not ensure the corporate planning framework adequately supported their delivery

- 1.2 In addition to setting out the priorities for residents and the local area, a council's corporate strategy should also articulate its medium-to-long term vision. This vision should cover what services will be delivered, the model for delivering these services, how the Council will work with partners and what infrastructure and resources will be needed to support delivery of priorities. This clarity of vision can help to avoid piecemeal strategic development, which can lead to inefficiencies.
- 1.3 Many Welsh councils have clearly revisited their vision and aims in light of the impact of austerity and reductions in funding. A number of common themes were noted across all councils in developing their vision and strategic aims, including:
 - a a stronger focus on community engagement;
 - b a focus on sustainable services;
 - c a focus on alternative delivery models such as collaboration and shared service delivery; and
 - d a need to restructure the organisation, and improve culture and behaviours across the council.
- 1.4 It was clear that councils see the period of austerity as an opportunity for strategic and operational change. This appetite for change should help drive improvement in financial management arrangements. Our review found that most councils had good strategic planning arrangements for developing robust improvement objectives within their improvement plans. However, some common themes were identified across a number of councils, where these arrangements can be strengthened. In particular, improvement objectives were not always SMART; clear on what they are meant to achieve; or prioritised in the context of the Council's corporate priorities and reducing resources.
- 1.5 It is important that corporate aims are translated into SMART objectives. Without clear objectives it is difficult to measure how well councils are performing and whether risks are being addressed. Failure to develop SMART objectives also reduces the effectiveness of operational service plans and limits elected members' ability to hold those responsible for delivery to account. Where it is difficult to establish SMART objectives for a particular aim this can often be a good test of how robust the corporate aim actually is.

- 1.6 The corporate planning framework supports the development of the corporate plan and all supporting plans including the medium term financial plan. Therefore, the framework needs to be robust in order to ensure that the corporate plan is fit for purpose. A significant minority of councils had weaknesses in their planning arrangements, because the corporate plan objectives and the corporate planning framework were not effectively inter-linked and the planning framework did not clearly set out how objectives were to be achieved.
- 1.7 We reviewed how effectively councils link their corporate improvement objectives to service delivery and financial plans. Approximately a third of councils showed a need for further improvement. A number of common themes were identified, including:
- a a lack of clarity of how corporate and service objectives aligned to the medium term financial plan;
 - b links between corporate and service objectives were under-developed and it was unclear how the objectives were aligned to support each other; and
 - c improvement objectives were not adequately linked to financial savings plans.
- 1.8 The extent to which corporate improvement objectives are fully reflected in service and financial plans needs to be improved at many councils in Wales. The corporate planning framework should demonstrate a clear 'golden thread' setting out how achievement of corporate objectives is underpinned by service plans, the medium term financial plan and other supporting strategies. Without such a coherent and robust framework, there is a risk that supporting plans are developed in silos, do not support the overall strategic aims and could even inhibit their achievement. The corporate planning framework should be used to make sure the links between strategic and operational planning are explicit, even where the documents are drafted in different parts of the organisation.
- 1.9 The experience in England has shown how difficult it can be to translate the corporate vision and aims into coherent operational objectives that can be delivered. This challenge should not be underestimated. The link between the corporate plan and other supporting strategies has been an area of gradual improvement over the four years of review work undertaken by Grant Thornton in England. Councils have increasingly demonstrated effective and mutually supportive links between strategic plans, the medium term financial plan and service plans; and links to supporting strategies such as treasury management, capital programmes, housing, workforce and other areas. A key issue was the need to ensure that individual supporting strategies were regularly reviewed and kept up to date ensuring that supporting plans are updated in line with revisions to the corporate objectives and the medium term financial plan.

While a number of Welsh councils have effective financial planning frameworks, they need to ensure that they remain fit for purpose and are fully aligned to medium term strategic priorities

- 1.10 Robust strategic planning is crucial to the future financial resilience of councils. Our analysis identified significant issues in most of the key areas we reviewed. Unless planning arrangements are strengthened, councils will increasingly be unable to deal with future financial pressures. In England, Grant Thornton has seen financial arrangements evolve significantly in response to these pressures. However, we have also noted that the minimum standard required to ensure financial resilience has also risen each year. This means that a failure to evolve leads to a decline in the effectiveness of their financial arrangements and a corresponding decline in the financial position.
- 1.11 Our work identified that approximately half of Welsh Councils had effective financial planning frameworks that were clearly linked to savings plans and set out across a reasonable timeframe. It is important to emphasise that even those whose current planning frameworks are considered effective, will need to evolve to respond to future financial challenges. We identified a number of areas in which strategic financial planning arrangements need to be improved. In particular, councils should ensure that the planning framework makes explicit links between its corporate plan objectives and financial planning requirements; and financial plans set out clear, forward-looking solutions to the medium term challenges the Council expects to face.
- 1.12 The experience of councils in England has highlighted the importance of establishing a robust financial planning framework that actively supports the delivery of a council's corporate objectives. Without this clarity, financial plans will often fail to support the achievement of these corporate priorities. Grant Thornton's work in England has also highlighted the importance of establishing a medium-to-long term financial planning horizon, with increasing numbers of councils in England creating a three to five year financial planning horizon in their financial models, with some looking up to 10 years ahead. One of the perceived barriers to this in England has been a reluctance to plan in the face of uncertainty about future funding settlements or even the future policy of the government.
- 1.13 Whilst there is a balance to be struck in regard to the financial resources that have to be committed, in general, those English councils that have made good assumptions about future cuts have been well placed to deliver service transformation projects where the financial benefit will often only be realised in later years. English councils that do not have a sufficiently long planning horizon have found themselves under pressure to deliver the financial benefits of transformation in enough time to cover projected deficits.

Whilst all councils had a medium term financial plan in place, the quality and robustness of the plans was mixed

- 1.14 The medium term financial plan is a key component of an effective corporate planning framework. Our review also considered whether the Council's annual budget flows from and influences the longer-term financial strategy. Councils performed better in this area, with almost two thirds of councils adequately linking annual budgets and the medium term financial plan. Those councils that are developing medium term financial plans for the first time tended to showed greater risk as they are still developing clear links with annual budgets. Where divergence between the annual budget and the medium term financial plan occurs, it is often because of weaknesses in medium term financial plan assumptions or a failure to review and update the medium term financial plan to better reflect the Council's circumstances and operating environment.
- 1.15 Whilst all councils had a medium term financial plan in place, the quality and strength of the plans varied. Common weaknesses included assumptions within the medium term financial plan that were overly optimistic and not adequately challenged by council committees, and medium term financial plans not being fully integrated with corporate plans, the performance reporting framework and improvement objectives. The medium term financial plan should act as the link between the corporate strategy and the budget setting process. This linking should ensure that any decisions on budget amendments, reductions and investments are aligned to corporate improvement objectives. Where this does not occur, it is a strong indication of weaknesses in the corporate planning framework and the robustness of the medium term financial plan. Only a third of Welsh councils were considered to have adequate arrangements in place that fully aligned budget setting with the delivery of the corporate vision, aims and improvement objectives.

Area of good practice noted - Conwy County Borough Council

To support their prioritisation of services Conwy County Borough Council, undertook a service prioritisation exercise involving councillors in 2010. This exercise allowed the Council to check the proportion of its budget allocated to delivery of each of the Council's priorities. This exercise has been built on in subsequent years to ensure additional resources are only deployed based on robust business cases, and are directed to the priority service areas, which are in turn linked to the efficiency/saving areas the Council has identified each year.

The use of financial Key Performance Indicators within Medium Term Financial Plans to monitor and manage performance is under developed and poor

- 1.16 The use of KPIs within the medium term financial plan can be useful to measure progress and financial resilience, particularly for important issues such as liquidity, return on investments and borrowing levels. Our analysis shows that the development and use of appropriate KPIs within medium term financial plans is one of the areas where councils need to improve, and the majority have struggled.
- 1.17 Our review found that some councils had not developed any KPIs and have not reached a stage of maturity where performance information is being used to underpin decision-making. These weaknesses stop members from scrutinising performance, and even where councils have KPIs in place for service delivery and financial performance, these are not explicitly set out as such within the medium term financial plan. The use of KPIs within medium term financial plans is variable in England as well as Wales and tends to work best when the KPIs are set with reference to external benchmarking information.
- 1.18 As we undertake further work on the financial resilience of councils we intend to develop with councils key financial and workforce performance measures akin to that taken by Grant Thornton in England. We intend to develop this approach to report more fully on financial resilience and will discuss the methodology we intend to use with councils and other stakeholders in coming months.

Medium Term Financial Plans are subject to regular review, but some weaknesses remain in the use of scenarios and assumptions

- 1.19 All councils had their medium term financial plan reviewed at least once during the financial year by a Scrutiny Committee and/or by Cabinet. However, we identified a number of weaknesses with these arrangements across many councils, including:
- a the medium term financial plan was not tested under different financial scenarios to assess the impact of variances in the assumptions making it difficult to determine the robustness of the plan; and
 - b recommendations made by Cabinet and/or Scrutiny Committee following their review of the medium term financial plan were still being addressed at the time of our review which created a heightened level of risk particularly around the achievement of savings.
- 1.20 Over the last four years, one of the key areas of improvement made by English councils has been the medium term financial plan's capacity to absorb financial risks. Adverse financial scenarios have increasingly been anticipated, and mitigated against, and the flexibility of the medium term financial plan to deal with as yet unforeseen scenarios has improved. The best medium term financial plans now include a discussion of financial risks and the impact of differing financial scenarios and sensitivities in the narrative commentary, often in the context of justifying the assumptions used in agreeing the medium term financial plan.

- 1.21 The advantage of this approach has been a greater awareness of the need for mitigation strategies. Many councils have set aside significant reserves to provide this flexibility and often have built further contingencies into their annual budget. A number of English councils have benefitted from their policy of delivering savings in advance of need and then stripping the savings from the start of the new financial year. This means that savings plans delivered early provide additional monies that can be held in reserve or used to tackle other budget pressures. Others have benefitted from budgeting investment returns, and other income, based on worst-case scenario returns and in the expectation that income will exceed the levels that were assumed or planned. As long as the use of additional income to fund overspends is reported transparently (both corporately and by services) this can add resilience to Council plans.

While most councils have a good track record of forecasting budget shortfalls and recognise the importance of a fully defined savings plan, an increasing number underestimated the level of savings required by 31 March 2014

- 1.22 Across Wales, a greater number of councils struggled to accurately forecast the budget shortfalls they would need to bridge by the end of the 2013-14 financial year. However, the difference between the anticipated levels of savings required at the time of setting the budget and those actually required during the year were relatively small in most cases, limiting these councils exposure to financial risk.
- 1.23 An increasing number of councils were able to ensure that budgeted shortfalls were covered by planned savings delivered during the financial year. Where shortfalls were not covered by planned savings, councils funded any additional shortfalls through further ad-hoc savings. Overall, these unplanned additional shortfalls were not of a significant value in any instances.
- 1.24 The majority of councils continue to accurately predict budget shortfalls in their financial planning. There was an improvement in identifying budget shortfalls between 2011-12 and 2012-13, although in 2013-14 the number of councils accurately predicting shortfalls fell slightly. This decline is primarily due to increased pressure on councils to deliver the previous year's approved savings whilst also identifying further additional savings in future years. There may be pressure to predict higher levels of savings, which are becoming increasingly difficult to realise as the easiest savings options have already been utilised.
- 1.25 In England, Grant Thornton's work found that most councils have been relatively successful in predicting budget shortfalls. There has been a general trend to use worse case financial scenarios as the basis for the medium term financial plan assumptions, which has contributed to the frequency of unplanned surpluses and therefore the increase in reserve levels in England. While this 'prudent' approach is preferable to over optimistic financial scenarios, councils do have an obligation to council tax payers to forecast financial outcomes as accurately as possible to limit potential council tax increases.

- 1.26 We also looked at whether Welsh councils had any budget deficits that could not be addressed and still needed detailed savings plans to be developed to show how these would be addressed at the time the budget was approved. Across the period 2011-12 to 2013-14 the majority of Welsh councils demonstrated good performance in this area, and the source of savings was generally identified at the time the budget was set. However, in 2013-14 a growing number of councils were still developing detailed savings plans at the time the budget was approved.
- 1.27 In 2013-14, councils with gaps in their savings plans tended to be restricted to those that had not accurately predicted the budget shortfall they would face at the year end. This was not necessarily the case in prior years. For example, in 2012-13 a number of councils successfully identified a budget shortfall but were not able to define savings plans to the full value of that shortfall. This suggests that by 2013-14 more councils were recognising the need to start the financial year with a fully populated savings plan.
- 1.28 In England in 2013-14, Grant Thornton found that the majority of councils had fully developed savings plans, covering the full value of the predicted budget shortfall for that year. Increasing numbers of councils, have also developed savings plans that cover all or part of the predicted funding gap for future years of the medium term financial plan. Council predicting future funding gaps is a significant improvement over the last four years, where it was common for some councils to start the financial year without a full understanding of how the budget shortfall would be met. Many English councils continue to struggle with developing detailed savings schemes beyond the current year, particularly beyond year two. Where this is achieved, it tends to be related to longer-term transformational projects where the financial benefit is phased in over several years.

Most councils have forecast the savings gap for 2014-15 and beyond but in many cases savings plan assumptions and arrangements are not robust and need significant development

- 1.29 Whilst most councils identified the projected funding gap to be met by their savings plans for 2014-15 and beyond, a significant number did not identify sufficient savings to fill this gap. We also identified a small number of councils where poor performance in delivering previous years savings plans were having a significant impact on their financial resilience and needed to fill the financial gap by other means, for example from their reserves.

- 1.30 The robustness of savings plans assumptions and planning actions is weak, when judged against SMART principles, and all councils need to develop their arrangements significantly if they are to improve their financial performance. We found that whilst almost two thirds of councils had adequate arrangements for identifying potential funding shortfalls, over a third were considered to have weaknesses in the accuracy and deliverability of their savings plans. In particular, we found that some councils were still reacting to the government announcement regarding a decrease in Revenue Support Grant (RSG) levels for 2014-15 and were late in identifying shortfalls beyond the next financial year. Their plans for addressing the savings gap for 2015-16 and beyond were unclear and they continued to struggle to achieve their savings targets. There are serious concerns about the capability and capacity of these councils to deliver future savings.
- 1.31 A quarter of councils were thought to carry a risk of not being able to mitigate saving shortfalls without falling below the useable reserves threshold agreed by the council, which could lead to a significant impact on operations. Generally, this was because councils did not have sufficient reserves to meet future saving shortfalls as the reserves have been used in the past to address funding gaps. In addition, council tax increases had already been included in future saving plans to increase council income and so any further council tax increases were deemed to be unacceptable to bridge any saving shortfalls. In addition, savings plans had weaknesses and the plans did not “bring forward” sufficient early savings to offset budget deficits.
- 1.32 In England, Grant Thornton found that the most notable financial planning risk in 2013-14 was the sheer scale of savings that needed to be achieved over the life of the medium term financial plan, particularly where it is unclear how these will be achieved. In most cases, some or all of the in-year savings required in 2015-16 and beyond are yet to be defined. In other cases, the short timescale for delivering savings is a major concern. In addition, some councils continue to rely too much on top-slicing of budgets rather than transformational schemes and for a small number of councils, 2015-16 will mark a financial tipping point unless radical improvements are made in how savings are planned and delivered.
- 1.33 For councils in Wales, the key lesson from England’s experience is the importance of developing robust savings plans and service transformation schemes in as much detail as possible that will be delivered in full in a realistic time period. As a small number of English councils are now finding, if projected deficits are not accurately identified and addressed, there is a real risk that the cumulative deficit carried forward may lead to financial failure.

In general, the financial assumptions in council saving plans have been subject to some challenge and scrutiny from councillors, but weaknesses in the information used to monitor performance undermines accountability arrangements

- 1.34 The financial assumptions adopted by councils as part of their current saving plans have generally been subject to challenge and scrutiny by senior managers and councillors. However, we identified a number of key themes where improvements are needed. For example, plans often have:
- a an optimistic outlook on the national pay award, with councils taking their best estimate of a national pay increase;
 - b a lack of detail behind assumptions;
 - c limited benchmarking of assumptions against other councils, in particular fees and charges;
 - d a lack of consistency in the way officers applied assumptions across directorates; and
 - e savings plans focused on cost rather than cost effectiveness and value for money.
- 1.35 These weaknesses make it difficult for members to scrutinise and challenge performance and hold the executive and senior officers to account. The issue of poor scrutiny is particularly salient because Grant Thornton found that in England, some councils have overestimated the contribution of savings (and income generation) in delivering a balanced budget. This has been a significant area of improvement and by 2013-14 most English councils were making more robust estimates in this regard, although a significant minority still have weaknesses in their arrangements for delivering savings.

Councils in Wales demonstrate mixed performance in developing savings plans that follow SMART principles

- 1.36 Whilst just over half of councils in Wales had adopted SMART savings plans, our review identified that many councils had not set realistic and specific measures to deliver savings within the timeframes set. This raises concerns about the ability of some councils to deliver large transformational projects.
- 1.37 One of the major weaknesses in councils' savings plans is their achievability. Our review found that only a third of councils have saving plans that we consider to be achievable in terms of value and less than a quarter have plans where we consider the majority of savings are likely to be delivered on time.

- 1.38 The majority of councils continue to struggle to deliver all of their identified savings plans in full. We identified a number of common weaknesses in this area relating to:
- a Limited information on individual savings plans and how they will be achieved in the set time scales.
 - b Proposals lacking contingencies for slippage, including impact analysis on the savings gap and how councils will fund any short term slippages.
 - c Poor sensitivity analysis, in particular with regard to worst case scenarios should the savings not be met in 2014-15 and what options for corrective action are available to the Council.
 - d Significant service demand pressures (most commonly adult services) which are identified within a number of council saving plans but often lack detail and fail to make clear how these pressures will be mitigated by end of the financial year.
 - e Deficiencies in oversight and challenge on savings. For example, individual savings plans not being separately reported and analysed in finance management reports, which makes it difficult to scrutinise performance when planned schemes do not deliver expected savings.
- 1.39 We consider these weaknesses in savings plans to be the most crucial challenge facing councils in the next few years in both England and Wales.
- 1.40 In comparison, Grant Thornton found that many councils in England have now established comparatively robust arrangements to support delivery of their savings plans. The most common trigger for heightened risk at English councils is the failure to develop specified savings schemes beyond a one-year horizon. In England, this is particularly acute, as the relatively easy savings have been delivered and councils need to look to longer-term transformational schemes to address the significant budget pressures they face. Grant Thornton reported that service and back office transformation takes time to develop, often several years. Those that do not yet have these plans in motion will be at risk.
- 1.41 Close management of savings plans has become a pre-requisite of successful financial management. A corporate wide programme or project management approach to delivering large-scale plans is a feature of those councils that have had success in delivering large-scale savings to date. Sophisticated risk-based reporting on progress and the development of contingency plans are also increasingly important features.

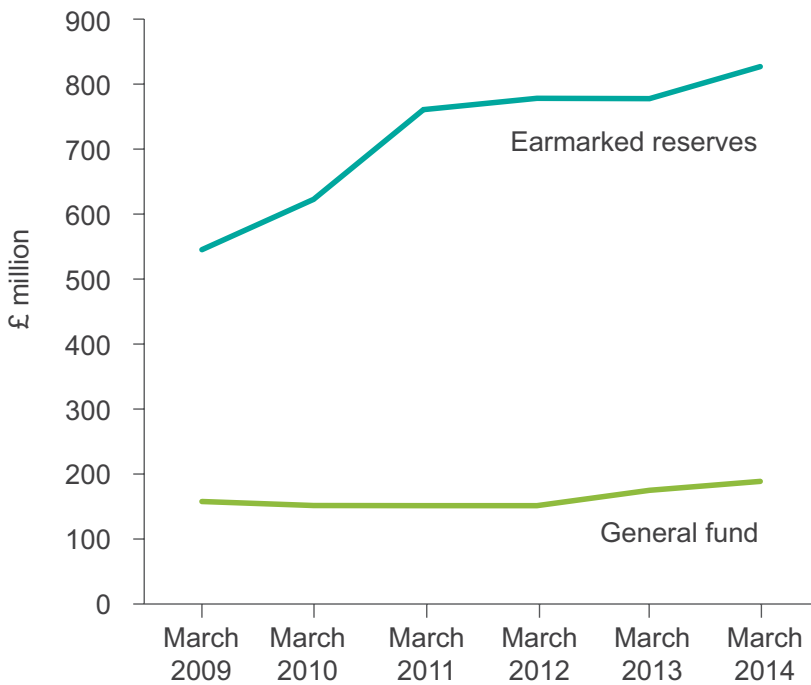
- 1.42 Some of the key developments seen at English councils over the past four years that enable effective savings delivery include:
- a A rise in formalised transformation or change programmes that look at the full range of council operations and establish work-streams to develop detailed schemes under a number of theme headings.
 - b Detailed service reviews to evaluate opportunities to deliver services more efficiently, including consideration of alternative delivery models.
 - c Use of a Project Management Officer to manage major schemes – typically including a separate governance structure, clear accountability, project management experts and cross service involvement.
 - d Use of standardised business cases and other supporting materials.
 - e Cultural change that promotes financial awareness at all staff management levels across council services, often accompanied by strengthening financial accountability and management skills in individual services.
 - f Strong councillor led governance arrangements to oversee delivery of savings, which reports delivery of savings plan separately from budget reporting and identifies what the shortfall is and sets out how the savings gap will be closed.
 - g Delivering enhanced levels of savings to maximise the potential surplus which can be invested or used to build up reserves. (Contrasting with the current practice prevalent amongst Welsh councils of phasing savings during the year in order to deliver the planned outturn, which leaves little scope for slippage).

Despite the significant financial pressures all councils face, reserves continue to increase and councils need to ensure they have clear strategies on the creation and use of reserves when setting their medium term financial plans

- 1.43 On the surface, a continuing trend of increases in councils' average reserve balances suggests that it is one of the strongest performing criteria of financial resilience in Wales. However, whilst it has been presumed for the purposes of this analysis that high levels of reserves are considered to reflect strong financial resilience, this is a more complicated and complex picture. Building up reserves with no clear purpose is not an effective use of resources.
- 1.44 Councils are required to hold various types of reserves, some of which are useable to support spending and others which are unusable, merely being held for technical accounting purposes. Those that are useable and cash backed are either held in relation to specific commitments or cost pressures (earmarked reserves) or as security against unforeseen expenditure or events (council fund or general reserves).

1.45 As can be seen from **Figure 1**, over recent years the overall level of reserves held by Welsh councils increased. In 2013-14, general reserves increased by £15.2 million and earmarked reserves increased by £49.0 million. This increase is somewhat surprising as councils indicated two years ago that they expected reserves to fall significantly in 2013-14. However, this may be due to a combination of issues including the timing of budget reductions, delivery of financial savings or deliberate plans to build up reserves to manage future risks.

Figure 1 – General fund and earmarked reserves: Welsh unitary authorities at the end of each financial year



Source: Wales Audit Office review of published accounts

- 1.46 Earmarked reserves make up the largest element of total reserves and include balances and amounts set aside for, amongst other items, equal pay or single status costs, insurance, PFI payments, funding for capital schemes or repairs and renewals. The amount of general and earmarked reserves as a percentage of GRE varies significantly between audited bodies.
- 1.47 Councils must determine the extent of the reserves they hold based on their assessment of need, risks and future commitments. They also need to ensure that they are used in a sustainable way that supports on-going service change and transformation rather than simply supporting annual revenue expenditure on an on going basis. The appropriate level of reserves for any council will depend upon a number of factors and each council should set a reserves target based on clear and agreed criteria.
- 1.48 The extent to which budget underspends are driving the increased levels of reserves needs to be further explored. Many councils are continuing to report year-on-year underspends against their revenue budget. Whilst logically underspends are preferable to overspends, consistent high levels of variances against revenue budgets indicate that a greater accuracy in the budget setting and monitoring process is needed. Underspends should not be relied upon in the medium term to bolster reserves or to mask other areas of overspend within the budget.
- 1.49 If a council is holding low levels of useable reserves, it may be unable to maintain a balanced budget if savings plans fall short or if there is significant slippage on the budget. A reducing reserve level is also a strong indicator that a Council might struggle to maintain financial resilience in the coming years. Despite the challenges, most councils have maintained or increased their reserve levels - often by delivering budget surpluses - to insure against financial difficulty. The general trend of increasing reserves is common to both Wales and England.
- 1.50 Grant Thornton reported that in England in 2013-14, the level of risk relating to inadequate reserve levels has reduced, in line with the longer-term trend, although a small number of councils did have notably low levels of reserves. In these cases, the ability to absorb unexpected financial problems, to maintain services during transformation, or to invest in schemes and services, is severely limited. Low levels of reserves can also force councils to borrow to fund capital programmes or to forgo capital investment opportunities.
- 1.51 In both Wales and England, there has been a significant commentary on the growth in council reserve levels, especially the perceived contradiction of generating surpluses and transferring these to reserves at a time of significant cuts in council budgets. The conclusion often drawn is that council tax payers are footing the bill for the accumulation of cash that is not being used for maintain and/or improve services.

- 1.52 However, in both countries the underlying issues are complex. Many surpluses are specifically planned for in order to build up earmarked reserves for specific future purposes – such as house building or support for regeneration work. Councils are also prudently setting aside reserves to enable them to cope with risk – such as the failure of a savings programme to deliver benefits on schedule.
- 1.53 It has to be recognised that once reserves are used they are gone for good. Pressure to use reserves to fund revenue expenditure, for example to avoid council tax rises, reflects a very short term view as this is not sustainable and eventually the money will have to be found elsewhere. Reserves are better used to help fund capital projects and service transformation, while providing security against financial risks. As long as a council is using reserves in a planned and strategic manner, it can refute charges of ‘hoarding’.
- 1.54 In England Grant Thornton found that there has been increased use of more sophisticated treasury management policies, which ensure that reserves are made to work for the Council while retaining the liquidity needed to mitigate financial risks. There is a strong argument that the accumulation of reserves in times of economic hardship can actually reflect good management and mitigation of financial risks.

Part 2

Financial management and controls are sound in most councils although many need to improve budget setting and monitoring and ensure there is sufficient capacity and capability in the finance team to meet the challenges ahead



- 2.1 In this section of the report, we focus on the councils financial management and control arrangements. For the purposes of our review, we have used the following as the key characteristics of good financial management and control, reviewing current standards of performance against these.

Characteristics of good financial control

Financial control

- Budgets are robust and prepared in a timely fashion and the Council has a good track record of operating within its budget
- Budgets are monitored at an officer, member and cabinet level and officers are held accountable for budgetary performance
- Financial forecasting is well-developed and forecasts are subject to regular review, including trend analysis, benchmarking of unit costs, risk and sensitivity analysis
- Budget profiles are accurate and regularly monitored
- There is particular focus on monitoring income-related budgets
- Savings programme reporting includes effective management information on countervailing savings and the use of RAG ratings
- The capacity and capability of the finance department and service departments are fit for purpose for effective financial planning and financial management
- Key financial systems have received satisfactory reports from internal and external audit
- Financial systems are adequate for future needs, for example, commitment accounting functionality is available
- Strength of internal control arrangements – there is an effective internal audit, which has the proper profile within the organisation. Agreed internal audit recommendations are implemented routinely and in a timely manner
- There is an assurance framework in place, which is used effectively by the Council. This is how business risks are managed and controlled
- The annual governance statement gives a true reflection of the organisation

- 2.2 The framework for financial management and control at most councils is generally adequate for current needs, but we noted risk areas in all areas of performance we reviewed. The level of risk across some aspects of financial management and control illustrates the need to strengthen arrangements in these areas. The specific aspects that we looked at are discussed in the following sections.

No council has a corporate policy on income generation, which is an area that will become more important as councils increasingly look for alternative sources of revenue

- 2.3 Although the majority of councils had adequate and up to date policies and financial management arrangements for income generation, we considered that a significant minority face some risk because their arrangements need to be updated. Whilst most Welsh councils have recognised the need for an explicit policy on income generation and charging, the vast majority delegated decision making on fees and charges to directorate and individual service teams. The lack of an explicit policy document on income generation does not necessarily pose a significant financial control risk – such policy documents are not a common feature of English councils approaches to charging and income generation. However, as has been the case in England the development of corporate wide policies on income generation is likely to increase among councils in Wales as they seek to address the predicted funding deficits.
- 2.4 In England, councils are increasingly developing their strategic approaches to income generation, including an identification of the maximum level of charging and its potential negative impact on services and citizens. The work of Grant Thornton in England found that in areas such as car parking and green waste collections, increased charging has resulted in increased revenue streams. In other areas of operation, it has resulted in a better understanding of income for subsidised activities, particularly for non-statutory services such as leisure, and this has often led to increased investment in sports centres, theatres, golf courses and other facilities. Increasingly, profit share arrangements with private sector organisations have formed part of the strategic planning discussion. Finally, the commercialisation of some council services is also an area that some councils in England have been exploiting – for example, waste disposal and recycling services sold to the commercial sector.

Systems for budget setting and monitoring were adequate or carried only minor risks at most councils in Wales, although there was scope for improvement

- 2.5 We found that the majority of councils have robust budget setting and budget monitoring procedures and processes, including timely reviews, well-developed forecasts and effective financial target setting. This demonstrates that budget setting and monitoring processes are well embedded and effective. Some of the weaknesses we identified included: the need to improve the quality of demand forecasting by individual services during the budget setting process; a tendency for budgets to be based on optimistic assumptions and poor scrutiny and challenge of the performance of directorate and service budgets especially on unexpected over and underspends.
- 2.6 Systems for budget setting and monitoring have been a key area of development for councils in England over the past four years, driven by increasing demands on these systems to ensure continued financial resilience. Key features of effective and robust arrangements that we have seen develop include:
- a establishing a well embedded and effective budget setting processes;
 - b strong engagement from services in financial planning;
 - c increased focus on developing the budget on a zero base and on a bottom-up basis;
 - d traditional top-down emphasis for budget setting becoming much less common;
 - e increasingly, service managers taking responsibility for managing the budget, freeing the corporate finance team to develop as a business advisory function, and;
 - f monitoring the budget on a monthly basis and reporting this to the senior management team, with councillors reviewing at least quarterly.

The majority of councils in Wales are considered to have effective financial controls

- 2.7 Many councils can take assurance of the robustness of current financial controls, in particular, the work of their internal audit departments. However, where councils fared less well key factors were major system changes causing disruption during the year and the council failing to act on the findings and recommendations made by internal or external auditors and regulators.
- 2.8 Clearly, the establishment and maintenance of effective financial controls is a prerequisite to ensure financial resilience, and prevent material errors and fraud that could undermine the financial position. Failure to address identified weaknesses of this kind could result in a major failure of financial governance.
- 2.9 Grant Thornton reported that in England, one of the notable areas of improvement has been in the way that internal audit and other external reviewers have been used to support the financial control framework and provide early warning of weaknesses before they develop into major problems. The historic problems were not just about the capability and effectiveness of internal audit functions, but also about the impact they had in their organisations and the support they received from audit committees and senior management in driving improvement.

The effectiveness of finance managers, in terms of capacity and capability, was a cause for concern at more than half of councils in Wales

- 2.10 Just under half of councils in Wales were considered to have a full complement of finance managers. In other councils, there is some risk that finance team capacity and/or capability is not adequate to meet the enhanced financial risks all councils face. Common themes underpinning the heightened risk we identified include: councils having to rely on interim arrangements and short term agency staff to fill key finance positions within the finance teams; a loss of knowledge and experience of the Council when temporary staff leave; and difficulties embedding effective controls because staff turnover is high.
- 2.11 The experience of councils in England has shown that reductions in finance team capacity were a feature of many savings plans in the early years of austerity. Counter-intuitively, this also coincided with a need for higher finance skills to manage the financial challenge, compounding the level of risk. At the start of the austerity programme many councils in England reduced their finance teams in order to make savings in back office support costs. The loss of finance capacity would be compensated (in theory) by the increased devolution of financial responsibilities to managers within the Council service departments. Although these managers were not finance professionals, they were re-trained or recruited to fulfil this role by their organisations. Initially, this created a lot of uncertainty about whether these new arrangements would work effectively and would be able to adequately respond to the increasing financial challenge.

- 2.12 By 2012-13, Grant Thornton noted that these concerns had started to recede as the arrangements proved to be effective in many cases. In 2013-14, over 92 per cent of councils were assessed as having adequate or strong finance capability and capacity. This gave assurance that the new arrangements have been successful in most cases, and have even benefitted organisations by creating wider financial accountability outside of the finance department. In regard to other risks related to finance team capacity, an over reliance on key individuals, with limited options for cover or succession, remains a vulnerability at many English councils.
- 2.13 For councils in Wales that are considering options to reduce finance team capacity, it is important that they fully understand their future changing financial management needs and implement a managed process to replace lost central finance team capacity through greater devolution of financial responsibilities to individual services. A poorly managed reduction in finance team capacity can have serious implications for financial resilience in the future. The upside is that, if executed well, a planned and managed reduction in staff has proven to be highly successful in reducing costs and increasing the effectiveness of financial management. Cover and succession planning for financial managers in councils in Wales needs to develop at an early stage as the demand for highly skilled and experienced finance managers will continue at a high level in the current climate.

Part 3

Whilst financial governance arrangements are comparatively robust, the quality of performance and cost information being used and the level of scrutiny and challenge in Welsh councils varies significantly, which can undermine the effectiveness of decision making



- 3.1 In this section of the report, we focus on councils financial governance and accountability arrangements. For the purposes of our review, we have used the following as the key characteristics of good financial governance and have reviewed current practice and performance against these.

Characteristics of good financial governance arrangements

Financial governance

- There is a clear understanding of the financial environment the council is operating within.
- Regular and transparent reporting to members. Reports include detail of action planning and variance analysis.
- Actions have been taken to address key risk areas.
- The Chief Finance Officer is a key member of the leadership team.
- Officers and managers across the council understand the financial implications of current and alternative policies, programmes and activities.
- The leadership ensure appropriate financial skills are in place across all levels of the organisation – for example, a good understanding of unit costs and cost drivers.
- The leadership foster an open environment of challenge to financial assumptions and performance.
- There is an effective scheme of delegation, ensuring clarity of financial responsibilities and accountabilities.
- There is engagement with stakeholders including budget consultations.
- There are comprehensive policies and procedures in place for members, officers and budget holders, which clearly outline responsibilities.
- Internal and external audit recommendations are implemented promptly.
- Committees and cabinet regularly review performance and it is subject to appropriate levels of scrutiny.
- There are effective recovery plans in place.

- 3.2 Councils performed better on financial governance than in other areas considered in our review, although some weaknesses remain, particularly in regard to ensuring the delivery of savings plans. Although the general frequency of financial governance risks was relatively low compared to other areas, our findings still highlight a need to strengthen arrangements in the face of increasing levels of risk due to financial pressures. A report from the Commission on Public Service Governance and Delivery³ (January 2014) highlights some of the changes that will be required in governance in order to meet the challenges of significant reductions in local government funding.
- 3.3 Experiences in England indicate that major failings in governance are rare, but where they do occur, they can have far-reaching financial and other consequences – as recent examples such as the cases of Mid Staffordshire NHS Foundation Trust and Rotherham Metropolitan Borough Council have shown. It is the nature of major governance issues that they can arise from weaknesses in arrangements that may previously have seemed relatively minor, highlighting the need for vigilance and effective action when weaknesses are identified.
- 3.4 It also follows, from the experiences in England, that improvements in governance arrangements can sometimes lag behind improvements that take place in other areas of financial management, as it is harder to measure the effectiveness of governance until something goes wrong. However, councils in Wales should make sure they identify and apply emerging best practice, to mitigate this risk.
- 3.5 Our review found that approximately half of Welsh councils faced some risk in one or more of these areas. The key areas where there is scope for improvement relate to the following:
- a failure to ensure separate analysis of the delivery and progress of saving plans routinely monitored by councillors as part of the Council's overall financial monitoring arrangements;
 - b limited or no performance indicators in place or presented at the relevant committee;
 - c a lack of accountability for budget underspends/overspends and delivery of savings from the directors and service heads;
 - d limited monthly reporting to senior officers such as the section 151 officer or Chief Executive, on the performance of savings plans and related teams;
 - e a lack of transparency in the way the savings plans are shown to have been delivered, for example, the extent to which failed schemes have been substituted by other recurrent and non-recurrent savings or unplanned income; and
 - f ineffective challenge by councillors and senior officers of financial and savings plan performance.

3 Report of the Commission on Public Service Governance and Delivery, Welsh Government, January 2014.

- 3.6 Councils should regularly report individual savings to identify over and under achievement and to ensure appropriate and timely action is taken to deliver agreed savings plans. If councils do not monitor specific areas of savings their ability to evaluate and scrutinise saving plans is compromised. As councils have to set more difficult and challenging savings targets, it is increasingly important that effective scrutiny and monitoring takes place on individual saving plans.
- 3.7 Grant Thornton found that in England in recent years, councillors have increasingly had to make difficult decisions about the delivery of services as has also been the case in Wales. In the process, councillors have developed a better understanding of the underlying financial conditions, helping to build mutual confidence with the management team and to extend the organisations' risk appetite. This is particularly apparent in the increasing levels of innovation, for example, with joint working between councils and other partners, and developing alternative delivery models for services.
- 3.8 There are still cases at individual councils in England and Wales where councillors have been resistant or slow to appreciate the need for a more radical outlook in regard to the sustainability of services. These councils are often focussing too much on reducing back office or on piecemeal efficiency measures to provide the savings they require. Many do not see a strong culture of financial efficiency as a priority, irrespective of the council's financial position.
- 3.9 In these cases, the onus is on officers to take a stronger role in helping councillors to understand the financial environment and the longer-term outlook. Councils in Wales will benefit greatly from developing training and development programmes for councillors delivered in a timely way to support them in their roles.
- 3.10 However, our analysis reveals that in some cases councillors and senior management may not be challenging enough during the budget setting process leading to higher than anticipated variances at year end. The need to improve scrutiny and challenge has been an area of significant development in England, and needs to be addressed urgently in Wales if councils are to meet the financial challenges they face.
- 3.11 Likewise, Grant Thornton's work shows that training and development for councillors in financial matters and on their role in governance remains a weak point at many English councils. This weakness is particularly acute in a year that has seen many new councillors created following local government elections. The frequency of reporting to councillors was a concern at some councils in England. In some cases, this was less than quarterly. This lack of regular reporting can be especially problematic where the Council faces significant financial pressures and consequently requires more regular reporting and review than has been standard in the past.

- 3.12 In England, the accuracy of forecasting budget outturn remains an area where further improvements are required. Too often, there are significant variances between monthly or quarterly reports, and frequent amendments to forecast outturn stemming from weaknesses in the systems for managing and reconciling budget and savings plans performance. Financial information provided to councillors, where the underlying performance issues are not adequately drawn out, remains a significant barrier to effective councillor engagement and robust scrutiny of delivery.
- 3.13 Our review found that many councils in Wales do not have a strong track-record of delivering savings plans. The governance risks we identified are primarily associated with the lack of formal monitoring of the delivery of individual savings targets against planned performance by councillors, and the resulting lack of challenge and/or holding of responsible senior officers to account.
- 3.14 In England, in 2011-12 and 2012-13, when many councils were starting to deliver large-scale savings, we saw an increase in governance risks related to savings plan delivery. This was because in preceding years, savings were usually small scale and delivery could be adequately monitored through the budget. The impact of a failure to deliver savings did not therefore pose a strategic risk to council operations and the light touch scrutiny arrangements were adequate for the council's needs. However, as the scale of savings increased together with the associated strategic risks, governance arrangements were slow to be adapted. Hence, resulting in councillors received poor quality or incomplete information on progress in delivering agreed savings plans - which were now becoming of critical importance to future financial resilience.
- 3.15 We found that a number of Welsh councils are still not reporting savings plan progress separately and this approach undermines the ability of councillors to scrutinise and challenge delivery of in-year savings and whether they are on track. It also makes it difficult to clearly identify the distinction between recurrent savings delivered to plan, and short-term fixes – for example, from income windfalls – that will not be available in future years. This understanding is vital in being able to challenge the performance of officers, particularly where large-scale savings are required over a number of years.
- 3.16 One important recent development in England is the increasing use of an integrated balanced scorecard. The use of scorecards enables financial pressures to be viewed in the context of service performance, workforce and other operational aspects. English councils are increasingly moving away from the traditional approach of reviewing financial performance in isolation and this is an option for councils in Wales.

Area of good practice noted - Powys County Council

Powys County Council has taken proactive steps to strengthen their financial governance process by taking part in a peer review and identifying key areas of improvement. The Council has taken a collaborative approach, working with the Centre for Public Scrutiny (CfPS), Grant Thornton UK LLP and CIPFA Wales to enhance their financial governance processes.

Part 4

Councils are under significant stress and financial management arrangements that were once good enough will not remain fit for purpose in the face of increasing financial pressures



- 4.1 In this section of the report, we focus on councils use of performance measures and management of performance. For the purposes of our review, we have used the following as the key characteristics of good financial performance management and have reviewed current practice and performance against these.

Characteristics of good financial performance management

Key indicators of financial performance

- There is regular monitoring of key indicators of financial performance
- The council operates within a locally determined appropriate level of reserves and balances
- The general fund balance is maintained at or above the locally agreed minimum level
- Working capital is at or above a ratio set by the section 151 officer
- Levels of long-term borrowing are manageable and within prudential borrowing limits
- Targets have been set for future periods in respect of key indicators, such as reserve balances and prudential indicators
- There is a track record of spending to budget and proactively managing forecast overspends in-year
- There is a robust organisational approach and focus on absence management to improve productivity, reduce costs and enhance customer service

- 4.2 As we undertake further work on the financial resilience of councils we intend to develop a ‘traffic light’ reporting system covering financial and workforce performance and identify where further improvements are required. The traffic light approach is similar to that taken by Grant Thornton in England and enables useful comparisons to be made. We intend to develop this approach to report more fully on financial resilience and will discuss the methodology we intend to use with councils and other stakeholders. Our analysis of financial KPIs indicates that financial arrangements at many councils are under significant stress. Furthermore, the experience of funding reductions in England reported by Grant Thornton has seen arrangements that were once good enough no longer fit for purpose and requiring significant and rapid evolution to enable councils to deliver the savings they need to make.
- 4.3 The information used in our analysis is taken from each council’s statutory accounts. The analysis is based on an aggregate of KPIs relating to budget delivery, liquidity, borrowing, and reserve levels. Our analysis of councils’ performance on these measures shows that 15 of 22 councils have an improving risk position. Whilst there are no councils that are classed as being high risk with a declining position, there are four councils, which are facing increasing risk because performance against these measures is declining. Below we summarise the performance of Welsh councils against the three key financial performance indicators – budget delivery, liquidity and borrowing.

There is a high degree of risk for councils in delivering a balanced budget but the direction of travel indicates that budget performance is improving as improvements to financial planning and control take hold

- 4.4 This performance indicator looks at the Council’s history of under or overspends against revenue budgets, performance on the outturn of net revenue expenditure, which helps validate both the strength of planning arrangements and the effectiveness of financial control. A good track-record of delivering to budget is a strong indicator of whether future financial plans, including large savings, can be delivered.
- 4.5 Our analysis is determined by councils’ budget performance and whether there have been significant revenue budget overspends and consistent and/or substantial budget deficits. These often relate to demand led services such as adult and children’s social care. These services will remain a key risk area over the coming years as grant funding continues to reduce but demand remains steady, even increasing in some areas. Councils that continue to deliver revenue budget overspends in demand led services such as these are likely to face financial difficulties in the future. We consider councils to be performing well when they have delivered consistent underspends against their revenue budget or where they have minimised net budget deficit (or achieved a surplus) and delivered a favourable net out-turn position.

4.6 Grant Thornton reported that the experience in England shows that a good track-record of delivering to budget is a strong indicator of whether future financial plans, including large-scale savings, can be delivered. A significant minority of English councils (14 per cent) struggled to deliver their budget in 2013-14. The most common risk was a significant revenue budget overspend. This overspending often related to demand-led services such as adult or children's social care. Persistent under-budgeting in these services is a danger sign for future financial resilience. An authority with weaknesses in this area which has not made sufficient progress in transforming its services is likely to face significant financial difficulties in the immediate future. Our analysis for Welsh councils found that over a third (36 per cent) of councils have historically experienced some difficulties in delivering a balanced budget but the direction of travel indicates that budget performance is improving across all councils.

It is evident that there is a high degree of variation in the liquidity ratios of Welsh councils at a time when cash-flow management is becoming increasingly important for councils

4.7 The 'current ratio' of assets (assets that are readily convertible to cash) to liabilities (short-term liabilities that require prompt payment) gives an indication of liquidity within councils. The risk of running out of cash has traditionally been less acute for councils, compared to the NHS or private sector, because of the security of grant income receipts and the low-value, high volume nature of local taxation. However, the profile of council funding is changing from the traditional model with reduced reliance on grant funding and an increased reliance on income generation, increased financial risk from borrowing and cash investments. Because of these changes, the risk of running out of cash increases and robust cash flow management becomes increasingly more important to make sure that costs can be covered and employee salaries paid on time.

4.8 From our analysis, it is evident that there is a high degree of variation in the liquidity ratios of Welsh councils. Our review classed 55 per cent of councils as at low or low-to-medium risk and 45 per cent of councils as having an increasing level of risk. Overall, the direction of travel shows that in 2013-14, 14 of the 22 Welsh councils have reduced levels of liquidity in comparison to 2012-13, and only eight councils have seen improving liquidity. The reasons for this reduced level of liquidity include increased use of short-term borrowing to meet the council's working capital requirements and declining levels of short-term bank deposits, with low interest levels likely to be the cause for this.

Borrowing levels are not currently an area of major concern for the majority of councils in Wales and the general level of financial risk is low

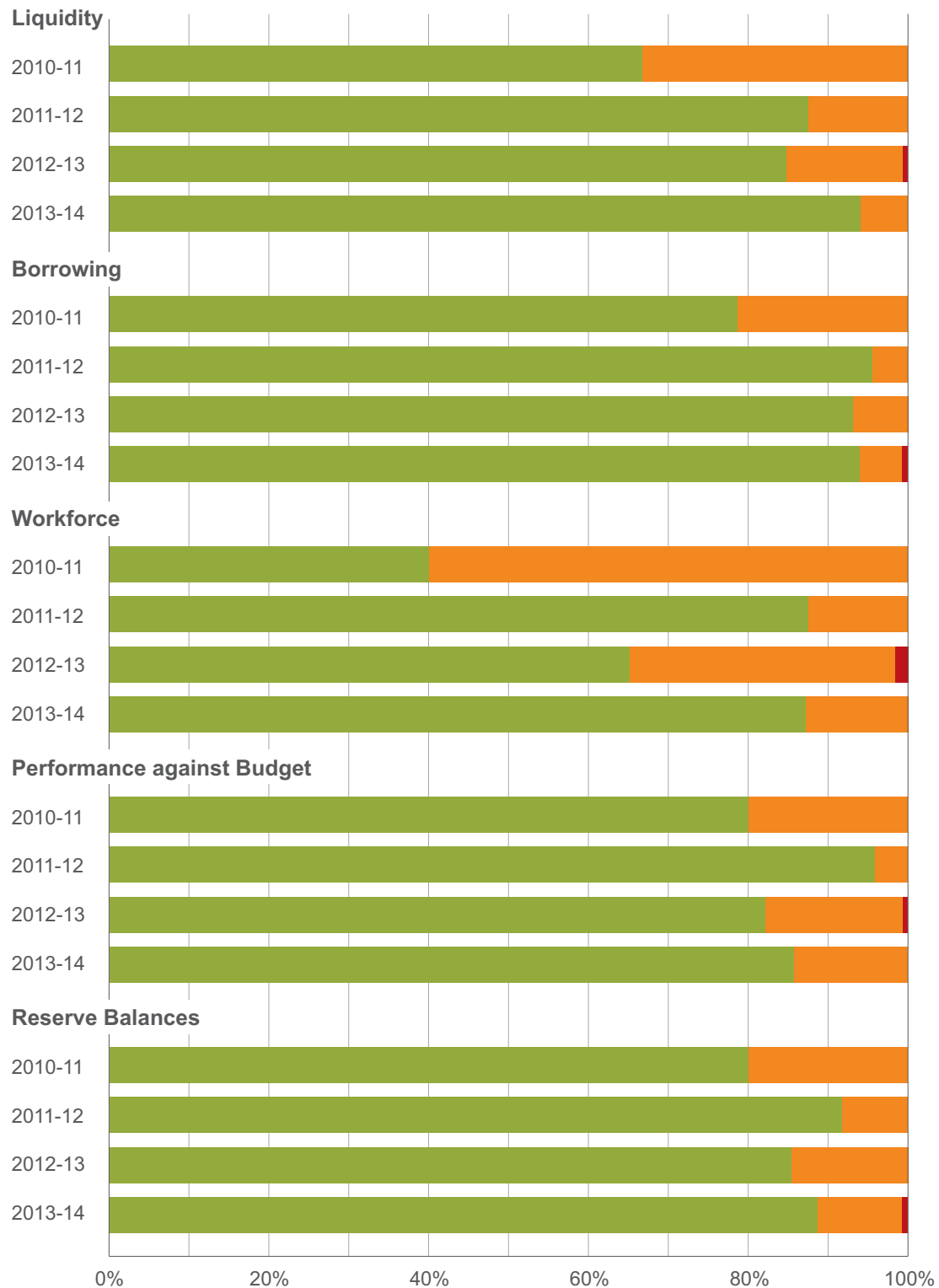
- 4.9 A low gearing ratio indicates that a council is financially stable and can generally borrow more freely as it will be better placed to pay the interest than those with higher ratios. Gearing is therefore a useful measure of corporate financial health as it allows a comparison between council funds and borrowed 'debt'.
- 4.10 We have calculated the gearing position for each council and identified them as either having an improving gearing position, where the levels of borrowing and debt have remained stable or fallen, or a deteriorating gearing position, where the level of borrowing and debt is increasing. Based on this analysis, 10 councils have an improving gearing position and 12 councils a declining gearing position. The range of gearing percentages identified in councils in Wales varied from 14 per cent as the lowest to 32 per cent as the highest.
- 4.11 Grant Thornton's work in England found only a handful of councils where borrowing presented a risk to financial resilience, particularly with regard to a council's ability to service debt. The general level of risk was further mitigated by the fact that the majority of borrowing was from low risk lenders such as the Public Works Loan Board (PWLB). Very few councils were significantly out of step with their respective peer groups which was the primary means used to assess the level of risk for English Councils. As with liquidity, the increase in sophistication in Treasury management policies and the use of professional advisors is often reducing the risk for local authorities.

The equivalent English Key Performance Indicator ratings, tracked over time show the positive impact that improving financial planning, governance and control arrangements can have on financial outcomes, despite significant financial challenges

- 4.12 **Figure 2** summarises the findings of Grant Thornton's review work of financial resilience of councils in England since 2010-11 and demonstrates a trend of improvement that reflects the positive evolution in financial management arrangements over the past four years. This development is consistent with the improving trajectory we have seen with the strength of financial planning, governance and control arrangements. We plan to use a similar risk rating analysis to that used by Grant Thornton in future reports on the financial resilience of councils in Wales.

Figure 2 – Summary of Grant Thornton’s analysis of English councils financial management performance 2010-11 to 2013-14

English councils are continuing to manage the financial risks they face



Source: *Rising to the challenge - The evolution of local government*, Grant Thornton, November 2014

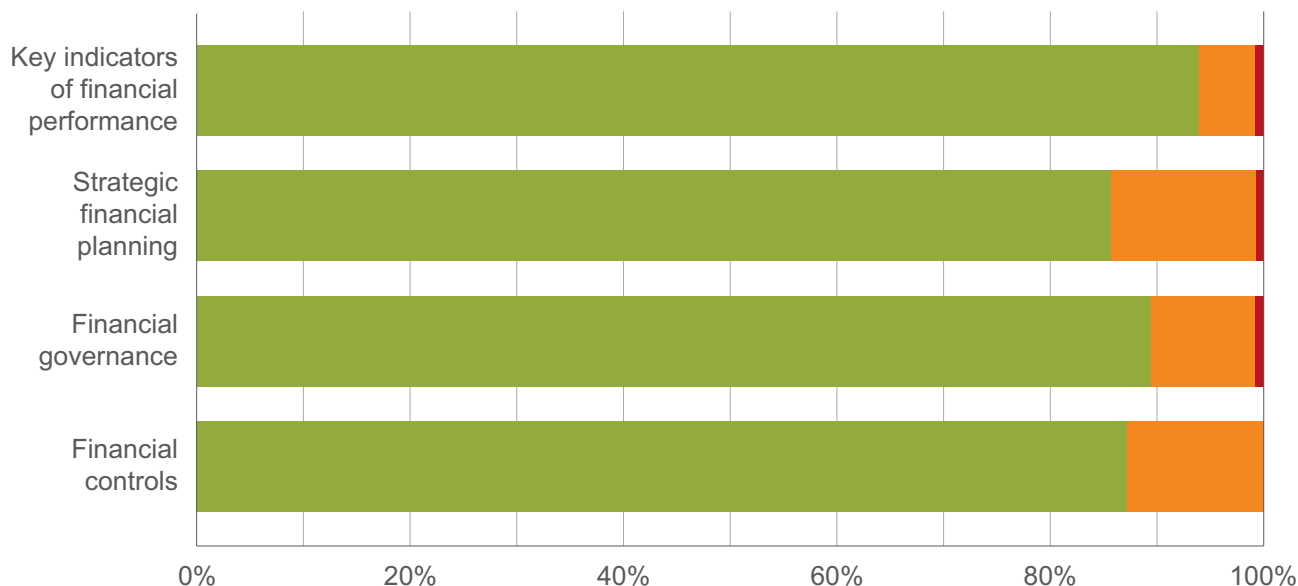
Part 5

The experience of English councils shows that it is possible to tackle significant reductions in funding but to be successful requires a step change in strategic and operational financial planning



- 5.1 Grant Thornton’s work in England found a trend of improvement in councils that reflects the positive evolution in financial management arrangements over the past four years. This development is consistent with the improving trajectory we have seen with financial planning, governance and control arrangements.
- 5.2 While some English councils are facing a financial tipping point, the positive lesson for Welsh councils is that the majority continue to deliver a sustainable financial position and are likely to do so as long as they can continue to develop and deliver effective responses to changing conditions. However, in most cases in England this has required a fundamental re-think about what services can be delivered, to whom and what levels of service are affordable. This in turn has required the development of highly sophisticated financial management arrangements that were not imagined four years ago.
- 5.3 **Figure 3** shows that most councils in England are managing the financial challenges they face and the current level of financial risk is relatively low.

Figure 3 – Summary of Grant Thornton Financial Risk Indicators for English Councils 2013-14
 Most councils in England are managing the financial challenges they face and the current level of financial risk is relatively low



Source: *Rising to the challenge - The evolution of local government*, Grant Thornton, November 2014

5.4 Grant Thornton found that:

- a Strategic financial planning standards in England are also improving. This is a strong indication of significant evolution in planning processes, partly driven by necessity. Many councils still need to increase the range of their forward planning, ensure that planned outcomes are achievable and change focus from efficiency savings towards service transformation and income generation.
- b Standards of financial governance in England continue to strengthen, particularly in the quality and access to information presented to councillors. While major weaknesses in governance are relatively rare, they tend to have serious and wide ranging financial consequences. Governance of key partnerships and group structures presents a risk for some councils.
- c Financial control remains one of the themes with the highest concentration of issues in England, often concerning the delivery of savings plans. However, most councils continue to perform adequately and there has again been a trend of gradual improvement in financial control systems in the last few years.

5.5 Grant Thornton's review in England concluded that despite the challenges councils face in each of these three areas, the current level of financial risk is relatively low at the majority of councils.

The headline messages from the 2013-14 review of councils in England draw some useful parallels with the experience of councils in Wales

5.6 Most councils in England continue to rise to the challenge posed by government funding reductions, supported by an evolution in financial management arrangements over the past four years. Those who have struggled to establish effective financial arrangements to date are those most likely to face a tipping point. The challenges are set to increase as spending reductions continue over the next few years, and councils must continue to adapt. Those that do not transform their services face a financial tipping point in 2016-17.

5.7 Grant Thornton's research also found an increasing confidence that the majority of councils in England are finding ways to overcome the financial challenges they face, particularly transforming the way local services are delivered. Grant Thornton's review of councils in England concludes that inevitably, this continues to present councillors with some difficult decisions and has ultimately led to reduced service provision in some areas.

5.8 Proportionally, single tier and county councils face a greater challenge than districts, partly due to the former's responsibility for demand led services such as social care, which continue to present a particularly acute financial risk. However, many district councils have delivered significant savings and are often leading the development of new models of delivery including shared services and joint management arrangements.

- 5.9 The number of English councils with critical financial issues remains low, in comparison to the NHS in England, for example. What stands out is how councils have gradually improved their financial management arrangements, maintaining or even improving their financial performance, in the face of ever-increasing challenges. The same cannot be said of NHS bodies in England.
- 5.10 Most English councils have weaknesses or risks in their arrangements of one kind or another that could affect their ability to deliver financial plans in the medium term. However, our findings suggest that over the past four years risks can be mitigated and service performance maintained. Indeed, many councils are confidently predicting continued financial resilience in their medium term financial strategy. This is a major achievement and reflects an evolution in financial management that would have been difficult to envisage in 2010.
- 5.11 However, councils remain concerned about the funding structure for local government, and whether it allocates funding fairly in relation to local geographic, demographic and economic conditions. Reductions to grant funding disproportionately affect those councils where council tax provides a lower proportion of total income. Those councils who collect less income from council tax are often those with high levels of deprivation.
- 5.12 For single tier councils and counties, the 'graph of doom' scenarios around demand-driven services (such as adult social care) remain a key challenge. However, new ways of delivering services are now emerging to alleviate some of these risks. We have seen significant change in the culture of councils – financial responsibility has started to permeate throughout the whole management structure. A strong culture of continual improvement, efficiency and financial control, aligned with the council's medium term strategy, will become a necessity over the next few years. There is significant work to be done here, particularly in regard to engaging front line specialists fully within the services. This should be an important area of focus for councils.

Appendices

Appendix 1 - Methodology

Appendix 2 - Selected case studies
from England

Appendix 3 - The differences in the way
local government is funded
in Wales and England



Appendix 1 – Methodology

Review of literature, data and statistics

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

- Welsh Government and Department of Communities and Local Government policy and guidance documents;
- reports and briefings from the Welsh Local Government Association and Local Government Association in England; and
- relevant research and guidance from CIPFA.

Local authority fieldwork

We visited all 22 local authorities in Wales, between June 2014 and November 2014. During the visits, we interviewed a range local authority staff, elected members, and produced local reports for each council summarising our key findings on each authority's financial resilience.

Appendix 2 – Selected case studies from England

These good practice case studies are taken from Grant Thornton's financial assessment work in England and have been included in this report as good practice examples for councils in Wales to consider.

Sheffield City Council: outcome-based financial planning

Sheffield introduced outcome-based financial planning when developing its 2013-14 budgets. This supported the new strategic outcome plan for the city, which has a 12-year horizon (2013 to 2025). The plan:

- sets the strategic direction for delivering the outcomes over this period
- provides the framework for decisions about where to allocate resources
- defines the performance measures to help track progress towards delivery.

The Council introduced a strategic outcomes board to oversee the development and delivery of the plan and associated governance arrangements, with directors accountable to the board for realising the benefits of the plan. The business model for delivery against the strategic outcome plan is built around:

- outcome-led investment, to achieve the outcomes for the city and to make a difference to Sheffield and its people
- outcome-led commissioning of projects that will contribute directly to achieving a step change to the outcomes for local people and businesses. This approach has improved long-term decision making, prioritised the use of resources, and identified where new sources of funding or income need to be pursued.

The Council is using a robust and transparent lessons learned process when reviewing the first year of outcome-based financial planning, to ensure this new approach becomes fully embedded across the organisation.

London Borough of Barnet: commissioning focused delivery model

The Council is at the forefront of the move by local government bodies to a more commissioning-focused model of governance and service provision. From April 2013, the Council moved to its new commissioning council structure. This includes an assurance group responsible for providing independent oversight to the strategic commissioning board and to members, so that the Council's decision making is effective and appropriate risk management arrangements are in place and being used effectively by the Council's lead commissioners and its delivery units. While the effectiveness of the new arrangements will require testing over time, initial indications from officers show they are working well and are helping to focus the Council's senior team on how resources can best be used in a joined-up way across all services rather than a silo based approach.

Solihull Metropolitan Borough Council: aligning our resources to our priorities

Decision making is based on clear business cases for investment and lean reviews provide detailed analysis for cost reduction initiatives. The main reporting vehicle is Aligning our Resources to our Priorities (ARTOP). ARTOP meets monthly, is chaired by the director of resources, and its role is to monitor progress against the delivery of all of the savings in the current three year medium-term financial strategy (MTFS) 2013-14 to 2015-16. ARTOP is a sub group of the corporate leadership team (CLT) and reports the outcomes of each of its meetings to CLT as part of a monthly financial report. Savings are identified three years in advance, and for the current financial year 85 per cent of all savings have been delivered, with progress well under way for the two subsequent years.

Gloucestershire County Council: monitoring system linked to support services

The Council uses Verto, a project management package, to record and monitor the delivery of individual savings plans that make up the total 'Meeting the Challenge' savings programme for the Council. This system facilitates accountability, ownership and supports delivery through input from a wide cross section of the Council. Specifically, each savings programme goes through a number of gateways that ensure plans are robust and deliverable. To facilitate deliverability, each savings plan uses Verto to identify and secure the support services it needs to succeed. The support services include finance, needs analysis, HR, risk and asset management colleagues ensuring corporate ownership.

Wigan Metropolitan Borough Council: use of reserves to support transformation

At Wigan Council, early delivery of the 2013-14 savings plans has allowed funds to be released for the creation of a number of new reserves which will offset some of the risks around the delivery of the Council's transformation programme. The opportunity has also been taken to re-prioritise and re-package a number of existing reserves to assist in the delivery of the transformation agenda. Wigan consider the key to its success in delivering savings to be close monitoring and regular progress reporting, and building required efficiencies to be built into base budgets, and reviews of specific service area budgets, to maintain provision of high-quality, responsive and cost-effective service.

Surrey County Council: five year budgets

The Council has not completed stand-alone annual budgets for a number of years, but produces five year budgets from which annual budgets are set. This means future years' budgets are more detailed, reliable, and allow changes between years to be more readily identified (i.e. capital projects spanning a number of years). This results in greater transparency, efficiency and more achievable in-year budgets. It allows senior managers to plan longer-term with a greater degree of certainty. As part of the budget setting process the Council considers a number of scenarios and applies the most suitable. It completes a number of draft budgets throughout financial planning cycle, and engages with the business and voluntary sector, communities, trades unions, all members, and residents at each stage.

Elected members and senior managers are supported in their strategic financial management by revenue and capital budget monitoring reported in month, a quarterly 'hard closure' of the accounts (including all the primary statements) and an early close and publication of the statement of accounts. This provides the base information and confidence in the Council's financial systems and financial management arrangements to be able to make long-term decisions.

Surrey County Council has also introduced regular all member seminars as part of the medium term financial planning process, to keep members informed and engaged in financial monitoring. The seminars are jointly led by the Director of Finance and the Chief Executive, and allow for detailed discussion of the main financial risks facing the Council in the medium term. As a result, the interested parties within the Council have a sound understanding of these risks – which at present mainly relate to the erosion of major sources of funding, delivery of the major change programmes and associated efficiencies, delivery of the waste infrastructure and changes to health commissioning.

Surrey is also progressing a cultural shift so that all budget holding managers have clear ownership of their financial responsibilities and understand how the wider financial environment impacts upon their service. All relevant managers are being trained to use the finance system in order to develop self-service reporting. The overarching aim of the project is proactive financial management and excellent financial decision making. As with any initiative requiring behavioural change, the Council is aware that the project will take time to embed and may be subject to challenge from some staff. The Council is mitigating this by regularly reviewing progress made and identifying actions for improvement. This has been partially achieved to date by implementing a phased roll-out of the dashboard to the directorates. Going forward the Council is considering widening the use of the financial dashboard to include capital monitoring and budget setting.

Surrey is aiming to make further improvements to financial understanding through its new network leadership groups. These groups involve senior managers and experts for each area of Council activity, who meet at least monthly to discuss corporate issues such as budget and performance monitoring, productivity and service improvement. Data is reviewed and 'deep-dives' are made into selected areas, with recommendations being made where appropriate.

St Helens Metropolitan Borough Council: fully integrated financial and service planning

At St Helens Metropolitan Borough Council (MBC), fully integrated financial and service planning together with joint financial and performance reporting help to ensure that it can concentrate resources on achieving priority outcomes. Departmental directors and the assistant chief executive for finance hold monthly meetings to discuss budgets, progress against key performance measures, issues relating to service delivery and actions required to address any identified concerns. The result is that clear, consolidated reports, covering both budget and service performance monitoring, are presented to cabinet on a monthly basis.

St Helens MBC also believes that gathering the views of local people and key stakeholders should be an integral part of the budget setting process. Through its budget consultation and budget simulator initiatives, the Council allows interested parties to advise on the most valued areas of its spend. The Council makes the budget consultation available annually, and publishes a summary report on its website. At the same time, work continues in the form of zero-based reviews of portfolio budgets, and reviews of specific service area budgets, to maintain provision of high-quality, responsive and cost-effective service.

Bexley, Stockport and Tewkesbury: back office cost reduction

Councils across England have developed initiatives to make savings in back office expenditure, without depleting resources. The London Borough of Bexley has reduced the number of physical offices used by Council staff and reported savings in annual running costs of £1 million at the start of 2014/15, rising to £1.5 million in future years, as a direct result of this process. In addition, the surplus capital receipts generated from the disposal of former office sites will also reduce the need for borrowing to fund the Council's capital programme.

At Stockport Metropolitan Borough Council, the roles of staff have changed to create greater efficiency, with roles becoming more generic to allow for greater flexibility in the back office.

Tewkesbury Borough Council has redeveloped their property and rationalised the space utilised by their own employees, allowing them to let out space to other entities, such as the county council's adult and children social care services, the police, the DWP, the fire service and the Citizens Advice Bureau, creating a 'public sector hub' to give local people a centralised location to access a range of services. The annual rent benefit to the Council is currently £160k with £235k expected in 2015/16.

London Borough of Sutton: integrated reporting

London Borough of Sutton has demonstrated how integrated reporting can improve members' understanding of the whole picture of delivery. Their Strategy & Resources Committee reviews the financial performance report with integrated KPIs including customer service and workforce information on a quarterly basis. Members therefore review service performance in the context of the financial envelope and the progress of the major change programmes, including savings delivery against targets. The balanced scorecard includes customer feedback and workforce KPIs in a summarised accessible format.

By developing a detailed MTFS with a planning horizon to March 2019, in line with their new Council Corporate Plan, London Borough of Sutton has also been able to identify savings requirements on a long-range basis and put mitigating planning arrangements in place to ensure that they are met. When the MTFS was revised in July 2014, it was determined that the projected funding gap over the period of the plan would be £38 million, due to cost pressures and significant forecast reductions to the RSG. By formulating this projection in advance, Sutton now have scope to develop and deliver efficiency plans phased over a significant period of time, easing the burden on staff and the impact on service users.

Bath and North East Somerset Council: zero-based budgeting

Bath and North East Somerset Council has moved towards zero-based budgeting to challenge the allocation of resources and focus on resourcing priority services. It reports progress with the budget to senior management and cabinet on a monthly basis. This enables the Council to act quickly in response to developing spending pressures. It also scrutinises performance of key savings plans closely. Detailed savings plans, broken down into specific activities and years, are built into medium-term service resource plans. These feed into the overall budget report and MTFS. Scrutiny panels, cabinet and the full council then scrutinise plans. A detailed monitor of progress is made against savings achieved by directorate.

London Borough of Haringey: top 100 approach

The London Borough of Haringey has reorganised their senior management structure. This has improved clarity of roles and responsibilities which include full accountability for budget setting, monitoring and achievement. A new strategic layer of assistant directors has been introduced whose accountabilities include managing and monitoring budgets in their areas and holding budget-holders to account for performance. In addition, a new corporate management group (top 100 managers) and a corporate leadership group (assistant directors) have been formed who work collaboratively to find solutions to strategic issues and who have been responsible for developing the Council's three-year savings and investment plans. It is important during times where budgets are tight to ensure that the whole council works together to achieve the required outcomes – the new structures and governance help to break down silos.

Appendix 3 – The differences in the way local government is funded in Wales and England

Most local government-related policies and responsibilities, from education to planning, or social services to housing, are devolved to the Welsh Government. The Welsh Government sets the national priorities, strategic context and overall level of funding for services. It is then the responsibility of the 22 councils in Wales to deliver these services on a local level within the national context. Approximately a third of the Welsh Government's budget is spent through local authorities reflecting the importance of local services.

In England, council funding is primarily administered by the Department for Communities and Local Government (DCLG). In Wales Schools funding goes through the RSG whilst in England the education funding comes from the Department for Education and is administered by the Educational Funding Agency.

In Wales and England, council income is derived from a range of sources, the key ones being RSG from Welsh Government; Council Tax; Non-Domestic (business) rates; and other income/grants.

Local government budget protection in Wales differs considerably from the situation in England, where local government experienced significantly deeper cuts – a reduction in revenue support from central government of around 9.8 per cent between 2010-11 and 2013-14. An important factor behind the difference is the degree of protection afforded to the NHS. In England, the UK government has sought to protect spending on health in real terms. In Wales, by contrast, revenue spending on health has been cut by about 5.5 per cent in real terms.

The Welsh Government originally produced an indicative settlement for 2014-15, which showed a small real-term reduction of one per cent compared to 2013-14. However, its subsequent budget includes more funding for the NHS and other priorities within its Programme for Government than set out in indicative budget plans and a larger-than-anticipated reduction for local authorities. Local government in Wales faced a nominal revenue reduction of 3.2 per cent for 2014-15 (five per cent in real terms); indicative budget proposals for 2015-16 show a further revenue reduction of over three per cent in real terms. Councils faced the challenging task of incorporating these unanticipated reductions into their medium-term financial plans; ongoing uncertainties about the level of funding available to deliver services means that councils cannot be sure about the level of savings they will need to make.

In addition, in Wales, the RSG is not ring fenced or hypothecated and councils are responsible for deciding how they spend their allocation on the services for which they are responsible. Councils in Wales are also still allocated specific grants, where this ring-fencing has been largely eliminated in England. Welsh councils and the WLGA are of the view that there should be a de-hypothecation of grants and these monies included as part of the revenue settlement. At the timing of settlement, the details of the allocations for a number of specific grants can still be subject to finalisation, creating further uncertainty for councils in its financial planning and budget setting.

The structure of local government in Wales is relatively consistent as all councils are set up on a single tier (unitary) structure – with a single body responsible for all local council services. In England, there are significant structural differences with the two tier system or County and District Councils, alongside single tier (unitary) councils of various types. This makes it very difficult to measure the relative cost efficiency of these differing configurations.

A key area of current debate in England is around the fact that cuts to government grants disproportionately affect less affluent areas, where council tax and business rates takings are a lower proportion of total income. This issue has a similar impact in Wales.

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BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

25th June 2015

REPORT OF THE CHIEF INTERNAL AUDITOR

ANNUAL OPINION REPORT OF THE HEAD OF INTERNAL AUDIT FOR THE PERIOD APRIL 2014 TO MARCH 2015

1. Purpose of Report.

1. To present to members of the Committee the Chief Internal Auditor as the Head of Internal Audit's annual opinion on the overall adequacy of the Council's internal control environment.

2. Connection to Corporate Improvement Objectives / Other Corporate Priorities.

- 2.1. Internal Audit's work impacts on all of the Corporate Improvement Objectives /other corporate priorities and without an audit assurance any assessment is incomplete.

3. Background

- 3.1 This report gives a brief description of the role of Internal Audit, the control environment within which Internal Audit operates and also provides a summary of work carried out during the period April 2014 to March 2015. A statement of overall opinion on the internal control environment is also given in support of the Annual Governance Statement which the Council is required to include with the Statement of Accounts.
- 3.2 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, internal control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic and effective use of resources.
- 3.3 The control environment comprises the organisation's policies, procedures and operations in place to:
 - Establish and monitor the achievement of the organisation's objectives;
 - Identify, assess and manage the risks to achieving the organisation's objectives;
 - Facilitate policy and decision making;
 - Ensure the economical, effective and efficient use of resources;
 - Ensure compliance with established policies, procedures, laws and regulations;
 - Safeguard the organisation's assets and interests from losses of all kind, including those arising from fraud, irregularity or corruption.
- 3.4 One of the main aims of the Section is to provide assurance on the Council's overall system of internal control. This is achieved in part through delivery of the Annual Audit Plan which is designed to address:

- Requirements of the Audit Committee;
- Delivery of a scheduled programme of audits on a risk based needs assessment, identified through consultation with service managers;
- Support the Section 151 Officer in discharging their statutory duties.

4. Current situation / proposal

4.1 Attached at **Appendix A** and **B** is a detailed report (including the outturn for April 2014 to March 2015) on the work undertaken by Internal Audit during this period. The purpose of this report is to satisfy the requirements of the Accounts and Audit (Wales) Regulations 2014 as amended and the Head of Internal Audit's annual reporting requirements set out in the Public Sector Internal Audit Standards. The Standards specify that the following information should be forthcoming:

- Include an opinion on the overall adequacy and effectiveness of the organisation's control environment;
- Disclose any qualifications to that opinion, together with the reasons for the qualification;
- Present a summary of the audit work from which the opinion was derived, including reliance placed on work by other assurance bodies;
- Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement;
- Compare the actual work undertaken with the planned work and summarise the performance of the internal audit function against its performance measures and targets;
- Comment on compliance with the Standards;
- Communicate the results of the internal audit quality assurance programme.

4.2 The opinion contained within the report relates to the system of internal control at the Council and the overall control environment in place. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate the risk of failure to achieve corporate / service policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

4.3 On the basis of internal audit work undertaken during the period April 2014 to March 2015 and taking into account all available evidence, it is the opinion of the Head of Internal Audit that a satisfactory assurance level can be applied to standards of internal control at Bridgend CBC for the period stated.

5. Effect upon Policy Framework & Procedure Rules.

5.1. None

6. Equality Impact Assessment.

6.1. There are no equality issues.

7. Financial Implications.

7.1. None

8. Recommendation.

- 8.1. That Members give due consideration to the Head of Internal Audit's Annual Opinion covering the period April 2014 to March 2015 to ensure that all aspects of their core functions are being adequately reported.

Helen Smith
Chief Internal Auditor
25th June 2015

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Background Documents

None

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BRIDGEND COUNTY BOROUGH COUNCIL

THE HEAD OF INTERNAL AUDIT – FINAL OUTTURN REPORT AND ANNUAL OPINION FOR THE PERIOD APRIL 2014 TO MARCH 2015

2014 -15 ANNUAL INTERNAL AUDIT OPINION

1. Introduction

- 1.1 This Annual Report gives the opinion of the Chief Internal Auditor, as Head of Internal Audit for Bridgend CBC on the adequacy and effectiveness of internal control within the Council. It also summarises the work performed by Internal Audit for the period April 2014 to March 2015.
- 1.2 It is the duty of the Head of Internal Audit to give an opinion, at least annually, on the adequacy and effectiveness of the system of internal control. This is based on the findings from audit reviews as documented in the Audit Plan and other advice work completed on control systems. The results of investigation work and the work of other internal reviews within Bridgend CBC also informs the opinion.
- 1.3 The Head of Audit's opinion on the adequacy and effectiveness of internal control is used to inform and should be read alongside the wider Annual Governance Statement incorporated in the Council's Statement of Accounts for 2014/15.
- 1.4 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, internal control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic and effective use of resources.
- 1.5 The control environment comprises the organisation's policies, procedures and arrangements in place to:
 - Safeguard the organisation's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption.
 - Establish and monitor the achievement of the organisation's objectives.
 - Identify, assess and manage the risks to achieving the organisation's objectives,
 - Facilitate policy and decision making;
 - Ensure the economical, effective and efficient use of resources;
 - Ensure compliance with established policies, procedures, laws and regulations;

1.6 One of the main aims of Internal Audit is to provide assurance on the Council's overall system of internal control. This is achieved in part through the delivery of the Annual Audit Plan which is designed to address:

- Requirements of the Audit Committee;
- Delivery of a scheduled programme of audits on a risk based needs assessment;
- Support the Section 151 Officer in discharging their statutory duties.

2. Assurance on Internal Control – Executive Summary

Opinion 2014/15

2.1 No system of control can provide absolute assurance against material misstatement or loss, nor can internal audit give that assurance. This statement is intended to provide reasonable assurance that there are no major weaknesses in risk management, governance and control processes. The matters raised in this report are only those which have come to attention during internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

2.2 In arriving at the overall opinion, the Head of Audit has taken into account:

- The results of all audits undertaken as part of the audit programme - April 2014 to March 2015.
- The results of follow-up action of audits from current and previous years;
- Whether or not "high risk" recommendations have been accepted by management and the consequent risks;
- The effects of any material changes in the Council's objectives or activities or risk profile;
- Whether any limitations have been placed on the scope of audit;
- Findings of work performed by other assurance providers (e.g. Wales Audit Office, Council's External Auditors and Regulatory bodies – KPMG, CSSIW and ESTYN).

2.3 Therefore, in the Head of Audit's opinion, taking into account all available evidence, the adequacy and effectiveness of internal control at Bridgend CBC is reasonable. Appendix B attached provides a summary of the internal control environment for the service areas where work has been undertaken in the period under review.

- 2.4 The objective of the assurance identified by Internal Audit is to provide an overall indication that summarises the results, in control terms, of the findings of Internal Audit. Although reasonable assurance demonstrates good control across the board, it is important that control weaknesses in systems where the assurance level has been rated as Limited or No Assurance are dealt with and given priority by management.
- 2.5 During the period 9 reviews have identified weaknesses in control at a level where only limited assurance and 1 where no assurance could be given and management have given written assurance that the recommendations made will be implemented to address the weaknesses identified (these specific reports have been reported to the Audit Committee and Internal Audit has already revisited five (including the No Assurance audit) of the ten to follow up on progress, and have deemed the overall internal control environment to be reasonable in each follow up review. Internal Audit are in the process of scheduling revisits for the remaining five reviews to ensure that management are addressing the weaknesses identified in the control environment and recommendations are being implemented. These will be reported to the Audit Committee in due course.
- 2.6 As set out in Appendix B, the significant control issues identified during the year have tended to relate to specific service areas rather than an across the board breakdown in controls. The relevant managers have agreed with and are working toward implementing the recommendations made to address the weaknesses identified. Internal Audit will follow up on these issues during 2015-16 to ensure that significant progress is being made.
- 2.7 In addition to these areas the challenge from an audit perspective remains the financial context in which the Council is required to operate. The challenge of delivering the further programme of savings will be substantial and impact on all areas of the business and is predicated on a range of reasonable but ambitious assumptions. Therefore, the scale and pace of required change remains a fundamental risk.
- 2.8 In a Council of this complexity, with its significant saving requirements, there is an inherent risk of breakdown in the systems of control particularly where roles, responsibilities and systems are changing. As the Council continues to experience reduced resources, increased demands on services and new and innovative forms of service delivery, there is a need to ensure that the Council's control environment remains robust, proportionate and is as efficient and effective as possible.
- 2.9 As part of each review, Internal Audit works closely with management to assess what actions can be put in place to address any weaknesses identified. Accordingly, the Head of Audit's overall opinion, as detailed

above, is based on audit findings, implementation/action plans from management and other sources of assurance, including External Audit, Risk Management, the Council's Section 151 Officer and Monitoring Officer.

- 2.10 The volume of Internal Audit recommendations accepted by management was 100% and further information is given in section 4. The level of detailed implementation/ action plans received from management identifies how control deficiencies will be rectified and increases the level of assurance the Head of Audit has in the overall internal control environment.

3. Audit Planning / Monitoring

- 3.1 The Audit Plan covering the period April 2014 to March 2015 was submitted and approved by the Audit Committee on 10th April 2014. The Audit Plan outlined the assignments to be carried out, their respective priorities, an estimate of resources needed and differentiated between assurance and other work. The plan was based on an establishment of 7.5 full time equivalents (FTE) equating to 1,310 productive days.
- 3.2 The plan is monitored on an on-going basis and all changes to work included in the plan are based on an assessment of risk at the time. A summary of the plan together with the actual outturn is shown in Table 1 below:

Table 1 – Internal Audit Plan April 2014 to March 2015.

Resources Available	Total Plan Days	Actual Days Achieved
Total Productive days Available	1,310	1,226
Time Allocated to Audit Work	1,310	1,226
Resources (Including ICT & Property)	365	457
Legal and Regulatory Services	85	71
Children (Including Schools)	215	131
Communities	125	143
Wellbeing	125	47
Cross Cutting	255	231
External	20	20

Contingency - Unplanned Work	70	93
Contingency – Fraud & Error / Internal Investigations.	50	33
OVERALL TOTAL	1,310	1,226

- 3.3 As can be seen from the table above the actual outturn for the Section shows that a total of 1,226 productive days has been achieved. This is 84 days less than originally planned.
- 3.4 The reviews provide an assurance of the adequacy of the systems and enable the Council's external auditors to rely on the work carried out. The outturn for the period April 2014 to March 2015 together with the overall audit opinion are listed in Appendix B as extracted from the Audit Planning and Control Environment (APACE) management system.
- 3.5 Table 2 below provides a breakdown of the total number of reviews completed for the year analysed across the functions covered.

Function	Total Reviews	Total No. Opinion Significant / Reasonable	Total No. Opinion Limited / No Assurance	Total No No Opinion Given / Carried Forward.
Assurance	82	57	7	18
Anti-Fraud & Corruption	3	1		2
Governance	7	4		3
Risk and Performance	3	1	1	1
Contingency - Unplanned	18	9	2	7
Totals	113	72	10	31

Table 2

- 3.6 A total of 113 reviews have been undertaken during the year and of this, 64% have been closed with either a substantial or reasonable assurance opinion level. 10 of the reviews undertaken have identified weaknesses in the internal control environment as stated in Paragraph 2.5 above. Of the remaining 31 reviews, 5 are ongoing and therefore have been carried forwarded to 2015/16 and the balance of 26; although necessary, they did not culminate in an overall audit opinion.
- 3.7 The objective of the average opinion score identified by Internal Audit is to provide an overall indication that summarises the results, in

control terms, of the findings of Internal Audit. For the year and based on the scores identified on the reviews where an overall opinion has been given; the adequacy and effectiveness of the internal control environment is deemed to be reasonable.

4. Implementation of Recommendations

- 4.1 Following each audit, report recipients are asked to complete an action /implementation plan showing whether they agree with the recommendations made and how they plan to implement them. The classification of each recommendation made assists management in focusing their attention on priority actions. For the year, Internal Audit has made a total of 102 recommendations, of which management has given written assurance that all of these will be implemented.
- 4.2 Although Merits Attention (Priority Three) recommendations are made where it is deemed appropriate to do so; by their very nature they relate specifically to an action that is considered desirable but does not necessarily have an impact on the control environment. To this end, these recommendations are not included on the Management Implementation Plan or logged on the Internal Audit Management Information system. Therefore a formal written response is not required from the client or included in the table below.

Recommendation Priority	No. Made	No. Agreed / Implemented
Fundamental (Priority One) Rating - D and E (+ to -) Action – Immediate Implementation	5	5
Significant (Priority Two) Rating – C (+ to -) Action – Implementation within 6 – 12 months	97	97
Total	102	102

Table 3

- 4.3 The recommendations made are graded according to their importance (Fundamental and Significant – Priority One and Two). In addition, each recommendation will be grouped by risk. The risk categories are as follows:

A – Accomplishment of Objectives;
 C – Compliance;
 E – Value for Money;
 R – Reliability and Integrity of Information;
 S – Safeguarding Assets;
 X – Governance.

- 4.4 Table 4 below details the number of recommendations made grouped by risk.

Table 4

Description	Number of Fundamental Recommendations	Number of Significant Recommendations
A – Accomplishment of Objectives		16
C - Compliance	2	30
E – Value for Money		7
R – Reliability and Integrity of Information		23
S – Safeguarding Assets	3	7
X – Governance		8
Y – Corporate Impact		5
Z – Self Audit		1
Total	5	97

5. Audit Client Satisfaction Questionnaires

- 5.1 At the completion of each audit, all recipients of reports are asked to comment on their satisfaction with the audit process, by way of a survey questionnaire ranging from a score of 1 for very satisfied to a score of 5 very unsatisfied. The results are summarised in Table 5 below and compared with last year's overall results:

Table 5

No.	Question	Average Score of Responses March 2014	Average Score of Responses March 2015
1	Where appropriate, briefing of client and usefulness of initial discussion.	1.420	1.360
2	Appropriateness of scope and objectives of the audit.	1.450	1.450
3	Timelines of audit.	1.490	1.690
4	Response of Officer to any requests for advice and assistance.	1.300	1.240
5	General helpfulness and conduct of Auditor (s)	1.150	1.170
6	Discussion of findings / recommendations during or at the conclusion of the audit.	1.000	1.000
7	Fairness and accuracy of report.	1.600	1.360
8	Practicality and usefulness of recommendations	1.570	1.460
9	Standard of report.	1.380	1.290
10	Client agreement with overall audit opinion.	1.560	1.310

5.2 The survey results are excellent. Whilst we will continue to aim to sustain this high level of customer satisfaction throughout the forthcoming year, we will also continue to improve on the response rate which for this year is 60% compared to 54% for last year. In addition to the above, a number of clients have commented separately on the professionalism and helpfulness of the Auditors they have dealt with.

6. Performance

6.1 The Section participates annually in the Welsh Chief Auditors Group benchmarking exercise. The results for 2013/14 have been reported previously to the Audit Committee. The table below provides a comparison of performance with the overall average for the responding authorities.

Table 6

Performance Indicator	IASS Performance For BCBC 2013/14	Overall Average Performance 2013/14
% of planned audits completed	96%	80%
Number of Audits completed	133	126
% of audits completed within planned time	92%	71%
% of directly chargeable time, Actual versus planned	99%	94%
Average number of days from audit closing meeting to issue of draft report.	10 days	9.5 days
% of directly chargeable time Versus total available.	68%	68%
% of staff leaving during the Financial Year	0%	22%

6.2 As can be seen from the table above, the Section is performing well. This, together with our overall performance indicators for the service provided to the Vale places us in the top quartile. It is appreciated that these figures are now out of date; however, the 2014/15 benchmarking exercise has not, as yet, been completed.

7. The Effectiveness of Internal Audit Services (Quality Assurance and Improvement Programme).

7.1 During 2013/14 both Audit Committees endorsed the adoption of the new Quality Assurance and Improvement Programme (QAIP); the aim of which is to:-

Drive Improvements;

Ensure that the activities of Internal Audit are in accordance with Public Sector Internal Audit Standards (PSIAS);
 Assess the efficiency and effectiveness of Internal Audit;
 Provide for a mechanism by which the performance of staff can be measured;
 Identification of Training needs.

7.2 The assessment process included within the QAIP has been in operation since November 2013; the results of which are listed below in Table 7:

Table 7

Definition	Score	No of Assessments Completed
All key criteria met and exceeded expectation by identifying areas of improvement in terms of efficiency and effectiveness and has identified measurable savings for the client (VFM).	5	15
Achieved key criteria, budget achieved or reduced and report issued in a timely manner.	4	138
Achieved key criteria but budget exceeded for no valid reason and/or report untimely.	3	23
Elements of the key criteria have been met but significant number of review points.	2	4
None of the key criteria have been achieved. Scope and objectives either not understood by the Auditor or not met, Over budget, poor quality working papers, insignificant testing and poor feedback from client.	1	
TOTAL		180

7.3 As can be seen from the table above, the majority of post audit assessments completed (representing 77%) have identified that staff are producing work of a high standard whereby: - the scope and objectives of the review have been met; working papers and evidence are of a good standard and relevant; testing supports the findings and conclusion drawn; the report produced is of a good standard, timely and accurate and finally the appropriate assurance level has been applied.

7.4 It is also pleasing to note that 15 assessments (8%) have scored 5 whereby the Auditor(s) have, as a result of their work, also identified areas of improvement in terms of efficiency and effectiveness resulting in measurable savings for the client.

8. Resources, Qualifications and Experience

- 8.1 The Head of Internal Audit requires appropriate resources at their disposal to undertake sufficient work to offer an independent opinion on the Council's internal control environment. This is a fundamental part of Bridgend County Borough Council's governance arrangements. The Internal Audit Annual Plan was presented to the Audit Committee in April 2014; based on a provision of 1,310 productive days.
- 8.2 The Vale of Glamorgan Council leads the Bridgend and Vale Internal Audit Shared Service and provides all internal audit services to its partner Bridgend County Borough Council. As at the 31st March 2015 the staffing structure is listed in the table 8 below.

Table 8

2014-15 Staffing Structure	FTE
Chief Internal Auditor (Head of Audit)	1
Principal Auditor	2
Group Auditor	2
Group Auditor (Information Systems)	1
Auditor (Three posts are vacant at present)	10
Trainee Auditor	1
Trainee Auditor (Information Systems)	1
Administrative Assistant	0.5
Total	18.5

- 8.3 The total resource of 18.5 Full Time Equivalent (FTE's) provides for a comprehensive Internal Audit Service. The Head of Audit aims to achieve best practice but continues to take account of the issues of affordability at a time when both Councils are looking to make substantial reductions in costs. The service has already been vastly streamlined and continues to apply lean auditing risk based methodologies to its plan of work.
- 8.4 During 2014/15; the team has been affected by long term sickness absence and maternity leave. In addition and as reported to the Audit Committee; the service is carrying three vacant posts at present.
- 8.5 Despite the staffing issues encountered during the year; the Service has managed to deliver 93.5%; of the overall planned productive time available being achieved for BCBC.
- 8.6 In accordance with the Public Sector Internal Audit Standards; the Head of Audit must ensure that Internal Auditors possess the knowledge, skills and competencies needed to perform their individual responsibilities. Internal Auditors are therefore encouraged to study for and obtain professional qualifications. In addition, it is a requirement of the standard that the Head of Audit must hold a professional qualification and be suitably experienced. The following information

outlined in table 9 and 10 below demonstrates the experience and qualification mix for the Internal Audit Shared Service.

Experience

Table 9

Auditing Experience	All Auditing	%	In Local Government	%
Up to 1 year	1	5.5%	1	5.5%
1 to 2 years	2.5	13.5%	0	0%
2 to 5 years	4	27%	4	27%
5 to 10 years	3	27%	4.5	35%
Over 10 years	5	27%	6	32.5%
Total Staff	15.5		15.5	

Qualifications

Table 10

Professional Qualification	No of Staff.
Accountants (CIPFA; FCCA; ICAEW)	3
Certified Information Systems Auditor (CISA)	1
Institute of Internal Auditors – full membership	0
Institute of Internal Auditors – practitioner level; part qualified or audit certificate	2
Association of Accounting Technicians (AAT)	4
Studying (AAT, IIA, CIPFA etc.)	3
Total	13

8.7 All staff are encouraged to attend relevant courses and seminars to support their continual professional development. All staff have the opportunity to attend courses run by the Welsh Chief Auditors Group on a diverse range of topics. Individuals keep records of their continuing professional development based on their professional body requirements.

9. Conformance with the Public Sector Internal Audit Standards (PSIAS).

9.1 The Chief Internal Auditor carried out a self-assessment against the key elements of the PSIAS. The Internal Audit Shared Service is fully compliant with all relevant parts of the Standards. However, in relation to Standard 1312 - "External Assessment"; two responses have attracted negative answers. These can only be addressed once the Internal Audit Shared Service has agreed a timetable for being externally assessed; as these questions relate specifically to agreeing a scope for the external assessment. The Standard stipulates that an external assessment must be carried out, at least once, every five years. As the Standards became effective from 1st April 2013; the

Section must therefore ensure that an assessment is undertaken before the end of March 2018.

- 9.2 All staff were introduced to the ethics requirements (as described in the PSIAS) in relation to the professional role of an auditor. While the basis of this remains the same as in previous years, staff were additionally required to read and sign a document confirming they had read and understood what was required of them. All staff provided an annual declaration of interests for consideration to enable management to ensure that there was sufficient information to address any potential conflicts of interest which may arise during audit activities. Staff remained obliged to raise any conflicts or issues with their line managers during the year.

10. Anti-Fraud & Corruption Arrangements

- 10.1 Internal Audit has responsibility for raising awareness of the Council's Anti-Fraud & Bribery and Whistle-blowing Procedures. Anti-Fraud & Bribery and Whistle-blowing information is on the Council's Intranet and the Website, where information is available so that the public and staff can raise concerns easily.
- 10.2 A total of 33 productive days has been spent on Anti-Fraud & Corruption work against a planned allocation of 50. No organisation can guarantee that it will be free from fraud or financial irregularity, the extent of which can be a measure of the effectiveness of internal controls. Apart from the work undertaken on the National Fraud Initiative; Internal Audit were also requested to provide some assistance on an investigation relating to inappropriate IT usage. The Benefits and Financial Assessments Manager continues to have responsibility for the Team who investigate potential Housing Benefit and Council Tax Benefit fraud. Regular updates have been provided to the Audit Committee during the year and will continue in 2015/16.
- 10.3 Internal Audit has continued to act as the key contact for the National Fraud Initiative. This is a mandatory exercise and it is important that data is supplied promptly, and work to ensure that the potential irregularities that the output identifies are dealt with quickly and in a way that is proportional to the value and likelihood of the risks identified.

11. The Role of the Internal Audit Shared Service at the Council

- 11.1 Internal Audit is an independent assurance function that provides objective opinion to the Council on the control environment comprising risk management, internal control and governance, by evaluating its effectiveness in achieving the organisation's objectives. It independently and objectively examines, evaluates and reports on the

adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

11.2 The control environment comprises the organisation's policies, procedures and operations in place to:

- Establish, and monitor the achievement of, the organisation's objectives.
- Identify, assess and manage the risks to achieving the organisation's objectives.
- Facilitate policy and decision making.
- Ensure the economical, effective and efficient use of resources.
- Ensure compliance with established policies, procedures, laws and regulations.
- Safeguard the organisation's assets and interests from losses of all kind, including those arising from fraud, irregularity or corruption.

11.3 One of the main aims of the Section is to provide assurance on the Council's overall system of internal control. This is achieved in part through the delivery of the Annual Audit Plan which is designed to address:-

- Requirements of the Audit Committee;
- Delivery of a scheduled programme of audits on a risk based needs assessment;
- Support the Chief Executive as Head of Paid Service and the Corporate Director of Resources as the Section 151 Officer in discharging their statutory duties.

11.4 Internal Audit Shared Service also investigates any potential or identified internal frauds and irregularities that may arise within the Shared Service.

11.5 The service is delivered by the Bridgend and Vale Internal Audit Shared Service (IASS) which is part of a joint collaboration between Bridgend County Borough Council (BCBC) and the Vale of Glamorgan Council (VOG) under a partnership agreement. The Vale of Glamorgan Council is the host authority which provides an internal audit service to Bridgend. This gives the service an opportunity to network, benchmark and discuss best practice to ensure the service can provide the Councils with the best advice.

12. Update on the Internal Audit Shared Service Arrangements

12.1 2014-15 has proved to be another successful year for both Internal Audit Partners. The Partnership has enabled each Council to call upon a far wider base of skills and knowledge and provides audit staff with a unique opportunity to use their particular expertise at both Councils and to assist their professional development and broaden their knowledge and skills base.

12.3 For 2014/15 both Risk Based Plans have been presented to and approved by the relevant Audit Committees with a commitment to deliver 1,478 productive days for the Vale and 1,310 for Bridgend.

12.4 In relation to the final outturn for the year the Section has achieved 101% of the Vale's expected plan days and 93.5% of Bridgend's. The loss of three members of staff during the year has had an effect on the delivery of the service. The Internal Audit Shared Service (IASS) formal Partnership Agreement has been in effect since February 2013 and therefore the Service has been fully operational for 24 months. The IASS Board oversee the governance arrangement of the Partnership and meet regularly to ensure an efficient and effective service delivery is being provided.

13. Organisational Independence and Objectivity of the Internal Audit Shared Service.

13.1 In accordance with the Public Sector Internal Audit Standards (PSIAS) the internal audit activity must be independent and internal auditors must be objective in performing their work. An interpretation of independence can be described as the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the Head of Audit has direct and unrestricted access to senior management and the Audit Committee.

13.2 The Council's Constitution, Financial Procedure Rules, Audit Charter and the positioning of the Internal Audit Shared Service within the Council demonstrates the independence of the Service along with the practical application of its independence within the organisation.

14. Financial / Governance Arrangements

14.1 The governance framework comprises the systems and processes, and cultures and values, by which the Council is directed and controls its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

14.2 The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

- 14.3 Good Governance is about doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable way.
- 14.4 The Council approved and adopted on the 28th June 2011 a Code of Corporate Governance (COCG) which comprehensively describes the Council's commitment to and understanding of Corporate Governance and outlines the arrangements that it has put in place to ensure ongoing effective implementation and monitoring.
- 14.5 The COCG describes how the Council will meet and demonstrate its commitment to good corporate governance by following the six principles as defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE).
- 14.6 The COCG also makes provision for a joint commitment by Members and Officers to the principles it contains, as well as a statement of assurance jointly signed by the Leader of the Council and the Chief Executive. This helps to ensure that the principles of good governance are not only fully embedded but also cascade through the Council and have the full backing of the Leader of the Council and elected Members, as well as the Chief Executive and the Corporate Management Board.
- 14.7 As part of the 2014/15 annual Internal Audit Plan, a review of corporate governance, in particular the Council's Code of Corporate Governance, was undertaken. The Auditors were able to evidence good governance arrangements across the Council; as a result, an overall opinion of substantial assurance could be provided.
- 14.8 Internal Audit recommendations and advice strive to support a robust corporate governance framework. Delivering the Internal Audit Risk Based Annual Plan in addition to any reactive work performed during the year, are essential elements in mitigating the risk of losses arising from error, irregularity and fraud. The work of the Internal Audit Shared Service represents a fundamental function in delivering the Council's Corporate Governance responsibilities.
- 14.9 For the 2013/14 year, the Head of Internal Audit's Annual Opinion stated that reasonable assurance could be placed upon the adequacy and effectiveness of the Council's internal control environment. The report also highlighted the significant governance issue surrounding the unavailability of the Council's Section 151 Officer and the imminent departure of the Deputy Section 151 Officer. These issues were addressed by the Chief Executive both on an Interim basis in the short term and more permanently with the new appointment of the Head of Finance and ICT.

- 14.10 The Internal Audit reviews undertaken this year have identified internal control weaknesses in ten areas examined; nine of which only limited assurance could be placed on the internal control environment and one where no assurance could be provided. As set out in Appendix B, the significant control issues identified have tended to relate to specific service areas rather than an across the board breakdown in controls. The relevant managers have agreed with and are working toward implementing the recommendations made to address the weaknesses identified. Follow up reviews in these areas have already been completed for five (including the no assurance area) and significant progress has been made culminating in reasonable assurance on all five areas follow up. The remaining five are either in the process of being followed up or are scheduled to be followed up in the next few weeks.
- 14.11 In addition to this; the Council has proactively responded to central government's austerity drive that has created a period of unprecedented financial pressures in the public sector. Substantial savings are necessary and the latest Medium Term Financial Strategy estimates this to be in the region of £50million for the next four years on top of the £11.2million already identified for 2014/15.
- 14.12 It is clear that the scale of the challenges to come will mean that "business as usual", however well managed, will not be enough. The challenge will be to consider alternative delivery models for services across the Council and this will be essential to mitigate the impact of cuts and assist in continuing to provide priority services. Therefore, as the Council continues to experience reduced resources, increased demands on services and new and innovative forms of delivery; there is a need to ensure that the control environment; including governance and risk management; remains robust, proportionate and is as efficient and effective as possible.
- 14.13 Fundamental to the Council's success in delivering the Medium Term Financial Strategy through to 2016-17 is wholly dependent on strong financial leadership and effective management.

<u>Cod</u>	<u>Job</u>	<u>Job Name</u>	<u>Days</u>	<u>Budget</u>	<u>Date Commenced</u>	<u>Date Closed</u>	<u>Opinion</u>
ASSURANCE							
	Directorate	RESOURCES					
	390 BCBC - DBS		29.74	30.00	01/04/2014	26/09/2014	Limited
	391 BCBC - Agency Contract		16.81	15.00	04/04/2014	19/08/2014	Reasonable
	418 BCBC - COA Business Continuity C/Fwd		6.76	5.00	01/04/2014	03/09/2014	Limited
	439 BCBC - Debtors		26.08	27.00	24/06/2014	04/11/2014	Reasonable
	441 BCBC - Staff Expenses		14.80	15.00	24/06/2014	06/11/2014	Reasonable
	447 BCBC - Cash Control		9.66	10.00	21/07/2014	11/12/2014	Substantial
	451 BCBC - Main Accounting		13.61	15.00	21/07/2014	31/03/2015	Substantial
	452 BCBC - Treasury Mgt		9.63	10.00	21/07/2014	03/03/2015	Substantial
	453 BCBC - Leasing		9.53	10.00	28/07/2014	04/03/2015	Substantial
	460 BCBC - Taxation		25.44	25.00	04/09/2014	31/03/2015	Substantial
	462 BCBC - Financial Assessments Reviews		20.61	20.00	01/09/2014	03/03/2015	Substantial
	467 BCBC - HB Free School Meals		6.08	7.00	25/09/2014	18/11/2014	Reasonable
	468 BCBC - HB CT Reduction Scheme		17.50	20.00	25/09/2014	12/02/2015	Substantial
	477 BCBC - Creditors		16.66	20.00	06/10/2014	31/03/2015	Substantial
	482 BCBC - Payroll		48.43	45.00	10/11/2014	31/03/2015	Carried Forward
Total	Directorate	RESOURCES	271.34	274.00			
	Directorate	RESOURCES - ICT & PROPERTY					
B	396 BCBC - CRC Return		16.72	15.00	01/04/2014	22/08/2014	Reasonable
	397 BCBC - Lone Worker Monitoring		27.57	30.00	02/04/2014	04/12/2014	Limited
	398 BCBC - Microsoft Enterprise Agreement		1.01	15.00	28/04/2014	02/07/2014	N/A
	404 BCBC - Building Maintenance		22.26	20.00	01/04/2014	10/07/2014	Reasonable
	415 BCBC - CRM Application		4.73	5.00	01/04/2014	31/03/2015	N/A
	416 BCBC - EDRM Application		6.93	7.00	01/04/2014	31/03/2015	N/A
	417 BCBC - SIMS Application		5.74	5.00	01/04/2014	31/03/2015	N/A
	420 BCBC - Info Governance Board		4.46	5.00	01/04/2014	31/03/2015	Substantial
	423 BCBC - Non Operative Estates		15.54	15.00	05/05/2014	20/01/2015	Reasonable
	430 BCBC - CAAT's		9.80	20.00	07/04/2014	31/03/2015	Substantial
	437 BCBC - Electoral System		16.79	17.00	09/06/2014	18/12/2014	Reasonable
	438 BCBC - ICT Asset Mgt		29.49	30.00	27/06/2014	31/03/2015	Limited
	442 BCBC - IT Health Checks		4.56	10.00	02/06/2014	02/02/2015	Substantial
	454 BCBC - UK Mail		1.49	2.00	07/07/2014	12/02/2015	N/A
	481 BCBC - ICT Business Continuity		16.82	17.00	17/11/2014	31/03/2015	Carried Forward
B	484 BCBC - Central Pupil Database		0.98	1.00	17/11/2014	12/02/2015	N/A

	493 BCBC - ICT Governance & Strategy	1.15	10.00	12/01/2015	31/03/2015	N/A
Total	Directorate RESOURCES - ICT & PROPERTY	186.05	224.00			
	Directorate LEGAL & REGULATORY SERVICES					
B	429 BCBC - Taxi Licensing	12.74	10.00	26/05/2014	19/08/2014	Substantial
	444 BCBC - Legal Expenditure	12.84	13.00	01/07/2014	10/10/2014	Substantial
	445 BCBC - Purchasing Cards	15.39	16.00	10/07/2014	23/12/2014	Reasonable
	456 BCBC-Procurement & Mgt Consultants Spend	29.01	40.00	11/08/2014	18/03/2015	Reasonable
Total	Directorate LEGAL & REGULATORY SERVICES	69.98	79.00			
	Directorate CHILDREN					
B	409 BCBC Brynmenin Primary	3.31	4.00	01/04/2014	12/05/2014	Substantial
	410 BCBC Coety Primary	4.22	4.00	01/04/2014	02/06/2014	Substantial
	411 BCBC St Roberts Primary	1.96	4.00	01/04/2014	07/05/2014	Substantial
	421 BCBC - School Summary Report	6.01	8.00	01/04/2014	09/10/2014	N/A
	431 BCBC - Archdeacon John Lewis Primary	5.20	4.00	11/06/2014	11/07/2014	Substantial
	432 BCBC - Newton Primary	6.68	4.00	02/06/2014	06/10/2014	Limited
	434 BCBC Schools CRSA	7.70	9.00	02/06/2014	31/03/2015	Substantial
	436 BCBC Pen y Bont PS	3.24	4.00	25/06/2014	16/09/2014	Substantial
	446 BCBC School Uniform Grant	3.99	5.00	24/07/2014	25/09/2014	Substantial
	459 BCBC - Basic Skills	22.70	23.00	01/09/2014	02/02/2015	Substantial
	461 BCBC - Ffaldau	3.72	4.00	08/09/2014	22/12/2014	Substantial
	464 BCBC - Inter Authority Placements F/Up	11.18	15.00	08/09/2014	10/02/2015	Reasonable
	473 BCBC - St Marys & St Patricks Primary	3.95	4.00	17/10/2014	18/12/2014	Substantial
	474 BCBC - Porthcawl Primary	3.38	4.00	17/10/2014	26/01/2015	Substantial
	476 BCBC- School Deficit and Balances	10.24	10.00	06/10/2014	13/02/2015	Substantial
	490 BCBC - West Park Primary	4.22	4.00	13/01/2015	18/03/2015	Substantial
	491 BCBC - Newton Primary - Follow Up	2.03	4.00	13/01/2015	31/03/2015	Substantial
	494 BCBC - 6th form & Cont Education grant	2.57	2.00	22/01/2015	06/02/2015	Substantial
	495 BCBC- LSB Grant	3.92	5.00	26/01/2015	04/03/2015	Substantial
Total	Directorate CHILDREN	110.23	121.00			
	Directorate COMMUNITIES					
B	394 BCBC - Waste Management	16.30	17.00	08/04/2014	28/10/2014	Reasonable
	405 BCBC - Park Income	12.09	12.00	21/04/2014	19/08/2014	Substantial
B	406 BCBC - Highway Maintenance Potholes	18.34	19.00	07/04/2014	28/10/2014	Reasonable
	408 BCBC - Sign Shop	12.67	13.00	07/04/2014	25/09/2014	Limited
	424 BCBC - Supporting People Pol /Proc Audit	19.86	20.00	12/05/2014	14/10/2014	Substantial
	425 BCBC - Home to School Transport	12.03	12.00	01/05/2014	26/08/2014	Reasonable
	427 BCBC - Houses to Homes Grant	5.14	5.00	19/05/2014	18/09/2014	Substantial

		449 BCBC Supptng People Grant Verification	8.95	10.00	14/07/2014	26/09/2014	Substantial
		458 BCBC - Homelessness	13.75	15.00	02/09/2014	02/02/2015	Reasonable
		463 BCBC - Regeneration Funding	5.37	10.00	01/09/2014	31/03/2015	N/A
Total	Directorate	COMMUNITIES	124.51	133.00			
	Directorate	WELLBEING					
		407 BCBC - Section 117 Process	20.34	21.00	01/04/2014	26/09/2014	No Assurance
		414 BCBC - SEWTA Grant 13.14	6.66	4.00	01/04/2014	01/07/2014	Reasonable
		478 BCBC - Bus Operator Grants Qtr 1&2 14.15	3.61	5.00	11/11/2014	31/03/2015	Reasonable
Total	Directorate	WELLBEING	30.61	30.00			
	Directorate	BCBC CROSS CUTTING					
B		389 BCBC - Audit Committee	53.72	55.00	01/04/2014	31/03/2015	Substantial
		392 BCBC - Close Down 2013-14	23.23	25.00	01/04/2014	19/12/2014	N/A
		399 BCBC - Advice & Guidance Resources	23.65	25.00	01/04/2014	31/03/2015	N/A
		400 BCBC - Advice & Guidance Legal & Reg	2.26	5.00	01/04/2014	31/03/2015	N/A
		401 BCBC - Advice & Guidance - Communities	4.46	5.00	01/04/2014	31/03/2015	N/A
		402 BCBC - Advice & Guidance Children	3.92	5.00	01/04/2014	31/03/2015	N/A
		403 BCBC - Advice & Guidance Wellbeing	0.74	4.00	01/04/2014	31/03/2015	N/A
		443 BCBC - Telecare F/Up	4.70	5.00	09/07/2014	18/11/2014	Reasonable
		471 BCBC - General Follow ups	4.19	5.00	29/09/2014	31/03/2015	Substantial
		479 BCBC Assurance from External Inspections	5.47	10.00	10/11/2014	31/03/2015	Carried Forward
		498 BCBC - Sign Shop F/up	4.26	5.00	26/01/2015	31/03/2015	Reasonable
		499 BCBC- Data Protection F/up	5.51	7.00	26/01/2015	31/03/2015	Substantial
Total	Directorate	BCBC CROSS CUTTING	136.10	156.00			
	Directorate	EXTERNAL					
B		440 BCBC - County Borough Supplies	10.21	11.00	24/06/2014	07/10/2014	Substantial
		469 BCBC - Crematorium	10.20	10.00	22/09/2014	10/02/2015	Substantial
Total	Directorate	EXTERNAL	20.42	21.00			
Total	Function	ASSURANCE	949.23	1,038.00			
ANTI-FRAUD & CORRUPTION							
	Directorate	BCBC CROSS CUTTING					
B		413 BCBC - National Fraud Initiative NFI	22.33	25.00	01/04/2014	31/03/2015	Substantial
		448 BCBC - Home Improvement Grant allegation	8.07	10.00	30/07/2014	04/12/2014	N/A
		504 BCBC - SI Cleaning IT Usage	2.67	5.00	18/03/2015	31/03/2015	N/A
Total	Directorate	BCBC CROSS CUTTING	33.07	40.00			

Total	Function	ANTI-FRAUD & CORRUPTION	33.07	40.00			
	GOVERNANCE						
B	Directorate	CHILDREN					
		426 BCBC - Learner Transport Project	6.76	10.00	01/05/2014	22/08/2014	Reasonable
		496 BCBC - Looked After Children	13.99	15.00	26/01/2015	31/03/2015	Reasonable
Total	Directorate	CHILDREN	20.74	25.00			
B	Directorate	COMMUNITIES					
		412 BCBC - Section 106 Agreements	18.18	18.00	07/04/2014	31/03/2015	Carried Forward
Total	Directorate	COMMUNITIES	18.18	18.00			
B	Directorate	WELLBEING					
		455 BCBC - Referral Mgt Social/Health Care	15.71	15.00	01/08/2014	31/03/2015	N/A
Total	Directorate	WELLBEING	15.71	15.00			
B	Directorate	BCBC CROSS CUTTING					
		395 BCBC - Business Continuity Management	13.13	12.00	08/04/2014	31/03/2015	Reasonable
		433 BCBC - Corporate Management Board	13.21	20.00	01/04/2014	31/03/2015	Substantial
		465 BCBC - Corporate Governance Framework	4.05	20.00	25/09/2014	31/03/2015	Carried Forward
Total	Directorate	BCBC CROSS CUTTING	30.39	52.00			
Total	Function	GOVERNANCE	85.02	110.00			
	RISK & PERFORMANCE MANAGEMENT						
B	Directorate	LEGAL & REGULATORY SERVICES					
		483 BCBC - Money Laundering	1.18	10.00	17/11/2014	10/02/2015	N/A
Total	Directorate	LEGAL & REGULATORY SERVICES	1.18	10.00			
B	Directorate	BCBC CROSS CUTTING					
		393 BCBC - Capital Projects Porthcawl	55.74	60.00	01/04/2014	15/01/2015	Limited
		485 BCBC - VVP Capital Project	8.51	20.00	01/12/2014	31/03/2015	Reasonable
Total	Directorate	BCBC CROSS CUTTING	64.26	80.00			
Total	Function	RISK & PERFORMANCE MAN	65.44	90.00			
	CONTINGENCY						
B	Directorate	LEGAL & REGULATORY SERVICES					
		419 BCBC - Data Protection C/Fwd	7.84	8.00	01/04/2014	11/09/2014	Limited
Total	Directorate	LEGAL & REGULATORY SERVICES	7.84	8.00			

Directorate		BCBC CROSS CUTTING				
	428 BCBC - Internal Audit PI's	2.15	3.00	29/05/2014	04/07/2014	N/A
	435 BCBC - School Buildings	1.28	2.00	09/06/2014	12/02/2015	N/A
	457 BCBC - School Meal Money	19.38	20.00	01/09/2014	31/03/2015	Substantial
	466 BCBC - ETCI	0.07	7.00	25/09/2014	31/03/2015	N/A
	470 BCBC - Civil Parking (Joint see AU616)	17.80	20.00	30/09/2014	19/11/2014	Reasonable
	475 BCBC - ICT Advancements	0.61	5.00	01/10/2014	31/03/2015	N/A
	480 BCBC - WAO Performance Evaluation	0.07	7.00	04/11/2014	12/02/2015	N/A
	486 BCBC - DBS F/Up	11.39	10.00	01/12/2014	31/03/2015	Reasonable
	487 BCBC -Performance Focus Groups	2.23	3.00	09/12/2014	12/02/2015	N/A
	488 BCBC- Gateway to Valley Final A/C	2.87	3.00	08/12/2014	13/02/2015	Reasonable
	489 BCBC - S117 Follow Up	5.84	6.00	15/12/2014	24/03/2015	Reasonable
	492 BCBC - Communities2.0 Grant Verification	2.40	3.00	12/01/2015	16/02/2015	Substantial
	497 BCBC - Brynteg Comprehensive	10.41	12.00	04/02/2015	31/03/2015	Limited
	500 BCBC - Internal Audit PI's	0.41	3.00	09/02/2015	31/03/2015	N/A
	501 BCBC - Final Accounts	1.18	3.00	09/03/2015	31/03/2015	Reasonable
	502 PSIAS Compliance	2.91	3.00	02/03/2015	31/03/2015	Substantial
	503 BCBC - LSB Development Officer Grant	3.75	4.00	16/03/2015	31/03/2015	Reasonable
Total	Directorate	BCBC CROSS CUTTING	84.73	114.00		
Total	Function	CONTINGENCY	92.57	122.00		
		Grand Total	1,225.34			

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BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

25 JUNE 2015

REPORT OF THE SECTION 151 OFFICER

STATEMENT OF ACCOUNTS 2014-15

1. Purpose of this report

- 1.1 The purpose of this report is to present the unaudited Statement of Accounts for 2014-15 and the Harbour Authority Return for 2014-15 to Audit Committee for noting.

2. Connections to Corporate Improvement Objectives / Other Corporate Priorities

- 2.1 The Council's financial performance is an important element in determining the extent to which the Corporate Objectives can be delivered.

3. Background

- 3.1 The preparation of the statement of accounts is a requirement of the Accounts and Audit (Wales) Regulations 2005 (as amended), and its content is defined by the 'Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and CIPFA's Service Reporting Code of Practice (SERCOP).
- 3.2 The Statement of Accounts for 2014-15 have to be signed and dated by the responsible financial officer before the 30 June 2015, certifying that it presents a true and fair view of the financial position of the Authority. The audited Accounts must be approved by Audit Committee before 30 September 2015. The Code sets out the accounting principles and practices required to prepare a Statement of Accounts. However, it is the role of the responsible financial officer to make appropriate decisions in accordance with his/her professional judgement about the best and proper practices to be followed.

4. Current Situation / Proposal

- 4.1 The Council's Statement of Accounts for the financial year ended 31 March 2015 has been prepared and a copy is attached as Appendix A. The Statement of Accounts comprises a number of different statements relating to financial performance and reserves as well as a statement on corporate governance arrangements.

4.2 This is the first year where the Council has prepared an Annual Return for the Harbour Authority which is attached as Appendix B.

5. Effect upon policy framework & procedural rules

5.1 There is legal requirement for the Statement of Accounts to be signed by the responsible financial officer by the 30 June following the end of the financial year.

6. Equality Impact Assessment

6.1 Whilst the production of the Statement of Accounts itself does not itself raise any equality issues, it does summarise the financial consequences of the budget reductions and service reconfigurations identified in the Council's Medium Term Financial Strategy. When these proposals were being developed consideration was given to their potential impact on protected groups within the community.

7. Financial implications

7.1 These are reflected in the body of the report.

8. Recommendation

8.1 It is recommended that Audit Committee:-

- note the unaudited Statement of Accounts for 2014-15;
- note the Harbour Authority Annual Return 2014-15.

Ness Young CPFA

Corporate Director – Resources/Section 151 Officer

16 June 2015

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Background Documents:

Statement of Accounts 2014-15



Statement of Accounts 2014-15

Electronic Version - unsigned

Contents

	Page no.
Explanatory foreword	2
Statement of responsibilities for the Statement of Accounts	19
Annual Governance Statement	20
Statement of Accounting Policies	37
Core Financial Statements	
Movement in Reserves Statement	53
Comprehensive Income and Expenditure Statement	54
Balance Sheet	55
Cash Flow Statement	56
Notes to the Core Financial Statements	57
Glossary of Terms	119

Explanatory Foreword

1. The Statement Of Accounts

The accounts for 2014-15 have been produced in line with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2014-15. This is in accordance with International Financial Reporting Standards (IFRS). The main changes include the adoption of the following standards:-

IFRS 10 - Consolidated Financial Statements – This standard introduces a new definition of control, which is used to determine which entities are consolidated for the purposes of group accounts.

IFRS 11 – Joint Arrangements – This standard addresses the accounting for a ‘joint arrangement’, which is defined as a contractual arrangement over which two or more parties have joint control. These are classified either as a joint venture or a joint operation.

IFRS 12 – Disclosures of Involvement with Other Entities – This is a consolidated disclosure standard requiring a range of disclosures about an entity’s interests in subsidiaries, joint arrangements, associates and unconsolidated ‘structured entities’.

The accounts consist of the following financial statements:

a) Statement of responsibilities for the Statement of Accounts

This sets out the respective responsibilities of the Council and its officers for the preparation and approval of the Statement of Accounts.

b) Annual governance statement

This statement provides a continuous review of the effectiveness of the Council’s governance framework including the system of internal control and risk management systems, so as to give assurance on their effectiveness and/or address identified weaknesses.

c) Statement of accounting policies

The purpose of this Statement is to explain the basis of the figures in the Accounts. It outlines the accounting policies that have been adopted.

d) The ‘core’ financial statements

1. Movement in Reserves Statement (MIRS)

This statement shows the movement in the year on different reserves held by the Council. These are analysed into ‘usable reserves’ i.e. those that can be applied to fund expenditure or reduce local taxation and other ‘unusable’ reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council’s services, details of which can be found in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the Council Fund Balance when the Council sets the annual revenue budget. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory Council Fund Balance before any discretionary transfers to or from

earmarked reserves undertaken by the Council. This shows that the total Council fund balance has increased by £0.055 million.

2. The Comprehensive Income & Expenditure Statement (CIES)

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded in cash terms when the budget is set. Therefore, some caution is required in interpreting this statement as the cost of services shown includes items such as depreciation on the fixed assets owned by the Council and the estimated cost of the shortfall on the pension scheme, which are not directly funded by the Council Tax payer.

For 2014-15, the Council showed a deficit on the Comprehensive Income and Expenditure Statement of £77.076 million. This does not however reflect the budgeted financial position of the Council, as it includes charges for pension costs and capital charges.

3. Balance Sheet

This shows the Council's financial position as at 31 March 2015, where the net worth was £72.035 million. The statement summarises the Council's assets and liabilities and the balances and reserves at the Council's disposal, used in the Council's operations.

4. Cash Flow Statement

This shows the changes in cash and cash equivalents of the Council during the financial year. It illustrates how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services. Investing activities represent the extent to which cash outflows have been made from resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of borrowing to the Council. The cash and cash equivalent position of the Council has decreased by £2.104 million.

e) The Notes to the Accounts

These are disclosures relating to the financial statements and include pensions and financial instruments disclosures.

2. Funding Council Services

The Council incurs two types of expenditure – revenue expenditure and capital expenditure.

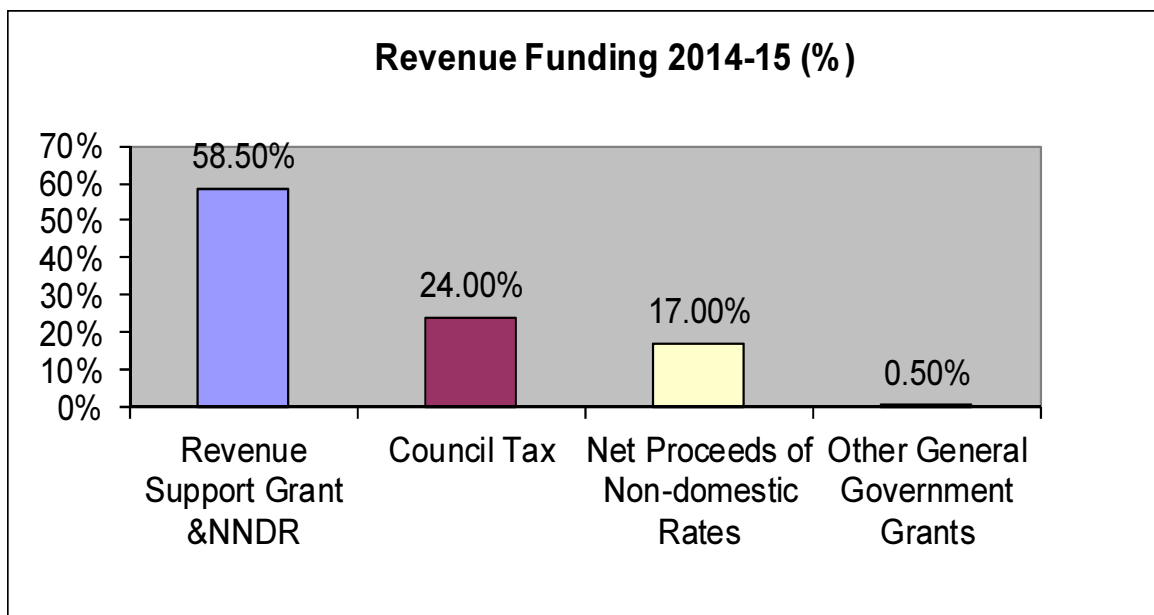
Revenue expenditure covers spending on the day to day costs of services such as staff salaries, maintenance of buildings and general supplies commissioning and equipment. This expenditure is paid for by the income

received from council tax payers, business ratepayers, the fees and charges made for certain services, and by grants received from government.

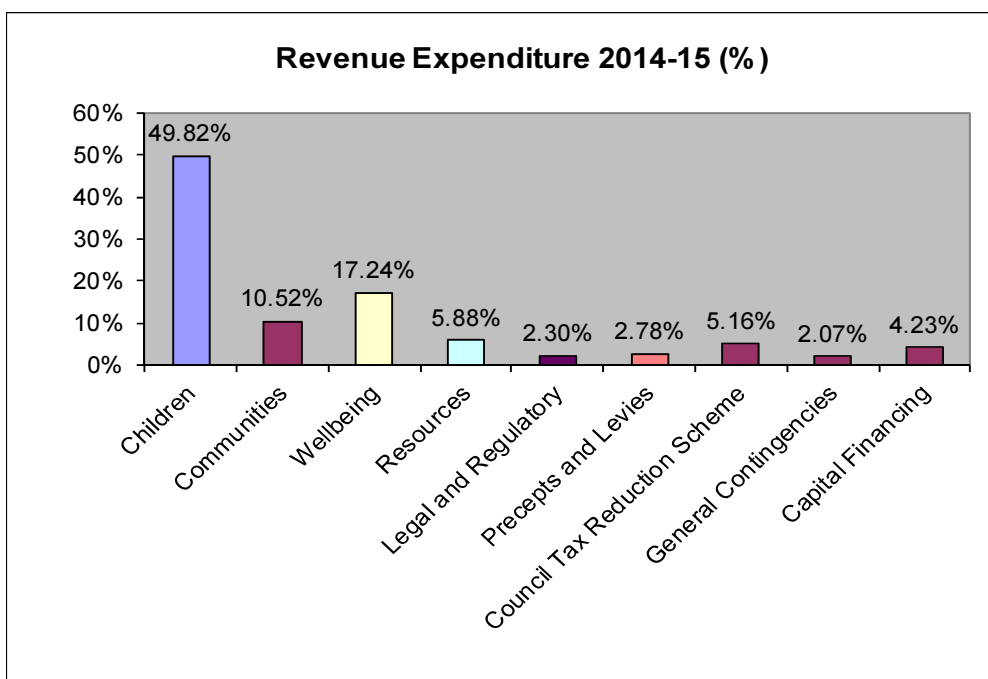
Capital expenditure covers spending on assets such as roads, new schools, redevelopment and the major renovation of buildings. These assets will provide benefits to the community for several years and the expenditure is mainly financed by borrowing and capital grants.

a) Revenue spending on council services

Where the money came from.....



Where the money was spent.....



In 2014-15, the net spend on revenue services was £215.168 million. This compares to £216.946 million anticipated when the budget was revised, resulting in a £1.796 million under-spend on Directorate Budgets. The overall position for the Council was a slight under-spend of £55,000 after allowing for appropriation to Earmarked Reserves, additional income from council tax and an under-spend on general contingencies.

The following table shows how the actual expenditure on services during 2014-15 compared with the budget set for the year. Explanations are provided for significant differences between spend and budget.

Comparison of actual spend with budget 2014-15

	Original Budget 14-15 £'000	Budget Transfers In Year £'000	Revised Budget 14-15 £'000	Actual 14-15 £'000	Variance 14-15 £'000
Directorates					
Children	125,557	(417)	125,140	124,996	(144)
Wellbeing	46,875	(3,397)	43,478	43,259	(219)
Communities	22,869	3,817	26,686	26,382	(304)
Resources	16,128	(984)	15,144	14,758	(386)
Legal & Regulatory Services	5,689	827	6,516	5,773	(743)
Total Directorate Budgets	217,118	(154)	216,964	215,168	(1,796)
Precepts & Levies	7,030	-	7,030	6,974	(56)
General Contingencies	7,590	154	7,744	5,944	(1,800)
Council Tax reduction Scheme	13,825	-	13,825	12,938	(887)
Capital Financing	10,515	-	10,515	10,607	92
Net Expenditure	256,078	-	256,078	251,631	(4,447)
General Government Grants	(1,414)	-	(1,414)	(1,412)	2
NNDR Discretionary Rate Relief	111	-	111	125	14
Appropriation to/(from) Reserves	356	-	356	6,429	6,073
Net Budget	255,131	-	255,131	256,773	1,642
Revenue Support Grant	(150,943)	-	(150,943)	(150,943)	-
Non Domestic Rates	(43,919)	-	(43,919)	(43,919)	-
Council Tax	(60,269)	-	(60,269)	(61,966)	(1,697)
Net (Under)/Overspend on Services	-	-	-	(55)	(55)

Revised budgets differ from those set at the beginning of the year as they reflect any budget transfers from central funds and reserves to cover unplanned expenditure, along with transfers between Directorates resulting from realignment of responsibilities.

Reasons for differences between budget and spend

The financial position as at 31 March 2015 showed an under-spend on service expenditure within the year of £1.796 million. A summary of the most significant variances is outlined below:-

Children's Directorate

The net budget for the Directorate for 2014-15 was £125.140 million and the actual outturn was £124.996 million, resulting in an under spend of £144,000. An over spend of over £567,000 on Looked After Children has been offset by under spends across other services in the directorate. The under spends across the Directorate have negated the need for draw down of the Looked After Children earmarked reserves in 2014-15. However, there was £1.225 million drawn down from other earmarked reserves for specific pressures.

The most significant variances are detailed below:

CHILDREN'S DIRECTORATE	Net Budget £'000	Outturn £'000	Variance Over/ (Under) budget £'000	% Variance
Schools Special Needs	2,529	2,240	(289)	-11.4%
Youth Service	730	604	(126)	-17.3%
Education Otherwise Than At School (EOTAS)	324	451	127	39.2%
Catering Services	881	449	(432)	-49.0%
Integrated Working	561	383	(178)	-31.7%
Looked After Children	11,154	11,721	567	5.1%
Other Child and Family Services	767	1,064	297	38.7%
Commissioning and Social Work	4,265	4,609	344	8.1%

School Special Needs

There is an under spend of £289,000 in relation to support for special educational needs services for schools following the restructuring of the service to deliver 2015-16 budget reduction proposals. As such the under spend is not expected to recur in 2015-16.

Youth Service

There is a total under spend of £126,000 on youth services following restructure of the service and receipt of additional grant income at year end.

Education Otherwise Than At School

The over spend of £127,000 has arisen due to increased demand on the service and an increased provision for pupils outside of school settings, including individual training packages at College or at other settings.

Catering Service

The under spend on the catering service was £432,000. A substantial amount of this was due to the higher number of trading days for the service, arising from the lack of inclement weather and its usual impact on school opening days. In addition, savings were generated through vacancy management and lower than anticipated costs of repairs and maintenance.

Integrated Working

The under spend of £178,000 on the Integrated Working teams was as a result of strict vacancy management in anticipation of budget reductions in 2015-16.

Looked After Children (LAC)

The over spend of £567,000 is due to the number and costs of placements being higher than forecast. As at the end of March the Council had 390 looked after children. While this is 22 less children than as at 31st March 2014 and

shows LAC numbers on a downward trajectory it is 17 more than the target of 373.

Other Child and Family Services

The over spend of £297,000 is a combination of an over spend on the adoption service of £379,000 due to higher numbers of children being placed for adoption, partly offset by savings on the Leaving Care service. The target number of adoptions for 2014-15 was 15, but the actual number of placements made was 24, which has had a positive impact on the number of LAC in the County Borough. From April 2015 a joint adoption service has been provided across the Western Bay region.

Commissioning and Social Work

The over spend of £344,000 is mainly due to the high costs associated with the temporary backfilling of social worker posts through employment agencies to cover vacancies. At the year end there were 5 agency workers being employed in the service.

Schools' Delegated Budgets

School balances reduced from £2.467 million at the end of 2013-14 to £2.410 million at the end of March 2015 (a reduction of £57,000), representing 2.67% of the funding available. Total deficit budgets equate to £735,000 and total surplus budgets equate to £3.145 million.

There are 7 schools (5 primary, 2 secondary) with deficit budgets and 20 schools (13 primary, 5 secondary, 2 special) with balances in excess of the statutory limits (£50,000 primary, £100,000 secondary and special schools) in line with the School Funding (Wales) Regulations 2010. These balances will be analysed by the Corporate Director - Education and Transformation, in line with the agreed 'Guidance and procedures on managing surplus school balances'.

Wellbeing Directorate

The Directorate's net budget for 2014-15 was £43.478 million and the actual outturn was £43.259 million resulting in an under spend of £219,000. This is made up of an under spend of £142,000 on Adult Social Care and an under spend of £77,000 on Sport, Play and Active Wellbeing services. The Adult Social Care outturn has reduced by approximately £316,000 compared to the projection at quarter 3 reflecting increased income from residential placements and service user charges and maximisation of grant and other funding. There were specific earmarked reserves set aside to offset some of the costs associated with integrating health and social care, and this is reflected in the outturn position. There was £0.123 million drawn down from earmarked reserves throughout the year for specific pressures.

The most significant variances are detailed below:

WELLBEING DIRECTORATE	Net Budget	Outturn	Variance Over/(Under) Budget	% Variance
	£'000	£'000	£'000	
Older People Residential Care	8,269	8,062	(207)	-2.5%
Physical Disabilities Residential Care	501	416	(85)	-17.0%
Learning Disabilities Residential Care	1,990	2,346	356	17.9%
Learning Disabilities Home Care	4,471	4,575	104	2.3%
Mental Health Residential Care	1,169	1,074	(95)	-8.1%
Sports Centres and Swimming Pools	2,606	2,549	(57)	-2.2%

Older People Residential Care

During the financial year, expenditure on residential clients has remained fairly constant however additional income has been generated from service user charges, offset in part by additional staffing cost pressures, such as sickness cover, resulting in a net under spend of £207,000.

More generally the full year effect of the changes in the Fairer Charging policy, as well as the increase in the Fairer Charging cap from £55 to £60 per week and increased demand for domiciliary care, resulted in higher than anticipated income across this client group.

Physical Disabilities Residential Care

The under spend of £85,000 has arisen as a result of a reduction in the number of residential placements during the year. The service overall generated an under spend of £176,000, with staff vacancies in-year contributing to this total.

Learning Disabilities Residential Care

The over spend of £356,000 relates in the main to the delays in implementing the resettlement programme for residents at Bryneithin and Maesglas into independent homes, which has led to delays in securing new accommodation for service users. The service also met the costs of redundancy associated with the restructuring of the service.

Learning Disabilities Home Care

The over spend of £104,000 on home care is as a direct result of the increased number of service users accessing the service, which places additional costs on the service. The directorate continues to work closely with its independent providers to ensure that services provided meet the needs of clients. Provision for this budget pressure has been recognised within the 2015-16 budget.

Mental Health Residential Care

The under spend of £95,000 results from increased contributions from health to client costs, and increased contributions from clients via Fairer Charging. This

additional income offset increased service costs resulting from additional placements.

Sports Centres and Swimming Pools

The service generated an under spend of £57,000 as a result of savings realised in relation to the HALO partnership arrangement and client side efficiencies.

Communities Directorate

The net budget for the Directorate for 2014-15 was £26.686 million and the actual outturn is £26.382 million resulting in an under spend of £304,000. There was £0.531 million from earmarked reserves for specific pressures.

The most significant variances are detailed below:

COMMUNITIES DIRECTORATE	Net Budget £'000	Outturn £'000	Variance Over/(Under) Budget £'000	% Variance
Development	461	328	(133)	-28.9%
Housing and Community Regeneration	1,379	1,209	(170)	-12.3%
Regeneration	1,887	1,814	(73)	-3.9%
Waste Collection and Disposal	6,500	6,687	187	2.9%
Highways and Fleet	6,536	6,814	278	4.3%
Transport and Engineering	1,048	1,067	19	1.8%
Culture	3,391	3,140	(251)	-7.4%

Development

There is an under spend of £133,000 on the Development budget. This mainly consists of an increase in planning application fees over and above budgeted income. The Bridgend Local Development Plan (LDP) was adopted in late 2013 and a number of allocated housing sites (including some in Council ownership) have been submitted as major planning applications. In addition plans have been submitted for a number of infrastructure projects including two large solar farms at Court Colman and Caerau and a major extension to the existing Pant-y-Wal wind farm. These applications attract a high fee although some of this income is offset against the need to seek external expert advice.

Housing and Community Regeneration

There is an under spend of £170,000 on the Housing & Community Regeneration service. This comprises an under spend of £70,000 relating to the ongoing improved management of demand for temporary accommodation, with the balance from staff vacancy management. There is a risk that demand for Bed & Breakfast accommodation will increase once the full impact of the Housing Act is felt, so close on-going budget monitoring will be required in 2015-16.

Regeneration

There is an under spend of £73,000 on the Regeneration budget. This is a combination of staff vacancy management and under spends within other budget headings.

Waste Collection and Disposal

The over spend on the Waste budget of £187,000 primarily relates to waste disposal costs resulting from a higher than predicted tonnage of black bag waste presented at the kerbside. This increase in tonnage has also attracted a higher unit charge per tonne for its disposal through the Council's waste treatment partnership with Neath Port Talbot County Borough Council (NPT). The disposal arrangements with NPT are currently under review and it is anticipated that unit rates for the treatment and disposal of the Council's residual black bag waste will reduce from 2016-17, though further budget pressures may be experienced during the current 2015-16 financial year.

Highways and Fleet

The £278,000 over spend on this budget is partly attributable to the repayment of £225,000 of prudential borrowing to generate reduced finance charges which will contribute to the MTFS budget reduction realisation in 2015-16 and beyond. The remaining £51,000 over spend is mainly due to additional expenditure on highways maintenance borne by the directorate, which was partly offset by reduced energy costs on street lighting. This position is unlikely to continue into 2015-16 as energy costs are predicted to steadily increase. To offset the increase, and also to meet the Council's MTFS budget reductions, significant energy savings targets have been set for street lighting energy consumption in the current and future years, to be achieved through a programme of street lighting replacement to LED units, to deliver significant savings on energy usage.

Transport & Engineering

There is an over spend of £19,000 against the Transport & Engineering budget. Part of the over spend has arisen as a result of a number of health and safety issues which have had to be resolved within our car parks and the bus station. In addition there was a shortfall on staff car parking income. Whilst the one off costs in respect of the health and safety issues have now been addressed the directorate will need to address the income target for staff car parking.

Culture

The under spend of £251,000 within cultural services is attributable to the reduction in salary and activity expenditure in advance of the 2015-16 MTFS budget reduction, along with deliberate measures to restrict spend to off-set any potential over spend risk posed by the historical position at Bryngarw House. In the event, the transformation project at Bryngarw House was completed to schedule with a favourable financial outcome. The under spend was also generated from the management of vacancies, in particular within the library service, along with the realisation of additional income across service other areas.

Resources Directorate

The net budget for the Directorate for 2014-15 was £15.144 million and the actual outturn was £14.758 million resulting in an under spend of £386,000. There was £0.822 million from earmarked reserves during the year for specific pressures.

The most significant variances are detailed below:

RESOURCES DIRECTORATE	Net Budget £'000	Outturn £'000	Variance Over/(Under) Budget £'000	% Variance
Financial Services	3,616	3,430	(186)	-5.2%
Human Resources & OD	4,389	4,041	(348)	-7.9%
ICT	4,096	4,163	67	1.6%
Property (Estates)	1,732	1,843	111	6.4%
Property (Built Environment)	592	571	(21)	-3.5%

Financial Services

The under spend of £186,000 arises from strict vacancy management and staff restructures linked to 2015-16 budget reductions as well as in year reductions in external and internal audit fees which will contribute to the MTFS in future years.

Human Resources & Organisational Development

The under spend of £348,000 in this service is primarily due to vacancy management to deliver 2015-16 budget reduction requirements as well as anticipated DBS/CRB checks, lower than anticipated learning and development activities and earlier than expected changes from paper to electronic communication techniques.

ICT

The over spend of £67,000 is attributable to the repayment of £353,000 of prudential borrowing as outlined in paragraph 4.1.5, off set by under spends resulting from vacancies held and a team restructure to deliver 2015-16 budget reductions and under spends on ICT Supplies and Services as a result of delivery delays by a supplier.

Property Estates and Built Environment

There is an over spend of £111,000 primarily due to under-recovery of income at the Innovation Centre following the temporary re-location of Legal Services during the refurbishment of the Civic Offices.

Despite a forecast over spend in respect of changes to CIPFA rules on capital charging, the service has achieved an under spend of £21,000 as a result of challenging productivity rates and a full workbook for the whole year in relation to the design functions. As part of the ongoing process of

developing this service model, targets and structures will be reviewed annually.

Legal and Regulatory Services

The net budget for the Directorate for 2014-15 was £6.516 million and the actual outturn was £5.773 million resulting in an under spend of £743,000. There was £0.128 million drawn down from earmarked reserves during the year for specific pressures.

The most significant variances are detailed below:

LEGAL & REGULATORY SERVICES	Net Budget	Outturn	Variance Over/(Under) Budget	% Variance
	£'000	£'000	£'000	
Legal Services	2,184	1,890	(294)	-13.5%
Regulatory Services	1,930	1,771	(159)	-8.2%
Partnership Services	406	254	(152)	-37.4%

The majority of the under spend has arisen due to strict vacancy management across all services in anticipation of budget reduction savings in 2015-16 and the planned joint regulatory service with Cardiff and the Vale of Glamorgan Councils. A further £40,000 of the under spend relates to the reversal of a provision made in 2013-14 in respect of a complex fraud case, which was not required in full in 2014-15. There was also additional income raised by the registrars and regulatory services of £113,000.

Council Wide Budgets

The net budget for council wide services and budgets was £38.167 million and the actual outturn was £35.176 million, resulting in an under spend of £2.991 million. The most significant variances are detailed below:

COUNCIL WIDE BUDGETS	Net Budget	Outturn	Variance Over/(Under) Budget	% Variance
	£'000	£'000	£'000	
Building Maintenance / Feasibility	890	674	(216)	-24.3%
Council Tax Reduction Scheme	13,825	12,938	(887)	-6.4%
Insurance Costs	1,737	966	(771)	-44.4%
Other Corporate Budgets	4,170	3,017	(1,153)	-27.6%

Building Maintenance/Feasibility

There was an under spend of £216,000 on the corporate budget for feasibility work and minor works, due to slippage in some building works. This funding has therefore been transferred into an earmarked reserve for 2015-16.

Council Tax Reduction Scheme

The under spend of £887,000 is a result of lower demand than forecast for the Council Tax Reduction Scheme. This a demand led budget which is based on full take up, but actual take up is not known until year end.

Insurance Costs

The under spend of £771,000 on insurance costs is primarily due to £479,000 in fortuitous and unexpected rebates in respect of the Maesteg PFI scheme and lower than anticipated payments made by the Council's claim handlers. The balance is attributable to a reduction in premiums following an in-year assessment of liabilities and is an MTFs budget reduction proposal for 2015-16 and beyond.

Other Corporate Budgets

The under spend of £1.153 million on other corporate budgets has arisen as a result of:

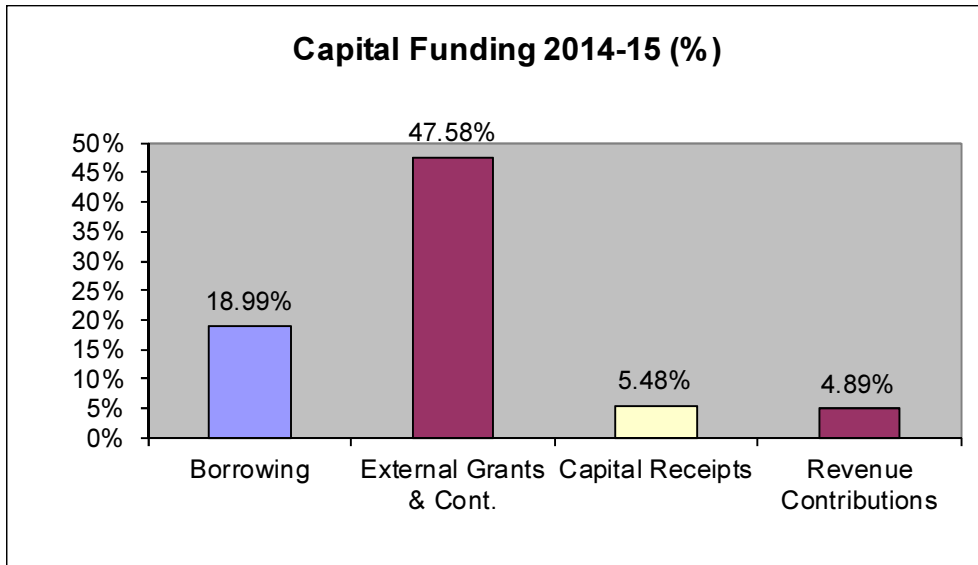
- Less demand from Directorates to meet in year pay and price inflationary pressures such as energy costs and job evaluation;
- Later than anticipated introduction of the removal of employers' national insurance rebate;
- Lower than expected in-year cost of implementing auto enrolment for new entrants. This cost is due to increase incrementally as the Council works towards September 2017 by which time all eligible employees must be enrolled in the Local Government Pension Scheme; and
- A mild winter resulting in no call for contingency funding for winter maintenance.

b) Capital spending in 2014-15

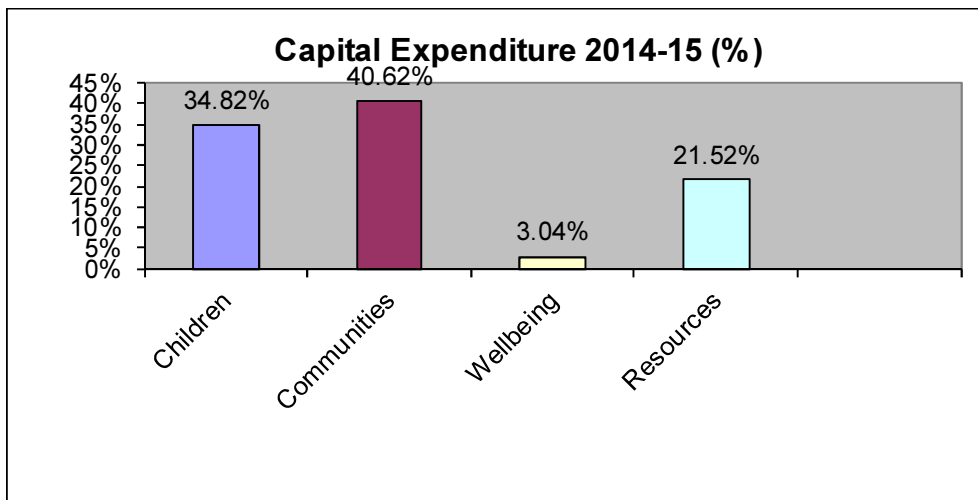
In addition to spending money on providing services on a day to day basis, the Council also spends money on providing new facilities, improving assets and the infrastructure, enhancing assets or providing capital grants to others. The total capital spending in 2013-14 was £28.230 million. Assets created, improved or work in progress as a result of this spend included:

- Bridgend Market Regeneration
- All Wales Community Care Information System
- Parc Derwen Primary School
- Developments at the former Ogmore Comprehensive School
- Disabled Facility Grants
- Carriage reconstruction and street lighting

Where the money came from.....



What the money has been spent on.....



c) Borrowing arrangements and sources of funds

The Council adopted the Chartered Institute of Public Finance and Accountancy’s *Treasury Management in the Public Services: Code of Practice 2011 Edition* which requires the Council to approve a Treasury Management Strategy before the start of each financial year. This Strategy fulfils the Council’s legal obligation under the *Local Government Act 2003* to have regard to this Code of Practice.

The Council’s Treasury Management Practices allow the Council to raise funds from a variety of sources. The Section 151 Officer is authorised to take the most appropriate form of borrowing from approved sources within the overall borrowing limits set by Council.

Each year, in accordance with the Local Government Act 2003, and the Prudential Code, the Council is required to set various limits in relation to its Treasury Management activities including limits for debt:-

The limits set at the start of the financial year were as follows:-

	2014-15 £m
Authorised limit for external debt	
Borrowing	140
Other long term liabilities	30
Total	170
Operational Boundary	
Borrowing	125
Other long term liabilities	25
Total	150

As can be seen from the Balance Sheet as at 31 March 2015 long term borrowing totalled £ 97.444 million (£97.451 million 2013-14) and long term liabilities totalled £20.847 million (£20.923 million 2013-14) so the Council has operated within the limits set.

3. The Council's reserves

The financial reserves held by the Council as at 31 March 2015 can be summarised as follows:

	Opening Balance £'000	Movement £'000	Closing Balance £'000
Council Fund	7,395	55	7,450
Delegated Schools	2,467	(57)	2,410
Maesteg School PFI Equalisation Fund	3,051	356	3,407
Earmarked Reserves	32,381	3,256	35,637
Total	45,294	3,610	48,904

The Delegated Schools Balances represent amounts held by schools that are committed to be spent on the Education service and are not available to the Authority for general use. Whilst the majority of schools have surplus balances, some are carrying deficits into 2015-16. As part of the requirements of the Financial Scheme for Schools, schools have been asked to provide reasons for their balances. Reasons can include issues such as falling rolls, negative retrospective adjustments and planned initiatives.

The Maesteg School PFI Equalisation Fund has been set up to meet the future costs of the PFI contract, and as such is not available to the Council for general use.

Further information about earmarked reserves can be found in the note 30b to the main financial statements

4. Pension Fund Liability

Disclosure information about retirement benefits in the Statement of Accounts is based on International Accounting Standard (IAS) 19. The pension fund liability that is disclosed in the Balance Sheet is the net position taking into account this Council's notional value of the fund assets, and the amount of money that needs to be set aside to meet the pension earned up to 31 March 2015. This deficit will change on an annual basis dependent on the performance of investments, the actuarial assumptions that are made in terms of current pensioners, deferred pensions and current employees, and the contributions made to the fund. The Pension Liability for 2014-15 is £273.010 million (£243.900 million in 2013-14). It is matched on the Balance Sheet with a pension reserve.

The assumptions used to calculate the pension liability are heavily prescribed by the relevant accounting standard (IAS19). However, the Actuary has more autonomy to apply differing, more council specific, assumptions when carrying out a triennial revaluation of the Pension Fund, which is used to determine the employer's contribution rates necessary to cover 100% of the pension fund liabilities. The triennial revaluation is therefore arguably a more accurate indication of the deficit that will be payable in the future, and employer contribution rates are set to cover this deficit. Statutory arrangements require benefits earned to be financed as the Council makes employers contributions to pension funds. Consequently, whilst the Council is required to carry out and disclose the IAS19 based pension fund liability, statutory arrangements, combined with triennial actuarial assessments of employer's liabilities, will ensure that funding will have been set aside by the time the benefits come to be paid.

5. The Main Changes to the Accounts for 2014-15 compared to 2013-14

The Council's accounts for the financial year 2014-15 have been prepared in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15 ('the Code'). This specifies the principles and practices of accounting required to prepare a Statement of Accounts which presents fairly the financial position and transactions of a Local Authority. As identified at the beginning of the Explanatory Foreword, a number of IFRS changes have been considered in the production of the Statement of Accounts for 2014-15. IFRS 10 – Consolidated Financial Statements, IFRS11 Joint Arrangements, and IFRS 12 – Disclosures of Involvement with Other Entities, have all required a review of current arrangements, and has impacted on the way in which the Authority recognises its Schools accounts within the main statements.

6. The Impact of the Current Economic Climate on the Authority

The Council's Medium Term Financial Strategy indicates that a number of budget reductions will be challenging and a number of proposals are dependent on re-engineering and remodelling services. It is important that proposals are progressed as quickly as possible and timescales adhered to. The level of balances held is sufficient to enable the Council to respond to unforeseen eventualities but the council fund balance must be retained at around the current level. Service spending must be controlled within budgets to ensure that the financial position of the Council is not compromised. Whilst

projections of future funding have been made available these are only indicative estimates and the position could change for future years.

The Statement of Responsibilities for The Statement of Accounts

The Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority that officer is the Corporate Director – Resources.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

Chair of Audit Committee Certificate

Signed :

Date:

Section 151 Officer's Responsibilities

The Section 151 Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Section 151 Officer has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the local authority Code.

The Section 151 Officer has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Section 151 Officer's Certificate

I certify that the Statement of Accounts presents a true and fair view of the financial position of Bridgend County Borough Council at 31 March 2015 and of its income and expenditure for the year ended 31 March 2015.

Signed :

Section 151 Officer :

Date :

Annual Governance Statement 2014-15**1. Scope of Responsibility**

- 1.1 Bridgend County Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.
- 1.2 The Council also has a duty under the Local Government (Wales) Measure 2009 to make arrangements to secure continuous improvement in the exercise of its functions in terms of strategic effectiveness, service quality, service availability, fairness, sustainability, efficiency and innovation.
- 1.3 In discharging its overall responsibilities, the Council is also responsible for ensuring that it has proper arrangements for the governance of its affairs and a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.
- 1.4 The Council has approved and adopted a Code of Corporate Governance which is consistent with the framework developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE).

2. The Purpose of the Governance Framework

- 2.1 The governance framework comprises the systems, processes, and values by which the Council is directed and controlled and the means by which it accounts to, engages with and leads the local community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to avoid inappropriate use or loss of public funds. It also assists with managing the risk of failure to achieve policies, aims and objectives. It does not eliminate all risk; the system of internal control is designed to identify and prioritise risks, evaluate the likelihood of those risks materialising and to manage their impact.
- 2.3 The following paragraphs summarise the governance framework and the system of internal control, which has been in place within the Council for the year ended 31 March 2015. The description of the arrangements in place is built around the core principles set out in the Council's Code of Corporate Governance. This was updated during 2014-15 and approved by Audit Committee in June 2014.

3. The Governance Framework

- 3.1 The six principles of corporate governance that underpin the effective governance of all local authority bodies as defined by CIPFA and SOLACE, incorporating the WG governance principles (shown in italics) are as follows:

- Focusing on the Council's purpose and on outcomes for the community and creating and implementing a vision for the local area; (*Putting the Citizen First; Achieving Value for Money*).
- Members and officers working together to achieve a common purpose with clearly defined functions and roles; (*Knowing Who Does What and Why*);
- Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour; (*Living Public Service Values*);
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk; (*Fostering Innovative Delivery*);
- Developing the capacity and capability of Members and officers to be effective; (*Being a Learning Organisation*);
- Engaging with local people and other stakeholders to ensure robust public accountability; (*Engaging with Others*).

3.2 The Council has followed these principles and has identified the following points whilst gathering evidence to gain assurance that governance within the Council is robust.

4. Principle 1 - Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area (*Putting the Citizen First; Achieving Value for Money*).

4.1 The Council's published Corporate Plan 2013-2017 included Improvement Priorities which are aligned with the key outcomes of the Local Service Board's 'Bridgend County Together' Single Integrated Partnership Plan. This ensures that the Council is able to deliver on the commitments made with partner organisations. The Plan also takes into account a number of factors including service demands, legislative requirements, citizens' needs, resource availability, the priorities of partner organisations, together with the expectations of the Welsh Government and regulatory bodies.

4.2 The Plan includes the following six improvement priorities:

- Working together to develop the local economy;
- Working together to raise ambitions and drive up educational achievement;
- Working with children and families to tackle problems early;
- Working together to help vulnerable people to stay independent;
- Working together to tackle health issues and encourage healthy lifestyles;
- Working together to make the best use of our resources.

4.3 These improvement priorities must be reviewed on an annual basis and this work gives direction for Directorate Business Plans. Arrangements are in place for progress against the improvement priorities to be reviewed on a quarterly basis. The Corporate Plan has identified a number of outcome-focused 'success indicators', some of which are benchmarking measures. All of the indicators included in the Plan are aimed at measuring the success of our joined up working with citizens and partners.

4.4 The Council approved a Medium Term Financial Strategy (MTFS) for the period 2015-16 to 2018-19. This provides an integrated planning and financial framework for the next four years and includes the detailed budget strategy for the next financial year. The annual revenue budget and forward financial planning together with the capital programme enables the Council to align its financial resources with

its priorities. Quarterly budget monitoring reports are submitted to Cabinet and to Scrutiny Committees, with the Corporate Resources and Improvement Scrutiny Committee nominated as the lead Scrutiny Committee.

4.5 There are a range of projects, linked to programmes, in progress to ensure that the improvement priorities are achieved. The corporate Programme Management Board (PMB) is overseeing a number of major initiatives under its Change Management Programme including:

- School modernisation programme;
- Integrating Health and Social Care;
- Town centre regeneration projects;
- Accommodation Strategy;
- Implementing the Inclusion Strategy;
- Residential Care remodelling;
- Domiciliary Care services remodelling;
- Schools ICT strategy;
- Strategic Collaboration projects;
- Key budget reduction proposals linked to strategic change.

4.6 The Auditor General's Annual Improvement Report on the Council was received in May 2014. The Report recognised that the Council had made good progress in delivering improvement in most of its priority areas and recognised the need to accelerate improvements in education. Also, the Council had established a culture of self-evaluation which has resulted in a fair and balanced account of its performance although there were some areas for improvement. Finally, despite significant financial challenges, the Report recognised that the Council has sound plans for improvement. The Auditor General arrived at his views by:-

- reviewing the Council's own self assessment on what progress it considers it has made since the Auditor General published his last Annual Improvement Report on the Council early in 2013;
- assessing contributions from Welsh inspectorates, Estyn (for education), the Care and Social Services Inspectorate for Wales (the CSSIW) and the Welsh Language Commissioner.

The Auditor General carried out an audit of the Council's Improvement Plan for 2014-15 and certified in June 2014 that the Council discharged its duties to prepare and publish an Improvement Plan in accordance with statutory requirements set out in the Measure and statutory guidance.

The Auditor General also audited the Council's assessment of its performance in 2013-14 in accordance with the Measure and his Code of Audit Practice and certified in November 2014 that the Council discharged its duties under pertinent sections of the Measure and acted in accordance with Welsh Government guidance sufficiently to discharge its duties.

4.7 Activity that demonstrates commitment to Principle 1 - "**Putting the Citizen First**", included:

- Ongoing use made of the Citizens' Panel and extensive public engagement activity undertaken within areas such as Regeneration, and linked with Local Service Board priorities;
- Delivery of the Local Service Board's Citizen Engagement Strategy;

- Customer contact centre as focal point for customer engagement;
- Consultation activity with customers – e.g. consultation on corporate improvement priorities, development of “Ask Bridgend”.

5. Principle 2 - Members and Officers working together to achieve a common purpose with clearly defined functions and roles (*Knowing Who does What and Why*).

5.1 The Council aims to ensure that the roles and responsibilities for governance are defined and allocated so that accountability for decisions made and actions taken are clear. It operates a Leader and Cabinet system within which:-

- The Council sets the overall budget and appoints the Leader of Council;
- The Council appoints the Cabinet Members and the Leader allocates their portfolios;
- Scrutiny Committees advise on policy formulation and hold the Cabinet to account in relation to specific matters. They may also review areas of activity which are not the responsibility of the Cabinet or matters of wider local concern;
- Regulatory Committees (e.g. Licencing, Development Control) are in place to determine matters as defined within the Council’s Constitution;
- The Cabinet makes decisions within this framework but some decisions are delegated to individuals in the Cabinet, committees of the Cabinet or officers;
- Clear arrangements are in place to record decisions made by Cabinet Members and officers under delegated powers.

5.2 There is a Standards Committee to promote and maintain high standards of conduct by Town and Community Councillors and County Borough Councillors, co-opted members and Church and Parent Governor Representatives.

5.3 The Constitution is at the heart of the Council’s business and assigns responsibility within the Council. It also provides a framework that regulates the behaviour of individuals and groups through codes of conduct, protocols and standing orders.

5.4 The Constitution is a comprehensive document that is kept under continual review by the Monitoring Officer. It provides a point of reference for individuals and organisations both inside and outside the Council. Its Rules of Procedure govern the overall framework within which the Council operates. Procedural rules and codes of conduct outline how the Constitution will be put into effect. Whilst the Constitution is required by statute its content is not fully prescribed. The Council is satisfied that it is consistent with statute, regulations and guidance. To ensure continued compliance, the Assistant Chief Executive – Legal and Regulatory Services is the Monitoring Officer appointed under Section 5 of the Local Government and Housing Act 1989.

5.5 All Committees have clear terms of reference that set out their roles and responsibilities and work programmes. These are reviewed by the committee during the year and updated as required. The Audit Committee provides assurance to the Council on the effectiveness of the governance arrangements, risk management framework and internal control environment.

- 5.6 The Council's Chief Executive (as Head of Paid Service) leads the Council's officers and chairs the Corporate Management Board.
- 5.7 All staff, including senior management, have clear terms and conditions of employment and job descriptions which set out their roles and responsibilities. Terms and conditions of employment are monitored by the Human Resources Department.
- 5.8 The Corporate Director - Resources is the Section 151 Officer appointed under the 1972 Local Government Act and carries overall responsibility for ensuring that the Council'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). The corporate finance function provides a range of support to departments and determines the budget preparation and financial monitoring process.
- 5.9 The Corporate Director – Wellbeing is statutory Director for Social Services, as defined by the Local Authority Social Services Act 1970, which outlines the 6 core responsibilities across all the Social Services functions, including ensuring that the Authority has proper safeguards to protect vulnerable children and adults.
- 5.10 Similarly, the Corporate Director – Education and Performance, has been identified as the Chief Education Officer, as prescribed by the Education Act 1996.
- 5.11 The Monitoring Officer carries overall responsibility for ensuring compliance with the law and his staff work closely with departments to advise on legal matters.
- 5.12 In December 2014, Council approved the realignment of responsibilities for the line management of the Safeguarding Children Teams under the Director of Wellbeing who therefore became the Director of Social Services and Wellbeing. This means that the social care functions for children and adults are now located within the same directorate of Bridgend County Borough Council. The increased responsibilities of the Social Care and Wellbeing Act places a greater emphasis on local authorities considering children and adults at risk more holistically and the new arrangement will support this and will be key to the successful delivery of a number of objectives including the sustained reduction in the number of looked after children.
- 5.13 The revised Performance Management Framework was launched in December 2013 and adopted by Cabinet in June 2014. This documents Council processes and procedures and the roles and responsibilities of managers within the process. It includes expectations around the style and behaviour of managers to support the further evolution of a strong culture of self-assessment. During 2014-15, the Council introduced CMB challenge on Performance Management, which complements the Corporate Performance Assessment (CPA). This structured challenge focuses on a wide range of issues as well as Performance Indicators. The introduction of a bespoke Performance Management system provides timely, consistent management information for managing service improvement and decision making.
- 6. Principle 3 - Promoting Values for the Council and Demonstrating the Values of Good Governance through upholding High Standards of Conduct and Behaviour (*Living Public Service Values*).**
- 6.1 The Council's core values encapsulated in the acronym FACE demonstrate the Council's commitment to the Public Service values. It stands for Fair (taking into

account everyone's needs and situation), **Ambitious** (always trying to improve what we do and aiming for excellence), **Citizen focused** (remembering that we are here to serve our local communities) and **Efficient** (delivering services that are value for money).

- 6.2 The behaviour of elected members and officers is governed by codes of conduct, which include a requirement for declarations of interest to be made. There is also a gifts and hospitality register.
- 6.3 The Council takes fraud, corruption and maladministration very seriously and has the following policies, which aim to prevent or deal with such occurrences;
- Anti-Fraud and Bribery Policy
 - Whistleblowing Policy
 - Anti-Money Laundering Policy
 - HR policies regarding the disciplining of staff involved in such incidents
 - Corporate Complaints Policy

The first three policies above were reviewed, updated and approved by Cabinet during 2014-15.

- 6.4 Conduct of Members is monitored by the Public Services Ombudsman for Wales. The Council's Standards Committee also considers any reports submitted by the Ombudsman and the Monitoring Officer and any representations received relating to alleged breaches of the Code of Conduct.
- 6.5 A corporate complaints policy is in place for the Council to receive and investigate complaints made against it and this is overseen by the Monitoring Officer.
- 6.6 The Audit Committee helps raise the profile of internal control and risk management within the Council. This enhances public trust and confidence in the financial governance of the Council.
- 6.7 The Council has a 'Bridgend County Borough Council, social media and you' protocol which is available on the website. The aim of this is to be clear about how the Council will engage with users and manage expectations.

7. Principle 4 - Taking Informed and Transparent Decisions which are subject to effective scrutiny and Managing Risk (*Fostering Innovative Delivery*).

- 7.1 The Council's Constitution sets out how the Council operates and the process for policy and decision-making. Within this framework, key decisions are made by the Cabinet. All Cabinet meetings are open to the public (except on the limited occasions where items are exempt or confidential).
- 7.2 All decisions made by the Cabinet are taken on the basis of written reports, including assessments of the legal, financial, and equalities implications. Consultation (including with ward members when appropriate) is a routine part of the process.
- 7.3 The decision-making process is monitored by five Overview and Scrutiny Committees, which support the work of the Council as a whole. The Council's Constitution provides for the Chairs of these committees to be appointed based on the political balance of the elected members that form the Council. The members

of a Scrutiny Committee can “call in” a decision that has been made by the Cabinet but not yet implemented. They may recommend that the Cabinet reconsider the decision. They may also be consulted by the Cabinet or the Council on forthcoming decisions and on the development of policy.

7.4 Other decisions are made by Cabinet Members individually or by officers under delegated powers. The authority to make day-to-day operational decisions is detailed within the Schemes of Delegation.

7.5 Policies and procedures that assist the governance of Council’s operations include Financial Procedure Rules (FPRs); Contract Procedure Rules (CPRs) and the Risk Management Policy. All managers have responsibility to ensure compliance with these policies.

7.6 The Council’s Performance Management Framework describes the ‘Golden Thread’ for planning which links the Council’s vision of “Working together to improve lives” through services delivered at the frontline of the Council and how external factors influence the vision. The external factors include national priorities from both Welsh and UK Government and local priorities from Citizens, Partners, Elected Members and the Local Service Board via the Single Integrated Partnership Plan (SIPP) entitled ‘Bridgend County Together’. The Council’s Corporate Plan is aligned to the key outcomes of the SIPP. The vision and priorities that are set out in the Corporate Plan have a direct relationship with directorate business plans, service delivery plans, group delivery plans and the individuals’ objectives within staff appraisals.

7.7 Corporate Performance Assessment (CPA) is undertaken on a quarterly basis and is attended by Cabinet Members, Corporate Management Board, and Heads of Service and is supported by the Corporate Improvement and Finance teams. The purpose of the CPA is as follows:

- Obtain a holistic view of the Council’s performance;
- Identify and explore cross-cutting issues;
- Critically challenge areas of poor performance; and
- Identify service improvement opportunities, risks to delivery and resource implications.

7.8 Specifically, the CPA monitors:

- The overall financial position;
- The Council’s improvement priorities as defined by the Corporate Plan;
- Agreed key indicators/measures and service actions that are linked to directorate priorities as defined by the Corporate Plan;
- The budget allocated to delivering improvement priorities; and
- Corporate risks.

When necessary, the CPA may also, by way of exception, monitor progress against relevant Outcome Agreements and other national and collaborative initiatives.

7.9 The Council has developed a robust approach to the management of risk and the risk management policy is aligned with Directorate Business Plans and the Council’s performance management framework. All risks identified are assessed against the corporate criteria.

7.10 Risks are viewed from both a Service and Council-wide perspective which allows the key risks to be distilled in the Corporate Risk Register. Most major risks are managed within one of the key strategic programmes. CMB regularly reviews the risk register and actions being taken to mitigate the risks. The Corporate Risk Register is also presented to Audit Committee for review.

The main risks facing the Council that were identified during 2014-15 included:

Risk Description	Potential Impact
Welfare Reform Bill	Changes being made by the UK Government to benefit entitlements mean that demands on some services are likely to increase as the Council's resource base reduces.
Impact of the recession and using resources effectively	Pressure will be placed on council services which support local businesses and employment. Any shortfall in identified savings may result in the need to make unplanned cuts to services which puts vulnerable people at risk. Individuals, particularly young people, may be unable to secure employment because they lack the basic skills and confidence necessary.
Supporting vulnerable people, children and young people	Failure to remodel services to reflect demographic changes will restrict the council's ability to respond to assessed needs and may result in inefficient services. The wellbeing and safety of children might be compromised.
School Modernisation	Insufficient progress may have a negative impact on pupils' learning and wellbeing.
Improving educational attainment	Potentially fewer quality learning opportunities for students resulting in poorer educational attainment.
Disposing of Waste	Failure to achieve recycling/composting targets could result in inefficient use of resources with waste going to landfill sites and penalties against the Council.
Collaboration with Partners	If the council does not undertake collaboration projects where they offer enhanced service quality, increased resilience or significant cost savings, it will not maximise cost effective, tangible, improvements to services.
Maintaining the infrastructure	A poor highways network leads to increased third party liability claims, a loss of reputation, a possible adverse impact on the economy and reduced quality of life for citizens.

During the latter half of the financial year, the risk of Local Government Reorganisation was identified and this was incorporated into the Risk Register within the MTFS that Council received in February 2015. The costs of Local

Government Reorganisation are unknown, but will be high. These costs have not been factored into the 2015-16 to 2018-19 MTFS. There is also a risk because greater demands will be placed on senior management as they plan for Local Government Reorganisation, whilst bringing about the transformative change required to deliver services within reduced budgets. In the longer term there are also other risks as three workforces and sets of financial arrangements are brought together necessitating harmonisation of pay and conditions and council tax.

- 7.11 The Council's approach to Risk Management ensures that key risks are considered when determining Council priorities, targets and objectives. These are incorporated in Directorates' Business Plans.
- 7.12 The financial management of the Council is conducted in accordance with all relevant legislation and the Constitution. In particular, the Financial Procedure Rules and Contract Procedure Rules and the scheme of delegation provide the framework for financial control. The Corporate Director - Resources has responsibility for establishing a clear framework for the management of the Council's financial affairs and for ensuring that arrangements are made for their proper administration. As part of its performance management framework, the Council links the strategic planning process with the budget process and ensures alignment between them, facilitating the allocation of resources to corporate priorities. Chief Officers are responsible for financial management within their respective services. Monthly financial monitoring is undertaken by CMB and quarterly reports are produced for Cabinet and Scrutiny Committees. This work informs the production of the statutory annual Statement of Accounts.
- 7.13 The Council is committed to demonstrating due regard to the Equality Act 2010. It published its Strategic Equality Plan 2012-16 in April 2012. This is not just a council plan and has been developed with partners. It seeks to ensure that Bridgend County Borough is a fair and welcoming place to be. The plan has been written based on what is known about our services and on the views and needs of Bridgend citizens and the people who use services. There was an Annual Report 2013-14 on the Strategic Equality Plan which went to Cabinet in March 2015. The report reviewed and reflected on previous work and outlines progress made by the Council on each of its equality objectives and themes. Heads of Service and Senior Service Managers are responsible for ensuring the actions in the Strategic Equality Action Plan are achieved. Quarterly updates are provided to the Bridgend Equality Forum, membership of which includes a number of third sector groups and organisations as well as a number of key local service providers. All committee reports include an equality impact assessment.

8. Principle 5 - Developing the Capacity and Capability of Members and Officers to be Effective (*Being a Learning Organisation*).

- 8.1 The Council aims to ensure that members and officers of the Council have the skills, knowledge and capacity they need to discharge their responsibilities. New members and staff are provided with an induction to familiarise them with protocols, procedures, values and aims of the Council
- 8.2 There is an Elected Member Learning & Development Strategy 2012-17, which provides a framework for supporting elected members in the roles that they are required to undertake both within, and outside, the Council. The Strategy assists members to develop and strengthen their ability to be confident and effective political and community leaders.

- 8.3 The Council's Staff Appraisal System enables individuals to understand how they contribute to achieving the aims of the Council. The process recognises that most actions are delivered by individuals working in teams to achieve set priorities. All staff appraisals are completed during the first quarter of the financial year to ensure that targets can be linked to service priorities reflected in annual business plans. There is also a Six Month Review form which identifies progress on targets or any additional targets that need to be included. The Appraisal system is an important part of the Council's Performance Management Framework. The percentages of completed appraisals are reported to the Corporate Performance Assessment (CPA) forum.
- 8.4 The Member Development Programme is regularly reviewed by the Democratic Services Committee to ensure that any training activities are appropriate, relevant and timely.
- 8.5 In 2014-15 a cross party group of 13 Elected Members participated in an in-house Leadership academy co-ordinated by the Welsh Local Government Agency (WLGA) consisting of 3 modules including Leading through relationships, Leading Innovation and Change and Community Leadership. There were also 5 other senior Elected Members who attended the All Wales Leadership Academy which supported the personal development of these Members and promoted collaborative working across Wales.
- 8.6 The Council maintains a set of management standards that seek to promote High Performing Behaviours. These are built around the 'FACE' core values and underpin the Leadership and Management Development training that is provided.
- 9. Principle 6 - Engaging with local people and other stakeholders to ensure robust public accountability (*Engaging with Others*);**
- 9.1 The Council is committed to understanding and learning from the views of the public. Consultation processes enable views of stakeholders to inform policies and service delivery. The Council's planning and decision-making processes are designed to include consultation with stakeholders. The Council's Citizen Engagement Strategy will provide a framework for engagement activities, which are undertaken by the Council and will support work being done in this area by the Local Service Board.
- 9.2 Arrangements for consultation and for gauging local views are extensive; significant activity, such as strategic needs assessment, is undertaken by the Local Services Board. Elected members offer surgeries, or equivalent means of providing assistance, for their constituents.
- 9.3 The Council has a Citizens' Panel made up of people aged 16 and upwards from across the county borough. Its panel members agree to take part in three or four surveys a year about a range of issues relating to council services and policies. Previously, members of the Citizens' Panel have given their views on a range of topics including street cleanliness, customer service and the local housing strategy. This has helped the Council to understand residents' opinions about the services the Council provides and to help improve things in the future.
- 9.4 During 2014-15, the Council consulted on a wide range of issues including the following (this list is not exhaustive):

- Budget Review 2015;
- Learner Travel Review;
- Nursery Education Policy;
- Local Transport Plan;
- Various schools proposals.

The Budget Review 2015 included six community engagement workshops throughout the county borough, an on-line survey and access to a budget simulator which captured the views of the public on how to achieve the budget savings necessary for the financial year 2015-16

The Council is also using social media to promote various aspects of the Council and its services and enables feedback from the public.

- 9.5 The Council operates a corporate complaints procedure and uses this to identify areas where service quality is not satisfactory, and to take action to improve. Complaints can be made electronically or in writing and the Council has set target times for responding to all complaints received to ensure accountability.
- 9.6 All Council meetings are open to the public except where personal or confidential matters are discussed. All public agendas, reports and minutes are available on the Council's website.
- 9.7 The Local Service Board (LSB) brings together representatives from organisations across a range of service areas in Bridgend to work together to improve the quality of life for people living and working in Bridgend. Current members of the LSB are:
- Abertawe Bro Morgannwg University Health Board
 - Bridgend Association of Voluntary Organisations
 - Bridgend Business Forum
 - Bridgend College
 - Bridgend County Borough Council
 - Natural Resources Wales
 - South Wales Fire and Rescue Service
 - South Wales Police
 - Valleys to Coast Housing Association
 - Wales Probation
 - Welsh Government
- 9.8 In 2014, the LSB undertook a comprehensive review of its priorities and its approach to delivering those priorities, taking into consideration a series of factors, including diminishing resources faced by partner organisations. As a result, the LSB now focuses on a smaller number of priorities that require really partnership working, with those priorities being delivered through flagship projects. As part of the review, the LSB also restructured its constituent boards by abolishing both the People's Board and Communities' Board and reducing the Programme Boards to five:
- Wealthy Programme Board
 - Healthy Programme Board
 - Wise Programme Board
 - Place Programme Board
 - Community Safety Partnership

The new structure is aligned with the population outcomes of the Single Integrated partnership Plan and supported by a reformed Neighbourhood Network (NHN), which focuses on local priorities and takes forward local projects underpinned by local information, citizen engagement, co-production, and investment in local infrastructure.

- 9.9 In the development of the Medium Term Financial Strategy 2015-16 to 2018-19, Council agreed that future collaborative efforts should focus on projects which have the potential to generate the greatest benefit, make a clear contribution to the Council's corporate priorities and result in a clear service benefit.

10. Review of Effectiveness

- 10.1 The Council has responsibility for annually reviewing the effectiveness of its governance framework, including the system of internal control and the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). This is informed by the work of Internal Audit and chief officers within the Council who have responsibility for the development and maintenance of the internal control environment. The Council also draws assurance on its governance arrangements from independent sources and in particular Internal Audit, External Audit and other external regulators.

- 10.2 The following elements are key to the Council in monitoring and reviewing its governance:

- The Constitution, which sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. It also includes the Codes of Conduct for both members and employees.
- The Cabinet (as Executive) who are responsible for considering overall financial and performance management and receive comprehensive reports on a regular basis. The Cabinet is also responsible for key decisions and for initiating corrective action in relation to risk and internal control issues.
- The Scrutiny function which holds the Cabinet to account. The Corporate Resources and Improvement Scrutiny Committee is responsible for maintaining an overview of financial performance including value for money. The Partnerships and Governance Overview and Scrutiny Committee maintain an overview of cross-cutting matters. In the Committee's Terms of Reference it has a responsibility "to consider the Council's policies and strategies in relation to collaborative and partnership working arrangements". The Committee will liaise with other Scrutiny Committees who will be responsible for scrutinising collaboration projects within their remit to ensure work programmes are co-ordinated.
- The Audit Committee which provides the focus for reviewing the effectiveness of the system of internal control. This is primarily based upon reviewing the work of Internal Audit and receiving reports from the Council's external auditors. The Committee met regularly throughout the year and provided independent assurance to the Council in relation to the

effectiveness of the risk management framework, internal control environment and governance matters.

- 10.3 Additional requirements of the Local Government (Wales) Measure 2011 have included:
- the election of the Chairperson of the Audit Committee by the Audit Committee itself rather than by an appointment by Council;
 - the requirement that Audit Committee must have at least one lay-member, a professional representative with no connections to the Authority that is able to assist in the role of the Audit Committee. The number of lay-members required to support the committee is being kept under review;
 - the appointment of a Head of Democratic Services.
- 10.4 Training has been provided to ensure that all members (including the Lay-Member) have the opportunity to gain a comprehensive understanding of their role. In March 2015, the Audit Committee received training on the Treasury Management to assist them in scrutinising the Annual Treasury Management Strategy of the Council. Also, it was noted by the Estyn Inspection that training provided to elected members to increase their understanding and ability to interrogate data to enable them to challenge the performance of the Children's Directorate and schools was well received.
- 10.5 This is being further enhanced with the use of role descriptions for all committee Member and Chairpersons including the Audit Committee. These are based on the WLGA model role descriptions and have been adapted to reflect the specific roles undertaken in the Council. The role descriptions also form part of Personal Development Review Process which enable members to better understand their role, reflect on how they have undertaken their duties in the previous year and identify any further support or training that they require to effectively carry out their duties. This will increase the ability of Audit Committee members to analyse, monitor and challenge the effective performance of the Council.
- 10.6 The Cabinet and Scrutiny Committee functions provide a further mechanism for review and challenge of any issues that may impact upon the system of internal control. Scrutiny Committees establish Research and Evaluation panels (such as that set up to review budget options); they undertake reviews of specific areas of Council operations and make recommendations to Cabinet for improvement. The Budget Research & Evaluation Panel was commended in June 2014 by the Wales Audit Office and the Centre for Public Scrutiny as an example of best practice at the Scrutiny in the Spotlight Event
- 10.7 Internal Audit undertakes a continuous audit of Council services, which are assessed and prioritised according to relative risk. This risk assessment draws upon the corporate and service risks identified as part of the Service planning process. During 2014-15, in carrying out its duties, Internal Audit has been working to the Public Sector Internal Audit Standards (PSIAS). The PSIAS is applicable to all areas of the United Kingdom public sector and is based on the Chartered Institute of Internal Auditor's (CIIA's) International Professional Practices Framework. The Head of Audit undertook a self-assessment to demonstrate the extent to which the Internal Audit Shared Service complied with the PSIAS and to identify areas where further work was required to demonstrate compliance. This was reported to Audit Committee in April 2015. The review showed that the Internal

Audit Shared Service is fully compliant with all relevant parts of the Standards. However, in relation to Standard 1312 'External Assessment' the two negative answers can only be addressed once the Internal Audit Shared Service has agreed a timetable for being assessed externally. An external assessment needs to be carried out before the end of March 2018.

- 10.8 Internal Audit also provides independent and objective assurance. A programme of reviews is completed in accordance with the Annual Audit Plan which enables the Chief Internal Auditor to provide an opinion on the internal control, risk management and governance arrangements. In addition, Internal Audit undertakes fraud investigation and is proactive in fraud detection work. This includes reviewing the control environment in areas where fraud or irregularity has occurred. Significant weaknesses in the control environment identified by Internal Audit are reported to senior management, the Audit Committee and Cabinet as appropriate.
- 10.9 As part of the normal audit reporting process, recommendations are made and agreed with the relevant chief officers to address any issues that could impact upon the system of internal control. Furthermore, the S151 Officer provides regular updates and an annual report to the Audit Committee summarising any significant internal control issues.
- 10.10 In 2014-15, the Council's financial management arrangements were found to be conforming to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).
- 10.11 The Council is subject to an annual programme of independent external audits and statutory inspections which report on the Council's governance, performance and accounting arrangements. The Wales Audit Office's Annual Audit Letter summarises the key issues arising from the work that the Council's external auditors, KPMG, carried out. The Annual Audit Letter for 2013-14 confirmed that the appointed auditor issued an unqualified audit opinion on the accounting statements for 2013-14 and was satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources. The Letter confirmed that there were not any other matters specifically required by auditing standards to be communicated to those charged with governance.
- 10.12 The Wales Audit Office issued two reports to Audit Committee, one on the Audit of the Financial Statements Report 2013-14 in September 2014 and one on the Certification of Grants and Returns 2013-14 in March 2015. The first report did not identify any material weaknesses in the Council's internal controls. The second report concluded that the Council had generally good arrangements in place for the production and submission of its 2013-14 grant claims. Improvements were noted from 2012-13 but it did highlight some scope for further improvement which are being followed up by management. One recommendation related to discretionary relief awards, management have now undertaken a full review of all discretionary rate reliefs during 2014-15 and a number have been cancelled as a result.
- 10.13 During the period March to May 2014, the Wales Audit Office completed a review of the assurance and accountability arrangements of the Council for ensuring that safeguarding of Children policies and procedures are in place and are being adhered to. This reviewed examined how the Council discharged its safeguarding responsibilities at all levels including Cabinet, Senior Management Team, Scrutiny

and individual officers. The review found that the governance, accountability and management arrangements for overseeing whether the Council is meeting its safeguarding responsibilities to children are adequate but some improvements could be made. It recommended that a Corporate Safeguarding Policy be developed. This was taken onboard and Cabinet approved the Policy in February 2015. One other proposal for improvement was to identify and agree an appropriate internal audit programme of work for safeguarding. The Internal Audit Plan 2015-16 allocated 20 days for Safeguarding which will also incorporate an assessment of the Council's overall operating model for safeguarding.

- 10.14 The Auditor General's letters on the Improvement Assessment of the Council have stated that the Council has discharged its improvement reporting duties under the Local Government (Wales) Measure 2009 and has acted in accordance with Welsh Government guidance and "the Council has discharged its duties to prepare and publish an improvement Plan in accordance with statutory requirements".
- 10.15 The Public Services Ombudsman for Wales reports on each council in Wales the number of complaints received and investigated. In July 2014, the Council received its Annual Letter for 2013-14. The letter noted an increase in the number of complaints received, 39 in 2013-14 compared to 24 in 2012-13. The comparative figure for the local authority average was 40 for 2013-14 (36 for 2012-13). Only 1 complaint was investigated by the Ombudsman which was the same as 2013-14. The increases in the number of complaints received relate to 'Children Social Services' and 'Planning and Building Control'. The Ombudsman did not find it necessary to issue any 'upheld' reports against the Council during 2013-14.
- 10.16 The Care and Social Services Inspectorate Wales (CSSIW) Annual Review for Bridgend 2013-14 concluded that the Council has continued to work towards its change agenda and the development of new models of service delivery, in line with the expectations of the Social Services and Wellbeing (Wales) Act 2014. The review identified the appointment of two new Corporate Directors for Wellbeing and Children and how they take a strong lead in supporting the service by providing oversight of strategic delivery and operational components of the service. It recognised that the Wellbeing Business Plan covers the new way of working with greater integrated working with health and the third sector. It also recognised that the Council has mechanisms in place for identifying and addressing gaps in performance. A number of specific areas for improvement have been identified within the report and the Council's progress towards these will be discussed during regular engagement meetings and site visits during 2015-16.
- 10.17 In October 2012, Estyn Inspection carried out a major inspection of the quality of education services for children and young people in Bridgend. The Report was published in February 2013 and even though it identified that the Council had more strengths than areas for improvement, it still concluded that the Council fell into the category of follow-up activity and will require an Estyn monitoring visit. A Post Inspection Action Plan (PIAP) was developed following discussions with officers, elected members and the Central South Consortium and this was signed off by Estyn in July 2013. Progress against the PIAP was monitored closely by Estyn and there were follow up visits in March and December 2014. In December, Estyn Inspectors revisited to undertake a full re-inspection which consisted of discussions with elected members, head teachers and governors, senior officers and a range of other staff. The team scrutinised documentation including evidence

on the progress made against each of the recommendations since the 2012 inspection. Estyn concluded that the Council "is judged to have made sufficient progress in relation to the recommendations following the inspection of October 2012. As a result, Her Majesty's Chief Inspector of Education and Training in Wales considers that the authority is no longer in need of Estyn monitoring and is removing it from further follow-up activity".

- 10.18 The previous Annual Governance Statement 2013-14 that was presented to Audit Committee in June 2014 identified the governance risk of the retirement of the deputy Section 151 officer in July 2014 at the same time that the Section 151 Officer was unable to perform her duties. The Chief Executive addressed this with interim arrangements being put in place to cover the statutory role in the short term and the Council was able to appoint a new Head of Finance and ICT who took up his post in September 2014. The Corporate Director Resources also returned to perform her duties in September 2014.

11. Significant Governance Issues

- 11.1 The Annual Governance Statement 2013-14 was reviewed and an update was provided to Audit Committee in November 2014. This reported that the governance issue surrounding the requirement to review and update the Code of Corporate Governance had been addressed with Audit Committee approving the revised Code of Governance in July 2014.
- 11.2 As mentioned above, one of the significant governance issues in 2013-14 related to the Estyn Report on the quality of local authority education services for children and young people. However, the confirmation in January 2015 that the Council is no longer in need of Estyn monitoring means that this governance issue can be removed from the updated Action Plan.
- 11.3 As reported to Audit Committee in November 2014, Directorates undertook a series of reviews of third sector organisations over the summer, to determine the extent to which the services they provide meet corporate priorities and are providing value for money. This was as a result of a WAO review of Council's arrangements for ensuring value for money from its working with the Third Sector identified a specific governance issue. A Report was taken to the Community Safety and Governance Overview and Scrutiny Committee in March 2015. The budget reductions currently identified fall short of the budget savings of £150,000 for 2015-16 and 2016-17 built into the MTFs. The Council is working with those organisations to identify ways of managing the reductions to minimize impact on front line services. A number of payments to the Third Sector are for services provided on behalf of the Council, rather than general grant funding. If the Council were to cease this payment, depending on the statutory nature of the provision, the Council may have to provide this service itself, and this could be at a higher cost. The project has now been brought under the Director of Education and Transformation as part of the overall Transformation Programme. It is the intention for the project to be reviewed and a revised business plan presented to PMB in the first instance.
- 11.4 The Annual Governance Statement 2013-14 highlighted the significant financial challenge facing the Council in terms of delivering a savings target of the £36m savings identified in the Medium Term Financial Strategy (MTFS) 2014-15 to 2017-18. In July 2014, the MTFs was updated following further analysis of

assumptions to increase the estimated budget reductions to £50m over the period to 2018-19.

- 11.5 The implementation of the MTFs 2014-15 to 2017-18 has been led by Cabinet and the Corporate Management Board. This has now been rolled forward a year to cover the period 2016-17 to 2019-20 taking account of auditors' views and any issues which need to be addressed from 2014-15, together with a continued desire to embed a culture of medium term financial planning closely aligned with corporate planning. Implementation of the strategy will be led by Cabinet and Corporate Management Board underpinned by financial and performance data. The Council will seek to ensure that it is widely understood by internal stakeholders (Members, employees and Unions) and external stakeholders (citizens, businesses and partners). There will also be a role for the Budget Research and Evaluation Panel (BREP) which will work on an on-going basis, in an advisory capacity, with Cabinet and officers.

- 11.6 The Annual Internal Audit Opinion is due to be reported to the Audit Committee in July 2015, for the period April 2014 to March 2015. It stated that based on the work undertaken and taking into account all available evidence "the adequacy and effectiveness of internal control at Bridgend CBC is reasonable". Although reasonable assurance demonstrates good control across the board, the Opinion states that "it is important that control weaknesses in systems where the assurance level has been rated as Limited or No Assurance are dealt with and given priority by management". During 2014-15, there were 9 reviews which limited assurance was given and 1 where no assurance could be given. This related to the Section 117 Process within the Wellbeing Directorate. The significant control issues identified have tended to relate to specific service areas rather than a general breakdown in controls. The relevant managers have agreed to implement the recommendations made within the reports. Internal Audit has already revisited the area with no assurance and 4 with limited assurance with a plan to revisit the remaining areas shortly.

12. Certification of Annual Governance Statement

Steps to address and mitigate the matters referred to in section 11 above will be taken to further enhance our governance arrangements.

Signed:

Section 151 Officer.....Date.....

Chief Executive Officer.....Date.....

Leader of the Council.....Date.....

Statement of Accounting Policies

1. General principles

The Statement of Accounts summarises the Council's transactions for the 2014-15 financial year and its position at the year end of 31 March 2015. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (Wales) Regulations 2005 in accordance with proper accounting practices. These practices comprise the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) 2014-15 and the *Service Reporting Code of Practice* 2014-15 supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

2. Accruals of income and expenditure

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

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

3. Provisions, Contingent Liabilities and Contingent AssetsProvisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For example, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Authority settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

4. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the Council Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the Council Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, employee and retirement benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

5. Government grants and contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grant / contribution will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the Council Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

6. Employee benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave and bonuses for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlement earned by employees but not taken before the financial year-end which employees can carry forward into the next financial year. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in the Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the Council Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

Employees of the Council are members of two separate pension schemes. Both schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

- The *Teachers' Pension Scheme*, administered by Teachers' Pensions on behalf of the Department for Education (DfE). The arrangements for this scheme mean that liabilities for benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it were a defined contributions scheme and no liability for future payment of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

- The *Local Government Pension Scheme* - Other Employees are members of the Rhondda Cynon Taf County Borough Council Pension Fund. The Local Government Scheme is accounted for as a defined benefit scheme:-
 - The liabilities of the pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc and projections of projected earnings for current employees.
 - Liabilities are discounted to their value at current prices, using a discount rate.
 - The assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value:-
 - i. Quoted securities – current bid price
 - ii. Unquoted securities – professional estimate
 - iii. Property – market value
 - The change in the net pensions liability is analysed into the following components:-
 - i. Current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
 - ii. Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
 - iii. Net interest on the net defined benefit liability (asset), i.e. net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
 - iv. Remeasurements comprising:-
 - The return on plan assets – excluding amounts included in the net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve and Other Comprehensive Income and Expenditure
 - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions reserve as Other Comprehensive Income and expenditure
 - v. Contributions to the pension fund – cash paid as employer's contribution to the pension fund in settlement of liabilities; not accounted for as an expense.
- In relation to retirement benefits, statutory provisions require the Council Fund balance to be charged with the amount payable by the Council to the pension

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

- The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

7. VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to Her Majesty's Revenue and Customs and all VAT paid is recoverable from them.

8. Overheads and support services

The costs of overheads and support services are charged to services that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2014-15 (SeRCOP)*. For 2014-15, most support service costs have been apportioned by a variety of methods. The most important being:

- actual use of support service
- estimated staff deployment, in some cases backed by formal time recording systems
- apportionments based on related financial or physical quantities (e.g. employee numbers, number of deliveries etc)

Support services defined as Corporate and Democratic Core and Non-Distributed Costs are not chargeable to direct services in accordance with the *SeRCOP*.

- Corporate and Democratic Core are costs relating to the Council's status as a multi-functional, democratic organisation.
- Non distributed costs are the costs of discretionary benefits awarded to employees retiring early and any impairment losses chargeable on Assets Held for Sale.

These two categories are defined in *SeRCOP* and accounted for as separate headings in the Comprehensive Income and Expenditure Statement as part of the Net Expenditure on Continuing Services.

9. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

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

- infrastructure and community assets – depreciated historical cost
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value are identified, they are accounted for by:

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

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

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

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

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

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- buildings – Depreciated on a straight-line basis according to estimated asset lives (ranging from 1 to 79 years) based on the value at the start of the year except for land, which is not depreciated.
- vehicles, plant, furniture and equipment – Depreciated on a straight-line basis according to estimated asset lives (ranging from 3 to 10 years).
- infrastructure – Depreciated on a straight-line basis over 30 years on Bridges and 15 years on Roads.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately according to the residual life.

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

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale (adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale) and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The receipts are required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the Council Fund Balance in the Movement in Reserves Statement.

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

10. Heritage Assets

Heritage Assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment. The Council recognises its civic regalia as a Heritage Asset, and these items are reported in the Balance Sheet at insurance valuation which is based on market values.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment. If the Council disposes of a heritage asset, the proceeds are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

11. Charges to revenue for non-current assets

Services, support services and trading accounts are debited with the following amounts to record the real cost of holding fixed assets during the year:

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

The Council is not required to raise council tax to fund depreciation, revaluation or impairment losses or amortisation. However, it is required to make an annual prudent provision from revenue to contribute towards the reduction in its overall borrowing requirement. This is detailed in the Council's Annual Minimum Revenue Provision Statement and is equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement for supported borrowing and based on the asset life for unsupported borrowing. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by this *Minimum Revenue Provision* (MRP) by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

12. Revenue Expenditure Funded from Capital Resources under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of non-current assets has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Examples of such expenditure include home improvement grants, town improvement grants, demolitions and land feasibility studies. Where the Council has determined to meet the cost of these from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the Council Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of council tax.

13. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as a Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

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

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

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

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. if there is a rent-free period at the commencement of the lease).

The Council as a LessorOperating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

14. Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure Section of the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable together with any accrued interest and interest charged to the Comprehensive Income and Expenditure Statement for the year according to the loan agreement.

The Authority has three Lender's Option Borrower's Option loans (LOBOs) with stepped interest rates. An effective interest rate has been used for these so that these are remeasured amounts for the LOBOs on the Balance Sheet.

Where premiums and discounts on early repayment have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the Council Fund to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the Council Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

15. Financial Assets

Loans and Receivables are assets that have fixed or determinable payments but are not quoted in an active market. They are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

16. Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. Work in progress is subject to an interim valuation at the year end and recorded in the Balance Sheet at cost plus any profit reasonably attributable to the works.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

17. Private Finance Initiatives (PFI)

PFI contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Authority is deemed to control the services that are provided under the PFI scheme and as ownership of the property, plant and equipment will pass to the Authority at the end of the contracts for no additional charge, the Authority carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current Assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Authority.

The amounts payable to the PFI operators each year are analysed as follows:-

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to Financing and Investment Income and Expenditure section of the Comprehensive Income and Expenditure Statement
- payment towards the liability – applied to write down the Balance Sheet liability towards the PFI operator

PFI assets are subject to MRP. The Annual MRP Policy for the Council has deemed this charge to be equivalent to the finance lease liability written down for the year.

PFI Credits

Government grants received for PFI schemes, in excess of current levels of expenditure, are carried forward as an earmarked reserve to fund future expenditure.

18. Joint Arrangements

The Council has administrative responsibilities for County Borough Supplies and Coychurch Crematorium. Independent financial statements continue to be prepared and audited for each of these joint committees. The activities of these joint arrangements are excluded from the Council's single entity financial statements on the basis of materiality of both assets and population.

19. Council Tax Income

All Council Tax income is shown in the Comprehensive Income and Expenditure Statement of the Authority with the major preceptors' precepts (South Wales Police) being included as expenditure.

20. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

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

No prior period adjustment needs have arisen during 2014-15

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

21. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty of notice of not more than 24 hours. Cash equivalents are investments that mature in no more than a month or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

22. Events After the Balance Sheet Date

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

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

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

23. Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

24. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the Council Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the Council Fund Balance. The gains and losses are therefore reversed out of the Council Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

25. Carbon Reduction Commitments Allowances

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions ie carbon dioxide produced as energy is used. As carbon dioxide is emitted (ie as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the services and is apportioned to services on the basis of energy consumption.

26. Local Authority Schools

The Code of Practice on Local Authority Accounting confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Therefore, schools' transactions, cash flows and balances are recognised in each of the financial statements as if they were of the authority.



Core Financial Statements 2014-15

Movement in Reserves Statement For Years Ended 31 March 2014 & 2015

	Council Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Total Unusable Reserves	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2013 carried forward	7,320	35,601	12,505	176	55,602	34,940	90,542
Movement in Reserves during 2013-14							
Surplus or (deficit) on provision of services Other Comprehensive (Expenditure) and Income	(22,118)				(22,118)	91,020	(22,118) 91,020
Total Comprehensive Expenditure and Income	(22,118)	-	-	-	(22,118)	91,020	68,902
Adjustments between accounting basis & funding basis under regulations (Note 4)	24,491		(2,260)	333	22,564	(22,564)	-
Net Increase/(Decrease) before Transfers to Earmarked Reserves	2,373	-	(2,260)	333	446	68,456	68,902
Transfers to Earmarked Reserves (Note 30)	(2,298)	2,298	-	-	-	-	-
Increase/(Decrease) in 2013-14	75	2,298	(2,260)	333	446	68,456	68,902
Balance at 31 March 2014 carried forward	7,395	37,899	10,245	509	56,048	103,396	159,444
Balance at 31 March 2014 carried forward	7,395	37,899	10,245	509	56,048	103,396	159,444
Movement in Reserves during 2014-15							
Surplus or (deficit) on provision of services Other Comprehensive (Expenditure) and Income	(77,076)				(77,076)	(10,333)	(77,076) (10,333)
Total Comprehensive Expenditure and Income	(77,076)	-	-	-	(77,076)	(10,333)	(87,409)
Adjustments between accounting basis & funding basis under regulations (Note 4)	80,686		4,289	(356)	84,619	(84,619)	-
Net Increase/(Decrease) before Transfers to Earmarked Reserves	3,610	-	4,289	(356)	7,543	(94,952)	(87,409)
Transfers to Earmarked Reserves (Note 30)	(3,555)	3,555	-	-	-	-	-
Increase/(Decrease) in 2014-15	55	3,555	4,289	(356)	7,543	(94,952)	(87,409)
Balance at 31 March 2015 carried forward	7,450	41,454	14,534	153	63,591	8,444	72,035

Comprehensive Income and Expenditure Statement 2014-15

2013-14 (restated)				2014-15			Notes
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure	
£'000	£'000	£'000		£'000	£'000	£'000	
173,727	(35,364)	138,363	Children's and Education Services	227,613	(34,142)	193,471	
59,907	(14,575)	45,332	Adult Social Care	61,464	(16,237)	45,227	
27,624	(9,241)	18,383	Highways, Roads and Transport Services	28,331	(9,443)	18,888	
57,464	(55,059)	2,405	Housing Services	58,704	(55,802)	2,902	
28,929	(8,876)	20,053	Central Services to the Public	34,619	(7,883)	26,736	
15,105	(3,243)	11,862	Cultural and Related Services	19,091	(3,028)	16,063	
21,232	(8,855)	12,377	Environmental and Regulatory Services	22,397	(10,430)	11,967	
13,364	(8,798)	4,566	Planning Services	15,340	(10,024)	5,316	
5,502	(126)	5,376	Corporate and Democratic Core	4,941	(417)	4,524	
853		853	Non-Distributed Costs	560	-	560	
403,707	(144,137)	259,570	Cost Of Services	473,060	(147,406)	325,654	
			Other Operating Expenditure				
10,590		10,590	Payments of precepts	11,199	-	11,199	5
7,063		7,063	Levies payable	6,894	-	6,894	5
5,882		5,882	(Gain) / loss on disposal of non current (fixed) assets	718		718	
23,535	-	23,535	Other Operating Expenditure	18,811	-	18,811	
			Financing and Investment Income and Expenditure				
4,625		4,625	Interest payable on debt	4,577	-	4,577	
104		104	Interest element of finance leases (lessee)	167	-	167	
1,505		1,505	Interest payable on PFI unitary payments	1,471	-	1,471	12
13,580		13,580	Net Interest on Net Defined Benefit Liability	10,090	-	10,090	
	(607)	(607)	Investment Interest & Other Interest Receivable	-	(853)	(853)	
410		410	Changes in fair value of investment properties	-	(647)	(647)	
6,736	(6,756)	(20)	(Gain) / loss on trading accounts (not applicable to a service)	7,000	(7,056)	(56)	6
26,960	(7,363)	19,597	Financing and Investment Income and Expenditure	23,305	(8,556)	14,749	
			Taxation and Non-Specific Grant Income				
	(154,722)	(154,722)	RSG		(150,943)	(150,943)	7
	(68,987)	(68,987)	Council tax		(73,164)	(73,164)	9
	(43,026)	(43,026)	NNDR		(43,794)	(43,794)	10
	(11,310)	(11,310)	Recognised capital grants and contributions		(12,825)	(12,825)	8
	(2,539)	(2,539)	Non service related government grants		(1,412)	(1,412)	8
-	(280,584)	(280,584)	Taxation and Non-Specific Grant Income	-	(282,138)	(282,138)	
454,202	(432,084)	22,118	(Surplus) or Deficit on Provision of Services	515,176	(438,100)	77,076	
	(278)	(278)	(Surplus) or deficit on revaluation of Property, Plant and Equipment		(58,371)	(58,371)	
	248	248	Impairment losses on non-current assets charged to the Revaluation reserve	48,614		48,614	
	(90,990)	(90,990)	Actuarial (gains) / losses on pension liabilities	20,090		20,090	
		(91,020)	Other Comprehensive Income and Expenditure			10,333	
		(68,902)	Total Comprehensive Income and Expenditure			87,409	

Balance Sheet for Years Ended 31 March 2014 and 2015

31 March 2014		31 March 2015	Notes
£'000		£'000	
	Property, Plant & Equipment		21
398,102	- other land and buildings	331,665	
5,202	- vehicles, plant, furniture and equipment	7,927	
88,659	- infrastructure	83,373	
4,537	- community assets	4,808	
16,115	- assets under construction	15,848	
10,669	- surplus assets not held for sale	9,767	
51	Heritage Assets	73	23
	Investment Property		
3,011	- Investment property	4,103	22
	Long Term Debtors		
29	Housing Advances	17	24
384	Finance Leases	261	
526,759	Long Term Assets	457,842	
	Short Term Investments	11,027	37
4,005	Assets held for sale	7,478	26
6,721	Inventories	463	
433	Short Term Debtors	29,272	25
27,063	Cash and Cash Equivalents	6,573	
4,469			
42,691	Current Assets	54,813	
	Short Term Borrowing	(879)	37
(1,543)	Short Term Creditors	(43,458)	27
(38,901)			
(40,444)	Current Liabilities	(44,337)	
	Provisions	(2,424)	28
(4,900)	Long Term Borrowing	(97,444)	37
(97,451)			
	Other Long Term Liabilities		
(20,923)	PFI & Other Long Term Liabilities	(20,847)	29
(243,900)	Net pensions liability	(273,010)	31b
	Capital Grants Receipts in Advance	(2,558)	
(2,388)			
(369,562)	Long Term Liabilities	(396,283)	
159,444	Net Assets	72,035	
	Usable reserves		30
7,395	- Council Fund	7,450	
37,899	- Earmarked reserves	41,454	30b
10,245	- Capital Receipts Reserve	14,534	30a
509	- Capital Grants Unapplied	153	
	Unusable Reserves		31
98,804	- Revaluation Reserve	100,292	31a
(243,900)	- Pensions Reserve	(273,010)	31b
257,644	- Capital Adjustment Account	189,018	31c
(5,320)	- Financial Instruments Adjustment Account	(3,632)	31d
(3,832)	- Short-term Accumulating Compensated Absences Account	(4,224)	31e
159,444	Total Reserves	72,035	

Cash Flow Statement as at 31 March 2014 and 2015

2013-14 £'000		2014-15 £'000	Notes
22,118	Net (surplus)/deficit on the Provision of Services	77,076	
(41,063)	Adjustments to net deficit on the provision of services for non-cash movements	(103,311)	39
11,476	Adjustments for Items included in the net deficit on the provision of services that are investing and financing activities	12,825	
(7,469)	Net Cash Flows from Operating Activities	(13,410)	40
37,649	Investing Activities	23,972	41
(19,959)	Financing Activities	(12,666)	42
10,221	Net increase in Cash & Cash Equivalents	(2,104)	
(14,690)	Cash & Cash Equivalent at the beginning of the Reporting Period	(4,469)	
(4,469)	Cash & Cash Equivalent at the end of the Reporting Period	(6,573)	



Notes to the Core Financial Statements 2014-15

Contents for Notes to the Core Financial Statements

Note		Page Number
1.	Accounting Standards Issued, Not Adopted	59
2.	Critical Judgements in Applying Accounting Policies	59
3.	Assumptions Made about the Future and Other Major Sources of Estimation	59
4.	Adjustments between Accounting Basis and Funding Basis Under Regulations	60
5.	Precepts and levies	64
6.	Trading activities	64
7.	Revenue Support Grant	64
8.	Government Grants	64
9.	Council tax	65
10.	National Non-Domestic Rates (NNDR)	66
11.	Leases	66
12.	Private Finance Initiative (PFI)	67
13.	Section 33 NHS (Wales) Act 2006	68
14.	Minimum Revenue Provision	69
15.	Officers' Remuneration	69
16.	Members' Allowances	73
17.	External Audit Costs	73
18.	Group Accounts	73
19.	Related Party Transactions	74
20.	Amounts Reported for Resource Allocation Decisions	75
21.	Tangible Fixed Assets	81
22.	Investment Properties	87
23.	Heritage Assets	87
24.	Long term Debtors	87
25.	Short term Debtors	87
26.	Assets Held for Sale	88
27.	Short term Creditors	88
28.	Provisions	89
29.	PFI and Other Long Term Liabilities	90
30.	Usable Reserves	90
31.	Unusable Reserves	94
32.	Trust Funds	97
33.	Escrow Accounts	98
34.	Developers' Contributions	98
35.	Pensions liabilities, IAS 19 disclosures	99
36.	Financial Instruments Disclosures	105
37.	Post Balance Sheet Events	116
38.	Cash Flow Statement - Adjustments for Non-cash Movements	117
39.	Cash Flow Statement - Operating Activities	117
40.	Cash Flow Statement - Investing Activities	117
41.	Cash Flow Statement - Financing Activities	118
	Glossary of Terms	119

1. Accounting Standards that have been Issued but not yet Adopted

The Code requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2015-16 Code:-

IFRS 13 – Fair Value Measurement - This standard provides a consistent definition of fair value and sets out a single IFRS framework for measuring fair value. It also requires significant disclosures about fair value measurements. The adoption of this standard will require surplus assets to be revalued at market value rather than its existing use value. Operational property, plant and equipment assets are outside the scope of IFRS 13, so this standard is not expected to have a material impact on the statement of accounts.

2. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out above, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

The Council is deemed to control the services provided under the outsourcing agreement for the provision of a Comprehensive School in Maesteg and also to control the residual value of the school at the end of the agreement. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement and the School (valued at £22.9 million) has been recognised as Property, Plant and Equipment on the Council's Balance Sheet.

The Council has previously examined all its existing leases under IAS 17 and as a result some have been classified as finance leases. This was as a result of evaluating that the present value of the minimum lease payments amounted to substantially all of the fair value of the leased assets. The final balances of these leases were charged to the 2014-15 accounts, and consequently there are no balances remaining.

3. Assumptions made about the future and other major sources of estimated uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Plant, Property and Equipment

The Council's portfolio of Land and Buildings was revalued at 1 April 2015. The value of those assets is based upon calculations and estimation techniques following the Royal Institute of Chartered Surveyors (RICS) guidance, and in accordance with IFRS. Changes in asset values are largely influenced by market forces and build cost indices which can be

volatile. Therefore it is uncertain that the Council's assets will not see a significant change in value.

Depreciation of Property, Plant and Equipment

Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate may result in spending on repairs and maintenance having to be reduced thus, bringing into doubt the useful lives assigned to assets. If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets will fall.

Pensions Liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.

Notes to the Movement in Reserves Statement**4. Adjustments between Accounting Basis and Funding Basis Under Regulations**

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

The following sets out a description of the reserves that the adjustments are made against.

Council Fund Balance

This is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the Council Fund Balance, which is not necessarily in accordance with proper accounting practice. The Council Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit or resources that the Council is required to recover) at the end of the financial year.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grants Unapplied

The Capital Grants Unapplied Account holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

The tables below detail the adjustments for 2013-14 for comparative purposes and the adjustments for 2014-15:-

2013-14	Council Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Usable Reserves	Revaluation Reserve	Pensions Reserve	Capital Adjustment Account	Financial Instruments Adjustment Account	Short term Compensated Absences	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments between accounting basis & funding basis under regulations										
Adjustments Primarily Involving the Capital Adjustment Account										
Reversal of Items Debited or Credited to the Comprehensive Income and Expenditure Statement										
Charges for Depreciation & Impairment of Non-Current Assets	21,887			21,887			(21,887)			(21,887)
Revaluation losses on Property, Plant & Equipment	228			228			(228)			(228)
Movement in market value of investment property	410			410			(410)			(410)
Capital grant and contributions applied	(11,336)			(11,336)			11,336			11,336
Revenue Expenditure Funded from Capital under Statute	194		411	605			(683)			(683)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Account	6,048			6,048	(460)		(108)			(568)
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than Historic Cost.					(1,251)		1,251			-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement										
Statutory Provision for the financing of capital investment	(7,840)			(7,840)			7,840			7,840
Capital expenditure charged against the Council Fund balance	(1,271)			(1,271)			1,271			1,271
Adjustments primarily involving the Capital Grants Unapplied Account :										
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	26		(26)	-						-
Application of grants to capital financing transferred to the Capital Adjustment Account			(52)	(52)			83			83
Adjustments primarily involving the Capital Receipts Reserve										
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(166)	166		-						-
Use of Capital Receipts Reserve to finance new capital expenditure		(2,453)		(2,453)			519			519
		27								
Adjustments primarily involving the Financial Instrument Adjustment Account										
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(205)			(205)				205		205
Adjustments primarily involving the Pensions Reserve										
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	34,060			34,060		(30,450)				(30,450)
Employer's contributions to pension schemes	(17,340)			(17,340)		18,460				18,460
Adjustments primarily involving the Accumulated Absences Account										
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(204)			(204)					(46)	(46)
Total Adjustments 2012/13 (Restated)	24,491	(2,260)	333	22,537	(1,711)	(11,990)	(1,016)	205	(46)	(14,558)

2014-15	Council Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Usable Reserves	Revaluation Reserve	Pensions Reserve	Capital Adjustment Account	Financial Instruments Adjustment Account	Short term Compensated Absences	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments between accounting basis & funding basis under regulations										
Adjustments Primarily Involving the Capital Adjustment Account										
Reversal of Items Debited or Credited to the Comprehensive Income and Expenditure Statement										
Charges for Depreciation & Impairment of Non-Current Assets	94,764			94,764			(94,764)			(94,764)
Revaluation losses on Property, Plant & Equipment				-						-
Movement in market value of investment property	(646)			(646)			646			646
Capital grant and contributions applied	(12,817)			(12,817)			12,817			12,817
Revenue Expenditure Funded from Capital under Statute	774		(340)	434			(434)			(434)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Account	7,014			7,014	(5,574)		(1,440)			(7,014)
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than Historic Cost.					(2,695)		2,695			-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement										
Statutory Provision for the financing of capital investment	(8,020)			(8,020)			8,020			8,020
Capital expenditure charged against the Council Fund balance	(1,803)			(1,803)			1,803			1,803
Adjustments primarily involving the Capital Grants Unapplied Account :										
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(8)		8	-						-
Application of grants to capital financing transferred to the Capital Adjustment Account			(24)	(24)			24			24
Adjustments primarily involving the Capital Receipts Reserve										
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(6,296)	6,296		-						-
Use of Capital Receipts Reserve to finance new capital expenditure		(2,019)		(2,019)			2,019			2,019
Other Amounts (including Mortgage Repayments)		12		12			(12)			(12)
Adjustments primarily involving the Financial Instrument Adjustment Account										
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(1,688)			(1,688)				1,688		1,688
Adjustments primarily involving the Pensions Reserve										
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	26,800			26,800		(26,800)				(26,800)
Employer's contributions to pension schemes	(17,780)			(17,780)		17,780				17,780
Adjustments primarily involving the Accumulated Absences Account										
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	392			392					(392)	(392)
Total Adjustments 2013/14	80,686	4,289	(356)	84,619	(8,269)	(9,020)	(68,626)	1,688	(392)	(84,619)

Notes to the Comprehensive Income and Expenditure Statement

5. Precepts and levies

Precepts are the amounts paid to non-billing authorities (e.g. community councils) so that they can cover their expenses. Levies are the amounts payable when services are operated over areas covering more than one Authority, either on a joint service basis, where one Authority administers the service where other Authorities contribute to the costs, or by external bodies who levy on the appropriate Authorities. The amounts paid were as follows:

2013-14 £'000		2014-15 £'000
	Precepts	
9,078	Police and Crime Commissioner for South Wales	9,625
1,512	Community Councils	1,574
10,590	Sub total	11,199
	Levies	
6,659	South Wales Fire and Rescue Authority	6,585
263	Coroners Service	208
106	Archive Service	95
17	Margam Crematorium Joint Committee	(14)
18	Swansea Bay Port Health Authority	19
7,063	Sub total	6,893
17,653	Total	18,092

6. Trading activities

The Council has established trading activities which were previously subject to Compulsory Competitive Tendering legislation. The outturn for the Council's trading activities are summarised as follows:

2013-14 Income £'000	2013-14 Exp. £'000	2013-14 Deficit/ (Surplus) £'000	Activity	2014-15 Income £'000	2014-15 Exp. £'000	2014-15 Deficit/ (Surplus) £'000	Target £'000	Variance £'000
(2,681)	2,747	66	Building Maintenance	(3,266)	3,281	15	(13)	28
(1,175)	1,094	(81)	Building Cleaning	(1,076)	1,008	(68)	(108)	40
(2,900)	2,895	(5)	Fleet Services	(2,714)	2,711	(3)	(17)	14
(6,756)	6,736	(20)	Transfer to I & E Account	(7,056)	7,000	(56)	(138)	82

7. Revenue Support Grant

This is the principal source of finance towards revenue expenditure from Welsh Government with the amount receivable fixed at the start of each financial year. The amount received in 2014-15 was £150.9 million (£154.7 million for 2013-14).

8. Government grants

In addition to the Revenue Support Grant, the Council received the following specific government grants :-

2013-14	Specific Grants credited to Services	2014-15
£'000		£'000
47,948	Housing Benefit Subsidy	49,512
6,717	DCELLS Post 16 Grant	6,307
4,187	Foundation Phase Grants	4,143
1,681	PFI Grant	-
3,041	Other Children	7,275
434	Other Wellbeing	1,196
5,071	Others	1,504
6,101	Supporting People	6,152
-	Sport Play & Active Wellbeing	386
2,920	Concessionary Fares Grant	2,806
2,486	Flying Start	3,025
2,960	Sustainable Waste Grant	2,854
1,104	Housing/Council Tax Benefit Administration	813
357	Local Transport Services	390
952	Communities First	1,511
1,913	Families First	1,840
87,872	Total	89,714

2013-14	Other Government Grants credited to Taxation and Non-specific Grant Income	2014-15
£'000		£'000
1,401	Improvement Agreement Grant	1,412
1,138	Council Tax Reduction Grant	-
11,310	Capital Grants and Contributions	-
13,849	Total	1,412
101,721		91,126

Grant income sits within the gross income column within services except for the Improvement Agreement Grant and capital grants and contributions.

9. Council tax

Council Tax Income derives from charges raised according to the value of residential properties, which have been classified into ten valuation bands estimating 1 April 2005 values for this specific purpose. Charges are calculated by taking the amount of income required for Bridgend County Borough Council, each Community Council and the South Wales Police Authority and dividing this by the Council Tax base. The Council Tax base is the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts – 50,566.20 dwellings for 2014-15 (50,075.92 in 2013-14). The average amount for a Band D property is £1,413.33 in 2014-15 (£1,346.83 in 2013-14 on average) and is multiplied by the proportion specified for the particular band to give the individual amount due.

Council Tax bills were based on the following multipliers for bands A* to I and the number of properties in each band were as follows:

Band	A*	A	B	C	D	E	F	G	H	I
Multiplier	5/9	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	21/9
Chargeable Dwellings	28	10,048	14,757	13,789	9,624	6,917	3,882	1,352	283	84

Analysis of the net proceeds from Council Tax is as follows:

2013-14 £'000		2014-15 £'000
68,987	Council Tax Collectable	73,164
	Less:	
(1,512)	Payable to Community Councils	(1,574)
(9,078)	Payable to South Wales Police	(9,625)
68	Provision for non-payment of Council Tax (Increase)	(1,159)
58,465	Net Proceeds from Council Tax	60,806

10. National Non-Domestic Rates (NNDR)

NNDR is organised on a national basis. The Welsh Government (WG) specifies the rate in the pound to be charged and, subject to the effects of transition arrangements, local businesses pay rates calculated by multiplying their rateable value by the rate in the pound. This was 47.3p in 2014-15 (46.4p in 2013-14). The Council is responsible for collecting rates due from ratepayers in its area but pays the proceeds into the NNDR pool administered by WG. WG then redistributes the sums payable back into local authorities on the basis of a fixed amount per head of population.

The Council receives a contribution from the NNDR pool direct. The income from this should be reflected separately in the Comprehensive Income and Expenditure Statement. This amount was £43.794 million in 2014-15 (£43.026 million in 2013-14).

11. Leases

Council as a Lessee

Finance Leases (excluding Private Finance Initiative)

Under IFRS, a number of leases for vehicles, plant and equipment were previously reclassified as finance leases, and were carried as Property, Plant and Equipment in the Balance Sheet. As shown in the table below, the last elements of these costs were charged to 2014-15, and there are no balances remaining:

31 March 2014 £'000		31 March 2015 £'000
37	Vehicles, Plant & Equipment Finance Leases	-

31 March 2014 £'000		31 March 2015 £'000
	Finance Lease Liabilities (Net Present Value of minimum lease payments) :-	-
41	* current	
	* non-current	
2	Finance Costs payable in future years	-
43	Minimum lease payments	-
43	Not later than one year	-
-	Later than one year	-
43	Total	-

Operating Leases

The future minimum lease payments due under non-cancellable leases in future years are :-

31 March 2014 £'000		31 March 2015 £'000
1,327	Not later than one year	1,058
3,676	Later than one year	2,469
8,486	Later than five years	8,034
13,489	Total	11,561

Expenditure charged in the year to the Service areas was £0.975 million made up of minimum lease payments of £0.574 million and £0.401 million for contingent rents (£1.459 million in 2013-14 made up of £0.884 million minimum lease payments and £0.575 million contingent rents).

Council as a Lessor

Operating Leases

The Council leases out property for economic purposes to provide affordable accommodation for local businesses. The future rentals receivable under operating leases are:-

31 March 2014 £'000		31 March 2015 £'000
171	Not later than one year	39
182	Later than one year	170
851	Later than five years	824
1,204	Total	1,033

12. Private Finance Initiative (PFI)

During the 2008-09 financial year, the Council commenced payment under the Private Finance Initiative (PFI) arrangement for the provision of a Secondary School in Maesteg that was entered into in 2007-08 and this arrangement will run until August 2033. There is a commitment of £30.5 million (Net Present Value) over the duration of the contract, which is to be funded by a combination of PFI Credits, agreed by the Welsh Government, and Council/Delegated School resources.

The total unitary payment is divided into the service charge element, the repayment of the liability element and the interest element. The charges are shown below:-

2013-14 £'000	Unitary Charge	2014-15 £'000
589	Service Charge Element	635
1,505	Interest Element	1,470
442	Finance Lease Liability	476
2,536	Total	2,581

These payments will be made over the life of the PFI contract and estimates for subsequent years are as detailed below at current prices:-

Unitary Charge	2015-16 £'000	2016-17 to 2020-21 £'000	2021-22 to 2025-26 £'000	2026-27 to 2030-31 £'000	2031-32 to 2033-34 £'000
Service Charge Element	502	2,511	2,511	2,511	1,500
Interest Element	1,434	6,513	5,063	2,959	409
Finance Lease Liability	513	3,221	4,672	6,775	4,119
Total	2,449	12,245	12,246	12,245	6,028

The Council meets the costs of the Unitary Charge from its own resources and funding from the WG. The profile of funding from WG reduces annually until the expiry of the contract term whereas the unitary charge payable by the Council increases annually over the same period. This results in a "surplus" of resources for PFI when compared to payments for the initial period of the contract period. These surplus amounts are set-aside in an earmarked reserve to fund the later part of the contract period where annual payments are greater than annual resources.

As at 31 March 2015, the balance on the PFI equalisation earmarked reserve is £3.406 million (£3.051 million as at 31 March 2014).

13. Section 33 NHS (Wales) Act 2006

There are some formal pooled budget arrangements between the Council and Abertawe Bro Morgannwg University Local Health Board and these are detailed below :-

2013-14			Partner	Purpose of Partnership	2014-15		
Gross Income Of Partnership £'000	Gross Expenditure of Partnership £'000	Authority's Contribution £'000			Gross Income Of Partnership £'000	Gross Expenditure of Partnership £'000	Authority's Contribution £'000
564	564	294	Abertawe Bro-Morgannwg University Health Board	Integrated Service Provision using a Pooled Fund. Provision of day opportunities for people recovering from mental health problems.	608	608	325
2,236	2,407	471	Rhondda Cynon Taff CBC Merthyr Tydfil CBC Cwm Taf LHB Abertawe Bro Morgannwg University Health Board	Integrated commissioning from a pooled fund for procuring specified community equipment for eligible people within the partnership's administrative area. Rhondda Cynon Taf are the lead partner	2,261	2,686	492

14. Minimum Revenue Provision

The Council is required by statute to set a prudent Minimum Revenue Provision (MRP) for the repayment of external debt. In accordance with this requirement the provision for 2014-15 has been calculated as shown in the table below. It is based on the opening Capital Financing Requirement (CFR) of the Council.

2013-14		2014-15
£'000		£'000
165,581	CFR 1 April	177,033
943	HALO Adjustment 12-13	108
(20,217)	PFI School	(19,776)
(845)	Innovation Centre	(816)
(95)	Finance Leases	(41)
(1,087)	Healthy Living Contract Capital Liability	(1,078)
(82)	Factor A Adjustment	(82)
	Supported Borrowing significant asset	
	- adjustment	(3,946)
(12,368)	CFR Adj Para 19 2008/Unsupported	
	Borrowing Adj	(24,845)
131,830	Adjusted CFR	126,557
5,273	MRP - 4%	5,062
	- MRP significant asset	132
442	PFI School - MRP Charge	476
28	Innovation Centre MRP Charge	47
54	Finance Leases MRP Charge	41
117	Healthy Living Contract MRP Charge	117
1,926	Unsupported Borrowing MRP	2,145
7,840	Total MRP	8,020

15. Officers' Remuneration

Four separate disclosures are required to ensure compliance with either the Accounts and Audit (Wales) Regulations 2014, or the CIPFA Code.

Disclosure 1 – Ratio of the Remuneration of the Chief Executive to the median remuneration of all the body's employees

This is a new requirement of the Accounts and Audit (Wales) Regulations 2014. The ratio for Bridgend is 6.49, i.e. the Remuneration of the Chief Executive is 6.49 times more than the median remuneration of the Council's employees. The comparable ratio in 2013-14 was 6.72

Disclosure 2 : Table of Officers' Remuneration over £60k

The number of employees (including teachers) whose remuneration, excluding pension contributions, was £60,000 or more for the year is as follows:

2013-14 Number of Employees inc Redundancy Costs (re-stated)	Remuneration Band	Number of Employees				
		Movement in Bandings	2014-15 inc Redundancy Costs	2014-15 exc Redundancy Costs (Note 1)	Number of Teachers inc in Figures exc Redundancy (note 1)	Number of Non-Teachers inc in Figures exc Redundancy (note 1)
15	£60,000 - £64,999	3	18	16	16	-
13	£65,000 - £69,999	1	14	13	12	1
3	£70,000 - £74,999	3	6	6	5	1
6	£75,000 - £79,999	(1)	5	3	-	3
2	£80,000 - £84,999	1	3	2	2	-
1	£85,000 - £89,999	-	1	1	1	-
3	£90,000 - £94,999	1	4	3	2	1
4	£95,000 - £99,999	-	4	3	1	2
1	£100,000 - £104,999	3	4	3	1	2
1	£105,000 - £109,999	(1)	-	-	-	-
1	£110,000 - £114,999	(1)	-	-	-	-
-	£115,000 - £119,999	-	-	-	-	-
-	£120,000 - £124,999	-	-	-	-	-
1	£125,000 - £129,999	-	1	1	-	1
51		9	60	51	40	11

Note 1: This confirms there are 51 individuals with remuneration of £60,000 or more, comprising:-

- a) 40 Headteachers and Deputy Headteachers, and
- b) 11 Senior Managers of the Council, including the Senior Officers shown in Disclosure 3 below, and Heads of Service.

Disclosure 3 : Table of Senior Officer's Remuneration (including Pensions Contributions)

This is a requirement to disclose individual remuneration details for all senior employees under the Accounts and Audit (Wales) (amendment) Regulations 2010.

Job Title	Salary		Expenses (see note 4 below)		Benefits in Kind (see note 4 below)		Pension Contributions (see note 3 below)		Total Remuneration including Pension Contributions	
	14-15	13-14	14-15	13-14	14-15	13-14	14-15	13-14	14-15	13-14
	£	£	£	£	£	£	£	£	£	£
Chief Executive Officer & Head of Paid Service (see Note 1 below)	128,169	125,246	-	-	-	-	26,051	26,051	154,220	151,297
Corporate Director - Education and Transformation										
Previous Post Holder until 31 August 2013		43,362	-	-	-	2,275	-	9,019	-	54,656
Current Post Holder from 1 September 2013	99,646	56,837	-	-	-	-	20,726	11,822	120,372	68,659
Corporate Director - Communities	101,857	98,620	-	-	-	13,066	21,186	20,513	123,043	132,199
Corporate Director - Wellbeing										
Previous Post Holder until 30 April 2013	-	5,368	-	-	-	-	-	-	-	5,368
Current Post Holder Interim from 1 September 2013 and formally appointed from 1 November 2013	99,646	56,837	-	-	-	10,089	20,726	11,822	120,372	78,748
Corporate Director - Resources & s151 Officer (see Note 2 below)	104,068	104,068	-	-	-	-	21,646	21,004	125,714	125,072
Assistant Chief Executive - Legal & Regulatory Services	93,661	92,360	-	-	-	16,060	19,482	19,211	113,143	127,631

Notes

Note 1 : The Chief Executive Officers Salary excludes payment for Election Duties. These amounted to £4819 for the European Election and two local elections

Note 2 : The post of Corporate Director - Resources was created on 1 June 2013 replacing the role of Assistant Chief Executive-Performance.

Note 3 : Pension Contributions relate to actual payments made

Note 4 : Expenses' and 'Benefits in Kind' exclude non-taxable reimbursements.

Disclosure 4: Table on Exit Packages

The number of exit packages with total cost per band (£'s) and total cost of the compulsory and other redundancies are set out in the table below:

Exit Package Cost Band (including Special Payments)	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit Packages by Cost Band		Total Cost of Exit Packages in Each Band	
	14-15	13-14	14-15	13-14	14-15	13-14	14-15	13-14
							£	£
£0 - £20,000	73	53	45	30	118	83	955,813	566,652
£20,001 - £40,000	21	7	27	10	48	17	1,391,579	500,503
£40,001 - £60,000	7	1	5	2	12	3	563,059	138,140
£60,001 - £80,000	1	1	-	2	1	3	67,383	205,406
£80,001 - £100,000	-	1	-	-	-	1	-	80,101
£100,001 - £120,000	-	-	1	-	1	-	112,117	-
£120,001 - £140,000	-	-	1	1	1	1	125,483	124,507
£140,001 - £180,000	-	-	-	2	-	2	-	309,500
	102	63	79	47	181	110	3,215,434	1,924,809

16. Members' allowances

As a result of the December 2011 Report of the Independent Remuneration Panel for Wales, a new system of 'salary' payments for Members came into effect in full from 16 May 2012. The Council now has in place a 'Basic Salary' for all members, a 'Senior Salary', and a Civic Salary. Between 1 April 2012 and 16 May 2012 there was an incremental move away from the previous system of basic allowances and special responsibility allowances, and this is the first year that real comparative information can be presented, as shown in the table below.

Total Expenditure 2013-14 £'000		Total Expenditure 2014-15 £'000
474	Basic Salary (all Members)	515
576	Senior Salary	524
38	Civic Salary	40
1,088	Total	1,079

Full details of the 'salary' arrangements are available on the Council's website, and details of all Member earnings are also published annually on the Council's website.

17. External audit costs

In 2014-15 Bridgend County Borough Council incurred the following fees relating to external audit and inspection:

2013-14 £'000		2014-15 £'000
197	Financial Statement Audit	174
135	Performance Audit	98
332	External Audit Services	272
-	Statutory Inspection	1
82	Grant Claims and Returns	47
414	Total	320

18. Group accounts**School Accounting**

The 2014-15 CIPFA Code in 2014-15 stipulates that schools' assets, liabilities and cash flows are recognised in the local authority financial statements (and not the Group Accounts). The associated guidance recommends that this is supplemented by a summary of the number of schools included in its single entity accounts, supported by a summary of budget, expenditure, and balances (surpluses). This is shown in the table below.

School Types	Nos in Category	2014-15 Budget £'000	2014-15 Spend £'000	2014-15 Closing Balances £'000
Nursery Schools	1	88	88	-
Primary Schools	50	43,532	41,961	1,571
Secondary Schools	9	42,238	41,837	401
Special Schools	2	7,277	6,838	438
Total	62	93,134	90,724	2,410

Associates, Subsidiaries and Joint Ventures

The Council has no Subsidiary, Associate or Joint Venture interests, as defined by the CIPFA Code.

Joint Operations

The Council participates in a number of Joint Operations and, in accordance with the CIPFA Code, recognises all revenue and expenses, and any material assets and liabilities within its single entity accounts. Joint Operations include:-

- Glamorgan Archives Service
- Civil Parking Enforcement
- Central South Consortium Joint Education Service
- South East Wales Transport Alliance

19. Related Party Transactions

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Welsh Government

Welsh Government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills). Grants received from government departments are set out in Notes 4 and Note 5 above.

Members

Members of the Council have direct control over the council's financial and operating policies. Members' external interests are maintained in a register, which is available for inspection on the Council's website. The total of members' allowances paid in 2014-15 is shown in Note 13. Grants were made to organisations whose senior management included Members including Groundwork Bridgend and Neath Port Talbot £43,748 in 2014-15

(£47,500 in 2013-14), Bridgend County Borough Citizens Advice Bureau £228,690 (£228,690 in 2012-13) and Bridgend Association of Voluntary Organisations £139,795 in 2014-15 (£166,299 in 2013-14). In all instances, the grants were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the grants.

Chief Officers

During 2014-15, no chief officer declared any material interests/relationships in a related party. This was the same in 2013-14.

Joint Committees

Glamorgan Archives Joint Committee

The Glamorgan Record Office is managed and administered by the Glamorgan Archives Joint Committee under powers conferred by the Local Government (Wales) Act 1994. During 2014-15, the Council contributed to the Joint Committee an amount of £95,437 (£106,040 in 2013-14). This was calculated proportionately based upon population. Financial statements for this Joint Committee are available on the Cardiff CC website (www.cardiff.gov.uk)

Coychurch Crematorium

Coychurch Crematorium is subject to the control of a Joint Committee of Members from Bridgend CBC, Rhondda Cynon Taf CBC and the Vale of Glamorgan CBC. Financial statements for this Joint Committee are available on the Bridgend CBC website (www.bridgend.gov.uk).

County Borough Supplies

County Borough Supplies is administered by the Council and supplies goods such as stationery. It is a Joint Committee with Members from Bridgend CBC, Rhondda Cynon Taf CBC, Merthyr Tydfil CBC and Caerphilly CBC. Financial statements for this Joint Committee are available on the Bridgend CBC website (www.bridgend.gov.uk).

Other Public Bodies

The Authority has a number of pooled budget arrangements with Abertawe Bro-Morgannwg University Health Board as detailed in Note 13.

20. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the *Service Reporting Code of Practice*. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across Directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year

- expenditure on some support services is budgeted for centrally and not charged to Directorates.

The income and expenditure of the Council's principal Directorates recorded in the budget reports for the comparative year (2013-14) is as follows:

Statement of Accounts

2014-15

Directorate Income and Expenditure 2013-14	Children £'000	Wellbeing £'000	Communities £'000	Other Services £'000	Total £'000
Fees, charges & other service income	(19,205)	(16,250)	(13,270)	(17,394)	(66,119)
Government grants	(22,962)	(1,865)	(14,748)	(49,793)	(89,368)
Total Income	(42,167)	(18,115)	(28,018)	(67,187)	(155,487)
Employee expenses	110,889	28,729	16,169	22,232	178,019
Other operating expenses	55,405	37,002	36,178	66,437	195,022
Total operating expenses	166,294	65,731	52,347	88,669	373,041
Net Cost of Services	124,127	47,616	24,329	21,482	217,554

Directorate Income and Expenditure 2014-15	Children £'000	Wellbeing £'000	Communities £'000	Other Services £'000	Total £'000
Fees, charges & other service income	(18,645)	(14,901)	(14,992)	(18,353)	(66,891)
Government grants	(22,968)	(2,554)	(14,815)	(50,780)	(91,117)
Total Income	(41,613)	(17,455)	(29,807)	(69,133)	(158,008)
Employee expenses	111,040	25,826	18,238	21,190	176,294
Other operating expenses	55,569	34,888	37,951	68,474	196,882
Total operating expenses	166,609	60,714	56,189	89,664	373,176
Net Cost of Services	124,996	43,259	26,382	20,531	215,168

Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

The below reconciliation shows how the figures in the analysis of Directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement for the comparative year :-

	2014-15 £'000	2013-14 £'000
Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement		
Cost of Services in Service Analysis	215,168	217,554
Add services not included in main analysis	18,931	16,326
Add amounts not reported to management	93,057	27,199
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	(1,502)	(1,509)
Net Cost of Services in Comprehensive Income and Expenditure Statement	325,654	259,570

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of Directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement :-

Statement of Accounts

2014-15

Reconciliation to Subjective Analysis 2013-14	Directorate Analysis £'000	Services not in Analysis £'000	Not reported to mgmt £'000	Not included in I & E £'000	Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, charges & other service income	(66,119)			6,756	(59,363)	(6,756)	(66,119)
Surplus or deficit on associates and joint ventures					-		-
Interest and investment income					-	(607)	(607)
Income from council tax					-	(68,987)	(68,987)
Government grants and contributions	(89,368)	(4,048)			(93,416)	(211,597)	(305,013)
Total Income	(155,487)	(4,048)	-	6,756	(152,779)	(287,947)	(440,726)
Employee expenses	178,019	1,050	2,935		182,004	13,580	195,584
Other service expenses	195,022	19,324		(6,736)	207,610	6,735	214,345
Support Service recharges					-		-
Depreciation, amortisation and impairment			24,264		24,264		24,264
Interest Payments				(1,529)	(1,529)	6,235	4,706
Precepts & Levies					-	17,653	17,653
Gain or Loss on Disposal of Fixed Assets					-	6,292	6,292
Total Expenditure	373,041	20,374	27,199	(8,265)	412,349	50,495	462,844
Surplus or deficit on the provision of services	217,554	16,326	27,199	(1,509)	259,570	(237,452)	22,118

Reconciliation to Subjective Analysis 2014-15	Directorate Analysis £'000	Services not in Analysis £'000	Not reported to mgmt £'000	Not included in I&E £'000	Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, charges & other service income	(66,891)			7,056	(59,835)	(7,056)	(66,891)
Surplus or deficit on associates and joint ventures					-		-
Interest and investment income					-	(853)	(853)
Income from council tax					-	(73,164)	(73,164)
Government grants and contributions	(91,117)	(6,380)			(97,497)	(208,974)	(306,471)
Total Income	(158,008)	(6,380)	-	7,056	(157,332)	(290,047)	(447,379)
Employee expenses	176,294	2,738	(678)		178,354	10,090	188,444
Other service expenses	196,882	22,573		(7,000)	212,455	6,999	219,454
Support Service recharges					-		-
Depreciation, amortisation and impairment			93,735		93,735		93,735
Interest Payments				(1,558)	(1,558)	6,215	4,657
Precepts & Levies					-	18,093	18,093
Gain or Loss on Disposal of Fixed Assets					-	72	72
Total Expenditure	373,176	25,311	93,057	(8,558)	482,986	41,469	524,455
Surplus or deficit on the provision of services	215,168	18,931	93,057	(1,502)	325,654	(248,578)	77,076

Notes to the Balance Sheet

21. Tangible Fixed Assets

a) Capital commitments

As at 31 March 2015 commitments of approximately £11.608million existed on capital works contracts started before that date, details of which are shown in the table below.

2013-14 £'000		2014-15 £'000
88	Porthcawl Regeneration	-
873	Bridgend Town Centre Regeneration	107
2,811	Highways Infrastructure Local Govt Borrowing Initiative	-
1,633	Gateway to the Valleys	-
1,012	Pen y Fai Primary School	-
-	Coychurch Crematoria Cremators	840
-	Celtic Court Refurbishment	1,209
-	Community Care Information System	2,744
-	Ogmore Comprehensive	894
-	Coety / Parc Derwen Primary School	5,049
-	Maximising Space	730
363	Lewistown Flying Start Provision	35
6,780	Total	11,608

b) Notes on Fixed AssetsVoluntary-aided & Voluntary-controlled Schools

The Council recognises its only Voluntary-controlled School on its Balance Sheet. This is Pen-y-Fai Church in Wales Primary School. The four voluntary-aided primary schools and one voluntary-aided comprehensive school are not assets of the Council and therefore not included in the Balance Sheet. Guidance is expected in the future which could affect this recognition in future years.

Numbers of fixed assets by type

Category	Number as at 31 March 2014 - restated	Number as at 31 March 2015
Schools	61	60
Other educational establishments	7	7
Libraries	11	11
Car parks	29	29
Cemeteries and buildings	20	20
Crematoria	1	1
Reclaimed land	7	7
Markets	2	2
Shops	9	9
Public conveniences	16	16
Nature reserves	1	1
Social Services establishments	18	18
Bus stations	2	2
Sports pavilions	41	41
Recreation grounds & parks	28	28
Recreation & entertainment centres	11	11
Community centres	20	20
Swimming pools	6	6
Industrial estates	6	6
Civic offices	2	1
Other offices	2	2
Depots	8	8
Vehicles	34	24
Vehicles on Finance Leases	4	0
	346	330

Statement of Accounts

2014-15

c) Summary of Property, Plant & Equipment (PPE)	Other Land and Buildings £'000	Vehicle, Plant and Equipment £'000	Infra-Structure £'000	Comm-unity Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total PPE Assets £'000	PFI Assets Included In PPE £'000	Finance Leases In PPE £'000
Cost or Valuation									
At 1 April 2013	421,599	12,593	183,081	4,574	10,455	36,147	668,449	22,744	1,341
Additions	2,274	2,916	7,166	-	-	21,561	33,917	-	943
Revaluation increases/(decreases) recognised in the Revaluation Reserve	48	-	-	-	-	-	48	-	-
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(281)	-	-	-	53	-	(228)	-	-
Derecognition - Disposals	(6,825)	(399)	-	-	-	-	(7,224)	-	-
Derecognition - other	(84)	-	-	-	-	-	(84)	-	-
Assets reclassified (to)/from Held for Sale	(1,401)	-	-	-	(53)	-	(84)	-	-
Assets reclassified (to)/from Investment Property	-	-	-	-	-	-	(1,454)	-	-
Other Movements in Cost or Valuation	34,639	-	6,109	-	811	(41,593)	(34)	-	-
At 31 March 2013	449,969	15,110	196,356	4,574	11,266	16,115	693,306	22,744	2,284
Accumulated Depreciation and Impairments									
At 1 April 2013	(42,290)	(9,179)	(97,574)	(37)	(502)	-	(149,582)	(956)	(1,092)
Depreciation Charge for 2013/14	(9,059)	(1,050)	(9,729)	-	(27)	-	(19,865)	(239)	(51)
Depreciation written out to the Revaluation Reserve	-	-	-	-	-	-	-	-	-
Impairment Losses/(Reversals) recognised in the Revaluation Reserve	(18)	-	-	-	-	-	(18)	-	-
Impairment Losses/(Reversals) recognised in the Surplus/Deficit on the Provision of Services	(1,550)	(78)	(394)	-	-	-	(2,022)	-	-
Derecognition - other	41	-	-	-	-	-	41	-	-
Derecognition - disposals	907	399	-	-	-	-	1,306	-	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	-	-
Other Movements	102	-	-	-	(68)	-	34	-	-
At 31 March 2013	(51,867)	(9,908)	(107,697)	(37)	(597)	-	(170,106)	(1,195)	(1,143)
Balance Sheet as at 1 April 2013	379,309	3,414	85,507	4,537	9,953	36,147	518,867	21,788	249

Statement of Accounts

2014-15

c) Summary of Property, Plant & Equipment (PPE)	Other Land and Buildings £'000	Vehicle, Plant and Equipment £'000	Infra-Structure £'000	Comm-unity Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total PPE Assets £'000	PFI Assets Included In PPE £'000	Finance Leases In PPE £'000
Cost or Valuation									
At 1 April 2014	449,969	15,110	196,356	4,574	11,266	16,115	693,390	22,744	2,284
Additions	5,752	4,184	5,356	-	-	7,537	22,829	-	108
Accumulated Depreciation and Impairment written out to GCA	(52,940)	(8,765)	-	-	(736)	-	(62,441)	(1,195)	(112)
Revaluation increases/(decreases) recognised in the Revaluation Reserve	9,619	-	-	-	818	-	10,437	4,462	(57)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(66,839)	-	-	(196)	(233)	-	(67,268)	(4,446)	(401)
Derecognition - Disposals	(1,469)	(29)	-	-	(55)	-	(1,553)	-	-
Derecognition - other	-	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	(4,235)	-	-	-	(2,260)	-	(6,495)	-	-
Assets reclassified (to)/from Investment Property	-	-	-	-	-	-	-	-	-
Other Movements in Cost or Valuation	5,984	-	(361)	467	1,106	(7,196)	-	-	-
At 31 March 2015	345,841	10,500	201,351	4,845	9,906	16,456	588,899	21,565	1,822
Accumulated Depreciation and Impairments									
At 1 April 2014	(51,869)	(9,908)	(107,697)	(37)	(597)	-	(170,108)	(1,195)	(1,143)
Depreciation Charge for 2014/15	(14,240)	(1,382)	(10,211)	-	(268)	-	(26,101)	(772)	(50)
Accumulated Depreciation and Impairment written out to GCA	52,833	8,765	-	-	736	-	62,334	1,195	55
Depreciation written out to the Revaluation Reserve	-	-	-	-	-	-	-	-	-
Impairment Losses/(Reversals) recognised in the Revaluation Reserve	(702)	-	-	-	-	-	(702)	-	57
Impairment Losses/(Reversals) recognised in the Surplus/Deficit on the Provision of Services	(1,068)	(48)	(170)	-	-	-	(1,286)	-	-
Derecognition - other	-	-	-	-	-	-	-	-	-
Derecognition - disposals	351	-	-	-	-	-	351	-	-
Assets reclassified (to)/from Held for Sale	1	-	-	-	-	-	1	-	-
Other Movements	518	-	100	-	(10)	(608)	-	-	-
At 31 March 2015	(14,176)	(2,573)	(117,978)	(37)	(139)	(608)	(135,511)	(772)	(1,081)
Balance Sheet as at 1 April 2014	398,100	5,202	88,659	4,537	10,669	16,115	523,282	21,549	1,141
Balance Sheet as at 31 March 2015	331,665	7,927	83,373	4,808	9,767	15,848	453,388	20,793	741

d) Fixed asset valuation

The freehold and leasehold properties of Bridgend County Borough Council were valued as at 1 April 2015 by Council Surveyors in accordance with the Statements of Asset Valuation, Practice and Guidance Notes of the Royal Institution of Chartered Surveyors. Fixed Assets are included in the Balance Sheet on the valuation basis set out in the Statement of Accounting Policies.

e) Sources of finance for Capital Expenditure

2013-14 £'000		2014-15 £'000
18,350	Loans	6,997
14,547	Government grants	15,888
2,453	Capital receipts	2,019
1,271	Revenue contribution	1,803
943	Healthy Living Contract Capital Liability	108
231	Other contribution	1,647
37,795	Total	28,462

f) Revenue Expenditure Funded from Capital under Statute

These relate to capital expenditure that does not result in a tangible fixed asset. They include renovation grants and contributions towards capital expenditure incurred by other parties.

2013-14 £'000		2014-15 £'000
3,879	Revenue Expenditure Funded from Capital under Statute	5,113
3,879	Total	5,113

g) Capital financing requirement and the financing of capital expenditure

2013-14 £'000	Capital Financing Requirement	2014-15 £'000
165,581	Opening Capital Financing Requirement	177,033
	Capital Investment	
32,974	Property, Plant and Equipment	22,721
	Investment Properties	520
3,879	Revenue Expenditure Funded from Capital under Statute	5,113
943	Recognition of Healthy Living Commitment	108
	Sources of Finance	
(14,780)	Grants & Contributions	(17,643)
(2,453)	Capital receipts applied	(2,019)
(1,271)	Revenue Contributions	(1,803)
(5,273)	Minimum Revenue Provision	(5,194)
(1,926)	Unsupported Borrowing MRP	(2,145)
(117)	Healthy Living Contract MRP	(117)
(54)	Finance Leases MRP	(41)
(28)	Innovation Centre MRP	(47)
(442)	PFI School MRP	(476)
177,033	Closing Capital Financing Requirement	176,010
	Explanation for Movements in Year	
(1,327)	Decrease in Underlying Need to Borrow (supported by government financial assistance)	(1,262)
12,477	Increase in Underlying Need to Borrow (unsupported by government financial assistance)	812
744	Assets acquired under finance leases	(97)
(442)	Assets acquired under PFI Contract	(476)
11,452	Increase/(Decrease) in Capital Financing Requirement	(1,023)

h) Capital Grants Received in Advance

The table below shows the breakdown of capital grants received in advance:-

2013-14 £'000		2014-15 £'000
2,388	Developers' Contributions - capital element	2,558
2,388	Total	2,558

22. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

2013-14 £'000		2014-15 £'000
526	Rental Income from Investment Property	573
(152)	Direct Operating Expenses arising from Investment Property	(281)
374	Net gain/(loss)	292

The following table summarises the movement in the fair value of investment properties over the year:-

2013-14 £'000		2014-15 £'000
3,421	Balance at 1 April	3,011
	Acquisitions	520
	Disposals	(74)
(410)	Net gain / (loss) from fair value adjustments	-
	- Transfers to Property, Plant and Equipment	646
3,011	Balance as at 31 March	4,103

23. Heritage Assets

2013-14 £'000		2014-15 £'000
51	Civic Regalia	73
51	Balance as at 31 March	73

24. Long term debtors

The Long Term Debtors figure is detailed below. It consists of the value of long term loans made by the Council to former tenants and private households for mortgages and a Finance Lease for vehicles linked to the waste contract.

2013-14 £'000		2014-15 £'000
29	Mortgages	17
384	Finance Leases	261
413	Balance as at 31 March	278

25. Short Term Debtors

This represents the monies owed to the Council after making provision for debts that might not be recovered. The main debtors are listed below:

2013-14 £'000	Short-term Debtors	2014-15 £'000
12,492	Central Government Bodies	12,818
4,189	Other Local Authorities	4,774
541	NHS Bodies	1,277
9,841	Other Entities and Individuals	10,403
27,063	Balance as at 31 March	29,272

The Council collects NNDR payments on behalf of Welsh Government. As at the 31 March 2015, the Council had paid over more cash than it collected, this excess was included in the Balance Sheet as a debtor of £0.199 million. The equivalent for 2013-14 was a debtor of £3.102 million which represented monies not yet paid over by Welsh Government.

26. Assets Held for Sale

2013-14 £'000	Assets Held for Sale	2014-15 £'000
5,354	Balance at 1 April	6,721
1,454	Assets newly classified as held for sale: Property, Plant & Equipment	6,494
	Assets declassified as held for resale	
	- Property, Plant & Equipment	
	- Revaluation Gain/(Loss)	-
(87)	Assets Sold	(5,737)
6,721	Balance as at 31 March	7,478

27. Short Term Creditors

These represent monies owed by the Council and are analysed as follows:

2013-14 £'000	Short Term Creditors	2014-15 £'000
(4,135)	Central Government Bodies	(2,594)
(6,379)	Other Local Authorities	(6,228)
(94)	NHS Bodies	(39)
(28,293)	Other Entities and Individuals	(34,597)
(38,901)	Balance as at 31 March	(43,458)

28. Provisions

The Council has a number of provisions as detailed below:

2013-14		Expenditure	Increase	2014-15
£'000		£'000	£'000	£'000
3,933	Insurance (BCBC)	(1,912)	77	2,098
204	Equal Pay and Other	(204)	-	0
550	Waste Disposal	(550)	-	0
213	Carbon Reduction Commitment	(166)	279	326
4,900	Balance as at 31 March	(2,832)	356	2,424

Insurance Provision(Self-funding / MMI)

Self-Fund

The Council has a self-insurance fund. This Insurance Provision has been set aside to meet the estimated cost to the Council of outstanding liability for policy years up to 2013-14 for Employer's Liability, Public Liability and Property. However the actual cost of individual claims and the timing of payments is uncertain. The Council also has an earmarked reserve for Insurance which acts as an additional buffer amount to the fund, over and above the total outstanding liability, to allow for unexpected events, worse than anticipated deterioration in the current reserves and higher than anticipated future losses both in frequency and cost.

Municipal Mutual Insurance (MMI) Limited

Prior to local government reorganisation the former Ogwr Borough Council and Mid Glamorgan County Council's insurance cover was provided by Municipal Mutual Insurance Limited. When this company hit severe financial difficulties both became a creditor under the Scheme of Arrangement, accepting liability to return to MMI some proportion of historical claim payments received from MMI if the Scheme were to trigger. The Board of Directors of MMI 'triggered' MMI's Scheme of Arrangement on 13 November 2012.

Carbon Reduction Commitment Energy Efficiency Scheme

This provision represents the obligation to purchase Carbon Reduction Commitment (CRC) Allowances in relation to carbon dioxide emissions incurred during 2014-15. The payment will be made with the retrospective purchase of allowances in the summer 2015.

29. PFI and Other Long Term Liabilities

2013-14 £'000		Additions in Year £'000	Moved to Short Term Creditors £'000	2014-15 £'000
19,300	Maesteg School PFI Lease Liability	-	(513)	18,787
770	Innovation Centre Financial Liability	-	(51)	719
	- Waste Contract	500	(50)	450
	- Escrow (Football Club)	47	-	47
853	Healthy Living Contract Capital Liability	108	(117)	844
20,923	Balance as at 31 March	655	(731)	20,847

The PFI Finance Lease Liability matches the fair value of the fixed asset for the PFI School as at the date the asset came onto the Council's Balance Sheet being £21.898 million (July 2008). This will be written down over the life of the PFI contract by the value of the unitary payment deemed to be the finance lease element each year. For 2014-15, the amount written down was £476,000 and £513,000 has been transferred to Short Term Creditors leaving an outstanding long term liability of £18.78 million at year end.

The Innovation Centre Financial Liability of £0.917 million was recognised in 2009-10 as a loan in substance. This is being written down over the remaining fourteen years of the loan. The amount written down in 2014-15 was £47,000 and £51,000 was transferred to Short Term Creditors resulting in a long term financial liability of £0.719 million at 31 March 2015.

A new addition was recognised during 2012-13 to reflect the capital work being undertaken by Halo Leisure Services Ltd at the Bridgend Recreation Centre as part of the Healthy Living Partnership Contract which commenced on 1 April 2012. This has been recognised as a long term liability over the contract life. There were additions of £0.108 million for 2014-15 and the amount written down during the year was £117,000, which was transferred to Short Term Creditors resulting in a long term financial liability of £0.844 million at 31 March 2015.

The Waste Contract liability was previously a provision. However a £500k liability has now been recognised, payable at £50k p.a. instalments.

30. Usable Reserves

The following notes detail the Usable Reserves of the Authority:-

a) Useable capital receipts reserve

This represents capital receipts available to finance capital expenditure in future years.

2013-14 £'000		2014-15 £'000
12,505	Balance at 1st April	10,245
166	Capital Receipts Received	6,296
27	Mortgage repayments (Council Fund)	12
(2,453)	Receipts used to finance capital expenditure	(2,019)
10,245	Balance as at 31st March	14,534

b) Revenue reserves

The revenue reserves in the Balance Sheet as at 31 March 2015 are detailed below with descriptions of what they represent:-

Opening Bal 2013-14 £'000	Move- ment 2013-14 £'000	Closing Bal 2013-14 £'000	Reserve	Move- ment 2014-15 £'000	Closing Bal 2014-15 £'000
7,320	75	7,395	Council Fund Balance	55	7,450
3,737	(1,270)	2,467	Delegated Schools Balance	(57)	2,410
2,639	412	3,051	Maesteg School PFI Equalisation Fund	356	3,407
			Earmarked Balances :-		
118	230	348	Asset Management Plan	354	702
-	-	-	Building Control Reserve	10	10
1,250	(263)	987	Building Maintenance Reserve	(687)	300
200	100	300	Capital feasibility fund	327	627
-	5,513	5,513	Capital Programme Contribution	921	6,434
175	380	555	Car Parking Strategy	-	555
1,000	1,069	2,069	Change Management	329	2,398
172	24	196	Connecting Families	(165)	31
-	-	-	DDA Emergency Works	115	115
-	330	330	Directorate Issues	1,160	1,490
151	50	201	Election costs	-	201
906	351	1,257	ICT & Finance Systems	(396)	861
1,691	-	1,691	Insurance reserve	1,486	3,177
770	(359)	411	Invest to save / Joint projects	(150)	261
1,030	(206)	824	Looked After Children	-	824
16,024	(4,978)	11,046	Major Claims Reserve	(515)	10,531
490	(490)	-	Non-recurring Expenditure	-	-
201	99	300	Porthcawl regeneration	(175)	125
900	300	1,200	Service Pressures Contingency	(1,200)	-
2,020	1,032	3,052	Service Reconfiguration / Severence Costs	1,697	4,749
1,044	-	1,044	Treasury Management Reserve	-	1,044
-	50	50	Unitary Development Plan	42	92
-	-	-	Waste Management Contract	210	210
500	(200)	300	Welfare Reform Bill	-	300
583	124	707	Wellbeing Projects	(107)	600
29,225	3,156	32,381	Balance as at 31 March	3,256	35,637
42,921	2,373	45,294		3,610	48,904

The transfer to all Earmarked Balances excluding the Council Fund Balance was £3.201 million in 2014-15 (£2.298 million in 2013-14) and represents a charge to the Net Cost of Services within the Comprehensive Income and Expenditure Statement. This includes money transferred into the Comprehensive Income and Expenditure Statement to match expenditure within the year and amounts set aside from revenue reserves in 2014-15 to be utilised in future years to finance expenditure.

i) Delegated School Balances

These balances represent the cumulative effect of over and under-spending on school delegated budgets not available to the Council.

Analysis of Delegated Schools Balance

2013-14 Closing Balance £'000		2014-15 Over spends £'000	2014-15 Under spends £'000	2014-15 Closing Balance £'000
-	Nursery Schools	0	0	-
1,145	Primary Schools	(320)	746	1,571
830	Secondary Schools	(753)	324	401
492	Special Schools	(55)	0	438
2,467	Total	(1,127)	1,069	2,410

ii) Maesteg School PFI Equalisation Fund

As outlined in note 9 above, there is a need for an Equalisation Fund for the Unitary Charges received from Welsh Government as detailed below:-

2013-14 £'000	Maesteg School PFI Accounts	2014-15 £'000
3,051	Maesteg PFI Equalisation Fund	3,406
3,051	Balance as at 31 March	3,406

iii) Other Earmarked Balances

An overview of the other main earmarked reserves is explained below:-

- Major Claims Earmarked Reserve
This reserve has been created to mainly cover the deficit on the pension fund, major capital contractual claims and mitigate potential equal pay claims.
- Insurance Reserve
This reserve is based on the assessment for potential future liabilities.
- Equalisation of Spend Reserves
These reserves ensure that expenditure that is incurred in a particular future year is smoothed over the period of the MTFS. These include the costs of elections and the preparation of the Local Development Plan and the Building Control Earmarked Reserves.
- Other Reserves
There are a number of other reserves which are either Corporate or Directorate based. These are detailed below:-

Corporate Reserves

- Service Reconfiguration / Severance Costs
This reserve has been established to meet potential costs relating to service remodelling and consequential severance costs.
- Treasury Management
This reserve has been set up to cover unforeseen treasury management liabilities and to facilitate longer term debt restructuring.

- ICT & Finance Systems
This reserve will fund the costs of planned system developments from 2016-17 to 2017-18. It includes developments including the roll out of the cashless catering system and bringing the financial ledger system in-house.
 - Welfare Reform Bill
This reserve has been established to fund the potential impact of increases in demand for services resulting from the Welfare Reform Bill.
 - Asset Management Plan
This has been established to meet the on-going costs of condition surveys and supports the demolition of asset programme.
 - Building Maintenance Reserve
This reserve is for planned maintenance expenditure on the Council's buildings.
 - Change Management
This reserve will meet potential costs associated with corporate capacity requirements to facilitate and progress planned developments linked to achieving budget reductions in the Medium Term Financial Strategy and the Bridgend Change Programme.
 - Waste Management Contract
This earmarked reserve is to facilitate the procurement of the next waste collection contract with the current contract expiring in 2017.
 - DDA Emergency/Prevention Works
This earmarked reserve is to cover the costs of emergency works within schools as well fund a temporary post a 2 year period to ensure Fire Risk Assessments are updated and maintained within schools.
 - Invest to save / Joint Projects
This fund meets the costs of previously approved 'invest to save' initiatives which are on-going.
 - Capital feasibility fund
This fund has been established to fund studies for proposed capital projects.
 - Capital Programme Contribution
This earmarked reserve has been set up as a revenue contribution to the capital programme, to enable schemes to be progressed more quickly to alleviate pressure on the revenue budget and accelerate the realisation of capital receipts.
- Directorate Reserves**
- Looked After Children Reserve
This reserve has been established to provide for the continuing pressures over the Medium Term Financial Strategy on the Looked After Children budget within Children's Services.
 - Wellbeing Projects
This has been established to allow one off injections of financial resources into service areas to facilitate change/development linked with the Health Service.
 - Connecting Families

This reserve will be used as the Council’s contribution to the Connecting Families project. This is a multi-agency team which through collaboration across public service organisations seeks to improve outcomes for families and target resources more effectively.

- Car Parking Strategy
This reserve has been established for the up-front costs associated with new initiatives to generate income or reduce costs in relation to car parking.
- Porthcawl Regeneration
This reserve has been established to fund up front revenue costs associated with the proposed regeneration of Porthcawl.
- Directorate Issues
This relates to specific directorate issues anticipated in 2015-16, totalling £1.490 million, allocated to directorates as shown below:-

	£'000
Childrens Directorate	140
Communities Directorate	298
Legal and Regulatory	692
Resources Directorate	360

31. Unusable Reserves

The following notes detail the Unusable Reserves of the Authority:-

a) Revaluation Reserve (RR)

This reserve stores the accumulated gains on fixed assets held by the authority arising from increases in value as a result of inflation or other factors.

2013-14 £'000		2014-15	
		£'000	£'000
101,985	Balance at 1 April		98,804
278	Upward Revaluation of Assets	58,371	
(248)	Downward Revaluation of Assets and Impairment Losses not charged to the Surplus/Deficit on the Provision of Services	(48,614)	
30	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of services		9,757
(1,921)	Difference between fair value depreciation and historical cost depreciation	(2,695)	
(1,290)	Accumulated gains on assets sold or scrapped	(5,574)	
(3,211)	Amount written off to the Capital Adjustment Account		(8,269)
98,804	Balance as at 31 March		100,292

b) Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2013-14 £'000		2014-15 £'000
(318,170)	Balance at 1 April	(243,900)
90,990	Actuarial gains or losses on pensions assets and liabilities	(20,090)
(34,060)	Reversal of Items relating to Retirement Benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(26,800)
17,340	Employer's Pensions Contributions and Direct Payments to Pensioners Payable in the Year	17,780
(243,900)	Balance as at 31 March	(273,010)

c) Capital Adjustment Account (CAA)

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Capital Adjustment Account (CAA)

2013-14 £'000		2014-15	
		£'000	£'000
260,687	Balance at 1 April		257,644
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement :		
(21,887)	Charges for depreciation and impairment of non-current assets	(29,173)	
(228)	Revaluation losses on Property, Plant and Equipment	(65,591)	
(605)	Revenue Expenditure funded from Capital Under Statute	(434)	
(27)	Other amounts including Mortgage Payments	(12)	
	Financial Liability Adjustment to Capital Receipts		
(4,758)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,440)	
(27,505)	Adjusting amounts written out to the Revaluation Reserve	(96,650)	
1,921		2,695	
(25,584)	Net written out amount of the cost of non-current assets consumed in the year		(93,955)
	Capital financing applied in the year:		
2,453	Use of the Capital Receipts Reserve to finance capital expenditure	2,019	
11,335	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that has been applied to capital financing	12,817	
52	Application of grants to capital financing from the Capital Grants Unapplied Account	24	
7,840	Statutory provision for the financing of capital investment charged against the Council Fund	8,020	
1,271	Capital expenditure charged against the Council Fund	1,803	
22,951			24,683
(410)	Movement in the market value of Investment Properties credited to the Comprehensive Income and Expenditure Statement		646
257,644	Balance as at 31 March		189,018

d) Financial Instruments Adjustment Account (FIAA)

This holds the difference between the amounts charged to income and expenditure in accordance with the Code for applying the transaction costs and assessing the fair cost of loan debts and investments and the amounts charged to the Council Fund Balance in accordance with statute.

2013-14 £'000		2014-15	
		£'000	£'000
(5,526)	Balance at 1 April		(5,320)
199	Premiums / Discounts Adjustments	198	
7	Loans / Investments Adjustments	7	
	Premiums Paid	1,483	
(5,320)	Balance as at 31 March		(3,632)

e) Short Term Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the Council Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the Council Fund Balance is neutralised by transfers to or from the Account.

2013-14 £'000		2014-15	
		£'000	£'000
(4,036)	Balance at 1 April		(3,832)
4,036	Settlement or cancellation of accrual made at the end of the proceeding year	3,832	
(3,832)	Amounts accrued at the end of the current year	(4,224)	
204	Amounts by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in year in accordance with statutory requirements		(392)
(3,832)	Balance as at 31 March		(4,224)

32. Trust funds

The Council administers Trust Funds, which are mainly of an educational or recreational nature. A large proportion of the balances are invested in the Authority's internal balances. The Trust Funds do not represent assets of the Council and are accounted for separately. The principal categories of funds and balances as at 31 March 2015 are:

2013-14 £'000		2014-15 £'000
328	Social Services Home For The Elderly	312
53	Education	53
48	Nantymoel Workmans Hall	48
1	Other	1
430	Balance as at 31 March	414

The increase in Social Services Home for the Elderly Trust fund is due to a £250,000 bequest received in 2013-14.

33. Escrow accounts

There are also escrow accounts of £57,000 recognised for Bocam Park and £130,000 for Wind Farms at Forch Ness and Pant y Wal which have resulted from planning conditions. Also, the Authority has been holding an escrow linked to the sale of land to Asda previously used by Bridgend Town Football Club. This was initially £1 million, but payments made during 2013-14 and 2014-15 mean that the value of the funds held at 31 March 2015 are £47,000, which will be held to meet the future costs of replacement works.

2013-14 £'000		2014-15 £'000
546	Replacement facilities account	47
88	Replacement site account	0
57	Bocam Park	57
130	Wind Farm	132
821	Balance as at 31 March	236

The escrow accounts do not represent assets of the Council and are accounted for separately.

34. Developers' Contributions

Section 106 receipts are monies paid to the council by developers where, as a result of granting planning permission, works are required to be carried out or new facilities provided as a result of that permission (e.g. improvement of transport links for a housing or retail development). The sums are restricted to being spent only in accordance with the agreement concluded with the developer. The major balances (i.e. over £100,000) of section 106 receipts held by the Council during the year were as follows:

	31 March 2014	Income	Expenditure	31 March 2015
	£'000	£'000	£'000	£'000
Llanmoor Homes - Maesteg Rd Tondy – additional education facilities	152	0	(152)	0
Broadlands Consortium – Newbridge fields - provision of playing fields facilities	131	0	(5)	126
Redrow – Lock's Lane, Porthcawl –ongoing maintenance of playing field and pavilion	81	0	0	81
Redrow - Brackla Park & Ride – upgrade B4181	313	0	(11)	302
Rockwool - Pencoed	83	0	(13)	70
Parc Derwen Primary School Design fees - Persimmon Homes	215	0	0	215
Parc Derwen Primary School - WG	0	488	(488)	0
Parc Derwen Primary School - Consortium	0	415	(249)	166
Land at Tyn Y Coed Farm (Maendy Farm), Bryncethin - Sports Provision	569	0	(59)	510
Land at Tyn Y Coed Farm (Maendy Farm), Bryncethin - Education Capital	16	0	0	16
Bridge Renewal Dowry	1	0	0	1
Coychurch Primary	(150)	75	0	(75)
Affordable Housing	404	97	0	501
Other	1046	46	(67)	1025
Total	2,861	1,216	(1,049)	3,028

36. Pensions liabilities, IAS 19 disclosures

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

This Council participates in the Rhondda Cynon Taf County Borough Council Pension Fund, which is administered under the Regulations governing the Local Government Pension Scheme. This is a defined benefit scheme, meaning that the Authority and employees pay contributions into a fund, at a rate determined by the Fund's Actuary based on triennial actuarial valuations, which aims to balance 100% of pension liabilities with investment assets.

Further information can be found in Rhondda Cynon Taf CBC Pension Fund's Annual Report which is available upon request from the Director of Finance, Rhondda Cynon Taf County Borough Council, Bronwydd, Porth, Rhondda, Rhondda Cynon Taf.

<http://www.rctpensions.org.uk>

Any award of discretionary post-retirement benefits upon early retirement is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. No investment assets are built up to meet these pension liabilities, and cash has to be generated to meet the actual pension payments as they fall due

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large scale withdrawals from the scheme), changes to inflation, bond yields, and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge the Council Fund with the amounts required by statute as described in the accounting policies note.

The disclosures required for 2014-15 include information provided by the pension administrators, Rhondda Cynon Taff CBC and Aon Hewitt Associates Limited as the pensions actuary.

Transactions Relating to Post-employment Benefits

The cost of retirement benefits is recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against Council Tax is based on the cash payable in the year, so the real cost of post-employment benefits is reversed out of the Council Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the Council Fund balance via the Movement in Reserves Statement during the year:-

Statement of Accounts

2014-15

Comprehensive Income & Expenditure Statement	Local Govt Pension Scheme		LGPS Unfunded Benefits		Teachers' Unfunded Benefits		Total	
	£m	£m	£m	£m	£m	£m	£m	£m
	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14
Cost of Services :								
Service cost comprising:								
current service cost	16.15	19.94	0.00	0.00	0.00	0.00	16.15	19.94
past service costs	0.56	0.50	0.00	0.00	0.00	0.04	0.56	0.54
(gain)/loss from settlements	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financing & Investment Income & Expenditure :-								
Net interest expense	9.57	13.01	0.32	0.30	0.20	0.27	10.09	13.58
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	26.28	33.45	0.32	0.30	0.20	0.31	26.80	34.06
Other Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement								
<i>Remeasurements of the net defined benefit liability comprising:</i>								
Return on plan assets (excluding the amount included in the net interest expense)	(39.72)	(16.34)	0.00	0.00	0.00	0.00	(39.72)	(16.34)
Actuarial (gains) / losses due to changes in financial assumptions	62.72	(47.27)	0.59	(0.42)	0.26	(0.21)	63.57	(47.90)
Actuarial (gains) / losses due to changes in demographic assumptions	0.00	(15.40)	0.00	0.08	0.00	0.09	0.00	(15.23)
Actuarial (gains) / losses due to liability experience	(3.63)	(11.04)	(0.08)	0.93	(0.05)	(1.41)	(3.76)	(11.52)
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	19.37	(90.05)	0.51	0.59	0.21	(1.53)	20.09	(90.99)
Movement in Reserves Statement:-								
Reversal of net charges made for retirement benefits in accordance with IAS 19	(26.28)	(33.45)	(0.32)	(0.30)	(0.20)	(0.31)	(26.80)	(34.06)
Actual amount charged against the Council Fund Balance for pensions in the year :-								
Employers' Contributions payable to the scheme	16.84	16.40					16.84	16.40
Retirement Benefits Paid Out			0.50	0.50	0.44	0.44	0.94	0.94

Pensions Assets and Liabilities Recognised in the Balance Sheet

The amounts included in the Balance sheet arising from the Council's obligation in respect of its defined benefit plan is as follows:-

	Local Govt Pension Scheme		LGPS Unfunded Benefits		Teachers' Unfunded Benefits		Total	
	£m	£m	£m	£m	£m	£m	£m	£m
	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14
Present value of defined benefit obligation	698.52	614.31	8.27	7.94	5.07	5.10	711.86	627.35
Fair Value of Plan Assets	(438.85)	(383.45)	0.00	0.00	0.00	0.00	(438.85)	(383.45)
Net liability arising from defined benefit obligation	259.67	230.86	8.27	7.94	5.07	5.10	273.01	243.90

Reconciliation of the Movements in the Fair Value of the Scheme (Plan) Assets

	Local Govt Pension Scheme	
	£m 2014-15	£m 2013-14
Opening fair value of scheme assets	383.45	351.06
Interest income on assets	16.48	15.47
Remeasurement gain/(loss):		
The return on plan assets, excluding the amount included in the net interest expense	39.72	16.34
Contributions by Employer	16.84	16.40
Contributions by Participants	4.84	4.77
Settlements	0.00	0.00
Net Benefits Paid Out	(22.48)	(20.59)
Balance as at 31 March	438.85	383.45

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

	Local Govt Pension Scheme		LGPS Unfunded Benefits		Teachers' Unfunded Benefits		Total	
	£m 2014-15	£m 2013-14	£m 2014-15	£m 2013-14	£m 2014-15	£m 2013-14	£m 2014-15	£m 2013-14
Opening balance at 1 April	614.31	654.92	7.94	7.55	5.10	6.76	627.35	669.23
Current Service Cost	16.15	19.94	0.00	0.00	0.00	0.00	16.15	19.94
Interest Cost	26.05	28.48	0.32	0.30	0.20	0.27	26.57	29.05
Contributions from scheme participants	4.84	4.77	0.00	0.00	0.00	0.00	4.84	4.77
Remeasurement (gains) and losses:								
Actuarial gains / losses arising from changes in financial assumptions	62.72	(47.27)	0.59	(0.42)	0.26	(0.21)	63.57	-47.90
Actuarial gains / losses arising from changes in demographic assumptions	0.00	(15.40)	0.00	0.08	0.00	0.09	0.00	-15.23
Actuarial gains / losses arising from changes in liability experience	(3.63)	(11.04)	(0.08)	0.93	(0.05)	(1.41)	(3.76)	(11.52)
Past Service Cost	0.56	0.50	0.00	0.00	0.00	0.04	0.56	0.54
Benefits Paid	(22.48)	(20.59)	(0.50)	(0.50)	(0.44)	(0.44)	(23.42)	(21.53)
Liabilities extinguished on settlements	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Balance as at 31 March	698.52	614.31	8.27	7.94	5.07	5.10	711.86	627.35

Local Government Pension Scheme assets comprised:

	Fair Value of Scheme Assets 2014-15 £'m	Asset Split 2014-15 %	Fair Value of Scheme Assets 2013-14 £'m	Asset Split 2013-14 %
Cash and cash equivalents	18.019	4.11	11.527	3.01
Equity Instruments: <i>by industry type (FTSE Sector)</i>				
Oil & Gas	10.874	2.48	14.342	3.74
Basic Materials	9.207	2.10	9.091	2.37
Industrials	37.634	8.58	31.840	8.30
Consumer Goods	34.579	7.88	30.762	8.02
Health Care	22.623	5.15	20.558	5.36
Consumer Services	49.407	11.26	32.397	8.45
Telecommunications	3.392	0.77	2.719	0.71
Utilities	1.189	0.27	1.309	0.34
Financials	61.059	13.91	46.615	12.16
Technology	24.366	5.55	17.110	4.46
Pooled Equity Investment Vehicles	48.244	10.99	65.214	17.01
Sub-total equity	302.574	68.95	271.957	70.92
Bonds: <i>By Sector</i>				
Corporate	51.328	11.70	32.780	8.55
Government	42.334	9.65	44.713	11.66
Sub-total bonds	93.663	21.34	77.493	20.21
Property: <i>By Type</i>				
Retail	6.049	1.38	6.853	1.79
Office	4.045	0.92	3.428	0.89
Industrial	5.162	1.18	3.409	0.89
Other Commercial	9.338	2.13	8.784	2.29
Sub-total property	24.595	5.60	22.474	5.86
Total assets	438.850	100.00	383.451	100.00

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc.

Both the Local Government Pension Scheme and discretionary benefits liabilities have been estimated by Aon Hewitt, an independent firm of actuaries, in accordance with IAS 19.

The significant assumptions used by the Actuary were:

	2014-15 % pa	2013-14 % pa
Discount rate	3.2	4.3
Rate of pension increases	1.8	2.4
Rate of salary increases	3.3	3.9
Mortality Assumptions:		
Longevity at 65 for current pensioners :-		
Men	23.0	22.9
Women	25.9	25.8
Longevity at 65 for future pensioners :-		
Men	25.2	25.1
Women	28.3	28.2

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies of the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

	Increase in Assumption £m	Decrease in Assumption £m
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(13.35)	13.61
Rate of increase in salaries (increase or decrease by 0.1%)	3.17	(3.14)
Rate of increase in pensions (increase or decrease by 0.1%)	10.19	(10.03)
Longevity (increase or decrease in 1 year)	18.31	(18.34)

Impact on the Council's Cash Flows

The funded nature of the LGPS requires the Employer and its employees to pay contributions into the fund, calculated at a level intended to balance the pension liabilities with investment assets. The Actuary has recently carried out an Actuarial Valuation as at 31 March 2013, and has set the current Employer's contribution rate to achieve a funding level of 100% of scheme liabilities. Consequently, whilst there is a significant shortfall (liability) between the benefits earned by past and current employees and the resources the Authority has set aside to meet them, the statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

The Employer's regular contributions to the Local Government Pension Scheme and payments directly to beneficiaries for the LGPS Unfunded and Teachers' Unfunded Schemes for the accounting period ending 31 March 2015 are :-

	2014-15 £m
Local Govt Pension Scheme	16.57
LGPS Unfunded	0.51
Teachers' Unfunded	0.45

Teachers

In 2014-15, the Council paid £6.9 million (£6.8 million for 2013-14) to the Teachers Pensions Agency in respect of teachers' pension costs. In addition, the Council is responsible for all pension payments relating to added years awarded, together with the related increases. In 2014-15, these amounted to £0.5 million (£0.5 million for 2013-14).

37. Financial Instruments Disclosures

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets. Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure Section of the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable together with any accrued interest and interest charged to the Comprehensive Income and Expenditure Statement for the year according to the loan agreement.

The Council has three Lender's Option Borrower's Option loans (LOBOs) with stepped interest rates. An effective interest rate has been used for these so that these are re-measured amounts for the LOBOs on the Balance Sheet.

Where premiums and discounts on early repayment have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the Council Fund to be spread over future years. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the Council Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

The Council's non-derivative financial liabilities are carried in the Balance Sheet at amortised cost split between short and long term.

The Short Term Borrowing in the Balance Sheet is detailed below:

Short Term Borrowing & Other Short Term Financial Liabilities	31 March 2015 £'000	31 March 2014 £'000
Public Works Loan Board (<1 year)	-	16
Short Term Loans (Accrued Int. Long Term)	275	275
Escrow (Football Club) Short Term	-	634
Escrow (Bocam Park) Short Term	57	57
Escrow (Wind Farms) Short Term	132	130
Other Trust Funds	415	431
Short Term Borrowing	879	1,543
Short Term Trade Payables(Creditors)	2,897	3,546
Other Short Term Financial Liabilities(Creditors)	1,379	1,301
Total Current Financial Liabilities	5,155	6,390

The short term trade payables (creditors) figure £2.897 million relates to trade payables for goods and services received. 63% of this is not overdue for payment, 37% is due within 6 months. The other short term financial liabilities figure of £1.379 million represents monies held by the Council on behalf of different third parties.

The value of the short term liability relating to Other Long Term Liabilities for 2014-15, is made up as follows:-

Short Term Liability relating to Other Long Term Liabilities	31 March 2015 £'000	31 March 2014 £'000
Maesteg School PFI Lease Liability	513	476
Innovation Centre Financial Liability	51	47
Finance Lease Liability	-	41
HALO Financial Liability	117	117
Waste Contract (MREC)	50	-
Total	731	681

The £2.897 million, £1.379 million and £0.731 million shown in the tables above are all included in the Short Term Creditors Balance Sheet figure of £43.458 million which also includes creditors that do not meet the definition of a financial liability so is not detailed here. Note 27 provides more detailed information of the total short term creditors figure.

The long term borrowing figure in the balance sheet of £97.444 million is made up as follows:

Long Term Borrowing	31 March 2015			31 March 2014		
	Principal Sum Outstanding	Balance Sheet	Fair Value	Principal Sum Outstanding	Balance Sheet	Fair Value
	£'000	£'000	£'000	£'000	£'000	£'000
PWLB (long term)	77,617	77,617	118,094	77,617	77,617	96,644
Total PWLB debt	77,617	77,617	118,094	77,617	77,617	96,644
LOBO's	19,250	19,827	30,130	19,250	19,834	24,902
Total Market Loans	19,250	19,827	30,130	19,250	19,834	24,902
Total Long Term Borrowing	96,867	97,444	148,224	96,867	97,451	121,546

PFI and other long term liabilities figure in the balance sheet of £20.85 million are detailed below:

Other Long Term Liabilities	31 March 2015		31 March 2014	
	Balance Sheet	Fair Value	Balance Sheet	Fair Value
	£'000	£'000	£'000	£'000
Maesteg PFI Lease Liability	18,787	28,419	19,300	26,710
Innovation Centre Financial Liability	719	1,073	770	1,109
HALO Financial Liability	844	1,458	853	1,569
Escrow (Football Club)	47	47	-	-
Waste Contract (MREC)	450	454	-	-
Total Other Long Term Liabilities	20,847	31,451	20,923	29,388

The fair value of an instrument is determined by calculating the Net Present Value (NPV) of the remaining contractual cash flows at 31 March 2015, which provides an estimate of the value of payments in the future in today's terms. The fair value of short-term instruments, including trade payables is assumed to approximate to the carrying amount so these have not been disclosed above. The fair value of long-term borrowing is higher than the carrying amount because the Council's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

The Public Works Loan Board (PWLB) fair values of loans were provided by the PWLB based on premature repayment rates.

The fair values of long-term "Lender's Option Borrower's Option" (LOBO) loans have been calculated by discounting the contractual cash flows over the whole life of the instrument at the appropriate interest rate swap rate on 31 March plus a margin for local authority credit risk and adding the value of the embedded options.

The fair values of PFI scheme liabilities and other financial liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA corporate bond yield.

Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset. The financial assets held by the Council during the year are classed as Loans and Receivables, which are assets that have fixed or determinable payments but are not quoted

in an active market. They are carried in the balance sheet at amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

Short Term Investments and Cash and Cash Equivalents in the Balance Sheet are detailed below:

Investments and Cash and Cash Equivalents	31 March 2015 Balance Sheet £'000	31 March 2014 Balance Sheet £'000
Investments (< 1 year)	11,027	4,005
Total Short Term Investments	11,027	4,005
Cash & Cash Equivalents (Deposits)	8,502	6,500
Cash in Hand/Overdrawn	(1,929)	(2,031)
Total Cash & Cash Equivalents	6,573	4,469
Short Term Trade Receivables (Debtors)	5,330	6,301
Total Current Financial Assets	11,903	14,775

The £5.330 million trade receivable (debtor) figure above is for goods and services delivered and an age debt analysis of these trade debtors is shown below in the Credit Risk section. This figure is included in the Short Term Debtors figure of £29.272 million in the balance sheet which also includes debtors that do not meet the definition of a financial liability and Note 25 provides more detailed information of the total short term debtors figure.

The fair value of short-term instruments, including trade receivables are assumed to approximate to the carrying amount so are not detailed in this disclosure.

There was one long term investment taken out during 2014-15 for one year for £2million, however, there are none outstanding at 31 March 2015 as this has been transferred to short term in the Balance Sheet so is included in the table above. There are Long Term Debtors carried in the Balance Sheet which are financial assets. These are Housing Advances (£17,000) which are made of 8 long term loans made by the Council to former tenants and private households for mortgages and a lease receivable carried in the balance sheet as Finance Leases (£261,000) for vehicles linked to the waste contract.

Offsetting Financial Assets and Liabilities

Financial assets and liabilities are set off against each other where the Council has a legally enforceable right to set off and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The table below shows those instruments that have been offset on the balance sheet. The Council had no other financial assets or liabilities subject to an enforceable master netting arrangement or similar agreement.

Offsetting of Financial Assets and Liabilities	31 March 2015 Gross Assets (Liabilities) £000	31 March 2014 Gross Assets (Liabilities) £000
Bank Accounts in Credit	2,322	138
Total Financial Assets	2,322	138
Bank Overdrafts	- 2,415	- 88
Total Financial Liabilities	- 2,415	- 88
Net Position on Balance Sheet	- 93	51

Financial Instruments - Risk

The procedures for risk management are set out through a legal framework set out in the Local Government Act 2003 and the associated regulations. The Council has adopted CIPFA's Code of Practice on Treasury Management (and subsequent amendments) and complies with The Prudential Code for Capital Finance in Local Authorities (both revised in November 2011).

As part of the adoption of the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with Financial Instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks. The Council meeting of the 19 February 2014 accepted the Treasury Management Strategy 2014-15 and the Treasury Management and Prudential Indicators.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the WG's *Guidance on Local Government Investments*. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy is based on seeking the highest rate of return consistent with the proper levels of security and liquidity. The Council also conducts a mid-year review of its treasury management policies, practices and activities and any revisions of the Investment Strategy to enable increased flexibility in an ever changing financial market and investment opportunities available will be approved by formal Council. Actual performance is also reported annually to Members in the form of the Annual Treasury Management Report which is reviewed by Audit Committee. These policies are implemented by a central Financial Control Team.

The Council's activities expose it to a variety of financial risks, the key risks are:-

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined in the Investment Strategy contained within the Treasury Management Strategy 2014-15.

The Council's definition of "**high credit quality**" is deemed to be counterparties having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. Overseas subsidiaries of foreign banking groups will normally be assessed according to the country of domicile of the parent organisation. However, Santander UK plc (a subsidiary of Spain's Banco Santander) and Clydesdale Bank plc (a subsidiary of National Australia Bank) were classed as UK banks due to their substantial UK franchises and arms-length parent-subsidary relationships.

Cipfa's Code of Practice for Treasury Management requires all local authorities to conduct a mid-year review of its treasury management policies, practices and activities. As a result of this review it was not deemed necessary for the Council to make any major changes to the Investment Strategy only a few minor revisions to enable increased flexibility in an ever changing financial market and to increase the investment opportunities available to the Council whilst still maintaining security and. The Council meeting of 12 November 2014 approved the revisions as a result of the half year review of the Treasury Management Strategy and all these are reflected within this disclosure. Based on this, the Council's **approved counterparties** are shown in the table below:

Counterparty	Credit Rating (or equivalent)	Time Limit	Cash Limit
UK registered banks, building societies and other organisations and securities whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	AAA	6 years	£8m each of which no more than £3m over 1 year
	AA+	5years	
	AA	4years	
	AA-	3years	
	A+	2 years	£6m of which no more than £3m over 1 year
	A	1 year	£5m
	A-	1 year	£3m
		6 months	£5m (higher cash limit than 1 year due to shorter duration and less perceived risk)
	BBB+	100 days	£2m
UK Central Government	n/a	10 years	Unlimited
UK Local Authorities** but excluding parish and community councils	n/a	10 years	£15m
The Council's current account bank if it fails to meet the above criteria*		next day	£3m
UK registered building societies whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	BBB	100 days	£2m
UK registered building societies without credit ratings with assets greater than £250m		100 days	£1m
Banks owned and domiciled in foreign countries with a sovereign rating of AA+ or higher	A+	6 months	£3m
Money market funds** and other pooled funds*		n/a	£2m
Any other organisation and pooled fund subject to an external credit assessment and specific advice from the Council's treasury management advisers		1 year	£1m
		6 months	£2m

*following discussion and approval from Treasury management advisers

** as defined in the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003

***as defined in the Local Government Act 2003, and similar authorities in Scotland

N.B. Long-term credit ratings refers to those published from Fitch, Moody's and Standard and Poor

The Annual Investment Strategy states which investments the Council may use for the prudent management of its treasury balances during the financial year under the heads of Specified Investments and Non-Specified Investments.

A Specified Investment is one which offers high security and high liquidity. It is a low risk investment where the possibility of loss of principal or investment income is negligible and satisfies the conditions below (extract WG Guidance on Local Government Investments):-

- The investment is denominated in sterling and any payments or repayments of the investment are payable only in sterling.
- The investment is not a long-term investment (contractually committed to be paid within 12 months/364 days).
- The making of the investment is not defined as capital expenditure by virtue of regulation 20(1)(d) of the Local Authorities (Capital Finance and Accounting)(Wales) Regulations 2003 [SI 3239 as amended].
- The investment is made with:
 - a) a body or in an investment scheme of high credit quality; or
 - b) the UK Government;
 - c) or a local authority in England or Wales (as defined in section 23 of the 2003 Act) or similar body in Scotland or Northern Ireland;
 - d) a parish council or community council.

A Non-Specified Investment is any investment that does not fall into the criteria detailed above under the Specified definition. The WG Guidance requires the Council’s Investment Strategy to set an overall limit for non-specified investments which was set at £25 million. Therefore, at any one point in time a maximum of £25 million of investments could have been in one of the following non-specified categories:

Non-Specified Investment Limits	Category Total Cash limit
Total long-term investments	£15m
Total money market funds and other pooled funds	£ 8m
Total building societies not meeting the Council’s high credit quality definition (but with assets greater than £250m)	£ 6m
Total investments (excluding building societies – separate limit above) not meeting the Council’s high credit quality definition	£ 6m

The combined values of specified and non-specified investments with any one organisation are subject to the limits detailed above and the approved counterparties and limits shown in the table below. A group of banks under the same ownership will be treated as a single organisation for limit purposes.

The Council’s investments have historically been placed in bank and building society deposits and local and central government, however, investments may be made with any public or private sector organisations that meet the above credit criteria. This reflects a lower likelihood that the UK and other governments will support failing banks as the bail-in provisions in the *Banking Reform Act 2014* and the *EU Bank Recovery and Resolution Directive* are implemented.

Credit ratings are obtained and monitored by the Council's treasury advisers who notify changes in ratings as they occur. They use long-term credit ratings from the three main rating agencies Fitch Ratings Ltd., Moody's Investors Service and Standard & Poor's Financial Services to assess the risk of investment default. The lowest available counterparty credit rating will be used to determine credit quality, unless an investment specific rating is available. The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard is therefore given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

The Council's primary objective for the management of its investments is to give priority to the security and liquidity of its funds before seeking the best rate of return so not all the options available to the Council as detailed above were utilized during 2014-15. The majority of the Council's surplus funds during 2014-15 were therefore kept in the form of short-term investments and all were placed with UK registered banks and building societies satisfying the above credit criteria, UK local government and the UK Debt Management Office (DMO - executive agency of the UK government) and spread over a number of counterparties. This was deemed a much safer option even though it may be at the expense of extra basis points in interest. The counterparty limits were constantly reviewed and where market conditions dictated, the limit was dropped below the limits detailed above. No breaches of the Council's counterparty criteria occurred during 2014-15 and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Council's investments outstanding at 31 March 2015 totalled £19.50 million as detailed below and shown in the balance sheet as both Short Term Investments (£11.027 million) and included within Cash and Cash Equivalents (£8.502 million). The maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2015 that this was likely to crystallise. The table below summarises the credit risk exposures of the Council's investment portfolio by credit rating, based on the lowest long term rating:

Counterparty Category	Credit Rating	Instant Access Deposit Accounts £'000	Deposits Maturing Within 1 Month £'000	Deposits Maturing Within 3 Months £'000	Deposits Maturing Within 6 Months £'000	Total £'000
Bank (UK registered)	A	1,500	2,000	-	2,000	5,500
Building Societies	A	-	-	2,000	-	2,000
Building Societies	A-	-	2,000	1,000	-	3,000
Unrated Local Authorities		-	7,000	2,000	-	9,000
Total		1,500	11,000	5,000	2,000	19,500

The Council does not generally allow credit for its customers (trade debtors) such that all the trade debtors is short term, however, £2.104 million of the £5.330 million balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

Trade Debtors Past Due but not impaired	31 March 2015	31 March 2014
	£'000	£'000
Less than three months	1,308	1,238
Three to six months	259	136
Six months to one year	130	116
More than one year	406	443
Total	2,104	1,933

The Council's credit risk on lease receivables is mitigated by its legal ownership of the assets leased, which can be repossessed if the debtor defaults on the lease contract.

Liquidity risk

The Council manages its liquidity risk through its cash-flow management to ensure that cash is available when required. It has ready access to instant access deposit accounts, overdraft facilities and ready access to borrowing from the Money Markets or other local authorities to cover any day to day cash flow need and the Public Works Loan Board (PWLB) provides access to borrowing at favourable rates. The Council arranges fixed term loans and investments with a range of maturity dates within the framework and indicators approved each year. There is no perceived risk that the Council will be unable to raise finance to meet its commitments, instead the risk relates to replenishing a significant proportion of its borrowings at a time of unfavourable interest rates.

A key parameter used to address liquidity risk is the Treasury Management Indicator which limits the maturity structure of fixed rate borrowing. This is the amount of projected borrowing that is fixed rate, maturing in each period as a percentage of total projected fixed rate borrowing. This indicator is set to control the Council's exposure to refinancing risk and has been set to allow for the possible restructuring of long term debt where this is expected to lead to an overall saving or reduction in risk.

Maturity structure of fixed rate borrowing	Upper Limit	Lower Limit	Actual %	Principal Outstanding £'000
	2014-15	2014-15	31-03-15	31-03-15
Less than one year	50%	0%	0.00%	0
Between 1 and 2 years	25%	0%	0.00%	0
Between 2 and 5 years	50%	0%	0.00%	0
Between 5 and 10 years	60%	0%	5.76%	5,580
More than ten years	100%	40%	74.37%	72,037
Uncertain date *	-	-	19.87%	19,250
Total			100.00%	96,867

Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing all financial instruments therefore including longer term financial liabilities as they mature. The following table details the maturity of all the Council's financial liabilities based on the balance sheet value and includes all trade creditors and other creditors classed as financial liabilities which are due to be paid in less than a year.

Maturity Analysis Financial Liabilities	31 March 2015	31 March 2014
	£'000	£'000
Less than one year	5,884	7,071
Between one and two years	774	680
Between two and five years	2,642	2,319
Between five and ten years	11,181	5,147
More than ten years	84,057	90,691
Uncertain date*	19,827	19,834
Total Financial Liabilities	124,365	125,742

* The £19.250 million (19.87%) and £19.827 million in the two tables above showing an uncertain date relates to Lender's Option Borrower's Option (LOBO) loans which may be re-scheduled in advance of their maturity date of 2054. The LOBO rate and term may vary in the future depending upon the prevailing market rates, the lender exercising their option to increase rates at one of the bi-annual trigger points (the next trigger date being 22 July 2015) and therefore, the Authority being given the option to accept the increase or to repay the loan without incurring a penalty. Due to current low interest rates, the Council is not anticipating that this will occur during 2015-16 however in the unlikely event that the lender exercises its option the Council is likely to repay these loans. The maturity date is therefore uncertain.

Market Risk

The Council is exposed to the risk that financial loss could potentially occur as a result of changes in such measures as interest rate movements, market prices or foreign currency exchange rates. The Council is not exposed to the two treasury management risks of price risk or foreign exchange rate risk so only interest rate risk is detailed below.

Interest rate risk - The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- borrowings at variable rates – the interest charged to revenue within the Comprehensive Income and Expenditure Statement will rise;
- borrowings at fixed rates – the fixed rate protects the Council from increased interest charges as an equivalent loan would now cost more. The fair value of the borrowing (liability) will fall;
- investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- investments at fixed rates – the fixed rate prevents the Council from receiving higher investment income from the same principal invested. The fair value of the investment (asset) will fall

The Council has a number of strategies for managing interest rate risk. The Treasury Management Strategy draws together the Council's Treasury Management and Prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this, an indicator is set which provides maximum limits for fixed and variable interest rate exposure:-

	Upper Limit TMS 2014-15 £m	Actual Principal Outstanding 31-03-15 £m
Total Projected Principal Outstanding on Borrowing	101.87	96.87
Total Projected Principal Outstanding on Investments(including cash/cash equivalents deposits)	9.00	19.50
Net Principal Outstanding	92.87	77.37
Fixed interest rates (net principal) exposure	130.00	59.62
Variable interest rates Exposure (net principal) exposure	50.00	17.75

The Council's borrowings and investments are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Comprehensive Income and Expenditure Statement and affect the Council Fund Balance, subject to influences from Government grants.

The Financial Control Team monitors market and forecast interest rates within the year to adjust exposures appropriately, to allow any adverse changes to be accommodated. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans may be repaid early to limit exposure to losses. According to this strategy, at 31 March 2015, if there had been a 1% change in interest rates with all other variables held constant, the financial effect would be approximately:

	Estimated £'000 + 1%	Estimated £'000 -1%
Interest payable on variable rate borrowings	133	0
Interest receivable on variable rate investments	(175)	175
Impact on Surplus or Deficit on Provision of Services	(42)	175

The figures for an approximate impact of a 1% fall in interest rates are not the same figures as the 1% increase (but reversed) as the variable rate borrowing relates to our LOBO loans where it is assumed that the lender would not exercise their option if there was a fall in interest rates.

38. Post Balance Sheet Events

There are no Post Balance Sheet Events.

Notes to the Cash Flow Statement

39. Adjustments for Non-Cash Movements

2013-14		2014-15
£'000		£'000
(22,116)	Depreciation & Impairment of Assets	(94,763)
(4,419)	Movement in Stock, Debtors & Creditors	(9,798)
(195)	Revenue Expenditure Funded from Capital Under Statute	(774)
(16,720)	Pension Fund Adjustments	(9,020)
373	Provisions	1,976
(410)	Changes in Fair Value of Investment Properties	647
(6,048)	Gain/loss on disposal of Non Current Asset	(718)
7,201	Minimum Revenue Provision	7,346
1,271	Revenue Contribution to Capital	1,793
(41,063)	Adjustments to net deficit on the provision of services for non-cash movements	(103,311)

40. Operating Activities

The cash flows for operating activities include the following items:-

2013-14		2014-15
£'000		£'000
(14,775)	Cash Flow on Revenue Activities	(11,640)
6,304	Interest Paid	4,789
1,609	Interest element of finance lease and PFI rental payments	1,638
(607)	Interest Received	(830)
(7,469)	Net Cash Flows from Operating Activities	(6,043)

41. Investing Activities

The cash flows for investing activities include the following items:-

2013-14		2014-15
£'000		£'000
33,918	Purchase of Property, Plant and Equipment and Investment Property	23,348
4,005	Purchase / (Proceeds) from Short Term Investments	(6,398)
(274)	Proceeds from sale of Property, Plant and Equipment and Investment Property	7,022
37,649	Net Cash Flows from Investing Activities	23,972

42. Financing Activities

The cash flows for financing activities include the following items:-

2013-14		2014-15
£'000		£'000
-	Cash Receipts of short and long term borrowing	-
(20,684)	Other Receipts from financing activities	(13,970)
84	Repayments of short and long term borrowing	624
641	Cash Payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	680
(19,959)	Net Cash Flows from Financing Activities	(12,666)

Glossary Of Terms

Accrual

An accrual is a sum shown in the accounts representing income or expenditure for the accounting period but which was not actually received or paid as at the date of the balance sheet.

Actuary

An actuary is a person who works out insurance and pension premiums, taking into account factors such as life expectancy.

Amortisation

Reduction in value of capital expenditure which has not created an asset, through charges to revenue.

Audit

An audit is an independent examination of the Council's accounts.

Balance Sheet

This is a statement of our assets, liabilities and other balances at the date of the end of the financial year, 31 March.

Budget

A budget (or estimate) is a plan of income and spending, based upon which council tax is set. Actual expenditure and income is subsequently monitored against this plan.

Capital expenditure

Capital expenditure is spending on fixed assets. These are assets that will be used for several years in the provision of services and are items such as buildings, equipment and vehicles.

Capital Adjustment Account

This is money set aside in the Council's accounts for capital spending and to repay loans.

Capital receipt

Capital receipts are proceeds from the sale of fixed assets such as land or buildings.

Cash flow Statement

This is a statement that summarises the movements in cash during the year.

Comprehensive Income and Expenditure Statement

This account records day-to-day spending and income on items such as salaries and wages, running costs of services and the financing of capital expenditure.

Contingent liabilities

A Contingent Liability is a possible obligation that arises from past events and whose existence will be confirmed by the occurrence of uncertain future events.

Corporate and Democratic Core (CDC)

CDC is a service defined by the Best Value Accounting Code of Practice representing costs relating to Member activity (Democratic Representation and Management) and costs that provide the infrastructure to ensure that services can be provided (Corporate Management).

Creditor

A creditor is an organisation / someone owed money by the Council at the end of the financial year for goods / services received during the financial year or previous years.

Current assets

These are short-term assets that are available for the Council to use in the following accounting year.

Current liabilities

These are short-term liabilities that are due for payment by the Council in the following accounting year.

Debtor

A debtor is an organisation / someone who owed the Council money at the end of the financial year for goods / services received during the financial year or previous years.

Delegated schools balances

Under the Local Management of Schools provisions, any balances accrued at year end are delegated to individual schools. These funds are held outside of the Council's Council Fund balances.

Depreciation

Depreciation is the estimated loss in value of fixed assets that are presented in the Balance Sheet.

Earmarked reserves

These are reserves set aside for a specific purpose.

Escrow account

Escrow is a legal arrangement whereby money is delivered to a third party (called an escrow agent) to be held in trust pending a contingency or the fulfillment of a condition or conditions in a contract.

Financial Year

This is the accounting period. For local authorities it starts on 1 April and finishes on 31 March of the following year.

Finance leases

Finance leases are used to finance purchases where the Council takes on most of the risks associated with owning the asset.

Fixed asset

These are long-term assets that are used in the provision of services (usually for more than one year).

Government grants

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

International Financial Reporting Standard (IFRS)

Financial regulations to be followed as set by the Accounting Standards Board (ASB).

Inventories

Inventories are raw materials purchased for day to day use. The value of these items that have not been used at the end of the financial year are shown as current assets in the balance sheet.

Leasing

This is a method of financing capital expenditure by paying the owner to use property or equipment for a number of years.

Liability

A liability is an amount payable at some time in the future.

Minimum Revenue Provision (MRP)

This is an amount that has been set aside to repay loans. This should be a prudent amount.

Movement in Reserves Statement (MIRS)

This statement shows the movement in the year on different reserves held by the Authority.

National Non-Domestic Rates (NNDR)

The NNDR, or Business Rate, is the charge to occupiers of business premises. The money collected is paid to the Welsh Government and redistributed to individual authorities in proportion to their adult population.

Net Realisable Value

The selling price of an asset, reduced by the relevant (direct) cost of selling it.

Non Distributable Costs (NDC)

NDC is a category of costs defined by the Best Value Accounting Code of Practice. It represents:

- costs of unused I.T. facilities,
- costs of long term unused, unrealisable assets,
- certain pension fund costs

Open Market Value in Existing Use (OMVEU)

OMVEU is a basis for valuation of fixed assets.

Operating assets

These are assets used in the running / provision of services.

Operating leases

These are leases where risks of ownership of the asset remain with the owner.

Post balance sheet events

Post balance sheet items are those that arise after the Balance Sheet date. These are items that did not exist at the time the Balance Sheet was prepared but should be disclosed if they are relevant to the fair presentation of the accounts.

Precepts

This is the amount paid to a non-billing authority (for example a community council) so that it can cover its expenses (after allowing for its income).

Prior year adjustment

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors.

Provision

A provision is an amount we set aside in our accounts for expected liabilities which we cannot measure accurately.

Private finance initiative (PFI) – a central government initiative which aims to increase the levels of funding available for public services by attracting private sources of finance. The PFI is supported by a number of incentives to encourage authorities' participation.

Public Works Loan Board (PWLB)

This is a Government agency which provides longer term loans to local authorities. It charges interest rates only slightly higher than those at which the Government can borrow.

Related party transactions

These are the transfer of assets or liabilities or the performance of services by, to or for a related party no matter whether a charge is made.

Revaluation Reserve

This represents the non-distributable increase/decrease in the valuation of fixed assets.

Revenue account

This is an account which records our day to day spending and income on items such as salaries and Wages, running costs of services and the financing of capital expenditure.

Service Reporting Code of Practice (SerCOP)

The Service Reporting Code of Practice provides a consistent framework for reporting local authority data. SerCOP is reviewed annually by the appropriate regulating body to ensure that it develops in line with the needs of modern local government, Transparency, Best Value and public services reform

Temporary borrowing or investment

This is money borrowed or invested for an initial period of less than one year.

Trust fund

Trust funds hold money on behalf of an individual or organisation. Trustees administer the funds for the owners.

Work in progress (WIP)

Work in progress is the value of work undertaken on an unfinished project at the end of the financial year, which has not yet been charged to the revenue account.

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Small local government bodies in Wales Annual Return for the Year Ended 31 March 2015

Section 12 of the Public Audit (Wales) Act 2004 requires local government bodies in Wales to make up their accounts each year to 31 March and to have those accounts audited by the Auditor General for Wales. Regulation 14 of the Accounts and Audit (Wales) Regulations 2014 states that smaller local government bodies i.e. those with annual income and expenditure below £2.5 million must prepare their accounts in accordance with proper practices.

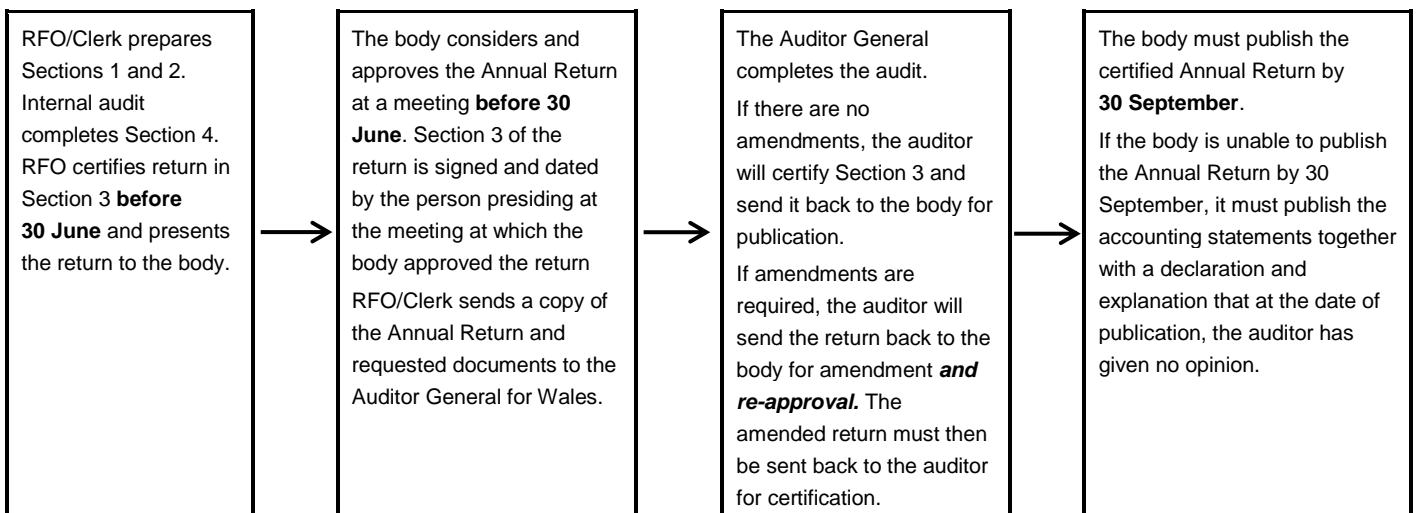
The following legislation defines proper practices as the One Voice Wales/SLCC Guidance publication *Governance and accountability for local councils in Wales – A Practitioners’ Guide (2011)* (the Practitioners’ Guide):

- Port health authorities: Accounts and Audit (Wales) Regulations 2014, Regulation 4(b)
- Small joint committees: Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003, Regulation 25(1)

The Practitioners’ Guide requires that smaller bodies prepare their accounts in the form of an annual return. This annual return meets the requirements of the Practitioners’ Guide

Please complete all sections highlighted in pink. Incomplete or incorrect returns may require additional external audit work and incur additional costs. Further guidance is included in Section 5 and in Section 2 includes references to where the guide has further information.

Under the Accounts and Audit (Wales) Regulations 2014, the body must formally approve the return and certify Section 3 before the return is sent to the auditor. The body must approve the Annual Return by 30 June. Unless the Annual Return needs to be amended, the auditor will certify the return and send it back to the Body for publication with no further approval by the body required. The accounts approval and audit arrangements follow the process as set out below.



Your external audit team will advise you what additional information is needed for the audit.

Please send the original Annual Return (ie, not a photocopy), together with any additional information requested, to your external auditor by the date specified by the auditor. Unless requested, please **do not** send any original financial records to the external auditor.

Audited and certified returns are sent back to the body for publication or display of Sections 1, 2 and 3.

Section 1 – Accounting statements for:

Porthcawl Harbour BODY

	Year ending		Notes and guidance for compilers				
	31 March 2014 (£)	31 March 2015 (£)	Please round all figures to nearest £. Do not leave any boxes blank and report £0 or nil balances. All figures must agree to the Body's underlying financial records for the relevant year.				
1. Balances brought forward	-	-	Total balances and reserves at the beginning of the year as recorded in the financial records. Must agree to Line 7 of the previous year.				
2. (+)Income from local taxation and/or levy	(50683)	(42637)	Total amount of local taxation, rates and/or levy received or receivable in the year including funding from a sponsoring body.				
3. (+) Total other receipts	(16775)	(68897)	Total income or receipts as recorded in the cashbook less income from local taxation and/or levy (line 2). Include any grants received here.				
4. (-) Staff costs	25374	64696	Total expenditure or payments made to and on behalf of all employees. Include salaries and wages, PAYE and NI (employees and employers), pension contributions and related expenses.				
5. (-) Loan interest/capital repayments	14061	18951	Total expenditure or payments of capital and interest made during the year on the Body's borrowing (if any).				
6. (-) Total other payments	28023	27887	Total expenditure or payments as recorded in the cashbook minus staff costs (Line 4) and loan interest/capital repayments (Line 5).				
7. (=) Balances carried forward	-	-	Total balances and reserves at the end of the year. Must equal (1+2+3) – (4+5+6).				
8. (+) Debtors and stock balances	-		Income and expenditure accounts only: Enter the value of debts owed to and stock balances held at the year-end.				
9. (+) Total cash and investments	57500	61190	All accounts: The sum of all current and deposit bank accounts, cash holdings and investments held at 31 March. This must agree with the reconciled cashbook balance as per the bank reconciliation.				
10. (-) Creditors	(57500)	(61190)	Income and expenditure accounts only: Enter the value of monies owed by the Body (except borrowing) at the year-end.				
11. (=) Balances carried forward	-	-	Total balances should equal Line 7 above: Enter the total of (8+9-10).				
12. Total fixed assets and long-term assets	3929466	3932837	The original Asset and Investment Register value of all fixed assets, plus other long term assets owned by the body as at 31 March				
13. Total borrowing	-	-	The outstanding capital balance as at 31 March of all loans from third parties (including PWLB).				
14. Trust funds disclosure note	Yes	No	N/A	Yes	No	N/A	The Body acts as sole trustee for and is responsible for managing (a) trust fund(s)/assets (readers should note that the figures above do not include any trust transactions).
			X			X	

Section 2 – Annual Governance Statement

We acknowledge as the members of the Body our responsibility for ensuring that there is a sound system of internal control, including the preparation of the accounting statements. We confirm, to the best of our knowledge and belief, with respect to the Body's accounting statements for the year ended 31 March 2015, that:

	Agreed?		'YES' means that the Body:	PG Chap.
	Yes	No*		
1. We have approved the accounting statements which have been prepared in accordance with the requirements of the Accounts and Audit (Wales) Regulations 2014 and proper practices.	X		Prepared its accounting statements in the way prescribed by law.	6, 12
2. We have maintained an adequate system of internal control, including measures designed to prevent and detect fraud and corruption, and reviewed its effectiveness.	X		Made proper arrangements and accepted responsibility for safeguarding the public money and resources in its charge.	6, 7
3. We have taken all reasonable steps to assure ourselves that there are no matters of actual or potential non-compliance with laws, regulations and codes of practice that could have a significant financial effect on the ability of the Body to conduct its business or on its finances.	X		Has only done things that it has the legal power to do and has conformed to codes of practice and standards in the way it has done so.	6
4. We have provided proper opportunity for the exercise of electors' rights in accordance with the requirements of the Accounts and Audit (Wales) Regulations 2014.	X		Has given all persons interested the opportunity to inspect and ask questions about the Body's accounts.	6, 23
5. We have carried out an assessment of the risks facing the Body and taken appropriate steps to manage those risks, including the introduction of internal controls and/or external insurance cover where required.	X		Considered the financial and other risks it faces in the operation of the Body and has dealt with them properly.	6, 9
6. We have maintained an adequate and effective system of internal audit of the Body's accounting records and control systems throughout the year and have received a report from the internal auditor.	X		Arranged for a competent person, independent of the financial controls and procedures, to give an objective view on whether these meet the needs of the Body.	6, 8
7. We have taken appropriate action on all matters raised in previous reports from internal and external audit.	X		Has responded to matters brought to its attention by internal and external audit.	6, 8, 23
8. We have considered whether any litigation, liabilities or commitments, events or transactions, occurring either during or after the year-end, have a financial impact on the Body and, where appropriate, have included them on the accounting statements.	X		Disclosed everything it should have about its business during the year including events taking place after the year-end if relevant.	6
9. Trust funds – in our capacity as trustee we have: <ul style="list-style-type: none"> Discharged our responsibility in relation to the accountability for the fund(s) including financial reporting and, if required, independent examination or audit. 	Yes	No	N/A	3, 6
			X	

* Please provide explanations to the external auditor on a separate sheet for each 'no' response given; and describe what action is being taken to address the weaknesses identified.

Section 3 – Certification and approval

Approval and certification of the accounts and annual governance statement

The Body is responsible for the preparation of the accounting statements in accordance with the requirements of the Accounts and Audit (Wales) Regulations 2014 and for the preparation of an Annual Return which:

- summarises the Body’s accounting records for the year ended 31 March 2015; and
- confirms and provides assurance on those matters that are important to the external auditor’s responsibilities.

<p>Certification by the RFO</p> <p>Certificate under Regulation 15(1) Accounts and Audit (Wales) Regulations 2014</p> <p>I certify that the accounting statements contained in this Annual Return presents fairly the financial position of the Body, and its income and expenditure, or properly presents receipts and payments, as the case may be, for the year ended 31 March 2015.</p>	<p>Approval by the Body</p> <p>Approval of accounting statements under Regulation 15(2) Accounts and Audit (Wales) Regulations 2014 and the Annual Governance Statement</p> <p>I confirm that these accounting statements and Annual Governance Statement were approved by the Body under body minute reference:</p>
	INSERT MINUTE REFERENCE
RFO signature: SIGNATURE REQUIRED	Chair signature: SIGNATURE REQUIRED
Name: NAME REQUIRED	Name: NAME REQUIRED
Date: DD/MM/YYYY	Date: DD/MM/YYYY

External Audit Certificate

The external auditor conducts the audit in accordance with guidance issued by the Auditor General for Wales. On the basis of their review of the Annual Return and supporting information, they report whether any matters that come to their attention give cause for concern that relevant legislation and regulatory requirements have not been met. We certify that we have completed the audit of the Annual Return for the year ended 31 March 2015 of:

External auditor’s report

[Except for the matters reported below]* On the basis of our review, in our opinion, the information contained in the Annual Return is in accordance with proper practices and no matters have come to our attention giving cause for concern that relevant legislation and regulatory requirements have not been met.

[[These matters along with]* Other matters not affecting our opinion which we draw to the attention of the Body/meeting are included in our report to the Body dated _____.]

(* Delete as appropriate)

External auditor’s signature:	For and on behalf of the Auditor General for Wales
External auditor’s name:	Date:

Section 4 – Annual internal audit report to: Porthcawl Harbour BODY

The Body's internal audit, acting independently and on the basis of an assessment of risk, has included carrying out a selective assessment of compliance with relevant procedures and controls expected to be in operation during the financial year ending 31 March 2015.


The internal audit has been carried out in accordance with the Body's needs and planned coverage. On the basis of the findings in the areas examined, the internal audit conclusions are summarised in this table. Set out below are the objectives of internal control and the internal audit conclusions on whether, in all significant respects, the following control objectives were being achieved throughout the financial year to a standard adequate to meet the needs of the Body.

	Agreed?			
	Yes	No*	N/A	Not covered**
1. Appropriate books of account have been properly kept throughout the year.	✓			
2. The Body's financial regulations have been met, payments were supported by invoices, expenditure was approved and VAT was appropriately accounted for.	✓			
3. The Body assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.	✓			
4. The annual precept requirement resulted from an adequate budgetary process, progress against the budget was regularly monitored, and reserves were appropriate.			✓	
5. Expected income was fully received, based on correct prices, properly recorded and promptly banked, and VAT was appropriately accounted for.	✓			
6. Petty cash payments were properly supported by receipts, expenditure was approved and VAT appropriately accounted for.			✓	
7. Salaries to employees and allowances to members were paid in accordance with body approvals, and PAYE and NI requirements were properly applied.	✓			
8. Asset and investment registers were complete and accurate, and properly maintained.			✓	
9. Periodic and year-end bank account reconciliations were properly carried out.	✓			
10. Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments/income and expenditure), agreed with the cashbook, were supported by an adequate audit trail from underlying records, and where appropriate, debtors and creditors were properly recorded.	✓			
11. Trust funds (including charitable trusts). The Body has met its responsibilities as a trustee.			✓	

For any risk areas identified by the Body (list any other risk areas below or on separate sheets if needed) adequate controls existed:	Agreed?			
	Yes	No*	N/A	Not covered**
13. Generic testing has been undertaken in the areas of Creditors, Debtors, Payroll and bank reconciliation with no issues identified.				
14.				

* If the response is 'no', please state the implications and action being taken to address any weakness in control identified (add separate sheets if needed).

** If the response is 'not covered', please state when the most recent internal audit work was done in this area and when it is next planned, or if coverage is not required, internal audit must explain why not.

Name of person who carried out the internal audit:	Helen Smith
Signature of person who carried out the internal audit:	
Date:	09/06/15

Section 5 – Guidance notes on completing the 2015 Annual Return

1. **Please note the changes to the accounts approval and audit process for this year. These are described on the front cover of this Annual Return.**
2. For guidance please read the Practitioners' Guide (*Governance and accountability for local councils: A Practitioners' Guide 2011 (Wales)*) – available from One Voice Wales and SLCC. It contains everything you need for the financial year-end and the statutory audit.
3. **The Wales Audit Office Good Practice Exchange (www.wao.gov.uk/good-practice/finance/community-ouncil-money) provides further information on the accounts and audit process along with guidance on governance matters.**
4. Please make sure that all sections are completed (ie, no empty pink boxes) by the appropriate person and the certificates in Section 3 are properly signed and dated. Avoid making any amendments to the completed return. If this is unavoidable, cross out the incorrect entries, make sure the amendments are properly initialled and an explanation for them is provided to the auditor. **Please do not use correction fluid.** Annual returns that are incomplete or contain unapproved and/or unexplained amendments or correction fluid will be returned unaudited.
5. Use the checklist provided below. Use a second pair of eyes, perhaps your internal auditor or the Chair, to review your Annual Return for completeness before sending a copy to the auditor.
6. Make sure that the copy of the bank reconciliation you send to your auditor with the copy Annual Return covers **all** your bank accounts and cash balances. If there are no reconciling items, please state this and provide evidence of the bank balances. If your body holds any investments, please note their value on the bank reconciliation. The auditor should also be able to agree your bank reconciliation to Line 9 in Section 1. More help on bank reconciliation is available in the Practitioners' Guide*.
7. Please **explain fully** any significant variances in the accounting statements. The auditor wants to know that **you** understand the reasons for the change. Please include a relevant and quantified analysis as shown in the Practitioners' Guide examples and not just a copy of your detailed accounts.
8. Please do not send the auditor any information that you are not specifically asked for. Doing so is not helpful. Please ensure that you enclose all the information that the auditor has asked for. If the auditor has to review unsolicited information, repeat a request for information, receives an incomplete bank reconciliation or explanation of variances this may incur additional costs for which the auditor is entitled to charge additional fees.
9. Please make sure that Section 1 adds up! Also please ensure that the balance carried forward from the previous year (Line 7 of 2014) equals the balance brought forward in the current year (Line 1 of 2015).
10. **Do not complete the External Audit Certificate in Section 3.** The external auditor completes this after the external audit work has been completed.
11. **Please deal with all correspondence with the external auditor promptly.** This will help you to meet your statutory obligations and will minimise the cost of the audit to the Body.

Completion checklist – 'No' answers mean that you may not have met requirements		Done?	
On submission to the external auditor		Yes	No
Accounts	Do the papers to be sent to the external auditor include an explanation of significant variations from last year to this year?		
	Does the bank reconciliation as at 31 March 2015 agree to Line 9?		
Approval	Has the RFO certified Section 3 (Regulation 15 (1)) no later than 30 June 2015?		
	Has the Body approved the accounting statements before 30 June 2015 and has Section 3 been signed and dated by the person presiding at the meeting at which approval was given?		
All sections	Have all pink boxes in Sections 1 and 2 been completed and explanations provided where needed?		
	Has all the information requested by the external auditor been sent with this Annual Return? Please refer to your notice of audit and any additional schedules provided by your external auditor.		
If accounts are amended after receipt of external auditor's report on matters arising		Yes	No
Accounts	Have the amended accounting statements been approved and Section 3 re-signed and re-dated as evidence of the Body's approval of the amendments before re-submission to the auditor?		

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

25 JUNE 2015

REPORT OF THE CORPORATE DIRECTOR - RESOURCES

ANNUAL GOVERNANCE STATEMENT 2014-15

1. Purpose of the Report

- 1.1 The purpose of this report is for the Audit Committee to approve the Annual Governance Statement (AGS) for inclusion in the Council's Statement of Accounts for 2014-15.

2. Connection to Corporate Improvement Objectives and Other Corporate Priorities

- 2.1 Achievement of the aims and objectives in the Corporate Plan is underpinned by ensuring that effective governance arrangements are in place.

3. Background

- 3.1 Regulation 4 of the Accounts and Audit (Wales) Regulation 2005 introduced a requirement for the Authority to be explicitly responsible, as part of its arrangements for corporate governance, for annually reviewing and reporting on internal control.
- 3.2 The CIPFA Code of Recommended Practice (the Code) states that the preparation and publication of an Annual Governance Statement (AGS) in accordance with 'Delivering Good Governance in Local Government' fulfils the statutory requirement regarding the production of a statement of internal control in England, Wales and Northern Ireland. The Regulations also state that the AGS must be included in the Council's Statement of Accounts.

4. Current Situation / Proposal

CIPFA/SOLACE Governance Framework Core Principles

- 4.1 There are six core principles of good governance in the CIPFA/SOLACE framework contained within 'Delivering Good Governance in Local Government' which have been adapted for local government purposes. These can be aligned with the principles and values set out by the Welsh Government (WG) as shown via the wording in *italics*.

1. Focusing on the Council's purpose and on outcomes for the community and creating and implementing a vision for the local area; (*Putting the Citizen First*); (*Achieving Value for Money*).
 2. Members and officers working together to achieve a common purpose with clearly defined functions and roles; (*Knowing Who Does What and Why*);
 3. Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour; (*Living Public Service Values*);
 4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk; (*Fostering Innovation Delivery*);
 5. Developing the capacity and capability of Members and officers to be effective; (*Being a Learning Organisation*);
 6. Engaging with local people and other stakeholders to ensure robust public accountability; (*Engaging with Others*);
- 4.2 Good corporate governance requires the active participation of Members and officers across the Council. These arrangements are reviewed on an annual basis and the findings used to update the AGS. This helps to ensure the continuous improvement of the Council's corporate governance culture.
- 4.4 The inclusion of the AGS within the Statement of Accounts provides an overall assessment of the Council's corporate governance arrangements and an appraisal of the controls in place to manage the Council's key risks and identifies where improvements need to be made. The AGS is reviewed by Corporate Management Board and needs to be approved by the Audit Committee, prior to being signed by the Leader of the Council and the Chief Executive. The AGS for 2014-15 is attached as Appendix A.

5. Effect upon Policy Framework & Procedural Rules

- 5.1 There are no implications upon policy framework and procedural rules.

6. Equality Impact Assessment

- 6.1 There are no equality implications.

7. Financial Implications

- 7.1 There are no financial implications.

8. Recommendations

- 8.1 It is recommended that Audit Committee:

- Review the Annual Governance Statement (Appendix A) and approve its inclusion in the Statement of Accounts 2014-15.

**Ness Young CPFA
Corporate Director - Resources**

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Raven's Court
Brewery Lane
Bridgend
CF31 4AP

Background Papers: Accounts and Audit (Wales) Regulations 2005
CIPFA/SOLACE: Delivering Good Governance in Local Government - Framework
CIPFA/SOLACE: Application Note to Delivering Good Governance in Local Government: A Framework

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Annual Governance Statement 2014-15

1. Scope of Responsibility

- 1.1 Bridgend County Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.
- 1.2 The Council also has a duty under the Local Government (Wales) Measure 2009 to make arrangements to secure continuous improvement in the exercise of its functions in terms of strategic effectiveness, service quality, service availability, fairness, sustainability, efficiency and innovation.
- 1.3 In discharging its overall responsibilities, the Council is also responsible for ensuring that it has proper arrangements for the governance of its affairs and a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.
- 1.4 The Council has approved and adopted a Code of Corporate Governance which is consistent with the framework developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE).

2. The Purpose of the Governance Framework

- 2.1 The governance framework comprises the systems, processes, and values by which the Council is directed and controlled and the means by which it accounts to, engages with and leads the local community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to avoid inappropriate use or loss of public funds. It also assists with managing the risk of failure to achieve policies, aims and objectives. It does not eliminate all risk; the system of internal control is designed to identify and prioritise risks, evaluate the likelihood of those risks materialising and to manage their impact.
- 2.3 The following paragraphs summarise the governance framework and the system of internal control, which has been in place within the Council for the year ended 31 March 2015. The description of the arrangements in place is built around the core principles set out in the Council's Code of Corporate Governance. This was updated during 2014-15 and approved by Audit Committee in June 2014.

3. The Governance Framework

3.1 The six principles of corporate governance that underpin the effective governance of all local authority bodies as defined by CIPFA and SOLACE, incorporating the WG governance principles (shown in italics) are as follows:

- Focusing on the Council's purpose and on outcomes for the community and creating and implementing a vision for the local area; (*Putting the Citizen First; Achieving Value for Money*).
- Members and officers working together to achieve a common purpose with clearly defined functions and roles; (*Knowing Who Does What and Why*);
- Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour; (*Living Public Service Values*);
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk; (*Fostering Innovative Delivery*);
- Developing the capacity and capability of Members and officers to be effective; (*Being a Learning Organisation*);
- Engaging with local people and other stakeholders to ensure robust public accountability; (*Engaging with Others*).

3.2 The Council has followed these principles and has identified the following points whilst gathering evidence to gain assurance that governance within the Council is robust.

4. Principle 1 - Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area (*Putting the Citizen First; Achieving Value for Money*).

4.1 The Council's published Corporate Plan 2013-2017 included Improvement Priorities which are aligned with the key outcomes of the Local Service Board's 'Bridgend County Together' Single Integrated Partnership Plan. This ensures that the Council is able to deliver on the commitments made with partner organisations. The Plan also takes into account a number of factors including service demands, legislative requirements, citizens' needs, resource availability, the priorities of partner organisations, together with the expectations of the Welsh Government and regulatory bodies.

4.2 The Plan includes the following six improvement priorities:

- Working together to develop the local economy;
- Working together to raise ambitions and drive up educational achievement;
- Working with children and families to tackle problems early;
- Working together to help vulnerable people to stay independent;
- Working together to tackle health issues and encourage healthy lifestyles;
- Working together to make the best use of our resources.

- 4.3 These improvement priorities must be reviewed on an annual basis and this work gives direction for Directorate Business Plans. Arrangements are in place for progress against the improvement priorities to be reviewed on a quarterly basis. The Corporate Plan has identified a number of outcome-focused 'success indicators', some of which are benchmarking measures. All of the indicators included in the Plan are aimed at measuring the success of our joined up working with citizens and partners.
- 4.4 The Council approved a Medium Term Financial Strategy (MTFS) for the period 2015-16 to 2018-19. This provides an integrated planning and financial framework for the next four years and includes the detailed budget strategy for the next financial year. The annual revenue budget and forward financial planning together with the capital programme enables the Council to align its financial resources with its priorities. Quarterly budget monitoring reports are submitted to Cabinet and to Scrutiny Committees, with the Corporate Resources and Improvement Scrutiny Committee nominated as the lead Scrutiny Committee.
- 4.5 There are a range of projects, linked to programmes, in progress to ensure that the improvement priorities are achieved. The corporate Programme Management Board (PMB) is overseeing a number of major initiatives under its Change Management Programme including:
- School modernisation programme;
 - Integrating Health and Social Care;
 - Town centre regeneration projects;
 - Accommodation Strategy;
 - Implementing the Inclusion Strategy;
 - Residential Care remodelling;
 - Domiciliary Care services remodelling;
 - Schools ICT strategy;
 - Strategic Collaboration projects;
 - Key budget reduction proposals linked to strategic change.
- 4.6 The Auditor General's Annual Improvement Report on the Council was received in May 2014. The Report recognised that the Council had made good progress in delivering improvement in most of its priority areas and recognised the need to accelerate improvements in education. Also, the Council had established a culture of self-evaluation which has resulted in a fair and balanced account of its performance although there were some areas for improvement. Finally, despite significant financial challenges, the Report recognised that the Council has sound plans for improvement. The Auditor General arrived at his views by:-
- reviewing the Council's own self assessment on what progress it considers it has made since the Auditor General published his last Annual Improvement Report on the Council early in 2013;

- assessing contributions from Welsh inspectorates, Estyn (for education), the Care and Social Services Inspectorate for Wales (the CSSIW) and the Welsh Language Commissioner.

The Auditor General carried out an audit of the Council's Improvement Plan for 2014-15 and certified in June 2014 that the Council discharged its duties to prepare and publish an Improvement Plan in accordance with statutory requirements set out in the Measure and statutory guidance.

The Auditor General also audited the Council's assessment of its performance in 2013-14 in accordance with the Measure and his Code of Audit Practice and certified in November 2014 that the Council discharged its duties under pertinent sections of the Measure and acted in accordance with Welsh Government guidance sufficiently to discharge its duties.

4.7 Activity that demonstrates commitment to Principle 1 - **“Putting the Citizen First”**, included:

- Ongoing use made of the Citizens' Panel and extensive public engagement activity undertaken within areas such as Regeneration, and linked with Local Service Board priorities;
- Delivery of the Local Service Board's Citizen Engagement Strategy;
- Customer contact centre as focal point for customer engagement;
- Consultation activity with customers – e.g. consultation on corporate improvement priorities, development of “Ask Bridgend”.

5. **Principle 2 - Members and Officers working together to achieve a common purpose with clearly defined functions and roles (*Knowing Who does What and Why*).**

5.1 The Council aims to ensure that the roles and responsibilities for governance are defined and allocated so that accountability for decisions made and actions taken are clear. It operates a Leader and Cabinet system within which:-

- The Council sets the overall budget and appoints the Leader of Council;
- The Council appoints the Cabinet Members and the Leader allocates their portfolios;
- Scrutiny Committees advise on policy formulation and hold the Cabinet to account in relation to specific matters. They may also review areas of activity which are not the responsibility of the Cabinet or matters of wider local concern;
- Regulatory Committees (e.g. Licencing, Development Control) are in place to determine matters as defined within the Council's Constitution;
- The Cabinet makes decisions within this framework but some decisions are delegated to individuals in the Cabinet, committees of the Cabinet or officers;

- Clear arrangements are in place to record decisions made by Cabinet Members and officers under delegated powers.
- 5.2 There is a Standards Committee to promote and maintain high standards of conduct by Town and Community Councillors and County Borough Councillors, co-opted members and Church and Parent Governor Representatives.
 - 5.3 The Constitution is at the heart of the Council's business and assigns responsibility within the Council. It also provides a framework that regulates the behaviour of individuals and groups through codes of conduct, protocols and standing orders.
 - 5.4 The Constitution is a comprehensive document that is kept under continual review by the Monitoring Officer. It provides a point of reference for individuals and organisations both inside and outside the Council. Its Rules of Procedure govern the overall framework within which the Council operates. Procedural rules and codes of conduct outline how the Constitution will be put into effect. Whilst the Constitution is required by statute its content is not fully prescribed. The Council is satisfied that it is consistent with statute, regulations and guidance. To ensure continued compliance, the Assistant Chief Executive – Legal and Regulatory Services is the Monitoring Officer appointed under Section 5 of the Local Government and Housing Act 1989.
 - 5.5 All Committees have clear terms of reference that set out their roles and responsibilities and work programmes. These are reviewed by the committee during the year and updated as required. The Audit Committee provides assurance to the Council on the effectiveness of the governance arrangements, risk management framework and internal control environment.
 - 5.6 The Council's Chief Executive (as Head of Paid Service) leads the Council's officers and chairs the Corporate Management Board.
 - 5.7 All staff, including senior management, have clear terms and conditions of employment and job descriptions which set out their roles and responsibilities. Terms and conditions of employment are monitored by the Human Resources Department.
 - 5.8 The Corporate Director - Resources is the Section 151 Officer appointed under the 1972 Local Government Act and carries overall responsibility for ensuring that the Council'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). The corporate finance function provides a range of support to departments and determines the budget preparation and financial monitoring process.
 - 5.9 The Corporate Director – Wellbeing is statutory Director for Social Services, as defined by the Local Authority Social Services Act 1970, which outlines the 6 core responsibilities across all the Social Services functions, including ensuring

that the Authority has proper safeguards to protect vulnerable children and adults.

- 5.10 Similarly, the Corporate Director – Education and Performance, has been identified as the Chief Education Officer, as prescribed by the Education Act 1996.
- 5.11 The Monitoring Officer carries overall responsibility for ensuring compliance with the law and his staff work closely with departments to advise on legal matters.
- 5.12 In December 2014, Council approved the realignment of responsibilities for the line management of the Safeguarding Children Teams under the Director of Wellbeing who therefore became the Director of Social Services and Wellbeing. This means that the social care functions for children and adults are now located within the same directorate of Bridgend County Borough Council. The increased responsibilities of the Social Care and Wellbeing Act places a greater emphasis on local authorities considering children and adults at risk more holistically and the new arrangement will support this and will be key to the successful delivery of a number of objectives including the sustained reduction in the number of looked after children.
- 5.13 The revised Performance Management Framework was launched in December 2013 and adopted by Cabinet in June 2014. This documents Council processes and procedures and the roles and responsibilities of managers within the process. It includes expectations around the style and behaviour of managers to support the further evolution of a strong culture of self-assessment. During 2014-15, the Council introduced CMB challenge on Performance Management, which complements the Corporate Performance Assessment (CPA). This structured challenge focuses on a wide range of issues as well as Performance Indicators. The introduction of a bespoke Performance Management system provides timely, consistent management information for managing service improvement and decision making.

6. Principle 3 - Promoting Values for the Council and Demonstrating the Values of Good Governance through upholding High Standards of Conduct and Behaviour (*Living Public Service Values*).

- 6.1 The Council's core values encapsulated in the acronym FACE demonstrate the Council's commitment to the Public Service values. It stands for **F**air (taking into account everyone's needs and situation), **A**mbitious (always trying to improve what we do and aiming for excellence), **C**itizen focused (remembering that we are here to serve our local communities) and **E**fficient (delivering services that are value for money).
- 6.2 The behaviour of elected members and officers is governed by codes of conduct, which include a requirement for declarations of interest to be made. There is also a gifts and hospitality register.

6.3 The Council takes fraud, corruption and maladministration very seriously and has the following policies, which aim to prevent or deal with such occurrences;

- Anti-Fraud and Bribery Policy
- Whistleblowing Policy
- Anti-Money Laundering Policy
- HR policies regarding the disciplining of staff involved in such incidents
- Corporate Complaints Policy

The first three policies above were reviewed, updated and approved by Cabinet during 2014-15.

6.4 Conduct of Members is monitored by the Public Services Ombudsman for Wales. The Council's Standards Committee also considers any reports submitted by the Ombudsman and the Monitoring Officer and any representations received relating to alleged breaches of the Code of Conduct.

6.5 A corporate complaints policy is in place for the Council to receive and investigate complaints made against it and this is overseen by the Monitoring Officer.

6.6 The Audit Committee helps raise the profile of internal control and risk management within the Council. This enhances public trust and confidence in the financial governance of the Council.

6.7 The Council has a 'Bridgend County Borough Council, social media and you' protocol which is available on the website. The aim of this is to be clear about how the Council will engage with users and manage expectations.

7. Principle 4 - Taking Informed and Transparent Decisions which are subject to effective scrutiny and Managing Risk (*Fostering Innovative Delivery*).

7.1 The Council's Constitution sets out how the Council operates and the process for policy and decision-making. Within this framework, key decisions are made by the Cabinet. All Cabinet meetings are open to the public (except on the limited occasions where items are exempt or confidential).

7.2 All decisions made by the Cabinet are taken on the basis of written reports, including assessments of the legal, financial, and equalities implications. Consultation (including with ward members when appropriate) is a routine part of the process.

7.3 The decision-making process is monitored by five Overview and Scrutiny Committees, which support the work of the Council as a whole. The Council's Constitution provides for the Chairs of these committees to be appointed based on the political balance of the elected members that form the Council. The members of a Scrutiny Committee can "call in" a decision that has been made by the Cabinet but not yet implemented. They may recommend that the

Cabinet reconsider the decision. They may also be consulted by the Cabinet or the Council on forthcoming decisions and on the development of policy.

- 7.4 Other decisions are made by Cabinet Members individually or by officers under delegated powers. The authority to make day-to-day operational decisions is detailed within the Schemes of Delegation.
- 7.5 Policies and procedures that assist the governance of Council's operations include Financial Procedure Rules (FPRs); Contract Procedure Rules (CPRs) and the Risk Management Policy. All managers have responsibility to ensure compliance with these policies.
- 7.6 The Council's Performance Management Framework describes the 'Golden Thread' for planning which links the Council's vision of "Working together to improve lives" through services delivered at the frontline of the Council and how external factors influence the vision. The external factors include national priorities from both Welsh and UK Government and local priorities from Citizens, Partners, Elected Members and the Local Service Board via the Single Integrated Partnership Plan (SIPP) entitled 'Bridgend County Together'. The Council's Corporate Plan is aligned to the key outcomes of the SIPP. The vision and priorities that are set out in the Corporate Plan have a direct relationship with directorate business plans, service delivery plans, group delivery plans and the individuals' objectives within staff appraisals.
- 7.7 Corporate Performance Assessment (CPA) is undertaken on a quarterly basis and is attended by Cabinet Members, Corporate Management Board, and Heads of Service and is supported by the Corporate Improvement and Finance teams. The purpose of the CPA is as follows:
- Obtain a holistic view of the Council's performance;
 - Identify and explore cross-cutting issues;
 - Critically challenge areas of poor performance; and
 - Identify service improvement opportunities, risks to delivery and resource implications.
- 7.8 Specifically, the CPA monitors:
- The overall financial position;
 - The Council's improvement priorities as defined by the Corporate Plan;
 - Agreed key indicators/measures and service actions that are linked to directorate priorities as defined by the Corporate Plan;
 - The budget allocated to delivering improvement priorities; and
 - Corporate risks.

When necessary, the CPA may also, by way of exception, monitor progress against relevant Outcome Agreements and other national and collaborative initiatives.

- 7.9 The Council has developed a robust approach to the management of risk and the risk management policy is aligned with Directorate Business Plans and the

Council's performance management framework. All risks identified are assessed against the corporate criteria.

- 7.10 Risks are viewed from both a Service and Council-wide perspective which allows the key risks to be distilled in the Corporate Risk Register. Most major risks are managed within one of the key strategic programmes. CMB regularly reviews the risk register and actions being taken to mitigate the risks. The Corporate Risk Register is also presented to Audit Committee for review.

The main risks facing the Council that were identified during 2014-15 included:

Risk Description	Potential Impact
Welfare Reform Bill	Changes being made by the UK Government to benefit entitlements mean that demands on some services are likely to increase as the Council's resource base reduces.
Impact of the recession and using resources effectively	Pressure will be placed on council services which support local businesses and employment. Any shortfall in identified savings may result in the need to make unplanned cuts to services which puts vulnerable people at risk. Individuals, particularly young people, may be unable to secure employment because they lack the basic skills and confidence necessary.
Supporting vulnerable people, children and young people	Failure to remodel services to reflect demographic changes will restrict the council's ability to respond to assessed needs and may result in inefficient services. The wellbeing and safety of children might be compromised.
School Modernisation	Insufficient progress may have a negative impact on pupils' learning and wellbeing.
Improving educational attainment	Potentially fewer quality learning opportunities for students resulting in poorer educational attainment.
Disposing of Waste	Failure to achieve recycling/composting targets could result in inefficient use of resources with waste going to landfill sites and penalties against the Council.
Collaboration with Partners	If the council does not undertake collaboration projects where they

	offer enhanced service quality, increased resilience or significant cost savings, it will not maximise cost effective, tangible, improvements to services.
Maintaining the infrastructure	A poor highways network leads to increased third party liability claims, a loss of reputation, a possible adverse impact on the economy and reduced quality of life for citizens.

During the latter half of the financial year, the risk of Local Government Reorganisation was identified and this was incorporated into the Risk Register within the MTFS that Council received in February 2015. The costs of Local Government Reorganisation are unknown, but will be high. These costs have not been factored into the 2015-16 to 2018-19 MTFS. There is also a risk because greater demands will be placed on senior management as they plan for Local Government Reorganisation, whilst bringing about the transformative change required to deliver services within reduced budgets. In the longer term there are also other risks as three workforces and sets of financial arrangements are brought together necessitating harmonisation of pay and conditions and council tax.

- 7.11 The Council's approach to Risk Management ensures that key risks are considered when determining Council priorities, targets and objectives. These are incorporated in Directorates' Business Plans.
- 7.12 The financial management of the Council is conducted in accordance with all relevant legislation and the Constitution. In particular, the Financial Procedure Rules and Contract Procedure Rules and the scheme of delegation provide the framework for financial control. The Corporate Director - Resources has responsibility for establishing a clear framework for the management of the Council's financial affairs and for ensuring that arrangements are made for their proper administration. As part of its performance management framework, the Council links the strategic planning process with the budget process and ensures alignment between them, facilitating the allocation of resources to corporate priorities. Chief Officers are responsible for financial management within their respective services. Monthly financial monitoring is undertaken by CMB and quarterly reports are produced for Cabinet and Scrutiny Committees. This work informs the production of the statutory annual Statement of Accounts.
- 7.13 The Council is committed to demonstrating due regard to the Equality Act 2010. It published its Strategic Equality Plan 2012-16 in April 2012. This is not just a council plan and has been developed with partners. It seeks to ensure that Bridgend County Borough is a fair and welcoming place to be. The plan has been written based on what is known about our services and on the views and needs of Bridgend citizens and the people who use services. There was an Annual Report 2013-14 on the Strategic Equality Plan which went to

Cabinet in March 2015. The report reviewed and reflected on previous work and outlines progress made by the Council on each of its equality objectives and themes. Heads of Service and Senior Service Managers are responsible for ensuring the actions in the Strategic Equality Action Plan are achieved. Quarterly updates are provided to the Bridgend Equality Forum, membership of which includes a number of third sector groups and organisations as well as a number of key local service providers. All committee reports include an equality impact assessment.

8. Principle 5 - Developing the Capacity and Capability of Members and Officers to be Effective (*Being a Learning Organisation*).

- 8.1 The Council aims to ensure that members and officers of the Council have the skills, knowledge and capacity they need to discharge their responsibilities. New members and staff are provided with an induction to familiarise them with protocols, procedures, values and aims of the Council
- 8.2 There is an Elected Member Learning & Development Strategy 2012-17, which provides a framework for supporting elected members in the roles that they are required to undertake both within, and outside, the Council. The Strategy assists members to develop and strengthen their ability to be confident and effective political and community leaders.
- 8.3 The Council's Staff Appraisal System enables individuals to understand how they contribute to achieving the aims of the Council. The process recognises that most actions are delivered by individuals working in teams to achieve set priorities. All staff appraisals are completed during the first quarter of the financial year to ensure that targets can be linked to service priorities reflected in annual business plans. There is also a Six Month Review form which identifies progress on targets or any additional targets that need to be included. The Appraisal system is an important part of the Council's Performance Management Framework. The percentages of completed appraisals are reported to the Corporate Performance Assessment (CPA) forum.
- 8.4 The Member Development Programme is regularly reviewed by the Democratic Services Committee to ensure that any training activities are appropriate, relevant and timely.
- 8.5 In 2014-15 a cross party group of 13 Elected Members participated in an in-house Leadership academy co-ordinated by the Welsh Local Government Agency (WLGA) consisting of 3 modules including Leading through relationships, Leading Innovation and Change and Community Leadership. There were also 5 other senior Elected Members who attended the All Wales Leadership Academy which supported the personal development of these Members and promoted collaborative working across Wales.
- 8.6 The Council maintains a set of management standards that seek to promote High Performing Behaviours. These are built around the 'FACE' core values

and underpin the Leadership and Management Development training that is provided.

9. Principle 6 - Engaging with local people and other stakeholders to ensure robust public accountability (*Engaging with Others*);

9.1 The Council is committed to understanding and learning from the views of the public. Consultation processes enable views of stakeholders to inform policies and service delivery. The Council's planning and decision-making processes are designed to include consultation with stakeholders. The Council's Citizen Engagement Strategy will provide a framework for engagement activities, which are undertaken by the Council and will support work being done in this area by the Local Service Board.

9.2 Arrangements for consultation and for gauging local views are extensive; significant activity, such as strategic needs assessment, is undertaken by the Local Services Board. Elected members offer surgeries, or equivalent means of providing assistance, for their constituents.

9.3 The Council has a Citizens' Panel made up of people aged 16 and upwards from across the county borough. Its panel members agree to take part in three or four surveys a year about a range of issues relating to council services and policies. Previously, members of the Citizens' Panel have given their views on a range of topics including street cleanliness, customer service and the local housing strategy. This has helped the Council to understand residents' opinions about the services the Council provides and to help improve things in the future.

9.4 During 2014-15, the Council consulted on a wide range of issues including the following (this list is not exhaustive):

- Budget Review 2015;
- Learner Travel Review;
- Nursery Education Policy;
- Local Transport Plan;
- Various schools proposals.

The Budget Review 2015 included six community engagement workshops throughout the county borough, an on-line survey and access to a budget simulator which captured the views of the public on how to achieve the budget savings necessary for the financial year 2015-16

The Council is also using social media to promote various aspects of the Council and its services and enables feedback from the public.

9.5 The Council operates a corporate complaints procedure and uses this to identify areas where service quality is not satisfactory, and to take action to improve. Complaints can be made electronically or in writing and the Council has set target times for responding to all complaints received to ensure accountability.

9.6 All Council meetings are open to the public except where personal or confidential matters are discussed. All public agendas, reports and minutes are available on the Council's website.

9.7 The Local Service Board (LSB) brings together representatives from organisations across a range of service areas in Bridgend to work together to improve the quality of life for people living and working in Bridgend. Current members of the LSB are:

- Abertawe Bro Morgannwg University Health Board
- Bridgend Association of Voluntary Organisations
- Bridgend Business Forum
- Bridgend College
- Bridgend County Borough Council
- Natural Resources Wales
- South Wales Fire and Rescue Service
- South Wales Police
- Valleys to Coast Housing Association
- Wales Probation
- Welsh Government

9.8 In 2014, the LSB undertook a comprehensive review of its priorities and its approach to delivering those priorities, taking into consideration a series of factors, including diminishing resources faced by partner organisations. As a result, the LSB now focuses on a smaller number of priorities that require really partnership working, with those priorities being delivered through flagship projects. As part of the review, the LSB also restructured its constituent boards by abolishing both the People's Board and Communities' Board and reducing the Programme Boards to five:

- Wealthy Programme Board
- Healthy Programme Board
- Wise Programme Board
- Place Programme Board
- Community Safety Partnership

The new structure is aligned with the population outcomes of the Single Integrated partnership Plan and supported by a reformed Neighbourhood Network (NHN), which focuses on local priorities and takes forward local projects underpinned by local information, citizen engagement, co-production, and investment in local infrastructure.

9.9 In the development of the Medium Term Financial Strategy 2015-16 to 2018-19, Council agreed that future collaborative efforts should focus on projects which have the potential to generate the greatest benefit, make a clear contribution to the Council's corporate priorities and result in a clear service benefit.

10. Review of Effectiveness

10.1 The Council has responsibility for annually reviewing the effectiveness of its governance framework, including the system of internal control and the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). This is informed by the work of Internal Audit and chief officers within the Council who have responsibility for the development and maintenance of the internal control environment. The Council also draws assurance on its governance arrangements from independent sources and in particular Internal Audit, External Audit and other external regulators.

10.2 The following elements are key to the Council in monitoring and reviewing its governance:

- The Constitution, which sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. It also includes the Codes of Conduct for both members and employees.
- The Cabinet (as Executive) who are responsible for considering overall financial and performance management and receive comprehensive reports on a regular basis. The Cabinet is also responsible for key decisions and for initiating corrective action in relation to risk and internal control issues.
- The Scrutiny function which holds the Cabinet to account. The Corporate Resources and Improvement Scrutiny Committee is responsible for maintaining an overview of financial performance including value for money. The Partnerships and Governance Overview and Scrutiny Committee maintain an overview of cross-cutting matters. In the Committee's Terms of Reference it has a responsibility "to consider the Council's policies and strategies in relation to collaborative and partnership working arrangements". The Committee will liaise with other Scrutiny Committees who will be responsible for scrutinising collaboration projects within their remit to ensure work programmes are co-ordinated.
- The Audit Committee which provides the focus for reviewing the effectiveness of the system of internal control. This is primarily based upon reviewing the work of Internal Audit and receiving reports from the Council's external auditors. The Committee met regularly throughout the year and provided independent assurance to the Council in relation to the effectiveness of the risk management framework, internal control environment and governance matters.

10.3 Additional requirements of the Local Government (Wales) Measure 2011 have included:

- the election of the Chairperson of the Audit Committee by the Audit Committee itself rather than by an appointment by Council;
 - the requirement that Audit Committee must have at least one lay-member, a professional representative with no connections to the Authority that is able to assist in the role of the Audit Committee. The number of lay-members required to support the committee is being kept under review;
 - the appointment of a Head of Democratic Services.
- 10.4 Training has been provided to ensure that all members (including the Lay-Member) have the opportunity to gain a comprehensive understanding of their role. In March 2015, the Audit Committee received training on the Treasury Management to assist them in scrutinising the Annual Treasury Management Strategy of the Council. Also, it was noted by the Estyn Inspection that training provided to elected members to increase their understanding and ability to interrogate data to enable them to challenge the performance of the Children's Directorate and schools was well received.
- 10.5 This is being further enhanced with the use of role descriptions for all committee Member and Chairpersons including the Audit Committee. These are based on the WLGA model role descriptions and have been adapted to reflect the specific roles undertaken in the Council. The role descriptions also form part of Personal Development Review Process which enable members to better understand their role, reflect on how they have undertaken their duties in the previous year and identify any further support or training that they require to effectively carry out their duties. This will increase the ability of Audit Committee members to analyse, monitor and challenge the effective performance of the Council.
- 10.6 The Cabinet and Scrutiny Committee functions provide a further mechanism for review and challenge of any issues that may impact upon the system of internal control. Scrutiny Committees establish Research and Evaluation panels (such as that set up to review budget options); they undertake reviews of specific areas of Council operations and make recommendations to Cabinet for improvement. The Budget Research & Evaluation Panel was commended in June 2014 by the Wales Audit Office and the Centre for Public Scrutiny as an example of best practice at the Scrutiny in the Spotlight Event
- 10.7 Internal Audit undertakes a continuous audit of Council services, which are assessed and prioritised according to relative risk. This risk assessment draws upon the corporate and service risks identified as part of the Service planning process. During 2014-15, in carrying out its duties, Internal Audit has been working to the Public Sector Internal Audit Standards (PSIAS). The PSIAS is applicable to all areas of the United Kingdom public sector and is based on the Chartered Institute of Internal Auditor's (CIIA's) International Professional Practices Framework. The Head of Audit undertook a self-assessment to demonstrate the extent to which the Internal Audit Shared

Service complied with the PSIAS and to identify areas where further work was required to demonstrate compliance. This was reported to Audit Committee in April 2015. The review showed that the Internal Audit Shared Service is fully compliant with all relevant parts of the Standards. However, in relation to Standard 1312 'External Assessment' the two negative answers can only be addressed once the Internal Audit Shared Service has agreed a timetable for being assessed externally. An external assessment needs to be carried out before the end of March 2018.

- 10.8 Internal Audit also provides independent and objective assurance. A programme of reviews is completed in accordance with the Annual Audit Plan which enables the Chief Internal Auditor to provide an opinion on the internal control, risk management and governance arrangements. In addition, Internal Audit undertakes fraud investigation and is proactive in fraud detection work. This includes reviewing the control environment in areas where fraud or irregularity has occurred. Significant weaknesses in the control environment identified by Internal Audit are reported to senior management, the Audit Committee and Cabinet as appropriate.
- 10.9 As part of the normal audit reporting process, recommendations are made and agreed with the relevant chief officers to address any issues that could impact upon the system of internal control. Furthermore, the S151 Officer provides regular updates and an annual report to the Audit Committee summarising any significant internal control issues.
- 10.10 In 2014-15, the Council's financial management arrangements were found to be conforming to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).
- 10.11 The Council is subject to an annual programme of independent external audits and statutory inspections which report on the Council's governance, performance and accounting arrangements. The Wales Audit Office's Annual Audit Letter summarises the key issues arising from the work that the Council's external auditors, KPMG, carried out. The Annual Audit Letter for 2013-14 confirmed that the appointed auditor issued an unqualified audit opinion on the accounting statements for 2013-14 and was satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources. The Letter confirmed that there were not any other matters specifically required by auditing standards to be communicated to those charged with governance.
- 10.12 The Wales Audit Office issued two reports to Audit Committee, one on the Audit of the Financial Statements Report 2013-14 in September 2014 and one on the Certification of Grants and Returns 2013-14 in March 2015. The first report did not identify any material weaknesses in the Council's internal controls. The second report concluded that the Council had generally good arrangements in place for the production and submission of its 2013-14 grant claims. Improvements were noted from 2012-13 but it did highlight some scope for further improvement which are being followed up by management. One recommendation related to discretionary relief awards, management

have now undertaken a full review of all discretionary rate reliefs during 2014-15 and a number have been cancelled as a result.

- 10.13 During the period March to May 2014, the Wales Audit Office completed a review of the assurance and accountability arrangements of the Council for ensuring that safeguarding of Children policies and procedures are in place and are being adhered to. This reviewed examined how the Council discharged its safeguarding responsibilities at all levels including Cabinet, Senior Management Team, Scrutiny and individual officers. The review found that the governance, accountability and management arrangements for overseeing whether the Council is meeting its safeguarding responsibilities to children are adequate but some improvements could be made. It recommended that a Corporate Safeguarding Policy be developed. This was taken onboard and Cabinet approved the Policy in February 2015. One other proposal for improvement was to identify and agree an appropriate internal audit programme of work for safeguarding. The Internal Audit Plan 2015-16 allocated 20 days for Safeguarding which will also incorporate an assessment of the Council's overall operating model for safeguarding.
- 10.14 The Auditor General's letters on the Improvement Assessment of the Council have stated that the Council has discharged its improvement reporting duties under the Local Government (Wales) Measure 2009 and has acted in accordance with Welsh Government guidance and "the Council has discharged its duties to prepare and publish an improvement Plan in accordance with statutory requirements".
- 10.15 The Public Services Ombudsman for Wales reports on each council in Wales the number of complaints received and investigated. In July 2014, the Council received its Annual Letter for 2013-14. The letter noted an increase in the number of complaints received, 39 in 2013-14 compared to 24 in 2012-13. The comparative figure for the local authority average was 40 for 2013-14 (36 for 2012-13). Only 1 complaint was investigated by the Ombudsman which was the same as 2013-14. The increases in the number of complaints received relate to 'Children Social Services' and 'Planning and Building Control'. The Ombudsman did not find it necessary to issue any 'upheld' reports against the Council during 2013-14.
- 10.16 The Care and Social Services Inspectorate Wales (CSSIW) Annual Review for Bridgend 2013-14 concluded that the Council has continued to work towards its change agenda and the development of new models of service delivery, in line with the expectations of the Social Services and Wellbeing (Wales) Act 2014. The review identified the appointment of two new Corporate Directors for Wellbeing and Children and how they take a strong lead in supporting the service by providing oversight of strategic delivery and operational components of the service. It recognised that the Wellbeing Business Plan covers the new way of working with greater integrated working with health and the third sector. It also recognised that the Council has mechanisms in place for identifying and addressing gaps in performance. A number of specific areas for improvement have been identified within the

report and the Council's progress towards these will be discussed during regular engagement meetings and site visits during 2015-16.

- 10.17 In October 2012, Estyn Inspection carried out a major inspection of the quality of education services for children and young people in Bridgend. The Report was published in February 2013 and even though it identified that the Council had more strengths than areas for improvement, it still concluded that the Council fell into the category of follow-up activity and will require an Estyn monitoring visit. A Post Inspection Action Plan (PIAP) was developed following discussions with officers, elected members and the Central South Consortium and this was signed off by Estyn in July 2013. Progress against the PIAP was monitored closely by Estyn and there were follow up visits in March and December 2014. In December, Estyn Inspectors revisited to undertake a full re-inspection which consisted of discussions with elected members, head teachers and governors, senior officers and a range of other staff. The team scrutinised documentation including evidence on the progress made against each of the recommendations since the 2012 inspection. Estyn concluded that the Council "is judged to have made sufficient progress in relation to the recommendations following the inspection of October 2012. As a result, Her Majesty's Chief Inspector of Education and Training in Wales considers that the authority is no longer in need of Estyn monitoring and is removing it from further follow-up activity".
- 10.18 The previous Annual Governance Statement 2013-14 that was presented to Audit Committee in June 2014 identified the governance risk of the retirement of the deputy Section 151 officer in July 2014 at the same time that the Section 151 Officer was unable to perform her duties. The Chief Executive addressed this with interim arrangements being put in place to cover the statutory role in the short term and the Council was able to appoint a new Head of Finance and ICT who took up his post in September 2014. The Corporate Director Resources also returned to perform her duties in September 2014.

11. Significant Governance Issues

- 11.1 The Annual Governance Statement 2013-14 was reviewed and an update was provided to Audit Committee in November 2014. This reported that the governance issue surrounding the requirement to review and update the Code of Corporate Governance had been addressed with Audit Committee approving the revised Code of Governance in July 2014.
- 11.2 As mentioned above, one of the significant governance issues in 2013-14 related to the Estyn Report on the quality of local authority education services for children and young people. However, the confirmation in January 2015 that the Council is no longer in need of Estyn monitoring means that this governance issue can be removed from the updated Action Plan.
- 11.3 As reported to Audit Committee in November 2014, Directorates undertook a series of reviews of third sector organisations over the summer, to determine

the extent to which the services they provide meet corporate priorities and are providing value for money. This was as a result of a WAO review of Council's arrangements for ensuring value for money from its working with the Third Sector identified a specific governance issue. A Report was taken to the Community Safety and Governance Overview and Scrutiny Committee in March 2015. The budget reductions currently identified fall short of the budget savings of £150,000 for 2015-16 and 2016-17 built into the MTFs. The Council is working with those organisations to identify ways of managing the reductions to minimize impact on front line services. A number of payments to the Third Sector are for services provided on behalf of the Council, rather than general grant funding. If the Council were to cease this payment, depending on the statutory nature of the provision, the Council may have to provide this service itself, and this could be at a higher cost. The project has now been brought under the Director of Education and Transformation as part of the overall Transformation Programme. It is the intention for the project to be reviewed and a revised business plan presented to PMB in the first instance.

- 11.4 The Annual Governance Statement 2013-14 highlighted the significant financial challenge facing the Council in terms of delivering a savings target of the £36m savings identified in the Medium Term Financial Strategy (MTFS) 2014-15 to 2017-18. In July 2014, the MTFs was updated following further analysis of assumptions to increase the estimated budget reductions to £50m over the period to 2018-19.
- 11.5 The implementation of the MTFs 2014-15 to 2017-18 has been led by Cabinet and the Corporate Management Board. This has now been rolled forward a year to cover the period 2016-17 to 2019-20 taking account of auditors' views and any issues which need to be addressed from 2014-15, together with a continued desire to embed a culture of medium term financial planning closely aligned with corporate planning. Implementation of the strategy will be led by Cabinet and Corporate Management Board underpinned by financial and performance data. The Council will seek to ensure that it is widely understood by internal stakeholders (Members, employees and Unions) and external stakeholders (citizens, businesses and partners). There will also be a role for the Budget Research and Evaluation Panel (BREP) which will work on an on-going basis, in an advisory capacity, with Cabinet and officers.
- 11.6 The Annual Internal Audit Opinion is due to be reported to the Audit Committee in July 2015, for the period April 2014 to March 2015. It stated that based on the work undertaken and taking into account all available evidence "the adequacy and effectiveness of internal control at Bridgend CBC is reasonable". Although reasonable assurance demonstrates good control across the board, the Opinion states that "it is important that control weaknesses in systems where the assurance level has been rated as Limited or No Assurance are dealt with and given priority by management". During 2014-15, there were 9 reviews which limited assurance was given and 1 where no assurance could be given. This related to the Section 117 Process within the Wellbeing Directorate. The significant control issues identified have

tended to relate to specific service areas rather than a general breakdown in controls. The relevant managers have agreed to implement the recommendations made within the reports. Internal Audit has already revisited the area with no assurance and 4 with limited assurance with a plan to revisit the remaining areas shortly.

12. Certification of Annual Governance Statement

Steps to address and mitigate the matters referred to in section 11 above will be taken to further enhance our governance arrangements.

Signed:

Section 151 Officer.....Date.....

Chief Executive Officer.....Date.....

Leader of the Council.....Date.....

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

25th June 2015

REPORT OF THE CORPORATE DIRECTOR - RESOURCES

COMPLETED AUDITS

1. Purpose of Report.

1.1. To summarise for members the findings of the audits recently completed by Internal Audit Shared Service.

2. Connection to Corporate Improvement Objectives / Other Corporate Priority.

2.1. Internal Audit's work impacts on all the Corporate Improvement Objectives/other Corporate Priorities.

3. Background

3.1. Internal Audit conducts reviews according to an annual audit plan and reports findings to Audit Committee.

4. Current situation / proposal.

4.1. Recently completed audits relating to 2014/15 are summarised in Appendix A and 2015/16 in Appendix B. Both appendices are attached to this report.

4.2 Members are invited to raise any issues on these audits or to request the production of a fuller report at the next meeting.

5. Effect upon Policy Framework & Procedure Rules.

5.1. None

6. Equality Impact Assessment.

6.1 There are no equality implications.

7. Financial Implications.

7.1. None

8. Recommendation.

8.1. That Members consider the summary of completed audits to ensure that all aspects of their core functions are being adequately reported.

Ness Young
Corporate Director - Resources
25th June 2015

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Chief Internal Auditor

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Postal Address

Bridgend County Borough Council
Internal Audit
Innovation Centre
Bridgend Science Park
Bridgend
CF31 3NA

Background documents

Internal Audit reports relating to the above audits held within the Internal Audit Division

2014/15 Completed AuditsReported at the 25th June 2015 Audit Committee Meeting

Report	System Overview	Work Finalised	Audit Days	Key Messages	Audit Opinion	Key Action Plan Dates
Data Protection (Follow Up)	<p>Organisations that handle personal information about individuals have a legal obligation to protect that information under the Data Protection Act 1998.</p> <p>BCBC issued a revised Data Protection Policy that was approved by Cabinet in October 2013. The policy has been included within the Information Strategy which contains The Code of Practice for Data Breaches.</p>	April 2015	5 days	<p>Recommendations made during the audit performed in September 2014 have been addressed.</p> <p>Two recommendations which were categorised as significant make reference to the use of Net Consent which is no longer available. However discussion with the Senior Lawyer provided details of compensating actions in relation to the dissemination of training relating to Data Protection.</p> <p>Two points, one of which was categorised as merits attention, relates to future review of the Data Protection Policy and this is scheduled to be addressed during 2015/16.</p>	Substantial Assurance	N/A
Sign Shop (Follow Up)	BCBC has operated a Sign Shop since its inception in order to provide an in-house service for the production of road traffic and other signs. Over time the operation has	May 2015	4 days	It is pleasing to note that most of the points raised during the audit performed in July 2014 have been addressed. Two areas remain:	Reasonable Assurance	June 2015

Report	System Overview	Work Finalised	Audit Days	Key Messages	Audit Opinion	Key Action Plan Dates
	<p>developed into an income generating form with signs being designed and manufactured for Neath Port Talbot Council, South Wales Trunk Road Authority (SWTRA) and other external clients as well as a number of internal customers, including the Highways section itself.</p>			<ul style="list-style-type: none"> • Independent year end stock checks. These are scheduled to be addressed at the year end. • A formal review of the sustainability of the Sign Shop. 		
ICT Asset Management	<p>The ICT Asset Management System or CMDB (Configuration Management Database) is a repository that acts as a recording system for the Authority ICT assets. Its contents are intended to hold a collection of ICT assets that are commonly referred to as Configuration Items (CI's), as well as recording a set of descriptive relationships between such assets.</p> <p>As well as recording the procurement of ICT assets the authority also uses the system to track the disposal of assets.</p>	May 2015	30 days	<p><u>Areas of Strength</u></p> <ul style="list-style-type: none"> • Recording of assets that are retired and disposed of was found to have been administered accurately. • Assets that are externally procured are included on the asset register if they are used on corporate network. • There are robust availability controls for the asset management system. <p><u>Areas identified for attention</u></p> <ul style="list-style-type: none"> • Whilst the purpose for recording assets is broadly defined in the ICT Strategy, the underlying processes to meet objectives effectively are not in place. • A scoping document should be 	Limited Assurance	December 2015

Report	System Overview	Work Finalised	Audit Days	Key Messages	Audit Opinion	Key Action Plan Dates
				<p>developed to confirm what assets should be recorded and the level of information that is required for each item.</p> <ul style="list-style-type: none"> Any systems that duplicate asset recording or monitoring should be reviewed to ensure that the asset lifecycle is managed efficiently. Some assets were not recorded on the live asset management system yet appeared on a backup version which questions its data integrity. Similarly a number of assets were recorded as being retired yet were less than 18 months old. There is a lack of management monitoring of the asset database to ensure that it is meeting objectives. 		
Business Continuity	Any risk of significant disruption to essential services within the Authority needs to be planned for to ensure their continued provision. Business Continuity is guided by the Emergency Planning Team but the risk and its mitigation is the responsibility of individual Directorates. Each Directorate is	May 15	12 days	<p>The review identified a number of good practices these include:-</p> <ul style="list-style-type: none"> Each Directorate had produced a Business Continuity Plan in 2011. The Plans were found to be detailed and identified the key members of staff (at that time) were who were responsible for 	Reasonable	September 2015

Report	System Overview	Work Finalised	Audit Days	Key Messages	Audit Opinion	Key Action Plan Dates
	<p>individually responsible for the identification, maintenance and testing of their own Business Continuity Plans.</p>			<p>its implementation.</p> <ul style="list-style-type: none"> A revised corporate framework document which assists directorates in the production and maintenance of their Business Continuity Plans was produced and sent to Senior Management in September 2014. <p>However, a number of issues were also identified that to be addressed. These include: -</p> <ul style="list-style-type: none"> Not all of the key personnel who would be critical to the efficient execution of their Directorates Business Continuity plan have received training in its implementation. Not all of the individual directorate's plans have been kept fully up to date namely as a result of staffing changes or changes to Directorate structures. 		
Looked After Children	<p>Looked After Children (LAC) are those children and young people aged between 0 to 18 years who cannot safely remain with their family and are cared for by the local</p>	April 2015	14 days	<p>Key strengths include:</p> <ul style="list-style-type: none"> Introduction of the LAC Strategy seems to be contributing towards the reduction of LAC numbers. 	Reasonable Assurance	June 2015

Report	System Overview	Work Finalised	Audit Days	Key Messages	Audit Opinion	Key Action Plan Dates
	<p>authority, as the corporate parent. Children are accommodated by the local authority either as a result of court proceedings because they have been or are in danger of being harmed, or with parental agreement.</p>			<ul style="list-style-type: none"> • Satisfactory controls within commissioning and contracts. • Action Plans are in place to address CSSIW recommendations. <p>Areas identified for attention:</p> <ul style="list-style-type: none"> • Continued budget overspend for LAC due to volatility of placement costs. • Key performance indicators continue to be monitored in order to achieve required standards. • Actions that are amber or red are progressed in order to comply with CSSIW recommendations. 		
Section 106 Agreements	<p>Section 106 of the Town and Country Planning Act 1990 provides for local authorities to enter into a legally-binding agreement or planning obligation with landowners / developers in association with the granting of planning permission. The obligation is termed a Section 106 Agreement.</p> <p>These agreements are a way of delivering or addressing matters that are necessary to make a</p>	May 2015	15	<p>System strengths include:</p> <ul style="list-style-type: none"> • An up to date and accurate register of all agreements the Authority has entered into. • Documentation including copies of actual agreements, correspondence with developers, calculations of financial contributions, trigger points etc. were on file for all agreements sampled. • A segregation of duties was 	Substantial Assurance	N/a

Report	System Overview	Work Finalised	Audit Days	Key Messages	Audit Opinion	Key Action Plan Dates
	<p>development acceptable in planning terms. They are increasingly used to support the provision of services and infrastructure such as highways, recreational facilities, education and affordable housing. BCBC currently has 123 active Section 106 agreements. However not all of these have a financial requirement; the developer may provide land or build a percentage of social housing within the development.</p>			<p>evident throughout the process.</p> <ul style="list-style-type: none"> The expiry dates of S106 agreements are regularly reviewed to ensure that funds are used rather than being reclaimed by the developer. These are monitored by the S106 Officer in liaison with Development Control Officers and Officers from different Services Areas / Directorates. <p>Recommendations made in the previous audit review of May 2012 have now been addressed. No significant issues were identified.</p>		
Taxation	<p>The Taxation section is currently responsible for the billing and collection of Council Tax for 62,442 properties, equating to £60,553,137 and NNDR for 4,232 establishments equating to £41,478,412. The 14/15 projected collection rate for Council Tax was 97.1% and for NNDR was 97.5%.</p>	June 2015	20 days	<p>During the audit it was pleasing to note that of the 4 recommendations made in the previous report, 2 had been fully implemented. The remaining recommendations related to:</p> <ul style="list-style-type: none"> review of continued entitlement to discretionary relief and the external review of entitlement to single occupancy discount. <p>As highlighted in previous reviews,</p>	Substantial Assurance	June 2016

Report	System Overview	Work Finalised	Audit Days	Key Messages	Audit Opinion	Key Action Plan Dates
				<p>BCBC engages the services of an enforcement agency for the collection of arrears. There has been no formal tendering for the provision of this service. Enquiries with the Procurement Unit confirmed that the service needs to be tendered as BCBC is providing access for a company to gain financial benefit and it must be demonstrated that the selection of that company is fair and transparent.</p> <p>It was confirmed that these issues are on-going with completion dates anticipated early in 2015/16.</p>		

Report	System Overview	Work Finalised	Audit Days	Key Messages	Audit Opinion	Key Action Plan Dates
Creditors	<p>The Central Payments Team in the Resources Directorate is responsible for the day to day administration of the system. The functions of the team include:</p> <ul style="list-style-type: none"> • Provision of training and support across the directorates, • Application of software to identify duplicate payments, • Authorisation of newly created suppliers, • Identification of future improvements to the payment system. 	June 2015	20 days	No significant control weaknesses were identified within the Creditor Payments system during the current audit. Discussion regarding business continuity procedures confirmed that there were robust disaster recovery procedures in place.	Substantial	N/A

2015/16 Completed Audits**Reported at the 25th June 2015 Audit Committee Meeting**

Report	System Overview	Work Finalised	Audit Days	Key Messages	Audit Opinion	Key Action Plan Dates
Pencoed Library (Follow Up)	Following notification in of a cash shortage at Pencoed Library, an initial investigation was undertaken by Internal Audit to establish the amount missing and the circumstances surrounding the loss. The result of this audit was subsequently followed up in order to ascertain that changes had been made in order to negate the possibility of the same event occurring.	May 2015	3 days	<p>Training issues as identified have now been addressed with all members of staff having had awareness training on the Financial Regulations.</p> <p>Changes in banking procedures have now been implemented.</p> <p>Recommendations with regard to segregation of duties and changing the safe password were reinforced and accepted as good practice.</p>	Reasonable Assurance	N/a

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BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

25th June 2015

REPORT OF THE CORPORATE DIRECTOR - RESOURCES

INTERNAL AUDIT – OUTTURN REPORT – APRIL TO MAY 2015

1. Purpose of Report.

1.1 The purpose of this report is to inform the Audit Committee of actual Internal Audit performance against the two months of the audit plan year covering April and May 2015.

2. Connection to Corporate Improvement Plan / Other Corporate Priority.

2.1. The work of audit is intended to assist in the achievement of all corporate and service objectives.

3. Background

3.1. The 2015/16 Internal Audit Plan was submitted to the Audit Committee for consideration and approval on the 16th April 2015. The Plan outlined the assignments to be carried out and their respective priorities.

3.2. The Plan provided for a total of 1,296 productive days to cover the period April 2015 to March 2016.

4. Current situation / proposal

4.1. A summary of audits commenced / ongoing and completed during the period April to May 2015 are detailed in **Appendix A**.

4.2. The following table shows an analysis of work done in relation to the plan (1,296 available days).

Directorates	2015/16 Full Year Plan Days	Proportion of Plan Days Available for April to May 2015	2014-15 April to May Actual Days
Resources	355	59	21
Legal and Regulatory Services	80	13	6
Children's (Including Schools)	155	26	9
Communities	155	26	16
Wellbeing	130	22	4
Cross Cutting	296	49	99

External	20	3	0
Contingency - unplanned	40	7	0
Contingency - Fraud & Error	65	11	0
TOTAL PRODUCTIVE DAYS	1296	216	155

4.3. The figures show that 155 actual days have been achieved, which is less than the expected target of 216 by 61 days.

4.4. At present the overall structure of the Section is based on 18.5 Full Time Equivalent (FTE) employees. However, during the latter part of 2014/15; three members of the team left the Council to take up positions in other parts of the country or alternative career choices. Following a recruitment drive, one of the posts has been filled and the individual has been in post now since early June. Unfortunately this increase in resource has been recently offset by the loss of a 0.5FTE member of the team, who is relocating to another part of the country.

4.5. Having regard to the issues set out above in paragraph 4.4; it is inevitable that the commitment to deliver 1,296 productive days for the Financial Year 2015/16 will not be achieved. It is expected that the shortfall on the year will be circa 90 productive days.

4.6. At the end of the period 2 reviews / jobs have been completed and closed, both of which have provided management with an overall audit opinion on the internal control environment for each of the systems examined. So far to date, no significant weaknesses in the system of internal control have been identified.

5. Effect upon Policy Framework & Procedure Rules.

5.1. There is no effect upon the policy framework and procedure rules

6. Equality Impact Assessment.

6.1. There are no equality issues.

7. Financial Implications.

7.1. Effective audit planning and monitoring are key contributors in ensuring that the Council's assets and interests are properly accounted for and safeguarded.

8. Recommendation.

8.1. That Members give due consideration to the Internal Audit Outturn Report covering the period April to May 2015 to ensure that all aspects of their core functions are being adequately reported.

Ness Young
Corporate Director - Resources

25th June 2014

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Internal Audit
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Bridgend
CF31 3NA

Background Documents

None

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<u>Code</u>	<u>Job</u>	<u>Job Name</u>	<u>Days</u>	<u>Budget</u>	<u>Date Commenced</u>	<u>Date Closed</u>	<u>Assurance</u>
<u>ASSURANCE</u>							
	Directorate	RESOURCES					
B	517 BCBC - Virtualisation		3.31	15.00	01/04/2015		
	518 BCBC - End Point Security		6.79	15.00	01/04/2015		
	527 BCBC - Timesheets		9.81	10.00	01/04/2015		
	539 BCBC - CAATS		0.68	5.00	01/04/2015		
	542 BCBC - Information Governance Board		0.14	3.00	01/05/2015		
Total for	Directorate	RESOURCES	20.72	48.00			
	Directorate	LEGAL & REGULATORY SERVICES					
B	529 BCBC - Money Laundering		6.22	10.00	01/04/2015		
Total for	Directorate	LEGAL & REGULATORY SERVICES	6.22	10.00			
	Directorate	CHILDREN					
B	520 BCBC - Schools Summary Report 14-15		3.34	5.00	21/04/2015		
	521 BCBC - Business Knowledge Database		0.17	15.00	27/04/2015		
	528 BCBC - Learners Transport Project		5.44	7.00	01/04/2015		
Total for	Directorate	CHILDREN	8.95	27.00			
	Directorate	COMMUNITIES					
B	530 BCBC - Waste Disposal / Collections		1.99	20.00	01/04/2015		
Total for	Directorate	COMMUNITIES	1.99	20.00			
	Directorate	WELLBEING					
B	523 BCBC - Bus Services Support Grant		3.38	5.00	01/04/2015		
	526 BCBC - Home Care - Domiciliary Care		0.91	20.00	01/04/2015		
Total for	Directorate	WELLBEING	4.29	25.00			
	Directorate	BCBC CROSS CUTTING					
B	505 BCBC - Advice & Guidance Resources		1.15	5.00	01/04/2015		
	506 BCBC - Advice & Guidance - L&R		0.17	5.00	01/04/2015		

<u>Code</u>	<u>Job</u>	<u>Job Name</u>	<u>Days</u>	<u>Budget</u>	<u>Date Commenced</u>	<u>Date Closed</u>	<u>Assurance</u>
		507 BCBC - Advice & Guidance Communities	0.54	5.00	01/04/2015		
		508 BCBC- Advice & Guidance SS & Wellbeing	0.54	5.00	01/04/2015		
		510 BCBC - Audit Committee / CMB Qtr 1	10.34	15.00	01/04/2015		
		511 BCBC - Audit Planning	11.28	6.00	01/04/2015		
		512 BCBC - Finalising jobs 2014-15	13.61	2.00	01/04/2015		
		513 BCBC - C/F ICT Business Continuity	0.84	2.00	01/04/2015		
		514 BCBC - C/F External Inspections	5.03	5.00	01/04/2015		
		515 BCBC - C/F Payroll	16.45	10.00	01/04/2015		
		516 BCBC - C/F S106	1.01	1.00	01/04/2015	27/05/2015	Substantial
		524 BCBC - Lone Worker Follow Up	3.75	4.00	01/04/2015		
		525 BCBC - Pencoed Library Follow up	2.70	3.00	01/04/2015	05/05/2015	Reasonable
		536 BCBC - IA Benchmarking & Pls	1.15	2.00	01/04/2015		
		537 BCBC - CMB and Resources SMT	0.41	15.00	01/04/2015		
		538 BCBC - Homelessness Grant Certification	1.93	5.00	11/05/2015		
		541 BCBC - IASS Monitoring	0.88	3.00	11/05/2015		
Total for	Directorate	BCBC CROSS CUTTING	71.79	93.00			

Total for Function ASSURANCE 113.96 223.00

ANTI-FRAUD & CORRUPTION

	Directorate	BCBC CROSS CUTTING					
B		540 BCBC - NFI	2.06	25.00	01/04/2015		
Total for	Directorate	BCBC CROSS CUTTING	2.06	25.00			

Total for Function ANTI-FRAUD & CORRUPTION 2.06 25.00

GOVERNANCE

	Directorate	COMMUNITIES					
B		531 BCBC - Communities First	7.33	10.00	01/04/2015		
		532 BCBC - Planning	1.01	15.00	01/04/2015		
Total for	Directorate	COMMUNITIES	8.34	25.00			

Directorate BCBC CROSS CUTTING

Page 269

<u>Code</u>	<u>Job</u>	<u>Job Name</u>	<u>Days</u>	<u>Budget</u>	<u>Date Commenced</u>	<u>Date Closed</u>	<u>Assurance</u>
B	522	BCBC - Governance Review	15.17	15.00	01/04/2015		
	533	BCBC - VVP	7.09	5.00	01/04/2015		
Total for	Directorate	BCBC CROSS CUTTING	22.26	20.00			
Total for	Function	GOVERNANCE	30.61	45.00			
<u>RISK & PERFORMANCE MANAGEMENT</u>							
	Directorate	COMMUNITIES					
B	519	BCBC - Subsidised Bus Services	5.51	10.00	15/04/2015		
Total for	Directorate	COMMUNITIES	5.51	10.00			
	Directorate	BCBC CROSS CUTTING					
B	534	BCBC - Access to Records & Data Sharing	2.67	15.00	01/04/2015		
Total for	Directorate	BCBC CROSS CUTTING	2.67	15.00			
Total for	Function	RISK & PERFORMANCE MANAGEMENT	8.18	25.00			
Grand Total			154.81				

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BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

25th June 2015

REPORT OF THE CORPORATE DIRECTOR - RESOURCES

FORWARD WORK PROGRAMME – 2015-16

1. Purpose of Report.

1.1 To present to Members an update on the 2015 – 2016 Forward Work Programme for the Audit Committee.

2. Connection to Corporate Improvement Objectives / Other Corporate Priorities.

2.1. Internal Audit's work impacts on all of the Corporate Improvement Objectives /other Corporate Priorities.

3. Background

3.1. The core functions of an effective Audit Committee are:-

- To consider the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and corruption arrangements.
- Seek assurance that action is being taken on risk-related issues identified by auditors and inspectors.
- Be satisfied that the Council's assurance statements properly reflect the risk environment and any actions required to improve it.
- Oversee the work of internal audit (including the annual plan and strategy) and monitor performance.
- Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.
- Receive the annual report of the Chief Internal Auditor.
- Consider the reports of external audit and inspection agencies, where applicable.
- Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
- Review the financial statements, external auditor's opinion and reports to Members, and monitor management action in response to the issues raised by external audit.

3.2 Effective audit committees help raise the profile of internal control, risk management and financial reporting issues within an organisation, as well as providing a forum for the discussion of issues raised by internal and external auditors. They enhance public trust and confidence in the financial governance of an Authority.

4. Current situation / proposal

4.1. In order to assist the Audit Committee in ensuring that due consideration has been given by the Committee to all aspects of their core functions an updated forward work programme is attached at Appendix A.

5. Effect upon Policy Framework & Procedure Rules.

5.1. None

6. Equality Impact Assessment.

6.1. There are no equality issues.

7. Financial Implications.

7.1. None

8. Recommendation.

8.1. That Members note the updated Forward Work Programme to ensure that all aspects of their core functions are being adequately reported.

Ness Young
Corporate Director - Resources
25th June 2015

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Background Documents

None

**AUDIT COMMITTEE
SCHEDULE OF MEETINGS AND FORWARD WORK PROGRAMME
2015 – 2016**

DATE OF MEETING	FORWARD WORK PROGRAMME	OFFICER RESPONSIBLE	UPDATE
2015			
25 th June	Information and Action Requests (if applicable).	Chief Internal Auditor (CIA)	N/A
	Updated Forward Work Programme.	CIA	Submitted
	Pre-audited Statement of Accounts 2014/15.	Head of Finance & ICT	Submitted
	Annual Governance Statement 2014-15	Head of Finance & ICT	Submitted
	Complete Audits (if applicable).	CIA	Submitted
	External Auditors / Inspection Reports (where applicable).	Head of Finance & ICT / WAO / KPMG	
	IASS Outturn Report April and May 2015.	CIA	Submitted
Carried Forward from April 2015 Committee	IASS Outturn Report April 2014 to March 2015 and the Head of Audit's Annual Opinion.	CIA	Submitted
24 th September	Information and Action Requests	CIA	
	Updated Forward Work Programme	CIA	
	Statement of Audited Accounts and Final Annual Governance Statement 2014/15	Head of Finance and ICT / KPMG	
	Treasury Management Outturn 2014/15	Head of Finance and ICT	
	Internal Audit 5 months Outturn Report April to August 2015.	CIA	
	Completed Audits Report (where applicable)	CIA	
	External Auditors / Inspection Reports (where applicable).	Head of Finance & ICT / WAO / KPMG	
19 th November	Up dated Forward Work Programme	CIA	
	Information and Action Requests (where applicable)	CIA	
	Fraud update	Head of Finance & ICT / Benefits Manager	
	Corporate Risk Assessment Review 2015/16.	Head of Finance and ICT / Risk & Insurance Manager	
	Completed Audits Report (if applicable)	CIA	
	Internal Audit Outturn Report – April 2015 to October 2015.	CIA	
	External Auditors / Inspection Reports (where applicable).	Head of Finance & ICT / WAO / KPMG	
2016			
28 th January	Up dated Forward Work Programme	CIA	
	Information and Action Requests (if applicable)	CIA	
	Internal Audit 9 months Outturn Report April 2015 – December 2015	CIA	
	Completed Audits (where applicable)	CIA	
	Report on the work undertaken on School Audits.	CIA	
	External Auditors / Inspection Reports (where applicable)	Head of Finance & ICT / WAO/ KPMG	
	Corporate Risk Assessment 2015-16	Head of Finance & ICT	

APPENDIX A

	Treasury Management Half Year Report 2015-16 and Treasury management strategy 2016-17	Head of Finance & ICT	
16th April	Information and Action Requests (where applicable)	CIA	
	Updated Forward Work Programme	CIA	
	Proposed Forward Work Programme 2016-17.	CIA	
	Internal Audit proposed Annual Strategy and Audit Plan 2016-2017.	CIA	
	Governance – Compliance with Public Sector Internal Audit Standards for 2015-16	CIA	
	Audit Committee – Terms of Reference	CIA	
	Internal Audit Shared Service Charter	CIA	
	Completed Audits (where applicable)	CIA	
	Head of Audit’s Annual Opinion Report and outturn for the Year 2015/16	CIA	
	External Auditors / Inspection Reports (if applicable): -	Head of Finance & ICT / WAO/ KPMG	

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

25th June 2015

REPORT OF THE CORPORATE DIRECTOR - RESOURCES

INTERNAL AUDIT SHARED SERVICE

1. Purpose of Report.

1.1 The purpose of this report is to update the Audit Committee on the Internal Audit Shared Service with the Vale of Glamorgan Council and propose an extension to the Partnership Arrangement until the 31st January 2018.

2. Connection to Corporate Improvement Objectives / Other Corporate Priorities.

2.1. Internal Audit's work impacts on all of the Corporate Improvement Objectives /other Corporate Priorities.

3. Background

3.1. The provision of Internal Audit is recognised by all councils as core to their effective governance, risk management, and control arrangements. The requirement for councils to maintain appropriate and effective internal audit arrangements is set out in the Accounts and Audit (Wales) Regulations 2014.

3.2. Cabinet at its meeting held on 6th March 2012 approved the proposal that Bridgend County Borough Council become a partner in the Internal Audit Shared Service (IASS) partnership as a joint discharge of functions under Section 101 of the Local Government Act 1972; with the Vale of Glamorgan Council operating as the host authority and authorised the Section 151 Officer in consultation with the Monitoring Officer; to make the necessary arrangements to establish the IASS, subject to an agreed Partnership Agreement and Contract.

3.3. A formal Partnership Agreement was signed and sealed by both Councils on the 1st February 2013, whereby an Internal Audit Shared Service would be provided by the Vale of Glamorgan Council as the Host Authority for a period of three years to Bridgend County Borough Council.

4. Current situation / proposal

4.1. The Bridgend and Vale Internal Audit Shared Service (IASS) is now in its third year of the three year commitment. In this short time, considerable service developments and progress has been made. Overall the performance of the Partnership has been very good in respect of both the delivery of the Audit Plan and the feedback from customers; all of which have been reported regularly to the respective Audit Committees and summarised in Appendix A.

4.2. The stated aim of the IASS is to provide a shared service solution, focused on a series of identifiable and measurable objectives, in which both Councils have an

equal share in terms of control, direction and influence. As such the IASS continues to meet its objectives by:-

- Being affordable and representing value for money;
- Enhancing the professionalism and quality of audit services provided to both Councils through shared knowledge and best practice;
- Remaining flexible and responding to changing service requirements and priorities;
- Extending access to specialist audit services and other related disciplines to both Councils;
- Delivering efficiencies and economies of scale and;
- Improving the investment in staff training and development and providing opportunities for career progression for staff within the service.

4.3. Overseeing the IASS is the Joint Partnership Board comprising the respective Section 151 Officers (or their nominees) from each Council. The Board monitors the performance of the IASS and ensures that it delivers the standards and expectations as set out in the Partnership Agreement. Whilst the partners jointly oversee the performance of the IASS, the responsibility for the adequacy of the whole system of internal audit remains with the Councils themselves, who are responsible for approving audit plans and monitoring delivery via their respective Audit Committees.

4.4. The individual Councils are responsible for overseeing the effectiveness of the internal audit function at Council level, and holding the Head of Internal Audit to account for delivery of the approved Audit Plan. They are responsible for the effectiveness of their governance, risk management and control arrangements, hold managers to account for delivery and receive regular progress updates on internal audit work; consider key themes and issues, and take them forward as necessary.

4.5. The coming together of the two divisions saw the immediate need for a new organisational structure which reduced the number of full time equivalents (FTE) posts between the two divisions from 29 to a maximum of 24 under the new IASS.

4.6. In respect of overall performance; in 2013/14 both Councils annual audit plans were achieved and the total cost of service was circa £193K underspent; this was primarily due to a further reduction in staffing numbers and the number of vacant posts being carried by the service for the period concerned.

4.7. In 2014/15 both Councils annual audit plans were achieved; although Bridgend received 93.5% of the original planned productive days. Whilst this was a shortfall of 84 productive days; the overall impact was minimal as all high risk areas were covered and the Head of Audit was able to provide the necessary annual opinion on the Council's overall governance, risk management and internal control arrangements. The overall total cost of the service was circa £135k underspent and this was due to vacant posts during the year.

4.8. The budget for 2015-16 for the whole of the Internal Audit Shared Service is set and shows an overall reduction of 17% from the original budget set in 2013/14. The Internal Audit challenge will be to continue to provide an annual assurance opinion in a climate where the clients want, and needs, to reduce costs and this includes internal audit costs. Bridgend's expectation is for further reductions of

10% in the Financial Years 2016/17 and another 10% in 2017/18. The Service will need to look at how it can deliver for less obvious resources and how to use data, rather than people, to deliver audits. The Service's plans and approach will require more flexibility and will need to work even more closely with senior management to ensure resources are employed to the greatest advantage.

4.9. Both partners have indicated their desire to continue with the partnership and wish to extend the arrangement for a further two years, in accordance with the terms of the Partnership Agreement. The partnership has been successful and we consider that it will continue to be so. Both partners have set challenging financial targets, and these will have a considerable impact on the audit resources that will be available to 2017/2018. The Service will continue to provide the flexibility to react, and be pro-active to changing needs. Over the next three years IASS will continue to develop working practices to deliver an excellent service whilst addressing the need to do more with less. In addition, opportunities for extending the shared service to other neighbouring authorities will be explored, including the potential for expanding the specialist computer audit service.

5. Effect upon Policy Framework & Procedure Rules.

5.1. None

6. Equality Impact Assessment.

6.1. There are no equality issues.

7. Financial Implications.

7.1. Specifically for Bridgend County Borough Council since April 2013 the budget allocated to the Internal Audit Shared Service has been reduced from £420,155 to £379,000 which represents an overall reduction of 10%. In addition, for the financial years 2013/14 and 2014/15 the overall budget has been underspent by £68,400 and £58,050 respectively for the Council.

8. Recommendation.

8.1. That the Audit Committee gives due consideration to the current position as outlined in the report and recommends to Cabinet that they approve an extension to the Internal Audit Shared Service partnership arrangement as follows:

- Extension of the Internal Audit Shared Service Partnership for a period of two years – 1st February 2016 to 31st January 2018.

Ness Young
Corporate Director - Resources
25th June 2015

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Background Documents

None

IASS PERFORMANCE 2013-14 TO 2014/15

PRODUCTIVE PLANNED DAYS

	2013 -2014		%	2014 - 2015		%
	Original	Actual		Original	Actual	
Vale of Glamorgan Council	1,635	1,655	101	1,478	1,498	101
Bridgend County Borough Council	1,374	1,360	99	1,310	1,226	93.5

COST OF SERVICE

	2013 -2014		2014 - 2015		2015 - 2016	%
	Original	Actual	Original	Actual	Budget	
	£	£	£	£	£	
Vale of Glamorgan Council	553,311	428,055	495,330	418,000	427,245	53
Bridgend County Borough Council	420,155	351,755	400,144	342,105	379,000	47
	973,466	779,810	895,485	760,105	806,245	100

CLIENT SATISFACTION LEVELS

No.	Question	VALE OF GLAMORGAN		BRIDGEND CBC	
		<i>Average Score of responses</i> <i>2014/15</i>	<i>Average Score of responses</i> <i>2013/14</i>	<i>Average Score of responses</i> <i>2014/15</i>	<i>Average Score of responses</i> <i>2013/14</i>
1	Where appropriate, briefing of client and usefulness of initial discussion.	1.350	1.410	1.360	1.420
2	Appropriateness of scope and objectives of the audit.	1.330	1.410	1.450	1.450
3	Timelines of audit.	1.460	1.550	1.690	1.490
4	Response of Officer to any requests for advice and assistance.	1.280	1.250	1.240	1.300
5	General helpfulness and conduct of Auditor (s)	1.170	1.210	1.170	1.150
6	Discussion of findings / recommendations during or at the conclusion of the audit.	1.000	1.000	1.000	1.000
7	Fairness and accuracy of report.	1.500	1.410	1.360	1.600

8	Practicality and usefulness of recommendations		1.510	1.460	1.460	1.570	
9	Standard of report.		1.380	1.350	1.290	1.380	
10	Client agreement with overall audit opinion.		1.420	1.410	1.310	1.560	