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Cyngor Bwrdeistref Sirol Pen-y-bont ar Ogwr Bridgend County Borough Council

Swyddfeydd Dinesig, Stryd yr Angel, Pen-y-bont, CF31 4WB / Civic Offices, Angel Street, Bridgend, CF31 4WB



Rydym yn croesawu gohebiaeth yn Gymraeg.

Rhowch wybod i ni os mai Cymraeg yw eich dewis iaith.

We welcome correspondence in Welsh. Please let us know if your language choice is Welsh.



Dear Councillor,

AUDIT COMMITTEE

A meeting of the Audit Committee will be held in Committee Rooms 2/3, Civic Offices Angel Street Bridgend CF31 4WB on **Thursday, 29 June 2017 at 2.00 pm.**

AGENDA

1. Election of Chairperson
2. Election of Vice-Chairperson
3. Apologies for Absence
To receive apologies for absence from Members.
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 - 10
To receive for approval the minutes of the Audit Committee of 27 April 2017
6. Savings Planning 11 - 48
7. Annual Governance Statement 2016-17 49 - 82
8. Statement of Accounts 2016-17 (Unaudited) 83 - 228
9. Annual Treasury Management Outturn Report 2016-17 229 - 248
10. Proposed Forward Work Programme 2017-18 249 - 252
11. Internal Audit Shared Service Charter 2017/18 253 - 262
12. External Assessment of Internal Audit Shared Service 263 - 276

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13. Internal Audit Strategy and Annual Risk Based Audit Plan April 2017 to March 2018 277 - 310
14. Internal Audit - Outturn Report - April to May 2017 311 - 318
15. Urgent Items
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

Corporate Director Operational and Partnership Services

Councillors:

CA Green
JE Lewis
JR McCarthy
MJ Kearn

Councillors

B Sedgebeer
RMI Shaw
RM Granville
LM Walters

Councillors

CA Webster
A Williams
AJ Williams
MC Clarke

Lay Member: Mrs J Williams

Agenda Item 5

AUDIT COMMITTEE - THURSDAY, 27 APRIL 2017

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD IN COUNCIL CHAMBER,
CIVIC OFFICES ANGEL STREET BRIDGEND CF31 4WB ON THURSDAY, 27 APRIL 2017 AT
10.00 AM

Present

Councillor CA Green – Chairperson

JR McCarthy
R Williams

JE Lewis
RC Jones

CL Jones

G Davies

Apologies for Absence

M Gregory

Officers:

Janice Jenkins	Benefits and Financial Assessments Manager
Andrew Rees	Senior Democratic Services Officer - Committees
Helen Smith	Chief Internal Auditor
Nigel Smith	Finance Manager
Mary Williams	Chief Accountant

Representing the Wales Audit Office

Steve Barry - Performance Audit Manager
Mark Jones - Financial Audit Manager
John Llewellyn - Financial Audit Team Leader

300. DECLARATIONS OF INTEREST

None.

301. APPROVAL OF MINUTES

RESOLVED: That the minutes of the meeting of the Audit Committee of 26 January 2017 be approved as a true and accurate record.

302. EXTERNAL AUDIT ANNUAL AUDIT PLAN 2016-17

The Financial Audit Manager, Wales Audit Office presented the External Auditor's Annual Audit Plan 2016-17, together with a schedule of authorised grant signatories for the Council for the Committee to note.

The Annual Audit Plan Outline had been prepared by the Council's External Auditor to meet the requirement of the auditing standards and proper audit practices. It sets out the work to be undertaken by the Appointed Auditor at Bridgend CBC under the Public Audit (Wales) Act 2004, the Local Government (Wales) Measure 2009 (the Measure), the Local Government Act 1999 and the Code of Audit Practice.

The Financial Audit Manager informed the Committee that the Financial Audit 2016-17 element of this plan had been prepared by Wales Audit Office, the purpose of which is to set out the proposed work, when it will be undertaken, how much it will cost and who will undertake it. He stated that the Plan also outlined the Performance Audit, the Certification of Grant Claims and Returns and other Audit Work to be undertaken and a schedule of authorised grant signatories.

The Financial Audit Manager reported on the audit approach to be taken which consists of the three phases of Planning; Execution and Concluding and reporting. He set out the risks of material misstatement which he considered to be significant and which require special audit consideration and the work intended to address them in relation to:

- Financial Challenges
- Cardiff Capital Region City Deal
- Financial Audit Risk
- Changes to the Comprehensive Income and Expenditure Statement and new disclosures
- Significant capital projects

The Committee referred to the risk of management override and questioned whether this was a risk unique to this Council or was it common to all Councils generally. The Financial Audit Manager informed the Committee that this was a risk which is common to all Councils and is an auditing requirement and not a risk specifically to this Council.

The Performance Audit Manager informed the Committee that a report on Governance would be presented to the next meeting of the Committee.

The Committee questioned the burden placed on officials in relation to all appropriate officials being available within reasonable notice during the audit. The Financial Audit Manager informed the Committee that the burden would fall on Finance staff in that the Wales Audit Office would need to know the leave commitments of staff as it would need to give reasonable notice of their intention to test a number of transactions. The Performance Audit Manager informed the Committee that the performance audit programme placed more emphasis on local risks. He stated that there is a possibility that the WAO could alleviate the burden on Internal Audit in carrying out audits on their behalf.

RESOLVED: That the content of the External Auditor's Annual Audit Plan 2016-17 and the schedule of authorised grant signatories be noted.

303. CERTIFICATION OF GRANTS AND RETURNS 2015-16

The Financial Audit Team Leader, Wales Audit Office presented the Council's External Auditor's report on the grant work undertaken for 2015-16. The Wales Audit Office (WAO) as appointed auditors of the Council had been asked on behalf of the Auditor General for Wales to certify larger grant claims made by the Council. For 2015-16 15 grant claims and returns were audited with a total value of £121.2 million, compared to 23 grant claims with a total value of £142.3 million audited in 2014-15.

The Financial Audit Team Leader informed the Committee that 100% of the grant claims were submitted in accordance with the awarding body's deadline, consistent with 2014-15; 10 certificates were unqualified, but qualifications were necessary for 5 grants, relating to the eligibility of expenditure in relation to the scheme terms and conditions and issues around the apportionment of costs. He stated that adjustments were made to 14 grants and returns as a result of auditor certification work.

The Financial Audit Team Leader reported that there was only one significant adjustment which was a reduction in the Bad Debt Provision of £152,997 for the Non-Domestic Rates Return. This affected the income to Welsh Government and not any funding due to the Council. The net effect of the other grant adjustments resulted in an increase of £8,789 to the Council.

Overall the Council's External Auditors concluded that Grant Officers should be reminded of the importance of providing adequate working papers and ensuring claim accuracy.

RESOLVED: That the Committee noted the content of the External Auditor's report on the grant work undertaken for 2015-16.

304. COUNCIL TAX REDUCTION FRAUD INVESTIGATIONS: NOVEMBER 2015 TO MARCH 2017

The Benefits and Financial Assessments Manager reported on the activity undertaken from 1 November 2015 to 31 March 2017 with regard to Council Tax Reduction (CTR) fraud investigations. She also summarised the activities undertaken and the results achieved during 2016/17.

She reported that the Government had created a single fraud investigation service (SFIS) with statutory powers to investigate and sanction all benefit and tax credit offences combining the resources across DWP, Her Majesty's Revenue & Customs (HMRC) and local authorities. Investigation staff from all local authorities had now become civil servants within the SFIS and on 1 November 2015, Bridgend's Fraud Manager and 2 investigation staff joined the SFIS, resulting in the transfer of investigation work for Housing and Council Tax Benefit. Prosecutions for these benefits were now dealt with by the Crown Prosecution Service. Cases of fraud in CTR did not form part of the SFIS remit and in order to maintain effective and functioning counter-fraud activities for CTR, the Benefits Service retained a Fraud Investigator primarily to undertake the following:

- Investigate allegations of CTR fraud and single person discount discrepancies
- Risk based intervention activities
- Assist SFIS in the provision of information and/or documentation
- Provide awareness and training for staff in relation to fraud, abuse and financial loss

The Benefits and Financial Assessments Manager reported that during the initial few months following the transfer to SFIS, the remaining Fraud Investigator concentrated on establishing new protocols and processes for the administration of CTR investigations, and developed a contact network with other CTR fraud officers within neighbouring authorities. This network widened across Wales and officers now met quarterly to discuss CTR fraud matters and share best practice. Fraud awareness training sessions remain to be undertaken for Benefit, Homelessness, Council Tax and Customer Service staff and with outside agencies. Fraud awareness also forms part of the induction process for all new benefit staff.

The Benefits and Financial Assessments Manager also reported on a summary of the sources of fraud referrals between November 2015 and 31 March 2017. She stated that CTR investigations were undertaken based on information received as a data match or in the form of a specific allegation regarding the claimant's circumstances and 41% of the fraud referrals were initiated through claim reviews. These are cases where it appeared that the claimant may have not declared a change in their circumstances, where earnings had remained unchanged over a significant period of time. 31% of referrals were received as a result of the DWP's Real Time Information (RTI) initiative, which is an earned income and occupational pension data match with HMRC and indicated undeclared earnings or pensions, as well as highlighting significant variations in the amounts declared. Fewer than 2% of CTR referrals were received via the public; the majority of referrals from the public relate to DWP benefits or Housing Benefits,

which are forwarded to the SFIS to investigate. Fraud referrals were normally forwarded to the SFIS in the following circumstances:

- The referral relates to the entitlement to a DWP benefit such as Income Support, Jobseeker's Allowance or Employment and Support Allowance; or
- The Housing Benefit overpayment is expected to exceed £4,000 (the DWP's threshold for prosecution); or
- It is in the public's interest that a prosecution should result.

The Benefits and Financial Assessments Manager summarised a breakdown of the types of allegations which had been referred during the period 1 November 2015 to 31 March 2017.

The Benefits and Financial Assessments Manager reported that the majority of investigations undertaken relate to earnings and savings; which is as a result of being unable to investigate cases where a DWP benefit may be affected. During the period November 2015 to March 2017, 91 cases were closed and she highlighted the closure categories. The number of fraud proven cases represented 82% of the closed cases, which is attributed to the quality of the initial referral. The Benefits and Financial Assessments Manager informed the Committee that savings of £136,750 had been achieved as a result of fraud investigations concluded during 2016/17.

The Benefits and Financial Assessments Manager reported that once a case had been closed as fraud proven and the CTR adjustment (known as an excess reduction) was calculated, the case was referred to the Head of Finance or Benefits and Financial Assessments Manager to determine whether a sanction is appropriate. The sanctions available to the Council are prosecutions, issuing a financial penalty or a fine and she highlighted the levels that may be imposed. Penalties and fines issued in 2016/17 totalled £20,546 and in addition, the Fraud Investigator had also raised administration-penalties and a compensation fine, totaling £6,523, following DWP investigations into Housing and Council Tax Benefit claims.

The Committee questioned the threshold of £4,000 being exceeded for prosecution for Housing Benefit overpayment. The Benefits and Financial Assessments Manager informed the Committee that the threshold of £4,000 was set by the DWP, which would shortly be increased to £5,000. She stated that prosecutions can be instigated for lower amounts than the DWP threshold and fines could be levied for any value. She indicated that there is the potential for overpayments to mount up very quickly.

The Committee questioned whether savings derived equated to recovery. The Benefits and Financial Assessments Manager stated that the number of people who pay the penalty is quite high as it is an alternative to prosecution. Payments of fines can be made by instalments and attachments of earnings orders can be made. She stated the Department had a good rate of recovery on fines. The excess reduction amounts are recovered via the person's council tax account; again, recovery rates are high.

The Committee requested detail on the process for using the NFI Service for Council Tax prosecutions. The Benefits and Financial Assessments Manager informed the Committee that it was hoped that matches would be a lot better for Council Tax than for Housing Benefit. There had been time delays in using the data matching service with little gain for the work undertaken.

The Committee questioned the outcome of cases where fraud had been proven. The Benefits and Financial Assessments Manager informed the Committee that work was being concluded on some of the cases where fraud had been proven. There were some cases where sanctions were not pursued, for example due to an individual's health. The

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Committee questioned whether a sanction was offered or did the Council proceed immediately to prosecution. The Benefits and Financial Assessments Manager informed the Committee that a fraud officer will prepare a case, which is then reviewed by her or the Head of Finance, each case is considered on its merits before a decision regarding a sanction is made.

RESOLVED: That the Committee noted the content of the Council Tax Reduction Fraud Investigations: November 2015 to March 2017.

305. EXTERNAL ASSESSMENT

The Chief Internal Auditor presented the final report on the External Assessment of the Internal Audit Shared Service which had been conducted by the Chartered Institute of Public Finance and Accountancy. The review commenced on 30 January 2017, concluding with an on-site assessment on 3 February 2017. The assessor had made 18 recommendations and a further 10 suggestions for improvement.

The Chief Internal Auditor reported that an Action Plan which included responses and action dates had been compiled. Whilst the assessment had identified some recommendations and suggestions for improvement, the assessment did not identify areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity.

The Chief Internal Auditor informed the Committee that the Assessor had found that all auditees and statutory officers were positive in their responses and understanding of the audit process and the value it added. She stated that the Committee would receive regular progress reports against the implementation of the recommendations and suggestions for improvement.

The Committee welcomed the report of the external assessor on the internal audit service and congratulated the service on what it had achieved despite difficult circumstances with staffing levels running at a 50% vacancy rate. The Committee stated there was a need to ensure the correct resources are in place for the delivery of the internal audit service.

The Committee considered that the peer officer and Member review of audit take place in the year after next.

RESOLVED: That the Committee considered the report of the External Assessor and approved the actions for improvement as outlined in Appendix 1 of the report.

306. COMPLETED AUDITS

The Chief Internal Auditor presented a report which summarised the findings of the audits recently completed by the Internal Audit Shared Service.

RESOLVED: That the Committee considered the summary of completed audits so as to ensure that all aspects of their core functions are being adequately reported.

307. INTERNAL AUDIT - FINAL OUTTURN REPORT - APRIL 16 TO MARCH 17

The Chief Internal Auditor reported on the actual Internal Audit performance against the two months of the audit plan year covering April 2016 to March 2017. She informed the

AUDIT COMMITTEE - THURSDAY, 27 APRIL 2017

Committee that the Plan provided for a total of 1,053 productive days, with 1,030 actual days delivered.

The Chief Internal Auditor reported that the overall structure of Internal Audit was based on 18 Full Time Equivalent (FTE) employees; however at the end of the 2015-16 financial year, the section carried 4 FTE vacant posts, but this had now increased to 9 FTE vacant posts. A recent recruitment campaign had been unsuccessful in addressing the shortfall and discussions were underway as to the best way to address the shortfall.

The Chief Internal Auditor informed the Committee that the opinion contained within the outturn report related to the system of internal control at the Council and the overall control environment in place. She stated that the system of internal control was designed to manage risk to a reasonable level rather than to eliminate the risk of failure to achieve corporate / service policies, aims and objectives. The Chief Internal Auditor could only provide reasonable and not absolute assurance of effectiveness. The supporting evidence lists all those assignments which have been commenced / completed for the year and where an assignment has been completed, an audit opinion has been applied.

The Chief Internal Auditor informed the Committee that on the basis on internal audit work undertaken and taking into account all available evidence, it was her opinion that satisfactory assurance can be applied to standards of internal control at the Council. She stated that the most significant risk affecting her ability to giving an opinion is the 50% vacancy rate in internal audit. Discussions on a re-structure which would be based on resilience and career progression had taken place with the trade unions prior to consultation commencing with staff.

The Committee was disconcerted to learn of the vacancy rate of 50% and it wished to consider the review of resources in internal audit at a future meeting as part of setting the Audit Plan.

The Committee also expressed concern at the shortfall of actual days achieved compared to the planned days in the Social Services and Wellbeing Directorate. The Chief Internal Auditor informed the Committee that a contingency had been built into the Internal Audit Plan and additional days had been requested by the Corporate Director Social Services and Wellbeing due to the implementation of the Social Services and Wellbeing Act. She stated that despite the shortfall in the actual days achieved in Social Services and Wellbeing Directorate she had taken assurance from the CSSIW.

RESOLVED: That the Committee considered the Internal Audit Outturn Report, including the Head of Audit's annual opinion to ensure that all aspects of their core functions are being adequately reported and in doing so, expressed its concern at the vacancy rate of 50% and that it wished to consider the review of resources in internal audit at a future meeting as part of setting the Internal Audit Plan.

308. **DRAFT INTERNAL AUDIT STRATEGY AND ANNUAL RISK BASED AUDIT PLAN
APRIL 2017 TO MARCH 2018**

The Chief Internal Auditor presented the Council's draft Internal Audit Strategy and draft Annual Risk Based Audit Plan for the year April 2017 to March 2018.

The Chief Internal Auditor informed the Committee that the proposed draft risk based plan struck a good balance between the risks identified, the internal audit resources available and the assurance work being carried out by other agencies. The Plan provided for 1,070 productive days being delivered during 2017/18 based on the current

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vacancy rate of 50% in the structure in Quarter 1, 75% of the establishment in post in Quarter 2 and a full establishment in post in Quarters 3 and 4. She stated that the delivery of the 1,070 productive days was wholly dependent on the above materialising. Should this not be the case, there is the potential to buy in any shortfall during the year to meet the maximum commitment.

The Chief Internal Auditor reported that the draft Internal Audit Strategy for 2017-18 demonstrates how the Internal Audit Section will be delivered and developed in accordance with the Terms of Reference and how it links to the Council's objectives and priorities. She stated the Strategy will be reviewed and updated annually in consultation with stakeholders namely the Audit Committee, Corporate Management Board, External Auditors and senior management.

The Chief Internal Auditor reported that the draft Annual Risk Based Audit Plan 2017-18 has been formulated to ensure compliance with the Standards contained within the Public Sector Internal Audit Standards. Draft detailed plans for each Directorate had been included to ensure compliance with the Standards and to keep the Audit Committee fully informed.

The Committee considered that it needed to exercise caution in approving the Audit Plan and expressed its concern at the lack of staff resources in Internal Audit could have on achieving the targets set in the Audit Plan. The Chief Internal Auditor stated that the seriousness of the situation had been recognised by the Shared Service which was reviewing the position on a weekly basis.

The Committee also expressed concern at the number of additional productive days to be delivered in Social Services and Wellbeing and requested a breakdown of the services it would support under Cross Cutting given the number of days proposed in the Plan. The Chief Internal Auditor stated that she would more detail of the Cross Cutting services to be audited. The Performance Audit Manager informed the Committee that auditing Cross Cutting services is an area where the Wales Audit Office could assist Internal Audit in order to mitigate the risks identified. The Committee considered that the draft Audit Plan needed to change to take account of the support offered to Internal Audit by the Wales Audit Office. The Chief Internal Auditor informed the Committee that the Audit Plan would be brought back to the next meeting of the Committee along with the Internal Audit Shared Service Charter and Forward Work Programme.

RESOLVED: That an amended draft Internal Audit Strategy and draft Annual Risk Based Audit Plan for 2017/18 be brought to the next meeting of the Committee taking account of the concerns raised by the Committee along with the Internal Audit Shared Service Charter and Forward Work Programme.

309. UPDATED FORWARD WORK PROGRAMME 2016 - 17

The Chief Internal Auditor presented an update on the 2016/17 Forward Work Programme. She stated that in order to assist the Committee in ensuring that due consideration has been given by the Committee to all aspects of their core functions an updated Forward Work Programme was submitted.

The Chief Internal Auditor expressed her sincere thanks to the members of the Committee for their support during the last term.

RESOLVED: That the Committee noted the updated Forward Work Programme to ensure that all aspects of their core functions are being adequately reported.

310. URGENT ITEMS

There were no urgent items.

311. 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 be excluded from the meeting during consideration of the following items of business as they contain exempt information as defined in Paragraphs 14 and 18 of Part 4 and Paragraph 21 of Part 5 of Schedule 12A of the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007.

Following the application of the public interest test in consideration of these other items, it was resolved that pursuant to the Act referred to above, to consider them in private, with the public being excluded from the meeting as they would involve the disclosure of exempt information of the nature as stated above.

312. APPROVAL OF EXEMPT MINUTES

RESOLVED: That the exempt minutes of the meeting of the Audit Committee of 26 January 2017 be approved as a true and accurate record.

The meeting closed at 11.30 am

Agenda Item 6

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

29 JUNE 2017

REPORT OF THE HEAD OF FINANCE

SAVINGS PLANNING REPORT

1. Purpose of this report

- 1.1 The purpose of this report is to present the findings of the “Savings Planning” audit work carried out by Wales Audit Office (WAO) on all local authorities across Wales.

2. Connections to Corporate Improvement Objectives / Other Corporate Priorities

- 2.1 The Council’s financial resilience is important in ensuring the council has the future resources necessary to deliver against its corporate priorities.

3. Background

- 3.1 In 2015-16, the WAO carried out work at all 22 councils in Wales to assess the adequacy of their financial planning, control and governance arrangements, which resulted in a local report to each council and a national report summarising findings. Nationally, the work found that councils have had difficulty in developing and delivering savings and changes to services at the pace required to ensure their future financial resilience.

- 3.2 Bridgend’s local report for 2015-16 was viewed favourably and in summary found that “Whilst the Council faces some significant financial challenges, its current arrangements for achieving financial resilience are sound”.

4. Current Situation / Proposal

- 4.1 This year, the scope of the WAO’s work has focussed more specifically upon the development and delivery of Councils’ medium term financial strategies and movement in reserves.

- 4.2 Between the two reports, Bridgend has made a number of changes which will impact upon the council’s financial resilience and savings planning. These include:

- The creation of a budget reduction contingency reserve, in recognition of the higher proportion of significant service change required to deliver the scale of Medium Term Financial Strategy (MTFS) budget reductions year on year.
- The introduction of a formal monitoring and reporting process for any prior year budget reduction proposals not fully realised in-year.
- An overhaul of the MTFS development process with significantly increased emphasis on strategies to deliver against different budget settlement scenarios.

- A more thorough mid-year review and assessment of the council's reserves position in relation to known and foreseeable risks and expenditure commitments, and a corresponding increase in the detail and transparency of financial reporting to members.
- The deletion of the Corporate Director - Resources role, with the Head of Finance redesignated as the Section 151 Officer (previously deputy) and appointment to the Corporate Management Board.

4.3 The 2016-17 all-Wales report from the WAO found in summary that:

"Medium Term Financial Planning in councils is generally effective but shortcomings in savings planning present a risk that some councils will not achieve the savings they need to make."

The full report is provided at Appendix A.

4.4 Bridgend's local report summary findings are that:

"Whilst the Council has a sound financial planning framework underdeveloped savings plans may not fully support future financial resilience"

And the audit in particular found that:

"Some of the Council's approved savings plans for 2016-17 are not well developed and lack sufficient detail, increasing the risk that they will not be delivered in the planned timescale"

The report made one proposal for improvement:

"Strengthen financial planning arrangements by:

- Ensuring that savings proposals are fully developed and include realistic delivery timescales prior to inclusion in the annual budget; and
- Identifying indicative savings proposals over the period of the MTFP"

The full report is attached at Appendix B.

4.5 The Head of Finance has presented the report to the Corporate Management Board and Cabinet, and both have accepted the findings of the report and as a consequence additional work has been included in the 2018-2022 MTFS development to address the proposal for improvement.

5. Effect upon policy framework & procedural rules

5.1 The Medium Term Financial Strategy is a key policy document of the council and underpins delivery of the Corporate Plan.

6. Equality Impact Assessment

6.1 Whilst the audit report findings do not themselves raise any equality issues, budget reduction proposals identified in the Council's Medium Term Financial

Strategy can have particular equalities impacts. When these proposals are being developed, consideration is given to their potential impact on protected groups within the community, and equality impact assessments developed as required.

7. Financial implications

- 7.1 There are no financial implications arising as a consequence of this report.

8. Recommendation

- 8.1 It is recommended that Audit Committee note the contents of the report.

**Randal Hemingway CPFA
Head of Finance and Section 151 Officer
29 June 2017**

Contact Officer : Deborah Exton, Group Manager Financial Planning and Budget Management

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Postal address: Raven's Court, Brewery Lane, Bridgend, CF314AP

Background Documents:

WAO Financial Resilience report 2015-16: Bridgend CBC

WAO Financial Resilience report 2015-16: Welsh Local Authorities

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Archwilydd Cyffredinol Cymru
Auditor General for Wales

Savings Planning in 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 comprised Samantha Clements,
Helen Keatley, Chris Pugh, Janet Smith, Jeremy Saunders and
Jeremy Evans under the Direction of Huw Rees.

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

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

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

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

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Medium-term financial planning in councils is generally effective but shortcomings in savings planning present a risk that some councils will not achieve the savings they need to make	7
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The majority of councils have an effective approach to forecasting their funding gaps but some have limited indicative savings proposals which undermines their medium-term financial plans	10
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Over half of councils have well-considered and effective savings plans for 2016-17 but the others do not and they may fail to achieve their in-year savings targets	14

Summary report

Summary

- 1 Good financial management is essential for the effective stewardship of public money and the delivery of efficient public services. The current financial climate, with ongoing reductions in the funding for local government, means that good financial planning, with well-considered savings plans, is critical to councils' financial resilience.
- 2 Good financial planning:
 - helps councils take the right decisions for the short, medium and long term;
 - helps councils deliver services to meet statutory obligations and the needs of local communities;
 - is essential for good corporate governance;
 - is about managing performance and achieving strategic objectives as much as it is about managing money;
 - underpins service quality and improvement;
 - is the basis of accountability to stakeholders for the stewardship and use of resources; and
 - is a key management discipline.
- 3 Financial planning for the medium to long term involves understanding the future demand for public services, assessing the impact of probable changes, reviewing the gaps between funding needs and possible income and, where necessary, developing appropriate savings strategies. There should be very clear links between a council's medium-term financial plan and the annual budget that the council approves. Although most councils only approve the budget for a single year, this single-year budget should be supported by indicative future spending plans that forecast the impact of relevant pressures for councils. Presenting a budget for a single year in isolation does not allow councillors to fully scrutinise the implications of spending decisions. A council's strategic priorities and its financial health should be the basis for deciding what is practicable. Well-considered long-term financial strategies and medium-term financial plans can ensure the delivery of strategic priorities by enabling appropriate financial choices to be made.

- 4 Councils receive about 80% of their net income from the Welsh Government; the exact amount is only known four to five months before the start of the financial year. We recognise the challenges that public bodies face with annual funding settlements in updating their medium-term financial plans and ensuring they have long-term financial strategies in place. However, the absence of firm funding forecasts should not prevent councils projecting likely future income and spending requirements, and planning accordingly. Councils can use a range of information to anticipate changing circumstances, set priorities, make choices and manage service delivery. They can calculate how much they would need to deliver services (at current or future prices) and review alternative income and spending scenarios to identify gaps and prepare for the future by investigating different approaches.
- 5 Wales Audit Office staff, on behalf of the Auditor General, have previously, during 2015-16, undertaken work at all 22 councils in Wales to assess the adequacy of their financial planning, control and governance arrangements. As well as providing a local report to each council, we summarised our findings in a national report, [Financial resilience of local authorities in Wales](#), published in August 2016. That work found that councils have had difficulty in developing and delivering the savings and changes to services at the pace required to ensure their future financial resilience.
- 6 We have now followed up that earlier work, with a review undertaken between June and September 2016 focusing specifically on how councils identify, plan for and deliver savings. We examined their financial planning arrangements, the extent to which councils in Wales achieved their 2015-16 savings plans and the work they did to ensure robustness of their 2016-17 savings plans.
- 7 In this report we have described some key characteristics of effective financial planning – [what good looks like](#). Auditors have used these and other factors to reach a balanced view on the effectiveness of each council's financial planning arrangements across Wales and to evaluate the ability of councils to deliver their medium-term financial plans and their planned savings.
- 8 The basic premise of the review is how well savings planning supports financial resilience. The more successful each council is at delivering its planned savings in the timeframe it predicts the greater the contribution savings planning has to the financial resilience of the council. Whilst effective savings planning is not the only factor which supports financial resilience, it is a key contributing factor. Other factors include, for example, asset management strategies, effective workforce planning, income-generating strategies, reserve strategies and a council's approach to collaborative opportunities.

- 9 Overall, we concluded that **medium-term financial planning in councils is generally effective but shortcomings in savings planning present a risk that some councils will not achieve the savings they need to make.**

Proposals for improvement

- 10 It would be unusual if we did not find things that can be improved and, where we do, the Auditor General can take a variety of steps. Within this review we issued a range of proposals for improvement within our individual local report to each council. The main messages¹ within our local reports and the frequency that they featured are summarised below and we would expect councils to take steps to address them and any others where they appear in their individual report.

Exhibit 1: proposals for improvement made to councils in the course of this review

Most frequently made proposals for improvement	Number of times issued
Strengthen financial planning arrangements by ensuring that savings proposals are fully developed, risk assessed and include realistic delivery timescales prior to inclusion in the annual budget	14
Strengthen financial planning arrangements by developing indicative savings to cover the period of the MTFS	10
Strengthen financial planning arrangements by developing an income generation/charging policy	10
Strengthen financial planning arrangements by integrating and embedding financial and corporate planning processes	5

¹ Exact wording has been summarised here to capture the key message of the proposals made in local reports.

Medium-term financial planning in councils is generally effective but shortcomings in savings planning present a risk that some councils will not achieve the savings they need to make



Part 1 - Context

- 1.1 Since 2010, the UK government has reduced spending on public services as part of its plan to reduce the deficit. With cuts to its budget, the Welsh Government has had to make difficult choices as to how to allocate those funding cuts across devolved public services. As a result, the amount of core funding made available by the Welsh Government to councils has reduced each year. So far, councils have managed to reduce expenditure and balance their budgets, but the scale of annual budget reductions is likely to continue. Our analysis shows that between 2013-14 and 2016-17, there has been a real-terms reduction of £483 million (10.9%) in this core funding².
- 1.2 The real-terms reduction has varied between councils for a number of reasons; for example to reflect factors such as population change, deprivation factors and rurality. As a consequence, some councils received a reduction of just over 6%, whilst others in the region of 13.5%.

Exhibit 2: percentage real-terms reduction in Welsh Government support between 2013-14 and 2016-17



10.9%

real-terms **reduction** in
the amount of money from
the Welsh Government
since 2013-14.

Source: [StatsWales](#)

2 Comparing core funding (Aggregate External Finance (AEF)) across the period 2013-14 to 2016-17 is complicated for two main reasons. Firstly, the Welsh Government has incorporated grants into its core funding that were previously provided separately. While this 'de-hypothecation' of grants results in an increase in core funding, it is not necessarily a net increase in funding. The net value of grants incorporated into core funding since 2013-14 is around £76 million in real terms (adjusted for inflation).

- 1.3 The impact of leaving the European Union provides considerable uncertainty for the UK public sector. The Welsh Local Government Association has expressed concern over the implications of the European Union referendum outcome, calling it a ‘seismic change in UK public policy’³ especially as councils are collectively the largest employer in Wales and the deliverer of many important public services.
- 1.4 Notwithstanding the ongoing reduction in their funding, councils have been expected to protect schools and social care from the bulk of the financial cuts. Social care, in particular, has struggled even with this protection as demographic changes have led to increased demand on these services. This protection has meant that other services have borne the majority of the cuts and have seen reductions in budgets of 30% or more in real terms since 2013-14.

³ Welsh Local Government Association, **Councils voice concern over service impacts of EU referendum**, 24 June 2016

Part 2 - Financial planning arrangements

The majority of councils have an effective approach to forecasting their funding gaps but some have limited indicative savings proposals which undermines their medium-term financial plans

What good looks like

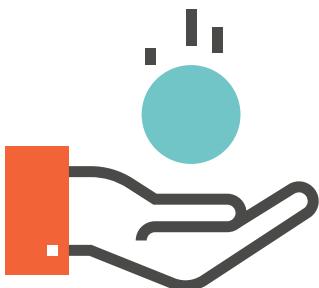
- 2.1 The medium-term financial plan is a key component of an effective, integrated corporate planning framework. Good medium-term financial planning and annual budgeting reflects a council's strategic objectives and priorities for the year, and over the longer term. Medium-term financial plans typically span a three-to-five-year period and identify the allocation of resources to delivery of services and the council's priorities. The medium-term financial plan should include consideration of the impact on citizens and other stakeholders.
- 2.2 Good medium-term financial plans include consideration of key financial risks together with their mitigation. Councils have to make assumptions around inflation, income levels, demographics, future demand for services and the costs of delivering services based on reasonable predictions. Councils should also use financial modelling to assess the likely impacts on financial plans and required savings for a range of different scenarios and risks. The medium-term financial plan should be reviewed frequently and updated to reflect changes in assumptions and risks.
- 2.3 Councils should operate within a level of reserves and balances (including earmarked reserves and the general fund balance), approved by councillors, and appropriate to the strategic, operational and financial risks it faces. Councils should include details on how reserves will be used over the period of the medium-term financial plan.
- 2.4 Councils must demonstrate that they understand sources of income and the risks arising from these, and that they have reviewed approaches to managing fees and charges, to achieve value for money. Our national report, [Charging for services and generating income by local authorities](#), published in November 2016, recognises that, whilst the legal basis for setting and managing charges is complex, councils are not always strategic in their approach to charging and that few councils were forecasting income levels beyond a one-year period.

What we found

- 2.5 In our previous review, undertaken in 2015-16, we found that councils' medium-term financial plans were generally not well aligned with other key strategies, and the quality, robustness and currency of medium-term financial plans was variable.
- 2.6 In this review we found that the majority of councils have improved and now have an effective approach to forecasting the savings they need to achieve, but there is still more for councils to do in planning how they intend to bridge the funding gap that they have identified, weakening their medium-term financial plans.
- 2.7 All councils now have medium-term financial plans which span a three-to-five-year period, underpinned by reasonable and realistic macro-economic, demographic and financial assumptions. Twenty councils formally update their medium-term financial plans biannually with more frequent updates being provided to executive boards and senior management teams during the year. The more comprehensive plans include sensitivity analysis, scenario planning, risk assessments and planned use of general and earmarked reserves over the plan period.
- 2.8 Whilst medium-term financial planning has improved, we found that half of the councils still do not fully align financial planning with wider corporate planning arrangements. This means that resources may not be allocated in line with councils' corporate priorities and a lack of links to other key strategies such as asset management and workforce planning weaken councils' financial strategic planning arrangements. We found that 11 councils clearly show the allocation of their budget across corporate priorities so that they can track the allocation of resources to corporate priorities over time.
- 2.9 Twenty councils model their financial forecasts for the budget gap on funding from the Welsh Government based on latest information and a range of 'least to most optimistic' scenarios. The final local government settlements for 2016-17 and 2017-18 were better than councils originally anticipated, although still a reduction. In 2016-17, one or two councils used the better-than-anticipated settlement to create earmarked reserves to support future financial resilience and service changes, and/or to reduce the level of council tax increase. However the vast majority of councils decided to reduce their in-year savings requirement.

- 2.10 As a result, three councils have arrived at a more optimistic forecast funding scenario for 2018-19 onwards on the basis that future settlements will continue to be more favourable than anticipated. This assumption has led them to reduce their planned savings requirement over the medium term. More prudently all other councils have recognised the risk that this may not be the case and continued to plan for a greater level of saving in the medium term.
- 2.11 Twenty councils identify the budget gap over the period of the medium-term financial plan, the savings requirement to meet the gap supported by high-level outline indicative savings proposals. However, only two councils are able to demonstrate that they have more detailed proposals in place to meet future savings requirements. All councils recognise the majority of savings required in the future will probably come from service change and new ways of working. These type of savings usually have longer lead-in times. We found that all councils have strategic change management programmes which include these types of longer-term savings proposals. Whilst two councils have detailed or indicative savings plans to support these savings proposals, all others have set global targets for planned cross-cutting and collaborative reviews of services. We found in this review, and our previous financial resilience reviews, that councils continue to experience difficulty in developing and delivering savings plans of a transformational or cross-cutting and collaborative nature within the timescales they have planned.
- 2.12 All councils have a reserves strategy or a protocol in place for managing reserves that includes a clear rationale for their use. Under three quarters of councils report biannually on the use of reserves, normally when setting the annual budget and closing the annual accounts. Of these councils, the majority provide additional updates in routine financial monitoring reports. We found that in 2015-16, 13 councils reviewed and re-designated a number of earmarked reserves resulting in investment in corporate priorities and other initiatives to deliver future budget savings. Whilst reserves are usually reviewed regularly, we found that less than half of councils included a statement of the projected use of earmarked and general reserves over the period of their medium-term financial plans.
- 2.13 In our previous review we commented that councils had managed to increase, or at least maintain, reserve levels despite having to reduce budgets to absorb funding cuts. We questioned how sustainable this would be going forward. In this review we found that councils have managed to sustain the position. Our analysis of council reserves taken from our review of councils' statements of accounts shows that the overall level of earmarked and general revenue reserves (excluding delegated school balances) increased by £40.4 million (3.9%) in 2015-16 from 2014-15 (earmarked reserves increased by £37.8 million and general reserves increased by £2.6 million).

Exhibit 3: across Wales, councils have collectively been able to maintain reserves between 2015-16 and 2016-17



£40.4m

minimal change in
reserve levels between
2014-15 and 2015-16.

Source: councils' statements of accounts

2.14 Fifteen councils have fees and charges registers, and make revisions to fees and charges when setting the annual budget and some include income-generating proposals in their medium-term financial planning assumptions. Less than half of councils have an explicit income generation and charging policy and in the majority that do, we found that awareness and application of the policy by services within these councils was mixed. Ten councils were able to demonstrate that they had corporate-wide strategies for managing charges, and were in the process of reviewing income streams and identified some new income streams. In our November 2016 report, [Charging for services and generating income by local authorities](#), we reported that whilst councils are beginning to develop corporate-wide strategies for managing charges, progress had been slow. As part of this review, we found that progress in this area remains slow.

Part 3 - Savings plans

Over half of councils have well-considered and effective savings plans for 2016-17 but the others do not and they may fail to achieve their in-year savings targets

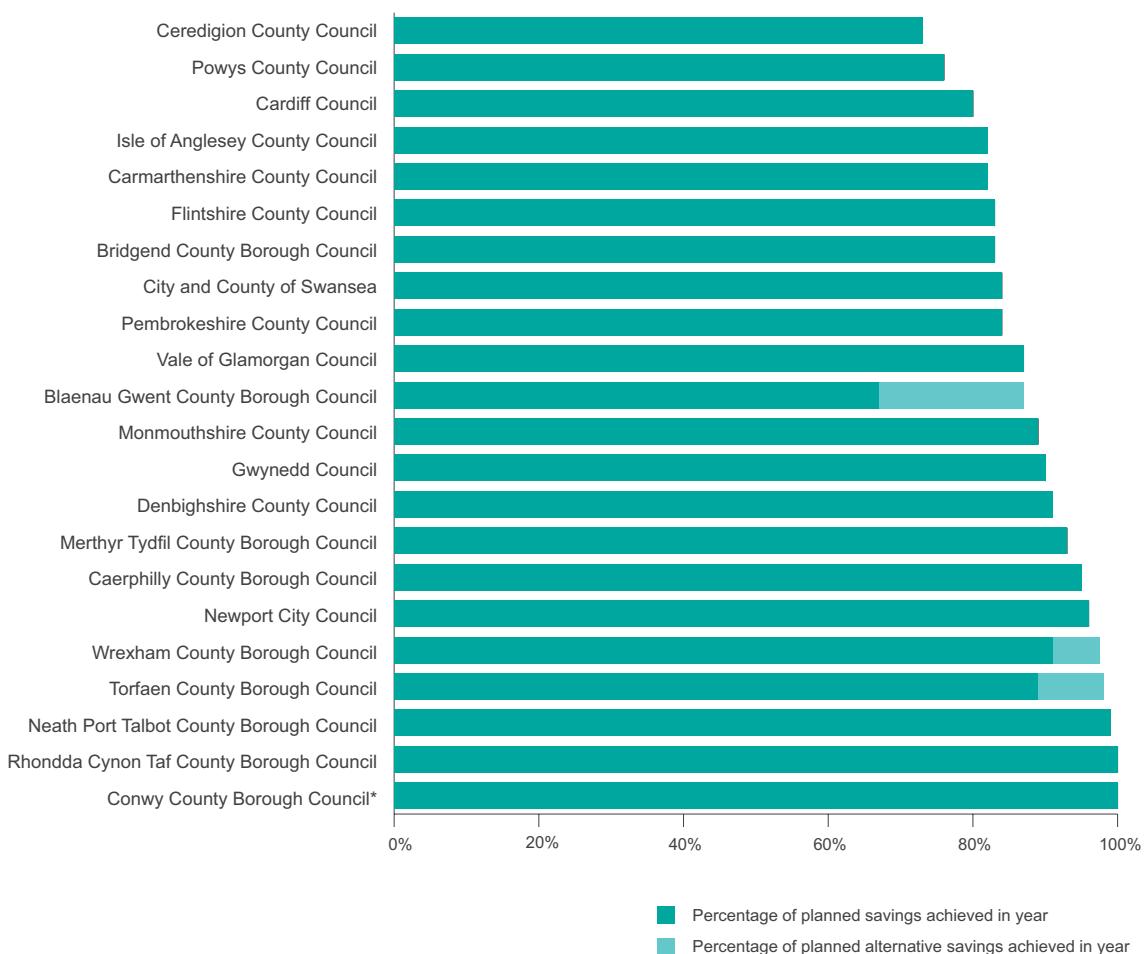
What good looks like

- 3.1 Councils that deliver savings effectively have well-considered savings plans that sit within longer-term savings strategies which are underpinned by well-developed fully costed individual savings and delivery plans aligned with the medium-term financial plan. These councils have robust monitoring arrangements in place and do not have to continually bridge the gap year on year by identifying alternative savings, using unplanned one-off funding from earmarked reserves, general reserves, contingency funds or fortuitous unplanned income received during the year.

What we found

- 3.2 In our earlier 2015-16 review of financial resilience, we found that whilst councils delivered balanced budgets in 2014-15, the majority did not have well-developed savings plans with appropriate actions and they struggled to deliver intended savings. Around one-third of councils used general or earmarked reserves to meet any shortfall between income and expenditure.
- 3.3 In this latest review, we found that all councils again delivered a balanced budget in 2015-16, but not necessarily as planned. Councils used a variety of methods to balance their budgets which included use of reserves, underspends from within other service areas, and unplanned income. Councils, collectively, planned to save £251.6 million in 2015-16. The total level of savings achieved by councils, which includes planned alternative savings, was £221.5 million (88%). Individual councils achieved between 73% and 100% of their planned savings during 2015-16 with two councils achieving 100% and 12 less than 90% as shown in [Exhibit 4](#).
- 3.4 Councils with higher in-year savings achievement rates generally included well-developed proposals in the annual budget. These were well thought through, fully costed and often low-risk items. The majority of these councils also held, as a planned contingency measure, either alternative approved savings proposals which could be substituted if necessary, or a central contingency budget within the base budget.

Exhibit 4: percentage of savings (£) achieved by councils in 2015-16



Note

* Whilst the council is able to demonstrate what it has achieved overall, it does not report a complete analysis of the full savings plan – this is because the council does not specifically monitor each and every saving line, but monitors the total budget for each service block.

Source: Wales Audit Office Savings Planning Review 2016-17

- 3.5 Over two-thirds of councils reviewed their 2015-16 savings plans, but the extent and depth of reviews, and the approach taken by councils, varied. The main reasons for non-achievement of specific savings plans related to circumstantial changes, over-ambitious savings targets which were not underpinned by robust delivery plans, and changes in political appetite. Seventeen councils recognised the value of specific unachieved savings proposals from previous years as a pressure in the following year's budget. Where councils have carried forward previous years' unachieved savings proposals, they expect services to identify alternative interim savings to compensate for any shortfalls.
- 3.6 There is a statutory requirement for councils to approve their minimum revenue provision⁴ policy annually. In 2015-16, at least four councils approved changes to their minimum revenue provision policy which resulted in re-profiling the minimum revenue provision charge to deliver savings in their medium term budgets and a significant saving in year one of the approved change to the policy. Three of these councils used the 2015-16 year one saving to reduce their savings requirement or to offset unachieved savings plans and balance their budgets in 2015-16, whilst the other council earmarked the year one saving for future use.
- 3.7 A few councils applied to the Welsh Government for a capitalisation direction to treat revenue costs associated with employee severance costs and change management proposals as capital expenditure. This approach helped those councils to either alleviate pressures on their 2015-16 revenue budget or/and reduce the need to draw on earmarked or general reserves.
- 3.8 In our previous 2015-16 review of savings plans, we found that when the annual budget was agreed, councils' savings plans included a mixture of fully developed plans, implementation plans at the development stage, and plans yet to be developed. The picture across Wales was variable and ranged from some councils having robust delivery plans to support savings plans, with others having few fully developed savings plans in place. The main weaknesses in savings plans included a lack of specific costings, a lack of clear delivery timescales, and poor integration with service and business plans.
- 3.9 In our review of 2016-17 savings plans, we found that 17 councils now align the annual savings plans with their medium-term financial plans. However, around one-third of councils did not have fully developed delivery plans in place to support all savings plans included in their 2016-17 annual budgets.

4 The MRP is the means by which capital expenditure financed by borrowing or credit arrangements is paid for by council tax payers. It is an annual amount which is charged against the revenue budget to meet the repayment of debt principal for loans and credit arrangements. The council can decide how it spreads the cost of the debt over the years, provided that it acts prudently.

- 3.10 Just over one-third of savings plans in councils were not specific or measurable. For example, eight councils included global savings targets relating to themed cross-cutting service and corporate reviews, for allocations to services once the reviews are completed. At the date our fieldwork was completed, we found that seven of these councils had not started or completed reviews and reported that the global savings targets included in the annual budget were unlikely to be achieved in 2016-17. Councils' estimated forecasts for 2016-17 savings achievements at 30 September 2016 ranged between 65% and 100%.
- 3.11 Around one-third of councils did not risk assess the likely achievement of individual savings proposals when agreeing the annual budget. Councils which did this prudently included a specific corporate contingency figure in the base budget to mitigate the impact of non-achievement. All councils are able to meet the more traditional-type efficiency savings within planned timescales but find it more difficult to achieve savings relating to change programmes within the estimated timescale.
- 3.12 All councils demonstrated through the use of impact assessments, that they had considered the potential positive or negative impact of proposals on its residents; the majority of councils had also considered the impact of the Well-being and Future Generations (Wales) 2015 Act.
- 3.13 Half of Welsh councils demonstrate that they are able to consistently achieve the majority of planned in-year savings and have either increased the savings achievement rate or retained a high rate. Conversely, the remaining councils are achieving consistently lower rates for in-year savings plans with little or no increase between financial years. Consequently, these councils have to either find alternative savings in-year or use one-off funding from other sources to balance their budgets.
- 3.14 Our review reinforces the concern which we have raised in previous years' reports that failure to achieve planned in-year savings places a strain on budgets which may be unsustainable. With the majority of future savings likely to come from service change and new ways of working, which are harder to achieve and require longer lead-in times, this situation may worsen and compromise councils' financial resilience in the longer term.

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Savings Planning – Bridgend County Borough Council

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The team who delivered the work comprised Lisa Williams, Timothy Buckle and Jeremy Evans, under the direction of Alan Morris

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Whilst the Council has a sound financial planning framework, underdeveloped savings plans may not fully support future financial resilience.

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Summary report

Summary

- 1 Good financial management is essential for the effective stewardship of public money and the continual delivery of efficient public services. The current financial climate and the reduced settlements for local government mean that good financial planning, with well-considered savings plans, is critical to financial resilience.
- 2 This review focuses on answering the following question: **Do the council's financial savings planning arrangements support financial resilience?**
- 3 Good financial planning:
 - helps councils take the right decisions for the short, medium and long term;
 - helps councils deliver services to meet statutory obligations and the needs of local communities;
 - is essential for good corporate governance;
 - is about managing performance and achieving strategic objectives as much as it is about managing money;
 - underpins service quality and improvement;
 - is the basis of accountability to stakeholders for the stewardship and use of resources; and
 - is a key management discipline.
- 4 Financial planning for the medium to long term involves understanding future demand, assessing the impact of probable changes, reviewing the gaps between funding needs and possible income and, where necessary, developing appropriate savings strategies.
- 5 A council's strategic priorities and its financial health should be the basis for deciding what is practicable. Well-considered and detailed long-term financial strategies and Medium-Term Financial Plans can ensure the delivery of strategic priorities by enabling appropriate financial choices. Conversely, short-term annual budget planning encourages an incremental and process-driven approach that is too inflexible in a period of rapid external change.
- 6 Councils receive about 80% of their net income from Welsh Government, the exact amount is only known 4-5 months before the start of the financial year. Whilst this has an impact on financial planning councils can use a range of information to anticipate changing circumstances, set priorities, make choices and manage service delivery. They can calculate how much they would need to deliver services (at current or future prices) and review alternative income and spending scenarios to identify gaps and prepare for the future by investigating different approaches.

- 7 During 2015-16 the Wales Audit Office undertook work at all councils to assess the adequacy of their financial planning, control and governance arrangements. Local reports were issued and a national summary report published in August 2016. The national summary report concluded that **strategic planning arrangements are improving but councils have difficulty in developing and delivering the savings and changes to services at the pace required to ensure future financial resilience.**
- 8 In this assessment, undertaken during the period June to September 2016, we have focused on work to identify, plan for and deliver savings. We examined the extent to which Bridgend County Borough Council (the Council) achieved its 2015-16 savings plans, the quality of its medium term financial plans and the robustness of its 2016-17 savings plans.
- 9 We sampled three savings proposals for 2016-17 and looked at the underlying assumptions, whether there are adequate mechanisms to ensure they can be delivered in the planned timescale.
- 10 We followed up our 2015-16 work to determine what the Council did as a consequence of what it learnt and how it has responded to our proposals for improvement in relation to financial planning if we made any.
- 11 In this report we have described some key characteristics of effective financial planning – **What good looks like**. Auditors have used these and other factors to reach a balanced view on the effectiveness of a council's financial planning arrangements and to evaluate the ability of a council to deliver its Medium-Term Financial Strategy (MTFS) and planned savings.
- 12 In our 2015-16 review we concluded that **whilst the Council faces some significant financial challenges, its current arrangements for achieving financial resilience are sound.**
- 13 In this review we concluded that **whilst the Council has a sound financial planning framework underdeveloped savings plans may not fully support future financial resilience.**

- 14 The Council is experiencing difficulty achieving its in year savings plans. Whilst the source of the saving was known over half the savings plans in 2016-17 were still in development when the annual budget was agreed. The Council is also forecasting that approximately £1.1 million of the brought forward unachieved 2015-16 savings plans of £1.9 million will not be achieved in 2016-17.

Proposals for improvement

Exhibit 1: proposals for improvement

It would be unusual if we did not find things that can be improved and, where we do, The Auditor General can take a variety of steps. In this case a proposal for improvement has been made and we would expect the Council to do something about it.

Proposals for improvement

P1 Strengthen financial planning arrangements by:

- ensuring that savings proposals are fully developed and include realistic delivery timescales prior to inclusion in the annual budget; and
- identifying indicative savings proposals over the period of the MTFP.

Detailed report

Whilst the Council has a sound financial planning framework underdeveloped savings plans may not fully support future financial resilience

Context

- 15 Since 2010, the UK government has reduced spending on public services as part of its plan to reduce the deficit. With cuts to its budget, the Welsh Government has had to make difficult choices as to how to allocate those funding cuts across devolved public services. As a result, the amount of core funding made available by the Welsh Government to local councils has reduced each year. So far, most local councils have managed to reduce expenditure and balance budgets, but the scale of annual reductions is likely to continue. Our analysis shows that between 2013-14 and 2016-17, there is a real-terms reduction of £483 million (10.9%) in this core funding¹.
- 16 The impact of the decision to leave the European Union may represent a threat to local councils and the wider public sector in Wales. In the immediate aftermath of the decision there was reaction across financial markets resulting in volatility in, for example, share prices, currency exchange rates, oil prices and bond yields, and the UK continues to face a great deal of uncertainty on top of significant questions regarding future economic and trading relationships with Europe. The Welsh Local Government Association (WLGA) has expressed concerns over the implications of the European Union referendum outcome, calling it a 'seismic change in UK public policy'² especially as local councils are collectively the largest employer in Wales and the deliverer of many important public services.

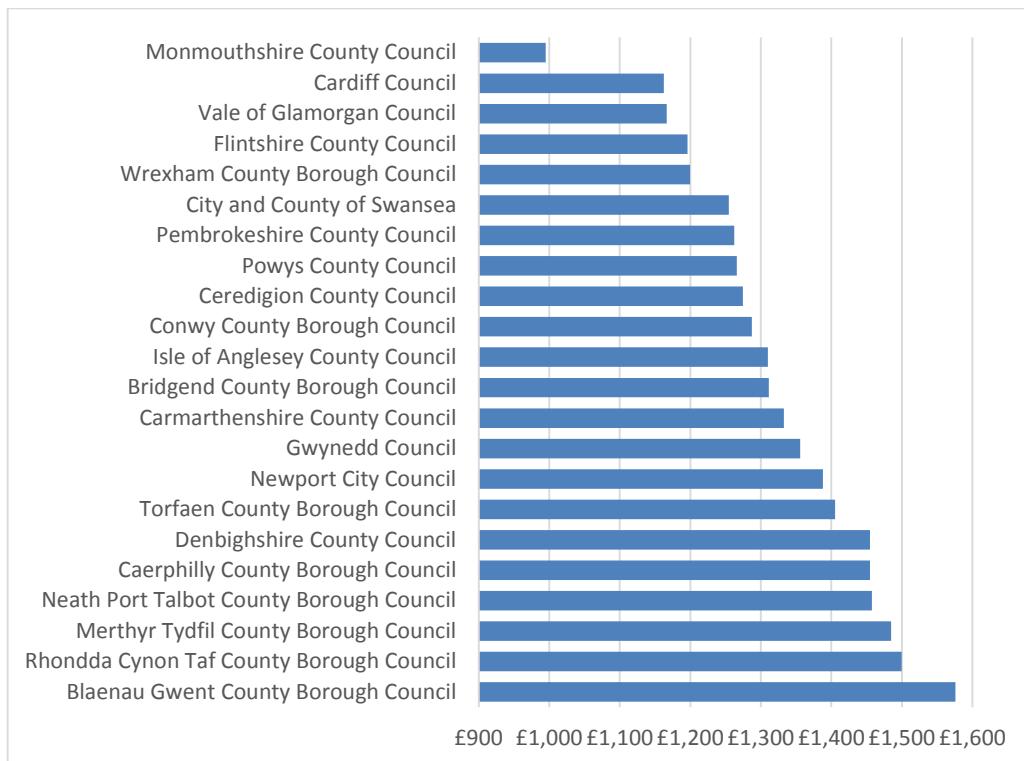
¹ Comparing core funding (Aggregate External Finance (AEF)) across the period 2013-14 to 2016-17 is complicated for two main reasons. Firstly, the Welsh Government has incorporated into core funding grants that were previously provided separately. While this 'de-hypothecation' of grants results in an increase in core funding, it is not necessarily a net increase in funding. The net value of grants incorporated into core funding since 2013-14 is around £76 million in real terms (adjusted for inflation).

² Welsh Local Government Association, **Councils voice concern over service impacts of EU referendum**, 24 June 2016

- 17 Whilst the overall Welsh Government funding has reduced, councils have been expected to protect schools and social care from the bulk of the pressures. Social care in particular has struggled even with this protection as for example demographic changes have led to increased demand. However, this does mean that other services have borne the majority of the cuts and have seen reductions in budgets of 30% or more in real terms since 2013-14.
- 18 The Council received £187.5 million in support from Welsh Government in 2016-17. This represents £1,311 per person in the county, about the average for Wales but a real-terms reduction of 8.98%³ per head since 2013-14. There are other key issues that impact on any councils overall financial position, for example the overall Council tax base, the ability to generate income locally and the levels of deprivation.

Exhibit 2: Welsh Government support in 2016-17

The graph below illustrates the amount of money each council gets per head of population from the Welsh Government.



Source: Stats Wales (www.statswales.gov.wales)

³ The percentage reduction per head figure varies from the 2013-14 core funding reduction due to population variation over the same period.

Savings achievement 2015-16

The Council has reported achievement of 83% of its planned 2015-16 savings in year and can demonstrate that individual savings have been delivered

What good looks like

- 19 Councils that have a good track record of delivering the majority of planned in-year savings should have well developed savings and delivery plans in place which are underpinned by robust monitoring processes. These councils do not have to continually bridge the gap year on year, by identifying alternative savings, using unplanned one-off funding from earmarked reserves, general reserves, contingency funds or fortuitous unplanned income received during the year.

What we found

- 20 In our 2015-16 review we found that the budget setting and monitoring process at the Council was well developed and effective and helps to underpin a strong track record of spending to budget.
- 21 In this review we found that the Council achieved 83% of its 2015-16 savings plans in-year. The Council planned to make savings of £11.22 million and has carried forward unachieved savings of £1.91 million to 2016-17. The Council's budget monitoring report at 30 September 2016 forecasts that £1.17 million of these savings will not be achieved by 31 March 2016 and intends to mitigate £333,000 of the undelivered savings by using its MTFS budget contingency.
- 22 Savings plans are embedded in the base budget and services are responsible for delivering their savings plans. If savings plans cannot be progressed in the planned timescale, services are expected to take mitigating in year actions to compensate. The unachieved savings plans for 2015-16 were mainly mitigated in-year through managing staff vacancies and offsetting underspends from elsewhere in the budget.
- 23 We found that a number of the unachieved savings plans were either not achieved or only partially achieved in-year because insufficient time had been allowed for public consultation and contract negotiations, for example, changes to the school transport routes and waste management contract. In other cases, service reviews had not been started or were insufficiently developed when the budget was approved, for example, remodelling services in Adult Social Care.
- 24 The Corporate Resources and Improvement Overview Committee at its meeting in September 2016 expressed concern over the ongoing budget reductions not achieved from 2015-16. It was specifically concerned about those in relation to the implementation of charging Blue Badge Holders for parking, and the review of staff car parking charges. The Committee recommended that a decision be made as to

whether these proposals are going to be progressed and, if so, that they be actioned within the current financial year.

- 25 The Council reported an underspend on its 2015-16 revenue budget of £10.94 million. This included an underspend on directorate service budgets of £1.19 million, an underspend on corporate wide budgets of £7.55 million and a council, tax income surplus of £1.75 million.
- 26 The Council's planned budget strategy did not include the use of reserves or a specific contingency fund to support the 2015-16 revenue budget. The Council has a protocol for reviewing reserves. At year end the Council prudently reviewed its earmarked reserves and used £9.6 million of the 2015-16 underspend to create or enhance existing corporate earmarked reserves. These reserves will be used to meet the costs of future service reconfiguration, severance costs, transformation programme costs and capital investment required to mitigate health and safety risks. The Council also transferred £1.19 million to directorate service reserves to mitigate future identified budget pressures. The balance of £154,000 was transferred to the general reserve.

Financial planning arrangements

The Council has an effective corporate framework for financial planning, but indicative savings plans lack detail.

What good looks like

- 27 The MTFS is a key component of an effective, integrated corporate planning framework. Good medium-term financial planning and annual budgeting should reflect a council's strategic objectives and priorities for the year, and over the longer term. MTFSs typically span a three-to-five year period and should identify how resources will be allocated to both the delivery of services and a council's priorities. The impact on citizens and other stakeholders should also be considered.
- 28 Good MTFSs include consideration of key financial risks together with their mitigation. Councils have to make assumptions around inflation, income levels, demographics, future demand for services and the costs of delivering services, and these need to be based on reasonable predictions. Councils should also use financial modelling to assess the likely impacts on financial plans and required savings for a range of different scenarios and risks. The MTFS should be frequently reviewed and updated to reflect changes in assumptions and risks.
- 29 Councils should operate within a level of reserves and balances (including earmarked reserves and the general fund balance), approved by Members, and appropriate to the strategic, operational and financial risks it faces. Councils should include details on how reserves will be used over the period of the MTFS.

- 30 Councils should demonstrate that they understand sources of income and the risks arising from these, and that they have reviewed their approach to fees and charges for services, to achieve value for money.

What we found

- 31 In our 2015-16 review we found that the Council had an effective corporate framework for financial planning.
- 32 In this review we found that the Council has strengthened its arrangements for reporting on use of reserves but its approach to developing savings plans weakens arrangements. Over half of the savings plans are insufficiently well developed when setting the annual budget to ensure delivery in planned timescales and indicative savings plans for future years lack detail.
- 33 The Council reviewed its Corporate Plan and MTFS in March 2016. The Council clearly sets out the links between its MTFS and its improvement priorities. The MTFS sets out how much of the Council's budget has been allocated toward improvement priorities, as well as how much is for 'Core Services and Statutory Functions.'
- 34 The Council reviews its MTFS regularly as evidenced by various reports to Cabinet and Council. The MTFS is rolled forward annually and approved by Council as part of the annual budget setting process. The MTFS covers a four-year period, 2016-17 to 2019-20 and the forecast budget gap for this period based on a most likely case scenario is £35.5 million. The Council has not identified savings proposals to fully fund the budget gap. The Council identified savings proposals of £17 million, of which it classifies £4 million as 'proposals which are developed and deliverable' and £13 million as "proposals in development but include delivery risk' The Council did not report on any savings proposals to fund the remaining budget gap of £18.5 million. But, it has told us that a significant number of proposals are being considered internally but were not sufficiently well advanced for inclusion in the public report.
- 35 The Council has also identified a need to improve its approach to scenario planning, as well as planning the delivery of savings at an earlier stage as part of its budget setting process for 2017-18. .
- 36 Service directorates complete a savings template form for each budget savings proposal which identifies the savings value, the steps needed to deliver the saving, resources required, the risks of delivery and the impact of the proposal on service delivery or corporate resource capacity. The savings proposals are validated by the finance section prior to consideration by Corporate Management Team but there was little evidence to indicate how robustly these are challenged.
- 37 The Council has recognised the need to strengthen the challenge provided to Directorates by the corporate finance function regarding the deliverability and timescales associated with savings plans and the need to improve their approach to scenario planning. The Council plans to review and challenge savings proposals at an earlier stage in its 2017-18 budget setting process.

- 38 The Council carries out a joint consultation process on its Corporate Plan and MTFS. Equality Impact Assessments are carried out following the external consultation on the MTFS as a whole.
- 39 The MTFS is underpinned by reasonable and appropriate assumptions for key variables such as pay awards, price inflation, and funding and council tax levels. The impact of demographic changes, changes in demand and inescapable pressures is also assessed.
- 40 The Council has a policy of maintaining the working balance in its general reserve at around £7 million. The Council has a protocol for reserves and balances which includes principles to assess the adequacy of reserves, rationale for establishing reserves and the monitoring of the reserves. The funding of the MTFS is not underpinned by the use of reserves, but the Council has MTFS/Transformation reserves of approximately £8 million. The Council can use this money to support invest to save projects and severance costs. Also, it can help the Council meet costs associated with providing corporate capacity to progress planned developments that are linked to achieving budget reductions and transformational change ‘as articulated in the MTFS and the Bridgend Change Programme’.
- 41 The Council developed a corporate income generation and charging policy in 2015-16. A key principle of the policy is that where a decision has been taken to charge for a service, the Council will aim for full cost recovery, ‘except where there is a conscious decision which is consistent with Council priorities, recognising that the service would then be subsidised by council’. However, the Council does not maintain a corporate register of fees and charges and there is no evidence to support proactive application of the income generation and charging policy to maximise income generation opportunities.
- 42 The Council has sound budget monitoring arrangements with budget monitoring reports submitted to Cabinet on a quarterly basis and also considered and challenged by Scrutiny Committees. The reports include a summary of the Council’s financial position; update on the projected year end outturn figures; monitoring of savings plans which include a Red/Amber Green (RAG) status for each savings plans and a commentary on the budget position for each main service area. Monthly budget monitoring reports are also submitted to Corporate Management Team.

Savings Plan 2016-17

Some of the Council's approved savings plans for 2016-17 are not well developed and lack sufficient detail, increasing the risk that they will not be delivered

What good looks like

- 43 Councils that deliver savings effectively have well-considered savings plans that sit within longer-term savings strategies which are underpinned by well-developed fully costed individual savings and delivery plans aligned with the MTFP. Savings proposals should be specific and risk assessed in terms of likelihood of achievement.

What we found

- 44 In our 2015-16 review we found that current year savings proposals were specific and measurable.
- 45 In our 2016-17 review we found that the Council identified specific savings proposals to meet the 2016-17 budget reduction requirement of £7.48 million. The Council's 2016-17 budget report showed that £3.45 million of the savings proposals were 'developed and deliverable' and £4.03 million were 'in development but included delivery risk'.
- 46 The Council classifies its budget reduction proposals into four categories: Smarter Best Use of Resources; Managed Service Reductions; Collaboration and Transformation and Policy Changes. In 2016-17, approximately 58% of the savings will be achieved through Smarter Best Use of Resources.
- 47 The Council's savings plans are specific and measurable. At the end of September 2016 the Council reported that £4.94 million (66%) of its 2016-17 savings plans have been achieved, £1.34 million (18% – are likely to be achieved but still at risk and £1.2 million (16%) will not be achieved before year end. The achievement rate of in year savings plans is similar to that of 2015-16.
- 48 The three savings proposals for 2016-17 we sampled to test the underlying assumptions and whether there are adequate mechanisms to ensure they can be delivered in the planned timescale were:
- ASC21 – Transfer Family Care Service to the Community Hubs;
 - CH9 – School Transport Route Efficiencies; and
 - RES29 – Rationalise the core office estate – leasing of Raven's Court.
- 49 We found that MTFS proposal/summary templates were submitted to the corporate finance team for each savings proposal but not all of the savings proposals were supported by fully costed business cases (where appropriate) and delivery plans

when the annual budget was agreed. The business case for RES 29 was considered in June 2015. At the 30 September the Council projects that:

- for ASC21 - full year savings unlikely but plans progressing to achieve a part year saving;
- for CH9 the Council projects that none of the £200,000 saving for 2016-17 will be delivered; and
- for RES29 the Council projects that none of the £195,000 saving will be achieved in 2016-17 as external factors have impacted on project delivery.

- 50 The Council acknowledged in its budget monitoring report at 30 June 2016 that some savings plans were unlikely to be delivered either in part or in full. This indicates that the Council is unable to progress and deliver savings plans at the pace required to ensure delivery in the planned timescale.
- 51 The Council is likely to face continued reductions in its funding in the medium term. It will be important for the Council to review the appropriateness of its arrangements for identifying, testing and developing savings plans going forward. It is our view that improving the robustness of savings plans would also improve the transparency of arrangements and reduce the risk that approved savings plans will not be implemented in planned timescales.

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Agenda Item 7

BRIDGEND COUNTY BOROUGH COUNCIL REPORT TO AUDIT COMMITTEE

29 JUNE 2017

REPORT OF THE HEAD OF FINANCE AND SECTION 151 OFFICER

ANNUAL GOVERNANCE STATEMENT 2016-17

1. Purpose of the Report

- 1.1 The purpose of this Report is for Audit Committee to note the reviewed Code of Corporate Governance (Appendix A) and approve the Annual Governance Statement (AGS) for inclusion in the Council's Statement of Accounts for 2016-17.

2. Connection to Corporate Improvement Objectives and Other Corporate Priorities

- 2.1 Achievement of the corporate priorities and well-being objectives defined by the Corporate Plan is underpinned by ensuring that effective governance arrangements are in place.

3. Background

- 3.1 Regulation 5 (2) of the Accounts and Audit (Wales) Regulations 2014 requires an authority to undertake, as part of its arrangements for corporate governance, an annual review of governance and report 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.

- 3.3 In 2016, CIPFA published its new "Delivering Good Governance in Local Government Framework", which positions the attainment of sustainable economic, social, and environmental outcomes as a key focus of governance processes and structures. Guidance Notes related to the new framework were also published for Welsh Local Authorities. The Guidance has considered the requirements of the Well-being of Future Generations (Wales) Act 2015 and embedded the five ways of working into the CIPFA framework.

- 3.4 The Council had an existing Code of Corporate Governance that followed the six core principles of CIPFA's previous edition (2007) of good governance framework, and the Council's AGS 2015-16 was produced in accordance with this.

4. Current Situation / Proposal

- 4.1 A working group was established to review the Council's exiting Code of Corporate Governance against the new CIPFA framework (2016 edition) and the Guidance

Notes for Welsh Authorities. Corporate Management Board also considered the reviewed Code together with the Framework. Their comments were incorporated into a revised Code of Corporate Governance that was considered by Cabinet in June. The draft that Cabinet considered has been included as Appendix A.

- 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. 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.
- 4.3 It was decided that due to time constraints, the AGS 2016-17 was produced on the historical six principles as set out in the 2007 Framework in demonstrating strong governance. However, where possible, evidence has also been included to support governance against the new 2016 principles. Next year, the Council will use the new principles in producing its AGS 2017-18 in line with the new 2016 framework.
- 4.4 The AGS 2016-17 was produced by the same working group that reviewed the Code of Corporate Governance. Comments from Corporate Management Board have also been taken into consideration. It now needs to be approved by the Audit Committee for inclusion within the Statement of Accounts 2016-17. The AGS for 2016-17 is attached as Appendix B.

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:

- Note the reviewed Code of Corporate Governance (Appendix A) and consider the Annual Governance Statement (Appendix B) and approve its inclusion in the Statement of Accounts 2016-17.

**Randal Hemingway CPFA
Head of Finance and Section 151 Officer**

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Background Papers: Accounts and Audit (Wales) Regulations 2014 CIPFA/SOLACE:
Delivering Good Governance in Local Government - Framework

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Cyngor Bwrdeistref Sirol



BRIDGEND COUNTY BOROUGH COUNCIL

CODE OF CORPORATE GOVERNANCE

May 2017

BRIDGEND COUNTY BOROUGH COUNCIL
CODE OF CORPORATE GOVERNANCE

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1 Introduction

- 1.1 The Council is committed to the principles of good corporate governance. It has a duty to make proper arrangements for the governance of its affairs, secure continuous improvement in the way its functions are discharged and have robust arrangements in place for the management of risk. The development, adoption and continued implementation and monitoring of a Code of Corporate Governance confirms this commitment.
- 1.2 Good governance is about doing the right things, in the right way, for the right people in a timely, inclusive, open, and honest and accountable manner.
- 1.3 This Code describes the Council's understanding of corporate governance, and outlines the framework it has put in place to ensure that these arrangements are effective. The Code reflects a joint commitment by Members and senior managers to the principles it contains. This helps to ensure that the principles of corporate governance are not only fully embedded and cascaded throughout the Authority, but that they have the support of the Council, the Chief Executive and the Corporate Management Team.

2 Why adopt a Code of Corporate Governance?

- 2.1 Adopting a Code of Corporate Governance is another way in which the Council shows its recognition of the fact that effective local government relies upon establishing and maintaining the confidence of local people in both Elected Members and Council officials. Good corporate governance underpins credibility and confidence in the leadership and forms the foundation from which all Council services are provided.
- 2.2 Adopting, monitoring and complying with a Code of Corporate Governance helps enhance the Council's legitimacy and acknowledges the trust placed in the Council by local people.
- 2.3 Strong, transparent and responsive governance enables the Council to put citizens first by pursuing its aims and priorities effectively, and by underpinning them with appropriate mechanisms for managing performance and risk. In order to maintain citizens' confidence, these mechanisms must not only be sound, but also be seen to be sound.
- 2.4 Corporate governance comprises the framework within which the Council manages its business; this includes the Council's constitution, and the various procedure rules, codes and protocols contained therein. It also includes the systems and processes, and the culture and values by which the activities of the Council are directed and controlled, and how it accounts to and engages with its citizens. 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.

2.5 Overall adopting and committing to this Code of Corporate Governance provides a basis for a Council wide commitment to the way in which it intends fulfilling its role in leading and representing the community, providing opportunities for all and ensuring that there is a strong customer focus underpinning everything that the Council does.

3. What is Corporate Governance?

- 3.1 The Council has a key role in governing and leading our community. Effective local government relies on public confidence in Elected Members and Council Officers.
- 3.2 Effective systems of Corporate Governance provide confidence in public services.
- 3.3 Corporate Governance is a phrase used to describe how organisations direct and control what they do.
- 3.4 For local authorities this also includes how a Council relates to the communities that it serves.
- 3.5 Good Corporate Governance requires local authorities to carry out their services in a way that demonstrates accountability, openness and honesty.

4. Why do we need a Code of Corporate Governance?

4.1 Corporate Governance is important because it supports:

- Provision of high quality public services

Within the UK, governance weaknesses have sometimes led to significant failures in public services. High performing organisations, on the other hand, generally have effective governance arrangements.

- Raising public trust

The public's trust is increased when they perceive the quality of services that they and their families experience to be sound and when organisations are seen to be open and honest in communicating their performance and learning from their mistakes.

4.2 The Code of Corporate Governance is based upon the "Delivering Good Governance in Local Government: Framework (CIPFA/SOLACE, 2016). The Framework positions the attainment of sustainable economic, societal, and environmental outcomes as a key focus of governance processes and structures. Outcomes give the role of local government its meaning and importance, and it is fitting that they have this central role in the sector's governance. Furthermore, the focus on sustainability and the links between governance and public financial management are crucial – local authorities

must recognise the need to focus on the long term. Local authorities have responsibilities to more than their current electors as they must take account of the impact of current decisions and actions on future generations.

- 4.3 The Framework defines the principles that should underpin the governance of each local government organisation. It provides a structure to help Individual authorities with their approach to governance. Whatever forms of arrangements are in place, authorities should therefore test their governance structures and partnerships against the principles contained in the Framework by:

- reviewing existing governance arrangements;
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring ongoing effectiveness;
- reporting publicly on compliance with their own code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.

5. The Corporate Governance Principles.

- 5.1 The Framework is based on the following seven Core Principles:

Core Principle	Description
A	Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
B	Ensuring openness and comprehensive stakeholder engagement.
C	Defining outcomes in terms of sustainable economic, social, and environmental benefits.
D	Determining the interventions necessary to optimise the achievement of the intended outcomes.
E	Developing the entity's capacity, including the capability of its leadership and the individuals within it.
F	Managing risks and performance through robust internal control and strong public financial management.
G	Implementing good practice in transparency, reporting, and audit to deliver effective accountability.

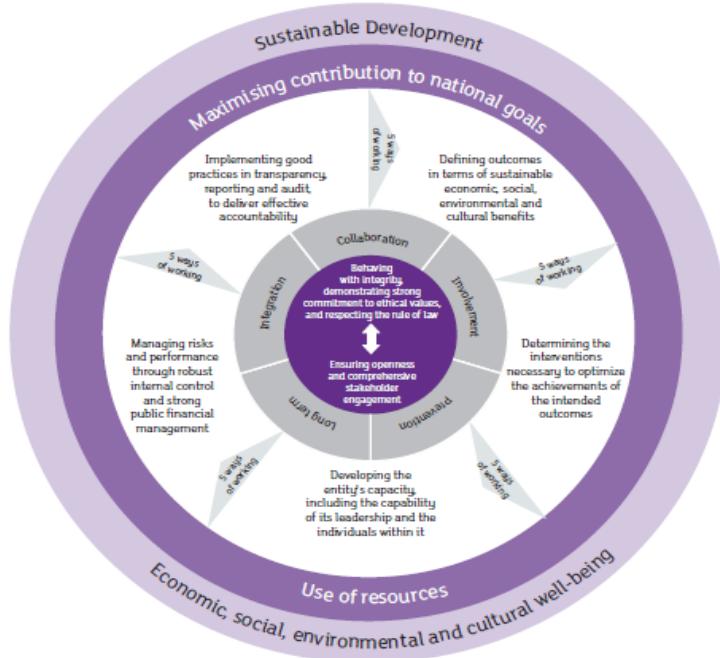
- 5.2 There are also a number of sub-principles below the seven. To achieve good governance, each local authority should be able to demonstrate that its governance structures comply with the core and sub-principles contained in this Framework. It should therefore develop and maintain a local code of governance/governance arrangements reflecting the principles set out. It is also crucial that the Framework is applied in a way that demonstrates the

spirit and ethos of good governance which cannot be achieved by rules and procedures alone. Shared values that are integrated into the culture of an organisation, and are reflected in behaviour and policy, are hallmarks of good governance.

6. The Corporate Governance Principles and the Well-being of Future Generations (Wales) Act 2015

- 6.1 The Act requires public bodies covered by the Act, including local government, to consider the longer term in making their decisions and to work collaboratively with other public bodies to improve wellbeing in Wales. The Act sets out seven well-being goals for public bodies and requires them to act in a sustainable way. It also sets out five ways of working that public bodies are required to take into account when applying sustainable development.
- 6.2 The Act is central to the Welsh Government's long-term policy for the public services and its themes tie in with the *Delivering Governance in Local Government: Framework* (CIPFA/SOLACE, 2016). The Auditor General for Wales has set out a diagram (below) which brings together the International Framework with the requirements of the 2015 Act.

Well-being of Future Generations (Wales) Act 2015 and the International Framework



- 6.3 The diagram shows sustainable development as all encompassing. The core behaviours of:
- behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law
 - ensuring openness and comprehensive stakeholder engagement

need to be applied to the five ways of working. The five ways of working (underpinned by the core behaviours) have to permeate all segments of delivering outcomes, which in turn should ensure effective use of resources as public bodies maximise their contribution to the economic, social, environmental and cultural wellbeing of Wales.

- 6.4 Attached to this Code is a schedule that evidences how Bridgend County Borough Council complies with the Framework.

7. Monitoring and Review

- 7.1 Good corporate governance requires the active participation of Elected Members and Officers across the Council. These arrangements will be reviewed on an annual basis and the findings of this work will be reported in the Annual Governance Statement. This will help ensure the continuous improvement of the Council's Corporate Governance culture.
- 7.2 The adoption and maintenance of an up to date Code of Corporate Governance, including arrangements for ensuring its implementation and ongoing application is an important part of the process.
- 7.3 The Audit Committee is responsible for monitoring and reviewing the Governance arrangements as described in this Code.
- 7.4 Through that Committee, the Council will ensure that these arrangements are kept under continual review. This will include consideration of :
- The work undertaken by internal audit;
 - Reports prepared by managers with responsibility for aspects of this Code;
 - Reports and opinions expressed by external auditors
 - Reports of other regulatory bodies and Inspectorates.

8. The Annual Governance Statement

- 8.1 Each Year the Council will publish an Annual Governance Statement (AGS) which is signed by the Leader of the Council and the Chief Executive.
- 8.2 This will provide 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.
- 8.3 The AGS will also provide details of where improvements need to be made.
- 8.4 The AGS will be reviewed by Corporate Management Board and approved by the Audit Committee.
- 8.5 The AGS will be published as part of the Council's Annual Statement of Accounts and will be reviewed by our External Auditors.

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Annual Governance Statement 2016-17

1. Scope of Responsibility

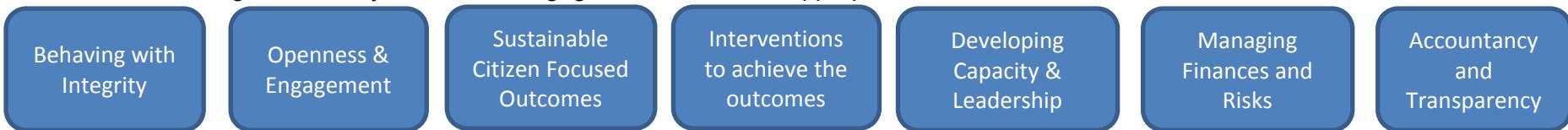
- 1.1 Bridgend County Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.
- 1.2 The Council also has a duty under the 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 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 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) (The 2007 edition). In 2016, the *Delivering Good Governance in Local Government Framework* was revised and updated, with guidance notes produced for Welsh Authorities. A new set of seven principles was developed, setting out characteristics of effective governance for all local authority bodies as defined by CIPFA and SOLACE. These principles have superseded those set out previously in 2007. The Council is reviewing its Code of Corporate Governance to reflect the new principles set out by CIPFA and SOLACE (the 2016 edition).
- 1.5 Following discussion with Wales Audit Office (WAO), it has been agreed that 2016-17 will be a transitional year in the way that the Council produces its Annual Governance Statement. For the purposes of this report, the Council has followed the historical six principles as set out in the 2007 Framework in demonstrating strong governance and where possible has included evidence to support governance against the new principles. Next year the Council will use the new principles in producing its Annual Governance Statement in line with the new 2016 framework.

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 make appropriate use and prevent 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 2017. The description of the arrangements in place is built around the core principles set out in the Council's Code of Corporate Governance.

3. The Governance Framework

Corporate Governance comprises the systems and processes, cultures and values, by which local government are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities



Key Documents: Annual Review/ Production

- Annual Report
- Annual Governance Statement
- Asset Management Plan
- Budget Book
- Communications, Marketing and Engagement Strategy
- Code of Corporate Governance
- Corporate Plan
- Corporate Risk Assessment
- Directorate Business Plans
- Financial Resilience Report
- Medium Term Financial Strategy
- Single Integrated Partnership Plan
- Statement of Accounts
- Treasury Management Strategy
- Workforce Plan

Key Documents: Ad hoc Review/Production

- Anti-Fraud and Bribery Policy
- Anti-Money Laundering Policy
- Assessment of Local Wellbeing
- Business Continuity Plans
- Code of Conduct – Part 5 of the Constitution
- Constitution
- Contract Procedure Rules
- Corporate Complaints Policy
- Corporate Training and Development
- Elected Member Learning & Development Strategy
- Financial Procedure Rules
- Health & Safety Gap Analysis/Policy
- Human Resources Protocols & Management Guidelines
- Information & Communications Technology Strategy
- Information Management Strategy
- Performance Management Framework
- Record of Decisions
- Shaping Bridgend's Future Consultation
- Social Services Representations & Complaints Procedure
- Strategic Equality Plan
- Welsh Language Standards
- Whistleblowing Policy

Process/ Regulatory Monitoring

- Audit Committee
- Annual Improvement Report (WAO)
- Budget Monitoring Reports to Cabinet & Scrutiny Committees
- Citizens' Panel
- Corporate Assessment (WAO)
- Corporate Safeguarding Policy
- Corporate Performance Assessment (CPA)
- Council Tax Leaflet
- External Audit
- Forward Work Programme for Committees
- Freedom of Information
- Head of Finance – s151 Officer
- Inspectorate Reports
- Internal Audit
- Job Descriptions
- Job Evaluation Process
- Law & Governance
- Member Development and Induction
- Monitoring Officer
- Regulatory, Scrutiny & Standards Committees
- Scheme of Delegation
- Staff Induction
- Treasury Management Monitoring Reports

- 3.1 During 2016-17 the Bridgend and Vale Internal Audit Shared Service carried out an audit of the Council's governance framework. On the basis of the audit work and taking into account all available evidence, the Head of Internal Audit has concluded that "a satisfactory assurance level can be applied to standards of internal control at Bridgend CBC for the period stated". The Annual Opinion Report of the Head of Internal Audit for the period April 2016 to March 2017 is available via this link:
<https://democratic.bridgend.gov.uk/ieListDocuments.aspx?Cld=132&Mid=2737&Ver=4&LLL=0>
- 3.2 The six principles of corporate governance (2007 Framework) that underpin the effective governance of all local authority bodies as defined by CIPFA and SOLACE 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*).
- 3.3 The Council has identified the following points whilst gathering evidence under each of the principles to gain assurance that governance within the Council is robust. The new 2016 principles are outlined in brackets where it is possible to map these against the historic principles as per the CIPFA guidance 2016.
- 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 (CIPFA 2016 - Principle C – Defining outcomes in terms of sustainable economic, social, and environmental benefits)**
- 4.1 The Council has a clear vision – one Council working together to improve lives. In 2016, the Council developed a new set of corporate priorities and defined clear outcomes for each priority. A new corporate plan for 2016-2020 was created to realise the vision and to deliver outcomes for the local people, taking account of the significant challenges ahead of our communities – not least the increasing demands made on many of our services against the background of forecast reductions in funding from Welsh Government. The new plan sets out how the Council is to change and what its focus will be over the next four years. The three corporate priorities are as follows:
- Supporting a successful economy
 - Helping people to become more self-reliant
 - Smarter use of resources
- 4.2 The Council has reviewed these priorities recently against the requirements of the Well-being of Future Generations (Wales) Act 2015 as well as the requirements of the Local government (Wales) Measure 2009, and decided that these three priorities are its improvement objectives under the Measure and wellbeing objectives under the Act. The reviewed Corporate Plan for 2017-18 has reflected these amendments. It has also embedded the Council's wellbeing state, required by the Act, into the document, and sets out how our priorities link to the seven national wellbeing goals.

- 4.3 The vision, principles and improvement priorities set out in the Corporate Plan available via this link <http://www.bridgend.gov.uk/media/414512/reviewed-bcbc-corporate-plan-2016-2020-for-17-18.pdf> give the direction for development of Directorate Business Plans. The Corporate Plan identifies a number of outcome-focused success indicators, some of which are benchmarking measures. The indicators included in the Plan are aimed at measuring the success of our outcomes and evidence our joined up working with citizens and partners, as well as providing a measure of performance. These are reported to Corporate Performance Assessment (CPA) panel on a regular basis and subject to scrutiny on a bi- annual basis.
- 4.4 Alongside the Corporate Plan, the Council approved a Medium Term Financial Strategy (MTFS) for the period 2016-17 to 2019-20 available via this link <https://democratic.bridgend.gov.uk/ieListDocuments.aspx?CId=142&Mid=2341&Ver=4&LLL=0> This provides an integrated planning and financial framework for the next four years, including 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 new priorities. Quarterly budget monitoring reports are submitted to Cabinet and to Scrutiny Committee, with the Corporate Resources and Improvement Scrutiny Committee nominated as the lead Scrutiny Committee.
- 4.5 The Council has a range of projects and programmes in progress to ensure that the improvement priorities are achieved and provides corporate leadership that supports change throughout the Council. The Corporate Programme Management Board (PMB) oversees a number of major initiatives to deliver change:
- School modernisation programme;
 - Remodelling Adult Social Care;
 - Remodelling Childrens Social Services;
 - Successful Economy Programme;
 - Strategic Review of the School Curriculum and Estate;
 - Third Sector Programme;
 - Digital Transformation programme;
 - Rationalising the Estate programme; and
 - Strategic collaboration projects e.g. City Deal.
- 4.6 The Council works collaboratively with a number of partners providing joint services to maximise efficiencies and improve outcomes for the benefit of our citizens. Key collaborations include: Shared Regulatory Service, Central South Consortium, Western Bay, HALO, Awen, Coychurch Crematorium. These partnerships are initially monitored by those elected members appointed by Cabinet/ Council to represent the Council's interests on the outside body. The Overview and Scrutiny Committee also receive reports from Council partners which enable Elected Members to monitor the governance arrangements and the outcomes being delivered.
- 4.7 The Auditor General carried out an audit of the Council's Improvement Plan for 2016-17, and also one for 2017-18, and certified that "the Council has discharged its duties under section 15(6) to (9) of the Measure and has acted in accordance with Welsh Government guidance sufficiently to discharge its duties".
- 4.8 The Auditor General audited the Council's assessment of its performance in 2015-16 in accordance with the Measure and his Code of Audit Practice and certified in November 2016 that the Council has discharged its duties under sections 15(2), (3), (8) and (9) of the Measure and has acted in accordance with Welsh Government guidance sufficiently to discharge its duties.

- 4.9 The Auditor General undertook a Corporate Assessment of the Council in 2015-16. The purpose of the assessment was to provide a position statement on the Council's capacity and capability to deliver continuous improvement. The focus of the assessment was on the extent to which arrangements are helping to improve service performance and outcomes for citizens.
- 4.10 The assessment considered the Council's track record of performance and outcomes as well as examining the key arrangements necessary to underpin improvements in services and functions. The auditors interviewed, met with, observed, and conducted online surveys of elected members, senior officers and frontline staff, both individually and collectively.
- 4.11 The outcome of the assessment is very positive. The Auditor General's overall conclusion is that "*the Council is developing appropriate plans for the future and subject to aligning ICT and human resource functions with the transformation programme, is well placed to secure improvement*".
- 4.12 The Auditor General found no reason to make any formal recommendations, or conduct an inspection, or recommend that Ministers of Welsh Government intervene. He did, however, make eight proposals for improvement (including some of those included in the above mentioned AIR report). In 2016-17, the Council took action to address all the proposals. A follow-up audit has been planned by the WAO to ensure progress.
- 4.13 Other activities that demonstrate the Council's commitment to Principle 1 - "**Putting the Citizen First**", included:
- Ongoing use of the Citizens' Panel (a representative group of over 1,500 residents aged 16+) and extensive public consultation and engagement activity undertaken with citizens on various Council services and policies including reduction proposals;
 - Delivery of the Council's Communications, Marketing and Engagement Strategy 2016-17
 - Highest response by % of residents in Wales to the budget consultation
 - Increased the range of ways citizens can complete surveys ie desktop, tablet or mobile.
 - Introduced an email database (in addition to the Citizens' Panel of over 1,500 residents who have requested to be kept up to date on key consultations).
 - Citizen engagement and involvement activities to inform Bridgend's Assessment of Wellbeing, and public consultation on the draft assessment developed by the Public Services Board

5. Principle 2 - Members and Officers working together to achieve a common purpose with clearly defined functions and roles

- 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 the Council;
 - The Leader appoints members of the Cabinet and announces the Deputy Leader and the portfolio of Cabinet Members, details of which are published on the website;
 - Audit Committee has a clearly defined function providing an independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment, and to oversee the financial reporting process. Audit Committee appoints its own Chairperson;

- In total there are five Scrutiny Committees who 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;
 - In the case of executive functions which are not exercised by Cabinet as a whole, functions may be discharged by: -
 - a committee of the Cabinet;
 - an individual member of the Cabinet;
 - an officer;
 - an area committee;
 - joint arrangements; or
 - another local authority
 - 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, lay members, co-opted members and Church and Parent Governor Representatives. In total there are 8 members of the Committee, representing the above.
- 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. The Corporate Director, Operational and Partnership Services is the Monitoring Officer appointed under Section 5 of the Local Government and Housing Act 1989. The post holder holds overall responsibility for ensuring compliance with the law and his staff work closely with departments to advise on legal matters.
- 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, through its work programme, 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. Changes to the management structure were proposed by the Chief Executive (following the post of the Corporate Director – Resources becoming vacant) and were agreed by Council in April 2016
- 5.7 Since the deletion of the post of Corporate Director, the Head of Finance has been nominated as the Council's Section 151 Officer, as required by 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. Whilst not a Corporate Director, the Section 151 Officer is a member of the Corporate Management Board on the same basis as other members.

- 5.8 The Corporate Director – Social Services and Wellbeing is statutory Director for Social Services, as defined by the Local Authority Social Services Act 1970, which outlines the six core responsibilities across all the Social Services functions, including ensuring that the Council has proper safeguards to protect vulnerable children and adults. Following changes made in December 2014, the Corporate Director – Social Services and Wellbeing now holds line management responsibility for the social care functions for children and adults. This has enabled the new ways of working laid down by the Social Services and Wellbeing (Wales) Act 2014 to be embedded within the service. The CSSIW report of 2014-15, published in October 2015, recognises that these changes have created additional leadership capacity to meet the challenges ahead within social services.
- 5.9 The role of the Assistant Chief Executive was changed at Council in April 2016 to that of Corporate Director of Operational and Partnerships Services, acknowledging the scale and complexity of an increased portfolio of services.
- 5.10 The Corporate Director – Education and Family Support (formerly Corporate Director – Education and Transformation, until April 2016) is the Chief Education Officer, as prescribed by the Education Act 1996 and statutory Director for Children and Young People, as defined by the Children Act 2004. The incumbent post holder has taken a secondment to Welsh Government and an interim Head of Service was engaged in April 2017 to cover this role for the duration of the secondment.
- 5.11 The Council's Workforce Plan aims to identify critical workforce issues and provide a structured and co-ordinated approach to building the capacity and capability of our workforce. Updated annually by Human Resources (HR) in consultation with Business Managers, the plan incorporates an action plan of HR and Organisational Development (OD) Action Plan and is approved by the Corporate Management Board.
- 5.12 Corporate training and development opportunities are provided for priority areas either through targeted face to face training and e-learning, which employees can access through a learning management system. Specialist training is also provided and co-ordinated by service areas, which includes training to meet new legislative requirements.
- 5.13 Training needs are identified through the employee appraisal process where managers are able to identify with employees their development needs. A Core Training Framework is available providing details of corporate training available to assist this process.
- 5.14 Job descriptions are available which set out the job purpose and summarise main responsibilities and activities of the role. These are reviewed as part of the appraisal process. Appraisals take place between January and June each year and actions and targets are linked to service priorities reflected in annual business plans.
- 5.15 Terms and conditions of employment are set out for all employees via their Written Statement of Particulars of Employment. These comprise national terms and conditions of employment and those negotiated on a local basis, e.g. the Council's Pay and Grading Scheme
- 5.16 HR policies protocols and managers' guidelines are available and are reviewed to ensure they are compliant with employment legislation, best practice and meet organisational needs. These are developed in consultation with legal colleagues and Trade Union representatives. The key policies are approved by Cabinet.

- 5.17 Health and wellbeing support is available for employees through the Care First counselling and employee assistance scheme which provides 24/7 access to counselling and advice on a broad range of workplace and personal matters, as well as a programme to help improve employees' health and wellbeing.
 - 5.18 The Council's Performance Management Framework, revised and adopted by Cabinet in June 2014, continues to guide the Council's integrated Corporate, business and financial planning and performance management processes and practice. The Framework is structured around the 'Plan, Do, Review, Revise' model. It clearly defines the Council's processes and procedures for performance management at each stage, including monitoring and performance data. It establishes the roles and responsibilities of members, managers and staff through the cycle. It shows the relationship between process and plans at corporate, directorate and service level, linking to individual appraisals. It includes expectations around the style and behaviour of managers to support the further evolution of a strong culture of self-assessment.
 - 5.19 During 2016-17, the Council strengthened the Corporate Management Board (CMB) challenge on Performance Management, to complement the Corporate Performance Assessment (CPA). This structured challenge further developed the use of Performance Indicators linked to service improvement and extended the opportunities for more detailed discussion of performance issues. The Performance Management system has been further developed to reflect these changes and continues to provide timely, consistent management information for managing service improvement and decision making.
 - 5.20 In his Corporate Assessment report, published in January 2016, the Auditor General for Wales noted that the Council has clarified roles and responsibilities and established effective arrangements for holding people to account. He also found that Cabinet members and the CMB were working closely together to develop the options for the future role of the Council and to identify new opportunities for engaging with local communities.
- 6. Principle 3 - Promoting Values for the Council and Demonstrating the Values of Good Governance through upholding High Standards of Conduct and Behaviour (CIPFA 2016 - Principle A – Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law)**
- 6.1 There is a clear vision for the Council, that is, always to act as 'One Council working together to improve lives'. The Council recognises that it will become a smaller, more flexible and innovative authority that will continue to work with partners and local communities to create a future in which residents have access to a more responsive and tailored service. It will also mean that residents take greater responsibility for making that happen, both for their own sake and for that of the community as a whole. These values are set out in the Council's Corporate Plan.
 - 6.2 In developing its new Corporate Plan for 2016-2020, the Council identified a new set of principles. These have been developed to help steer the Council to become the sort of organisation that it needs to be in order to meet new challenges.
 - 6.3 The Council is committed to the sustainable development principle and the five ways of working provided by the Well-being of Future Generations (Wales) Act 2015. The Council appointed a Cabinet Member for Well-being and Future Generations to lead the implementation of the Act. The Council has integrated well-being planning into its corporate and business planning process. The Council is reviewing its Performance Management Framework to ensure the sustainable development principle and the five ways of working underpin everything it does: plan-do-review-revise.

- 6.4 The behaviour of elected members and officers is governed by codes of conduct. Elected members are provided with training in accordance with the Elected Member Learning and Development Strategy which is approved by Council and co-ordinated by Democratic Services. Topics include code of conduct, declarations of interest and other subjects which clarify the behaviours of elected members. Some training particularly relating to regulatory functions have been identified as mandatory to ensure that Elected Members have a full understanding of their role before they make key decisions. Democratic Services also monitors training, provides reminders and maintain documents and publish a variety of documents and registers including the register of Gifts and Hospitality for Elected Members and Officers.
- 6.5 The Council takes fraud, corruption and maladministration very seriously and has the following procedures and 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
 - Social Services Representations & Complaints Procedure
 - Financial Procedure Rules
 - Contract Procedure Rules
- 6.6 Conduct of Members is monitored by the Public Services Ombudsman for Wales and the standards reflect Welsh Government Public Service Values. 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. There has not been a referral to the Standards Committee in respect of a BCBC member for many years and the Monitoring Officer has utilised the internal informal protocol approved by the Public Services Ombudsman for Wales successfully.
- 6.7 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.
- 6.8 The Council has a protocol for the use of Social Media. Link: <http://www1.bridgend.gov.uk/media-centre/terms-and-conditions/social-media-policy.aspxh>
Council. 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 (CIPFA 2016 - Principle F – Managing risks and performance through robust internal control and strong public financial management)**
- 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); the Grants Policy and the Corporate Risk Management Policy. All managers have responsibility to ensure compliance with these policies.
- 7.6 The Council has adopted a category management approach to procurement. This is a strategic approach where our procurement resources are organised to focus on specific areas of spends. This enables category specialists to focus their time and conduct in depth market analysis to fully leverage procurement decisions on behalf of the Council as a whole. The results can be significantly greater than traditional transactional based purchasing methods. The corporate procurement unit also utilises and promotes collaborative frameworks, particularly the National Procurement Services (NPS).
- 7.7 The Council’s Performance Management Framework describes the ‘Golden Thread’ for planning which links the Council’s vision of “One Council 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, and the Public Services Board that is currently preparing its Wellbeing Plan and objectives that will influence/ and be influenced by the Council’s priorities in the future. The vision and priorities set out in the Corporate Plan have a direct relationship with directorate business plans, service delivery plans, group delivery plans and individuals’ objectives within staff appraisals.
- 7.8 The Corporate Performance Assessment (CPA) is undertaken on a quarterly basis and is attended by Cabinet Members, Corporate Management Board, and Heads of Service. 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.
- 7.9 Specifically, the CPA monitors:
 - Financial position by Directorate;
 - The Council’s improvement priorities as defined by the Corporate Plan;
 - Service actions that are linked to directorate priorities as defined by the Corporate Plan;
 - Key indicators/measures, through four perspectives that are linked to directorate priorities in line with the Corporate Plan and at Service level for monitoring key operational performance; and
 - Corporate risks.
- 7.10 When necessary, the CPA may also, by way of exception, monitor progress against relevant national and collaborative initiatives.

- 7.11 During the latter part of 2015, Cabinet and CMB reviewed the current CPA process and agreed that for 2016-17, the CPA would cover a broader range of measures to assess performance both of the Corporate Plan and at Service level in relation to business as usual activities. It was agreed that outcomes would be measured through four perspectives, concentrating on performance indicators that supported tangible outcomes. The indicators would measure value for money, service user outcomes, internal processes and organisational capacity. Indicators are monitored at the Head of Service level for there to be greater accountability across the organisation and a balanced scorecard approach is used in monitoring performance for 2016-17 onwards. CPA undertaken during 2016-17 reflected the new process, with work ongoing during the year to strengthen the suite of indicators used to challenge performance at Head of Service and Corporate Director Level.
- 7.12 The Council has developed a robust approach to the management of risk. The Corporate 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.
- 7.13 Risks are viewed from both a Service and Council-wide perspective which allows the key risks to be distilled in the Corporate Risk Register. Key corporate risks are monitored at the highest level within the Council, including Cabinet, Senior Management Team, Programme Management Board, CPA Overview and Scrutiny Committees and Audit Committee. The Council's approach ensures that key risks are considered when determining Council priorities, targets and objectives and are incorporated in Directories' Business Plans. The main risks facing the Council that were identified during 2016-17 are set out in the Council's Corporate Risk Register which can be accessed via this link:
<http://www.bridgend.gov.uk/media/393300/risk-register-2016-17.pdf>
- 7.14 In April 2015 Senior Management Team (SMT) received a report on Health and Safety gap analysis. It was decided that the risk should be escalated to the Corporate Risk Register. The risk describes the Council's duties and identifies that there are areas where there can be improvement in some health and safety arrangements.
- 7.15 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 Section 151 Officer 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. CMB regularly monitor the overall budgetary position and achievement of specific budget reductions and quarterly budget monitoring reports are produced for Cabinet and Scrutiny Committee. This work informs the production of the statutory annual Statement of Accounts.
- 7.16 The Council is committed to demonstrating due regard to the Equality Act 2010 and the Public Sector Equality Duty. It published its Strategic Equality Plan 2016-2020 on 1 April 2016. The plan outlines the Council's approach to ensuring equality of opportunity for customers, citizens, residents and visitors and seeks to ensure that Bridgend County Borough is a fair and welcoming place to be. The plan has been written based on what we know about our services and on the views and needs of Bridgend County Borough citizens and the people who use them. The Council has a duty to publish Strategic Equality Plan annual reports with the most recent going to Cabinet Equalities Committee in March 2017. The annual reports review and reflect on previous work and outline 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.

Updates are provided to the Cabinet Equalities Committee and to the Bridgend Equality Forum. Committee and Council reports requiring a policy decision are supported by equality impact assessments.

- 8. Principle 5 - Developing the Capacity and Capability of Members and Officers to be Effective (CIPFA2016 - Principle E - Developing the entity's capacity, including the capability of its leadership and the individuals within it)**
- 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 as outlined in their job/role descriptions. New members and staff are provided with an induction to familiarise them with protocols, procedures, values and aims of the Council.
 - 8.2 Organisational structures in respect of Member responsibility and Directorate portfolios are contained within the constitution and are available on the BCBC website. Members also have agreed role descriptions.
 - 8.3 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.
 - 8.4 Modern.Gov the Committee Administrative system is used to automate many of the administrative duties in respect of elected members and the formal decision making process. The system aids decision making, enables the tracking of actions and monitoring of decisions and provides a web-based decision register.
 - 8.5 The Council takes a pragmatic approach to delegation of powers for decision making enabling lower level decisions to be subject to 'calling to account' but not 'call in' by scrutiny. The scheme is reviewed in detail regularly, updated to reflect any changes in legislation and following changes to the corporate structure and is published to the intranet. The Authority is informed of any changes that have been made using Bridgenders messages. Delegated powers and limits are clearly set out as are the use of sub delegations enabling effective and timely decision making.
 - 8.6 While undertaking his Corporate Assessment of Bridgend County Borough Council, the Auditor General for Wales found that Elected Members of the Council benefitted from a range of opportunities that equipped them with the skills they needed to discharge their roles effectively.
 - 8.7 The Member Development Programme is regularly reviewed to ensure that any training activities are appropriate, relevant and timely. Webcasting Training has been delivered to elected Members and to Officers. A provider has been sourced and webcasting of Council and Committee meetings has become a performance indicator requiring at least 10 meetings to be webcast until 2018.
 - 8.8 In 2016-17 a cross party group of 3 Elected Members participated in the 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. The Academy also supported the personal development of these Members and promoted collaborative working across Wales.
- 9. Principle 6 - Engaging with local people and other stakeholders to ensure robust public accountability (CIPFA 2016 - Principle B – Ensuring openness and comprehensive stakeholder engagement)**

- 9.1 The Council is committed to understanding and learning from the views of the public and using their feedback to help shape services and policies. There is a consultation and engagement toolkit in place to help managers to ensure consultation activities are robust as well as following legal guidance (Gunning's principles) and Participation Cymru's National Principles for Public Engagement in Wales that have been adopted by the Council. The planning and decision-making processes are designed to include consultation with stakeholders. The Communications, Marketing and Engagement Strategy provides a framework for engagement activities, which are undertaken by the Council.
- 9.2 The Welsh Language (Wales) Measure was introduced by Welsh Government in March 2010 and a compliance notice was served on the Council on the 30th September 2015. The Authority has made significant steps in its use of the Welsh Language to give Welsh speakers improved, enforceable rights in relation to the Welsh language and has implemented a number of the standards. The Council is negotiating with the Welsh Language Commissioner in relation to implementing the remaining standards.
- 9.3 The Council has a Citizens' Panel made up of over 1,500 residents aged 16 or over 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. This has helped to understand residents' opinions about the services the Council provides and to help improve things in the future. The panel is currently representative of residents aged 25 and over. The consultation team has key performance indicators in place to increase representation of 16-24 year olds, Welsh speakers and disabled residents, as well as indicators to increase representation across each ward to a minimum 1 per cent.
- 9.4 During 2016-17, the Council consulted on a wide range of issues including the following (this list is not exhaustive):
- Shaping Bridgend's Future;
 - Understanding demand for Welsh language education
 - Bridgend Town Centre access survey
 - Household waste: additional allowance scheme
 - Digital transformation
- 9.5 The Shaping Bridgend's Future consultation included 15 community engagement events/stands throughout the county borough, and, an online survey which captured the views of the public on how to achieve the necessary budget savings.
- 9.6 Social media is used to promote services and engage with the public, Regular Q&A sessions/debates are held as part of consultation exercises to capture citizen's feedback. This has been successfully implemented as part of the "household waste and recycling review" and the "Shaping Bridgend's Future" consultations.
- 9.7 Increasingly, surveys are being made available on desktop, tablet and mobile to increase the likelihood of residents responding. The consultation team has also created a database of over 1,500 residents who are interested in receiving HTML emails regarding key consultations happening in the county borough.
- 9.8 Citizens' Panel members and residents who opt to receive key consultation updates are sent engagement details on projects that may be of interest to them. Using the database has seen a 68% improvement in response rate for the PSB survey (online consultation on the Wellbeing Assessment) in 2017. Bridgend Business Forum members, the youth Council and the Bridgend Equality Forum are all invited to share their views (when relevant) to improve representation.

- 9.9 There is regular communication with staff through managerial arrangements which is supplemented by
- Bridgenders
 - Bridgenders Bulletin
 - Chief Executive updates to employees
 - Senior Management workshops
- Trade Union meetings are held regularly with the Head of HR and representative Cabinet members.
- 9.10 The Corporate Plan is published on the Council's website, is communicated widely to staff and approved by Members, through the normal democratic process. Performance data is also published on the Web, to support the Council's achievements in delivering its improvements for the year. The Annual report is published on the website and like the Corporate Plan and performance data is agreed by elected members at Cabinet and Council on an Annual Basis. Notifications for the Corporate Plan and the Annual Report are published on the website and the local gazette on annually. The Annual Report is also available in key public buildings around the Borough for citizens to read.
- 9.11 The Council operates both a Corporate Complaints Procedure and a Social Services Representations & 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, in writing and for Social Services complaints can also be made verbally. The Council has set target times for responding to all complaints received to ensure accountability. The operation of the Complaints Policy is reported annually to full Council as it provides an opportunity for improvement in service delivery. Social Services also produce an Annual Report on their complaints which is reported to Cabinet.
- 9.12 There is a Corporate Safeguarding policy which includes details of Safeguarding in Employment.
- 9.13 The Recruitment and Selection Protocol and Managers' Guidelines detail the pre-employment vetting which involves establishing full employment histories; proof of identity; satisfactory references; health assessment; checks of qualifications; asylum and immigration checks; and criminal record checks with the Disclosure and Barring Service.
- 9.14 The Disclosure & Barring Service Policy applies to employees, volunteers, work placements and elected members. In addition, foster carers and prospective adoptive parents, student placements, licencing and school transport arrangements and any other regulated positions also come under the provisions of this policy. Additionally it applies to those directly employed by governing bodies.
- 9.15 The Council makes a large amount of information available to its citizens in an open and friendly way. Information can be obtained through the Council website and many other publications. Under the Freedom of Information Act, the Council is required to increase access to the information it holds, and part of the Act requires the provision of a Publication Scheme. The Scheme has been approved by the Information Commissioner's Office who is responsible for ensuring compliance with the legislation. The Scheme provides a guide to the information routinely made available to the public. Not all the information the Council publishes is detailed in the publication scheme. Information that is not published can be requested by making a FOI request. The Council considers all requests under the provisions of the legislation and adheres to the requirement to respond within 20 working days.
- 9.16 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.

Work Programmes with agreed timescales for report, submission, approval by Legal and Finance, publication and distribution aid decision making at a strategic level. This ensures a corporate check on the impact of decisions and also probity both in legal and financial authorisations. The Council also implemented a webcasting facility in early 2016, which provides live streaming and an archive facility. The number of webcast viewers is monitored and the results are reported to the Democratic Services Committee. Officers and members work together to identify those meetings which are considered to be of key public interest and suitable for webcasting. Members of the public and 'expert' witnesses can participate by speaking at Overview and Scrutiny Committees similar to arrangements already in place for Development Control Committee.

- 9.17 The Well-being of Future Generations (Wales) 2015 Act (the Act) gained royal assent on 29 April 2015. The Act establishes Public Services Boards in each local authority, which replaced Local Service Boards from 1 April 2016. The Council is one of the four statutory members of Bridgend Public Services Board (PSB). The Board also includes 'Invited Participants'. The work of the PSB can be found at [Public Services Board - Bridgend County Borough Council: http://www.bridgend.gov.uk/services/public-services-board.aspx](http://www.bridgend.gov.uk/services/public-services-board.aspx).
- 9.18 The main focus of the PSB in 2016-17 has been the statutory requirement to publish an Assessment of Local Wellbeing by April 2017. The Assessment will inform the wellbeing objectives to be included in the Wellbeing Plan which will be published by May 2018. The PSB is also responsible for implementing Bridgend County Together, the Single Integrated Partnership Plan for Bridgend, until it is replaced by the Wellbeing Plan. The PSB is taking a project approach to delivering its identified priorities. During the year the PSB also agreed its Terms of reference and developed its governance arrangements, including embedding in Scrutiny arrangements.
- 9.19 In the Medium Term Financial Strategy 2016-17 to 2019-20, over 10% of budget reductions identified over the 4 year period were identified as coming from collaboration and service transformation. Council have agreed that collaboration 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. In the recently published White Paper 'Reforming Local Government: Resilient and Renewed' the Welsh Government sets out its proposals for mandatory and systematic regional working to offer an opportunity to strengthen, regularise and simplify the existing arrangements between Local Authorities. Services that could be affected include transport, land use planning and building control, social services, education and public protection. Whilst the authority is already operating collaboratively in a number of these areas of service, there are still areas where joint working can be progressed.

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. 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 Overview and 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 Chairpersons liaise with each other to ensure the effective scrutiny of collaborative collaboration topics to ensure that work programmes are co-ordinated to prevent duplication.
- The Audit Committee which provides the focus for reviewing the effectiveness of the system of internal control. Much of this work 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 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 Council 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 A comprehensive Member Development Programme has been provided to ensure that all members (including the Lay and Co-opted Members) have the opportunity to gain a comprehensive understanding of their role as described in the Elected Member Role Descriptions approved by Council. All Elected Members were offered training on Treasury Management to assist them in scrutinising the Annual Treasury Management Strategy of the Council. The effectiveness of member training has been recognised by Estyn which noted that training provided to elected members increased their understanding and ability to interrogate data to enable them to challenge performance particularly regarding school performance data.

10.5 Members have a key role to play in safeguarding children and adults at risk. Members have been able to access training to further their understanding of their responsibilities in relation to safeguarding children and adults. The training which took place over several dates between October and December 2016 considered safeguarding within the context of the Social Services & Wellbeing (Wales) Act 2014.

10.6 The Council has adopted the WLGA model of role descriptions for all committee Member and Chairpersons including the Audit Committee. These have been adapted to reflect the specific roles undertaken in the Council which enables members to better understand their role 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.

- 10.7 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 (including to the review of budget proposals); they undertake reviews of specific areas of Council operations and make recommendations to Cabinet for improvement.
- 10.8 Internal Audit also provides independent and objective assurance. It undertakes a continuous audit of Council services that 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 2016-17, in carrying out its duties, Internal Audit worked 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. In accordance with the Public Sector Internal Standards the Internal Audit Shared Service underwent an external assessment, which has been agreed by the Council's Audit Committee. Following a procurement exercise, CIPFA were commissioned to undertake the assessment which commenced at the end of January 2017 and concluded in February 2017. The outcome of the assessment was reported to the Council's Audit Committee on 27 April, which indicated that the assessment identified no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity. A number of recommendations have been made and whilst a number have already been actioned, the Council's Audit Committee will retain oversight of the implementation process to ensure that all recommendations are addressed.
- 10.9 Internal Audit completed a programme of reviews in accordance with the Annual Audit Plan for 2016-17. As part of the normal audit reporting process, recommendations were made and agreed with the relevant chief officers to address any issues that could impact upon the system of internal control. The internal audit arrangement 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. Any significant weaknesses in the control environment identified by Internal Audit are reported to senior management, the Audit Committee and Cabinet as appropriate.
- 10.10 The Head of Internal Audit has found that Bridgend County Borough Council is committed to the principles of good governance and as a result has adopted a formal Code of Corporate Governance (COCG) for the last six years. In 2016-17, 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. During 2015-16 the Council was subject to two significant pieces of assessment work both of which were undertaken on behalf of the Auditor General for Wales, the Financial Resilience Assessment and the Corporate Assessment and followed up by the Wales Audit Office in 2016-17.
- 10.12 Following on from the WAO proposals for improvement, the production and focus of the Annual Report was reviewed for 2015-16 making it more outcome focused and easier for citizens to understand the improvements the Council made in line with the improvements set out in the Corporate Plan. The effectiveness of the improved Annual Report 2015-16 is yet to be assessed by the WAO.

- 10.13 The Financial Resilience Assessment was undertaken during June to September 2016 and focused on delivery of the 2015-16 savings plans, the quality of its medium term financial plans and the robustness of its 2016-17 savings plans. The auditors also followed up their 2015-16 work to determine what the Council did as a consequence of what it learnt and how it had responded to the proposals for improvement in relation to financial planning. The auditors sampled some of the savings proposals for 2016-17 and looked at the underlying assumptions, and whether there are adequate mechanisms to ensure they can be delivered in the planned timescale. In the review they found that the Council has strengthened its arrangements for reporting on the use of reserves but its approach to developing savings plans weakens arrangements. Over half of the savings plans are insufficiently well developed when setting the annual budget to ensure delivery in planned timescales and indicative savings plans for future years lack detail.
- 10.14 Overall the assessment concluded that “Whilst the Council has a sound financial planning framework underdeveloped savings plans may not fully support future financial resilience”. They made one proposal for improvement:
- That the Council strengthen financial planning arrangements by:
 - ensuring that savings proposals are fully developed and include realistic delivery timescales prior to inclusion in the annual budget; and
 - identifying indicative savings proposals over the period of the MTFS.
- 10.15 The Corporate Assessment undertaken by the Auditor General for Wales in 2015-16 sought to answer the following question, “Is the Council capable of delivering its priorities and improved outcomes for citizens?”
- 10.16 As a result of this work, the Auditor General has concluded that the Council is developing appropriate plans for the future and is well placed to secure improvement. The Auditor General came to this conclusion because the Council:
- is consulting on key strategic themes designed to improve its focus on priority activity for the future;
 - has effective governance arrangements in place to support improvement and drive change;
 - has performance management arrangements that are driving improvement in key service areas but the way in which performance evaluation is presented is inconsistent;
 - strong financial and asset management arrangements are in place but the Council has not yet established a vision for the way in which human resource and ICT services will be delivered in the future and;
 - collaborates across a wide range of activities and whilst it is able to identify improved outcomes from some activities it is not yet able to evaluate the impact of Local Service Board activity.
- 10.17 Since the conclusions of the Auditor General, the ICT Service has been developed to support the Council’s transformation agenda. An ICT Strategy has been developed and approved by Cabinet. The digital transformation is a key project to enable change as part of the Council’s transformation programme and training and development opportunities have been put in place to help address recruitment and retention issues within the ICT service.
- 10.18 The HR service has been further developed, specifically workforce planning so that they support the Council’s transformation agenda and ensure workforce considerations are embedded in service business planning.

- 10.19 The Council has addressed the areas where improvement was identified by the Corporate Assessment, including the way in which its performance is evaluated and presented, evidenced by its annual report for 2015-16, performance report to Scrutiny Committees, and the Council's Corporate Plan and directorate business plans for 2017-18.
- 10.20 The Council has strong mechanisms in place to engage with citizens and partners to ensure there is transparency and public accountability. This includes for example in March 2017 a leaflet regarding the changes in household waste collection being enclosed with the annual Council tax bill to all households paying Council tax. The development of the Council's social media presence has extended the Council's communication, consultation and engagement mechanisms. Public interaction on our social media accounts including Q & A sessions with CMB, have increased public engagement which has directly informed our FAQs relating to the changes in provision of services to our citizens.
- 10.21 In 2016-17 the Auditor General for Wales undertook a Governance thematic review. The purpose of the review was to "provide assurance that Councils' governance arrangements are well-placed to respond to future challenges, as well as identify opportunities to strengthen arrangements and approaches". The review would also "provide insight and promote improvement through assessment of each of the 22 Councils' governance arrangements in relation to service change, taking into account the revised CIPFA framework, the Public Sector Equality Duty and the Future Generations (Wales) Act". The focus of the review was on Councils' governance arrangements for determining service changes. The result of the review is yet to be known.
- 10.22 The Public Services Ombudsman for Wales reports on each Council in Wales the number of complaints received and investigated. In July 2016 the Council received its Annual Letter for 2015-16. The letter noted an increase in the number of complaints received, 38 in 2015-16 compared to 33 in 2014-15. The comparative figure for the local authority average was 41 for 2015-16 (42 for 2014-15). One investigation was commenced by the Ombudsman in 2015-16. The Annual Letter noted that Planning and Building Control remain the biggest single area of complaints, followed by Road and Transport and Children's Services which both saw a 60% increase from last year. No "upheld" reports were issued and only one Quick Fix or Voluntary Settlement outcome recorded during the year.
- 10.23 Social Services is a regulated service area and there is an annual programme of inspection carried out by the Care and Social Services Inspectorate in Wales (CSSIW). In addition, the Director and Heads of Service have quarterly performance review meetings with CSSIW which ensure regulatory requirements are met and that significant service developments, challenges, workforce, performance and consultation activity is discussed. During 2016-17, the CSSIW completed a review of adult safeguarding and a review of carers. The verbal feedback following these reviews was positive.
- 10.24 There was an inspection of children's social care during January/February 2017. The inspection focussed on how children and families are empowered to access help and care and support services and on the quality of outcomes achieved for children in need of help, care and support and/or protection, including children who have recently become looked after by the local authority. The inspection also evaluated the quality of leadership, management and governance arrangements in place to develop and support service delivery. Formal feedback from this is still awaited and an action plan to progress the recommendations will be developed; it is planned that this will report into Scrutiny in July 2017. The relevant actions arising out of this inspection will be included in the Director of Social Services Annual Report 2016-17 which is in the process of being finalised.

- 10.25 The regulated service areas are also subject to an annual inspection and this includes the 4 older people residential care homes, the supported living environments, the three Children's Homes and the Fostering service.
- 10.26 The Statutory Director of Social Services annual report 2015-16 was submitted to CSSIW. It confirmed that the key priorities for the directorate during 2015-16 were to progress the objectives of the directorate business plan and also contribute to the new corporate priorities for 2016-17; to contribute to the Medium Term Financial Strategy (MTFS); to implement the new Social Services and Wellbeing (Wales) Act 2014 (SSWBA) and also implement the new Welsh Community Care Information System (WCCIS) – making Bridgend the first local authority in Wales to do so.
- 10.27 CSSIW confirmed in their subsequent performance review meeting with the Director and the two Heads of Service that they were satisfied that the annual report reflected the work undertaken in key areas including our achievements and future plans for the Directorate.
- 10.28 The remodelling Adult Social Care Board remains. The key transformation programme continues to be the central foundation for strengthening the remodelling workstreams and leads the prevention and wellbeing agenda across Bridgend, and regionally across the Western Bay Health and Social Care Collaboration. Key areas for remodelling in adult social services include the embedding of the new ways of working as laid down by the Social Services and Wellbeing (Wales) Act, for example the provision of information, advice and assistance. Progress has also been made towards the implementation of the extra care model, the remodelling of Home Care, Learning Disability and Mental health services as well as the continued development of the common access point based at Trem y Mor.
- 10.29 The budget approved for 2016-17 included savings proposals of £7.477 million (3.55% of net service budgets). However, as at quarter 3, £1.845 million of these proposals are at risk of not being realised, but the expenditure associated with them has in some instances been offset by vacancy management and other savings elsewhere within the budget. The impact of this is that there is still a recurrent pressure on 2017-18 budgets which will need to be addressed by implementing the proposals or identifying and delivering alternatives. Future monitoring reports will review achievement against these targets in addition to current year budget reductions.

11. Significant Governance Issues

- 11.1 Across the whole of the United Kingdom, local councils are facing unprecedented challenges following reduced Government funding and increased demands on essential services. Between 2016-17 and 2019-20, the Council is expecting to have to make budget reductions of £35.5 million. Budget cuts of this scale present a significant challenge that will require the Council to make many difficult decisions about which services can be maintained and which cannot. It 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. As the Council continues to experience reduced resources, increased demands on services and new and innovative forms of delivery, it is necessary to ensure that the control environment, including governance and risk management, remains robust, proportionate and as efficient and effective as possible.
- 11.2 The Council remains unwavering in its commitment towards improving and finding ways of delivering local services, providing better outcomes for residents and achieving savings that will ensure they can deliver a succession of balanced budgets.

11.3 Based on the internal audit work carried out for the year 2016-17, the Head of Internal Audit concluded that the Council's framework of governance, risk management and control is considered to be reasonable and that "there are no significant cross cutting internal control weaknesses identified which would have an impact on the Council's Annual Governance Statement". The weaknesses that have been identified are service specific and the recommendations made to improve the overall control environment have been accepted and are being / will be implemented.

Action Plan

1. Review the Performance Management Framework to incorporate the requirements of the Well-being of Future Generations (Wales) Act 2015
2. Promote the new Code of Corporate Governance and the Well-being of Future Generations (Wales) Act to ensure they underpin everything the Council does.
3. Democratic Services will update and publish the Cabinet Forward Work Programme (FWP) on the website to improve transparency and access to the general public. The scheme of delegation will also be published on the BCBC website.
4. The AGS working group set up during the year will continue to work together to review the Council's Code of Corporate Governance to reflect the CIPFA new principles 2016.
5. The Council will put measures in place to respond to the recommendations within the Financial Resilience report and ensure that financial planning arrangements are strengthened with more robust savings delivery plans and implementation timescales.

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.....

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Agenda Item 8

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

29 JUNE 2017

REPORT OF THE HEAD OF FINANCE AND SECTION 151 OFFICER

STATEMENT OF ACCOUNTS 2016-17 (UNAUDITED)

1. Purpose of this report

- 1.1 The purpose of this Report is to present the unaudited Statement of Accounts for 2016-17 and the Harbour Authority Return for 2016-17 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 2014 and its content is defined by the 'Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

- 3.2 The Statement of Accounts for 2016-17 have to be signed and dated by the responsible financial officer before the 30 June 2017, certifying that it presents a true and fair view of the financial position of the Council. The audited Accounts will be brought back to Audit Committee then for approval by 30 September 2017. 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 2017 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 Also attached at **Appendix B** is the Annual Return for the Harbour Authority for approval.

- 4.3 Each year the Council prepares detailed revenue budgets for its activities and regularly reviews these budgets to take account of changes in plans, processes or assumptions and if necessary re-profile the original budgets. The following table provides a summary of the revenue budget against spend for 2016-17. The revised

budgets differ from those set at the beginning of the year as account has been taken of agreed transfers from contingencies. Overall there was a net under-spend on Directorates' budgets of £2.279 million. Details of the reasons why are provided on pages 6 to 19 in the Statement of Accounts 2016-17.

Directorate/Budget Area	Original Budget	Revised Budget	Actual Outturn	Actual Over / (Under) Spend
	2016-17 £'000	2016-17 £'000	2016-17 £'000	2016-17 £'000
Directorate Budgets				
Education and Family Support	108,034	108,238	107,653	(585)
Social Services and Wellbeing	59,697	61,383	62,560	1,177
Communities	24,644	24,871	24,517	(354)
Operational and Partnership Services	14,899	14,952	13,236	(1,716)
Chief Executives	4,333	4,268	3,467	(801)
Total Directorate Budgets	211,607	213,712	211,433	(2,279)
Council Wide Budgets				
Capital Financing	10,128	10,128	11,115	987
Precepts and Levies	6,959	6,879	6,881	2
Sleep Ins	800	264	0	(264)
Council Tax Reduction Scheme	14,304	14,304	13,358	(946)
Insurance Costs	1,559	1,559	1,316	(243)
Building Maintenance	900	729	413	(316)
Other Corporate Budgets	8,634	7,316	(1,516)	(8,832)
Total Council Wide Budgets	43,284	41,179	31,567	(9,612)
Accrued Council Tax Income			(974)	(974)
Appropriations to / from Earmarked Reserves			12,509	12,509
Transfer to Council Fund			356	356
Total	254,891	254,891	254,891	0

4.4 The net under-spend for the year after allowing for capital financing and contingency costs, transfers to and from Earmarked Reserves and additional Council Tax income is £0.356 million. This is transferred to the Council Fund which increases to £7.960 million as at 31 March 2017 (£7.604 million at 31 March 2016). This represents a 4.7% increase on the Council Fund from the balance at the 31 March 2016.

4.5 The reserves included in the accounts for 31 March 2017 are summarised in the table below (page 21):

Opening Balance 2016-17 £'000	Reserve	Movement during 2016-17		Closing Balance 2016-17 £'000
		Additions/ Re-classification £'000	Drawdown by Directorates £'000	
7,604	Council Fund Balance	356	-	7,960
2,154	Delegated Schools Balance	-	(1,288)	866
3,706	Maesteg School PFI Equalisation	243	-	3,949
39,053	Earmarked Reserves	13,754	(6,463)	46,344
52,517	TOTAL INCLUDING COUNCIL FUND	14,353	(7,751)	59,119

- 4.6 The Delegated Schools Balances represent amounts held by schools that are committed to be spent on schools and are not available to the Council for general use. Whilst the majority of schools have surplus balances, some are carrying deficits into 2017-18. In line with the School Funding (Wales) Regulations 2010, and 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.
- 4.7 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.
- 4.8 There has been a net increase in Earmarked Reserves of £7.291 million to £46.344 million at 31 March 2017 (£39.053 million at 31 March 2016). However, there has been either expenditure funded from these reserves of £6.463 million and then new reserves created or enhancements to existing reserves of £13.754 million. The below table shows some of the more significant movements on reserves:-

Opening Balance 2015-16 £'000	Reserve	Movement during 2016-17 Financial Year		Closing Balance 2016-17 £'000
		Additions / Reclassification £'000	Drawdown By Directorates £'000	
5,833	Capital Programme Contribution	6,193	(646)	11,380
10,874	Major Claims Reserve	(2,080)	(343)	8,451
-	MTFS Budget Contingency	1,528	(528)	1,000
5,625	Service Reconfiguration	2,536	(58)	8,103
22,332		8,177	(1,575)	28,934

Further information can be found in note 27b of the main financial statements (page 96).

- 4.9 The Accounts include the following Core Financial Statements (pages 63 to 67):-
- Comprehensive Income and Expenditure Statement
 - Expenditure and Funding Statement
 - Movement in Reserves Statement
 - Balance Sheet
 - Cash Flow Statement
- These are produced in accordance with International Financial Reporting Standards (IFRS) rather than the amount to be funded in cash terms when the budget is set. Therefore these statements include items such as depreciation on property, plant and equipment, the estimated cost of the shortfall on the pension scheme and other technical adjustments. The Expenditure and Funding Statement (page 64) is a new Statement for 2016-17 which shows how the Surplus on the Council Fund of £0.356 million is adjusted to a deficit of £9.914million on the Comprehensive Income and Expenditure Statement.
- 4.10 In addition to spending money providing services on a day to day basis, the Council also spends money providing new facilities, enhancing assets within the Council's

portfolio or providing capital grants to others. The total capital spending during 2016-17 was £18.356 million. Assets created, improved or under development as a result of this spend included:

- Vibrant and Viable developments – replacement of car park and new residential and retail accommodation at The Rhiw
- Garw Valley South, Pencoed and Brynmenyn Primary
- Civic Offices Refurbishment
- Disabled Facility Grants
- Carriage reconstruction and street lighting

- 4.11 There are various notes within the Accounts which detail how the capital expenditure is financed and what assets have been produced or enhanced (pages 89 to 94).
- 4.12 The Annual Governance Statement (AGS) on page 26 highlights the challenges the Council faces in the delivery of the £35.5 million savings identified in the Medium Term Financial Strategy. It also includes an Action Plan for 2017-18 which will focus on the promotion of the new Code of Corporate Governance and the Well-being of Future Generations (Wales) Act.
- 4.13 The unaudited Statement of Accounts is now passed to the External Auditors, Wales Audit Office, for review. A final audited version of the Accounts will be brought back to Audit Committee in September and it will be these that will need Committee Approval in accordance with the Accounts and Audit (Wales) Regulations 2014 and signed by the Chair of Audit Committee.
- 4.14 The Annual Return 2016-17 for the Harbour Authority is attached at Appendix B. This has been audited as correct by Internal Audit. It is now requested that Audit Committee approves this Return and submits it to Wales Audit Office for review.

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 2016-17 (Appendix A);
- approve the Harbour Authority Annual Return 2016-17 (Appendix B).

**Randal Hemingway CPFA
Head of Finance and Section 151 Officer
16 June 2017**

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Background Documents:

Statement of Accounts 2016-17
Harbour Authority Annual Return 2016-17

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Bridgend County Borough Council

Unaudited Statement of Accounts 2016-17



**Bridgend County Borough Council
Civic Offices
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Narrative Report

1. The Statement Of Accounts

These Accounts have been produced in line with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2016-17. This is in accordance with International Financial Reporting Standards (IFRS). The main changes include the adoption of the following changes incorporated into the Code of Practice:

Telling the Story – requires changes to the presentation of local authority financial statements through changes in the segmental reporting arrangements for the Comprehensive Income and Expenditure Statement and introduces a new Expenditure and Funding Statement and associated notes. The statement brings together the Council's performance reported on the basis of expenditure measured under proper accounting practices with statutorily defined charges to the Council Fund. This replaces the need for the Council to report the cost of individual services in their Comprehensive Income and Expenditure Statement in accordance with the format specified in Section 3 of the Service Reporting Code of Practice (SeRCOP). This change also introduces a streamlined Movement in Reserves Statement (MiRS) as reflected within this Statement of Accounts.

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

i. 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 property, plant and equipment 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 in cash terms.

For 2016-17, the Council showed a deficit on the Provision of Services of £9.914 million. This contrasts with the budget outturn underspend of £0.356 million, the difference between the two is explained in the Expenditure and Funding Statement.

ii. Expenditure and Funding Statement

The objective of the Expenditure and Funding Statement demonstrates to council tax payers how the funding available to the Council (i.e. government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by

authorities in accordance with generally accepted accounting practices. The Expenditure and Funding Statement also shows how this expenditure is allocated for decision making purposes between the Council's Directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

iii. 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 £0.356 million.

iv. Balance Sheet

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. This shows the Council's net worth was £138.863 million, which is a decrease in net worth of £3.190 million from 2015-16 (which was £142.053 million).

v. 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 £5.518 million.

e) **The Notes to the Accounts**

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

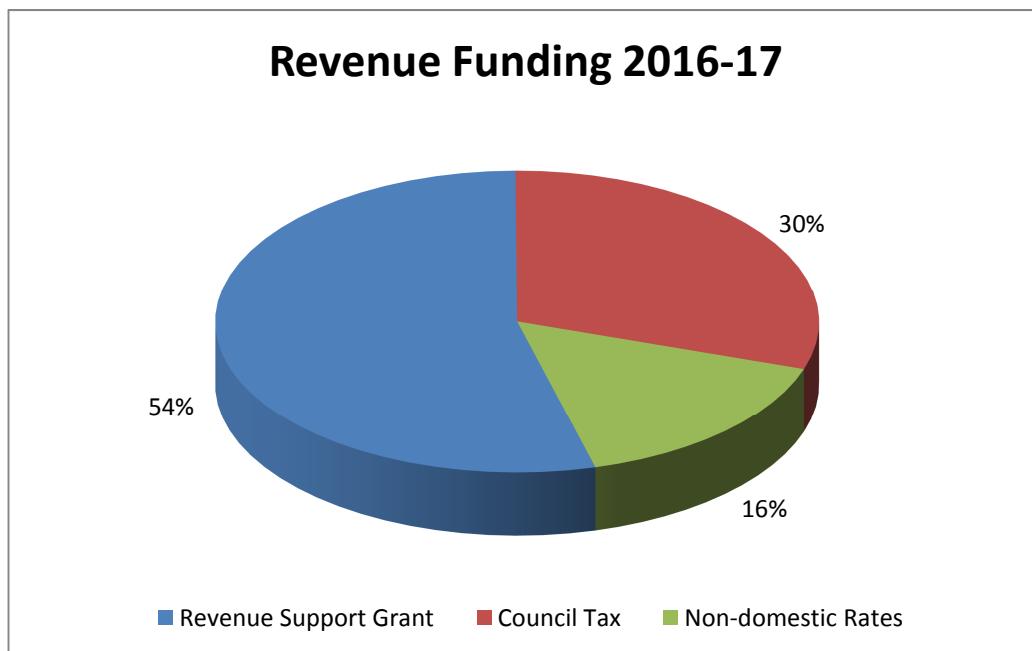
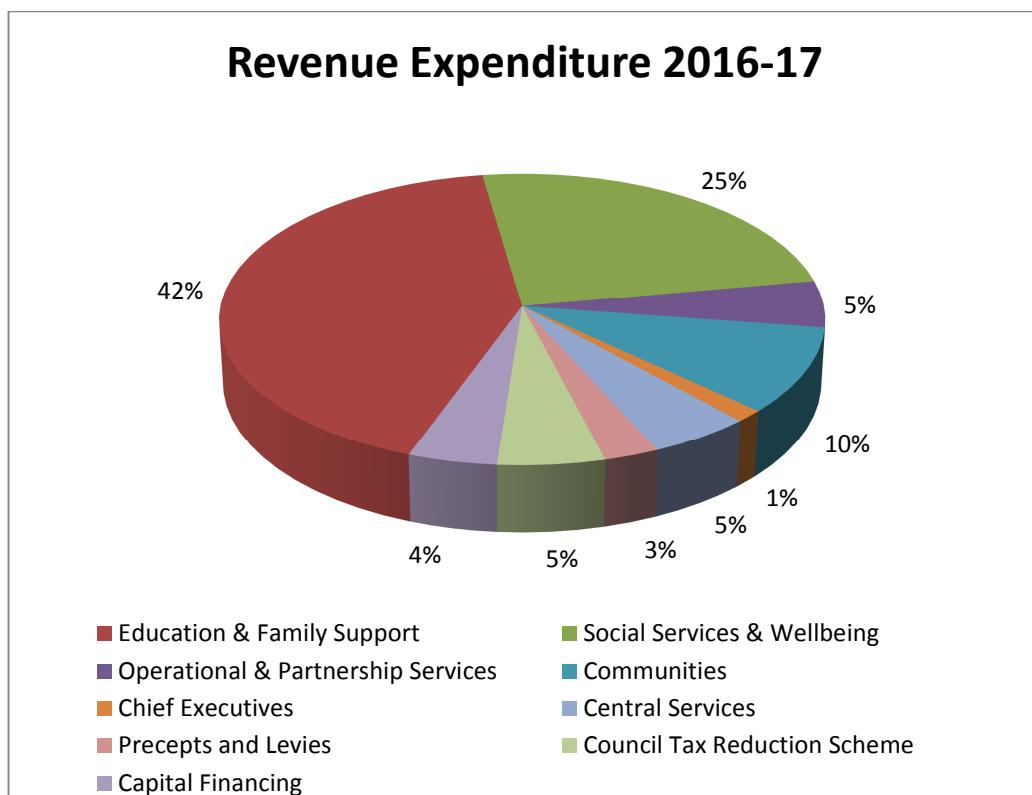
j. **Funding Council Services**

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 2016-17 the net spend on revenue services was £211.433 million. This compares to £213.712 million anticipated when the budget was revised, resulting in a £2.279 million underspend on Directorate Budgets. It is important to note that due to movement of services between Directorates year-on-year comparisons cannot be made. The overall position for the Council was a slight under-

spend of £356,000 after allowing for appropriations to and from Earmarked Reserves, additional income from Council Tax and an under-spend on council-wide budgets.

The following table shows how the actual expenditure on services during 2016-17 compared with the budget set for the year. Explanations are provided for significant differences between spend and budget.

Comparison of actual spend with budget 2016-17

Directorate/Budget Area	Original	Revised	Actual	Actual Over /
	Budget	Budget	Outturn	(Under) Spend
2016-17	2016-17	2016-17	2016-17	£'000
Directorate Budgets				
Education and Family Support	108,034	108,238	107,653	(585)
Social Services and Wellbeing	59,697	61,383	62,560	1,177
Communities	24,644	24,871	24,517	(354)
Operational and Partnership Services	14,899	14,952	13,236	(1,716)
Chief Executives	4,333	4,268	3,467	(801)
Total Directorate Budgets	211,607	213,712	211,433	(2,279)
Council Wide Budgets				
Capital Financing	10,128	10,128	11,115	987
Precepts and Levies	6,959	6,879	6,881	2
Sleep Ins	800	264	0	(264)
Council Tax Reduction Scheme	14,304	14,304	13,358	(946)
Insurance Costs	1,559	1,559	1,316	(243)
Building Maintenance	900	729	413	(316)
Other Corporate Budgets	8,634	7,316	(1,516)	(8,832)
Total Council Wide Budgets	43,284	41,179	31,567	(9,612)
Accrued Council Tax Income			(974)	(974)
Appropriations to / from Earmarked Reserves			12,509	12,509
Transfer to Council Fund			356	356
Total	254,891	254,891	254,891	0

The overall outturn at 31 March 2017 shows a balanced position, following the transfer of £356,000 to the Council Fund, in line with Principle 8 of the MTFS. After including in-year draw down of reserves, Directorate budgets provided a net underspend of £2.279 million and council wide budgets a net underspend of £9.612 million. These are offset by the requirement to provide Earmarked Reserves for a range of new future risks and expenditure commitments.

The underspend on Directorate net budgets for the year is a result of a number of factors including the maximisation of grant and other income, strict vacancy management and general efficiencies. Directorates drew down £7.751 million in-year from approved earmarked reserves to meet specific one-off pressures identified in previous years, including funding for transformation projects through

the Change Fund, funding for capital projects, draw down of school balances, funding for demolition work and service specific one-off pressures.

The underspend masks underlying budget pressures in some service budgets which were reported during the year and still persist. The main financial pressures are in the service areas of Looked After Children and Adult Social Care. It should be noted that these budget areas can be volatile and small changes in demand can result in relatively high costs being incurred. As patterns of provision change within Directorates, service budgets are reviewed and re-aligned accordingly.

Monitoring of Budget Reduction Proposals

Budget Reductions 2015-16

The MTFS Budget Reduction Contingency was established in line with MTFS Principle 12 that *“Resources are allocated to deliver the Bridgend Change Programme based on clear strategic plans that are kept under review by Corporate Directors to maintain alignment with the MTFS and a MTFS Budget Reduction Contingency will be maintained”*, and has been used to partly mitigate the shortfalls on the following budget reduction proposals in this financial year.

2015-16 Budget Reduction Shortfalls		
COM 1	MREC	£150,000
COM 11	Blue Badges	£83,000
CH 9	School Transport	£100,000
2016-17 Budget Reduction Shortfalls		
RES29	To rationalise the core office estate - leasing of Raven's Court	£195,000

Budget Reductions 2016-17

A report was presented to Cabinet on 5 July 2016 on Financial Performance 2015-16. In the report it was highlighted that, of the £11.225 million budget reduction proposals for 2015-16, £2.692 million were not met in full, with a shortfall in the financial year of £1.909 million. The report stated that these proposals would continue to be monitored alongside current year proposals, with mitigating action to achieve them to be identified. Not all proposals have been fully delivered however and where this is the case Directorates have identified a recurrent solution and mitigating actions to provide a more permanent solution.

The budget approved for 2016-17 included savings proposals of £7.477 million. £2.385 million of these proposals were not realised in full in 2016-17, but the expenditure associated with them has been offset by vacancy management, and other savings elsewhere within the budget. Of the £2.385 million of proposals not fully achieved, £540,000 was realised in 2016-17, leaving a shortfall of £1.845 million. As such there is still a recurrent pressure on 2017-18 budgets which will need to be addressed by implementing agreed savings proposals or identifying and delivering alternatives. Future monitoring reports will review achievement against these targets in addition to 2017-18 budget reductions. A summary of achievement of the budget reduction proposals is provided below.

Achievement of Budget Reductions 2016-17

	Total Budget Reductions Required	Total Budget Reductions Achieved	Shortfall
DIRECTORATE	£'000	£'000	£'000
Education and Family Support	976	504	472
Social Services and Wellbeing	2,984	1,993	991
Communities	1,377	1,025	352
Operational and Partnership Services	985	985	0
Chief Executive	217	187	30
Council Wide Budgets	938	938	0
TOTAL	7,477	5,632	1,845

The most significant of those proposals not achieved in full in-year include:

- Home to School College Transport (£450,000) – in particular the achievement of school transport efficiencies and rationalisation of special educational needs transport. Budgets have been realigned in 2017-18 to address the shortfall.
- Transfer of Family Care Service to Community Hubs (£158,000) - This saving should be achieved in full in 2017-18.
- Remodelling of Children's Residential and Respite Care (£200,000) - There is an on-going review of remodelling options to identify savings. The Directorate will need to identify alternative proposals in 2017-18 if this proposal is not achievable.
- Reduction in Safeguarding Looked After Children (LAC) numbers and costs (£357,000) – progress has been made in reducing the existing number of Looked After Children, however the number of new children entering the system is making it very difficult to make savings at the required level. This is being progressed through the Early Intervention and Safeguarding Board.
- Review of Highways maintenance / DLO services (£112,000) – due to a delay in completing the restructure, however this is now complete and the saving will be achieved in full in 2017-18.
- Lease of Raven's Court (£195,000) – met from the MTFS Budget Reduction Contingency Reserve in 2016-17. Active marketing of the building continues however if this is unsuccessful the reduction may be undeliverable.
- Implement some aspects of Council Tax and Housing Benefits on line (£30,000) - delay in implementing Channel Shift prevented full savings being achieved in this financial year.

Directors continue to work with their staff to deliver their proposals or find alternatives to prevent future budget overspends.

Commentary on the financial position as at 31st March 2017

The most significant variances are identified and explained below.

Education and Family Support Directorate

The net budget for the Directorate for 2016-17 was £108.238 million and the actual outturn was £107.653 million, following draw down of £2.54 million from Earmarked Reserves, resulting in an underspend of £585,000. The most significant variances are:

EDUCATION & FAMILY SUPPORT DIRECTORATE	Net Budget £'000	Outturn £'000	Variance Over/ (under) budget £'000	% Variance
Built Environment Service	997	1,010	13	1.3%
Inter Authority Recoupment	126	(519)	(645)	-511.9%
Early Years	606	541	(65)	-10.7%
Behaviour Support Service	1,442	1,359	(83)	-5.8%
School Improvement	966	800	(166)	-17.2%
Strategic Planning and Resources	4,126	4,013	(113)	-2.7%
Home to School/College Transport	3,860	4,986	1,126	29.2%
Catering Services	775	494	(281)	-36.3%
Integrated Working	1,022	856	(166)	-16.2%

Built Environment Service

- Whilst the overall position for the Built Environment service is a small overspend of £13,000, there are underlying variances across the areas of service.
- There was an over spend of £185,000 on the DLO. Charge-out rates were amended in year in line with CIPFA guidance. The result was a reduced charge out rate following the removal of ineligible costs. Close monitoring will be required in 2017-18 on productivity rates to ensure a break even position is achieved going forward. The over spend has been offset by over-recovery of income against the income target in Architects (£81,000) and Quantity Surveyors (£34,000), along with staff vacancy management in Mechanical and Electrical Engineers (£26,000) and the Energy Department (£64,000).

Inter Authority Recoupment

- There is an underspend of £645,000 for out of county education placements, due to a combination of a reduction in the number of placements (28 at March 2016 to 24 at March 2017) as pupils are brought back in-County to be educated (£588,000) and additional income from pupils from other local authorities (£57,000) being placed in Bridgend's schools. £445,000 of this budget has been transferred to the Home to School Transport budget in 2017-18 to mitigate pressures on that budget.

Early Years

- There is an underspend of £65,000 on Early Years due to a combination of vacant posts, an unforeseen increase in grant income and reduced spend on Nursery Development Grants pending 2017-18 MTFS budget reductions.

Behaviour Support Service

- The net underspend of £83,000 is a combination of higher clawbacks from schools arising from an increase in the number of pupils educated other than at school, along with vacant posts at the Bridge Alternative Provision (£116,000). This is offset by increased costs on 1:1 ancillary support due to difficulties in recruitment of permanent staff (£32,000) and consequently use of agency staff at a higher cost to the Council.

School Improvement

- The underspend of £166,000 mainly relates to the delay in appointments to the Development Team (£124,000) which supports the strategic review of schools, and has been used to mitigate other over spends within the Directorate. These posts have now been filled. There is a budget reduction of £68,000 against the Development Team in the MTFS for 2017-18 as an alternative funding source has been identified to enable the budget to be reduced without impacting on service delivery. The balance of the underspend is due to additional grant income.

Strategic Planning and Resources

- The underspend of £113,000 has primarily arisen as a result of later than expected construction of the 21st Century Schools Programme, and the consequent need to borrow as part of the Local Government Borrowing Initiative (LGBI). The revenue funding will be used to repay the cost of borrowing once the schemes progress.
- On 28th March 2017, Cabinet resolved to abandon the proposal to relocate Mynydd Cynffig Primary to the Cynffig Comprehensive School site. Consequently, the cost of design and other works associated with the scheme were recharged to the Directorate revenue budget under this area of service. These amounted to £327,000. This was, however, offset by funding from the Corporate Contingency.

Home to School / College Transport

- There is an overspend on the Home to School/College Transport budget of £1.126 million, of which £337,000 relates to over spends carried forward from 2015-16. The 2015-16 MTFS savings were not fully achieved partly due to the limited rationalisation of contracts because of increases in the number of pupils eligible for transport, which is outside of the control of the local authority and difficult to predict with accuracy. In addition, budget reductions in respect of changes to the Learner Travel Policy were not fully realised as the agreed change to the policy by Cabinet was not able to be implemented until September 2016 and this did not bring the same level of savings as were originally identified. The overspend has been partly mitigated by a contribution of £100,000 from the MTFS Budget Reduction Contingency Reserve.
- Further efficiencies to Special Education Needs (SEN) and Looked After Children (LAC) transport have been pursued but have been impacted by some increased demand for individual transport due to the needs of individual children and our duty as a Local Authority to ensure that they are transported in line with our statutory responsibilities and our current Leaner Travel policy.
- Additional MTFS proposals for 2016-17 of £450,000 have added to these pressures. Budget realignments have taken place as part of the 2017-18 budget setting process to mitigate the shortfalls in this area of service with the majority coming from the Inter Authority Recoupment under spend identified above.
- The Council has set aside one-off funding in an earmarked reserve to undertake work on safe routes to schools.

Catering Services

- The underspend of £281,000 has arisen partly as a result of strict vacancy management (£116,000). This prudent approach was adopted as labour costs can be affected by disruption to trading days during the winter months, which did not materialise as adverse weather conditions were not experienced. In addition, the service also achieved £139,000 more than their targeted income. This is primarily due to higher demand for secondary school meals than was anticipated when the budgets were set at the start of the financial year.
- These underspends will contribute to the 2017-18 MTFS target for catering of £79,000.

Integrated Working

- Integrated Working has under spent by £166,000. This is primarily due to staff vacancy management of £125,000, with the balance due to an under spend on Volunteer Drivers Support – the service was temporarily ceased in February 2017 pending a review.

Schools' Delegated Budgets

- School balances reduced from £2.154 million at the end of 2015-16 to £866,000 at the end of 2016-17 (a reduction of £1.288 million), representing 0.93% of the funding available. Total deficit budgets equate to £1.225 million and total surplus budgets equate to £2.090 million.
- Out of a total of 59 schools there are 18 schools (13 primary, 4 secondary and 1 special) with deficit budgets and 6 schools (4 primary, 1 secondary, 1 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 Family Support, in line with the agreed 'Guidance and procedures on managing surplus school balances'.

Social Services and Wellbeing Directorate

The Directorate's net budget for 2016-17 was £61.383 million and the actual outturn was £62.560 million, following draw down of £1.806 million from Earmarked Reserves, resulting in an overspend of £1.177 million. The most significant variances are:

SOCIAL SERVICES AND WELLBEING DIRECTORATE	Net Budget £'000	Outturn £'000	Variance Over/ (under) budget £'000	% Variance
Older People Residential Care	8,084	8,320	236	2.9%
Older People Home Care	8,640	7,936	(704)	-8.1%
Assessment & Care Management Older People and Physical Disability	3,475	2,890	(585)	-16.8%
Learning Disabilities Residential Care	1,458	1,753	295	20.2%
Learning Disabilities Home Care	5,516	6,177	661	12.0%
Learning Disabilities Day Opportunities	3,099	2,896	(203)	-6.6%
Mental Health Home Care	412	626	214	51.9%
Looked After Children	10,546	11,521	975	9.2%

Older People Residential Care

- The overspend has arisen mainly as a result of a reduction in income in respect of nursing care of £230,000 compared to 2015-16. This is mainly due to lower income received on nursing provision in our establishments following a more prudent approach to the recovery of income secured against property, based on historical patterns, which has resulted in less income being accounted for in the 2016-17 financial year.

Older People Home Care

- There is an underspend of £704,000 as a result of reduced costs from the transfer of homecare packages to the independent sector, as part of the Council's strategy to focus local authority homecare on specialist and complex care only.

Assessment and Care Management

- There is an underspend of £301,000 on assessment and care management for older people, and £284,000 on assessment and care management for people with physical disabilities. The underspend has been generated through good vacancy management but also through identification of additional external funding to offset the costs of core service activities.

Learning Disabilities Residential Care

- There has been an overspend of £295,000 as a result of the transition of 'complex needs' children into adult services. This over spend is after draw down of £245,000 from earmarked reserves.
- Going forward, whilst there are no known children with care needs that are coming of age within the next financial year, analysis will be carried out to understand the future demands of the service. Those that have transferred have been assessed to determine the most appropriate form of placement to meet their needs, which are generally at a lower cost.

Learning Disabilities Home Care

- There is an overspend of £661,000 arising from an increase in the number of hours within existing care packages, to meet more complex needs, together with an increase in the number of supported living schemes by one. Income received from charges to other Local Authorities is also less than budgeted.

Learning Disabilities Day Opportunities

- There is an underspend of £203,000 arising from staff vacancies. Most have now been filled with those remaining used to meet budget reductions in 2017-18.

Adult Mental Health Home Care Services

- There is an overspend of £214,000 on home care as a result of increased demand for domiciliary care in this service area, coupled with an increase of two additional service users within the supported living scheme.

Looked After Children (LAC)

- There is an overspend of £975,000 on LAC, after a draw-down of £748,000 from Earmarked Reserves. This is mainly as a result of the delay in implementing a new model for residential services (£400,000 MTFS saving from 2015-16 and 2016-17 to be realised) which has taken some time to establish due to the need for significant research, consultation and options appraisals, and the slower than anticipated safe reduction of looked after children (£357,000 in 2016-17). Project plans for both of these areas are now in place and the required work has gathered momentum, with significant capital work due to take place in 2017-18. There is a plan to place more children into in-house foster placements from high cost independent placements.
- Whilst the number of looked after children across Wales and within Bridgend has continued to rise over recent years, the number as a proportion of the child population has actually decreased. The Early Intervention and Safeguarding Board has been reviewing the type of placements in which our more vulnerable children are placed, and through placement in more appropriate settings, has achieved an overall financial saving. The focus has been, and will continue to be, on reducing the number of out of county placements, where it is appropriate and safe to do so. The number of LAC at the end of March 2017 was 390 compared to 382 at the end of March 2016, and the number of out of county placements is currently 10 with some individual placements costing around £220,000 per annum. Although the net LAC population has increased, it should be noted that:
 - The Service has reduced high cost Independent Fostering Agency (IFA) placements by 7 which can reduce the annual cost by approximately £330,000.
 - 88 children ceases to be LAC but during this time 97 became LAC.

- The Service has implemented its performance strategy identifying high cost placements and transferring to lower cost placements
- When reviewing the LAC population of 390 as at the end of March 2017, the net annual equivalent LAC cost is approximately £290,000 less than the cost of the LAC population of 382 as at April 2016.
- In addition, there are a number of "When I am Ready" clients (where a care leaver continues to live with their foster carer after they turn 18) that are still in a placement, which the Council funds, but do not count as LAC. For 2017-18 this has been recognised as a new budget pressure following the implementation of the Social Services and Wellbeing (Wales) Act 2014 and funded accordingly.

The budget is closely monitored and a recovery plan is in place to work toward reducing the current over spend and ensure that the budget for 2017-18 is effectively managed.

Other Child and Family Services

- This Service is not projecting a significant variance, and therefore this Service isn't reported in the table above. However, it must be noted that this is following the draw-down of £308,000 from Earmarked Reserves to offset the overspend on the joint adoption service. The overspend relates mainly to the contribution to the Western Bay pooled fund. Each authority's contribution is based on the number of placements by each authority as a % of total Western Bay placements, and currently Bridgend's proportion of placements is 34% of the total compared to 24% anticipated when the budget was set. This recognises the proactive approach to trying to reduce the number of looked after children, by providing more permanent solutions. This shortfall has been addressed for 2017-18 through a budget pressure in the MTFS.

Communities Directorate

The net budget for the Directorate for 2016-17 was £24.871 million and the actual outturn was £24.517 million, following draw down of £2.287 million from Earmarked Reserves, resulting in an underspend of £354,000. The most significant variances are:

COMMUNITIES DIRECTORATE	Net Budget £'000	Outturn £'000	Variance Over/ (under) budget £'000	% Variance
Development	301	162	(139)	-46.2%
Regeneration	1,788	1,692	(96)	-5.4%
Streetworks	8,018	8,260	242	3.0%
Highways and Fleet	6,127	6,475	348	5.7%
Parks and Open Spaces	2,010	1,942	(68)	-3.4%
Transport & Engineering	842	746	(96)	-11.4%
Streetscene Support	326	253	(73)	-22.4%
Adult Learning	177	83	(94)	-53.1%
Property (Estates)	1,264	867	(397)	-31.4%

Development Control

- There is an underspend of £139,000 due to an increase in the number of larger planning applications which attract higher fee levels during the financial year. Fees are set by Welsh Government and vary according to the type of development. As a result of the number of applications, the service has received more income than budgeted. However, it cannot be

guaranteed that a similar number of large applications will be received next year and so at this point the increased income generated should be regarded as 'one- off'.

Regeneration

- There is an underspend of £96,000 on the Regeneration budget. This is primarily due to staff vacancy management (£50,000) with the balance from underspends on non-staffing budgets. The underspend on non-staffing budgets is partly linked to the early implementation of future MTFS budget reductions, and partly due to an underspend in the Economic Development Unit marketing and promotion budget as a result of the staff capacity constraints and higher than anticipated contributions from sponsors.

Streetworks

- The net overspend of £242,000 on Streetworks includes an over spend on the Waste Disposal Budget of £365,000. The MREC saving of £300,000 for 2015-16 was not achieved, but it was partly mitigated by a contribution of £150,000 from the MTFS Budget Reduction Contingency reserve. Budget re-alignments have taken place as part of the 2017-18 budget setting process to mitigate this shortfall. There were also additional tonnage costs of £454,000 which have been partly offset by savings from the interim Anaerobic Digestion (AD) procurement project of £239,000.
- Under the new waste contract commencing in 2017-18, there is a forecast reduction in the amount of tonnage going to the MREC due to an increase in kerbside recycling and at the Civic Amenity Sites. £196,000 drawn-down from Earmarked Reserves to support procurement project costs for the new Waste Contract which commenced 1 April 2017.
- There is a further budget reduction target of £200,000 in respect of the MREC in 2017-18 which is anticipated to be achieved when the procurement process to appoint a contractor to operate and manage the MREC is concluded. This remains an area of considerable management focus in partnership with Neath Port Talbot CBC. A £100,000 saving is also included in the MTFS for 2017-18 against the AD Procurement exercise which is nearing conclusion.

Highways and Fleet

- The net overspend on Highways and Fleet is £348,000. Included within this is an over spend on Highways Maintenance and Fleet Services of £441,000 which mainly constitutes expenditure on highways maintenance borne by the Directorate (£293,000) along with a downturn in commercial income in Fleet Services (£148,000). The reduction in income is due to a number of factors, including the general reduction in the Council's budgets and the closure of County Supplies. This has been offset by an underspend of £131,000 in street lighting, which has arisen following the Local Government Borrowing Initiative (LGBI) programme of replacement of lanterns, and subsequent reduction in energy costs and required maintenance. This saving will be used in 2017-18 to meet short term shortfalls in MTFS savings, whilst proposals are being progressed e.g. car parking charges review.
- The outturn position of the DLO has been positively affected by South East Wales Trunk Road Agency (SWTRA) requesting additional works on the A470 subsequent to the withdrawal of Merthyr Council from the maintenance activities on the trunk road. Additional requests were also received to assist on trunk road maintenance in the Neath Port Talbot area. It is unclear at this time if any additional works will be requested over and above the service level commitment in 2017-18 and the financial implications of any such requests.

Parks and Open Spaces

- There is an underspend on Parks and Open Spaces of £68,000 primarily due to an underspend on staffing. The underspend has arisen as part of a restructure of the parks service and will not reoccur in 2017-18.

Transport and Engineering

- There is a net underspend across the service of £96,000. Within this there is a pressure on the car park budget of £111,000, primarily due to the delay in the implementation of MTFS budget reductions, including charging for blue badges (£165,000) and increases in car parking charges (£60,000), combined with car park income shortfalls (£140,000). This has been mitigated by a contribution of £83,000 from the MTFS Budget Reduction Contingency Reserve and draw down of funding from Earmarked Reserves. The Directorate has identified mitigating underspends to address this pressure in the short-term. There is a further budget reduction of £50,000 in the 2017-18 MTFS relating to a broad review of car parking including staff and elected member parking passes.
- There is an overspend on Traffic Management and Road Safety of £64,000. £20,000 of this is due to the shortfall on the MTFS saving relating to School Crossing Patrols. The balance of the over spend is due to a shortfall in internal fee income.
- Policy and Development has an overspend of £79,000. This mostly consists of an overspend on staffing costs due to the late implementation of staffing restructures.
- The overspends identified have been offset by Engineering services exceeding their income target (£275,000) primarily due to the balance of working on EU/non EU funded projects compared with previous years. There has also been an underspend under Public Transport Co-ordination due to staff vacancy management (£75,000).

Streetscene Support

- There is an underspend across the service of £73,000 due to staff vacancy management and reduced spend on supplies and services.

Adult Community Learning (ACL)

- There is an underspend across the service of £94,000 due to staff vacancy management. This, in part, was as a result of a reduced programme of courses due to uncertainty about the future provision of ACL following significant changes to the area strategic partnership and Bridgend College's delivery of an ACL programme. This will contribute towards the 2017-18 MTFS saving target of £70,000 for a reduction in Adult Community Learning provision.

Property

- There is an underspend across Property Estates of £397,000. This is mainly due to the draw-down of Welsh Government funding in respect of Hartshorn House of £250,000, which has been transferred into an earmarked reserve to cover operational costs and refurbishment within the commercial property portfolio. There is also an underspend of £117,000 arising from staff vacancies, which is partly offset by an over spend arising from under occupancy of the Innovation Centre, as a result of difficulties in attracting tenants.
- The Section 151 Officer made a one-off allocation from the MTFS Budget Reduction Contingency Reserve against the £195,000 saving in respect of Raven's Court following the failure to lease the building during the financial year.

Operational and Partnership Services Directorate

The net budget for the Directorate for 2016-17 was £14.952 million and the actual outturn was £13.236 million, following draw down of £1.056 million from Earmarked Reserves, resulting in an underspend of £1.716 million. The most significant variances are:

OPERATIONAL AND PARTNERSHIP SERVICES DIRECTORATE	Net Budget £'000	Outturn £'000	Variance Over/ (under) budget £'000	% Variance
Housing Options and Homelessness	693	375	(318)	-45.9%
Legal Services	1,976	1,783	(193)	-9.8%
Human Resources & Organisational Development	3,536	3,175	(361)	-10.2%
ICT	3,726	3,466	(260)	-7.0%
Regulatory Services	1,470	1,350	(120)	-8.2%

Housing and Homelessness

- There is an underspend on this area of £318,000. This is mainly as a result of the use of core staff to undertake duties for which the Council receives Welsh Government grant funding (transitional funding and Supporting People grant), and small underspends on other budgets. This budget is currently being reviewed by the Head of Finance and Director of Operational and Partnership Services to ascertain whether or not there is a recurrent budget saving that could be realised going forward.

Legal Services

- The underspend of £193,000 on legal services is partly due to an increase in recovery of legal costs (£69,000), partly due to an underspend on legal costs and disbursements, and the balance due to staffing vacancies (£72,000), most of which are built into the MTFS as budget reductions for 2017-18.

Human Resources and Organisational Development

- Part of the underspend relates to vacancy management in preparation for future MTFS savings (£200,000) and the balance has arisen as a result of vacancies pending recruitment.

ICT

- The underspend of £260,000 is as a result of vacancies within the team, and reduced telephone charges (£40,000), along with an underspend of £168,000 on software licences, due to a proactive approach to the rationalisation of software across the Council when the opportunity arises. Some of these savings are in preparation for future MTFS savings.

Regulatory Services

- The underspend relates to repayment of an underspend on the shared regulatory service following the closure of the 2015-16 accounts, which was primarily due to staff vacancies following the creation of the shared service. The amount of this underspend, and any potential repayment, was not known until the accounts had been audited.

Chief Executives

The net budget for the Directorate for 2016-17 was £4.268 million and the actual outturn was £3.467 million, following draw down of £58,000 from Earmarked Reserves, resulting in an underspend of £801,000. The most significant variances are:

CHIEF EXECUTIVES	Net Budget £'000	Outturn £'000	Variance Over/ (under) budget £'000	% Variance
Chief Officers	645	508	(137)	-21.2%
Housing Benefit Administration	696	485	(211)	-30.3%
Housing Benefit Payments	52	(368)	(420)	-807.7%

Chief Officers

- The underspend mainly relates to the vacant staffing budget following the departure of the Corporate Director Resources. This was included in MTFS budget reductions for 2017-18.

Housing Benefit Administration

- There is an underspend in respect of the administration of housing benefit arising mainly from staffing vacancies, but also additional grant income. The 2016-17 budget pressure in relation to the new Emmaus facility was reviewed in quarter 3 and reduced by £100,000 and returned to the corporate budget.

Housing Benefit Payments

- The gross budget is £48.478 million, which is offset by £48.427 million of income, the majority of which is housing benefit subsidy. There is an underspend in respect of the payment of housing benefit of £420,000. This comprises additional recovery of over-payments, totalling £245,000, and £180,000 underspend as a result of the reduced need for a provision for bad debt.

Council Wide budgets

This section of the accounts includes budgets, provisions and services which are council wide, and not managed by an individual Directorate. The net budget is £41.179 million and the actual outturn was £31.567 million, resulting in an underspend of £9.612 million. The most significant variances are detailed below:

COUNCIL WIDE BUDGETS	Net Budget £'000	Outturn £'000	Variance Over/ (under) budget £'000	% Variance
Capital Financing	10,128	11,115	987	9.7%
Council Tax Reduction Scheme	14,304	13,358	(946)	-6.6%
Repairs and Maintenance	729	413	(316)	-43.3%
Insurance Premiums	1,559	1,316	(243)	-15.6%
Other Corporate Budgets	7,316	(1,516)	(8,832)	-120.7%

Capital Financing

- The net overspend of £987,000 is a combination of an underspend on interest paid due to lower borrowing than anticipated (£1.3 million), as the Council uses its own internal resources to finance schemes, which is more than offset by a one-off payment of £2.35 million of prudential borrowing in respect of Raven's Court to reduce future capital financing costs. There is also slightly lower interest realised than projected on internal borrowings following the repayment of previous prudential borrowing amounts.

Council Tax Reduction Scheme

- The underspend of £946,000 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. There is a reduction in this budget in the MTFS of £300,000 for 2017-18 with further budget reductions planned for future years, depending on take up at that time.

Repairs and Maintenance

- The underspend of £316,000 is a result of slippage on some minor works schemes and feasibility studies, which will now be completed in 2017-18. An Earmarked Reserve has been established to meet these costs. There is also an underspend on prudential borrowing in respect of the Civic Offices Enveloping Scheme, which will be completed in 2017-18.

Insurance Premiums

- The underspend of £243,000 has mainly arisen as a result of a fortuitous and unexpected rebate in respect of the Maesteg PFI scheme under the contract's premium sharing agreement (£170,000). There is also a small amount of additional income generated from recharges to direct labour organisations for insurance arranged on their behalf.

Other Corporate Budgets

- There is a significant movement on the Council's balance sheet in respect of historic and current council tax and housing benefits debtors. This has created a favourable movement of £3.678 million on other corporate budgets. With regard to housing benefits, these have previously only been established as debtors in the housing benefits system and not in the Council's main accounts. This is a change of accounting treatment which, going forward, will recognise the debts in the year in which they are raised, rather than the year in which they are paid. The balance relates to a reduced bad debt provision in the balance sheet for council tax following higher recovery rates. Consequently these are one-off adjustments and will not reoccur.
- There is also an underspend of £961,000 in respect of insurance monies released into the revenue account to provide a contribution towards the 21st Century Schools programme. This funding has been transferred to earmarked reserves to offset the cost in 2017-18.
- There are a number of other underspends on council wide budgets, totalling £5.09 million including:
 - Reduced requirement from Directorates in relation to pay and prices following low rates of inflation (£1.58 million). While this has not been required in 2016-17, this is currently a particular risk area for council budgets as inflation indices have risen over recent months.
 - Lower than expected in-year cost of implementing auto enrolment for new entrants (£400,000). This cost should be fully known by the end of 2017-18 as the Council works towards the end of the auto enrolment transitional period (30 September 2017).
 - Projected under spends on other corporate budgets e.g. corporate contingency, provision for increased superannuation and national insurance contributions (£1.7 million).
 - In addition, funding was held corporately in the budget to meet the budget pressures associated with the Extra Care scheme (£1 million revenue contribution to capital) and implementation of the Welsh Language Standards. Due to the delay in the Extra Care scheme, the funding has been transferred to an Earmarked Reserve, pending construction works. In addition, a number of Welsh Language Standards are currently under appeal, and as a consequence there is a delay in implementation of the full suite of standards, and therefore spend on this budget (£319,000), until the outcome of the appeal is received from the Welsh Language Commissioner.
- These have been partly offset by a one-off payment of £896,000 of prudential borrowing in respect of Glamorgan Records Office to reduce future capital financing costs.

This underspend has enabled a number of new Corporate Earmarked Reserves to be established to meet pressures in 2017-18, some of which were reported in quarter 2 and quarter 3, including in particular contributions to the capital reserve in support of possible future additions to the capital programme (subject to full Council approval) and funding of demolition works, to avoid costs associated with vacant premises. The underspend on Directorate budgets has also enabled a number of new Directorate Earmarked Reserves to be established, to meet service specific pressures that are anticipated to arise in 2017-18, many of which were originally planned to be undertaken in 2016-17. The underspend on accrued council tax income of £974,000 has been transferred into the service reconfiguration reserve to support the cost of transformation programmes. Further information on Earmarked Reserves is provided in note 27 to the Statement of Accounts.

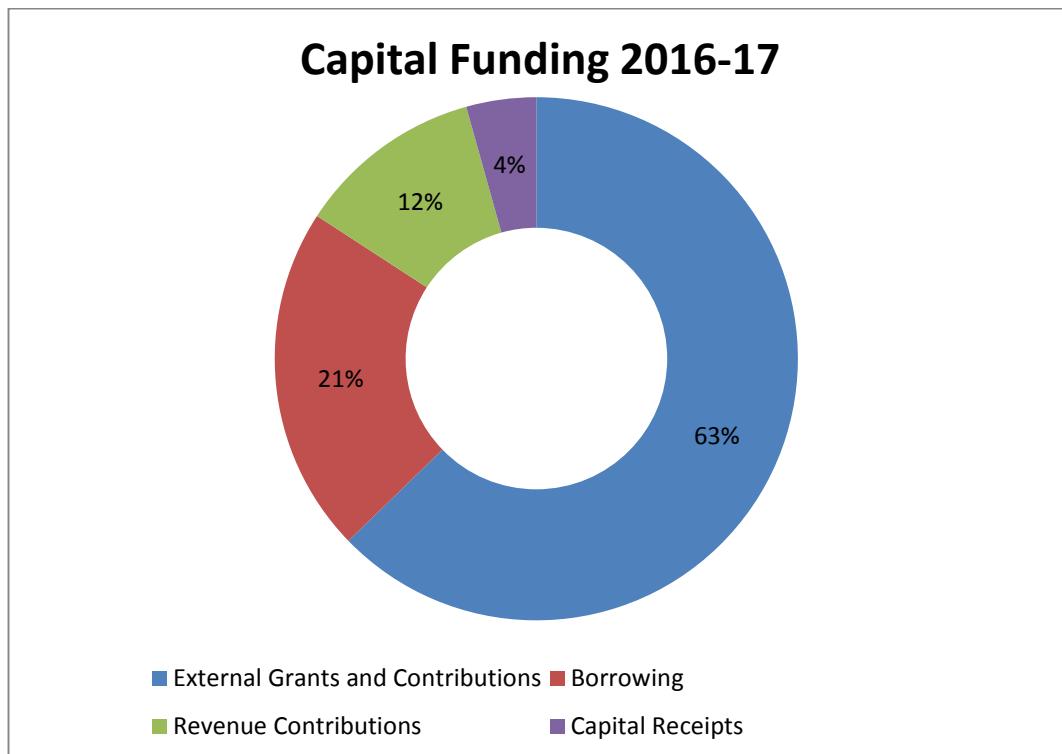
The council wide budgets have been reviewed as part of the MTFS 2017-18 to 2020-21 and will be subject to significant reductions over the life of the MTFS.

b) Capital spending in 2016-17

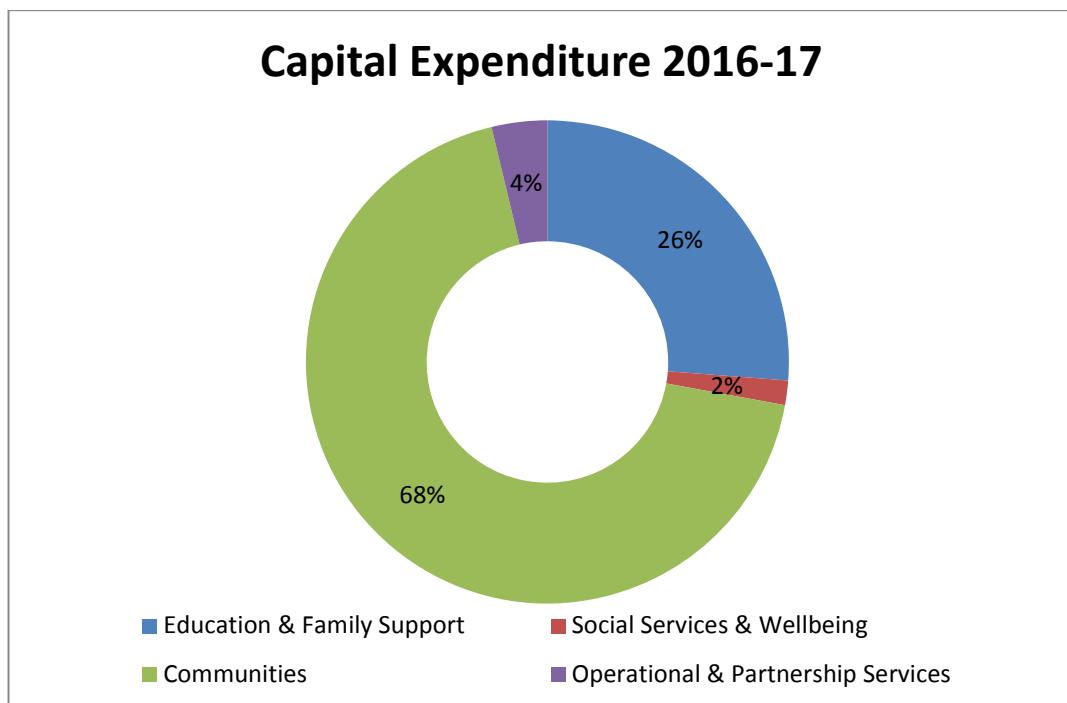
In addition to spending money on providing services on a day to day basis, the Council also spends money on providing new facilities, improving assets and the infrastructure, enhancing assets or providing capital grants to others. The total capital spending in 2016-17 was £18.356 million. Assets created, improved or under development as a result of this spend included:

- Vibrant and Viable developments – replacement of car park and new residential and retail accommodation at The Rhiw
- Garw Valley South, Pencoed and Brynmenyn Primary Schools
- Civic Offices refurbishment
- Disabled Facility Grants
- Carriageway reconstruction and street lighting

Where the money came from:



What the money has been spent on:



Capital programme outturn

The original budget approved by Council on 10 March 2016 was further revised and approved by Council during the year to incorporate budgets brought forward from 2015-16, budgets carried forward into 2017-18, and any new schemes and grant approvals. The revised programme presented to Council on 31 May 2017 totals £18.356 million for 2016-17. The main changes from the capital programme presented to Council on 1 March 2017 are:

- Total slippage of £7.670 million into 2017-18, including:
 - £565,000 in relation to school modernisation schemes;
 - £1 million fund set aside for parks and pavilion improvements to support successful Community Asset Transfer;
 - £922,000 for Housing related / Disabled Facilities grants, as a result of timing differences between grant awards and householder claims. There was slippage against the Disabled Facilities Grants budget in previous years due to delays with occupational health referrals, leading to a backlog, and this has had a knock-on effect to the ability to catch up in the following year. The commitment has carried forward into 2017-18. In addition, there was a delay in receipt of applications for Empty Homes Grants and Gomes in Towns Grants which has led to a further underspend. These grants should be fully spent in 2017-18.
 - £480,000 in respect of the purchase of income-generating non-operational assets;
 - £820,000 minor works schemes due to completion of schemes rolled forward from the previous year, subsequent delays in commencing current year schemes and limited capacity within the Built Environment Service.
- Reduced budgets for a number of schemes in 2016-17, totalling £871,000, particularly in respect of the proposed replacement Mynydd Cynffig Primary School which has been removed from the capital programme.

Total expenditure as at 31st March 2017 is £18.266 million, resulting in an underspend of £89,000 on BCBC resources. This under spend will be returned to the Capital Receipts Fund.

c) Borrowing arrangements and sources of funds

The Council has 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:-

	2016-17 £m
Authorised limit for external debt	
Borrowing	140
Other long term liabilities	30
Total	170
Operational Boundary	
Borrowing	105
Other long term liabilities	25
Total	130

As can be seen from the Balance Sheet as at 31 March 2017 long term borrowing totalled £97.432 million (£97.434 million 2015-16) and long term liabilities totalled £21.064 million (£21.759 million 2015-16) 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 2017 can be summarised as follows:-

Opening Balance 2016-17 £'000	Reserve	Movement during 2016-17		Closing Balance 2016-17 £'000
		Additions/ Re- classification £'000	Drawdown by Directorates £'000	
7,604	Council Fund Balance	356	-	7,960
2,154	Delegated Schools Balance	-	(1,288)	866
3,706	Maesteg School PFI Equalisation	243	-	3,949
39,053	Earmarked Reserves	13,754	(6,463)	46,344
52,517	TOTAL INCLUDING COUNCIL FUND	14,353	(7,751)	59,119

The Delegated Schools Balances represent amounts held by schools that are committed to be spent on schools and are not available to the Council for general use. Whilst the majority of schools have surplus balances, some are carrying deficits into 2017-18. In line with the the School Funding (Wales) Regulations 2010, and 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.

Earmarked Reserves

The Council is required to maintain adequate financial reserves to meet the needs of the organisation. The MTFS includes the Council's Reserves and Balances Protocol which sets out how the Council will determine and review the level of its Council Fund balance and Earmarked Reserves. During 2016-17, Directorates drew down funding from specific Earmarked Reserves and these were reported to Cabinet through the Monitoring Reports. The final Directorate draw-down from Reserves is detailed below:-

	Draw down from Earmarked Reserves 2016-17 £'000
Education & Family Support	2,543
Social Services & Wellbeing	1,806
Communities	2,288
Operational & Partnership Services	1,056
Chief Executives	58
Total	7,751

The draw-down was £4.095 million from Corporate Reserves, £2.368 million from Directorate Reserves and £1.288 million in respect of a net movement on school balances.

At year end, the Protocol requires that the Chief Finance Officer reviews existing Earmarked Reserves, and consider requests from Directorates for new Reserves or additional Corporate Reserves based on new risks or pressures. This review has now been undertaken together with an assessment of the risks and pressures that are sufficiently 'known' or 'probable' over the MTFS period and for which an Earmarked Reserve is therefore required. This review has identified the need for £10.416 million to create new or enhance existing Corporate Reserves including reserves to help support the Capital Programme, to meet the cost of future service reconfigurations (including severance payments), to provide funding for the Extra Care Provision as agreed within the MTFS, to continue with the Council's Digital Transformation programme and to replenish the MTFS Contingency Reserve.

In determining what Directorate Earmarked Reserves are required, priority has been given to those demonstrating significant risk, those which are sufficiently 'known' or 'probable' and those for which funding needs to be set aside as a priority, with consideration given to any existing reserve balances. The total of new and replenishments to existing Directorate Earmarked Reserves is £2.093 million. The largest addition is £1 million to the Looked After Children's Reserve to replenish the reserve and further enhance it following the draw-down of almost £800,000 during the 2016-17 financial year. The total of additions/reclassifications as a result of the Chief Finance Officer's review is £12.509 million.

As per last year, under proper accounting practice as detailed in CIPFA's Code of Practice on Local Authority Accounting, all grants and contributions should be analysed to see whether there are specific conditions attached to them. When the conditions are actually satisfied the grant is credited to the Comprehensive Income and Expenditure Statement regardless of whether the actual expenditure has been incurred. In these cases the Council can decide to transfer the grant monies to an

Earmarked Reserve to fund future expenditure. In 2016-17, there was £841,000 of grants received which, in line with International Financial Reporting Standards (IFRS), have been transferred to Earmarked Reserves to ensure the funding is protected in accordance with the original terms and conditions of the grant or contribution.

There are also a number of '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, Maesteg PFI funding, Building Control costs, Special Regeneration Fund projects and the preparation of the Local Development Plan. These have been enhanced by £647,000 at year end.

A full breakdown of the total movement on Earmarked Reserves as at 31 March 2017 is provided in Note 27 to the Core Financial Statements. Total Reserves excluding the Equalisation of Grants and Spend is £44.418 million, an increase of £4.758 million from the start of the financial year. The remaining under spend on the revenue account of £356,000 will be transferred to the Council Fund.

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 2017. 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 2016-17 is £252.450 million (£245.270 million in 2015-16), an increase of £7.18m. 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 2016-17 compared to 2015-16

The Council's accounts for the financial year 2016-17 have been prepared in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 ('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 Narrative Report, the main change is the introduction of 'Telling the Story' and changes to the presentation of information to aid a better understanding of the Council's service management and this has been reflected in the production of the Statement of Accounts for 2016-17.

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

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 and be maintained at a minimum level of £7 million, with a planned rise in line with the Council's Medium Term Financial Strategy of 2.7% of Gross Revenue Expenditure by 2019-20. 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 Council that officer is the Head of Finance.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

Section 151 Officer's Responsibilities

The Section 151 Officer is responsible for the preparation of the Council'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.

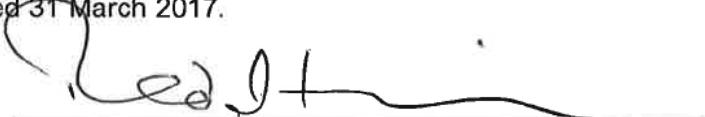
The Section 151 Officer has also:

- 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 as at 31 March 2017 and of its income and expenditure for the year ended 31 March 2017.

Signed:



Dated:

19/06/17

Annual Governance Statement 2016-17

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 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 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) (The 2007 edition). In 2016, the *Delivering Good Governance in Local Government Framework* was revised and updated, with guidance notes produced for Welsh Authorities. A new set of seven principles was developed, setting out characteristics of effective governance for all local authority bodies as defined by CIPFA and SOLACE. These principles have superseded those set out previously in 2007. The Council is reviewing its Code of Corporate Governance to reflect the new principles set out by CIPFA and SOLACE (the 2016 edition).
- 1.5 Following discussion with Wales Audit Office (WAO), it has been agreed that 2016-17 will be a transitional year in the way that the Council produces its Annual Governance Statement. For the purposes of this report, the Council has followed the historical six principles as set out in the 2007 Framework in demonstrating strong governance and where possible has included evidence to support governance against the new principles. Next year the Council will use the new principles in producing its Annual Governance Statement in line with the new 2016 framework.

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 make appropriate use and prevent 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 2017. The description of the arrangements in place is built around the core principles set out in the Council's Code of Corporate Governance.

3. The Governance Framework

Corporate Governance comprises the systems and processes, cultures and values, by which local government are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities



Key Documents: Annual Review/ Production	Key Documents: Ad hoc Review/Production	Process/ Regulatory Monitoring
Annual Report Annual Governance Statement Asset Management Plan Budget Book Communications, Marketing and Engagement Strategy Code of Corporate Governance Corporate Plan Corporate Risk Assessment Directorate Business Plans Financial Resilience Report Medium Term Financial Strategy Single Integrated Partnership Plan Statement of Accounts Treasury Management Strategy Workforce Plan	Anti-Fraud and Bribery Policy Anti-Money Laundering Policy Assessment of Local Wellbeing Business Continuity Plans Code of Conduct – Part 5 of the Constitution Constitution Contract Procedure Rules Corporate Complaints Policy Corporate Training and Development Elected Member Learning & Development Strategy Financial Procedure Rules Health & Safety Gap Analysis/Policy Human Resources Protocols & Management Guidelines Information & Communications Technology Strategy Information Management Strategy Performance Management Framework Record of Decisions Shaping Bridgend's Future Consultation Social Services Representations & Complaints Procedure Strategic Equality Plan Whistleblowing Policy	Audit Committee Annual Improvement Report (WAO) Budget Monitoring Reports to Cabinet & Scrutiny Committees Citizens' Panel Corporate Assessment (WAO) Corporate Safeguarding Policy Corporate Performance Assessment (CPA) Council Tax Leaflet External Audit Forward Work Programme for Committees Freedom of Information Head of Finance – s151 Officer Inspectorate Reports Internal Audit Job Descriptions Job Evaluation Process Law & Governance Member Development and Induction Monitoring Officer Regulatory, Scrutiny & Standards Committees Scheme of Delegation Staff Induction Treasury Management Monitoring Reports

3.1 During 2016-17 the Bridgend and Vale Internal Audit Shared Service carried out an audit of the Council's governance framework. On the basis of the audit work and taking into account all available evidence, the Head of Internal Audit has concluded that "a satisfactory assurance level can be applied to standards of internal control at Bridgend CBC for the period stated". The Annual Opinion Report of the Head of Internal Audit for the period April 2016 to March 2017 is available via this link:

<https://democratic.bridgend.gov.uk/ieListDocuments.aspx?CId=132&MId=2737&Ver=4&LLL=0>

3.2 The six principles of corporate governance (2007 Framework) that underpin the effective governance of all local authority bodies as defined by CIPFA and SOLACE 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*).

3.3 The Council has identified the following points whilst gathering evidence under each of the principles to gain assurance that governance within the Council is robust. The new 2016 principles are outlined in brackets where it is possible to map these against the historic principles as per the CIPFA guidance 2016.

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 (CIPFA 2016 - Principle C – Defining outcomes in terms of sustainable economic, social, and environmental benefits)

4.1 The Council has a clear vision – one Council working together to improve lives. In 2016, the Council developed a new set of corporate priorities and defined clear outcomes for each priority. A new corporate plan for 2016-2020 was created to realise the vision and to deliver outcomes for the local people, taking account of the significant challenges ahead of our communities – not least the increasing demands made on many of our services against the background of forecast reductions in funding from the Welsh Government. The new plan sets out how the Council is to change and what its focus will be over the next four years. The three corporate priorities are as follows:

- Supporting a successful economy
- Helping people to become more self-reliant
- Smarter use of resources

4.2 The Council has reviewed these priorities recently against the requirements of the Well-being of Future Generations (Wales) Act 2015 as well as the requirements of the Local government (Wales) Measure 2009, and decided that these three priorities are its improvement objectives

under the Measure and wellbeing objectives under the Act. The reviewed Corporate Plan for 2017-18 has reflected these amendments. It has also embedded the Council's wellbeing state, required by the Act, into the document, and sets out how our priorities link to the seven national wellbeing goals.

- 4.3 The vision, principles and improvement priorities set out in the Corporate Plan available via this link <http://www1.bridgend.gov.uk/media/414512/reviewed-bcbc-corporate-plan-2016-2020-for-17-18.pdf> give the direction for development of Directorate Business Plans. The Corporate Plan identifies a number of outcome-focused success indicators, some of which are benchmarking measures. The indicators included in the Plan are aimed at measuring the success of our outcomes and evidence our joined up working with citizens and partners, as well as providing a measure of performance. These are reported to Corporate Performance Assessment (CPA) panel on a regular basis and subject to scrutiny on a bi- annual basis.
- 4.4 Alongside the Corporate Plan, the Council approved a Medium Term Financial Strategy (MTFS) for the period 2016-17 to 2019-20 available via this link <http://parliment/ieListDocuments.aspx?CId=142&MId=2341&Ver=4>. This provides an integrated planning and financial framework for the next four years, including 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 new priorities. Quarterly budget monitoring reports are submitted to Cabinet and to Scrutiny Committee, with the Corporate Resources and Improvement Scrutiny Committee nominated as the lead Scrutiny Committee.
- 4.5 The Council has a range of projects and programmes in progress to ensure that the improvement priorities are achieved and provides corporate leadership that supports change throughout the Council. The Corporate Programme Management Board (PMB) oversees a number of major initiatives to deliver change:
 - School modernisation programme;
 - Remodelling Adult Social Care;
 - Remodelling Childrens Social Services;
 - Successful Economy Programme;
 - Strategic Review of the School Curriculum and Estate;
 - Third Sector Programme;
 - Digital Transformation programme;
 - Rationalising the Estate programme; and
 - Strategic collaboration projects e.g. City Deal.
- 4.6 The Council works collaboratively with a number of partners providing joint services to maximise efficiencies and improve outcomes for the benefit of our citizens. Key collaborations include: Shared Regulatory Service, Central South Consortium, Western Bay, HALO, Awen, Coychurch Crematorium. These partnerships are initially monitored by those elected members appointed by Cabinet/ Council to represent the Council's interests on the outside body. The Overview and Scrutiny Committee also receive reports from Council partners which enable Elected Members to monitor the governance arrangements and the outcomes being delivered.

- 4.7 The Auditor General carried out an audit of the Council's Improvement Plan for 2016-17, and also one for 2017-18, and certified that "the Council has discharged its duties under section 15(6) to (9) of the Measure and has acted in accordance with Welsh Government guidance sufficiently to discharge its duties".
- 4.8 The Auditor General audited the Council's assessment of its performance in 2016-17 in accordance with the Measure and his Code of Audit Practice and certified in November 2016 that the Council has discharged its duties under sections 15(2), (3), (8) and (9) of the Measure and has acted in accordance with Welsh Government guidance sufficiently to discharge its duties.
- 4.9 The Auditor General undertook a Corporate Assessment of the Council in 2015-16. The purpose of the assessment was to provide a position statement on the Council's capacity and capability to deliver continuous improvement. The focus of the assessment was on the extent to which arrangements are helping to improve service performance and outcomes for citizens.
- 4.10 The assessment considered the Council's track record of performance and outcomes as well as examining the key arrangements necessary to underpin improvements in services and functions. The auditors interviewed, met with, observed, and conducted online surveys of elected members, senior officers and frontline staff, both individually and collectively.
- 4.11 The outcome of the assessment is very positive. The Auditor General's overall conclusion is that "*the Council is developing appropriate plans for the future and subject to aligning ICT and human resource functions with the transformation programme, is well placed to secure improvement*".
- 4.12 The Auditor General found no reason to make any formal recommendations, or conduct an inspection, or recommend that Ministers of Welsh Government intervene. He did, however, make eight proposals for improvement (including some of those included in the above mentioned AIR report). In 2016-17, the Council took action to address all the proposals. A follow-up audit has been planned by the WAO to ensure progress.
- 4.13 Other activities that demonstrate the Council's commitment to Principle 1 - "**Putting the Citizen First**", included:
- Ongoing use of the Citizens' Panel (a representative group of over 1,500 residents aged 16+) and extensive public consultation and engagement activity undertaken with citizens on various Council services and policies including reduction proposals;
 - Delivery of the Council's Communications, Marketing and Engagement Strategy 2016-17
 - Highest response by % of residents in Wales to the budget consultation.
 - Increased the range of ways citizens can complete surveys ie desktop, tablet or mobile.
 - Introduced an email database (in addition to the Citizens' Panel of over 1,500 residents who have requested to be kept up to date on key consultations).
 - Citizen engagement and involvement activities to inform Bridgend's Assessment of Wellbeing, and public consultation on the draft assessment developed by the Public Services Board

5. Principle 2 - Members and Officers working together to achieve a common purpose with clearly defined functions and roles

- 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 the Council;
 - The Leader appoints members of the Cabinet and announces the Deputy Leader and the portfolio of Cabinet Members, details of which are published on the website;
 - Audit Committee has a clearly defined function providing an independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment, and to oversee the financial reporting process. Audit Committee appoints its own Chairperson;
 - In total there are five Scrutiny Committees who 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; and
 - 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, lay members, co-opted members and Church and Parent Governor Representatives. In total there are 8 members of the Committee, representing the above.
- 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. The Corporate Director, Operational and Partnership Services is the Monitoring Officer appointed under Section 5 of the Local Government and Housing Act 1989. The post holder holds overall responsibility for ensuring compliance with the law and his staff work closely with departments to advise on legal matters.
- 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, through its work programme, 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. Changes to the management structure were proposed by the Chief Executive (following the post of the Corporate Director – Resources becoming vacant) and were agreed by Council in April 2016.
- 5.7 Since the deletion of the post of Corporate Director, the Head of Finance has been nominated as the Council's Section 151 Officer, as required by 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. Whilst not a Corporate Director, the Section 151 Officer is a member of the Corporate Management Board on the same basis as other members.
- 5.8 The Corporate Director – Social Services and Wellbeing is statutory Director for Social Services, as defined by the Local Authority Social Services Act 1970, which outlines the six core responsibilities across all the Social Services functions, including ensuring that the Council has proper safeguards to protect vulnerable children and adults. Following changes made in December 2014, the Corporate Director – Social Services and Wellbeing now holds line management responsibility for the social care functions for children and adults. This has enabled the new ways of working laid down by the Social Services and Wellbeing (Wales) Act 2014 to be embedded within the service. The CSSIW report of 2014-15, published in October 2015, recognises that these changes have created additional leadership capacity to meet the challenges ahead within social services.
- 5.9 The role of the Assistant Chief Executive was changed at Council in April 2016 to that of Corporate Director of Operational and Partnerships Services, acknowledging the scale and complexity of an increased portfolio of services.
- 5.10 The Corporate Director – Education and Family Support (formerly Corporate Director – Education and Transformation, until April 2016) is the Chief Education Officer, as prescribed by the Education Act 1996 and statutory Director for Children and Young People, as defined by the Children Act 2004. The incumbent post holder has taken a secondment to Welsh Government and an interim Head of Service was engaged in April 2017 to cover this role for the duration of the secondment.
- 5.11 The Council's Workforce Plan aims to identify critical workforce issues and provide a structured and co-ordinated approach to building the capacity and capability of our workforce. Updated annually by Human Resources (HR) in consultation with Business Managers, the plan incorporates an action plan of HR and Organisational Development (OD) Action Plan and is approved by the Corporate Management Board.
- 5.12 Corporate training and development opportunities are provided for priority areas either through targeted face to face training and e-learning, which employees can access through a learning management system. Specialist training is also provided and co-ordinated by service areas, which includes training to meet new legislative requirements.

- 5.13 Training needs are identified through the employee appraisal process where managers are able to identify with employees their development needs. A Core Training Framework is available providing details of corporate training available to assist this process.
- 5.14 Job descriptions are available which set out the job purpose and summarise main responsibilities and activities of the role. These are reviewed as part of the appraisal process. Appraisals take place between January and June each year and actions and targets are linked to service priorities reflected in annual business plans.
- 5.15 Terms and conditions of employment are set out for all employees via their Written Statement of Particulars of Employment. These comprise national terms and conditions of employment and those negotiated on a local basis, e.g. the Council's Pay and Grading Scheme
- 5.16 HR policies protocols and managers' guidelines are available and are reviewed to ensure they are compliant with employment legislation, best practice and meet organisational needs. These are developed in consultation with legal colleagues and Trade Union representatives. The key policies are approved by Cabinet.
- 5.17 Health and wellbeing support is available for employees through the Care First counselling and employee assistance scheme which provides 24/7 access to counselling and advice on a broad range of workplace and personal matters, as well as a programme to help improve employees' health and wellbeing.
- 5.18 The Council's Performance Management Framework, revised and adopted by Cabinet in June 2014, continues to guide the Council's integrated Corporate, business and financial planning and performance management processes and practice. The Framework is structured around the 'Plan, Do, Review, Revise' model. It clearly defines the Council's processes and procedures for performance management at each stage, including monitoring and performance data. It establishes the roles and responsibilities of members, managers and staff through the cycle. It shows the relationship between process and plans at Corporate, Directorate and Service level, linking to individual appraisals. It includes expectations around the style and behaviour of managers to support the further evolution of a strong culture of self-assessment.
- 5.19 During 2016-17, the Council strengthened the Corporate Management Board (CMB) challenge on Performance Management, to complement the Corporate Performance Assessment (CPA). This structured challenge further developed the use of Performance Indicators linked to service improvement and extended the opportunities for more detailed discussion of performance issues. The Performance Management system has been further developed to reflect these changes and continues to provide timely, consistent management information for managing service improvement and decision making.
- 5.20 In his Corporate Assessment report, published in January 2016, the Auditor General for Wales noted that the Council has clarified roles and responsibilities and established effective arrangements for holding people to account. He also found that Cabinet members and the CMB were working closely together to develop the options for the future role of the Council and to identify new opportunities for engaging with local communities.

6. Principle 3 - Promoting Values for the Council and Demonstrating the Values of Good Governance through upholding High Standards of Conduct and Behaviour (CIPFA 2016 - Principle A – *Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law*)

- 6.1 There is a clear vision for the Council, that is, always to act as ‘One Council working together to improve lives’. The Council recognises that it will become a smaller, more flexible and innovative authority that works with partners and local communities to create a future in which residents have access to a more responsive and tailored service. It will also mean that residents take greater responsibility for making that happen, both for their own sake and for that of the community as a whole. These values are set out in the Council’s Corporate Plan.
- 6.2 In developing its new Corporate Plan for 2016-2020, the Council identified a new set of principles. These have been developed to help steer the Council to become the sort of organisation that it needs to be in order to meet new challenges.
- 6.3 The Council is committed to the sustainable development principle and the five ways of working provided by the Well-being of Future Generations (Wales) Act 2015. The Council appointed a Cabinet Member for Well-being and Future Generations to lead the implementation of the Act. The Council has integrated well-being planning into its corporate and business planning process. The Council is reviewing its Performance Management Framework to ensure the sustainable development principle and the five ways of working underpin everything it does: plan-do-review-revise.
- 6.4 The behaviour of elected members and officers is governed by codes of conduct. Elected members are provided with training in accordance with the Elected Member Learning and Development Strategy which is approved by Council and co-ordinated by Democratic Services. Topics include code of conduct, declarations of interest and other subjects which clarify the behaviours of elected members. Some training particularly relating to regulatory functions have been identified as mandatory to ensure that Elected Members have a full understanding of their role before they make key decisions. Democratic Services also monitors training, provides reminders and maintain documents and publish a variety of documents and registers including the register of Gifts and Hospitality for Elected Members and Officers.
- 6.5 The Council takes fraud, corruption and maladministration very seriously and has the following procedures and 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
 - Social Services Representations & Complaints Procedure
 - Financial Procedure Rules
 - Contract Procedure Rules
- 6.6 Conduct of Members is monitored by the Public Services Ombudsman for Wales and the standards reflect Welsh Government Public Service Values. 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. There has not been a referral to the Standards Committee in respect of a BCBC member for many years and the Monitoring Officer has utilised the internal informal protocol approved by the Public Services Ombudsman for Wales successfully.

- 6.7 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.
- 6.8 The Council has a protocol for the use of Social Media. <http://www1.bridgend.gov.uk/media-centre/terms-and-conditions/social-media-policy.aspx>. 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 (*CIPFA 2016 - Principle F – Managing risks and performance through robust internal control and strong public financial management*)

- 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); the Grants Policy and the Corporate Risk Management Policy. All managers have responsibility to ensure compliance with these policies.
- 7.6 The Council has adopted a category management approach to procurement. This is a strategic approach where our procurement resources are organised to focus on specific areas of spends. This enables category specialists to focus their time and conduct in depth market analysis to fully leverage procurement decisions on behalf of the Council as a whole. The results can be significantly greater than traditional transactional based purchasing methods. The corporate

procurement unit also utilises and promotes collaborative frameworks, particularly the National Procurement Services (NPS).

7.7 The Council's Performance Management Framework describes the 'Golden Thread' for planning which links the Council's vision of "One Council 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, and the Public Services Board that is currently preparing its Wellbeing Plan and objectives that will influence/ and be influenced by the Council's priorities in the future. The vision and priorities set out in the Corporate Plan have a direct relationship with Directorate business plans, service delivery plans, group delivery plans and individuals' objectives within staff appraisals.

7.8 The Corporate Performance Assessment (CPA) is undertaken on a quarterly basis and is attended by Cabinet Members, Corporate Management Board, and Heads of Service. 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.

7.9 Specifically, the CPA monitors:

- The financial position by Directorate;
- The Council's improvement priorities as defined by the Corporate Plan;
- Service actions that are linked to Directorate priorities as defined by the Corporate Plan;
- Key indicators/measures, through four perspectives that are linked to Directorate priorities in line with the Corporate Plan and at Service level for monitoring key operational performance; and
- Corporate risks.

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

7.11 During the latter part of 2015, Cabinet and CMB reviewed the current CPA process and agreed that for 2016-17, the CPA would cover a broader range of measures to assess performance both of the Corporate Plan and at Service level in relation to business as usual activities. It was agreed that outcomes would be measured through four perspectives, concentrating on performance indicators that supported tangible outcomes. The indicators would measure value for money, service user outcomes, internal processes and organisational capacity. Indicators are monitored at the Head of Service level for there to be greater accountability across the organisation and a balanced scorecard approach is used in monitoring performance for 2016-17 onwards. CPA undertaken during 2016-17 reflected the new process, with work ongoing during the year to strengthen the suite of indicators used to challenge performance at Head of Service and Corporate Director Level.

7.12 The Council has developed a robust approach to the management of risk. The Corporate 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.

- 7.13 Risks are viewed from both a Service and Council-wide perspective which allows the key risks to be distilled in the Corporate Risk Register. Key corporate risks are monitored at the highest level within the Council, including Cabinet, Senior Management Team, Programme Management Board, CPA Overview and Scrutiny Committees and Audit Committee. The Council's approach ensures that key risks are considered when determining Council priorities, targets and objectives and are incorporated in Directorates' Business Plans. The main risks facing the Council that were identified during 2016-17 are set out in the Council's Corporate Risk Register which can be accessed <http://www.bridgend.gov.uk/media/393300/risk-register-2016-17.pdf>
- 7.14 In April 2015 Senior Management Team (SMT) received a report on Health and Safety gap analysis. It was decided that the risk should be escalated to the Corporate Risk Register. The risk describes the Council's duties and identifies that there are areas where there can be improvement in some health and safety arrangements.
- 7.15 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 Section 151 Officer 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. CMB regularly monitor the overall budgetary position and achievement of specific budget reductions and quarterly budget monitoring reports are produced for Cabinet and Scrutiny Committee. This work informs the production of the statutory annual Statement of Accounts.
- 7.16 The Council is committed to demonstrating due regard to the Equality Act 2010 and the Public Sector Equality Duty. It published its Strategic Equality Plan 2016-2020 on 1 April 2016. The plan outlines the Council's approach to ensuring equality of opportunity for customers, citizens, residents and visitors and seeks to ensure that Bridgend County Borough is a fair and welcoming place to be. The plan has been written based on what we know about our services and on the views and needs of Bridgend County Borough citizens and the people who use them. The Council has a duty to publish Strategic Equality Plan annual reports with the most recent going to Cabinet Equalities Committee in March 2017. The annual reports review and reflect on previous work and outline 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. Updates are provided to the Cabinet Equalities Committee and to the Bridgend Equality Forum. Committee and Council reports requiring a policy decision are supported by equality impact assessments.

**8. Principle 5 - Developing the Capacity and Capability of Members and Officers to be Effective
(CIPFA2016 - Principle E - Developing the entity's capacity, including the capability of its leadership and the individuals within it)**

- 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 as outlined in their job/role

descriptions. New members and staff are provided with an induction to familiarise them with protocols, procedures, values and aims of the Council.

- 8.2 Organisational structures in respect of Member responsibility and Directorate portfolios are contained within the constitution and are available on the BCBC website. Members also have agreed role descriptions.
- 8.3 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.
- 8.4 Modern.Gov the Committee Administrative system is used to automate many of the administrative duties in respect of elected members and the formal decision making process. The system aids decision making, enables the tracking of actions and monitoring of decisions and provides a web-based decision register.
- 8.5 The Council takes a pragmatic approach to delegation of powers for decision making enabling lower level decisions to be subject to 'calling to account' but not 'call in' by scrutiny. The scheme is reviewed in detail regularly, updated to reflect any changes in legislation and following changes to the corporate structure and is published to the intranet. The Authority is informed of any changes that have been made using Bridgenders messages. Delegated powers and limits are clearly set out as are the use of sub delegations enabling effective and timely decision making.
- 8.6 While undertaking his Corporate Assessment of Bridgend County Borough Council, the Auditor General for Wales found that Elected Members of the Council benefitted from a range of opportunities that equipped them with the skills they needed to discharge their roles effectively.
- 8.7 The Member Development Programme is regularly reviewed to ensure that any training activities are appropriate, relevant and timely. Webcasting Training has been delivered to elected Members and to Officers. A provider has been sourced and webcasting of Council and Committee meetings has become a performance indicator requiring at least 10 meetings to be webcast until 2018.
- 8.8 In 2016-17 a cross party group of 3 Elected Members participated in the 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. The Academy also supported the personal development of these Members and promoted collaborative working across Wales.

9. Principle 6 - Engaging with local people and other stakeholders to ensure robust public accountability (CIPFA 2016 - Principle B – Ensuring openness and comprehensive stakeholder engagement)

- 9.1 The Council is committed to understanding and learning from the views of the public and using their feedback to help shape services and policies. There is a consultation and engagement toolkit in place to help managers to ensure consultation activities are robust as well as following

legal guidance (Gunning's principles) and Participation Cymru's National Principles for Public Engagement in Wales that have been adopted by the Council. The planning and decision-making processes are designed to include consultation with stakeholders. The Communications, Marketing and Engagement Strategy provides a framework for engagement activities, which are undertaken by the Council.

- 9.2 The Welsh Language (Wales) Measure was introduced by Welsh Government in March 2010 and a compliance notice was served on the Council on 30 September 2015. The Council has made significant steps in its use of the Welsh Language to give Welsh speakers improved, enforceable rights in relation to the Welsh Language and has implemented a number of the standards. The Council is negotiating with the Welsh Language Commissioner in relation to implementing the remaining standards.
- 9.3 The Council has a Citizens' Panel made up of over 1,500 residents aged 16 or over 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. This has helped to understand residents' opinions about the services the Council provides and to help improve things in the future. The panel is currently representative of residents aged 25 and over. The consultation team has key performance indicators in place to increase representation of 16-24 year olds, Welsh speakers and disabled residents, as well as indicators to increase representation across each ward to a minimum 1 per cent.
- 9.4 During 2016-17, the Council consulted on a wide range of issues including the following (this list is not exhaustive):
 - Shaping Bridgend's Future;
 - Understanding demand for Welsh language education
 - Bridgend Town Centre access survey
 - Household waste: additional allowance scheme
 - Digital transformation
- 9.5 The Shaping Bridgend's Future consultation included 15 community engagement events/stands throughout the county borough, and, an online survey which captured the views of the public on how to achieve the necessary budget savings.
- 9.6 Social media is used to promote services and engage with the public, Regular Q&A sessions/debates are held as part of consultation exercises to capture citizen's feedback. This has been successfully implemented as part of the "household waste and recycling review" and the "Shaping Bridgend's Future" consultations.
- 9.7 Increasingly, surveys are being made available on desktop, tablet and mobile to increase the likelihood of residents responding. The consultation team has also created a database of over 1,500 residents who are interested in receiving HTML emails regarding key consultations happening in the county borough.
- 9.8 Citizens' Panel members and residents who opt to receive key consultation updates are sent engagement details on projects that may be of interest to them. Using the database has seen a 68% improvement in response rate for the PSB survey (online consultation on the Wellbeing

Assessment) in 2017. Bridgend Business Forum members, the youth Council and the Bridgend Equality Forum are all invited to share their views (when relevant) to improve representation.

9.9 There is regular communication with staff through managerial arrangements which is supplemented by

- Bridgenders
- Bridgenders Bulletin
- Chief Executive updates to employees
- Senior Management workshops

Trade Union meetings are held regularly with the Head of HR and representative Cabinet members.

9.10 The Corporate Plan is published on the Council's website, is communicated widely to staff and approved by Members, through the normal democratic process. Performance data is also published on the Web, to support the Council's achievements in delivering its improvements for the year. The Annual report is published on the website and like the Corporate Plan and performance data is agreed by elected members at Cabinet and Council on an Annual Basis. Notifications for the Corporate Plan and the Annual Report are published on the website and the local gazette on annually. The Annual Report is also available in key public buildings around the Borough for citizens to read.

9.11 The Council operates both a Corporate Complaints Procedure and a Social Services Representations & 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, in writing and for Social Services complaints can also be made verbally. The Council has set target times for responding to all complaints received to ensure accountability. The operation of the Complaints Policy is reported annually to full Council as it provides an opportunity for improvement in service delivery. Social Services also produce an Annual Report on their complaints which is reported to Cabinet.

9.12 There is a Corporate Safeguarding policy which includes details of Safeguarding in Employment.

9.13 The Recruitment and Selection Protocol and Managers' Guidelines detail the pre-employment vetting which involves establishing full employment histories; proof of identity; satisfactory references; health assessment; checks of qualifications; asylum and immigration checks; and criminal record checks with the Disclosure and Barring Service.

9.14 The Disclosure & Barring Service Policy applies to employees, volunteers, work placements and elected members. In addition, foster carers and prospective adoptive parents, student placements, licencing and school transport arrangements and any other regulated positions also come under the provisions of this policy. Additionally it applies to those directly employed by governing bodies.

9.15 The Council makes a large amount of information available to its citizens in an open and friendly way. Information can be obtained through the Council website and many other publications. Under the Freedom of Information Act, the Council is required to increase access to the

information it holds, and part of the Act requires the provision of a Publication Scheme. The Scheme has been approved by the Information Commissioner's Office who is responsible for ensuring compliance with the legislation. The Scheme provides a guide to the information routinely made available to the public. Not all the information the Council publishes is detailed in the publication scheme. Information that is not published can be requested by making a FOI request. The Council considers all requests under the provisions of the legislation and adheres to the requirement to respond within 20 working days.

- 9.16 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. Work Programmes with agreed timescales for report, submission, approval by Legal and Finance, publication and distribution aid decision making at a strategic level. This ensures a corporate check on the impact of decisions and also probity both in legal and financial authorisations. The Council also implemented a webcasting facility in early 2016, which provides live streaming and an archive facility. The number of webcast viewers is monitored and the results are reported to the Democratic Services Committee. Officers and members work together to identify those meetings which are considered to be of key public interest and suitable for webcasting. Members of the public and 'expert' witnesses can participate by speaking at Overview and Scrutiny Committees similar to arrangements already in place for Development Control Committee.
- 9.17 The Well-being of Future Generations (Wales) 2015 Act (the Act) gained royal assent on 29 April 2015. The Act establishes Public Services Boards in each local authority, which replaced Local Service Boards from 1 April 2016. The Council is one of the four statutory members of Bridgend Public Services Board (PSB). The Board also includes 'Invited Participants'. The work of the PSB can be found at Public Services Board - Bridgend County Borough Council: <http://www.bridgend.gov.uk/services/public-services-board.aspx>.
- 9.18 The main focus of the PSB in 2016-17 has been the statutory requirement to publish an Assessment of Local Wellbeing by April 2017. The Assessment will inform the wellbeing objectives to be included in the Wellbeing Plan which will be published by May 2018. The PSB is also responsible for implementing Bridgend County Together, the Single Integrated Partnership Plan for Bridgend, until it is replaced by the Wellbeing Plan. The PSB is taking a project approach to delivering its identified priorities. During the year the PSB also agreed its Terms of reference and developed its governance arrangements, including embedding in Scrutiny arrangements.
- 9.19 In the Medium Term Financial Strategy 2016-17 to 2019-20, over 10% of budget reductions identified over the 4 year period were identified as coming from collaboration and service transformation. Council have agreed that collaboration 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. In the recently published White Paper 'Reforming Local Government: Resilient and Renewed' the Welsh Government sets out its proposals for mandatory and systematic regional working to offer an opportunity to strengthen, regularise and simplify the existing arrangements between Local Authorities. Services that could be affected include transport, land use planning and building control, social services, education and public protection. Whilst the authority is already operating collaboratively in a number of these areas of service, there are still areas where joint working can be progressed.

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. 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 Overview and 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 Chairpersons liaise with each other to ensure the effective scrutiny of collaborative collaboration topics to ensure that work programmes are co-ordinated to prevent duplication.
- The Audit Committee which provides the focus for reviewing the effectiveness of the system of internal control. Much of this work is 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 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 Council 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 A comprehensive Member Development Programme has been provided to ensure that all members (including the Lay and Co-opted Members) have the opportunity to gain a comprehensive understanding of their role as described in the Elected Member Role Descriptions approved by Council. All Elected Members were offered training on Treasury Management to assist them in scrutinising the Annual Treasury Management Strategy of the

Council. The effectiveness of member training has been recognised by Estyn which noted that training provided to elected members increased their understanding and ability to interrogate data to enable them to challenge performance particularly regarding school performance data.

- 10.5 Members have a key role to play in safeguarding children and adults at risk. Members have been able to access training to further their understanding of their responsibilities in relation to safeguarding children and adults. The training which took place over several dates between October and December 2016 considered safeguarding within the context of the Social Services & Wellbeing (Wales) Act 2014.
- 10.6 The Council has adopted the WLGA model of role descriptions for all committee Member and Chairpersons including the Audit Committee. These have been adapted to reflect the specific roles undertaken in the Council which enables members to better understand their role 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.
- 10.7 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 (including to the review of budget proposals); they undertake reviews of specific areas of Council operations and make recommendations to Cabinet for improvement.
- 10.8 Internal Audit also provides independent and objective assurance. It undertakes a continuous audit of Council services that 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 2016-17, in carrying out its duties, Internal Audit worked 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. In accordance with the Public Sector Internal Standards the Internal Audit Shared Service underwent an external assessment, which has been agreed by the Council's Audit Committee. Following a procurement exercise, CIPFA were commissioned to undertake the assessment which commenced at the end of January 2017 and concluded in February 2017. The outcome of the assessment was reported to the Council's Audit Committee on 27 April, which indicated that the assessment identified no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity. A number of recommendations have been made and whilst a number have already been actioned, the Council's Audit Committee will retain oversight of the implementation process to ensure that all recommendations are addressed.
- 10.9 Internal Audit completed a programme of reviews in accordance with the Annual Audit Plan for 2016-17. As part of the normal audit reporting process recommendations were made and agreed with the relevant chief officers to address any issues that could impact upon the system of internal control. The internal audit arrangement 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. Any significant weaknesses in the control environment identified by Internal Audit are reported to senior management, the Audit Committee and Cabinet as appropriate.

- 10.10 The Head of Internal Audit has found that Bridgend County Borough Council is committed to the principles of good governance and as a result has adopted a formal Code of Corporate Governance (COCG) for the last six years. In 2016-17, 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. During 2015-16 the Council was subject to two significant pieces of assessment work both of which were undertaken on behalf of the Auditor General for Wales, the Financial Resilience Assessment and the Corporate Assessment and followed up by the Wales Audit Office in 2016-17
- 10.12 Following on from the WAO proposals for improvement, the production and focus of the Annual Report was reviewed for 2015-16 making it more outcome focused and easier for citizens to understand the improvements the Council made in line with the improvements set out in the Corporate Plan. The effectiveness of the improved Annual Report 2015-16 is yet to be assessed by the WAO.
- 10.13 The Financial Resilience Assessment was undertaken during June to September 2016 and focused on delivery of the 2015-16 savings plans, the quality of its medium term financial plans and the robustness of its 2016-17 savings plans. The auditors also followed up their 2015-16 work to determine what the Council did as a consequence of what it learnt and how it had responded to the proposals for improvement in relation to financial planning. The auditors sampled some of the savings proposals for 2016-17 and looked at the underlying assumptions, and whether there are adequate mechanisms to ensure they can be delivered in the planned timescale. In the review they found that the Council has strengthened its arrangements for reporting on the use of reserves but its approach to developing savings plans weakens arrangements. Over half of the savings plans are insufficiently well developed when setting the annual budget to ensure delivery in planned timescales and indicative savings plans for future years lack detail.
- 10.14 Overall the assessment concluded that "Whilst the Council has a sound financial planning framework underdeveloped savings plans may not fully support future financial resilience". They made one proposal for improvement:
 - That the Council strengthen financial planning arrangements by:
 - ensuring that savings proposals are fully developed and include realistic delivery timescales prior to inclusion in the annual budget; and
 - identifying indicative savings proposals over the period of the MTFS.
- 10.15 The Corporate Assessment undertaken by the Auditor General for Wales in 2015-16 sought to answer the following question, "Is the Council capable of delivering its priorities and improved outcomes for citizens?"

10.16 As a result of this work, the Auditor General has concluded that the Council is developing appropriate plans for the future and is well placed to secure improvement. The Auditor General came to this conclusion because the Council:

- is consulting on key strategic themes designed to improve its focus on priority activity for the future;
- has effective governance arrangements in place to support improvement and drive change;
- has performance management arrangements that are driving improvement in key service areas but the way in which performance evaluation is presented is inconsistent;
- strong financial and asset management arrangements are in place but the Council has not yet established a vision for the way in which human resource and ICT services will be delivered in the future and;
- collaborates across a wide range of activities and whilst it is able to identify improved outcomes from some activities it is not yet able to evaluate the impact of Local Service Board activity.

10.17 Since the conclusions of the Auditor General, the ICT Service has been developed to support the Council's transformation agenda. An ICT Strategy has been developed and approved by Cabinet. The digital transformation is a key project to enable change as part of the Council's transformation programme and training and development opportunities have been put in place to help address recruitment and retention issues within the ICT service.

10.18 The HR service has been further developed, specifically workforce planning so that they support the Council's transformation agenda and ensure workforce considerations are embedded in service business planning.

10.19 The Council has addressed the areas where improvement was identified by the Corporate Assessment, including the way in which its performance is evaluated and presented, evidenced by its annual report for 2015-16, performance report to Scrutiny Committees and the Council's Corporate Plan and Directorate Business Plans for 2017-18.

10.20 The Council has strong mechanisms in place to engage with citizens and partners to ensure there is transparency and public accountability. This includes for example in March 2017 a leaflet regarding the changes in household waste collection being enclosed with the annual Council tax bill to all households paying Council tax. The development of the Council's social media presence has extended the Council's communication, consultation and engagement mechanisms. Public interaction on our social media accounts including Q & A sessions with CMB, have increased public engagement which has directly informed our FAQs relating to the changes in provision of services to our citizens.

10.21 In 2016-17 the Auditor General for Wales undertook a Governance thematic review. The purpose of the review was to "provide assurance that Councils' governance arrangements are well-placed to respond to future challenges, as well as identify opportunities to strengthen arrangements and approaches". The review would also "provide insight and promote improvement through assessment of each of the 22 Councils' governance arrangements in relation to service change, taking into account the revised CIPFA framework, the Public Sector Equality Duty and the Future Generations (Wales) Act". The focus of the review was on Councils' governance arrangements for determining service changes. The result of the review is yet to be known.

- 10.22 The Public Services Ombudsman for Wales reports on each Council in Wales the number of complaints received and investigated. In July 2016 the Council received its Annual Letter for 2015-16. The letter noted an increase in the number of complaints received, 38 in 2015-16 compared to 33 in 2014-15. The comparative figure for the local authority average was 41 for 2015-16 (42 for 2014-15). One investigation was commenced by the Ombudsman in 2015-16. The Annual Letter noted that Planning and Building Control remain the biggest single area of complaints, followed by Road and Transport and Children's Services which both saw a 60% increase from last year. No "upheld" reports were issued and only one Quick Fix or Voluntary Settlement outcome recorded during the year.
- 10.23 Social Services is a regulated service area and there is an annual programme of inspection carried out by the Care and Social Services Inspectorate in Wales (CSSIW). In addition, the Director and Heads of Service have quarterly performance review meetings with CSSIW which ensure regulatory requirements are met and that significant service developments, challenges, workforce, performance and consultation activity is discussed. During 2016-17, the CSSIW completed a review of adult safeguarding and a review of carers. The verbal feedback following these reviews was positive.
- 10.24 There was an inspection of children's social care during January/February 2017. The inspection focussed on how children and families are empowered to access help and care and support services and on the quality of outcomes achieved for children in need of help, care and support and/or protection, including children who have recently become looked after by the local authority. The inspection also evaluated the quality of leadership, management and governance arrangements in place to develop and support service delivery. Formal feedback from this is still awaited and an action plan to progress the recommendations will be developed; it is planned that this will report into Scrutiny in July 2017. The relevant actions arising out of this inspection will be included in the Director of Social Services Annual Report 2016-17 which is in the process of being finalised.
- 10.25 The regulated service areas are also subject to an annual inspection and this includes the 4 older people residential care homes, the supported living environments, the three Children's Homes and the Fostering service.
- 10.26 The Statutory Director of Social Services annual report 2015-16 was submitted to CSSIW. It confirmed that the key priorities for the Directorate during 2015-16 were to progress the objectives of the Directorate Business Plan and also contribute to the new corporate priorities for 2016-17; to contribute to the Medium Term Financial Strategy (MTFS); to implement the new Social Services and Wellbeing (Wales) Act 2014 (SSWBA) and also implement the new Welsh Community Care Information System (WCCIS) – making Bridgend the first local authority in Wales to do so.
- 10.27 CSSIW confirmed in their subsequent performance review meeting with the Director and the two Heads of Service that they were satisfied that the annual report reflected the work undertaken in key areas including our achievements and future plans for the Directorate.
- 10.28 The remodelling Adult Social Care Board remains. The key transformation programme continues to be the central foundation for strengthening the remodelling workstreams and leads the prevention and wellbeing agenda across Bridgend, and regionally across the

Western Bay Health and Social Care Collaboration. Key areas for remodelling in adult social services include the embedding of the new ways of working as laid down by the Social Services and Wellbeing (Wales) Act, for example the provision of information, advice and assistance. Progress has also been made towards the implementation of the extra care model, the remodelling of Home Care, Learning Disability and Mental health services as well as the continued development of the common access point based at Trem y Mor.

- 10.29 The budget approved for 2016-17 included savings proposals of £7.477 million (3.55% of net service budgets). However, as at quarter 3, £1.845 million of these proposals are at risk of not being realised, but the expenditure associated with them has in some instances been offset by vacancy management and other savings elsewhere within the budget. The impact of this is that there is still a recurrent pressure on 2017-18 budgets which will need to be addressed by implementing the proposals or identifying and delivering alternatives. Future monitoring reports will review achievement against these targets in addition to current year budget reductions.

11. Significant Governance Issues

- 11.1 Across the whole of the United Kingdom, local councils are facing unprecedented challenges following reduced Government funding and increased demands on essential services. Between 2016-17 and 2019-20, the Council is expecting to have to make budget reductions of £35.5 million. Budget cuts of this scale present a significant challenge that will require the Council to make many difficult decisions about which services can be maintained and which cannot. It 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. As the Council continues to experience reduced resources, increased demands on services and new and innovative forms of delivery, it is necessary to ensure that the control environment, including governance and risk management, remains robust, proportionate and as efficient and effective as possible.
- 11.2 The Council remains unwavering in its commitment towards improving and finding ways of delivering local services, providing better outcomes for residents and achieving savings that will ensure they can deliver a succession of balanced budgets.
- 11.3 Based on the internal audit work carried out for the year 2016-17, the Head of Internal Audit concluded that the Council’s framework of governance, risk management and control is considered to be reasonable and that “there are no significant cross cutting internal control weaknesses identified which would have an impact on the Council’s Annual Governance Statement”. The weaknesses that have been identified are service specific and the recommendations made to improve the overall control environment have been accepted and are being / will be implemented.

Action Plan

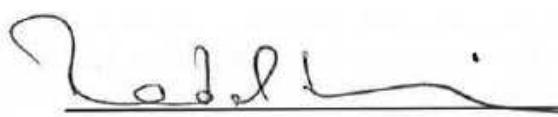
1. Review the Performance Management Framework to incorporate the requirements of the Well-being of Future Generations (Wales) Act 2015
2. Promote the new Code of Corporate Governance and the Well-being of Future Generations (Wales) Act to ensure they underpin everything the Council does.
3. Democratic Services will update and publish the Cabinet Forward Work Programme (FWP) on the website to improve transparency and access to the general public. The scheme of delegation will also be published on the BCBC website.
4. The AGS working group set up during the year will continue to work together to review the Council's Code of Corporate Governance to reflect the CIPFA new principles 2016.
5. The Council will put measures in place to respond to the recommendations within the Financial Resilience report and ensure that financial planning arrangements are strengthened with more robust savings delivery plans and implementation timescales.

12. Certification of Annual Governance Statement

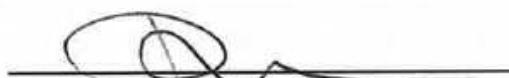
Steps to address and mitigate the matters referred to in section 11 above will be taken to further enhance our governance arrangements.

Signed:

Section 151 Officer

Date: 19/6/17

Chief Executive Officer

Date: 19.6.17

Leader of the Council

Date: 19/6/17

Statement of Accounting Policies

1. General principles

The Statement of Accounts summarises the Council's transactions for the 2016-17 financial year and its position at the year end of 31 March 2017. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (Wales) Regulations 2014 in accordance with proper accounting practices. These practices comprise the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) 2016-17 and the *Service Reporting Code of Practice* 2016-17 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 Council.
- 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 Assets

Provisions

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 Council 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 Council. 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. 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 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 Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant Service Cost 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 Council 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 Council. 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 Education and Family 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 entitled to be 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:-
 - iv. 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
 - v. 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
 - vi. Net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – 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.
 - vii. Re-measurements 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:-
 - viii. 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

In line with changes in the Code of Practice on Local Authority Accounting (the Code) for 2016-17, overheads and support services are shown in the relevant service where they are incurred and are not recharged out to supported service areas. Any internal income as a result of transactions between departments is shown in the supplying service line with the corresponding charge being shown in the recipient service line. This represents a change from 2015-16 when support costs were recharged in line with the Service Reporting Code of Practice.

Non-distributable costs are not chargeable to direct services in relation to the costs of discretionary benefits awarded to employees retiring early. These costs are accounted for as a separate heading in the Comprehensive Income and Expenditure Statement as part of the Cost of 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. Assets that are part-way through creation at year end and are not yet in a usable condition are classified as Assets under Construction.

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 Council and the cost of the item can be measured reliably. Expenditure on assets below £40,000 is recognised as an asset but treated as non-enhancing expenditure and immediately impaired in full. 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
- surplus assets – fair value, which is at 'highest and best' use in line with IFRS13
- assets held for sale – lower of fair value and market value less costs of sale
- 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 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 in line with IFRS13 at Fair Value, deemed to be the value at which the asset could be sold in an orderly market transaction. 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 Council'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 Council'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 Council also owns a number of paintings in various buildings and some public works of art, however their value is not recognised in the balance sheet as conventional valuation approaches lack sufficient reliability for inclusion.

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 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 differentiates between supported capital

expenditure, unsupported capital expenditure, and Finance Leases / PFI. 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 (REFCUS)

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. Where this expenditure is funded by grants or contributions, this is also taken to the relevant service area where the expenditure has been charged.

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 Council 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 Lessor

Operating Leases

Where the Council 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 Council 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 remeasured amounts for the LOBOs on the Balance Sheet.

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 Council 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 Council at the end of the contracts for no additional charge, the Council 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 Council.

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

During the year the Council had administrative responsibilities for County Borough Supplies, which ceased trading on 31 March 2016. The Council agreed final balances to its partner authorities and the final accounts were audited in 2016-17. The Council continues to have administrative responsibilities for Coya church Crematorium and independent financial statements continue to be prepared and reviewed for this joint committee. 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 Council with the major preceptors' precepts (principally Police and Crime Commissioner for South Wales and South Wales Fire and Rescue Authority) 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.

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 Council'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 Council'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. 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.

The Council instructed external valuers Cooke & Arkwright to provide valuations as at 31 December for all of the Council's investment portfolio in line with IFRS13. When the fair values of Investment Properties, Surplus Assets and Assets Held for Sale cannot be measured based on quoted prices in active markets (that is **Level 1 inputs**), their fair value is measured using the following valuation techniques:

Level 2 inputs: quoted prices for similar assets or liabilities in active markets at the valuation date

Level 3 inputs: valuations based on most recent valuations, adjusted to current valuation by the use of indexation and impairment review

The majority of the investment properties were valued at Level 2 inputs with a number valued at Level 3 inputs.

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.

24. Carbon Reduction Commitment 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.

25. Local Authority Schools

The Code of Practice on Local Authority Accounting confirms that the balance of control for local Council maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the Council. The Code also stipulates that those schools' assets, liabilities and cash flows are recognised in the Council's 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 Council.

Core Financial Statements

Comprehensive Income and Expenditure Statement

2015-16				2016-17			Notes
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	
159,619	(47,695)	111,924	Education and Family Support	160,168	(44,483)	115,685	
77,972	(19,122)	58,850	Social Services & Wellbeing	85,871	(21,133)	64,738	
64,904	(26,798)	38,106	Communities	63,758	(23,942)	39,816	
28,157	(12,395)	15,762	Operational and Partnership Services	28,001	(12,882)	15,119	
55,721	(52,326)	3,395	Chief Executives and Finance	54,702	(51,173)	3,529	
22,509	(857)	21,652	Central Services	17,379	(5,717)	11,662	
590	-	590	Non-Distributed Costs	500	-	500	
409,472	(159,193)	250,279	Cost Of Services	410,379	(159,330)	251,049	
			Other Operating Expenditure				
11,944	-	11,944	Precepts payable	12,700		12,700	5
6,823	-	6,823	Levies payable	6,881		6,881	5
2,181		2,181	(Gain) / loss on disposal of non current (fixed) assets	1,050		1,050	
20,948	-	20,948	Other Operating Expenditure	20,631	-	20,631	
			Financing and Investment Income and Expenditure				
4,546	-	4,546	Interest payable on debt	4,576		4,576	
69	-	69	Interest element of finance leases (lessee)	65		65	
1,434	-	1,434	Interest payable on PFI unitary payments	1,395		1,395	11
8,450	-	8,450	Net Interest on Net Defined Benefit Liability	8,050		8,050	29
-	(903)	(903)	Investment Interest & Other Interest Receivable		(942)	(942)	
-	(1,082)	(1,082)	Changes in fair value of investment properties			-	
14,499	(1,985)	12,514	Financing and Investment Income and Expenditure	14,086	(942)	13,144	
			Taxation and Non-Specific Grant Income				
(148,002)	(148,002)		RSG		(145,233)	(145,233)	6
(40,274)	(40,274)		NNDR		(42,142)	(42,142)	9
(77,487)	(77,487)		Council Tax		(81,049)	(81,049)	8
(13,622)	(13,622)		Recognised capital grants and cont.		(6,486)	(6,486)	7
(1,400)	(1,400)		Non service related government grants		-	-	7
- (280,785)	(280,785)		Taxation and Non-Specific Grant Income	- (274,910)	(274,910)		
444,919	(441,963)	2,956	(Surplus) or Deficit on Provision of Services	445,096	(435,182)	9,914	
	(19,595)	(19,595)	(Surplus) or deficit on revaluation of Property, Plant and Equipment		(8,705)	(8,705)	
			Impairment losses on non-current assets charged to the				
3,614	3,614		Revaluation reserve	3,941		3,941	
(34,330)	(34,330)		Actuarial (gains) / losses on pension liabilities		(1,960)	(1,960)	29
	(50,311)		Other Comprehensive (Income) and Expenditure			(6,724)	
		(47,355)	Total Comprehensive (Income) and Expenditure			3,190	

Expenditure and Funding Statement

2015-16				2016-17		
Net Expenditure Chargeable to the Council Fund	Adjustments between the Funding and Accounting Basis & transfers to Earmarked Reserves	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the Council Fund	Adjustments between the Funding and Accounting Basis & transfers to Earmarked Reserves	Net Expenditure in the Comprehensive Income and Expenditure Statement
£'000	£'000	£'000		£'000	£'000	£'000
106,248	(5,677)	111,925	Education and Family Support	107,653	(8,032)	115,685
59,998	1,148	58,850	Social Services & Wellbeing	62,560	(2,178)	64,738
24,978	(13,127)	38,105	Communities Operational & Partnership	24,517	(15,299)	39,816
13,629	(2,133)	15,762	Services	13,238	(1,881)	15,119
3,432	37	3,395	Chief Executives	3,467	(62)	3,529
36,315	14,663	21,652	Central Services	33,428	21,766	11,662
-	(590)	590	Non-Distributed Costs	-	(500)	500
244,600	(5,679)	250,279	Cost Of Services	244,863	(6,186)	251,049
(244,754)	2,569	(247,323)	Other income and Expenditure	(245,219)	(4,084)	(241,135)
(154)	(3,110)	2,956	Surplus or Deficit	(356)	(10,270)	9,914
7,450			Opening Council Fund Balance	7,604		
154			Surplus or (Deficit) on Council Fund for year	356		
7,604			Closing General Fund Balance at 31 March	7,960		

Movement in Reserves Statement

	Council Fund Balance £'000	Earmarked Reserves £'000	Capital Receipts Reserves £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Total Unusable Reserves £'000	Total Council Reserves £'000
Balance at 31 March 2015 carried forward	7,450	41,454	14,534	153	63,591	31,109	94,700
<u>Movement in Reserves during 2015-16</u>							
Total Comprehensive (Income) and Expenditure	(2,956)				(2,956)	50,309	47,353
Adjustments between accounting basis & funding basis under regulations (Note 4)	6,569		3,818	30	10,417	(10,417)	-
Transfers to Earmarked Reserves (Note 27)	(3,459)	3,459	-	-	-	-	-
Increase/(Decrease) in 2015-16	154	3,459	3,818	30	7,461	39,892	47,353
Balance at 31 March 2016 carried forward	7,604	44,913	18,352	183	71,052	71,001	142,053

	Council Fund Balance £'000	Earmarked Reserves £'000	Capital Receipts Reserves £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Total Unusable Reserves £'000	Total Council Reserves £'000
Balance at 31 March 2016 carried forward	7,604	44,913	18,352	183	71,052	71,001	142,053
<u>Movement in Reserves during 2016-17</u>							
Total Comprehensive (Income) and Expenditure	(9,914)				(9,914)	6,724	(3,190)
Adjustments between accounting basis & funding basis under regulations (Note 4)	16,516		3,012		19,528	(19,528)	-
Transfers to Earmarked Reserves (Note 27)	(6,246)	6,246	-	-	-	-	-
Increase/(Decrease) in 2016-17	356	6,246	3,012	-	9,614	(12,804)	(3,190)
Balance at 31 March 2017 carried forward	7,960	51,159	21,364	183	80,666	58,197	138,863

Balance Sheet

31 March 2016 £'000		31 March 2017 £'000	Notes
	Property, Plant & Equipment		
377,815	Other land and buildings	379,014	20
10,198	Vehicles, plant, furniture and equipment	8,980	
77,261	Infrastructure	70,047	
4,808	Community assets	5,015	
6,299	Assets under construction	4,067	
8,256	Surplus assets not held for sale	8,237	
73	Heritage Assets - Civic Regalia	73	
5,185	Investment Property	5,060	21
2,007	Long Term Investments	4,003	30
	Long Term Debtors		
12	Housing Advances	8	
133	Finance Leases	-	
492,047	Long Term Assets	484,504	
14,543	Short Term Investments	26,572	30
4,035	Assets held for sale	1,730	23
419	Inventories	513	
27,346	Short Term Debtors	29,370	22
7,182	Cash and Cash Equivalents	1,664	30
53,525	Current Assets	59,849	
(960)	Short Term Borrowing	(952)	30
(32,772)	Short Term Creditors	(27,213)	24
(1,118)	Provisions due in 1 year	(1,214)	
(34,850)	Current Liabilities	(29,379)	
(2,362)	Provisions due after 1 year	(2,451)	25
(97,434)	Long Term Borrowing	(97,432)	30
	Other Long Term Liabilities		
(21,759)	PFI & Other Long Term Liabilities	(21,064)	26
(245,270)	Net pensions liability	(252,450)	29
(1,844)	Capital Grants Receipts in Advance	(2,714)	20g
(368,669)	Long Term Liabilities	(376,111)	
142,053	Net Assets	138,863	
	Usable reserves		
7,604	Council Fund	7,960	27
44,913	Earmarked reserves	51,159	27b
18,352	Capital Receipts Reserve	21,364	27a
183	Capital Grants Unapplied	183	
	Unusable Reserves		
127,291	Revaluation Reserve	124,703	28
(245,270)	Pensions Reserve	(252,450)	28a
192,078	Capital Adjustment Account	189,468	28b
(739)	Financial Instruments Adjustment Account	(731)	28c
	Short-term Accumulating Compensated Absences Account	(2,793)	28d
(2,359)			28e
142,053	Total Reserves	138,863	

Cash Flow Statement

2015-16 £'000		2016-17 £'000	Notes
2,956	Net (surplus)/deficit on the Provision of Services	9,914	
(28,969)	Adjustments to net deficit on the provision of services for non-cash movements	(31,442)	33
17,582	Adjustments for Items included in the net deficit on the provision of services that are investing and financing activities	11,778	
(8,431)	Net Cash Flows from Operating Activities	(9,750)	34
23,081	Investing Activities	22,614	35
(15,259)	Financing Activities	(7,346)	36
(609)	Net Increase / (Decrease) in Cash & Cash Equivalents	5,518	
(6,573)	Cash & Cash Equivalent at the beginning of the Reporting Period	(7,182)	
(7,182)	Cash & Cash Equivalent at the end of the Reporting Period	(1,664)	

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

Notes to the Core Financial Statements

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

The Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 (the Code) requires that the Council discloses information relating to the anticipated impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This requirement applies to the adoption of the following new or amended standards within the 2016-17 Code:

- Amendment to the reporting of pension fund scheme transaction costs
- Amendment to the reporting of investment concentration

As these both affect Pension Fund Accounting the Council does not believe that any of the above would have a material impact on the information provided within these Statements.

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 £24.1 million) has been recognised as Property, Plant and Equipment on the Council's Balance Sheet.

The Council has a number of interests in other entities however the arrangements are not sufficiently material to warrant producing consolidated financial statements when reviewing both quantitative and qualitative information. In order to ensure compliance with the Code, a range of narrative disclosures have been made in other sections of the accounts.

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 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Plant, Property and Equipment

Revaluation of the Council's assets is undertaken on a 3-year rolling programme. 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. Revaluation takes account of the value and condition of the asset, relevant components and also de-recognition where appropriate.

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.

Investment Properties, Surplus Assets and Assets Held for Sale**Fair Value estimations**

The Council instructed external valuers Cooke & Arkwright to provide valuations as at 31 December 2016 for all of the Council's investment portfolio. These were valued in line with IFRS13.

When the fair values of Investment Properties, Surplus Assets and Assets Held for Sale cannot be measured based on quoted prices in active markets (**Level 1 inputs**), their fair value is measured using the following valuation techniques:

Level 2 inputs: quoted prices for similar assets or liabilities in active markets at the balance sheet date;

Level 3 inputs: valuations based on the most recent valuations adjusted to current valuation by the use of indexation and impairment review.

Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgment is required in establishing fair values. These judgments typically include considerations such as uncertainty and risk. Changes in assumptions used could affect the fair value. The external valuers used the most appropriate valuation techniques to determine fair value.

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 Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council 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 the Council 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 2015-16 for comparative purposes and the adjustments for 2016-17.

Unusable Reserves

This includes the Revaluation Reserve which contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment; the Pensions Reserve which 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 Capital Adjustment Account which absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing and acquisition, construction or enhancement of those assets under statutory provisions; the Financial Instruments Adjustment Account which absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions; and the Short-term Accumulated Compensated Absences Account which absorbs the

differences that would otherwise arise on the Council Fund Balance from accruing holiday entitlements earned but not taken in the year.

	Usable Reserves			Unusable Reserves
	Council Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	
2015-16				
Adjustment to the Revenue Resources				
<i>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:</i>				
Pensions costs (transferred to (or from) the Pensions Reserve)	6,590			(6,590)
Financial Instruments (transferred to the Financial Instruments Adjustment Account)	(2,893)			2,893
Holiday Pay (transferred to the Accumulated Absences Reserve)	(1,865)			1,865
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (those items are charged to the Capital Adjustment Account)	32,093		14	(32,107)
Total Adjustments to Revenue Resources	33,925	-	14	(33,939)
Adjustments between Revenue and Capital Resources				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(3,959)	3,959		
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(8,513)			8,513
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(1,262)			1,262
Total adjustments between Revenue and Capital Resource	(13,734)	3,959	-	9,775
Adjustments to Capital Resources				
Use of the Capital Receipts Reserve to finance capital expenditure		(146)		146
Application of capital grants to finance capital expenditure	(13,606)			13,606
Cash payments in relation to deferred capital receipts	(16)		16	
Other Amounts (including mortgage payments)		5		(5)
Total adjustments to Capital Reserves	(13,622)	(141)	16	13,747
Total Adjustments	6,569	3,818	30	(10,417)

	Usable Reserves			Unusable Reserves
	Council Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	
2016-17				
Adjustment to the Revenue Resources				
<i>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:</i>				
Pensions costs (transferred to (or from) the Pensions Reserve)	9,140			(9,140)
Financial Instruments (transferred to the Financial Instruments Adjustment Account)	(8)			8
Holiday Pay (transferred to the Accumulated Absences Reserve)	435			(435)
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (those items are charged to the Capital Adjustment Account)	31,134			(31,134)
Total Adjustments to Revenue Resources	40,701	-	-	(40,701)
Adjustments between Revenue and Capital Resources				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(5,293)	5,293		
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(10,301)			10,301
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(2,105)			2,105
Total adjustments between Revenue and Capital Resource	(17,699)	5,293	-	12,406
Adjustments to Capital Resources				
Use of the Capital Receipts Reserve to finance capital expenditure		(2,285)		2,285
Application of capital grants to finance capital expenditure	(6,486)			6,486
Cash payments in relation to deferred capital receipts				
Other Amounts (including mortgage payments)		4		(4)
Total adjustments to Capital Reserves	(6,486)	(2,281)	-	8,767
Total Adjustments	16,516	3,012	-	(19,528)

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 Council, either on a joint service basis, where one Council administers the service where other Councils contribute to the costs, or by external bodies who levy on the appropriate Councils. The amounts paid were as follows:

2015-16 £'000		2016-17 £'000
	Precepts	
10,207	Police and Crime Commissioner for South Wales	10,791
1,737	Community Councils	1,909
11,944	Sub total	12,700
	Levies	
6,484	South Wales Fire and Rescue Authority	6,542
223	Coroners Service	226
96	Archive Service	92
1	Margam Crematorium Joint Committee	0
19	Swansea Bay Port Health Authority	20
6,823	Sub total	6,880
18,767	Total	19,580

6. Revenue Support Grant (RSG)

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 2016-17 was £145.2 million (£148.0 million for 2015-16).

7. Government grants

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

2015-16	Specific Grants credited to Services	2016-17
£'000		£'000
(49,536)	Housing Benefit Subsidy	(49,871)
(6,502)	DCELLS Post 16 Grant	(6,465)
(5,213)	Foundation Phase Grant/Education Improvement Grant	(4,554)
(5,672)	Other Education & Family Support	(6,703)
(1,687)	Other Social Services & Wellbeing	(354)
(4,845)	Others	(5,701)
(5,816)	Supporting People	(5,816)
(401)	Sport Play & Active Wellbeing	(202)
(2,973)	Concessionary Fares Grant	(2,996)
(3,178)	Flying Start	(3,245)
(2,796)	Sustainable Waste Grant	(2,777)
(708)	Housing/Council Tax Benefit Administration	(595)
(1,478)	Communities First	(1,550)
(1,898)	Families First	(1,730)
(92,703)	Total	(92,559)

2015-16	Other Government Grants credited to Taxation and Non-specific Grant Income	2016-17
£'000		£'000
(13,622)	Capital Grants and Contributions	(6,486)
(1,400)	Improvement Agreement Grant	-
(15,022)	Total	(6,486)
(107,725)	Total	(99,045)

Grant income sits within the gross income column within services except for the Improvement Agreement Grant and Capital Grants and Contributions.

8. 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 Police and Crime Commissioner for South Wales 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 – 51,916.19 dwellings for 2016-17 (51,071.48 in 2015-16). The average amount for a Band D property is £1,542.40 in 2016-17 (£1,482.94 in 2015-16 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	25	10,055	14,759	13,921	9,947	7,208	4,058	1,383	282	88

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

2015-16 £'000		2016-17 £'000
(77,487)	Council Tax Collectable	(81,049)
	Less:	
1,737	Payable to Community Councils	1,909
10,207	Payable to Police and Crime Commissioner for South Wales	10,791
(386)	Provision for non-payment of Council Tax (decrease)	(1,084)
(65,929)	Net Proceeds from Council Tax	(69,433)

9. National Non-Domestic Rates (NNDR)

NNDR is organised on a national basis. The Welsh Government 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 48.6p in 2016-17 (48.2p in 2015-16). 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 £42.142 million in 2016-17 (£40.274 million in 2015-16).

10. Leases

Council as a Lessee

Operating Leases

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

31 March 2016 £'000		31 March 2017 £'000
(787)	Not later than one year	(768)
(2,021)	Later than one year	(1,943)
(7,583)	Later than five years	(7,026)
(10,391)	Total	(9,737)

Expenditure charged in the year to the Service areas was £0.843 million made up of minimum lease payments of £0.299 million and £0.545 million for contingent rents (£0.851 million in 2015-16 made up of £0.404 million minimum lease payments and £0.447 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 2016 £'000		31 March 2017 £'000
48	Not later than one year	88
120	Later than one year	139
800	Later than five years	875
968	Total	1,102

11. 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 which 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:-

2015-16 £'000	Unitary Charge	2016-17 £'000
636	Service Charge Element	638
1,434	Interest Element	1,395
513	Finance Lease Liability	552
2,583	Total	2,585

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	2017-18 £'000	2018-19 to 2022-23 £'000	2023-24 to 2027-28 £'000	2028-29 to 2032-33 £'000	2033-34 to 2033-34 £'000
Service Charge Element	502	2,511	2,511	2,511	495
Interest Element	1,352	5,997	4,313	1,872	14
Finance Lease Liability	595	3,737	5,421	7,862	620
Total	2,449	12,245	12,245	12,245	1,129

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 2017, the balance on the PFI equalisation earmarked reserve is £3.949 million (£3.706 million as at 31 March 2016).

12. Pooled Fund Arrangements under Section 33 NHS (Wales) Act 2006

There are some formal pooled budget arrangements between the Council and Abertawe Bro Morgannwg University Local Health Board under Section 33 NHS (Wales) Act 2006 and a pooled fund arrangement between 3 Councils for the delivery of an Integrated Family Support Service under s166-169 Social Services Wellbeing (Wales) Act 2014. The Integrated Family Support Service pooled arrangement commenced in August 2016.

2015-16					2016-17		
Gross Income Of Partnership £'000	Gross Expenditure of Partnership £'000	Council's Contribution £'000	Partner	Purpose of Partnership	Gross Income Of Partnership £'000	Gross Expenditure of Partnership £'000	Council's Contribution £'000
(615)	615	328	Abertawe Bro-Morgannwg University Health Board	Provision of day opportunities for people recovering from mental health problems.	(596)	596	318
(2,654)	2,625	569	Rhondda Cynon Taff CBC Merthyr Tydfil CBC Cwm Taf LHB Abertawe Bro Morgannwg University Health Board	Provision of specified community equipment for service users to enable them to continue to live in their own homes. Rhondda Cynon Taf are the lead partner	(2,645)	2,574	629
(4,414)	4,414	2,346	Abertawe Bro-Morgannwg University Health Board	Provision of integrated community support services	(4,595)	4,595	2,473
			Neath Port Talbot CBC, City and County of Swansea Council	Provision of an Integrated Family Support Service	(825)	825	275

13. 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

The ratio for Bridgend is 6.64 (2015-16: 6.64) and median salary is £20,138 (2015-16: £19,742), i.e. the Remuneration of the Chief Executive is 6.64 times more than the median remuneration of the Council's employees.

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:

2015-16 including Redundancy Costs	Remuneration Band	Number of Employees				
		Movement in Bandings	2016-17 inc Redundancy Costs	2016-17 exc Redundancy Costs (Note 1)	Number of Teachers inc in Figures exc Redun- dancy (Note 1)	Number of Non- Teachers inc in Figures exc Redun- dancy (Note 1)
23	£60,000 - £64,999	(4)	19	17	16	1
19	£65,000 - £69,999	(6)	13	12	12	-
5	£70,000 - £74,999	1	6	4	4	-
7	£75,000 - £79,999	1	8	6	1	5
9	£80,000 - £84,999	(3)	6	5	2	3
2	£85,000 - £89,999	(1)	1	1	1	-
4	£90,000 - £94,999	(3)	1	-	-	-
1	£95,000 - £99,999	1	2	1	1	-
8	£100,000 - £104,999	(6)	2	1	-	1
-	£105,000 - £109,999	6	6	4	1	3
1	£110,000 - £114,999	(1)	-	-	-	-
2	£115,000 - £119,999	(1)	1	1	1	-
-	£120,000 - £124,999	1	1	-	-	-
-	£125,000 - £129,999	-	-	-	-	-
1	£130,000 - £134,999	-	1	1	-	1
-	£135,000 - £139,999	1	1	-	-	-
1	£160,000 - £164,999	(1)	-	-	-	-
83		(15)	68	53	39	14

Note 1: There are 53 individuals with remuneration of £60,000 or more, including:-

- a) 39 Headteachers and Deputy Headteachers, and
- b) 14 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)

Job Title	Salary		Pension Contributions		Total Remuneration including Pension Contributions	
	16-17 £	15-16 £	16-17 £	15-16 £	16-17 £	15-16 £
Chief Executive Officer & Head of Paid Service (Note 1)	132,402	131,091	28,202	27,529	160,604	158,620
Corporate Director - Education and Family Support (Note 4)	105,109	102,355	22,388	21,494	127,497	123,849
Interim Corporate Director - Education and Family Support (Note 4)	3,238	-	690	-	3,928	-
Corporate Director - Communities	105,109	104,068	22,388	21,854	127,497	125,922
Corporate Director - Social Service & Wellbeing	105,109	102,355	22,388	21,494	127,497	123,849
Corporate Director - Resources & s151 Officer (Note 5)	2,650	104,068	862	21,854	3,512	125,922
Head of Finance - s151 Officer (Note 5)	78,700	-	16,763	-	95,463	-
Corporate Director - Operational and Partnership Services (Note 6)	100,227	96,002	12,714	20,160	112,941	116,162

Notes

- Note 1: The Chief Executive Officer's salary excludes payment for Returning Officer Duties. These amounted to £21,769 for a Parliamentary By-Election, two Welsh Assembly elections, two Police and Crime Commissioner elections and the European Referendum.
- Note 2: Pension Contributions relate to actual payments made.
- Note 3: 'Expenses' and 'Benefits in Kind' have been adjusted so that they exclude non-taxable reimbursements
- Note 4: The Corporate Director – Education and Family Support has been seconded to Welsh Government and an interim Director has been appointed to cover this role. Costs recovered from the Welsh Government during 2016-17 totalled £12,373.
- Note 5: The Corporate Director – Resources left the Council in April 2016 and the Head of Finance assumed the role of s.151 Officer and member of the Corporate Management Board.
- Note 6: The Corporate Director Operational and Partnership Services was created as part of a management restructure in April 2016. It replaced the role of the Assistant Chief Executive Legal and Regulatory Services.

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	
	16-17	15-16	16-17	15-16	16-17	15-16	16-17	15-16
£0 - £20,000	12	38	20	31	32	69	377,824	604,894
£20,001 - £40,000	4	11	4	41	8	52	375,870	1,458,778
£40,001 - £60,000	2	10	4	9	6	19	398,261	953,031
£60,001 - £80,000	3	1	-	2	3	3	198,796	204,767
£80,001 - £100,000	1	1	-	2	1	3	93,884	266,552
£100,001 - £120,000	-	-	2	-	2	-	217,963	-
£120,001 - £140,000	-	-	-	1	-	1	-	139,431
	22	61	30	86	52	147	1,662,598	3,627,453

14. 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.

2015-16 £'000		2016-17 £'000
544	Basic Salary (all Members)	526
508	Senior Salary	521
37	Civic Salary	42
1,089	Total	1,089

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.

15. External audit costs

In 2016-17 Bridgend County Borough Council incurred the following fees relating to external audit and inspection. Of the amount incurred, £15,030 was claimed against grants:

2015-16 £'000		2016-17 £'000
196	Financial Statement Audit	200
97	Performance Audit	97
293	External Audit Services	297
47	Grant Claims and Returns	69
340	Total	366

16. Associates, Subsidiaries, Joint Ventures and Joint Operations

Associates, Subsidiaries and Joint Ventures

The Council has no Subsidiary or Associate companies as defined by the CIPFA Code.

Capita Glamorgan Consultancy Ltd

Capita Glamorgan Consultancy Ltd is a Joint Venture between Capita Symonds and Bridgend, Merthyr Tydfil and Rhondda Cynon Taf County Borough Councils. The Council owns 14.7% of the shares of the company, and holds voting rights to this value on the board. The Corporate Director – Communities is a member of the Board. During 2016-17 the Council was charged £1,178,601 (2015-16: £867,435) in respect of goods, services and capital works.

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 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 2016-17, the Council contributed to the Joint Committee an amount of £92,540 (£95,436 in 2015-16). 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. The Crematorium is self-financing through income. During the year Bridgend CBC made a contribution of £25,000 to the Crematorium. The Annual Report for this Joint Committee are available on the Bridgend CBC website (www.bridgend.gov.uk).

Margam Crematorium

Margam Crematorium is subject to the control of a Joint Committee of Members from Neath Port Talbot County Borough Council, who manage the Crematorium. Bridgend CBC contribution to Margam Crematorium for 2016-17 was £439 (2015-16 – £1,312). The Annual Report for this Joint Committee are available on the Neath Port Talbot CBC website (www.npt.gov.uk)

County Borough Supplies

County Borough Supplies ceased trading on 31 March 2016. Closing financial statements for this Joint Committee are available on the Bridgend CBC website (www.bridgend.gov.uk).

Central South Consortium Joint Education Service

The Central South Consortium Joint Education Service (CSCJES) provides a range of school improvement services within the local authority areas of Bridgend, Cardiff, Merthyr Tydfil, Rhondda Cynon Taf and the Vale of Glamorgan. Bridgend CBC contribution to the joint arrangement for the year was £654,157 (2015-16 - £692,350).

Integrated Family Support Service (IFSS)

This is a joint arrangement between Bridgend CBC (lead authority), Neath Port Talbot CBC and City and County of Swansea Council. During 2016-17 the contribution to the joint service by Bridgend CBC was £274,854 (2015-16 - £278,973).

Joint Adoption Service

The Joint Adoption Service is between Bridgend CBC, Neath Port Talbot CBC and City and County of Swansea. Bridgend's contribution to the service in 2016-17 was £824,789 (2015-16 - £593,512)

Shared Regulatory Service

This is a joint arrangement between Bridgend CBC, Cardiff City Council and the Vale of Glamorgan CBC for the provision of a joint regulatory service established in 2015-16. Bridgend CBC contribution to the joint service was £1,823,700 (2015-16 - £1,761,998)

Shared Internal Audit Service

Bridgend CBC and the Vale of Glamorgan CBC operate a joint Internal Audit Service. Bridgend CBC contribution to this joint service was £305,107 (2015-16 - £344,977)

Joint Vehicle Maintenance Service

Bridgend CBC and South Wales Police occupy joint premises for the delivery of their vehicle maintenance services. The contribution from Bridgend CBC to South Wales Police for the joint facility for 2016-17 was £93,223 (2015-16 – £110,773)

Western Bay Youth Justice and Early Intervention Service

This is a joint arrangement between Bridgend CBC (who is the lead), Neath Port Talbot CBC and City and County of Swansea Council for the provision of Youth Justice and early intervention services for children and young people. The contribution to the joint service by Bridgend CBC for the year was £286,942 (2015-16 - £366,621)

Civil Parking Enforcement

Bridgend provides Civil Parking Enforcement for both Bridgend CBC and Vale of Glamorgan CBC. The cost of providing the service on behalf of the Vale of Glamorgan CBC are fully recharged to them, the total cost being £197,966 (2015-16 - £174,180).

Joint arrangements under Section 33 NHS (Wales) Act 2006

The Council is also in joint arrangements under Section 33 NHS (Wales) Act 2006 arrangements involving pooled funds. Further details of these are provided in note 12 to the accounts.

Cardiff Capital Region City Deal (CCRCRCD)

Bridgend is a partner of the Joint Committee for CCRCD which consists of 10 Partner Authorities: Blaenau Gwent; Caerphilly; Cardiff; Merthyr Tydfil; Monmouthshire; Newport; Rhondda-Cynon-Taf; Torfaen and the Vale of Glamorgan. CCRCD commenced during 2016-17 and Bridgend's contribution for the year was £16,899. During the year the total expenditure of the partnership was £179,177.

17. 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 6 and 7 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 2016-17 is shown in Note 14. Grants were made to organisations whose senior management included Members including Bridgend County Borough Citizens Advice Bureau £247,046 (£190,339 in 2015-16) and Bridgend Association of Voluntary Organisations £95,370 in 2016-17 (£164,147 in 2015-16). 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. Other payments made to organisations where members declared interests totalled £179,345.

Chief Officers

During 2016-17 the Corporate Director – Communities sat on the Board of Capita Glamorgan Consultancy Ltd. The Council owns 14.7% of the shares of the company and holds voting rights to this value on the Board. During 2016-17 the Council was charged £1,178,601 (2015-16: £867,435) in respect of goods, services and capital works. The Corporate Director – Social Services and Wellbeing was an Associate Board Member of AbertaweBroMorgannwg University Health Board. The Council and the Health Board have a range of formal arrangements as set out in note 12 – Section 33 NHS (Wales) Act 2006.

The Head of Regeneration, Development and Property Services is a Board Member for Bridgend College and also a Director of the newly formed Bridgend Business Improvement District (BID). During 2016-17 the value of payments to the College totalled £194,850 (2015-16: £152,290). The Council acts as the collector of Business Rates on behalf of the Business Improvement District and

transfers those monies to the company. The Council has no business transactions with the BID Company. No Directors received any remuneration for these roles.

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 2016-17, the Council contributed to the Joint Committee an amount of £92,540 (£95,436 in 2015-16). 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).

Margam Crematorium

Margam Crematorium is subject to the control of a Joint Committee of Members from Neath Port Talbot County Borough Council, who manage the Crematorium. Financial Statements for this Joint Committee are available on the Neath Port Talbot CBC website (www.npt.gov.uk)

County Borough Supplies

County Borough Supplies ceased trading on 31 March 2016. Until this time it was administered by the Council and supplied goods such as stationery. It was a Joint Committee with Members from Bridgend CBC, Rhondda Cynon Taf CBC, Merthyr Tydfil CBC and Caerphilly CBC. Closing financial statements for this Joint Committee are available on the Bridgend CBC website (www.bridgend.gov.uk).

Other Public Bodies

The Council has a number of pooled budget arrangements with Abertawe Bro-Morgannwg University Health Board as detailed in Note 12. It also pays a management fee to the Awen Trust for cultural related services which is a not for profit organisation. The Board of Awen Trust has a Member and a Member's family member as Directors.

18. Note to the Expenditure and Funding Statement

Adjustments between Funding and Accounting Basis 2015-16				
Adjustments from Council Fund to arrive at the Comprehensive Income and Expenditure Statements amounts	Adjustments for Capital Purposes (Note 1)	Net change for the Pensions Adjustments (Note 2)	Other Differences (Note 3)	Total Adjustments
	£'000	£'000	£'000	£'000
Education and Family Support	(7,827)	799	1,351	(5,677)
Social Services & Wellbeing	762	651	(265)	1,148
Communities	(12,516)	295	(906)	(13,127)
Operational & Partnership Services	(1,190)	217	(1,160)	(2,133)
Chief Executives	-	86	(49)	37
Central Services	5,709	402	8,552	14,663
	-	(590)	-	(590)
Net cost of services	(15,062)	1,860	7,523	(5,679)
Other income and expenditure from the Expenditure and Funding Analysis	7,060	(8,450)	3,959	2,569
Difference between Council Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	(8,002)	(6,590)	11,482	(3,110)

Adjustments between Funding and Accounting Basis 2016-17				
Adjustments from Council Fund to arrive at the Comprehensive Income and Expenditure Statements amounts	Adjustments for Capital Purposes (Note 1)	Net change for the Pensions Adjustments (Note 2)	Other Differences (Note 3)	Total Adjustments
	£'000	£'000	£'000	£'000
Education and Family Support	(4,902)	(241)	(2,889)	(8,032)
Social Services & Wellbeing	(177)	(185)	(1,816)	(2,178)
Communities	(13,187)	(78)	(2,034)	(15,299)
Operational & Partnership Services	(652)	(62)	(1,167)	(1,881)
Chief Executives	-	(24)	(38)	(62)
Central Services	8,776	-	12,990	21,766
Non-Directorate	-	(500)	-	(500)
Net cost of services	(10,142)	(1,090)	5,046	(6,186)
Other income and expenditure from the Expenditure and Funding Analysis	(1,324)	(8,050)	5,290	(4,084)
Difference between Council Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	(11,466)	(9,140)	10,336	(10,270)

Note 1 - Adjustments for Capital Purposes

The adjustments for capital purposes column adds in depreciation and impairment, revaluation gains and losses and Revenue Expenditure Funded by Capital under Statute (REFCUS) in the services line, and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets
- Financing and investment income and expenditure – the statutory charges for capital financing (I.e. the Minimum Revenue Provision) and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions of for which conditions were satisfied in the year.

Note 2 - Net Change for the Pensions Adjustments

The net change for the removal of pension contributions and the addition of IAS19 Employee Benefits pension related expenditure and income:

- For Services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs
- For Financing and Investment Income and Expenditure – the net interest on the defined benefit liability is charged to the CIES.

Note 3 - Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts
- The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

19. Expenditure and Income Analysed by Nature

This table sets out how the funding to the Council has been used in providing services in line with generally accepted accounting practices. This will include cash and non-cash transactions including accounting adjustments in line with International Financial Reporting Standards.

2015-16 £'000		2016-17 £'000
	Expenditure	
167,727	Employee expenses	173,095
215,403	Other services expenses	213,267
26,341	Depreciation, amortisation, impairment	24,009
14,499	Interest payments	14,086
18,767	Precepts and levies	19,581
2,181	Loss on disposal of assets	1,050
444,918	Total expenditure	445,088
	Income	
(66,489)	Fees, charges and other service income	(60,464)
(117,761)	Income from council tax, non-domestic rates	(123,191)
(255,727)	Government grants and contributions	(250,577)
(903)	Interest and investment income	(942)
(1,082)	Other income	-
(441,962)	Total income	(435,174)
2,956	(Surplus) or Deficit on the provision of services	9,914

Notes to the Balance Sheet

20. Non-current Assets

a) Capital commitments

As at 31 March 2017 commitments of approximately £18,074 million existed on capital works contracts started before that date, details of which are shown in the table below.

2015-16 £'000		2016-17 £'000
65	Ogmore Comprehensive	59
200	Coety Primary School	77
36	Bridgent Town Centre Regeneration	-
3,350	Vibrant and Viable Places	-
	- Garw Valley South Primary Provision	9,160
	- Brymenyn Primary School	7,176
	- Civic Offices External Envelope	1,012
	- Digital Transformation	590
3,651	Total	18,074

b) Notes on Non-current Assets

Voluntary-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.

c) Summary of Property, Plant & Equipment (PPE)	Other Land and Buildings £'000	Vehicle, Plant and Equipment £'000	Infrastructure £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total PPE Assets £'000	PFI Assets Included In PPE £'000
Cost or Valuation								
At 1 April 2016	386,768	13,224	205,946	4,845	8,256	6,300	625,339	24,142
Additions	6,431	832	3,561	-	-	3,057	13,881	-
Accumulated Depreciation and Impairment written out to GCA	(4,423)	-	-	-	-	-	(4,423)	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	4,152	-	-	-	766	-	4,918	-
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	462	-	-	7	(14)	-	455	-
Derecognition - Disposals	(3,739)	(4)	-	-	(70)	-	(3,813)	-
Assets reclassified (to)/from Held for Sale	(430)	-	-	200	(1,863)	-	(2,093)	-
Assets reclassified (to)/from Investment Property	-	-	-	-	45	-	45	-
Other Movements in Cost or Valuation	4,160	-	-	-	1,130	(5,290)	-	-
At 31 March 2017	393,381	14,052	209,507	5,052	8,250	4,067	634,309	24,142
Accumulated Depreciation and Impairments								
At 1 April 2016	(8,953)	(3,026)	(128,685)	(37)	-	-	(140,701)	(4)
Depreciation Charge for the year	(10,362)	(1,928)	(10,654)	-	(1)	-	(22,945)	(927)
Accumulated Depreciation and Impairment written out to the surplus / deficit on the provision of services	4,423	-	-	-	-	-	4,423	-
Impairment Losses/(Reversals) recognised in the Revaluation Reserve	(154)	-	-	-	-	-	(154)	-
Impairment Losses/(Reversals) recognised in the Surplus/Deficit on the Provision of Services	(1,255)	(119)	(121)	-	-	-	(1,495)	-
Derecognition - other	-	-	-	-	-	-	-	-
Derecognition - disposals	1,922	1	-	-	-	-	1,923	-
Other Movements	12	-	-	-	(12)	-	-	-
At 31 March 2017	(14,367)	(5,072)	(139,460)	(37)	(13)	-	(158,949)	(931)
NBV as at 1 April 2016	377,815	10,198	77,261	4,808	8,256	6,300	484,638	24,138
NBV as at 31 March 2017	379,014	8,980	70,047	5,015	8,237	4,067	475,360	23,211

c) Summary of Property, Plant & Equipment (PPE)	Other Land and Buildings £'000	Vehicle, Plant and Equipment £'000	Infrastructure £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total PPE Assets £'000	PFI Assets Included In PPE £'000
Cost or Valuation								
At 1 April 2015	364,373	10,500	201,351	4,845	9,906	16,456	607,431	23,948
Additions	4,362	3,945	4,595	142	-	8,597	21,641	-
Accumulated Depreciation and Impairment written out to GCA	(11,618)	-	-	-	(24)	-	(11,642)	(1,404)
Revaluation increases/(decreases) recognised in the Revaluation Reserve	15,285	-	-	-	651	46	15,982	1,598
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(3,188)	-	-	-	1,000	2	(2,186)	-
Derecognition - Disposals	(3,609)	(40)	-	-	(539)	-	(4,188)	-
Assets reclassified (to)/from Held for Sale	(457)	-	-	-	-	(61)	(518)	-
Other Movements in Cost or Valuation	21,620	(1,181)	-	(142)	(2,738)	(18,740)	(1,181)	-
At 31 March 2016	386,768	13,224	205,946	4,845	8,256	6,300	625,339	24,142
Accumulated Depreciation and Impairments								
At 1 April 2015	(10,043)	(2,573)	(117,978)	(37)	(139)	(608)	(131,378)	(601)
Depreciation Charge for the year	(9,936)	(1,674)	(10,477)	-	(90)	-	(22,177)	(807)
Accumulated Depreciation and Impairment written out to the surplus/ deficit on the provision of services	11,618	-	-	-	23	-	11,641	1,404
Impairment Losses/(Reversals) recognised in the Surplus/Deficit on the Provision of Services	(678)	-	(230)	-	206	-	(702)	-
Derecognition - disposals	664	40	-	-	-	-	704	-
Assets reclassified (to)/from Held for Sale	19	-	-	-	-	11	30	-
Other Movements	(597)	1,181	-	-	-	596	1,180	-
At 31 March 2016	(8,953)	(3,026)	(128,685)	(37)	-	(1)	(140,702)	(4)
NBV as at 1 April 2015	354,330	7,927	83,373	4,808	9,767	15,848	476,053	23,347
NBV as at 31 March 2016	377,815	10,198	77,261	4,808	8,256	6,299	484,637	24,138

c) Non-current Assets valuation

Non-current Assets are included in the Balance Sheet on the valuation basis set out in the Statement of Accounting Policies. All assets are valued on a rolling 3-year basis as at 31 December with a review to 31 March to confirmed no significant changes in value during that period. These valuations

were by Council Surveyors in accordance with the Statements of Asset Valuation, Practice and Guidance Notes of the Royal Institution of Chartered Surveyors for non-investment assets, investment assets being valued independently by Cooke & Arkwright .

d) Sources of finance for Capital Expenditure

2015-16 £'000		2016-17 £'000
(7,084)	Loans	(3,914)
(12,001)	Government grants	(9,568)
(146)	Capital receipts	(2,285)
(1,262)	Revenue contribution	(2,105)
(124)	Healthy Living Contract Capital Liability	-
(5,682)	Other contribution	(527)
(26,299)	Total	(18,399)

e) Revenue Expenditure Funded from Capital under Statute

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

2015-16 £'000		2016-17 £'000
4,658	Revenue Expenditure Funded from Capital under Statute	4,518
(3,948)	Grants and Contributions	(3,736)
710	Total	782

f) Capital financing requirement and the financing of capital expenditure

2015-16 £'000	Capital Financing Requirement	2016-17 £'000
176,010	Opening Capital Financing Requirement Adjustment to Capital Financing Requirement Unsupported Borrowing Reversal Adjustment to Capital Financing Requirement Unsupported Borrowing Reversal	174,706 (259) 13
176,010	Amended Opening Capital Financing Requirement	174,460
	Capital Investment	
21,517	Property, Plant and Equipment	13,881
4,658	Revenue Expenditure Funded from Capital under Statute	4,518
124	Healthy Living Contract Capital Expenditure	-
	Sources of Finance	
(17,681)	Grants & Contributions	(10,095)
(146)	Capital receipts applied	(2,285)
(1,262)	Revenue Contributions	(2,105)
(5,169)	Minimum Revenue Provision	(5,123)
(1,646)	Unsupported Borrowing MRP	(4,534)
(1,086)	Healthy Living Contract MRP	-
(51)	Innovation Centre MRP	(55)
(49)	Crematorium MRP	(50)
(513)	PFI School MRP	(552)
174,706	Closing Capital Financing Requirement	168,060
	Explanation for Movements in Year	
(1,306)	Decrease in Underlying Need to Borrow (supported by government financial assistance)	(1,259)
1,528	Increase/(Decrease) in Underlying Need to Borrow (unsupported by government financial assistance)	(4,534)
(1,013)	Assets acquired under finance leases	(55)
(513)	Assets acquired under PFI Contract	(552)

g) Capital Grants Received in Advance

The table below shows the breakdown of capital grants received in advance under s.106 planning agreements:-

2015-16 £'000		2016-17 £'000
(1,844)	Developers' Contributions - capital element	(2,714)
(1,844)	Total	(2,714)

21. Investment Properties

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

2015-16 £'000		2016-17 £'000
4,103	Balance at 1 April	5,185
-	Transferred to Surplus Assets	(45)
-	Disposals	(80)
1,082	Net gain / (loss) from fair value adjustments	-
5,185	Balance as at 31 March	5,060

22. 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:

2015-16 £'000		2016-17 £'000
12,177	Central Government Bodies	8,107
4,468	Other Local Authorities	4,717
809	NHS Bodies	246
9,892	Other Entities and Individuals	16,300
27,346	Balance as at 31 March	29,370

The Council collects NNDR payments on behalf of Welsh Government. As at the 31 March 2017, the Council had paid over more cash than it collected, this excess was included in the Balance Sheet as a debtor of £1.414 million. The equivalent for 2015-16 was a debtor of £0.882 million which represented monies not yet paid over by Welsh Government.

23. Assets Held for Sale

2015-16 £'000		2016-17 £'000
7,478	Balance at 1 April	4,035
488	Assets newly classified as held for sale: Property, Plant & Equipment	2,293
	Assets declassified as held for resale: Property, Plant & Equipment	(200)
(1,069)	Revaluation Gain/(Loss)	
(2,862)	Assets Sold	(4,398)
4,035	Balance as at 31 March	1,730

24. Short Term Creditors

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

2015-16 £'000		2016-17 £'000
(5,832)	Central Government Bodies	(4,199)
(4,998)	Other Local Authorities	(4,278)
(338)	NHS Bodies	(121)
(21,604)	Other Entities and Individuals	(18,615)
(32,772)	Balance as at 31 March	(27,213)

25. Provisions

The Council has two provisions as detailed below:

2015-16 £'000		Expenditure £'000	Increase/ (Decrease) £'000	2016-17 £'000	< 1 yr £'000	> 1 yr £'000
3,145	Insurance (BCBC)		252	3,397	946	2,451
335	Carbon Reduction Commitment	(340)	273	268	268	-
3,480	Balance as at 31 March	(340)	525	3,665	1,214	2,451

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 2016-17 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 2016-17. The payment will be made with the retrospective purchase of allowances in the summer 2017.

26. PFI and Other Long Term Liabilities

2015-16 £'000		Additions in Year £'000	Reduction in year £'000	Moved to Short Term Creditors £'000	2016-17 £'000
18,235	Maesteg School PFI Lease Liability			(595)	17,640
664	Innovation Centre Financial Liability			(60)	604
400	Waste Contract			(50)	350
60	Escrow (Football Club)	10			70
2,400	Welsh Government Loan - Llynfi Valley				2,400
21,759	Balance as at 31 March	10	-	(705)	21,064

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 2016-17, the amount written down was £552,000 and £595,000 has been transferred to Short Term Creditors leaving an outstanding long term liability of £17.640 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 2016-17 was £55,000 and £60,000 was transferred to Short Term Creditors resulting in a long term financial liability of £0.604 million at 31 March 2017.

The Waste Contract liability is repayable at £50,000 per annum instalments.

The long term liability for the Football Club represents a fund that will be maintained and increased to allow for the future reinstatement to grass of the two 3G pitches at Bryntirion and Bridgend College – Pencoed at the end of their useful lives.

27. Usable Reserves

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

a) Useable Capital Receipts Reserve

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

2015-16 £'000		2016-17 £'000
14,534	Balance at 1st April	18,352
3,959	Capital Receipts Received	5,293
5	Mortgage repayments (Council Fund)	4
(146)	Receipts used to finance capital expenditure	(2,285)
18,352	Balance as at 31st March	21,364

b) Earmarked Reserves

The Earmarked Reserves in the Balance Sheet as at 31 March 2017 are detailed below:

Opening Balance 2016-17 £'000	Reserve	Movement during 2016-17		Closing Balance 2016-17 £'000
		Additions/ Re- classification £'000	Drawdown by Directorates £'000	
7,604	Council Fund	356		7,960
	Corporate Reserves:			
1,491	Asset Management Plan	155	(384)	1,262
356	Building Maintenance Reserve	442	(80)	718
631	Capital feasibility fund	(194)	(188)	249
5,833	Capital Programme Contribution	6,193	(646)	11,380
1,950	Change Management	-	(362)	1,588
103	DDA Emergency Works	200	(121)	182
2,500	Digital Transformation	-	(564)	1,936
715	ICT & Finance Systems	710	(157)	1,268
2,035	Insurance reserve	670	(370)	2,335
10,874	Major Claims Reserve	(2,080)	(343)	8,451
	MTFS Budget Contingency	1,528	(528)	1,000
234	Property Disposal Strategy	56	(152)	138
-	Public Realm Reserve	200	-54	146
5,625	Service Reconfiguration	2,536	(58)	8,103
92	Waste Management Contract	-	(88)	4
500	Welfare Reform Bill	-	-	500
32,939	Total Corporate Reserves	10,416	(4,095)	39,260
	Directorate Reserves:			
471	Car Parking Strategy*	(208)	(88)	175
31	Community Safety Reserve	-	-	31
1,331	Directorate Issues*	198	(878)	651
48	Donations Reserves Account	2	-	50
	Human Resources Reserve	25	-	25
-	Local Development Plan IT System	20	-	20
824	Looked After Children	1,000	(788)	1,036
66	Partnership Reserves	-	-	66
76	Porthcawl Regeneration	188	(14)	250
-	Property Reserve	250	-	250
-	Safe Routes to Schools	200	(29)	171
285	School Projects Reserve	168	(22)	431
-	Waste Awareness Reserve	250	-	250
26	Webcasting Reserve	-	(20)	6
1,409	Wellbeing Projects	-	(529)	880
4,567	Total Directorate Reserves	2,093	(2,368)	4,292
	Delegated Schools Balance	-	(1,288)	866
	39,660 Total Reserves excluding Equalisation Reserves	12,509	(7,751)	44,418
	Equalisation and Grant Reserves			
-	IFRS Grants	841	-	841
152	Civil Parking Enforcement*	22	-	174
12	Building Control Reserve	3	-	15
201	Election costs	-	-	201
692	Highways Reserve	140	-	832
141	Local Development Plan	55	-	196
3,706	Maesteg School PFI Equalisation	243	-	3,949
349	Special Regeneration Fund*	184	-	533
5,253	Total Directorate Reserves	1,488	-	6,741
	44,913 TOTAL EXCLUDING COUNCIL FUND	13,997	(7,751)	51,159
	52,517 TOTAL INCLUDING COUNCIL FUND	14,353	(7,751)	59,119

* There are a couple of changes to the 2015-16 balances where previously grouped reserves have been separated out as shown in the table:

Reserve	Original Opening Balance 2015-16 £'000	Reallocation £'000	Amended Opening Balance 2015-16 £'000
Directorate Reserves:			
Car Parking Strategy*	623	(152)	471
Directorate Issues*	1,367	(36)	1,331
Equalisation and Grant Reserves			
Special Regeneration Fund*	313	36	349
Civil Parking Enforcement*	-	152	152
Total Equalisation Reserve	2,303	-	2,303

Council Fund

The transfer to the Council Fund for 2016-17 was £0.356 million. This increased the balance on the Fund to £7.960 million at the 31 March 2017 (£7.604 million at 31 March 2016).

Other Earmarked Reserves

The transfer to Earmarked Balances excluding the Council Fund Balance was £6.246 million in 2016-17 (transfer to Balances of £3.459 million in 2015-16). This was made up of additions to reserves of £12.509 million from Corporate budgets and £1.488 million additions from Directorate budgets and £7.751 million money transferred into the Comprehensive Income and Expenditure Statement to match expenditure within the year. An overview of each earmarked reserve is explained below:-

Corporate Reserves

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.

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.

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.

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.

Digital Transformation & ICT Reserve

These two reserves will fund the Digital Transformation of the Council supporting channel shift together with the costs of planned system developments from 2017-18 to 2018-19. It includes developments including the roll out of the cashless catering system.

Insurance Reserve

This reserve is based on the assessment for potential future liabilities including any residual payments from claims relating to the Municipal Mutual Insurance Limited.

Major Claims Earmarked Reserve

This reserve has been created to mainly cover the deficit on the pension fund, major capital contractual claims and mitigate against potential other claims against the Council.

MTFS Budget Contingency

In accordance with MTFS Principle 12, an earmarked reserve was established to provide additional capacity for discretionary use by the Chief Finance Officer to manage inescapable problems with delivery of MTFS savings.

Property Disposal Strategy

This reserve will cover legal, surveying and marketing costs associated with planned disposals to generate capital receipts for the Council

Public Realm Reserve

This reserve will be used for works on highways and other public realm maintenance or renovations of playgrounds for example.

Service Reconfiguration / Severance Costs

This reserve has been established to meet potential costs relating to service remodelling and consequential severance costs as well as service reconfiguration such as the Extra Care provision as outlined in the MTFS 2016-17.

Waste Management Contract

This earmarked reserve is to facilitate the procurement of the next waste collection contract with the current contract expiring in 2017. The small balance will be fully utilised in 2017-18.

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.

Directorate Reserves**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.

Community Safety Reserve

This reserve was created from funding received from partner organisations and will be used to cover expenditure on future Community Safety initiatives.

Directorate Issues

This reserve relates to specific Directorate issues anticipated in 2017-18 together with some carried forward amounts from 2016-17. Examples include enhancement to school kitchens and a management information system for Catering, an officer to support the roll out of eProcurement within the Council and support for the Childrens' Advocacy Service.

Donations Reserves

This reserve has been established from various donations over a number of years and will be used on future expenditure in accordance with the original intentions.

Human Resources Reserve

This reserve is to cover the cost of a new module on the Payroll System and the scanning of existing records.

Local Development Plan IT System

This reserve is to purchase specialist software for use in compiling population statistics to inform housing provision and to allow improved public facing access in order to compile representations to the forthcoming Local Development Plan (LDP) review.

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 Education and Family Support Services.

Partnership Reserves

This reserve will be utilised in 2017-18 for partnership working within the Council.

Porthcawl Regeneration

This reserve has been established to fund up front revenue costs associated with the proposed regeneration of Porthcawl.

Safe Routes to Schools Reserve

This reserve has been created to ensure that there are safe routes to schools following Learner Transport changes.

School Projects Reserve

This reserve covers both school's future projects expenditure and also the associated financing costs of any capital borrowing.

Waste Awareness Reserve

This reserve is to providing funding to promote the changes to the waste management contract and support for the customer contact centre.

Webcasting Reserve

This will be used to continue the programme of broadcasting certain Committee Meetings on the Council's web-site.

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.

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

2015-16 Closing Balance £'000	School Types	Nos in Category	2016-17 Budget £'000	2016-17 Spend £'000	2016-17 Closing Balance £'000
1,532	Primary Schools	50	45,369	44,903	466
162	Secondary Schools	9	41,776	41,927	(151)
460	Special Schools	2	8,285	7,735	550
2,154	Total	61	95,430	94,565	865

The 2015-16 Closing Balance figure is included within the 2016-17 Budget. This accounting treatment of including the prior year's closing balance in the current year's budget applies solely to Schools and does not apply in any other area of the accounts.

Equalisation and Grant Reserves

IFRS Grant Accounting Reserves

Under proper accounting practice, all grants and contributions should be analysed to see whether there are specific conditions attached to them. When the conditions are actually satisfied the grant is credited to the Comprehensive Income and Expenditure Statement regardless of whether the actual expenditure has been incurred. In these cases the Council can decide to transfer the grant monies to an earmarked reserve to fund future expenditure. In 2016-17, there was £841,000 of new International Financial Reporting Standards (IFRS) Grants that have been transferred to earmarked reserves to ensure the funding is protected in accordance with the original terms and conditions of the grant or contribution. Similarly monies from commuted sums have been placed into a Highways Reserve and income from Civil Parking Enforcement is now also as a specific earmarked reserve.

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, the Special Regeneration Fund, the preparation of the Local Development Plan and the Building Control Earmarked Reserves.

Maesteg PFI Equalisation Reserve

As outlined in note 11 above, there is a need for an Equalisation Fund for the Unitary Charges received from Welsh Government for the Maesteg PFI School.

28. Unusable Reserves

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

a) Revaluation Reserve (RR)

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

2015-16			2016-17	
£'000	£'000		£'000	£'000
	115,916	Balance at 1 April		127,291
19,280		Upward Revaluation of Assets	8,705	
(3,299)		Downward Revaluation of Assets and Impairment Losses not charged to the Surplus/Deficit on the Provision of Services	(3,942)	
	15,981	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of services		4,763
(2,464)		Difference between fair value depreciation and historical cost depreciation	(3,341)	
(2,142)		Accumulated gains on assets sold or scrapped	(4,010)	
(4,606)		Amount written off to the Capital Adjustment Account		(7,351)
	127,291	Balance as at 31 March		124,703

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.

2015-16 £'000		2016-17 £'000
(273,010)	Balance at 1 April	(245,270)
34,330	Actuarial gains or losses on pensions assets and liabilities	1,960
(26,600)	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	(26,140)
20,010	Employer's Pensions Contributions and Direct Payments to Pensioners Payable in the Year	17,000
(245,270)	Balance as at 31 March	(252,450)

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 Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties though there were no material adjustments in 2016-17.

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.

2015-16			2016-17	
£'000	£'000		£'000	£'000
	196,059	Balance at 1 April Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement : Charges for depreciation and impairment of non-current assets Revaluation losses on Property, Plant and Equipment Revenue Expenditure funded from Capital Under Statute Other amounts including Mortgage Payments 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		192,078
(23,087)			(22,945)	
(3,259)			(1,064)	
(710)			(782)	
(5)			(4)	
(3,998)			(2,333)	
	(31,059)			(27,128)
2,464		Adjusting amounts written out to the Revaluation Reserve		3,341
	167,464	Net written out amount of the cost of non-current assets consumed in the year		(23,787)
		Capital financing applied in the year: Use of the Capital Receipts Reserve to finance capital expenditure Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that has been applied to capital financing Statutory provision for the financing of capital investment charged against the Council Fund Capital expenditure charged against the Council Fund		
146			2,285	
13,610			6,486	
8,514			10,301	
1,262			2,105	
	23,532			21,177
		Movement in the market value of Investment Properties credited to the Comprehensive Income and Expenditure Statement		-
	1,082			
	192,078	Balance as at 31 March		189,468

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. The full remaining balance on the account for Premiums was paid off during 2015-16. Therefore the balance going forward on this account relates to Lender Option Borrowing Option (LOBO) Loans.

2015-16 £'000		2016-17 £'000
(3,632)	Balance at 1 April	(739)
76	Premiums / Discounts Adjustments	-
7	Loans / Investments Adjustments	8
2,810	Premiums Paid	-
(739)	Balance as at 31 March	(731)

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.

2015-16			2016-17	
£'000	£'000		£'000	£'000
	(4,224)	Balance at 1 April		(2,359)
4,224		Settlement or cancellation of accrual made at the end of the proceeding year	2,359	
(2,359)		Amounts accrued at the end of the current year	(2,793)	
	1,865	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		(434)
	(2,359)	Balance as at 31 March		(2,793)

29. 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 Council 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 2016-17 include information provided by the pension administrators, Rhondda Cynon Taff CBC and Aon Hewitt Associates Limited as the pension's 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:-

Local Govt Pension Scheme £m 2015-16	LGPS Unfunded Benefits £m 2015-16	Teachers' Unfunded Benefits £m 2015-16	Total £m 2015-16	Comprehensive Income & Expenditure Statement Cost of Services : Service cost comprising: current service cost past service costs (gain)/loss from settlements Financing & Investment Income & Expenditure :- Net interest expense	Local Govt Pension Scheme £m 2016-17	LGPS Unfunded Benefits £m 2016-17	Teachers' Unfunded Benefits £m 2016-17	Total £m 2016-17
17.56	0.00	0.00	17.56	Service cost comprising: current service cost past service costs (gain)/loss from settlements Financing & Investment Income & Expenditure :- Net interest expense	17.59	0.00	0.00	17.59
0.59	0.00	0.00	0.59		0.50	0.00	0.00	0.50
0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00
8.05	0.25	0.15	8.45		7.65	0.25	0.15	8.05
26.20	0.25	0.15	26.60	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	25.74	0.25	0.15	26.14
				Other Post Employment				
(1.54)	0.00	0.00	(1.54)	Remeasurements of the net defined benefit liability comprising: Return on plan assets (excluding the amount included in the net interest expense)	(62.39)	0.00	0.00	(62.39)
(26.08)	(0.26)	(0.15)	(26.49)	Actuarial (gains) / losses due to changes in financial assumptions Actuarial (gains) / losses due to changes in demographic assumptions Actuarial (gains) / losses due to liability experience	138.41	0.67	0.38	139.46
0.00	0.00	0.00	0.00		(28.69)	(0.20)	(0.12)	(29.01)
(6.08)	(0.14)	(0.08)	(6.30)		(49.93)	(0.06)	(0.03)	(50.02)
(33.70)	(0.40)	(0.23)	(34.33)	Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	(2.60)	0.41	0.23	(1.96)
				Movement in Reserves Statement:-				
(26.20)	(0.25)	(0.15)	(26.60)	Reversal of net charges made for retirement benefits in accordance with IAS 19	(25.74)	(0.25)	(0.15)	(26.14)
				Actual amount charged against the Council Fund Balance for pensions in the year				
19.09	0.49	0.43	20.01	Employers' Contributions payable to the scheme	16.12	0.48	0.40	17.00
(21.98)	(0.49)	(0.43)	(22.90)	Retirement Benefits Paid Out	(22.03)	(0.48)	(0.40)	(22.91)

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 £m 2015-16	LGPS Unfunded Benefits £m 2015-16	Teachers' Unfunded Benefits £m 2015-16	Total £m 2015-16		Local Govt Pension Scheme £m 2016-17	LGPS Unfunded Benefits £m 2016-17	Teachers' Unfunded Benefits £m 2016-17	Total £m 2016-17
689.16	7.63	4.56	701.35	Present value of defined benefit obligation	772.59	7.81	4.54	784.94
(456.08)	0.00	0.00	(456.08)	Fair Value of Plan Assets	(532.49)	0.00	0.00	(532.49)
233.08	7.63	4.56	245.27	Net liability arising from defined benefit obligation	240.10	7.81	4.54	252.45

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

£m 2015-16		£m 2016-17
438.85	Opening fair value of scheme assets at 1 April	456.08
14.03	Interest income on assets	15.49
	Remeasurement gain/(loss):	
1.54	The return on plan assets, excluding the amount included in the net interest expense	62.39
19.09	Contributions by Employer	16.12
4.55	Contributions by Participants	4.44
(21.98)	Net Benefits Paid Out	(22.03)
456.08	Balance as at 31 March	532.49

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

Local Govt Pension Scheme £m	LGPS Unfunded Benefits £m	Teachers' Unfunded Benefits £m	Total £m		Local Govt Pension Scheme £m	LGPS Unfunded Benefits £m	Teachers' Unfunded Benefits £m	Total £m
2015-16	2015-16	2015-16	2015-16		2016-17	2016-17	2016-17	2016-17
698.52	8.27	5.07	711.86	Opening balance at 1 April	689.16	7.63	4.56	701.35
17.56	0.00	0.00	17.56	Current Service Cost	17.59	0.00	0.00	17.59
22.08	0.25	0.15	22.48	Interest Cost	23.14	0.25	0.15	23.54
4.55	0.00	0.00	4.55	Contributions from scheme participants	4.44	0.00	0.00	4.44
0.00	0.00	0.00	0.00	Remeasurement (gains) and losses:	0.00	0.00	0.00	0.00
(26.08)	(0.26)	(0.15)	-26.49	Actuarial gains / losses arising from changes in financial assumptions	138.41	0.67	0.38	139.46
0.00	0.00	0.00	0.00	Actuarial gains / losses arising from changes in demographic assumptions	(28.69)	(0.20)	(0.12)	-29.01
(6.08)	(0.14)	(0.08)	-6.30	Actuarial gains / losses arising from changes in liability	(49.93)	(0.06)	(0.03)	-50.02
0.59	0.00	0.00	0.59	experience	0.50	0.00	0.00	0.50
(21.98)	(0.49)	(0.43)	-22.90	Past Service Cost	(22.03)	(0.48)	(0.40)	-22.91
0.00	0.00	0.00	0.00	Benefits Paid	0.00	0.00	0.00	0.00
				Liabilities extinguished on settlements				
689.16	7.63	4.56	701.35	Balance as at 31 March	772.59	7.81	4.54	784.94

Local Government Pension Scheme assets comprised:

Fair Value of Scheme Assets 2015-16 £m	Asset Split 2015-16 %		Fair Value of Scheme Assets 2016-17 £m	Asset Split 2016-17 %
15.826	3.47	Cash and cash equivalents	11.036	2.07
		Equity Instruments: <i>by industry type (FTSE Sector)</i>		
8.483	1.86	Oil & Gas	9.928	1.86
6.111	1.34	Basic Materials	13.559	2.55
37.034	8.12	Industrials	49.307	9.26
38.539	8.45	Consumer Goods	50.380	9.46
25.586	5.61	Health Care	31.902	5.99
49.393	10.83	Consumer Services	49.669	9.33
2.052	0.45	Telecommunications	1.615	0.30
4.834	1.06	Utilities	2.916	0.55
58.013	12.72	Financials	64.845	12.18
31.060	6.81	Technology	50.835	9.55
0.000	0.00	Real Estate	0.608	0.11
54.047	11.85	Pooled Equity Investment Vehicles	64.564	12.12
315.152	69.10	Sub-total equity	390.128	73.26
		Bonds: <i>By Sector</i>		
50.351	11.04	Corporate	53.845	10.11
44.787	9.82	Government	47.223	8.87
95.138	20.86	Sub-total bonds	101.068	18.98
		Property: <i>By Type</i>		
7.525	1.65	Retail	7.686	1.44
3.785	0.83	Office	4.085	0.77
6.932	1.52	Industrial	6.959	1.31
11.722	2.57	Other Commercial	11.528	2.17
29.964	6.57	Sub-total property	30.258	5.69
456.080	100.00	Total assets	532.490	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 (LGPS) 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:

2015-16 % pa		2016-17 % pa
3.40	Discount rate	2.60
1.80	Rate of pension increases	2.00
3.30	Rate of salary increases	3.25
Years		Years
	<i>Mortality Assumptions:</i> Longevity at 65 for current pensioners :-	
23.10		Men 22.80
26.00		Women 24.90
	Longevity at 65 for future pensioners :-	
25.30		Men 25.00
28.40		Women 27.20

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 2015-16	Decrease in Assumption 2015-16		Increase in Assumption 2016-17	Decrease in Assumption 2016-17
			£m	£m
(13.17)	13.42	Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(14.08)	14.34
2.89	(2.86)	Rate of increase in salaries (increase or decrease by 0.1%)	2.81	(2.79)
10.51	(10.33)	Rate of increase in pensions (increase or decrease by 0.1%)	11.50	(11.31)
17.51	(17.55)	Longevity (increase or decrease in 1 year)	22.98	(22.83)

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 will be carrying out the next Actuarial Valuation as at 31 March 2019. The current Employer's contribution rate to achieve a funding level of 100% of scheme liabilities will be reviewed at this point. Consequently, whilst there is a significant shortfall (liability) between 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.

The expected employer's contributions to the Local Government Pension Scheme for the accounting period ending 31 March 2018 are:-

	2017-18 £m
Local Government Pension Scheme	29.18
LGPS Unfunded	0.20
Teachers Unfunded	0.11
Total	29.49

The weighted average duration of the defined benefit obligation for the scheme members is 18.4 years, which is the same as for 2015-16.

Teachers

In 2016-17, the Council paid £8.1 million (£7.6 million for 2015-16) to the Teachers Pensions Agency in respect of teachers' pension costs. The increase was as a result of the continued impact of an increase in the employer's contribution rate in 2015-16. In addition, the Council is responsible for all pension payments relating to added years awarded, together with the related increases. In 2016-17, these amounted to £0.451 million (£0.5 million for 2015-16).

30. 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 Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash, equity instruments, or a contractual right to receive cash or another financial assets, or an obligation to exchange financial assets and liabilities with another entity that is potentially favourable to the Council. 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 Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

Short term Investments and Cash and Cash Equivalents (included in Current Assets) in the Balance Sheet are detailed below:

31 March 2016 Balance Sheet £'000		31 March 2017 Balance Sheet £'000
14,543	Short Term Investments (< 1 year)*	26,572
14,543	Total Short Term Investments	26,572
9,502	Cash & Cash Equivalents (Deposits)	3,250
(2,320)	Cash in Hand/Overdrawn	(1,586)
7,182	Total Cash & Cash Equivalents	1,664
5,771	Short Term Trade Receivables (Debtors)	7,713
27,496	Total Current Financial Assets	35,949

*The total short term investments include £10,334 representing accrued interest in long term investments in addition to short term interest of £62,044. The £7.713 million Trade Receivables (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 £29.130 million in the balance sheet as debtors that do not meet the definition of a financial liability, Note 26 provides more detailed information of the total short term debtors figure.

International Financial Reporting Standard (IFRS) 13 Fair Value defines the fair value of a financial asset as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair values only need to be disclosed for the Council's long term financial assets as the fair value of our short-term instruments, including trade receivables, are assumed to approximate to the carrying amount, so fair values have not been disclosed above. There are 3 levels in the fair value hierarchy for calculations, however due to the type of financial assets the Council hold the only level applicable at 31 March 2017 is level 2, where the fair value is calculated from inputs other than quoted prices that are observable for the asset – this is interest rates or yields for similar instruments.

There were two new long term investments in 2016-17 both for 4 years totalling £4 million and the Long Term Investment figures in the balance sheet is £4.003 million (£2.007 million at 31 March 2016). The Fair Value (Level 2) is £4.037 million which has been calculated by discounting at the market rate for a similar instrument with equivalent remaining term to maturity on 31 March 2017.

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 or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Council. 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 Council has 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:

31 March 2016 £'000	Short Term Borrowing & Other Short Term Liabilities	31 March 2017 £'000
(278)	Accrued Interest Long Term Loans	(272)
(57)	Escrow (Bocam Park) Short Term	(60)
(229)	Escrow (Wind Farms) Short Term	(230)
(346)	Education/Social Services Trust Funds	(340)
(50)	Other Trust Funds	(50)
(960)	Short Term Borrowing	(952)
(5,103)	Short Term Trade Payables (Creditors)	(5,245)
(1,176)	Other Short Term Financial Liabilities (Creditors)	(407)
(7,239)	Total Current Financial Liabilities	(6,604)

The short term Trade Payables (Creditors) figure £5.245 million relates to trade payables for goods and services received. 45% of this is not overdue for payment and 55% is due within 6 months. The other short term financial liabilities figure of £0.407 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 2016-17 is made up as follows:-

31 March 2016 £'000	Short Term Liability relating to Other Long Term Liabilities	31 March 2017 £'000
(552)	Maesteg School PFI Lease Liability	(595)
(55)	Innovation Centre Financial Liability	(60)
(50)	Waste Contract (MREC)	(50)
(657)	Total	(705)

The £5.245 million, £0.407 million and £0.705 million shown in the two tables above are all included in the Short Term Creditors Balance Sheet figure of £27.155 million which also includes creditors that do not meet the definition of a financial liability so is not detailed here. Note 28 provides more detailed information of the total short term creditors figure.

Under IFRS 13 the fair value of a financial liability is defined as the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values only need to be disclosed for the Council's long term financial liabilities as the fair value of our short-term instruments including trade payables are assumed to approximate to the carrying amount so fair values have not been disclosed above. There are 3 levels in the fair value hierarchy for calculations, however due to the type of financial liabilities the Council holds the only level applicable to the Council at 31 March 2017 is level 2 where the fair value is calculated from inputs other than quoted prices that are observable for the asset or liability – this is interest rates or yields for similar instruments.

The fair value of the long term financial instruments have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2017, which provides an estimate of the value of payments in the future in today's terms, using the following methods and assumptions:

- The fair value of Public Works Loan Board (PWLB) have been discounted at the market rates for local authority loans of the same remaining term to maturity at the 31 March.
- The value of "Lender's Option Borrower's Option" (LOBO) loans have been increased by the value of the embedded options. Lender's options to propose an increase to the interest rate on the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at

zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.

- The fair value of other long term financial liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA rated corporate bond yield.

The long term borrowing figure in the balance sheet of £97.432 million is made up as follows:

31 March 2016				Fair Value Level	31 March 2017		
Principal Sum Outstanding	Balance Sheet	Fair Value			Principal Sum Outstanding	Balance Sheet	Fair Value
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
(77,617)	(77,617)	(103,678)	PWLB (long term)	2	(77,617)	(77,617)	(115,604)
(77,617)	(77,617)	(103,678)	Total PWLB debt		(77,617)	(77,617)	(115,604)
(19,250)	(19,817)	(29,878)	LOBO's	2	(19,250)	(19,815)	(33,208)
(19,250)	(19,817)	(29,878)	Total Market Loans		(19,250)	(19,815)	(33,208)
			Total Long Term Borrowing		(96,867)	(97,432)	(148,812)
(96,867)	(97,434)	(133,556)					

PFI and other long term liabilities figure in the balance sheet of £21.064 million are detailed below:

31 March 2016		Other Long Term Liabilities	Fair Value Level	31 March 2017	
Balance Sheet £'000	Fair Value £'000			Balance Sheet £'000	Fair Value £'000
(18,235)	(26,499)	Maesteg PFI Lease Liability	2	(17,640)	(26,854)
(664)	(961)	Innovation Centre Financial Liability	2	(604)	(887)
(400)	(406)	Waste Contract (MREC)	2	(350)	(378)
(60)	(60)	Escrow (Football Club)	Cost	(70)	(70)
(2,400)	(2,400)	Llynfi	Cost	(2,400)	(2,400)
(21,759)	(30,326)	Total Other Long Term Liabilities		(21,064)	(30,589)

The fair value of financial liabilities held at amortised cost is higher than their balance sheet 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.

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.

31 March 2016 Gross Assets (Liabilities) £'000	Offsetting of Financial Assets and Liabilities	31 March 2017 Gross Assets (Liabilities) £'000
2,121	Bank Accounts in Credit	2,107
2,121	Total Financial Assets	2,107
(2,229)	Bank Overdrafts	(2,012)
(2,229)	Total Financial Liabilities	(2,012)
(108)	Net Position on Balance Sheet	95

Financial Instruments – Gains and Losses

The gains and losses recognized in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following:

31 March 2016				31 March 2017		
Financial Liabilities	Financial Assets	Total		Financial Liabilities	Financial Assets	Total
Amortised Cost	Loans & Receivables	£'000	Amortised Cost	Loans & Receivables	£'000	£'000
6,049	-	6,049	Interest Expense	6,035	-	6,035
6,049	-	6,049	Interest Payable and similar charges	6,035	-	6,035
-	(903)	(903)	Interest Income	-	(942)	(942)
-	(903)	(903)	Interest and Investment Income	-	(942)	(942)
6,049	(903)	5,146	Net (gain)/loss for the year	6,035	(942)	5,093

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 10 March 2016 accepted the Treasury Management Strategy 2016-17 and the Treasury Management and Prudential Indicators.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the Welsh Government'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 and its Treasury Management Practices seek the highest rate of return consistent with the proper levels of security and liquidity so as to achieve a suitable balance between risk and return or cost. 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 Council. Actual performance is also reported annually to Members in the form of the Annual Treasury Management Outturn Report which is reviewed by Audit Committee.

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.

The Council manages credit risk by ensuring that investments are only placed with organisations of high credit quality. These include entities with a minimum long-term credit rating of A- that are domiciled in the UK or a foreign country with a minimum sovereign rating of AA+, the UK government, other local authorities, and organisations without credit ratings upon which the Council has received independent investment advice. Overseas subsidiaries of foreign banking groups will normally be assessed according to the country of domicile of the parent organisation.

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 its Investment Strategy.

Unsecured investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail, whereas secured investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency and means that they are exempt from bail-in. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments. 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.

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. The counterparty limits were constantly reviewed and where market conditions dictated, the limit was dropped. No breaches of the Council's counterparty criteria occurred during 2016-17 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 principal at 31 March 2017 totalled £33.75 million as detailed below and shown in the balance sheet as Long Term Investments (£4.003 million), Short Term Investments (£26.572 million) and included within Cash and Cash Equivalents (£3.250 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 2017 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) and the remaining time to maturity:

Counterparty Category	Credit Rating	Instant Access Deposit Accounts	Notice Period Deposit Account	Deposits Maturing Within 1 Month	Deposits Maturing Within 1 to 3 Months	Deposits Maturing Within 3 to 6 Months	Deposits Maturing Within 6 Months to 1 Year	Deposits Maturing Within 3 to 4 Years	Deposits Maturing Within	Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Bank	AA-	2,250								2,250
Bank	A	1,000	2,000		2,000	1,000				6,000
Local Authorities	AA				5,000		2,000			7,000
Local Authorities unrated					2,000	4,500	2,000	4,000		12,500
Building Societies	A			4,000						4,000
Building Societies unrated				1,000	1,000					2,000
Total		3,250	2,000	5,000	10,000	5,500	4,000	4,000		33,750

As at 31 March 2016 the credit risk exposures were:

Counterparty Category	Credit Rating	Instant Access Deposit Accounts	Notice Period Deposit Account	Deposits Maturing Within 1 Month	Deposits Maturing Within 2 to 3 Months	Deposits Maturing Within 4 to 6 Months	Deposits Maturing Within 7 Months to 1 Year	Deposits Maturing Within 1 to 2 Years	Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Bank	AA-	500							500
Bank	A	1,000	2,000						3,000
Local Authorities	AA						2,000		2,000
Local Authorities unrated				10,000	5,500		2,000	2,000	19,500
Building Societies	A								-
Building Societies unrated					1,000				1,000
Total		1,500	2,000	10,000	6,500	-	4,000	2,000	26,000

The Council does not generally allow credit for its customers (trade debtors) such that all the trade debtors are recognised as short term, however, £4.883 million of the £7.713 million balance (shown above in financial assets) is past its due date for payment. The past due but not impaired amount can be analysed by age as shown in the table below:

31 March 2016 £'000	Trade Debtors Past Due but not impaired	31 March 2017 £'000
923	Less than three months	3,169
582	Three to six months	679
343	Six months to one year	279
541	More than one year	756
2,389	Total	4,883

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 borrowing from the Money Markets or other local authorities to cover any day to day cash flow need. In addition 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 % 2016-17	Lower Limit 2016-17	Actual % 31 March 2017	Principal Outstanding £'000 31 March 2017
Less than one year	50	-	-	0
Between 1 and 2 years	25	-	-	0
Between 2 and 5 years	50	-	-	0
Between 5 and 10 years	60	-	12.47	12,079
More than ten years	100	40	67.66	65,538
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.

31 March 2016 £'000	Maturity Analysis Financial Liabilities	31 March 2017 £'000
(7,897)	Less than one year	(7,310)
(705)	Between one and two years	(756)
(4,878)	Between two and five years	(5,078)
(14,510)	Between five and ten years	(17,575)
(79,282)	More than ten years	(75,271)
(19,817)	Uncertain date*	(19,815)
(127,089)	Total Financial Liabilities	(125,805)

* The £19.250 million (19.87%) and £19.815 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 24 July 2017) and therefore, the Council 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 2017-18 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 foreign exchange risk (loss arising from movements in exchange rates) as borrowing and investments are only carried out in sterling. Price risk (financial gains or losses arising from movement in the prices of financial instruments) is also not applicable to the Council as, whilst the Council's Annual Investment Strategy allows investments in instruments such as bank certificates of deposit and Government Bonds, the Council currently invests in instruments where the sum returned on maturity is the same as the initial amount invested. Therefore only interest rate risk is applicable which 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 2016-17 £m	Revised Projection TMS 2016-17 £m	Actual Principal Outstanding 31 March 2017 £m
Total Projected Principal Outstanding on Borrowing	101.87	96.87	96.87
Total Projected Principal Outstanding on Investments(including cash/cash equivalents deposits)	8.00	30.00	33.75
Net Principal Outstanding	93.87	66.87	63.12
Fixed interest rates (net principal) exposure	140.00	140.00	49.12
Variable interest rates (net principal) exposure	50.00	50.00	14.00

The Council's investments classed as 'loans and receivables' and loans borrowed are not carried at fair value on the balance sheet, so changes in their fair value will not impact on the Comprehensive Income and Expenditure Statement, however, changes in interest payable and receivable on variable rate borrowings and investments does and will be posted to the Surplus or Deficit on the Provision of Services. The Council 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 2017, 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	132	0
Interest receivable on variable rate investments	(229)	229
Impact on Surplus or Deficit on Provision of Services	(97)	229

The figures for an approximate impact of a 1% fall in interest rates for borrowing 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.

31. Post Balance Sheet Events

There are no Post Balance Sheet Events.

32. 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 Council.

As at the 31 March 2017, the Council had an ongoing claim relating to land that was compulsorily purchased by the Council for a replacement of a school building. The method of calculating the compensation award has been challenged and there is ongoing litigation. In the event that the landowner is successful a separate process will commence to determine the value of the land. At this time, therefore, the value of any potential future compensation that might or might not be due is unknown and as such is being disclosed as a contingent liability within the accounts.

Halo Leisure, Bridgend County Borough Council's Leisure Services Partner, is an admitted body to the Rhondda Cynon Taf Local Government Pension Fund. A formal admission agreement is in place between the Council and Halo Leisure, a registered Charity and Social Enterprise, which governs the relationship and the financial terms of participation.

For employees who were previously employed by Bridgend CBC and have been transferred to Halo Leisure, the admission agreement states that at the point of transfer any accrued pension liabilities relating to the members scheme membership prior to the commencement date is assumed to be 100% funded. Halo Leisure will only be responsible for the increase in liabilities from the commencement date with the Council acting as guarantor for the previously accrued liabilities at the point of transfer.

Similarly Awen Cultural Trust is also an admitted body to the Rhondda Cynon Taf Government Pension Fund with the same arrangements as for Halo Leisure. The Council is acting as guarantor for any accrued pension liabilities at the point of transfer of Bridgend CBC staff to the Trust.

Notes to the Cash Flow Statement

33. Adjustments for Non-Cash Movements

2015-16 £'000		2016-17 £'000
(26,342)	Depreciation & Impairment of Assets	(24,009)
10,071	Movement in Stock, Debtors & Creditors	8,234
(6,590)	Pension Fund Adjustments	(9,140)
(1,056)	Provisions	(185)
(6,140)	Disposal of Non Current Asset	(6,342)
1,082	Changes in Fair Value of Investment Property	-
6	Other non cash movements	-
(28,969)	Adjustments to net deficit on the provision of services for non-cash movements	(31,442)

34. Operating Activities

The cash flows for operating activities include the following items:-

2015-16 £'000		2016-17 £'000
(13,599)	Cash Flow on Revenue Activities	(14,469)
4,545	Interest Paid	4,578
1,503	Interest element of finance lease and PFI rental payments	1,460
(880)	Interest Received	(929)
(8,431)	Net Cash Flows from Operating Activites	(9,360)

35. Investing Activities

The cash flows for investing activities include the following items:-

2015-16 £'000		2016-17 £'000
21,517	Purchase of Property, Plant and Equipment and Investment Property	13,881
5,523	Purchase / (Proceeds) from Short Term Investments	14,025
(3,956)	Proceeds from sale of Property, Plant and Equipment and Investment Property	(5,292)
23,084	Net Cash Flows from Investing Activities	22,614

36. Financing Activities

The cash flows for financing activities include the following items:-

2015-16 £'000		2016-17 £'000
(3,971)	Cash Receipts of short and long term borrowing	(10,200)
(15,598)	Other Receipts from financing activities	(7,356)
1,500	Repayments of short and long term borrowing	10,210
2,810	Repayment of Premiums on loans	-
(15,259)	Net Cash Flows from Financing Activities	(7,346)

Independent Auditor's Report to the Members of the Audit Committee of Bridgend County Borough Council

I have audited the accounting statements and related notes of Bridgend County Borough Council for the year ended 31 March 2016 under the Public Audit (Wales) Act 2004. Bridgend County Borough Council's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow Statement. The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the Auditor General for Wales

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 19, the responsible financial officer is responsible for the preparation of the statement of accounts, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Bridgend County Borough Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited accounting statements and related notes and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the accounting statements of Bridgend County Borough Council

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Bridgend County Borough Council as at 31 March 2016 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

Opinion on other matters

In my opinion, the information contained in the Narrative Report is consistent with the accounting statements and related notes.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept;
- the accounting statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit;
- the Governance Statement does not reflect compliance with guidance.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Bridgend County Borough Council in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

For and on behalf of
Huw Vaughan Thomas
Auditor General for Wales
24 Cathedral Road
Cardiff CF11 9LJ
[Date to be inserted]

The maintenance and integrity of Bridgend County Borough Council's website is the responsibility of the Accounting Officer/Client Officer; the work carried out by auditors does not involve consideration of these matters and accordingly auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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.

Expenditure and Funding Statement

This statement brings together local authority performance reported on the basis of expenditure measured under proper accounting practices with statutorily defined charges to the Council Fund.

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.

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 a Council in return for past or future compliance with certain conditions relating to the activities of the Council.

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 Council.

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 Council (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.

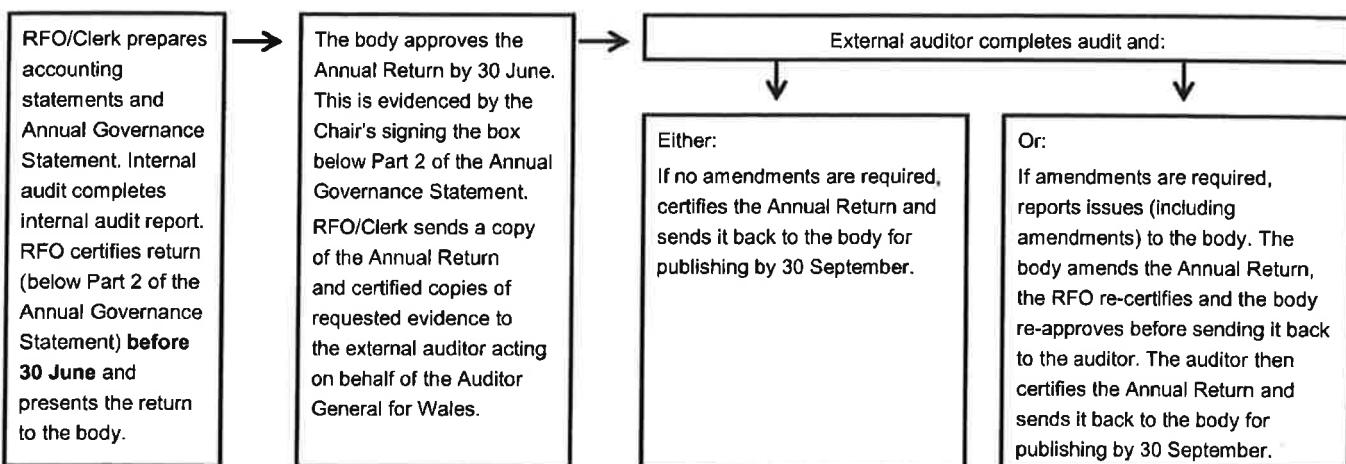
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Smaller local government bodies in Wales Annual Return for the Year Ended 31 March 2017

Smaller local government bodies in Wales must prepare annual accounts following proper practices as set out in the One Voice Wales/SLCC publication **Governance and accountability for local councils in Wales – A Practitioners’ Guide** (the Practitioners’ Guide). The Practitioners’ Guide states that bodies may prepare their accounts in the form of an annual return prepared by the Wales Audit Office.

The accounts and audit process

The accounts and audit arrangements follow the process as set out below.



Please read the guidance on completing this Annual Return and complete all sections highlighted in red including both sections of the Annual Governance Statement.

Incomplete or incorrect returns may require additional external audit work and incur additional costs. Send the **original** Annual Return, together with all additional information requested, to the external auditor acting on behalf of the Auditor General for Wales. Unless requested, please **do not** send any original financial or other records to the external auditor.

Audited and certified returns are sent back to the body for publication or display of the accounting statements, Annual Governance Statement and the Auditor General for Wales' certificate and report.

Completion checklist

'No' answers mean that you may not have met requirements		Done?	
Initial submission to the external auditor		Yes	No
Accounts	Has the RFO certified the accounting statements and the body approved the Annual Return (as evidenced by the relevant signatures), no later than 30 June 2017? Do the accounts add up and does the balance carried forward from last year equal the opening balance this year? Do the papers to be sent to the external auditor include an explanation of significant variations, including a quantified analysis of the changes from last year to this year? Does the bank reconciliation as at 31 March 2017 agree to line 9?	<input type="checkbox"/>	<input type="checkbox"/>
All sections	Have all red boxes been completed and explanations provided where needed?	<input type="checkbox"/>	<input type="checkbox"/>
Supporting evidence	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.	<input type="checkbox"/>	<input type="checkbox"/>

Accounting statements 2016-17 for:

Name of body: Porthcawl Harbour

	Year ending		Notes and guidance for compilers
	31 March 2016 (£)	31 March 2017 (£)	
			Please round all figures to nearest £. Do not leave any boxes blank and report £0 or nil balances. All figures must agree to the underlying financial records for the relevant year.

Statement of income and expenditure/receipts and payments

1. Balances brought forward	0	0	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/levy	0	0	Total amount of income received/receivable in the year from local taxation (precept) or levy/contribution from principal bodies.
3. (+) Total other receipts	(244,768)	(228,342)	Total income or receipts recorded in the cashbook minus amounts included in line 2. Includes support, discretionary and revenue grants.
4. (-) Staff costs	64,905	66,833	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 eg termination costs.
5. (-) Loan interest/capital repayments	128,903	128,903	Total expenditure or payments of capital and interest made during the year on external borrowing (if any).
6. (-) Total other payments	50,960	32,606	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	0	0	Total balances and reserves at the end of the year. Must equal $(1+2+3) - (4+5+6)$.

Statement of balances

8. (+) Debtors and stock balances	56350	0	Income and expenditure accounts only: Enter the value of debts owed to the body and stock balances held at the year-end.
9. (+) Total cash and investments	0	0	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	(56350)	0	Income and expenditure accounts only: Enter the value of monies owed by the body (except borrowing) at the year-end.
11. (=) Balances carried forward	0	0	Total balances should equal line 7 above: Enter the total of $(8+9-10)$.
12. Total fixed assets and long-term assets	3,611,726	3,482,823	The original asset and investment register value of all fixed assets and any other long-term assets held as at 31 March.
13. Total borrowing	0	0	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).
	<input type="radio"/>						

Annual Governance Statement (Part 1)

We acknowledge as the members of the Council/Board/Committee, 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 accounting statements for the year ended 31 March 2017, that:

	Agreed?		'YES' means that the Council/Board/Committee:	PG Ref
	Yes	No*		
1. We have put in place arrangements for: <ul style="list-style-type: none"> • effective financial management during the year; and • the preparation and approval of the accounting statements. 	<input checked="" type="radio"/>	<input type="radio"/>	Properly sets its budget and manages its money and prepares and approves its accounting statements as 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.	<input checked="" type="radio"/>	<input type="radio"/>	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 Council/Board/ Committee to conduct its business or on its finances.	<input checked="" type="radio"/>	<input type="radio"/>	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.	<input checked="" type="radio"/>	<input type="radio"/>	Has given all persons interested the opportunity to inspect and to ask questions about the body's accounts.	6, 23
5. We have carried out an assessment of the risks facing the Council/Board/Committee and taken appropriate steps to manage those risks, including the introduction of internal controls and/or external insurance cover where required.	<input checked="" type="radio"/>	<input type="radio"/>	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 accounting records and control systems throughout the year and have received a report from the internal auditor.	<input checked="" type="radio"/>	<input type="radio"/>	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 considered whether any litigation, liabilities or commitments, events or transactions, occurring either during or after the year-end, have a financial impact on the Council/Board/Committee and, where appropriate, have included them on the accounting statements.	<input checked="" type="radio"/>	<input type="radio"/>	Disclosed everything it should have about its business during the year including events taking place after the year-end if relevant.	6
8. We have taken appropriate action on all matters raised in previous reports from internal and external audit.	<input checked="" type="radio"/>	<input type="radio"/>	Considered and taken appropriate action to address issues/weaknesses brought to its attention by both the internal and external auditors.	6, 8, 23
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. 	<input type="radio"/>	<input type="radio"/>	Has met all of its responsibilities where it is a sole managing trustee of a local trust or trusts.	3, 6

* 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.

Annual Governance Statement (Part 2)

	Agreed?		'YES' means that the Council/Board/ Committee:	PG Ref
	Yes	No*		
1. We have registered as an employer with HM Revenue and Customs and properly operate Pay As You Earn as part of our payroll arrangements; or We do not need to register for PAYE because none of our employees are paid £112 or more a week, get expenses and benefits, have another job or get a pension.	<input checked="" type="radio"/>	<input type="radio"/>	Has registered as an employer and properly operates PAYE unless all of the exemption criteria are met.	13
2. We have maintained proper payroll records for each of our employees including deductions of tax and national insurance.	<input checked="" type="radio"/>	<input type="radio"/>	Has kept records of payments made to employees including taxable expenses or benefits and of payments made to HMRC.	13
3. We have adopted a Code of Conduct setting out proper standards of behaviour expected of councillors and individually, have agreed to abide by the code.	<input checked="" type="radio"/>	<input type="radio"/>	The body and its members have adopted and agreed to abide by a Code of Conduct as required by law.	8

* Please delete as appropriate.

Council/Board/Committee approval and certification

The Council/Board/Committee 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 the Annual Governance Statement.

Certification by the RFO	Approval by the Council/Board/Committee
I certify that the accounting statements contained in this Annual Return presents fairly the financial position of the Council/Board/Committee, and its income and expenditure, or properly presents receipts and payments, as the case may be, for the year ended 31 March 2017.	I confirm that these accounting statements and Annual Governance Statement were approved by the Council/Board/Committee under minute reference:
RFO signature: 	Chair signature:
Name: name required RANDAL HENNINGSEN	Name: name required
Date: dd/mm/yyyy 21/06/2017	Date: dd/mm/yyyy

Council/Board/Committee re-approval and re-certification (only required if the annual return has been amended at audit)

Certification by the RFO	Approval by the Council/Board/Committee
I certify that the accounting statements contained in this Annual Return presents fairly the financial position of the Council/Board/Committee, and its income and expenditure, or properly presents receipts and payments, as the case may be, for the year ended 31 March 2017.	I confirm that these accounting statements and Annual Governance Statement were approved by the Council/Board/Committee under minute reference:
RFO signature:	Chair signature:
Name: name required	Name: name required
Date: dd/mm/yyyy	Date: dd/mm/yyyy

Auditor General for Wales' Audit Certificate and report

The external auditor conducts the audit on behalf of, and 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 2017 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 and our recommendations for improvement are included in our report to the body dated _____.]

Other matters and recommendations

On the basis of our review, we draw the body's attention to the following matters and recommendations which do not affect our audit opinion but should be addressed by the body.

(Continue on a separate sheet if required.)

External auditor's name:

External auditor's signature:

Date:

For and on behalf of the Auditor General for Wales

* Delete as appropriate.

Annual internal audit report to:

Name of body: Porthcawl Harbour

The Council/Board/Committee'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 2017.

The internal audit has been carried out in accordance with the Council/Board/Committee'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 Council/Board/Committee.

	Agreed?				Outline of work undertaken as part of the internal audit (NB not required if detailed internal audit report presented to body)
	Yes	No*	N/A	Not covered**	
1. Appropriate books of account have been properly kept throughout the year.	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Centralised main accounting audit performed in annually. No relevant issues identified.
2. Financial regulations have been met, payments were supported by invoices, expenditure was approved and VAT was appropriately accounted for.	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	No audit performed in 2016/17. Previous audit in 2015/16 revealed no relevant issues.
3. The body assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	No audit performed in 2016/17. Previous audit in 2015/16 revealed no relevant issues.
4. The annual precept/levy/resource demand requirement resulted from an adequate budgetary process, progress against the budget was regularly monitored, and reserves were appropriate.	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	No audit performed in 2016/17. Previous audit in 2015/16 revealed no relevant issues.
5. Expected income was fully received, based on correct prices, properly recorded and promptly banked, and VAT was appropriately accounted for.	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	No audit performed in 2016/17. Previous audit in 2015/16 revealed no relevant issues.
6. Petty cash payments were properly supported by receipts, expenditure was approved and VAT appropriately accounted for.	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	No relevant issues raised in the 15/16 Audit. VAT for each purchase and sale was confirmed as itemised on the general ledger.
7. Salaries to employees and allowances to members were paid in accordance with minuted approvals, and PAYE and NI requirements were properly applied.	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Centralised payroll audited annually. No relevant issues identified.
8. Asset and investment registers were complete, accurate, and properly maintained.	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Confirmed by review of extract from Asset Register.

	Agreed?				Outline of work undertaken as part of the internal audit (NB not required if detailed internal audit report presented to body)
	Yes	No*	N/A	Not covered**	
9. Periodic and year-end bank account reconciliations were properly carried out.	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	No separate bank account for Porthcawl Harbour. Centralised bank reconciliation performed. Centralised main accounting audit performed annually. No relevant issues identified.
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.	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	Centralised main accounting audit performed annually. No relevant issues identified.
11. Trust funds (including charitable trusts). The Council/Board/Committee has met its responsibilities as a trustee.	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	None.

For any risk areas identified by the Council/Board/Committee (list any other risk areas below or on separate sheets if needed) adequate controls existed:

	Agreed?				Outline of work undertaken as part of the internal audit (NB not required if detailed internal audit report presented to body)
	Yes	No*	N/A	Not covered**	
12. Insert risk area	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	Corporate risk management process in place. No risks specific to Porthcawl Harbour have been identified.
13. Insert risk area	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	Insert text
14. Insert risk area	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	Insert text

* 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.

[My detailed findings and recommendations which I draw to the attention of the Council/Board/Committee are included in my detailed report to the Council/Board/Committee dated _____.] * Delete if no report prepared.

Internal audit confirmation

I confirm that as the Council's internal auditor, I have not been involved in a management or administrative role within the body or as a member of the body during the financial years 2015-16 and 2016-17. I also confirm that there are no conflicts of interest surrounding my appointment.

Name of person who carried out the internal audit: Joan Davies

Signature of person who carried out the internal audit: 

Date: 09/06/2017

Guidance notes on completing the Annual Return

1. You must apply proper practices when preparing this annual return. For guidance, please read the Practitioners' Guide (**Governance and accountability for local councils: A Practitioners' Guide (Wales)**) – available from One Voice Wales and SLCC. It contains everything you need for the financial year-end and the statutory audit.
2. The Wales Audit Office Good Practice Exchange (www.audit.wales/good-practice/finance/community-council-money) provides further information on the accounts and audit process along with guidance on governance matters.
3. Make sure that the Annual Return is fully completed ie, no empty red boxes. Please avoid making any amendments to the completed return. If this is unavoidable, cross out the incorrect entries, make sure the amendments are drawn to the attention of the body, properly initialled and an explanation for them is provided to the external 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 and may incur additional costs.
4. **There are now two boxes for certification and approval by the body. The second box is only required if the annual return has to be amended as a result of the audit. You should only complete the top box before sending the form to the auditor.**
5. Use a second pair of eyes, perhaps the Chair or a member, to review your Annual Return for completeness before sending the original form to the auditor.
6. Make sure that your accounting statements add up, that the balance carried forward from the previous year (line 7 of 2016) equals the balance brought forward in the current year (line 1 of 2017). Explain any differences between the 2016 figures on this annual return and the amounts recorded in last year's annual return.
7. Explain fully any significant variances in the accounting statements. Do not just send in a copy of your detailed accounting records instead of this explanation. The external auditor wants to know that you understand the reasons for all variances. Include a detailed analysis to support your explanation and be specific about the values of individual elements making up the variances.
8. Make sure that the copy of the bank reconciliation you send to your auditor with the 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 Council holds any short-term 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*.
9. **Every small body is now required to send to the external auditor, information to support the assertions made in the Annual Governance Statement. Your auditor will tell you what information you need to provide. Please read the audit notice carefully to ensure you include all the information the auditor has asked for. You should send copies of the original records (certified by the Clerk and Chair as accurate copies) to the external auditor and not the original documents themselves.**
10. Please do not send the auditor any information that you are not specifically asked for. Doing so is not helpful.
11. If the auditor has to review unsolicited information, repeat a request for information, receives an incomplete bank reconciliation or explanation of variances or receives original documents that must be returned, the auditor will incur additional costs for which they are entitled to charge additional fees.
12. **Do not complete the Auditor General for Wales' Audit Certificate and report.** The external auditor completes this on behalf of the Auditor General for Wales on completion of the audit.
13. **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.
14. **Please note that if completing the electronic form, you must print the form for it to be certified by the RFO and signed by the Chair before it is sent to the auditor.**

REPORT TO AUDIT COMMITTEE

29 JUNE 2017

REPORT OF THE SECTION 151 OFFICER

ANNUAL TREASURY MANAGEMENT OUTTURN REPORT 2016-17

1. Purpose of the Report

- 1.1 The purpose of the report is to update the Audit Committee on the outturn position for Treasury Management activities, Treasury Management and Prudential Indicators for 2016-17 and to highlight the compliance with the Council's policies and practices before they are reported to Cabinet and Council.

2. Connection to Corporate Improvement Objectives/Other Corporate Priorities

- 2.1 The work of the Audit Committee supports corporate governance and assists in the achievement of all corporate and service objectives. Prudent treasury management arrangements will ensure that investment and borrowing decisions made by officers on behalf of the Council make best use of financial resources and hence assist achievement of Corporate Priorities.

3. Background

- 3.1 To ensure effective scrutiny of treasury management in accordance with the Treasury Management Strategy, Audit Committee has been nominated to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies. Audit Committee received training in June 2017 to assist them in their function of scrutinising treasury management, with particular emphasis on investment options available to the Council. During the 2016-17 financial year, in addition to the regular treasury management reports to Cabinet and Council, Audit Committee received the Annual Treasury Management Report 2015-16 in June 2016, the Half Year Treasury Management Report 2016-17 in November 2016 and the Treasury Management Strategy (TMS) 2017-18 in January 2017.

- 3.2 The Council's Treasury Management activities are regulated by the Local Government Act 2003 which provides the powers to borrow and invest as well as providing controls and limits on this activity. The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 as amended, develops the controls and powers within the Act. This requires the Council to undertake any borrowing activity with regard to the Chartered Institute of Public Finance

and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities and to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services.

- 3.3 The Council is required to operate the overall treasury function with regard to the Code and this was formally adopted by the Council in February 2012. This includes a requirement for the Council to approve a Treasury Management Strategy (TMS) before the start of each financial year which sets out the Council's and Chief Financial Officer's responsibilities, delegation and reporting arrangements. Council approved the TMS 2016-17 on 10 March 2016.
- 3.4 The Welsh Government (WG) issued revised Guidance on Local Authority Investments in April 2010, which requires the Council to approve an Investment Strategy prior to the start of each financial year and this is included in the TMS.

4. Current Situation

- 4.1 The Council has complied with its legislative and regulatory requirements during 2016-17. The Treasury Management Strategy 2016-17 and the Half Yearly Outturn were reported to Council on 10 March 2016 and 2 November 2016 respectively and the Annual Report will be reported to Cabinet and Council in September 2017. In addition, quarterly monitoring reports were presented to Cabinet during 2016-17.
- 4.2 A detailed summary of the Treasury Management Activities for 2016-17 is shown in **Appendix A**. No long term borrowing was taken in 2016-17 and no debt rescheduling was undertaken as there were no significant savings to be made, however, the loan portfolio will be reviewed during 2017-18. Favourable cash flows have provided surplus funds for investment and the balance on investments at 31 March 2017 was £33.75 million with an average rate of interest of 0.55%. This was an increase from the start of the financial year where investments were £26.00 million but the average rate of interest has reduced from 0.67% and at the same time the base rate reduced from 0.50% to 0.25% in August 2016, hence a reduction in yield. The first table in section 5 in **Appendix A** details the movement of the investments during 2016-17 by counterparty types and shows the average balances, duration and rates for the year.
- 4.3 In 2016-17, the Council operated within the treasury limits and Treasury Management and Prudential Indicators as set out in the agreed Treasury Management Strategy 2016-17 and also complied with its Treasury

Management Practices. Details of all these indicators are shown in the attached **Appendix A** in section 9.

- 4.4 The Treasury Management function will be reviewed by the Council's external Auditors, the Wales Audit Office, during the 2016-17 annual audit which has not yet been completed, however an update will be provided to Cabinet and Council in September 2017. In addition to the External Audit work, Internal Audit undertook an audit of the Treasury Management function during 2016-17 and the audit identified that "the completed CRSA provided 100% positive responses which indicate that risks have been considered and mitigated. No weaknesses have been identified during the current review consequently no recommendations are deemed necessary on this occasion".
- 4.5 The Annual Treasury Management Report 2016-17 is to be presented to Cabinet and then Council for approval in September and whilst the main body of the report will remain unchanged there may be slight variations to some of the figures if there are any post audit changes to reflect the most up to date information.
- 4.6 The Council's Treasury Management Advisors are Arlingclose. Their contract expired on 31 August 2016 so the contract was retendered in July 2016 and Arlingclose were the successful tenderer and from 1 September 2016 awarded a new four year contract. The contract will be reviewed annually and either party may at any time terminate this agreement on 3 months prior written notice. The current services provided to the Council include:-
 - advice and guidance on relevant policies, strategies and reports,
 - advice on investment decisions,
 - notification of credit ratings and changes,
 - other information on credit quality,
 - advice on debt management decisions,
 - accounting advice,
 - reports on treasury performance,
 - forecasts of interest rates, and
 - training courses.

5. Effect upon Policy Framework & Procedure rules

- 5.1 As required by Financial Procedure Rule 17.3 within the Council's Constitution, all investments and borrowing transactions have been undertaken in accordance with the Treasury Management Strategy 2016-17 as approved by Council.

6. Equality Impact Assessment

6.1 There are no equality implications.

7. Financial Implications

7.1 The financial implications are reflected within the report.

8. Recommendation

8.1 It is recommended that the Committee:

- Note the Annual Treasury Management Activities for 2016-17

Randal Hemingway

Section 151 Officer

Head of Finance

29 May 2017

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Background documents:

Treasury Management Strategy 2016-17

Treasury Management Strategy 2017-18

SUMMARY OF TREASURY MANAGEMENT ACTIVITIES 2016-17**1. The treasury position for 2016-17:-**

		Principal as at 01-04-16 £m	Average Rate %	Principal as at 31-03-17 £m	Average Rate %
Fixed rate long term funding	PWLB*	77.62	4.70	77.62	4.70
Variable rate long term funding	LOBO**	19.25	4.65	19.25	4.65
Total Long Term External Borrowing***		96.87	4.69	96.87	4.69
Other Long Term Liabilities*** (including PFI)		22.42		21.77	
TOTAL GROSS DEBT		119.29		118.64	
Fixed rate investments		22.50	0.64	28.50	0.56
Variable rate investments		3.50	0.86	5.25	0.45
TOTAL INVESTMENTS****		26.00	0.67	33.75	0.55
TOTAL NET DEBT		93.29		84.89	

* Public Works Loan Board (PWLB)

** Lender's Option Borrower's Option (LOBO)

*** Long term borrowing/liabilities include all instruments with an initial term of 365 days or more so includes the short term liability relating to long term borrowing/liabilities included as "Current Liabilities" in the Council's balance sheet in the Statement of Accounts.

**** The investment totals include instant access deposit accounts which are included as "Cash" in the Council's balance sheet in the Statement of Accounts and also investments shown as "Cash Equivalents" in the Council's balance sheet that mature in one 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. A breakdown of the movement during the year is shown in Section 5.

Fixed rate in the above table includes instruments which are due to mature in the year and also a £3m structured deal where the change in interest rate has been agreed and fixed in advance

It should be noted that the accounting practice to be followed by the Council requires financial instruments in the accounts (debt and investments) to be measured in a method compliant with International Financial Reporting

Standards (IFRS). The figures shown in the above table and throughout the report are based on the actual amounts borrowed and invested and so may differ from those in the Statement of Accounts which include accrued interest or are stated at fair value in different instances.

The £19.25 million in the above table relates to Lender's Option Borrower's Option (LOBO) loans due to mature in 2054, which may be re-scheduled in advance of this maturity date. 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 trigger dates being July and January) and therefore, the Council being given the option to accept the increase or to repay the loan without incurring a penalty. The next trigger date is July 2017 however it is not expected to be repaid on this date. The current average interest rate for these LOBO's is 4.65% compared to the PWLB Loans average interest rate of 4.70%.

The long term liabilities figure of £21.77 million at 31 March 2017 includes £18.24 million for the Council's Private Finance Initiative (PFI) arrangement (for the provision of a Secondary School in Maesteg - seventeen years remaining term) which includes the short term PFI liability of £0.60 million which is included as current liabilities in the Council's balance sheet in the Statement of Accounts. Also included is £2.40 million relating to a loan from the WG Central Capital Retained Fund for regeneration works within the Llynfi Valley which had not yet commenced in 2016-17.

2. Treasury Risk Management

The Treasury Management 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's overall treasury risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks.

The Council's activities expose it to a variety of financial risks, the key risks are:-

- Credit risk (i.e. security) – 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.

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 were utilised during 2016-17. The majority of the Council's surplus funds during 2016-17 were therefore kept in the form of short-term investments and were all placed with counterparties satisfying the appropriate credit criteria 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 and more detail is provided below in section 5.

The counterparty limits were constantly reviewed and where market conditions dictated, the limit was dropped below the limits detailed in the Investment Strategy. No breaches of the Council's counterparty criteria occurred during 2016-17 and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2017 that this was likely to crystallise. The second table below in section 5 summarises the credit risk exposures of the Council's investment portfolio by credit rating, based on the lowest long term rating.

3. External Context 2016-17

The interest rate views, incorporated in the Council's Treasury Management Strategy for 2016-17, were based upon officers' views supported by a selection of City forecasts provided by Arlingclose.

Politically, 2016-17 was an extraordinary twelve month period which defied expectations when the UK voted to leave the European Union and Donald Trump was elected the 45th President of the USA. Uncertainty over the outcome of the US presidential election, the UK's future relationship with the EU and the slowdown witnessed in the Chinese economy in early 2016 all resulted in significant market volatility during the year.

The Bank Rate started the financial year at 0.50% after entering its eighth year at that level and remained at this rate until 4 August 2016 when it reduced to 0.25%. When the Treasury Management Strategy for 2016-17 was prepared it was forecast that the Bank Rate would increase by 0.25% in September 2016 and possibly rise to 1% by the end of the 2016-17 financial year, however as a result of the Brexit vote this did not happen and the Bank Rate remained at 0.25% for the remainder of 2016-17.

4. Borrowing Strategy and Outturn 2016-17

Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council took a cautious approach to its treasury strategy. With short-term interest rates currently lower than long term rates, it is likely to be more cost effective in the short term to either borrow short term or use internal resources. Short term and variable rate loans expose the Council to the risk of short term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates as shown in the treasury management indicators below in section 9. However, with long term rates forecast to rise in the coming years, any such short term savings will need to be balanced against the potential longer-term costs. The Council's Treasury Management advisors will assist the Council with this 'cost of carry' and breakeven analysis.

The Council's primary objective for the management of its debt is to ensure its long term affordability. The majority of its loans have therefore been borrowed from the PWLB at long term fixed rates of interest. The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity so no rescheduling activity was undertaken as a consequence. Also, no long term borrowing was taken during 2016-17 however for cash-flow purposes four short term loans were taken during the year totalling £10.20 million all of which were repaid in less than a month from being taken.

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This is known as Internal Borrowing. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

5. Investment Strategy & Outturn 2016-17

Both the CIPFA Code and the WG Guidance require the Council to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, balancing the risk of incurring losses from defaults against receiving unsuitably low investment income. The Annual Investment Strategy

incorporated in the Council's Treasury Management Strategy 2016-17 includes the credit ratings defined for each category of investments, the prudential use of non-specified investments and the liquidity of investments.

The Council's investments have historically been placed in bank and building society unsecured deposits and local and central government, however, investments may be made with any public or private sector organisations that meet the minimum credit criteria specified in the Investment Strategy. The Council is looking to diversify into more secure and/or higher yielding asset classes but any new instruments used will be in full consultation with the Council's Treasury Management advisors. In order to be able to use these different types of instruments the Council is required to hold a custody account with a third party (as we are unable to deal direct) and this is currently awaiting approval.

Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. In the current climate, relying mainly on credit ratings is considered to be inappropriate and the Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be 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. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

On a day to day basis the Council potentially has positive cash balances arising from the cash flow e.g. timing differences between grants being received and making various payments. These are invested on the market via brokers, direct with the institution or held in deposit accounts. The Council usually invests for a range of periods dependent on cash flow requirements and the interest rates on offer having regard to the Investment Strategy. There were two new long term investments (original duration of 12 months or more) made with a local authority in 2016-17 both for four years totalling £4 million but all other investments in 2016-17 were short term (deposit accounts or fixed term deposits). The table below details these investments by counterparty type:-

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Investment Counterparty Category	Balance 01 April 2016	Investments Made	Investments Repaid	Balance 31 March 2017	Average Duration Investment in force during 2016-17	Average Original Duration of the Investment	Weighted Average Investment Balance 2016-17	Weighted Average Rate 2016-17
	(A) £m	(B) £m	(C) £m	(A+B-C) £m	Days	Days	£m	%
Govt - DMO	-	53.70	53.70	-	5	5	0.71	0.16
Local Authorities	19.50	207.20	207.20	19.50	51	91	32.52	0.43
Building Societies	1.00	15.00	10.00	6.00	132	141	5.96	0.54
Banks (Fixed Maturity)	2.00	10.00	9.00	3.00	139	170	4.38	0.78
Banks Instant Access/Notice Period Accounts*	3.50	84.45	82.70	5.25	n/a	n/a	4.67	0.61
Total/Average	26.00	370.35	362.60	33.75	82	102	48.24	0.49

* An average duration is not shown as money is frequently added / withdrawn to/from these accounts as required by cash-flow

Occasionally, investments are placed with the UK Debt Management Office (DMO - Executive Agency of UK Government) but only for very short term deposits (as shown in the table above) and only as a last resort as the interest rates offered by this facility are lower than some other counterparties but this is commensurate with the high level of security and reduced risk offered. It provides another option when examining potential investments and ensures compliance with the Council's investment objective that security takes priority over yield. There were no deposits outstanding with the DMO at 31 March 2017.

Favourable cash flows have provided positive cash balances for investment and as shown above the balance on investments at 31 March 2017 was £33.75 million made up of £4 million long term investments, £26.50 million short term investments and £3.25 million Cash and Cash Equivalents.

The table below summarises the credit risk exposure of the Council's £33.75 million investments at 31 March 2017 by credit rating, (based on the lowest long term rating) maturity profile (remaining duration from 31 March 2017) and counterparty type:-

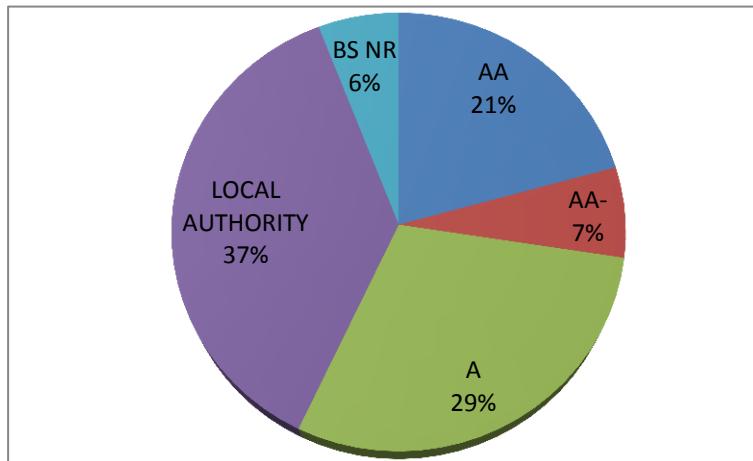
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Counterparty Category	Credit Rating	Instant Access Deposit Accounts	Notice Period Deposit Account	Deposits Maturing Within 1 Month	Deposits Maturing Within 1 to 3 Months	Deposits Maturing Within 3 to 6 Months	Deposits Maturing Within 6 Months to 1 Year	Deposits Maturing Within 3 to 4 Years**	Total
		£m	£m	£m	£m	£m	£m	£m	£m
Bank	AA-	2.25*							2.25
Bank	A	1.00	2.00		2.00	1.00			6.00
Local Authorities	AA				5.00		2.00		7.00
Local Authorities unrated					2.00	4.50	2.00	4.00	12.50
Building Societies	A			4.00					4.00
Building Societies unrated				1.00	1.00				2.00
Total		3.25	2.00	5.00	10.00	5.50	4.00	4.00	33.75

* The Bank is Svenska Handelsbanken which is a Swedish bank incorporated in the EEA and entitled to accept deposits through a branch in the UK and is classed as a UK Bank in the Government's Borrowing Statistical Return

**There are no current investments outstanding which are due to mature between 1 and 3 years

The Council defines high credit quality as organisations and securities having a credit rating of A- or higher. The pie chart below summarises the above table by credit ratings and shows the £33.75 million investments at 31 March 2017 by percentage outstanding. Most Local Authorities do not have credit ratings and unrated building societies (shown as BS NR below) were all approved by Arlingclose and the remainder of our investments all had a credit rating of A or above.



6. Performance Measurement

The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year and the ones set in the Treasury Management Strategy 2016-17 are shown below. These are distinct historic indicators as opposed to the Treasury Management and Prudential Indicators (shown below in section 9) which are predominantly forward looking. One debt performance indicator is where the average portfolio rate of interest is compared to an appropriate average available such as the average PWLB Debt for Welsh and UK Local Authorities.

The average long term borrowing rate for 2016-17 and at 31 March 2017 was 4.69% (the same rate as at 31 March 2016) and 80% of this was made up of Public Works Loan Board (PWLB) loans with an average rate of 4.70% (the same rate as at 31 March 2016). Comparable performance indicators are shown below:-

Bridgend CBC Average Rate of PWLB Debt at 31-03-17	All Welsh Local Authorities Average Rate for outstanding PWLB Debt at 31-03-17	All UK Local Authorities Average Rate for outstanding PWLB Debt at 31-03-17
4.70%	4.86% -0.16%	4.24% +0.46%

The average rate on investments for 2016-17 was 0.49% and at 31 March 2017 was 0.55% (compared to 0.45% for 2015-16 and 0.67% at 31 March 2016). Comparable performance indicators for benchmarking purposes set in the Treasury Management Strategy 2016-17 were the average 1 month LIBID (London Inter Bank Bid) rate and the average Bank Rate. The tables below show the investments average interest rate for 2016-17 and the actual rate as at 31 March 2017 compared favourably against these two benchmarking rates:-

Bridgend CBC Average Rate of Return on Investments 2016-17	Average 1 month LIBID (London Inter-Bank Bid rate) 2016-17	Average Bank Rate 2016-17
0.49%	0.22%	0.34%
	+0.27%	+0.15%
Bridgend CBC Average Rate of Return on Investments as at 31-03-17	1 month LIBID (London Inter-Bank Bid rate) as at 31-03-17	Bank Rate as at 31-03-17
0.55%	0.13%	0.25%
	+0.42%	+0.30%

7. Review of the Treasury Management Strategy 2016-17

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 to make any major changes to the Treasury Management Strategy 2016-17.

8. Reporting Arrangements 2016-17

CIPFA's Code of Practice for Treasury Management requires that the Council reports on its treasury management as an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close all to Full Council. The Council also produces quarterly monitoring reports that go to Cabinet as Information Reports. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the Council's Treasury Management Strategy and CIPFA's Standard of Professional Practice on Treasury Management.

In addition to the Code of Practice, the Welsh Government has issued Guidance on Local Government Investments which require local authorities to report their Annual Investment Strategy.

To ensure effective scrutiny of treasury management in accordance with the Treasury Management Strategy, Audit Committee has been nominated to be responsible for ensuring effective scrutiny of the treasury management strategy and policies as detailed in paragraph 3.1 of the main report.

9. Treasury Management & Prudential Indicators 2016-17

The Treasury Management Code and Prudential Code require the Council to set and report on a number of Treasury Management and Prudential Indicators. Details are shown below of the estimated indicators for 2016-17 as detailed in the Treasury Management Strategy (TMS) 2016-17 approved by Council 10 March 2016, the revised projection (where applicable) as set out in the Treasury Management Strategy 2017-18 approved by Council 1 March 2017, and the actual indicators for 2016-17. During the financial year 2016-17, the Council operated within the treasury limits and prudential indicators set out in the Council's Treasury Management Strategy 2016-17.

9.1 Treasury Management Indicators 2016-17

The following indicators (which are forward looking parameters) form part of the CIPFA Code of Practice on Treasury Management. They enable the Council to measure and manage its exposure to Treasury Management risks.

The Council needs to set the upper limits to its **Interest Rate Exposure** for the effects of changes in interest rates. There are two treasury management indicators relating to both fixed interest rates and variable interest rates. These limits have been calculated with reference to the net outstanding principal sums and are set to control the Council's exposure to interest rate risk and are shown in the table below. The Section 151 Officer managed interest rate exposure between these limits during the year and as shown below the net borrowing position for fixed and variable rates was within the limits set.

No.	Interest Rate Exposure	TMS 2016-17 £m	Revised Projection TMS 2017-18 £m	Actual Outstanding 31-03-17 £m
	Total Projected Principal Outstanding on Borrowing 31 March 2017	96.87	96.87	96.87
	Total Projected Principal Outstanding on Investments 31 March 2017	12.00	30.00	33.75
	Net Principal Outstanding	84.87	66.87	63.12
1.	Upper Limit on fixed interest rates (net principal) exposure	140.00	n/a	
2.	Upper Limit on variable interest rates Exposure (net principal) exposure	50.00	n/a	
	Fixed interest rate Exposure (net principal) 31-03-17			49.12
	Variable interest rate Exposure (net principal) 31-03-17			14.00

A further indicator for Treasury Management measures the **Maturity Structure of Borrowing** and 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.

No.	Maturity structure of fixed rate borrowing during 2016-17	TMS 2016-17 Upper limit	TMS 2016-17 Lower limit	Actual Outstanding 31-03-17
3.	Under 12 months	50%	0%	19.87%
	12 months and within 24 months	25%	0%	0.00%
	24 months and within 5 years	50%	0%	0.00%
	5 years and within 10 years	60%	0%	12.47%
	10 years and above	100%	40%	67.66%

The 19.87% in the table above relates to £19.25 million Lender's Option Borrower's Option (LOBO) loans which may be re-scheduled in advance of their maturity date of 2054, as detailed in section 1. The Code requires the maturity of LOBO loans to be shown as the earliest date on which the lender can require payment, i.e. the next call date after 31 March 2017 which is July 2017, however, the lender is not expected to exercise this option due to current low interest rates and the Council is not anticipating that this will occur during 2017-18 so the maturity date is actually uncertain but is shown in the "Under 12 months" category as per the Code.

The **Upper Limit for Total Principal Sums invested over 364 days** indicator controls the amount of longer term investments which mature beyond the period end. This is set to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments.

No.		TMS 2016-17 £m	Actual Principal Invested During 2016-17 £m
4.	Upper Limit for Total Principal Sums Invested for more than 364 days	15	4

The actual for all three treasury management indicators above are within the accepted range.

9.2 Prudential Indicators 2016-17

The Prudential Indicators are required to be set and approved by Council in accordance with CIPFA's Prudential Code for Capital Finance in Local Authorities.

Council is required to formally adopt CIPFA's Treasury Management Code and the revised edition of the 2011 code was adopted by Council on 22 February 2012.

Prudential Indicators for Prudence

The following Prudential Indicators are based on the Council's capital programme which is subject to change. The Council's capital expenditure plans are summarised below and this forms the first prudential indicator for Prudence. The total capital expenditure was funded from capital grants and contributions, capital receipts and revenue with the remainder being the **Net Financing Need for the Financial Year** to be met from borrowing.

No.	Prudential indicators For Prudence 2016-17	Estimate TMS 2016-17 £m	Revised Projection TMS 2017-18 £m	Actual 2016-17 £m
1	Estimates of Capital Expenditure (Non-HRA)	43.55	26.90	18.27
	Total Capital Expenditure	43.55	26.90	18.27
	Financed by :-			
	Capital Grants and Contributions	12.55	12.12	9.96
	Capital Receipts	17.20	6.86	2.29
	Revenue contribution to Capital	7.46	3.29	2.11
	Net Financing Need for Year	6.34	4.63	3.91

The capital expenditure figures have changed from the Treasury Management Strategy 2016-17 as the capital programme approved by Council on 10 March 2016 has been amended to include new approved schemes and to incorporate slippage of schemes identified as part of the capital monitoring which has resulted in a decrease in the Net Financing Need for 2016-17.

The second Prudential Indicator is the **Capital Financing Requirement (CFR)** for the Council and is shown in the table below. This shows the total outstanding capital expenditure that has not been funded from either revenue or other capital resources. It is derived from the actual Balance Sheet of the Council. It is essentially a measure of the underlying need to finance capital expenditure and forms the basis of the charge to the General Fund under the Prudential Code system.

The process for charging the financing of capital expenditure to revenue is a statutory requirement and is called the Minimum Revenue Provision (MRP). The actual MRP charge needs to be prudent and the methodology is detailed in the Council's MRP policy in the TMS 2016-17. The MRP requirement for the PFI

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Scheme, Innovation Centre and Halo Leisure Contract will be equivalent to the write down of the liability for the year and is met from existing budgets.

No.	Prudential indicators For Prudence	Estimate TMS 2016-17 £m	Revised Projection TMS 2017-18 £m	Actual 2016-17 £m
2	Capital Financing Requirement (CFR) Opening CFR (1 April 2016) adjusted excluding PFI & other liabilities Opening PFI CFR Opening Innovation Centre Opening HALO Opening Coychurch Crematorium	155.44 18.79 0.72 0.84 -	154.82 18.79 0.72 - 0.13	154.82 18.79 0.72 - 0.13
	Total Opening CFR	175.79	174.46	174.46
	Movement in CFR excluding PFI & other liabilities Movement in PFI CFR Movement in Innovation Centre CFR Movement in HALO CFR Movement in CREM CFR Total Movement in CFR	(0.18) (0.55) (0.05) (0.12) (0.90)	(4.18) (0.55) (0.05) - (4.83)	(5.75) (0.55) (0.05) - (6.40)
	Closing CFR (31 March 2017)	174.89	169.63	168.06
	Movement in CFR represented by :-			
	Net Financing Need for Year (above)	6.34	4.63	3.91
	Minimum and Voluntary Revenue Provisions	(7.24)	(9.46)	(10.31)
	Total Movement	(0.90)	(4.83)	(6.40)

Minimum Revenue Provision (MRP) and Voluntary Revenue Provision (VRP) represent the revenue charge for the repayment of debt and include MRP for the Public Finance Initiative (PFI) and the Innovation Centre

Limits to Borrowing Activity

The Council's long term borrowing at the 31 March 2017 was £96.87 million as detailed above in section 1, the Treasury Position. External Borrowing can arise as a result of both capital and revenue expenditure and timing of cash flows. Because the Council has an integrated Treasury Management Strategy there is no association between individual loans and particular types of expenditure. Therefore, the Capital Financing Requirement and actual external borrowing can be very different.

The **Gross Debt** position (Borrowing and Long Term Liabilities) is shown in the table below. The reason for the reduction in external borrowing from the estimated indicator is because there was no new borrowing taken during 2016-17.

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No.	Prudential indicators For Prudence Gross Debt 2016-17	Estimate TMS 2016-17 £m	Revised Projection TMS 2017-18 £m	Actual Outstanding 31-03-17 £m
3	External Borrowing	96.87	96.87	96.87
	Long Term Liabilities (including PFI)	22.49	21.77	21.77
	Total Gross Debt	119.36	118.64	118.64

Within the Prudential Indicators, there are a number of key indicators to ensure the Council operates its activities within well-defined limits. One key control is to ensure that over the medium term, debt will only be for a capital purpose. The Council needs to ensure that the external debt does not, except in the short term, exceed the Capital Financing Requirement for 2016-17. The table below shows that the Council has complied with this requirement.

No.	Prudential indicators For Prudence 2016-17	Estimate TMS 2016-17 £m	Revised Projection TMS 2017-18 £m	Actual Outstanding 31-03-17 £m
4	Gross Debt & the CFR			
	Total Gross Debt	119.36	118.64	118.64
	Closing CFR (31 March)	174.89	169.63	168.06

A further two Prudential Indicators control the Council's overall level of debt to support Capital Expenditure.

The Authorised Limit for External Debt – this represents the limit beyond which borrowing is prohibited. It reflects a level of borrowing that could not be sustained even though it would be affordable in the short term. It needs to be set and approved by Members.

The Operational Boundary for External Debt – this is not an actual limit and actual borrowing can vary around this boundary during the year. It is based on the probable external debt during the course of the year.

These are detailed below and confirm the Council is well within the limit set:-

No.	Prudential indicators For Prudence	TMS Limit 2016-17 £m	Actual 31-03-17 £m
5	Authorised limit for external debt -		
	Borrowing	140	
	Other long term liabilities	30	
	Total	170	
6	Operational Boundary		
	Borrowing	105	
	Other long term liabilities	25	
	Total	130	
	Borrowing		96.87
	Other long term liabilities		21.77
	Total		118.64

Prudential Indicators for Affordability

The Prudential Code Indicators Numbered 1 to 6 above cover the overall controls on borrowing and financing of capital expenditure within the Council. The second suite of indicators detailed below assesses the affordability of capital investment plans and the impact of capital decisions on the Council's overall finances.

The **Ratio of Financing Costs to Net Revenue Stream** indicator demonstrates the trend in the cost of capital against the Total Revenue amount to be met from local taxpayers and the amount provided by WG in the form of Revenue Support Grant. The estimates of capital financing costs include interest payable and receivable on Treasury Management activities and the Minimum Revenue Provision charged to the Comprehensive Income and Expenditure Statement. The revenue stream is the amount to be met from government grants and local taxpayers. The projection has increased from the TMS estimates mainly due to additional MRP repaid in 2016-17 to repay unsupported borrowing early which will result in revenue savings in future years.

No.	Prudential Indicators for Affordability 2016-17	Estimate TMS 2016-17	Revised Projection TMS 2017-18	Actual 2016-17
7.	Ratio of Financing Costs to Net Revenue Stream	5.24%	5.76%	6.05%

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Agenda Item 10

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

29 JUNE 2017

REPORT OF THE CHIEF INTERNAL AUDITOR

PROPOSED FORWARD WORK PROGRAMME 2017-18

1. Purpose of Report.

- 1.1 To present to Members the proposed Forward Work Programme for 2017/18 for the Audit Committee to consider and approve.

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 assurances 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 as Head of Audit.
- 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 and approve 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 is given by the Committee to all aspects of their core functions the proposed Forward Work Programme covering 2017/18 is at **Appendix A**.

5. Effect upon Policy Framework& Procedure Rules.

- 5.1 None

6. Equality Impact Assessment

- 6.1 There are no equality implications arising from this report.

7. Financial Implications.

- 7.1 None

8. Recommendation.

- 8.1 That Members approve the 2017/18 Forward Work Programme..

Helen Smith

Chief Internal Auditor

29th June 2017

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Chief Internal Auditor

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Bridgend County Borough Council
Bridgend and Vale Internal Audit Shared Service
Unit 2 A, Innovation Centre,
Bridgend Science Park,
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CF31 3NA

Background documents

None

AUDIT COMMITTEE
SCHEDULE OF MEETINGS AND FORWARD WORK PROGRAMME
2017 - 2018

PROVISIONAL DATE OF MEETING	FORWARD WORK PROGRAMME	OFFICER RESPONSIBLE	UPDATE
2017			
29th June	Information and Action Requests (if applicable).	Chief Internal Auditor (CIA)	
	Proposed Forward Work Programme 2017/18.	CIA	
	Pre-audited Statement of Accounts 2016/17.	Head of Finance	
	Draft Annual Governance Statement 2016-17	Head of Finance	
	Treasury Management Outturn 2016/17	Head of Finance	
	External Auditors / Inspection Reports (where applicable).	Head of Finance / WAO	
	IASS Outturn Report April and May 2017.	CIA	
	IASS Charter 2017-18	CIA	
	IASS - External Assessment	CIA	
	IASS Risk Based Plan 2017-18	CIA	
28th September	Information and Action Requests	CIA	
	Updated Forward Work Programme	CIA	
	Statement of Audited Accounts and Final Annual Governance Statement 2016/17	Head of Finance / WAO	
	Internal Audit 5 months Outturn Report April to August 2017.	CIA	
	External Auditors / Inspection Reports (where applicable).	Head of Finance / WAO	
16th November	Up dated Forward Work Programme	CIA	
	Information and Action Requests (where applicable)	CIA	
	Fraud update	Head of Finance / Benefits Manager	
	Corporate Risk Assessment Review 2017/18.	Head of Finance / Risk & Insurance Manager	
	Treasury Management Half Year monitoring report 2017-18		
	Internal Audit Outturn Report – April 2017 to October 2017.	CIA	
	External Auditors / Inspection Reports (where applicable).	Head of Finance / WAO	
2018			
18th January	Up dated Forward Work Programme	CIA	
	Information and Action Requests (if applicable)	CIA	
	Internal Audit 9 months Outturn Report April 2017 – December 2017	CIA	
	Report on the work undertaken on School Audits.	CIA	
	External Auditors / Inspection Reports (where applicable)	Head of Finance / WAO	
	Corporate Risk Assessment 2017-18	Head of Finance	

APPENDIX B

	Treasury Management Half Year Report 2017-18 and Treasury management strategy 2018-19	Head of Finance	
26th April	Information and Action Requests (where applicable)	CIA	
	Updated Forward Work Programme	CIA	
	Proposed Forward Work Programme 2018-19.	CIA	
	Internal Audit proposed Annual Strategy and Audit Plan 2018-2019.	CIA	
	Governance – Compliance with Public Sector Internal Audit Standards for 2017- 18	CIA	
	Audit Committee – Terms of Reference	CIA	
	Internal Audit Shared Service Charter	CIA	
	Head of Audit's Annual Opinion Report and outturn for the Year 2017/18	CIA	
	External Auditors / Inspection Reports (if applicable): -	Head of Finance / WAO	

Agenda Item 11

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

29 JUNE 2017

REPORT OF THE CHIEF INTERNAL AUDITOR

INTERNAL AUDIT SHARED SERVICE CHARTER 2017/18

1. Purpose of Report.

- 1.1. To present to Members the Council's Internal Audit Shared Service Charter for 2017/18.

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. As at the 1st April 2013, the Public Sector Internal Audit Standards (PSIAS) came into force and superseded the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Auditors.

- 3.2. 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.

- 3.3. The roles of the Audit Committee in relation to internal audit are to:

- Oversee its independence, objectivity, performance and professionalism;
- Support the effectiveness of the internal audit process and;
- promote the effective use of internal audit within the assurance framework

- 3.4. One of the key roles which demonstrate the Audit Committee's oversight is the approval of the Internal Audit Charter. The Audit Committee approved the first Internal Audit Shared Service Charter 2013/14 at their meeting held on 21st March 2013.

4. Current situation / proposal

- 4.1. The PSIAS requires the Head of Audit to review the charter periodically but final approval resides with the Audit Committee.

- 4.2. The Internal Audit Shared Service Charter for 2017/18 is attached at **Appendix A**. It has been reviewed to ensure it continues to reflect the requirements of the PSIAS.

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 implications.

7. Financial Implications.

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

8. Recommendation.

8.1. The Committee is recommended to consider and approve the Internal Audit Shared Service Charter for 2017/18 as attached to this report.

Helen Smith
Chief Internal Auditor
29th June 2017

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Background Documents

None



**INTERNAL AUDIT CHARTER FOR BRIDGEND & VALE INTERNAL AUDIT
 SHARED SERVICE
 2017 - 2018**

The Internal Audit Shared Service Charter describes the purpose, authority and principal responsibilities of the Bridgend and Vale Internal Audit Shared Service. The Head of Audit is responsible for reviewing the charter and presenting it to the Audit Committee at least annually for review and approval.

The mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

The Charter is split into the following sections;

1. Purpose, Authority and Responsibility;
2. Independence and objectivity;
3. Proficiency and due professional care;
4. Quality assurance and improvement programme.

1. Purpose, Authority and Responsibility – (Standards 1000 & 1010)

- 1.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion to management and Members 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, efficient and effective use of resources.

It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance issues.

In addition, the other objectives of the function are to:

- Support the Heads of Finance in both Councils to discharge their s151 duties;
 - Contribute to and support the Corporate Service Directorates with the objective of ensuring the provision of, and promoting the need for, sound financial systems; and;
 - Investigate allegations of fraud or irregularity to help safeguard public funds.
 - Support the work of the relevant Audit Committees;
 - Provide an annual audit opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
- 1.2 These objectives will be delivered through maintaining a high quality Internal Audit Shared Service function that meets the needs of the Council, supporting the Section 151 Officer and the Audit Committee in discharging their responsibilities and meeting the requirements of the Public Sector Internal Audit Standards.
- 1.3 Internal Audit is a statutory service in the context of the Accounts and Audit (Wales) Regulations 2014 (as amended), which states in respect of internal audit that:
- "A relevant body (i.e. Council) must maintain an adequate and effective system of internal audit of its accounting records and accounting control systems in accordance with the proper internal audit practices".
- 1.4 The work of Internal Audit forms part of the assurance framework, however, the existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well ordered manner.
- 1.5 Section 151 of the Local Government Finance Act 1972 requires every local authority to designate an officer to be responsible for the proper administration of its financial affairs. In the Vale of Glamorgan Council and Bridgend CBC it is the Heads of Finance.

1.6 Scope and Authority

- 1.7 The scope for Internal Audit work includes the control environment comprising risk management, control and governance.

This effectively means that Internal Audit has the remit to independently review all the Council's operations, resources, services and processes in place to:

- Establish and monitor the achievement of Council objectives;
- Identify, assess and manage the risks to achieving the Council'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 assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption;
 - Ensure the integrity and reliability of information, accounts and data, including internal and external reporting.
- 1.8 In accordance with the Accounts and Audit (Wales) Regulations 2014 (as amended), all Internal Audit staff shall have unrestricted access to all Council activities and records (whether manual or computerised systems), personnel, cash, stores, other assets and premises, including those of partner organisations and have authority to obtain such information and explanations as considered necessary to fulfil Internal Audit's responsibilities.
- 1.9 All Chief Officers of the Council are required to give complete co-operation to Internal Audit staff for the expedient fulfilment of the audit process. In addition, all partners/agents contracted to provide services on the Council's behalf are also required to co-operate with Internal Audit staff and make available all necessary information. This requirement should be explicit within contract documents.

2. Independence and Objectivity (Standards 1100, 1110, 1111, 1120 and 1130)

- 2.1 Bridgend County Borough Council is divided into four directorates, each of which is headed by a Corporate Director, and a Chief Executive's Division headed by the Chief Executive. It is the role of the Chief Executive and the Corporate Directors to ensure delivery and operation of the service areas falling within their remit:
- Chief Executive - Resources;
 - Social Services & Wellbeing;
 - Education and Family Support;
 - Communities;
 - Operational & Partnership Services
- 2.2 Internal Audit is independent of the activities which it audits thereby providing an unbiased judgement to management. This is essential to its proper conduct and impartial advice to management.
- 2.3 To ensure this, Internal Audit operates within a framework that allows unrestricted access to senior management and Members, particularly the Leader of the Council, the Chair of the Audit Committee, the Managing Director (VOG) / Chief Executive (BCBC), Directors and Heads of Service, and maintains segregation from operations.

In addition the Head of Internal Audit reports in his/her own name.

- 2.4 Internal Audit is a shared service between the Vale of Glamorgan Council and Bridgend County Borough Council. The host authority for the delivery of the Internal Audit Shared Service (IASS) is the Vale of Glamorgan Council and the function is provided internally. The governance of the provision of the shared service shall be carried out by the IASS Board. This is a group made up of the Chief Financial Officer of each Authority or their nominated substitutes who shall be responsible for the strategic direction of the Service.
- 2.5 The activities of the IASS Board shall include but not be limited to:
- a. determining the strategic direction of IASS;
 - b. setting, monitoring and reviewing service standards;
 - c. determining the Authority Rate on the basis of reasonable information provided by the Head of Audit;
 - d. providing general supervision of the provision of the Service;
 - e. Resolving conflicts between competing interests amongst the authorities collectively and individually relating to IASS, the IASS Board and / or the Service;
 - f. Endeavour to resolve any dispute between the respective Authorities;
- 2.6 Scrutiny remains the responsibility of each individual Council and therefore the Audit Committee for each Council will review the performance and effectiveness of audit activity, including that of the Internal Audit Shared Service.

2.7 Internal Audit Standards

- 2.8 There is a statutory requirement for Internal Audit to work in accordance with the “proper audit practices”. These are set out in the Public Sector Internal Audit Standards (PSIAS) which the Chartered Institute of Public Finance and Accountancy (CIPFA) developed in collaboration with the Chartered Institute of Internal Auditors (CIIA) and which came into force on the 1st April 2013.
- 2.9 The unified set of internal audit standards is based on the mandatory elements of the CIIA’s International Professional Practices Framework. The standards have been adopted by both the Vale of Glamorgan Council and Bridgend CBC Audit Committees.
- 2.10 Internal Audit Staff will;
- Comply with relevant auditing standards;
 - Comply and promote compliance throughout the Council with all Council rules and policies;

- Be expected at all times to adopt a professional, reliable, independent and innovative approach to their work;
 - It is essential that Internal Audit staff are seen to be impartial. All Internal Audit staff are required to complete an annual declaration of their interests. This is done as part of the annual appraisal and is in line with professional ethics. The Head of Internal Audit is responsible for ensuring that audit staff are not assigned to operational areas or investigations that could compromise their independence (including previous and / or secondary employment elsewhere in the organisation or its Audit Partner).
- 2.11 The Internal Audit Shared Service (IASS) has adopted (as a minimum) the Chartered Institute of Internal Auditors (CIIA's) Code of Ethics. Where members of the IASS have attained membership with other professional bodies such as: CIPFA or the Institute of Chartered Accountants in England and Wales (ICAEW), those officers must also comply with their relevant bodies' ethical requirements.
- 2.12 Each member of the Team will receive a copy of the Code of Ethics and sign up to an annual declaration to confirm that they will work in compliance with the Code of Ethics as well as Councils standards and policies such as the Codes of Conduct. Where potential areas of conflict may arise during the year, the auditor will also be required to disclose this. It is critical that all Auditors maintain high standards of integrity, independence, objectivity, confidentiality and competence.
- 3. Proficiency and Due Professional Care (Standards 1200, 1210, 1220, 1230 and 2030)**

- 3.1 Directors and Service Managers are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their Service including the risk of fraud and corruption.
- 3.2 The Head of Internal Audit is required to manage the provision of a complete Internal Audit Shared Service to the Council which will include reviewing the systems of internal control operating throughout the Council, and will adopt a combination of system based, risk based, regularity, computer and contract audit approaches in addition to the investigation of fraud.
- 3.3 In discharge of this duty, the Head of Internal Audit will:
- Prepare an annual strategic risk based audit plan for formal agreement by the IASS Board and formal approval and ratification by the relevant Audit Committee;
 - The Annual Audit Plan will be regarded as flexible and may be revised to reflect changing services and risk assessments; elements of the annual plan are also based on items within the Corporate Risk Register.

3.4 Resources and Proficiency

- 3.5 For the Internal Audit Shared Service to fulfil their responsibilities, the service must be appropriately staffed in terms of numbers, professional qualifications, skills and experience. Resources must be effectively developed to achieve the approved risk based plan.
- 3.6 The Head of Internal Audit must hold a professional qualification (CIPFA, Association of Chartered Certified Accountants (ACCA) or equivalent) and be suitably experienced.
- 3.7 Each job role within the Internal Audit Shared Service structure will detail the prerequisite skills and competencies required for that role and these will be assessed annually in line with Council policy and the PSIAS. Any development and training plans will be regularly reviewed, monitored and agreed with officers.
- 3.8 All Auditors are also required to maintain a record of their continual professional development in line with their professional body.

3.9 Due Professional Care

- 3.10 Internal Auditors must exercise due professional care by considering the:
 - Extent of work needed to achieve the assignment objectives;
 - Relative complexity, materiality or significance of matters to which assurance procedures are applied;
 - Adequacy and effectiveness of governance, risk-management and control processes;
 - Probability of significant error, fraud, or non-compliance; and
 - Cost of assurance in relation to potential benefits.
 - Considering various data analysis techniques and being alert to significant risks that may affect the objectives.

3.11 Relationships

3.12 General

All stakeholders will be treated with respect, courtesy, politeness and professionalism. Any confidential or sensitive issues raised with or reported to Internal Audit staff will be dealt with in an appropriate manner.

Internal – Our main contacts are with:

- Members;
- The Managing Director (VOG) The Chief Executive (BCBC);
- Corporate Directors,

- Heads of Service
- Group Managers / Operational Managers and line supervisors;
- Front line employees delivering services to the public;
- Back office support staff, in particular Financial Services, Legal Services, IT and HR.

External – Our main contacts are with:

- The Council's External Auditors.
Internal and External Audit work together to ensure audit resources are used to best advantage for the benefit of the Council. The External Auditors have regard to the work performed by Internal Audit when undertaking their final accounts audit.
- Various Government Agencies and Inspectorates.

4. Quality Assurance and Improvement Programme (Standards 1300, 1310, 1311, 1312, 1320, 1321 and 1322)

4.1 To enable the Head of Internal Audit to assess the Internal Audit Shared Service's activities with conformance to the PSIAS and to aid in the annual assessment of the Internal Audit Shared Service's efficiency and effectiveness and identify opportunities for improvement, a Quality Improvement and Management Programme (QIMP) has been developed.

4.2 The QIMP includes both internal and external assessments in accordance with the Standards.

4.3 Assessment against QIMP forms part of the annual assessment of the effectiveness of internal audit (as contained within the Head of Internal Audit's Annual Opinion Report) which is presented to the Audit Committee and to the IASS Board.

4.4 Where there are instances of non-conformance to the PSIAS this will be reported to the Audit Committee and the IASS Board with any significant deviations being detailed within the Annual Governance Statement.

4.5 Internal Assessment

4.6 All Auditors have access to up to date business processes, working instructions, the Internal Audit Charter, Council policies, the PSIAS, journals, publications and other relevant articles. Where staff are members of bodies such as CIPFA and/or CIIA further guidance is available.

4.7 To maintain quality, work is allocated to staff with appropriate skills, competence and experience. All levels of staff are supervised. Work

is monitored for progress, assessed for quality and to allow for coaching and mentoring.

- 4.8 Targets are set for individual auditors (such as completion of an audit within a set number of days) as well as for the team (i.e. 89.6% of all audits completed within planned time). Audit targets and performance indicators will be agreed with the IASS Board and reported to the relevant Audit Committee.
- 4.9 In addition to the QIMP, progress made against the annual audit plan and any emerging issues (i.e. fraud risks or governance issues) are reported regularly to the relevant Audit Committee.
- 4.10 Ongoing assessment of individuals is carried out through regular ongoing reviews, one to one meetings, feedback from clients via the Client Satisfaction Surveys and formally in the annual personal development review process.

4.11 External Assessment

- 4.12 In compliance with the PSIAS, external assessment will be carried out at least once every five years by a qualified, independent assessor or assessment team from outside of the Internal Audit Shared Services organisations. The External Assessment took place during 2016/17.

Agenda Item 12

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

29 JUNE 2017

REPORT OF THE CHIEF INTERNAL AUDITOR

EXTERNAL ASSESSMENT OF INTERNAL AUDIT SHARED SERVICE

1. Purpose of Report

- 1.1 To present to Members the final report of the External Assessment of the Internal Audit Shared Service.

2. Connection to Corporate Improvement Objectives / Other Corporate Priorities

- 2.1 Internal Audit's work impacts on all of the Corporate Improvement Objectives and other Corporate Priorities.

3. Background

- 3.1 External Assessments are required to be undertaken to appraise and express an opinion about internal audit's conformance with the PSIAS' Definition of Internal Auditing and Code of Ethics and to include recommendations for improvement, as appropriate. An external assessment must be conducted at least every five years, in accordance with the PSIAS.

- 3.2 At the Committee meeting held on 28th January 2016, Members expressed their preference for the External Assessment against the PSIAS to be carried out by an independent organisation rather than by Peer Review.

4. Current situation / proposal

- 4.1 In accordance with the requirements of both Councils' Audit Committees, a procurement exercise was undertaken to procure the most economically advantageous organisation to undertake an external assessment of the Bridgend and Vale Internal Audit Shared Service; ensuring compliance with the Vale of Glamorgan Council's Contract and Financial Procedure Rules. As a consequence, the Chartered Institute of Public Finance and Accountancy (CIPFA) were commissioned to undertake the assessment.

- 4.2 The review commenced on the 30th January 2017 and the on site assessment concluded on the 3rd February 2017. The report is attached at **Appendix A**.

- 4.3 The Assessor met with Statutory Officers, Chief Officers, Auditees, and Auditors from both Councils, in addition to the Chairs of Audit Committees.

- 4.4 The Assessor has made 18 recommendations and a further 10 suggestions for improvement. The Action Plan (including responses and action dates) is attached at Appendix 1 of the report.

- 4.5 Whilst it is clear that the assessment has identified some recommendations and suggestions for improvement; overall the assessment identified no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity. Indeed, the Assessor has further stated that all auditees and Statutory Officers were positive in their responses and understanding of the audit process and the value it added.
- 4.6 Regular progress reports against the implementation of the recommendations and suggestions for improvement will be presented to the Audit Committee during the year.

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 The total cost of the External Assessment excluding VAT is £6,738.04, and this will be met from within the budget for the shared service.

8. Recommendation.

8.1 That the Committee considers the report of the External Assessor and approve the actions for improvement as outlined in Appendix 1 attached to the report.

Helen Smith

Chief Internal Auditor

29th June 2017

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Background Documents

None

Final Report for the external assessment of the internal audit function

Bridgend County Borough & Vale of Glamorgan Councils' Internal Audit Shared Service

Lead Associate: Elizabeth Humphrey, CPFA

Internal QA: Ray Gard, CIPFA

16th March 2017

Review of Bridgend County Borough and Vale of Glamorgan Councils' Internal Audit Shared Service (January/February 2017)

Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS) which have been in place since 1 April 2013 and were revised on 1 April 2016. The standards require periodic self-assessments and an assessment by an external person every five years. Now that the standards have been in place for almost four years, Bridgend and Vale Internal Audit Shared Service has decided to undertake the required external review. The review also included checking compliance with the Local Government Advisory Note (LGAN) where this has requirements in addition to those in the PSIAS.

The review was carried out through a process of interview and document review. A list of interviewees is included as appendix 2. I should like to thank all those who took the time to talk to me for their help. I reviewed seven audits carried out during the 2015/16 and 2016/17 financial years and I examined key documents including the Charter and reports to the Audit Committees.

I identified no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity. All auditees and statutory officers were positive in their responses and understanding of the audit process and the value it added. However, the brevity of the audit brief did not reflect the breadth of planning undertaken for each audit, and did not fully evidence the auditee's contribution to this planning. In addition, some of the planning discussions were not documented and so there is no evidence that they happened.

I have made some practical and pragmatic medium priority recommendations (R) and lower priority suggestions (S) to improve compliance with the standards, in particular revising the audit terms of reference to reflect the planning undertaken before each audit. The Chief Internal Auditor (CIA) will need to take action to implement them and an action plan is included as appendix 1.

Summary findings and recommendations

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
Code of Ethics	Full	All interviewees stressed the emphasis placed on ethics by the audit team and their independence and objectivity. However, auditors placed more emphasis on policies and procedures than on actions	Look at ways to emphasise compliance with Code of Ethics focussing on actions not processes	S1
Mission	Non-compliant	The Charter does not include the newly developed internal audit mission	Include the Mission in the Charter	R1

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
Core principles of internal audit	Full	No significant problems were identified with following the new core principles, although improving the current audit planning documents will aid compliance. Further work will be needed to demonstrate compliance in the annual report for 2016/17	Expand the audit brief as indicated below Work to integrate the core principles into audit's work and consider how best to demonstrate this in the annual report in future	R2 S2
Attribute standards				
1000 Purpose, authority and responsibility	Partial	Standards 1000.A1 and C1 The nature of assurance work is not clearly defined in the Charter. There is no definition of senior management and the definition of the Board lacks clarity	Define assurance work in the Charter, making the link to giving the opinion Include a definition of senior management in the Charter Make the definition of the Board more explicit	R3 R4 S3
1100 Independence and objectivity	Full	The independence and objectivity of the audit section was emphasised by all interviewees LGAN 1.4.2 Neither council's anti-fraud policy contains a requirement to inform audit about any suspected or detected frauds, corruption or similar	Include the requirement to inform internal audit of all suspected and detected frauds, financial or otherwise, corruption or impropriety in the each council's anti-fraud policy	R5
1200 Proficiency and due professional care	Partial	Standard 1210.A2 None of the audits that I reviewed included any evidence of consideration of fraud risks, although I was assured by auditors that these were looked at Standard 1220.A1 and A3 The audit brief states only a high-level objective and the controls to be checked. As a result there is	Expand the audit brief as indicated	R2

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		<p>insufficient clarity about the risks to be audited</p> <p>Standard 1230 Auditors had mixed views on access to CPD with some taking advantage of the offer of professional training</p>	Staff need to be encouraged to take advantage of the training offered to them	S4
1300 Quality assurance and improvement programme	Partial	<p>Standard 1311 Internal audit is reviewed by itself and by external audit but there are no plans for internal peer reviews</p> <p>LGAN 11.3.2 Satisfaction questionnaires are sent out after each audit and performance has been reported in the past but was not included in the 15/16 annual report</p> <p>Reviews are undertaken against the PSIAS but not against the LGAN and Manual</p> <p>LGAN 11.3.3 The key PI of achievement of the plan was not reported over time in the 15/16 annual report</p>	<p>Include peer officer or member reviews of audit within the five year cycle</p> <p>Report satisfaction questionnaire results in annual report</p> <p>Include a review against the LGAN, where it goes beyond the PSIAS, and against the Manual</p> <p>Report performance indicators over time in the annual report</p>	S5 R6 R7 R8
Performance standards				
2000 Managing the internal audit activity	Partial	<p>Standard 2010 The annual audit plan makes no reference to the delivery and development of the service, the Charter and audit's contribution to the objectives and priorities of each Council</p> <p>Standard 2050 The audit plan refers to using other sources of assurance but includes no details</p> <p>LGAN 7.1.2 There is no reference in either the annual plan or Charter as to</p>	<p>Include reference to the delivery and development of the service, the Charter and audit's contribution to the objectives and priorities of each Council in the annual audit plan</p> <p>Include details of other sources of assurance and the nature of those assurances in the annual plan</p> <p>Refer to the audit service being provided internally in the Charter</p>	R9 S6 R10

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		<p>how the service will be provided LGAN 7.2.3 The plan does not clearly differentiate between assurance and other work</p>	and annual plan Differentiate between assurance and other work in the plan	R11
2100 Nature of work	Partial	<p>Standard 2110.A1 Audit has undertaken no specific reviews of ethics although other work does touch on this area</p> <p>Standard 2120 Audit has not reviewed risk management arrangements recently</p> <p>Standard 2120.A1 & A2 and 2130.A1 There was no reference to organisational objectives in any of the audits reviewed. In addition, fraud risks are not identified in audits</p>	Undertake ethics work, either separately or clearly identified as part of broader governance work and be more overt about ethical matters considered in individual audits Undertake periodic audits of risk management arrangements Expand the brief as indicated	R12 R13 R2
2200 Engagement planning	Non-compliant	<p>Standard 2201, 2210 and 2220 The brevity of the audit brief means that many key areas are not documented to demonstrate that they have been considered Note that this has had an impact on a number of other standards</p> <p>Standard 2240 Work programmes (control evaluation sheets) are developed for each audit, but these are compliance and control rather than risk based. They are rarely approved before being implemented</p>	Expand the brief as indicated Move the emphasis in work programmes to risk, using the revised audit brief Approve all work programmes before implementation	R2 R14 R15
2300 Performing the engagement	Partial	Standard 2330 Working paper documentation meets the standards but there appears to be a lot of cutting and	Look at ways to streamline and summarise in audit working papers	S7

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
		<p>pasting between working papers, summary documents and the report making it difficult to identify key messages</p> <p>Standard 2340 Although there is a high level of informal supervision, audits are only routinely formally reviewed at draft report stage</p> <p>LGAN 11.1.1 The Manual includes no reference to complying with the LGAN</p>	<p>Introduce formal review at: Audit brief Work programme Draft report as a minimum</p> <p>Include the requirement to comply with the LGAN in the Audit Manual</p>	R16 R17
2400 Communicating the results	Partial	<p>Standard 2410.A1 Auditees understood the audit opinion but might obtain greater value if it were broken down into different aspects</p> <p>Standard 2420 Audit reports are generally satisfactory, but are very long and repetitive. Splitting findings from recommendations makes it harder to follow the reports</p> <p>Standard 2440.A1 The CIA is responsible for communicating the results of audits but her name is not included on reports, nor does she issue the reports herself</p> <p>LGAN 10.2.7 The CIA currently raises risk matters arising from audits for consideration in risk registers informally</p>	<p>Consider the value of splitting the opinion into different aspects and/or giving an opinion per risk and/or adding in an element of context</p> <p>Look at ways to reduce the length of the detailed report and combine findings and recommendations to ease reading</p> <p>Include the CIA's name on audit reports as the person responsible for issuing it</p>	S8 S9 R18
2500 Monitoring progress	Full	The follow-up process is robust and works well and auditees are occasionally asked to attend audit committees to discuss outstanding actions		S10

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
2600 Communicating the acceptance of risks	Full	There was no evidence that risks have been left unmitigated following an audit, highlighting the importance placed by the officers at each council on audit findings		

The Chief Internal Auditor has details of the findings, standard by standard.
 Elizabeth Humphrey CPFA

Appendix 1: action plan

Recommendations

No	Recommendation	Response	Responsible officer	Action date
R1	Include the Mission in the Charter	Agree	CAE	March 17
R2	Expand the audit brief to cover: <ul style="list-style-type: none"> • Service contribution to strategic objectives • Objectives of the service • Objectives of the audit • Links to any council risk registers • The criteria used to judge the service, eg performance measures, best practice guidance, legal framework, etc • Risks to be examined, including fraud and errors • Compliance with laws, regulations, policies, procedures and contracts • Achievement of strategic objectives • Reliability and integrity of financial and operational information • Safeguarding assets • Consideration of relevant systems, records, personnel and physical properties • Adding value and value for money, including effectiveness and efficiency of operations and programmes 	Agree	CAE	June 17
R3	Define assurance work in the Charter, making the link to giving the opinion	Agree	CAE	March 17
R4	Include a definition of senior management in the Charter	Agree	CAE	March 17
R5	Include the requirement to inform internal audit of all suspected and detected frauds, financial or otherwise, corruption or impropriety in each council's anti-fraud policy	Agree	CAE / Monitoring Officers	Sept 17
R6	Report satisfaction questionnaire results in annual report	Agree	CAE	March 17
R7	Include a review against the LGAN, where it goes beyond the PSIAS, and against the Manual	Agree	CAE	June 17
R8	Report performance indicators over time in the annual report	Agree	CAE	March 17
R9	Include reference to the delivery and development of the service, the Charter and audit's contribution to the objectives and priorities of each Council in the annual audit plan	Agree	CAE	April 17

No	Recommendation	Response	Responsible officer	Action date
R10	Refer to the audit service being provided internally in the Charter and annual plan	Agree	CAE	April 17
R11	Differentiate between assurance and other work in the plan	Agree	CAE	April 17
R12	Undertake ethics work, either separately or clearly identified as part of broader governance work and be more overt about ethical matters considered in individual audits	Agree	CAE	During 2017/18
R13	Undertake periodic audits of risk management arrangements	Agree	CAE	During 2017/18
R14	Move the emphasis in work programmes to risk, using the revised audit brief	Agree	CAE	Plan year 2017/18
R15	Approve all work programmes before implementation	Agree	Principal Auditors	Plan year 2017/18
R16	Introduce formal review at: <ul style="list-style-type: none"> • Audit brief • Work programme • Draft report as a minimum 	Resource permitting	CAE / Principal Auditors	Plan year 2017/18
R17	Include the requirement to comply with the LGAN in the audit manual	Agree	CAE	Immediate
R18	Include the CIA's name on audit reports as the person responsible for issuing it	Agree	CAE	Immediate

Suggestions

No	Suggestion	Response	Responsible officer	Action date
S1	Look at ways to emphasise compliance with Code of Ethics focussing on actions not processes	Agree include as part of the Section Meeting	CAE	Immediate
S2	Make the definition of the Board more explicit	Agree	CAE	Immediate
S3	Work to integrate the core principles into audit's work and consider how best to demonstrate this in the annual report in future	Agree	CAE	March 17
S4	Staff need to be encouraged to take advantage of the training offered to them	Agree and will continue to encourage.	CAE	Immediate
S5	Include peer officer or member reviews of audit within the five year cycle	Will endeavour to do so during the five year cycle, wholly dependent on resource	CAE	2020/21
S6	Include details of other sources of assurance and the nature of those assurances in the annual plan	Agree	CAE	April 17
S7	Look at ways to streamline and summarise in audit working papers	Agree, this will be ongoing during 17/18	CAE	2017/18
S8	Consider the value of splitting the opinion into different aspects and/or giving an opinion per risk and/or adding in an element of context	Will consider this during 2017/18 once resource issues are resolved.	CAE	2017/18
S9	Look at ways to reduce the length of the detailed report and combine findings and recommendations to ease reading	Will consider this during 2017/18 once resource issues are resolved.	CAE	2017/18
S10	Formalise the current informal arrangements regarding raising matters for inclusion in the risk register	Disagree. Sufficiently formal systems are already in place		

Appendix 2: interviewees

Person	Position	Organisation
Lyn Archer	Auditor	Internal Audit Shared Service
Martin Bell	Unified Services Manager	Bridgend County
Filippa Daniels	Auditor	Internal Audit Shared Service
Joan Davies	Principal Auditor	Internal Audit Shared Service
Cllr Ella Dodds	Audit Committee Chair	Bridgend County
Cllr Keith Hatton	Audit Committee Chair	Vale of Glamorgan
Randal Hemingway	Head of Finance and S151 Officer	Bridgend County
Nicola Hinton	Corporate Equalities Officer	Vale of Glamorgan
Huw Isaac	Head of Performance and Development	Vale of Glamorgan
Andrew Jolley	Monitoring Officer	Bridgend County
Carys Lord	Section 151 Officer and Head of Finance	Vale of Glamorgan
Janet McNicholas	External Auditor – Bridgend Council	Wales Audit Office
Vicki Macey	Auditor	Internal Audit Shared Service
Deborah Marles	Head of Legal Services, Monitoring Officer	Vale of Glamorgan
Darren Mepham	Chief Executive	Bridgend County
Martin Morgans	Head of Performance and Partnership Services	Bridgend County
Satwant Pryce	Head of Regeneration, Development and Property Services	Bridgend County
Emma Reed	Head of Visible Services and Transport	Vale of Glamorgan
Emma Samways	Principal Auditor	Internal Audit Shared Service
Anne Sloman	Group Auditor	Internal Audit Shared Service
Helen Smith	Chief Internal Auditor	Internal Audit Shared Service
Nathan Smith	Auditor	Internal Audit Shared Service
Rob Thomas	Managing Director	Vale of Glamorgan
Sara Thomas	Auditor	Internal Audit Shared Service
David Vining	Head of Strategic ICT	Vale of Glamorgan
Richard Watkins	IT Specialist (Group Auditor)	Internal Audit Shared Service
Steve Wyndham	External Auditor – Vale of Glamorgan Council	Wales Audit Office

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Agenda Item 13

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

29 JUNE 2017

REPORT OF THE CHIEF INTERNAL AUDITOR

INTERNAL AUDIT STRATEGY AND ANNUAL RISK BASED AUDIT PLAN APRIL 2017 TO MARCH 2018

1. Purpose of Report.

1.1 To present to the Committee the Council's Internal Audit Strategy and Annual Risk Based Audit Plan for the year April 2017 to March 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. It is important for Internal Audit to plan effectively to ensure that they contribute to the Council's objectives at both strategic and operational levels. Planning enables Internal Audit to demonstrate both internally and externally that they are making best use of scarce resources.

3.2. Effective planning is one of the Standards contained within the Public Sector Internal Audit Standards (PSIAS) and against which our external auditors assess us. It is from this overall assessment of internal audit's annual programme of work and the contribution that this makes to the overall control environment of the Authority that our external auditors will draw the necessary assurances they need.

4. Current situation / proposal

4.1. Internal Audit Planning is not an exact science but it is felt that the proposed draft risk based plan for 2017/18 strikes a good balance between the risks identified, the internal audit resources available and the assurance work being carried out by other agencies.

4.2. The structure of the Internal Audit Shared Service is based on 18 full time equivalent employees (FTE's). The Service commenced the Financial Year 2016/17 with four vacant posts and this has now increased to nine, which represents 50% of the structure. Arrangements are in place to address this shortfall; however, a prudent approach to the number of deliverable productive days for the coming year is required. Therefore the proposed plan provides for a maximum of 1,085 productive days being delivered during 2017/18. This is based on the following:

Quarter 1. April to June 2017 status remains the same at 50% of the establishment;

Quarter 2. July to September 2017 increases to 75% of the establishment in post;

Quarters 3 and 4. October 17 to March 18 a full establishment in post.

- 4.3. Obviously, the delivery of the 1,085 productive days will be wholly dependent on the above materialising. Should this not be the case, there is also the potential to buy in any service shortfall during the year in order to meet the maximum commitment. Any significant deviation from this will be reported back to the Audit Committee.
- 4.4. Attached at **Appendix 1** is the draft Internal Audit Strategy document for 2017-18. It demonstrates how the Internal Audit Section will be delivered and developed in accordance with our Terms of Reference and how it links to the Council's objectives and priorities. The Strategy will be reviewed and updated annually in consultation with stakeholders namely the Audit Committee, Corporate Management Board, External Auditors and senior management.
- 4.5. The 2017/18 draft Annual Risk Based Audit Plan of work has been formulated to ensure compliance with the Standards as contained within the PSIAS. In order to keep Members of the Audit Committee fully informed, and to ensure compliance with Standards for Internal Audit the draft detailed plan is attached at **Appendix 2**.
- 4.6. Following the submission of the draft plan to the Audit Committee at its meeting held on the 27th April 2017, and the concerns raised by the Committee relating to the number of days allocated to the Social Services and Wellbeing Directorate. Attached at **Appendix 3** is a copy of this Plan together with additional information extracted from the cross-cutting reviews that will be included and impact particularly on the Social Services and Well-being Directorate.

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 implications.

7. Financial Implications.

- 7.1. The level of service outlined above has been based on the base budget set by Bridgend County Borough Council for 2017/18, which includes a saving of £60K.

8. Recommendation.

- 8.1. The Committee is recommended to consider and approve the draft Internal Audit Strategy and draft Annual Risk Based Audit Plan for 2017/18.

Helen Smith
Chief Internal Auditor
29th June 2017

Contact Officer: Helen Smith – 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

None

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Partneriaeth Pen-y-Bont a'r Fro
Bridgend & Vale Partnership
working together - gweithio ar y cyd



**INTERNAL AUDIT SHARED SERVICE
STRATEGY AND DRAFT ANNUAL AUDIT PLAN**

2017 – 2018

Bridgend CBC

1. Introduction

- 1.1 Internal Audit 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. This opinion forms part of the framework of assurances that the Council receives and should be used to help inform the Annual Governance Statement. The purpose of this document is to provide a detailed Internal Audit Shared Service Risk Based Plan for 2017-2018.
- 1.2 The audit plan is in order to ensure that the risks facing the Council are adequately addressed and internal audit resources are effectively utilised. The standards for “proper practice” in relation to internal audit are laid down in the Public Sector Internal Audit Standards (PSIAS).
- 1.3 Internal Audit has drawn their risk assessment from a wide range of sources including the Council’s Corporate Risk Register, Internal Audit risk assessment models and Directorate’s Business Plans and management meetings. The risk assessment is a key factor in deciding how to allocate internal audit resources available. It ensures that resources are focused on those areas where they can be of most benefit to the Council by providing assurance to the Council’s Audit Committee on controls over key risks. This document sets out the responses as internal auditors to those risks and to other factors that have been considered as part of the assessment of audit need.
- 1.4 The Plan will be subject to ongoing review and adjustments, to ensure it remains aligned with significant delivery objectives and risks and is responsive to the priorities and concerns of the Corporate Management Board (CMB). Any significant changes to the Plan will be reported to the Audit Committee.

2. Providing Assurance

- 2.1 Internal Audit recognises the necessity to provide management with an on-going level of fundamental “core financial systems” assurance, particularly in light of the need to satisfy the Council’s External Auditors. Internal Audit will continue to work closely with the External Auditor to maximise audit efficiency.

3. Risk Based Approach

- 3.1 Risk based work is also critical to the Council, as it seeks to improve the risk awareness of staff, and improve overall control. The internal audit work programme is designed to provide assurance that the significant risks identified within the Council’s Corporate Risk Register are being managed effectively. As part of this process Internal Audit will also examine the risk management and governance arrangements.
- 3.2 By adopting a risk based audit approach there is a clear linkage between the significant risks identified in the Council’s Corporate Risk Register and the work undertaken by Internal Audit in providing assurance against these. As a result, the starting point for the audit plan approach is an understanding of the Council’s objectives and risks.

4. The Risk Assessment Process

- 4.1 The information which has been used to prepare the risk assessment and proposed internal audit plan has been collected and collated from a number of different sources. The starting point for a risk based audit approach is an understanding of the Council's priorities and risks. This has been achieved by reviewing the Corporate Plan, the Directorate's Business Plans, the Corporate Risk Register and meeting / interviewing Corporate Directors and their Senior Management Teams asking where they perceive to be the main risks within their individual areas and where they would require internal audit to provide assurance that such risks are being effectively mitigated and managed. This information is used to inform and design the audit plan.
- 4.2 The plan is based on an underlying risk assessment. The inherent risks existing within each area are then identified for audit as part of the audit planning process. The audits which make up the plan have been assessed on priority. Internal Audit will ensure that all reviews classified as "high" risk, will be completed by the end of the year, "medium risk reviews are the next level down, but still require a scheduled review. Although "low" risk reviews still carry a degree of risk, these have not been included on the plan but continue to be risk assessed annually to take account of any changes in their status.

5. The Internal Audit Plan

- 5.1 An annual plan is derived following the audit risk assessment, whereby audits will be selected based on the greatest perceived inherent risk. Internal Audit will ensure that most effort is focused on inherently high risk areas while, at the same time, not totally ignoring the potential for problems that may materialise in other areas.
- 5.2 Whilst Internal Audit will adopt a risk based approach to determine relative risk, there will remain areas where a purely cyclical approach will still be required i.e. programme of School audits.
- 5.3 The Head of Audit will keep progress against the audit plan, and the content of the plan itself, under review. Where there is a need for material changes to the plan; a revised plan will be re-submitted to the Audit Committee for endorsement. The Audit Committee will also be advised of performance against the audit plan and be kept informed of the results undertaken.

6. Resource Requirement

- 6.1 Resource requirements are reviewed each year as part of the audit planning process and are discussed with the Internal Audit Shared Service Board (IASSB). The impacts of the financial pressures with the requirements to generate efficiencies and hard savings have seen internal audit resources reduce over the last few years. Resources have decreased from 22 staff in 2012/13 to 20 in 2013/14 to a current full establishment of 18 staff for 2016/17. However, it should be noted that at the commencement of 2017/2018, the Section is carrying 50% in vacant posts. Therefore, arrangements are in place to address the shortfall, however, with such a

high level of vacancies, it is important to be prudent when determining the number of productive days that can be realistically achieved. The following is the assumptions that have been made for 2017/18.

Quarter 1. Status remains the same at 50% of the establishment.

Quarter 2. This will increase to 75% of the establishment in post and

Quarters 3 and 4. The Section will be operating with a full establishment.

6.2 The resource availability summarised in Table 1 sets out the proposal to deliver a maximum of 1,070 productive days. It is envisaged that a proportion of these days will be bought in in order to meet the commitment and this will be particularly relevant should there be any delays in filling the vacant posts.

7. Contingencies

7.1 The internal audit plan needs to be fluid and flexible enough to enable the internal audit service to be reactive, as required to situations arising during the course of the period covered by the plan. A contingency reserve element has been built in, to assist in dealing with any such matters arising, to hopefully at least minimise any major impact on the work plan itself.

7.2 Time allocated for fraud and irregularity investigations can only be based on previous experience and so actual time expended can and will vary, and would depend very much on the number and types of such work arising during any particular year. It is for this rationale that a reasonable level of contingency reserve has been set aside to assist in the elimination or at least the minimisation of possible disruption to the basic plan. If the reserve is not required, then this will be re-allocated to any other specific audit tasks.

8. Delivering the Audit

8.1 All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement. Any key (serious) issues arising during the course of the audit review will be promptly reported to the Head of Audit to determine the impact on the scope of the review. Key issues will also be promptly brought to management's attention during the course of the review to enable appropriate remedial action to be taken prior to being formally published in the audit report.

8.2 Action plans will form an integral part of the report and will be used to record:

- Those risks considered to be inadequately controlled;
- A prioritisation of audit recommendations and the actions management propose to bring the risks within acceptable parameters, the officer(s) responsible for those actions and the dates for completion.

8.3 Audit recommendations will be prioritised as follows;

Priority Rating	Current risk	Action Required
Priority 1.	Issues that are fundamental and material to your system of internal control. Internal Audit believe that these issues might mean that you do not meet an objective or reduce (mitigate) a risk.	Immediate Action required
Priority 2	Issues that have an important / significant effect on internal controls but do not need immediate action. You may still meet an objective in full or in part to reduce (mitigate) a risk adequately, but the weakness remains.	Appropriately timed action required.
Priority 3	Issues arising that merit attention and that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.	Action recommended to enhance standards of control.

8.4 The auditor will draft a report and arrange to meet with management, to ensure factual accuracy of the audit observations and findings and to ensure a proper understanding of the risks to which any action plan relates. These meetings should take place in accordance with dates agreed in the Audit Brief or within two weeks of completion of the audit fieldwork, whichever is the sooner.

8.5 Management will be required to provide a response to the action plans. Any areas of disagreement between the auditor and management, regarding audit's observations and/or the auditor's assessment of current risk exposure, which cannot be resolved by discussion, will be recorded in the action plans.

8.6 A clear, concise and constructive final report will be issued to the relevant manager / chief officer which will follow a standard format, outlining:

- The overall level of assurance opinion, based on the auditor's professional judgement of the effectiveness of the framework of internal control, risk management and governance;
- Audit recommendations, along with management response and implementation date;
- Details of findings, to include an explanation of the risk and the identified control weakness;
- The final report will be issued in the names of the auditor conducting the review and the Head of Audit. All final reports will be issued as PDF documents only and be sent by the Principal Auditor(s).

9. Follow Up Reviews

9.1 Whether or not an audit review is scheduled for a follow up is reliant on the assurance opinion given at the time of the audit. Where significant gaps in the control environment have been identified and where either limited or no assurance has been given; then these audits will be subject to a follow up. The timing of the follow up is very much dependent on available resources, but Internal Audit's aim will always be to complete the follow up within three to six months of completion of the audit (depending on the assurance level).

10. Reports to the Audit Committee and Corporate Management Board (CMB)

10.1 A status report on internal audit work will be present to the Audit Committee on a quarterly basis (approximately). The purpose of these reports is to provide an update on the progress made against the delivery of the Internal Audit Plan. The report will provide details of audits completed to date, the assurance opinions given and the number and type of recommendations made. The report will also provide a summary of internal audit performance, planning and resourcing issues. Reports will only be presented to CMB if the issues / risks identified are of a significant nature; are cross cutting and require action to be taken by the Corporate Management Board collectively.

11. Annual Assurance Report.

11.1 A formal annual report to the Audit Committee presenting the Head of Audit's opinion on the overall adequacy and effectiveness of the framework of governance, risk management and internal control, will be published to enable it to be taken into account when preparing the Council's Annual Corporate Governance Statement. The format of the Head of Audit's report will follow that set out in the Public Sector Internal Audit Standards (PSIAS) and will include:

- An opinion on the overall adequacy and effectiveness of the Council's framework of internal control, risk management and governance;
- Disclose any qualifications to that opinion, together with the reasons for qualification;
- Present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- Any issues considered by the Head of Audit to be particularly relevant to the Corporate Governance Statement;
- A comparison of work undertaken with that planned, with a summary of internal audit performance for the year; and comment on compliance with the Public Sector Internal Audit Standards and Internal Audit's Quality Assurance and Improvement Programme.

12. Corporate Priority Outcomes

12.1 The following table outlines the three priority outcomes set by the Council and what will help to achieve these aims.

Priority	Description	Key Projects and Programmes
One supporting successful economy	- a This means the Council will take steps to make the county a good place to do business and to ensure that schools are focused on	City Deal – Working with neighbouring South East Wales Councils, we are seeking a 'City Deal' from the UK and Welsh Government which could result in around £1 billion investment in major capital projects in the Cardiff City Region over the next 10-15 years.

	<p>raising the skills, qualifications and ambitions of all people in the county.</p>	<p>Strategic Review of Post 16 Education and Training – A strategic review to evaluate education provision and curriculum delivery with Bridgend College to ensure that there are clear options available to provide the best possible opportunities for learners in Bridgend.</p> <p>A Good to Great School Strategy – ensuring the many good schools become excellent schools.</p> <p>Successful Economy Programme – key regeneration and local development schemes including: - Vibrant and Viable scheme with external funding of £9.6 million, which is redeveloping the Rhiw Car Park in Bridgend and creating a community living in the heart of the town centre by converting vacant space over shops into accommodation. – Regeneration of Porthcawl including funding of £0.28 million for the Porthcawl Rest Bay Waterside Cycle Path and £0.89 million for Porthcawl Townscape Heritage Initiative (2015-16 to 2018-19) to regenerate heritage buildings. – Llynfi Sites Reclamation funding of £2.5 million.</p>
Two – Helping people to be more self-reliant	<p>This means the Council will take early steps to reduce or prevent people from becoming vulnerable or dependent on the Council and its services.</p>	<p>Remodelling Social Care:- This is a large programme which includes recommissioning adult home care, developing extra care and information and advice services for people and their carers. Working with partners creating a Multi-Agency Safeguarding Hub as a single point of contact for all safeguarding concerns. Looking at existing models of residential care for children and young people and respite care for children with disabilities in order to make them more targeted and more effective.</p> <p>Community Asset Transfer – transferring assets to communities to manage while making the most of the assets retained.</p>
Three – Smarter use of resources	<p>This means the Council will ensure that all its resources (financial, physical, human and technological) are used as effectively and efficiently as possible and support the development of resources throughout the community that can help deliver the</p>	<p>Digital Transformation Programme – changing the way the Council operates to enable customers to access information, advice and services on line.</p> <p>Rationalising the Council's estate – disposing of assets, transferring assets to communities to manage while making the most of the assets retained.</p> <p>Schools' Modernisation Programme – investing in a sustainable education system in</p>

	Council's priorities.	<p>school buildings that reduces cost and their carbon footprint.</p> <p>Procurement Programme – pursuing new opportunities and practices to maximise the benefit the Council gets when they buy goods and services.</p> <p>Commercialisation Programme – identifying the opportunities for generating additional income to support and protect core services.</p>
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13. Corporate Risk

- 13.1 Good governance requires the Council to develop effective risk management processes, including an assessment of corporate risk. The corporate risk assessment is considered and reviewed by Cabinet, Audit Committee, as part of the Council's quarterly Corporate Performance Assessment Framework and is used to inform Scrutiny forward work programmes and budget processes.
- 13.2 The Council assesses on an annual basis the major risks that will affect the ability to achieve the Corporate Priority Outcomes, provide services as planned and fulfil its statutory duties. The main risks facing the Council, the likely impact of these on Council services and the wider County Borough are listed below.

Risk	Score
Cultural change to deliver the MTFS	24
Local Government Reorganisation	24
Supporting vulnerable people	20
Welfare reform	18
Supporting vulnerable children	16
The economic climate and austerity	16
Disposing of waste	16
Equal pay claims	16
Healthy Lifestyles	16
Maintaining infrastructure	16
Impact of homelessness	15
Collaboration with partners	12
Educational provision	12
Educational attainment	12
Health and Safety	12
School modernisation	12
New pay and grading system	N/A

- 13.3 The above Corporate Risk Register is used by Internal Audit to inform its planning process. By adopting a risk based audit approach there is a clear linkage between the significant risks identified in the register and the work undertaken by Internal Audit in providing assurance against these risks.

14. INTERNAL AUDIT SHARED SERVICE DRAFT ANNUAL PLAN 2017 -2018

14.1 Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment which encompasses the systems of governance, risk management and internal control, by evaluating its effectiveness in achieving the organisation's objectives. It examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. The Annual Plan has been formulated to ensure compliance with the Public Sector Internal Audit Standards (PSIAS) which have been effective since 1st April 2013.

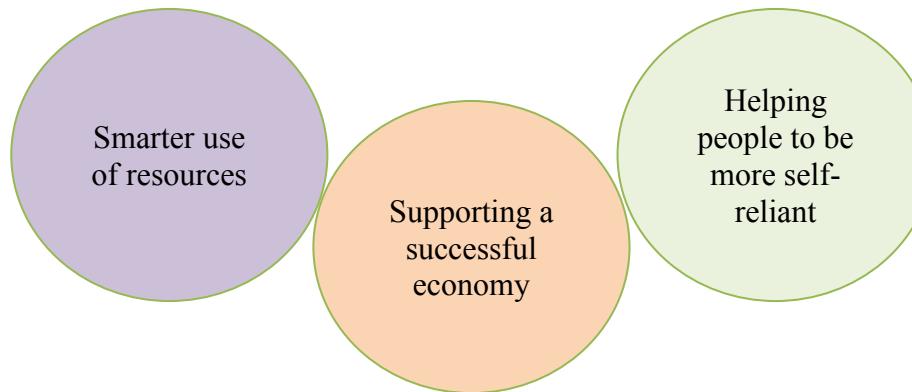
Attached at **Appendix 2** is the detailed schedule of audits planned for each of the Council's Directorates including Cross Cutting. Table 1 below provides an overall summary of the number of productive days allocated per Directorate.

Table 1–Productive Resource Availability & Utilisation April 2017 to March 2018 – Draft Proposals.

Resources Available	Based on Assumptions Days to be delivered	Additional If Resources Available	Total Days
Productive days	995	90	1,085
Chief Executive - Finance	130	0	130
Operational and Partnerships Services	110	0	110
Education & Family Support	125	35	160
Communities	130	0	130
Social Services and Wellbeing	170	0	170
Cross Cutting (including):-	330	55	385
• External			
• Contingency – Unplanned			
• Contingency – Fraud and Error			
OVERALL TOTAL	995	90	1,085

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Partneriaeth Pen-y-Bont a'r Fro
Bridgend & Vale Partnership
working together - gweithio ar y cyd



BRIDGEND COUNTY BOROUGH COUNCIL WORKING TOGETHER TO IMPROVE LIVES

**INTERNAL AUDIT SHARED SERVICE
DRAFT ANNUAL AUDIT PLAN**

2017 – 2018

Bridgend CBC

1. Introduction

- 1.1 Bridgend County Borough Council is uniquely placed to bring its own services together with the work of other agencies, communities, families and individuals for the benefit of the people of the county. This is nothing new. However, the world is changing fast, hence the Council's Corporate Plan 2016-20 sets out how the Council is to change and what its focus will be over the next four years. The Council recognises that it will have to make significant changes to the way it thinks and operates in order to meet the significant challenges ahead of its communities – not least the increasing demands made on many of its services, against the background of a shrinking budget and economic uncertainty.
- 1.2 In 2017-18 the Council will have a gross budget of nearly £400 million and a capital programme of currently £42.029 million to support its core business and the corporate priorities set out in the Corporate Plan. Whilst the 2017-18 budget settlement is favourable compared to recent years, there is considerable uncertainty around "Brexit" negotiations and the Council is going to be expected to achieve budget reductions of nearly £34 million from 2017-18 to 2020-21. The Council's Medium Term Financial Strategy sets out how the Council will achieve its corporate priorities and statutory duties whilst meeting budget reductions and managing financial pressures and risks over the next four years.
- 1.3 The Council remains unwavering in its commitment towards improving and finding ways of delivering local services, providing better outcomes for residents and achieving savings that will ensure they can deliver a succession of balanced budgets.
- 1.4 Improving educational attainment remains very important to the council and ongoing improvement in this area forms part of a wider objective in raising skills and attainment more generally. The Council's Corporate Plan highlights the Council's commitments whilst recognising that core and statutory services will continue to receive attention including the Council's work as a planning authority, maintain highways and public transport; refuse collection, street cleaning, revenues and benefits, public protection and sports, arts and libraries.
- 1.5 The Council continues with its commitment to the Transformation Programme, strong financial management and performance management and robust business planning and service planning.

2. Improvement Priorities for 2016-20

2.1 Bridgend County Borough Council recognises that it will have to make significant changes to the way they think and operate in order to meet the significant challenges ahead – not least the increasing demands made on many of the Council's services, against the background of a shrinking budget. The Council has a clear and simple vision and that is, always to act as:-

“One Council working together to improve lives”.

2.2 The Council's values have not changed and continue to represent what the Council stands for and influences how they work. The Council's values are:-

- **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;
- **Efficient** – delivering services that are value for money.

2.3 The Council has also identified three well-being outcomes that will be their focus over the coming four years. These outcomes are intended to improve the quality of life of people in the County while significantly changing the nature of the Council. The three outcomes are as follows:

Supporting a successful economy	Helping people to become more self-reliant	Smarter use of resources
A successful, sustainable and inclusive economy that will be supported by a skilful, ambitious workforce.	Individuals and families that will be more independent and less reliant on traditional Council services.	A Council that has lean, robust processes and a skilful workforce. A supported third/community sector with the opportunity to take on services that meet citizens' needs.

3. Well-being Objectives

3.1 In April 2016, the Well-being of Future Generations (Wales) Act 2015 came into effect. The Act is about improving the economic, social, environmental and cultural well-being of Wales. It places a duty upon all public bodies to apply the principles of sustainable development to ensure that present needs are met without compromising the ability of future generations to meet their own needs. The Act sets out seven long-term goals:

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

3.2 As a public body, Councils have a duty to work towards achieving these seven goals. The Act requires that the Council set its well-being objectives and take steps to realise them. The Act requires the Council to do things differently, applying sustainable development to everything it does. The Council is committed to the sustainable development principles, always acting in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their needs. The five ways of working, defined by the Act – long term, prevention, integration, collaboration and involvement – will underpin everything the Council does and help to improve the well-being of the area and make the County Borough a good place for people to live, work, study and visit.

4. Corporate Priority Outcomes

4.1 The following table outlines the three priority outcomes set by the Council and what will help to achieve these aims.

Priority	Description	Key Projects and Programmes
One – supporting a successful economy	<p>This means the Council will take steps to make the county a good place to do business and to ensure that schools are focused on raising the skills, qualifications and ambitions of all people in the county.</p>	<p>City Deal – Working with neighbouring South East Wales Councils, we are seeking a ‘City Deal’ from the UK and Welsh Government which could result in around £1 billion investment in major capital projects in the Cardiff City Region over the next 10-15 years.</p> <p>Strategic Review of Post 16 Education and Training – A strategic review to evaluate education provision and curriculum delivery with Bridgend College to ensure that there are clear options available to provide the best possible opportunities for learners in Bridgend.</p> <p>Successful Economy Programme – key regeneration and local development schemes including: - Vibrant and Viable scheme with external funding of £9.6 million, which is redeveloping the Rhiw Car Park in Bridgend and creating a community living in the heart of the town centre by converting vacant space over shops into accommodation.</p> <p>Alignment of the Welsh Government Grants – The Council will streamline and make flexible use of major grants to support families through early help and to address poverty.</p>
Two – Helping people to be more self-reliant	<p>This means the Council will take early steps to reduce or prevent people from becoming vulnerable or dependent on the Council and its services.</p>	<p>Remodelling Social Care:- This is a large programme which includes recommissioning adult home care, developing extra care and information and advice services for people and their carers.</p> <p>Working with partners creating a Multi-Agency Safeguarding Hub as a single point of contact for all safeguarding concerns.</p> <p>Looking at existing models of residential care for children and young people</p>

		<p>and respite care for children with disabilities in order to make them more targeted and more effective.</p> <p>Community Asset Transfer – transferring assets to communities to manage while making the most of the assets retained.</p>
Three – Smarter use of resources	<p>This means the Council will ensure that all its resources (financial, physical, human and technological) are used as effectively and efficiently as possible and support the development of resources throughout the community that can help deliver the Council's priorities.</p>	<p>Digital Transformation Programme – changing the way the Council operates to enable customers to access information, advice and services online.</p> <p>Rationalising the Council's estate – disposing of assets, transferring assets to communities to manage while making the most of the assets retained.</p> <p>Schools' Modernisation Programme – investing in a sustainable education system in school buildings that reduces cost and their carbon footprint.</p>

5. Corporate Risks

The Council assesses on an annual basis the major risks that will affect the ability to achieve the Corporate Improvement Priorities, provide services as planned and fulfil its statutory duties. The main risks facing the Council, the likely impact of these on Council services and the wider County Borough are listed below.

Risk	Score
Making the Cultural change necessary to deliver the MTFS	24
Supporting Adults at risk	20
Supporting vulnerable children, young people and their families	20
Welfare Reform	18
The economic climate and austerity	16
Disposing of waste	16
Equal pay claims	16
Healthy Lifestyles	16

Maintaining infrastructure	16
Educational Provision	16
Impact of homelessness	15
Collaboration with partners	12
Educational attainment	12
Compliance with the Welsh Language Standards	12
Health and Safety	12
School modernisation	12
Local Government Reorganisation	12

6. The Risk Assessment Process

6.1 The information which has been used to prepare the risk assessment and proposed internal audit plan has been collected and collated from a number of different sources including the information contained above. The starting point for a risk based audit approach is an understanding of the Council's priorities and risks. This has been achieved by reviewing the Corporate Plan, Directorate's Business Plans, Corporate Risk Register and meeting / interviewing Corporate Directors and their Senior Management Teams asking where they perceive to be the main risks within their individual areas and where they would require internal audit to provide assurance that such risks are being effectively mitigated and managed. This information is used to inform and design the audit plan.

6.2 The plan is based on an underlying risk assessment. The inherent risks existing within each area are then identified for audit as part of the audit planning process. The audits which make up the plan have been assessed on priority. Internal Audit will ensure that all reviews classified as "high" risk, will be completed by the end of the year, "medium risk reviews are the next level down, but still require a scheduled review. Although "low" risk reviews still carry a degree of risk, these have not been included on the plan but continue to be risk assessed annually to take account of any changes in their status.

7. Proposed Internal Audit Plan for BCBC 2017-18

Cross-cutting - BCBC

Area	Identified Risk(s)	Type	Audit Scope	Date of Review	Total Days
Good Governance	H	Governance	To provide assurance that key Corporate Governance processes are in place within the Council and that these are operating effectively to enable the Council to be provided with sufficient information to enable them to discharge their responsibilities. To assist the Council in the production of the Annual Governance Statement.	Qtr. 4	20
Safeguarding	H	Governance / Assurance / Risk	Case management of safeguarding incidents are dealt with in accordance with the Council's safeguarding policies and procedures. This review will also include an annual assessment of the Council's overall operating model for safeguarding; including reviewing the adequacy of assurances obtained by the Council in respect of safeguarding arrangements in place for vulnerable adults and children.	Qtr. 4	25
Transformational Change	H	Assurance	Whilst recognising the need to generate savings, there is also a need to ensure that gaps in controls in key risk areas do not emerge as a result of transformation and that the necessary savings have been and are being achieved. This will be included within other reviews where appropriate.	Qtr. 1-4	30
Ethical Review	H	Governance	In accordance with the Public Sector Internal Audit Standards; review of procedures and standards in operation.	Qtr. 1 - 4	15
Bus Services Support Grant			To verify and validate grant claims as required.	Qtr. 1	5
Quality Assurance & Improvement Programme / Review of the Effectiveness of	H	Assurance	To undertake a series of internal audits to ensure compliance with PSIAS. To review / ensure compliance with the Accounts and Audit (Wales) Regulations 2014 / Public Sector Internal Audit Standards (PSIAS).	Qtr. 1 - 4	10

Internal Audit					
Emerging Risks / unplanned			To enable Audit Services to respond to provide assurance activity as required.	Qtr. 1 - 4	40
Provision of Internal Control / Planning / General Advice			To allow auditors to facilitate the provision of risk and control advice which is regularly requested by officers within the authority, including maintained school based staff.	Qtr. 1 - 4	35
Audit Committee / Member and CMB Reporting			This allocation covers Member reporting procedures, mainly to the Audit Committee, plan formulation and monitoring, and regular reporting to, and meeting with, Corporate Directors, Corporate Management Board, the Internal Audit Shared Service Board and the Chair of the Audit Committee	Qtr. 1 - 4	30
External Audit Liaison			To ensure that a “managed audit” approach is followed in relation to the provision of internal and external audit services.	Qtr. 1 - 4	5
Follow - Up			Where more serious concerns over the effectiveness of internal controls within the systems being reviewed are identified (and consequently an ‘ineffective’ or ‘poor’ opinion is provided at the time), a follow-up audit is undertaken at an appropriate time, allowing adequate time for the implementation of the recommendations but also taking into account the risk presented to the Council whilst the actions required remain open.	Qtr. 1 - 4	20
Recommendation Monitoring			Whilst it is management’s responsibility to manage the risks associated with their outcomes / objectives, this allocation enables Internal Audit to monitor management’s progress with the implementation of high priority recommendations.	Qtr. 1 - 4	15

Fraud / Error / Irregularity			<p>Irregularity Investigations - Reactive work where suspected irregularity has been detected.</p> <p>Anti-Fraud & Corruption – Proactive - Proactive counter-fraud work that includes targeted testing of processes with inherent risk of fraud.</p> <p>Developing fraud risk assessment to inform further areas for detailed focus (Fraud Risk Tools).</p> <p>National Fraud Initiative - Collection of data and analysis of matches for the NFI exercise, acting as first point of contact and providing advice and guidance to key contact officers.</p>	Qtr. 1 - 4	20
Carried Forward Work from 2016-17			Provision for the assignments still ongoing at the end of 2016/17	Qtr. 1	20
			Total – Cross Cutting		330
Additional Reviews to be considered if resources available.					
Review of IT Strategy	M	Assurance	Internal Audit will undertake a review to provide assurances over the adequacy and effectiveness of the Strategy to deliver the Council's priorities.		20
Partnerships / Collaboration	H	Governance / Risk	To review the Council's approach to governance over collaborative working / partnership arrangements. The areas to be covered will be developed during the year and will concentrate on: Evaluation of controls, Consistency of approach (taking into account factors such as proportionality and appropriateness) Relevance / meeting strategic (operational) objectives / outcomes.		20
Risk Management	H	Risk	Robust risk management system is required to underpin delivery of Council objectives, compliance with legislation. Internal Audit review is also required to provide a balanced Annual Head of Audit Opinion that contributes to the Annual Governance Statement. Internal Audit will undertake a review of evidence to ensure that the Council has a fully embedded risk management system in place that identifies and considers risks to key strategic and operational objectives.	Qtr. 3	15
			Overall Total – Cross Cutting		385

COMMUNITIES DIRECTORATE

Area	Identified Risk(s)	Type	Proposed Audit Scope	Date of Review	Total Days
Waste	H	Assurance	Review of waste management contract arrangements with emphasis placed on effective management of contracts and arrangements in place to respond to any changes in government legislation.	Qtr 3.	20
Project / Contract Management	H	Assurance / Governance / Risk	Assess the most important contracts under the direction of the Directorate and how these are managed in terms of: whether the contract in place is robust and effective, variations to contracts are approved and embedded promptly, performance management is clear and if the culture between the parties is effective. Review the methodology and practice within the Directorate to manage projects.	Qtr. 1 - 4	35
Property Compliance	H	Assurance / Risk	This review has been rolled forward from 2016/17. This may be considered as a cross-cutting review due to the diversity of responsibility i.e. schools.	Qtr. 3 - 4	20
Capital Region City Deal	H	Governance	The “City Deal” aims to create 25,000 new jobs by 2036 and bring in £4 billion of private sector investment. The City Deal will bring £1.229 billion of investment in South East Wales infrastructure. There will also be programmes designed to tackle unemployment, support local businesses, improve the region’s digital network and coordinate house building and regeneration across the region. Initially this review will focus on the effectiveness of the overall governance arrangements	Qtr. 3 - 4	20
Highways	H	Assurance / Risk / Governance	One of the Corporate Risks for the Council as outlined in the Corporate Risk Register 2017-18 is Maintaining infrastructure. One of the mitigating risks is the reliance that will be placed upon the inspection regime and responding to complaints. An assurance review will be undertaken in this area.	Qtr. 2	20
Health & Safety	M		To review procedures in operation by the Council to ensure compliance with policies and procedures, Health & Safety training, Risk Assessments, records maintenance and incident reporting.	Qtr. 2	15
			Overall Total – Communities		130

EDUCATION & FAMILY SUPPORT DIRECTORATE

Area	Identified Risk(s)	Type	Audit Scope	Date of Review	Total Days
Grant Certification	H	Assurance	There are a number of grant funded schemes that require an Internal Audit review prior to the final claim submission. Internal Audit will undertake the necessary assurance checks as these grant submissions become due.	Qtr. 1 - 2	15
CRC	H	Assurance	Provide the necessary assurance associated with the Carbon Reduction Certification.	Qtr. 1 - 2	10
Built Environment	H	Assurance	To undertake a programme of system review audits. A risk-based approach is taken to prioritise the systems and processes in operation within Built Environment to be reviewed. The objectives will be to determine whether the systems and procedures in operation are functioning satisfactorily and are in accordance with legislation if appropriate and Council Policy.	Qtr. 4	20
Schools	H	Assurance	To undertake a programme of system review audits on a thematic basis across the Schools within the Borough Council. To undertake a number of individual school audits based on a risk assessment.	Qtr. 1 - 4	60
Early Help Locality Hubs (Compliance)	H	Assurance	To independently review and appraise systems of internal control in relation to Early Help Locality Hubs to ensure compliance.	Qtr. 3	20
			Total – Education & Family Support		125
Additional Reviews to be considered if resources available.					
Transport for Schools	M	Assurance	The audit will review transport arrangements for children. The audit will include a review of the following: The assessment process undertaken, how services are procured, how transport is allocated and whether the allocations are equitable.	Qtr. 3 - 4	20
School Based Ethical policies	M	Assurance	The review will provide assurance over the adequacy and effectiveness of school based ethical policies and procedures.	Qtr. 3 - 4	15
			Overall Total – Education & Family Support		160

OPERATIONAL PARTNERSHIPS SERVICES DIRECTORATE

Area	Identified Risk(s)	Type	Audit Scope	Date of Review	Total Days
Compliance	H	Assurance	A number of reviews will be undertaken to provide assurance over compliance with Council policies, procedures and where appropriate legislation.	Qtr. 2 - 3	20
HR	H	Assurance	Evaluating controls within HR systems designed to prevent and / or detect fraud, irregularity or error, and to ensure that transactions are processed in accordance with Council policy, Finance and Contract Procedure Rules and appropriate legislation.	Qtr. 3 - 4	30
Supporting People Grant	H	Assurance	Internal Audit will undertake the necessary assurance checks and certificationas required by the grant conditions.	Qtr. 1 - 2	10
ICT	H	Assurance / Governance	To continue a programme of system review audits, the objectives will be to determine whether the systems and procedures in operation are functioning satisfactorily and are in accordance with legislation and Council Policy. <ul style="list-style-type: none"> • Access to information and facilities is controlled and restricted to authorised users according to their needs; • The potential for fraud and error are minimised; • The system is effectively administered and supported; • All staff using the system have been correctly trained to the level that will allow them to properly fulfil their duties; • The system under review is continually available during working hours 	Qtr. 1 - 4	30
Members	H	Governance	Following the May elections, reviews will be undertaken to ensure that Members comply with the Council's Gifts and Hospitality Policy, Declaration of Interests and Code of Conduct.	Qtr. 2 - 3	20
			<i>Overall Total – Operational & Partnerships Services Directorate</i>		110

CHIEF EXECUTIVE - FINANCE

Area	Identified Risk(s)	Type	Audit Scope	Date of Review	Total Days
Core Financial Systems	H	Assurance	<p>The audit priorities and objectives are determined taking a risk-based approach. The audits to be undertaken will be a blend of assignments with objectives primarily relating to issues of system compliance and those with objectives primarily aimed at driving improvement in economy, efficiency and effectiveness.</p> <ul style="list-style-type: none"> Evaluating the controls within a system designed to prevent and / or detect fraud, irregularity or error, and to ensure that transactions are processed in accordance with Council policy, Finance and Contract Procedure Rules, legislation and the requirements of external bodies such as HM Revenues and Customs. Review a range of systems' intelligence to assess how well a system is achieving its objectives and overall desired outcomes, safeguarding the interests of the Council and achieving value for money. 	Qtr. 3 - 4	60
Automated Processes	H	Assurance	Review of automated processes to ensure a robust internal control environment.	Qtr. 4	15
Capital Assets (Capital Receipts)	H	Assurance	Review of arrangements to identify, monitor, control and report on Capital Assets including Capital Receipts.	Qtr. 2 - 3	20
Income Generation	M	Assurance	Maximisation of existing and identification of new income streams.	Qtr. 2	20
Performance Indicators	H	Risk	The validation of the Council's overall performance	Qtr. 1 - 2	15
			<i>Overall Total – CEX – Finance</i>		130

SOCIAL SERVICES & WELLBEING DIRECTORATE

Area	Identified Risk(s)	Type	Audit Scope	Date of Review	Total Days
Section 117	H	Assurance	This review has been carried forward from 2016/17. To follow up on the recommendations made in the 2014/15 Internal Audit Report to ensure adequate progress has been made to address the internal control weaknesses.	Qtr. 1 - 2	20
Social Services & Wellbeing Act	H	Assurance / Governance / Risk	The formal implementation date of the Act was April 2016, it will take a significant period of time to bed in due to the introduction of new ways of working and the inevitable impact this will have on the present culture, custom and practice. Therefore, Internal Audit will continue a programme of reviews, provide advice and support where needed to provide overall assurances on the robustness of the systems and processes put in place as they develop.	Qtr. 1 - 2	35
Leisure	M	Assurance / Governance	To review the overall effectiveness of the delivery of the Leisure Contract with Halo.	Qtr. 1 - 2	20
Directorate	H	Assurance / Governance / Risk	Reviews will be undertaken relating to the effectiveness of quality assurance processes within Social Services & Well-being which will provide assurance on the internal control, governance and risk management environment.	Qtr. 3 - 4	40
Children	H	Governance	An independent review of the corporate governance arrangements over children social care to provide assurance that these remain effective and achieve appropriate outcomes for children and young people.	Qtr. 3 - 4	20
Funding	M	Assurance	To assess whether there is robust challenge over the placement identification process and pricing, and whether all information is required and received by the appropriate Panels.	Qtr. 2 - 4	20
Payments to providers	M	Assurance	To review how quickly after contract award, service providers are set up on the system and accurately paid.	Qtr. 3 - 4	15
<i>Overall Total – Social Services & Wellbeing</i>					170

OVERALL TOTAL BUDGET DAYS FOR BRIDGEND COUNTY BOROUGH COUNCIL = 1,085

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SOCIAL SERVICES & WELLBEING DIRECTORATE

Area	Identified Risk(s)	Type	Audit Scope	Date of Review	Total Days
Section 117	H	Assurance	This review has been carried forward from 2016/17. To follow up on the recommendations made in the 2014/15 Internal Audit Report to ensure adequate progress has been made to address the internal control weaknesses.	Qtr. 1 - 2	20
Social Services & Wellbeing Act	H	Assurance / Governance / Risk	The formal implementation date of the Act was April 2016, it will take a significant period of time to bed in due to the introduction of new ways of working and the inevitable impact this will have on the present culture, custom and practice. Therefore, Internal Audit will continue a programme of reviews, provide advice and support where needed to provide overall assurances on the robustness of the systems and processes put in place as they develop.	Qtr. 1 - 2	35
Leisure	M	Assurance / Governance	To review the overall effectiveness of the delivery of the Leisure Contract with Halo.	Qtr. 1 - 2	20
Directorate	H	Assurance / Governance / Risk	Reviews will be undertaken relating to the effectiveness of quality assurance processes within Social Services & Well-being which will provide assurance on the internal control, governance and risk management environment.	Qtr. 3 - 4	40
Children	H	Governance	An independent review of the corporate governance arrangements over children social care to provide assurance that these remain effective and achieve appropriate outcomes for children and young people.	Qtr. 3 - 4	20
Funding	M	Assurance	To assess whether there is robust challenge over the placement identification process and pricing, and whether all information is required and received by the appropriate Panels.	Qtr. 2 - 4	20
Payments to providers	M	Assurance	To review how quickly after contract award, service providers are set up on the system and accurately paid.	Qtr. 3 - 4	15
			<i>Overall Total – Social Services & Wellbeing</i>		170

Cross Cutting Reviews that either fully or partially could / will focus on the Social Services & Wellbeing Directorate

Area	Identified Risk(s)	Type	Audit Scope	Date of Review	Total Days
Good Governance	H	Governance	To provide assurance that key Corporate Governance processes are in place within the Council and that these are operating effectively to enable the Council to be provided with sufficient information to enable them to discharge their responsibilities. To assist the Council in the production of the Annual Governance Statement.	Qtr. 4	20
Risk Management	H	Risk	Robust risk management system is required to underpin delivery of Council objectives, compliance with legislation. Internal Audit review is also required to provide a balanced Annual Head of Audit Opinion that contributes to the Annual Governance Statement. Internal Audit will undertake a review of evidence to ensure that the Council has a fully embedded risk management system in place that identifies and considers risks to key strategic and operational objectives.	Qtr. 3	15
Partnerships / Collaboration	H	Governance / Risk	To review the Council's approach to governance over collaborative working / partnership arrangements. The areas to be covered will be developed during the year and will concentrate on: Evaluation of controls, Consistency of approach (taking into account factors such as proportionality and appropriateness) Relevance / meeting strategic (operational) objectives / outcomes.		20
Ethical Review	H	Governance	In accordance with the Public Sector Internal Audit Standards; review of procedures and standards in operation.	Qtr. 1 - 4	15
Transformational Change	H	Assurance	Whilst recognising the need to generate savings, there is also a need to ensure that gaps in controls in key risk areas do not emerge as a result of transformation and that the necessary savings have been and are being achieved. This will be included within other reviews where appropriate.	Qtr. 1-4	30
Safeguarding	H	Governance / Assurance /	Case management of safeguarding incidents are dealt with in accordance with the Council's safeguarding policies and procedures. This review will	Qtr. 4	25

		Risk	also include an annual assessment of the Council's overall operating model for safeguarding; including reviewing the adequacy of assurances obtained by the Council in respect of safeguarding arrangements in place for vulnerable adults and children.		
Carried Forward Work from 2016-17			Provision for the assignments still ongoing at the end of 2016/17	Qtr. 1	20
Fraud / Error / Irregularity			<p>Irregularity Investigations - Reactive work where suspected irregularity has been detected.</p> <p>Anti-Fraud & Corruption – Proactive - Proactive counter-fraud work that includes targeted testing of processes with inherent risk of fraud.</p> <p>Developing fraud risk assessment to inform further areas for detailed focus (Fraud Risk Tools).</p> <p>National Fraud Initiative - Collection of data and analysis of matches for the NFI exercise, acting as first point of contact and providing advice and guidance to key contact officers.</p>	Qtr. 1 - 4	20 20 20
Emerging Risks / unplanned			To enable Audit Services to respond to provide assurance activity as required.	Qtr. 1 - 4	40
Follow - Up			Where more serious concerns over the effectiveness of internal controls within the systems being reviewed are identified (and consequently an 'ineffective' or 'poor' opinion is provided at the time), a follow-up audit is undertaken at an appropriate time, allowing adequate time for the implementation of the recommendations but also taking into account the risk presented to the Council whilst the actions required remain open.	Qtr. 1 - 4	20
Recommendation Monitoring			Whilst it is management's responsibility to manage the risks associated with their outcomes / objectives, this allocation enables Internal Audit to monitor management's progress with the implementation of high priority recommendations.	Qtr. 1 - 4	15
			Total		280

There are 280 days which have been identified as Cross-Cutting and therefore relate to all Directorates, with some having more relevance than others. Having regards to the queries raised by Audit Committee at its meeting held on 27th April 2017, I envisage that, of the available days as shown above, at least 75 days will be specific to the Social Services & Wellbeing Directorate.

Agenda Item 14

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

29 JUNE 2017

REPORT OF THE CHIEF INTERNAL AUDITOR

INTERNAL AUDIT – OUTTURN REPORT – APRIL TO MAY 2017

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 2017.

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 2017/18 Internal Audit Plan was submitted to the Audit Committee for consideration and approval on the 27th April 2017. The Plan outlined the assignments to be carried out and their respective priorities.

- 3.2. The Plan provided for a total of 1,085 productive days to cover the period April 2017 to March 2018.

4. Current situation / proposal

- 4.1. The following table shows an analysis of productive days achieved against the plan for the first two months of this financial year. A more detailed analysis as extracted from the Internal Audit Shared Service management information system is shown at **Appendix A**.

Directorates	2017/18 Full Year Plan Days (maximum)	2017/18 Full Year Plan Days (minimum)	Proportion of Plan Days Available for April to May 2017	2017-18 April to May Actual Days delivered
CEX - Finance	130	130	22	6
Operational & Partnership Services	110	110	18	15
Education & Family Support	160	125	27	29

Communities	130	130	22	5
Social Services & Wellbeing	170	170	28	29
Cross Cutting – Including External Contingency - Unplanned Contingency - Fraud & Error	385	330	64	32
TOTAL PRODUCTIVE DAYS	1,085	995	181	116

- 4.2. The figures show that 116 actual days have been achieved, which is less than the expected maximum target of 181 by 65 days.
- 4.3. At present the overall structure of the Section is based on 18 Full Time Equivalent (FTE) employees. However, at the end of the Financial Year 2016/17, the Section was carrying 9 FTE vacant posts and this continues to be the case for the start of the new Financial Year.
- 4.4. As Audit is only two months into the start of the new Audit Plan, no significant weaknesses in the system of internal control have been identified so far to date.

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 implications arising from this report.

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 2017 to ensure that all aspects of their core functions are being adequately reported.

Helen Smith
Chief Internal Auditor
29th June 2017

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Internal Audit
Innovation Centre
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Bridgend
CF31 3NA

Background Documents

None

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<u>Cod</u>	<u>Job</u>	<u>Job Name</u>	<u>Days</u>	<u>Budget</u>	<u>Date Commenced</u>	<u>Date Closed</u>
ASSURANCE						
	Directorate	CHIEF EXECUTIVE - RESOURCES				
B	699 BCBC - C/F Main Acct & Bud Control	3.61	4.00	03/04/2017		
	705 BCBC - Advice & Guidance CX & Resources	0.20	5.00	03/04/2017		
	718 BCBC - Income Generation	2.36	20.00	23/05/2017		
Total	Directorate	CHIEF EXECUTIVE - RESOURCES	6.18	29.00		
	Directorate	OPERATIONAL SERVICES & PARTNERSHIPS				
B	698 BCBC - C/F Payroll	4.93	5.00	03/04/2017		
	706 BCBC - Advice & Guidance OpSvs & P/ship	0.30	5.00	03/04/2017		
	710 BCBC - IT Systems & Security Review	7.16	10.00	24/04/2017		
	716 BCBC - Payroll Grievance	2.13	5.00	03/04/2017		
Total	Directorate	OPERATIONAL SERVICES & PARTNERSHIPS	14.53	25.00		
	Directorate	EDUCATION AND FAMILY SUPPORT				
B	700 BCBC - C/F WB Allegation Education	3.41	2.00	03/04/2017		
	707 BCBC - Advice & Guidance Ed & Family Sup	0.20	5.00	03/04/2017		
	711 BCBC - Ed Minor Wks - Built Env	8.38	10.00	03/04/2017		
	714 BCBC - CRSA & Assurance Schools 1617	4.22	3.00	03/04/2017		
	715 BCBC - Engagement of Consultants	13.24	10.00	03/04/2017		
Total	Directorate	EDUCATION AND FAMILY SUPPORT	29.46	30.00		
	Directorate	COMMUNITIES				
B	719 BCBC - Fleet	4.59	20.00	03/04/2017		
Total	Directorate	COMMUNITIES	4.59	20.00		
	Directorate	SOCIAL SERVICES AND WELLBEING				
B	697 BCBC - C/F Data Sharing Soc Svs	9.29	9.00	03/04/2017		
	708 BCBC - Advice & Guidance SS & Wellbeing	0.27	5.00	03/04/2017		
	713 BCBC - Section 117	16.49	20.00	17/04/2017		
	717 BCBC - Bus Svs Support Grant	2.67	5.00	18/05/2017		
Total	Directorate	SOCIAL SERVICES AND WELLBEING	28.72	39.00		
	Directorate	BCBC CROSS CUTTING				
B	701 BCBC - C/F Safeguarding	0.07	1.00	03/04/2017		15/05/201
B	703 BCBC - Finalising 2016-17 Jobs	10.74	20.00	03/04/2017		
	704 BCBC - Audit Planning	7.67	30.00	03/04/2017		

Total	709 BCBC - Audit Committee / CMB Directorate	BCBC CROSS CUTTING	8.38 26.86	30.00 81.00	03/04/2017
Total	Function	ASSURANCE	110.34	224.00	
Page 316	ANTI-FRAUD & CORRUPTION				
B	Directorate	BCBC CROSS CUTTING	0.54	15.00	03/04/2017
Total	721 BCBC - NFI Directorate	BCBC CROSS CUTTING	0.54	15.00	
Total	Function	ANTI-FRAUD & CORRUPTION	0.54	15.00	
GOVERNANCE					
B	Directorate	BCBC CROSS CUTTING	2.30	10.00	03/04/2017
	720 BCBC - IASS Monitoring		0.81	5.00	03/04/2017
	722 COCG - AGS working group				
Total	Directorate	BCBC CROSS CUTTING	3.11	15.00	
Total	Function	GOVERNANCE	3.11	15.00	
RISK & PERFORMANCE MANAGEMENT					
B	Directorate	BCBC CROSS CUTTING	2.16	15.00	26/04/2017
	712 BCBC - Insurance				
Total	Directorate	BCBC CROSS CUTTING	2.16	15.00	
Total	Function	RISK & PERFORMANCE MAN	2.16	15.00	
		Grand		116.15	

Internal Audit

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