

# Public Document Pack

## 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.*

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let us know if your language choice is Welsh.*



#### Cyfarwyddiaeth y Prif Weithredwr / Chief Executive's Directorate

Deialu uniongyrchol / Direct line /: 01656 643148 / 643147 / 643694

Gofynnwch am / Ask for: Michael Pitman

Ein cyf / Our ref:

Eich cyf / Your ref:

**Dyddiad/Date:** Friday, 7 June 2019

Dear Councillor,

#### **AUDIT COMMITTEE**

A meeting of the Audit Committee will be held in the Committee Rooms 2/3, Civic Offices Angel Street Bridgend CF31 4WB on **Thursday, 13 June 2019 at 14:00.**

#### **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 Committee of 18/04/2019
6. Wales Audit Office (WAO) Performance Work Update 2019-20 11 - 18
7. Annual Governance Statement 2018-19 19 - 38
8. Statement of Accounts 2018-19 (Unaudited) 39 - 154
9. Annual Treasury Management Outturn Report 2018-19 155 - 174
10. Council Tax Reduction Fraud Investigations: April 2018 To March 2019 175 - 180
11. Housing Benefit Subsidy Return 2017/18 Update 181 - 186
12. Internal Audit - Outturn Report - April To May 2019 187 - 196

**By receiving this Agenda Pack electronically you will save the Authority approx. £00.00 in printing costs**

13. Updated Forward Work Programme 2019/20

197 - 202

14. 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

**K Watson**

Head of Legal and Regulatory Services

Councillors:

CA Green

JE Lewis

MJ Kearn

B Sedgebeer

Councillors

RM Granville

LM Walters

A Williams

AJ Williams

Councillors

PA Davies

P Davies

TH Beedle

A Hussain

Lay Member:

Mrs J Williams

## AUDIT COMMITTEE - THURSDAY, 18 APRIL 2019

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD IN COMMITTEE ROOMS 2/3,  
CIVIC OFFICES ANGEL STREET BRIDGEND CF31 4WB ON THURSDAY, 18 APRIL 2019 AT  
14:00

### Present

Councillor A Williams – Chairperson

CA Green  
PA Davies

MJ Kearn  
TH Beedle

RM Granville  
T Giffard

LM Walters

### Apologies for Absence

JE Lewis, AJ Williams and P Davies

### Officers:

Mark Jones	Financial Audit Manager, Wales Audit Office
Sarah-Jane Byrne	Local Government Manager, Wales Audit Office
Mary Williams	Chief Accountant
Mark Galvin	Senior Democratic Services Officer - Committees
Gill Lewis	Interim Head of Finance and Section 151 Officer
Michael Pitman	Business & Administrative Apprentice
Mark Thomas	Head of Regional Audit Service
Samantha Clements	Wales Audit Office
Joan Davies	Senior Group Auditor

### 118. DECLARATIONS OF INTEREST

None.

### 119. APPROVAL OF MINUTES

RESOLVED: That the minutes of the meeting of Audit Committee for the 17/01/2019 be approved as a true and accurate record subject to Lay Member Josephine Williams' attendance being reflected therein.

The Chairperson referred to Minute. 110 and enquired when a report was to be presented to Council, seeking to amend the Audit Committees Terms of Reference in order that the Committee could, moving forward, consider future updates summarising the incidents and near misses recorded and the action taken to prevent a recurrence of these/others.

He also asked if an update could be provided to Members on Minute 113, ie if the Anti-Fraud and Bribery Strategy and Anti-Money Laundering Policy had yet been submitted to a meeting of Cabinet for consideration. The Chief Accountant confirmed that they had been approved by Cabinet in February 2019.

The Chairperson also introduced to Members the new Head of Internal Audit, who advised Committee of his background in terms of his previous work experience, including his employment in the professional areas of Finance and Audit.

### 120. WALES AUDIT OFFICE (WAO) PERFORMANCE WORK UPDATE

The Interim Head of Finance presented a report, which provided an update of the Performance Audit Programme for 2018-19 by Wales Audit Office (WAO).

She explained that this programme of work is undertaken to help the Auditor General discharge his duties under Section 17 of the Public Audit (Wales) Act 2004 (the 2004 Act) and Section 18 of the Local Government (Wales) Measure 2009. It also informed a study for improving value for money under Section 41 of the 2004 Act, and/or an examination undertaken by the Auditor General under Section 15 of the Well-being of Future Generations (Wales) Act 2015.

The Wales Audit Office (WAO) Representative gave a resume of Appendix A to the report, which outlined the Performance Audit Work for 2018-19 and planned for 2019-20. She explained the scope of work that had been undertaken, and that the Annual Improvement Report (AIR) for this financial year would also include details pertaining to last year's Annual Report.

She advised Members that the Assurance and Risk Assessment had been completed since the last meeting of Audit Committee and that this would also form part of the Audit Plan.

She further advised Members that the project brief for Environmental Health was currently work in progress.

She explained that work in the area of Corporate Safeguarding arrangements was also ongoing. She added that this was presently still in its planning stage, due to the recent Estyn Inspection having been carried out affecting the Education and Family Services Directorate, upon which Estyn's recommendations were still being awaited. The results of these were required, prior to the audit work of this service area being fully completed.

The items regarding Services to Rural Communities and Using Data Effectively were now completed, she added.

A Member asked the WAO representative what was specifically being looked at in respect to the item immediately above.

The WAO representative advised that she felt this related to access to services and if there were any gaps in this provision so provided, but she would look into this further and feed back to the Committee at a later date.

The Member also what was being looked at within this study and whether there was any good practice that BCBC could use share especially around the provision of bus services in rural communities, and if WAO could also provide an overview on this.

RESOLVED: That the Audit Committee noted the WAO performance audit work programme update April 2019.

121. EXTERNAL AUDIT ANNUAL AUDIT PLAN 2019

The Interim Head of Finance introduced the report on the External Annual Audit Plan 2019 together with a schedule of authorised Grant Signatories for the Council. The WAO representative presented the performance aspects of the report, which asked Members to review the External Auditors Annual Audit Plan 2019,

She explained to Members the Performance Audit Programme detailed at exhibit 3 of the report, which outlined the topics of work for the 2019-20 financial year. The report also provided a brief description of each one of these for the benefit of Members.



The WAO representative further explained that the Financial Sustainability Programme was currently being scoped and that there were staff within WAO presently working upon this. It was added that this was a project common to all local authorities, that will enable assessment of financial sustainability in light of current and anticipated future challenges Council's will face. This involved examining what the other 22 local authorities were doing in that respect, to gauge what challenges they had faced and overcome, in order that BCBC could learn from these.

He also explained that they were looking to scope the work on the new health partnership between BCBC and Cwm Taf Health Authority, which was progressing well.

The WAO representative explained that the Workforce Strategy, was a project established in order to review the Council's approach to workforce planning, and how work demands were being managed, particularly due to the continued pressures of budget cuts etc, that local authorities faced.

The Financial Audit Manager mentioned that the Audit Plan set out the responsibility of both the Auditors and BCBC, given their different respective roles.

**RESOLVED:**                      That Members:-

- (1) Reviewed and considered the content of the External Auditor's Annual Audit Plan 2019 attached at Appendix A to the report.
- (2) Noted the schedule of the authorised grant signatories attached at Appendix B (to the report).

122. **CERTIFICATION OF GRANTS AND RETURNS 2017-18**

The Financial Audit Manager presented a report from the Council's External Auditor on the grant work undertaken for 2017-18.

He summarised all the claims and returns which were subject to certification, as included within Appendix A of the report, together with the certification fee and outcome of the External Auditors Review. The certification results were as follows:-

- 100% of the grant claims were submitted in accordance with the awarding body's deadline (consistent with 2016-17);
- 9 certificates were unqualified, 2 were qualified, 1 as a result of a small number of errors in the calculation of housing benefits which resulted in an adjustment of £547, the other due to inclusion of an ineligible item of expenditure to the value of £6,298;
- There were adjustments made to 4 of the 11 claims, which resulted in an overall reduction of grant to the Council of £6,573. This compares to 6 requiring adjustment the previous year.

He explained that the Council's External Auditors made 1 recommendation which was listed in exhibit 3 of the report. He also explained that there had been some emphasis placed on training, for those staff involved in supporting this area of work.

He further explained the total cost of the audits on the grants claims and returns of £51,873, was lower than the estimated fee for this of £58,500, as set out in the 2018

Audit Plan. A breakdown of all the relevant fees applicable (by grant and return) was detailed in exhibit 4 of the report.

The Interim Head of Finance also advised Members that they would be updated on this outside of the meeting or through a future update report to Committee.

Finally, a suggestion was made by the Chairperson for a further report to be submitted to the next/a future Committee meeting, outlining a summary of improvements made in the Housing Benefit section as part of an Action Plan drawn up following an audit of this service area, to include details of any staff Training and Development Plan.

**RESOLVED:** That Members noted the content of the External Auditors Report on the grant work undertaken for 2017-18 attached at Appendix A to the report.

### 123. INTERNAL AUDIT - FINAL OUTTURN REPORT

The Head of the Regional Audit Service presented a report, which informed the Committee of the actual internal performance against the Audit Plan for the Financial Year 2018-19, as well as providing the Head of Audits Annual Opinion.

He provided background to the Internal Audit Plan explaining that the plan was submitted to the Audit Committee for consideration and approval on the 26<sup>th</sup> April 2018. This outlined the assignments to be carried out and their respective priorities. He also updated Members on the current situation/proposal as was detailed in Paragraph 4 of the covering report.

The actual outturn against the 2018/19 Risk Based Plan, was attached at Appendix A to the report.

He explained that Appendix B to the report, showed the work that had been undertaken since April 2018, including the various performance indicator information relating to the different elements of this work. He further explained each section from 1 through 13 of Appendix B to Members. He further explained that the Head of Audit's Opinion was of "Reasonable Assurance" on the adequacy and effectiveness of the Council's framework of governance, risk management and control.

A Member queried Project ARBED (in Appendix B) which confirmed that in January 2019, the Audit findings on this were nearing completion. She asked however, if some clarification could be given as to why the report stated this work was still ongoing and would be carried forward to 2019/20, given that this was conflicting information.

The Interim Head of Finance explained that the delay on completion of this work, had been due to the former Head of Internal Audit leaving the Authority due to retirement and the crossover of this with her replacement, the Head of the Regional Audit Service effectively taking over this position.

She further clarified that the work of this project was now in its final stages of completion. The Interim Head of Finance acknowledged that the wording contained in the report explaining this could have been clearer and therefore may have been misleading.

The Head of the Regional Audit Service said that considerable work had been undertaken but more work was required and that the Committee would be updated on progress as soon as possible.

The Lay Member asked if further information could be provided on the previous audit of Direct Payments, to include any financial value in respect of any efficiencies put in place

to improve this service area and confirmation that any actions recommended by Members are followed-up and implemented.

The Head of Regional Audit Service said that more information could be provided on the above, after SWAP perform their planned follow-up audit work.

**RESOLVED:** That the Members of the Audit Committee gave due consideration to the Final Internal Audit Outturn Report for the financial year 2018/19 including the Head of Audit s Annual Opinion on the Councils control environment in relation to governance, risk management and internal control.

124. **INTERNAL AUDIT STRATEGY AND ANNUAL RISK BASED AUDIT PLAN APRIL 2019 TO MARCH 2020**

The Head of Regional Audit Service presented a report on the Councils Internal Audit Strategy and Annual Risk Based Audit Plan for the year April 2019 to March 2020.

He provided Members with a resume of the Regional Internal Audit Service Strategy and Draft Annual Risk Based Audit plan which covered the following:-

- Methodology;
- The Risk Assessment Process;
- The Internal Audit Plan;
- Resource Requirements

The Head of Regional Audit Service explained, that 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 impact of the financial pressures with the requirements to generate efficiencies and hard savings have seen internal audit resources reduce year on year. As a consequence and at the commencement of 2019/20 the Audit Service has been extended to secure resilience moving forward and as such, will now provide the Internal Audit function to four Councils; these being Bridgend CBC, Merthyr Tydfil CBC, Rhondda Cynon Taf CBC and the Vale of Glamorgan Council. As this is a newly developed Regional Service, the overarching structure of the service is yet to be finalised. As a consequence, the plan has been based on the maximum number of productive days available to be delivered to Bridgend CBC for the whole year based on a full complement of staff.

Whilst it was recognised that we should be mindful of the fact that 2019/20 will be a transitional year for the service and as such some degree of latitude will be required in respect of the service delivery, arrangements will be put in place to closely monitor performance, keep the Audit Committee fully informed and should the need arise, assistance will be sought to bridge any gaps in delivery.

Attached at Appendix A to the report, was the draft Internal Audit Strategy document for 2019/20. This demonstrated how the Internal Audit Service will be developed and delivered in accordance with the Committees Terms of Reference and how it links to the Authorities objectives and priorities. He added that the Strategy would be reviewed and updated annually in consultation with key Members and Officers (such as Cabinet and Corporate Management Board).

The 2019/20 draft Annual Risk Based 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 the

Standards for Internal Audit the draft detailed plan is attached at Appendix B (to the report).

He then further outlined to Members Table 1 of Appendix A which displayed the Productive Resource Availability & Utilisation for April 2019 - March 2020 - Draft proposals.

**RESOLVED:** That the Committee considered and approved the draft internal Audit Strategy (Appendix A to the report) and the draft Annual Risk Based Audit Plan for 2019/20 (at Appendix B).

125. **REGIONAL INTERNAL AUDIT SHARED SERVICE CHARTER 2019/20**

The Audit Client Manager presented a report on the Council's Internal Audit Shared Service Charter for 2019/20, attached at Appendix A to the report.

She explained that as of 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.

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.

The PSIAS requires the Head of Audit to review the Charter periodically, with the final approval of the Charter being the responsibility of the Audit Committee.

She explained that the Charter, attached at Appendix A to the report, reflected that the content that largely remains the same as previous. However, it now related to 4 local authorities working collaboratively, namely Vale of Glamorgan, Bridgend, Merthyr Tydfil and Rhondda Cynon Taff.

The Lay Member asked what Officers views were on the significance of this scaling-up of joint working, and whether this would impact in any way on service delivery in BCBC.

The Audit Client Manager explained that the above would be taken into account and that each of the 4 participating Councils would take a standardised approach generally in terms of their respective auditing processes. She further explained that a larger service would assist in more specialisms as well as providing more depth with staffing, which would in turn, allow for increased work capacity overall. Therefore, the quality and speed of audits should improve.

A Member asked if there was anything in place like agency staff with regards to risk assessments, cost and timing.

The Chairperson requested that consideration be given to examining Audit Committee's Terms of Reference in neighbouring Authorities, particularly those that comprised the Internal Audit Shared Service, with a view to harmonising these. He added, that consideration also be given to Chairs of Audit Committees of neighbouring Authorities possibly meeting up as part of a Network Initiative, in order to share ways of effective working/good practice.

**RESOLVED:** That the Committee considered and approved the Regional Internal Audit Shared Service Charter for 2019/20 as attached as Appendix A to the report.

126. UPDATED FORWARD WORK PROGRAMME 2018/19 AND PROPOSED PROGRAMME FOR 2019/20

The Head of Regional Audit Service presented a report, which provided Members with an update of the Forward Work Programme for 2018/19 and sought approval for the proposed programme for 2019/20.

He referred Members to Appendix A of the report, which outlined the current schedule of meetings and forward work programme to date. He explained that the item on Fraud that was scheduled for 18<sup>th</sup> April 2019 had been deferred to 13<sup>th</sup> June 2019.

In response to a Members question on the Fraud Update item which had been deferred from a few previous meetings it had been previously scheduled for, the Interim Head of Finance and S151 Officer clarified that there were two separate items to be considered at a future Committee date(s) in relation to Fraud, one of which was an update on the previous audit carried out in relation to Purchasing Cards, and the other on the National Fraud Initiative.

A Member asked for clarification on dates of Audit Committee dates moving forward, as she had been under the impression that they were to be held on alternative dates to that outlined in Appendices A and B to the report.

The Senior Democratic Services Officer – Committees confirmed that some dates of meetings had now altered to that provisionally set previously, in order to accommodate certain key business that needed to be considered by Members.

RESOLVED: That Members considered and noted the updated Forward Work Programme for 2018/19.

127. URGENT ITEMS

None.

The meeting closed at 15:27

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## BRIDGEND COUNTY BOROUGH COUNCIL

### REPORT TO AUDIT COMMITTEE

13 JUNE 2019

#### REPORT OF THE INTERIM HEAD OF FINANCE AND SECTION 151 OFFICER

#### WALES AUDIT OFFICE (WAO) PERFORMANCE WORK UPDATE 2019-20

#### 1. Purpose of this report

1.1 The purpose of this report is to submit an update on the Performance Audit Programme for 2019-20 by the Wales Audit Office (WAO).

#### 2. Connections to Corporate Improvement Objectives / Other Corporate Priorities

2.1 This report assists in the achievement of the following corporate priority:

- Smarter use of resources – ensuring 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.

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

#### 3. Background

3.1 This programme of work is undertaken to help the Auditor General discharge his duties under section 17 of the Public Audit (Wales) Act 2004 (the 2004 Act) and section 18 of the Local Government (Wales) Measure 2009. It may also inform a study for improving value for money under section 41 of the 2004 Act, and/or an examination undertaken by the Auditor General under section 15 of the Well-being of Future Generations (Wales) Act 2015. The Local Government (Wales) Measure 2009 also requires the Auditor General to carry out an annual Improvement Assessment to determine whether Bridgend County Borough Council is likely to comply with the requirements of Part 1 of the Measure. This involves:-

- A review of the Council's arrangements to secure continuous improvement;
- Improvement studies of areas which may hinder improvement or transformation or give rise to inefficiencies;
- Bespoke pieces of work related to the Council's improvement objectives and arrangements; and
- An audit of the Council's published improvement plans and its self-assessment of performance.

#### 4. Current Situation / Proposal

4.1 The WAO performance audit work programme update June 2019 is attached as **APPENDIX A**. It outlines work undertaken in the Council by and on behalf of the Auditor General under the Local Government (Wales) Measure 2009 and Parts 2 and 3A of the Public Audit (Wales) Act 2004.

## **5. Effect upon policy framework & procedural rules**

5.1 None.

## **6. Equality Impact Assessment**

6.1 There are no equality implications.

## **7. Well-being of Future Generations (Wales) Act 2015 Implications**

7.1 This report links to the Council's long-term well-being objectives as it examines the performance of the Council and how continuous improvement is being achieved.

## **8. Financial implications**

8.1 The annual fee for Performance Audit Work in 2019-20 is £97,405 and there is a revenue budget allocated for this charge.

## **9. Recommendation**

9.1.1 It is recommended that Audit Committee:-

- Note the WAO performance audit work programme update June 2019 (**Appendix A**)

**Gill Lewis CPFA**  
**Interim Head of Finance and Section 151 Officer**  
**04 June 2019**

**Contact Officer** : Gill Lewis, Interim Head of Finance

Mary Williams, Group Manager – Chief Accountant

**Telephone** : (01656) 643605

**E-mail** : [Mary.Williams2@bridgend.gov.uk](mailto:Mary.Williams2@bridgend.gov.uk)

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

### **Background Documents:**

WAO performance audit work programme update June 2019



## Bridgend County Borough Council

### Audit Committee Update – June 2019

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#### Performance Audit work

2018-19 performance audit work	Scope	Status
<b>Improvement Plan audit</b>	Checks Council compliance with Local Government Measure (Wales) 2009 requirement to publish a self-assessment of performance in the previous year by 31 October.	Final Certificate issued 19th April 2018.
<b>Performance audit</b>	Checks Council compliance with Local Government Measure (Wales) 2009 requirement to set improvement objectives.	Final Certificate issued 23rd November 2018
<b>Annual Improvement Report (AIR)</b>	Annual report summarising the audit work undertaken in the last year which also includes a summary of the key findings from reports issued by 'relevant regulators'	Drafting
<b>Financial planning and transformation</b>	We will follow up the proposals for improvement made in our savings planning report issued to the Council in April 2017 and undertake ongoing monitoring of the Council's transformation programme, providing real-time challenge during the year.	Underway
<b>Assurance and risk assessment</b>	Project to identify the level of audit assurance and/or where further audit work may be required in future years in relation to risks to the Council putting in place proper arrangements to secure value for money in the use of resources.	Complete

<p><b>Well-being of Future Generations Act (Wales) 2015 (WFG Act) examinations</b></p>	<p>Examination of the extent to which the Council has acted in accordance with the sustainable development principles when taking steps to meet the following wellbeing objective:                  Deliver the Porthcawl Resort Investment Focus Programme (e.g. the Cosy Corner developments and the Rest Bay café development) to grow the value of tourism in the economy, increase employment and business opportunities, and support a range of cultural, sporting and business events.</p>	<p>Drafting</p>
<p><b>Environmental health</b></p>	<p>Review of the arrangements the Council has put in place to deliver environmental health services building on the study previously undertaken by the Auditor General as part of the 'delivering with less' themed studies.</p>	<p>Underway</p>
<p><b>Corporate safeguarding arrangements</b></p>	<p>Review of the effectiveness of corporate safeguarding arrangements building on the study previously undertaken by the Auditor General in this area.</p>	<p>Planning</p>
<p><b>2018-19 Local Government Studies</b></p>	<p><b>Scope</b></p>	<p><b>Status</b></p>
<p>First point of contact assessments under the Social Services and Well-being (Wales) Act 2014</p>	<p>The Welsh Government introduced the Social Services and Well-being (Wales) Act 2014 (the 2014 Act), which focuses on reforming and simplifying the law relating to social services. The 2014 Act introduced new duties for local authorities, local health boards and other public bodies and covers adults, children and their carers, and came into force on 6 April 2016. The study will review first point of contact and assessments for adult social care. Detailed fieldwork in five local authorities. We are planning to undertake fieldwork in Cardiff City Council, Denbighshire County Council, Merthyr Tydfil County Borough Council, Pembrokeshire County Council and Carmarthenshire County Council</p>	<p>Drafting</p>
<p>Tackling violence against women, domestic abuse and sexual violence</p>	<p>In 2015 the Welsh Government passed the Violence against Women, Domestic Abuse and Sexual Violence (Wales) Act (the</p>	<p>Underway</p>

	<p>2015 Act). The overarching objective of the 2015 Act is to improve the Public Sector response to violence against women, domestic abuse and sexual violence; provide a strategic focus on these issues; and ensure consistent consideration of preventative, protective and supportive mechanisms in the delivery of services. The review will focus on determining whether local authorities and their partners are effectively working together to prevent gender-based violence and domestic abuse, and protecting all of the people involved.</p> <p>Our fieldwork sites are Swansea City and County Council, Conwy County Borough Council, Flintshire County Council, Rhondda Cynon Taff County Borough Council, South Wales Police and South Wales Fire and Rescue Authority</p>	
<p>Planning Services: Improving the wellbeing of Wales</p>	<p>Planning services are an important part of the democratic jigsaw that allows the detailed consideration of proposals to improve the economic prospects of the nation. Good planning decisions can have a positive impact on the wellbeing of people and places. Poor planning decisions can have a detrimental impact on people's wellbeing and can stifle economic development. This study will provide independent assurance that planning authorities are supporting sustainable development and delivering for the future long-term wellbeing of their communities and for Wales</p> <p>We are planning to undertake fieldwork in Bridgend County Borough Council, Gwynedd County Council, Newport City Council, Torfaen County Borough Council and Ceredigion County Council.</p>	<p>Underway</p>
<p><b>2019-20 Performance Audit Work</b></p>	<p><b>Scope</b></p>	<p><b>Status</b></p>
<p><b>Improvement Plan audit</b></p>	<p>Checks Council compliance with Local Government Measure (Wales) 2009 requirement to publish a self-assessment of performance in the previous year by 31 October.</p>	<p>Final Certificate issued 11<sup>th</sup> April 2019</p>

<b>Performance audit</b>	Checks Council compliance with Local Government Measure (Wales) 2009 requirement to set improvement objectives.	November 2019
<b>Annual Improvement Report (AIR)</b>	Annual report summarising the audit work undertaken in the last year which also includes a summary of the key findings from reports issued by 'relevant regulators'	June/July 2020
<b>Assurance and risk assessment</b>	Project to identify the level of audit assurance and/or where further audit work may be required in future years in relation to risks to the Council putting in place proper arrangements to secure value for money in the use of resources.	Underway
<b>Well-being of Future Generations Act (Wales) 2015 (WFG Act) examinations</b>	Examination of the extent to which the Council has acted in accordance with the sustainable development principle when delivering the key programme 'Active Bridgend Plan 2017-21' to meet the Council's well-being objective: Helping people to be more self-reliant.	Underway
<b>Financial Sustainability</b>	A project common to all local councils that will assess financial sustainability in light of current and anticipated future challenges.	Planning.
<b>Transitioning to new Health and Social Care Partnership</b>	A project to assess the Council's progress in transitioning to a new Health and Social Care Partnership with Cwn Taf Health Board.	Planning
<b>Workforce Strategy</b>	A project to review the Council's approach to workforce planning.	Planning
<b>2019-20 Local Government Studies</b>	<b>Scope</b>	<b>Status</b>
<b>Review of Public Service Boards and the effectiveness of partnership working</b>	This review will provide assurance and insight on how well PSBs are delivering the expectations of the Well-being of Future Generations Act, and by working together in tackling complex hard to shift problems. This includes examining the practicalities of joint working, what resources are being used, whether current arrangements are fit for purpose, and what needs to change.	Underway

	<p>This review will also allow us to identify how decisions are communicated to partners and the public and whether decisions are transparent to help build a picture of how relationships work in reality.</p> <p>We will undertake fieldwork looking at how partners recognise and deal with problems of rough sleeping including public and voluntary bodies in three areas – Cardiff, Swansea and Wrexham.</p>	
<p><b>The impact of austerity on discretionary services in local government</b></p>	<p>The focus of the study is to provide independent assurance by looking at councils approaches to sustaining discretionary services and identify if councils are ensuring changes in provision or cessation of activity do not adversely impact future generations or those with protected characteristics.</p> <p>The study will provide insight on an issue that is much talked about but not well evidenced and provides us with a good opportunity to comment on services which are much valued by citizens across Wales. The review will take a strong focus on risk management and consider how well councils manage the transition from direct service providers towards a different role based on what will be affordable in the future.</p>	<p>Planning</p>
<p><b>Commercialisation in local government</b></p>	<p>Our review will focus on producing good practice case studies and support materials to help authorities develop their approaches to commercialisation. This will cover the key building blocks required to effectively manage commercialisation.</p> <p>The study will comment on long-term approaches to financial sustainability and how commercial activity supports organisations to deliver their wider wellbeing objectives and corporate priorities. Given commercialisation should have a strong ethical focus we are likely to touch on equality issues and we will provide a commentary on how public bodies collectively are responding to ensuring fairness and accountability for commercial ventures.</p>	<p>Planning</p>

National Studies	Update and link to report
Improving the well-being of young people	Underway
Primary care services	Published April 2018. <a href="#">Link</a> to published report
Integrated care fund	Underway
Reflecting on Year One – Well-being of Future Generations Act	Published 10 <sup>th</sup> May 2018 <a href="#">LINK</a>
Waste management	Recycling module (published <a href="#">Link</a> ); waste prevention (published <a href="#">Link</a> ) and waste treatment infrastructure modules (published <a href="#">Link</a> )
NHS Wales informatics services	Published 10 January 2018. <a href="#">Link</a> to published report
Access to public services with the support of specialist interpretation and translation	Published 25 April 2018. <a href="#">Link</a> to published report
Early intervention and public behaviour change	Drafting
Welsh Government business finance	Publish 29 <sup>th</sup> November 2018
Managing the Impact of Brexit on the Rural Development Programme	Published November 28 <sup>th</sup> November 2018 <a href="#">Link</a>
European Structural Funds Programme 2014-2020	Published August 2018 <a href="#">Link</a>

## BRIDGEND COUNTY BOROUGH COUNCIL

### REPORT TO AUDIT COMMITTEE

13 JUNE 2019

### REPORT OF THE INTERIM HEAD OF FINANCE AND SECTION 151 OFFICER

#### ANNUAL GOVERNANCE STATEMENT (AGS) 2018-19

#### 1. Purpose of the Report

- 1.1 The purpose of this report is to present to Audit Committee the Annual Governance Statement 2018-19 for approval before its inclusion within the unaudited Statement of Accounts 2018-19.

#### 2. Connection to Corporate Improvement Objectives and Other Corporate Priorities

- 2.1 This report assists in the achievement of the following corporate priority/priorities:
- Smarter use of resources – ensuring 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.
- 2.2 Achievement of the corporate priorities and well-being objectives defined in 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 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.

#### **4. Current Situation / Proposal**

- 4.1 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.
- 4.2 The AGS 2018-19 has been produced incorporating suggestions on the format from Wales Audit Office and good practice in other Local Authorities. It has been reviewed by Corporate Management Board (CMB) and Cabinet has provided comments. The draft AGS is attached as **Appendix A**.
- 4.3 The AGS will be reviewed as part of the external audit on the Statement of Accounts and should reflect any governance issues right up to the date that the Auditor General for Wales signs off the Statement of Accounts 2018-19.

#### **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. Well-being of Future Generations (Wales) Act 2015 Implications**

- 7.1 The wellbeing goals identified in the Act were considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon the achievement of wellbeing goals/objectives as a result of this report.

#### **8. Financial Implications**

- 8.1 There are no financial implications.

#### **9. Recommendations**

- 9.1 It is recommended that Audit Committee
- Review and approve the Annual Governance Statement 2018-19 (Appendix A) for inclusion within the unaudited Statement of Accounts 2018-19.



**Gill Lewis CPFA**  
**Interim Head of Finance and Section 151 Officer**  
**23 May 2019**

**Contact Officer** : Mary Williams, Group Manager – Chief Accountant

**Telephone** : (01656) 643605

**E-mail** : [mary.williams2@bridgend.gov.uk](mailto:mary.williams2@bridgend.gov.uk)

**Postal address:** Chief Executives - Finance  
Raven's Court  
Brewery Lane  
Bridgend  
CF31 4AP

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

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## Foreword

### “One Council working together to improve lives”

**This is the Council’s vision as stated in the [Corporate Plan](#) for 2018-2022 reviewed for 2019-20, which also sets out what our long-term Well-being objectives are so that amongst all of the complexity of increased demand and reduced resources we can keep a clear focus on what is really important for our communities.**

We want to contribute to a place where people love to live, work, study and do business, where people are qualified with the skills they need to improve their life chances and enjoy good health and independence.

It is necessary to ensure that our communities and those that use and pay for our services, those who deliver our services and our partners and suppliers have confidence in our governance arrangements. They must be assured that the way we provide our services are effectively and efficiently delivered on a consistent basis, that public money is safeguarded and properly accounted for; and that decisions are taken transparently and lawfully.

The Council also has a duty to set well-being objectives under the Future Generations (Wales) Act and the Local Government (Wales) Measure 2009 to make arrangements to secure continuous improvement in delivering its functions in terms of strategic effectiveness, service quality, service availability, fairness, sustainability, efficiency and innovation.

Our governance arrangements operate effectively in supporting the Council in meeting its challenges and responsibilities. Improvements are continually being made and opportunities to do so have been identified. These are being monitored during 2019-20 to ensure that the necessary improvements are made.



Mark Shepherd  
Chief Executive



Cllr Huw David  
Leader of the Council





*Pencoeed Primary 2018*

## What is Corporate Governance?

Corporate governance comprises the systems, processes, culture and values by which the Council is directed and controlled, led and held to account, and how it engages with stakeholders. It is also about the way that Councillors and employees think and act.

The Governance Framework 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.

## What this Statement tells you

This Statement describes the extent to which the Council has complied with its Code of Corporate Governance and the requirements of the Accounts and Audit (Wales) Regulations 2014, for the year ended 31 March 2019.

It also sets out how the Council has responded to governance issues identified during 2017-18 and actions to be undertaken during 2019-20 following an annual review of the Governance Framework.

The Statement has been prepared in accordance with the 2016 guidance: '[Delivering Good Governance in Local Government Framework](#)' produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE)

## The Council's Governance Responsibilities

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

It also has a duty 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<sup>1</sup>.

The Council must consider the longer term impact of any decisions it makes, and should work collaboratively with other public bodies to improve wellbeing in Wales.<sup>2</sup>

As a public body the Council has to ensure it delivers sustainable economic, societal and environmental outcomes as a key focus of its governance process and structures. This is achieved by:

- behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law
- ensuring openness and comprehensive stakeholder engagement

The Council's Code of Corporate Governance sets out its commitment to, and responsibility for, ensuring that there is a sound system of governance in place. The [Code](#) is on the Council's website or can be obtained from the Section 151 Officer.

The Council's Code of Corporate Governance sets out the seven principles in line with the CIPFA Code.

Bridgend County Borough Council Code of Governance (2017)	
The Council's Governance Principles are based on the following:	
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



<sup>1</sup> Local Government (Wales) Measure 2009

<sup>2</sup> Well-being of Future Generations (Wales) Act 2015

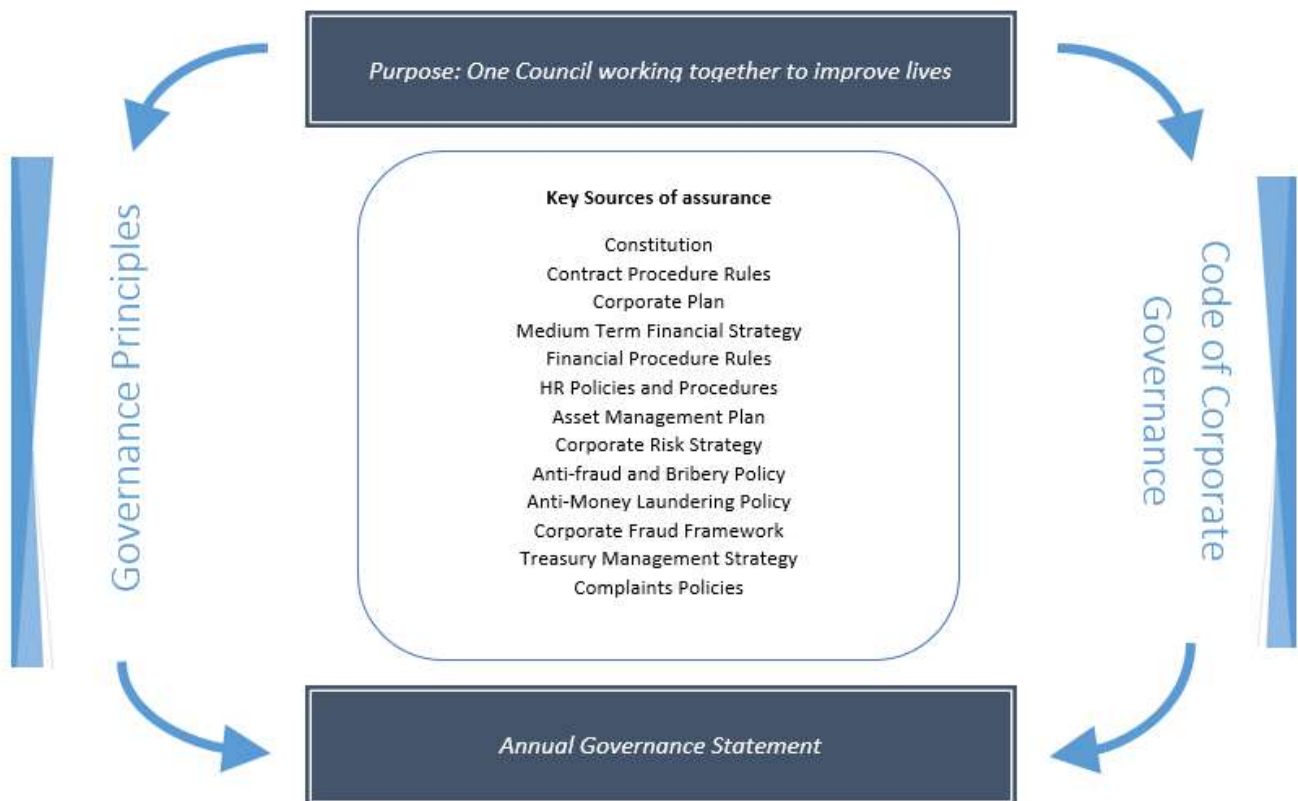
## The Governance Framework

**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.**

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 the risk, the system of internal control is designed to identify and prioritise risks, evaluate the likelihood of those risks materialising and manage their impact.

In order to review the effectiveness of the governance framework, assurances are provided to, and challenged by, the Audit Committee, Scrutiny Committees, Council, Cabinet and Corporate Management Board as appropriate. In addition the Section 151 Officer promotes and delivers good financial management and the Monitoring Officer legal and ethical assurance.

Some of the key elements of the governance framework are highlighted below.



The Council is one of ten Councils jointly delivering the Cardiff Capital Region City Deal (CCRCD), which has in place joint Scrutiny and Cabinet to ensure governance in its implementation. The CCRCD aims to raise economic prosperity, job prospects and improve digital and transport connectivity and is a significant investment into the South Wales economy. The Council is committed to contributing to the delivery of these objectives across the region to ensure that the community and business within the Borough can benefit from this investment.



In March 2018 a Welsh Government consultation on health boundary changes for people in the area of Bridgend County Borough Council ended. The result of the consultation was that from 1<sup>st</sup> April 2019, local authority and Health Services in Bridgend and a number of local authority regional partnership arrangements would be moved from the Western Bay Region/Abertawe Bro Morgannwg University Health Board (ABMU) to the Cwm Taf Region.

During 2018-19 the Council has adopted a structured approach to the disaggregation of regional services, which has required close working with a range of partners to ensure that where regional funding supports integrated services, such services are accounted for between Western Bay, ABMU Health Board and Bridgend County Borough Council. In planning for the changes to regional boundaries a Transition Programme was established including, at various levels, officers from the two Health Boards, the Council and the third sector. The overarching Board and associated work streams set the governance structure that supported the Transition Programme. The Council's representation is as follows:

- Joint Transition Board: the Leader/Cabinet Member for Social Services and Wellbeing and the Chief Executive/Corporate Director, Social Services and Wellbeing
- Joint Transition Programme Group: Corporate Director, Social Services and Wellbeing
- Work Streams: all relevant service areas within Bridgend County Borough Council are linked in to their counterparts in the various work streams

From 1<sup>st</sup> April 2019 the governance structure for the new partnership arrangements will be through the Cwm Taf Morgannwg Regional Programme Board.





## The Corporate Plan

The Corporate Plan 2018-22, agreed in February 2018, sets out the Council’s vision: **‘One Council working together to improve lives’**. The Plan defines the Council’s three priorities – also known as our Well-being objectives – that sets out how the Council intends to deliver them. The Council defines its purpose to ‘contribute to a place where people love to live, work, study and do business, where people are qualified with the skills they need to improve their life chances and enjoy good health and independence’.



Underpinning the Council’s Corporate Plan and throughout its decisions-making process, the principles of the Well-being of Future Generations (Wales) Act 2015 are applied.

**Long-term:** thinking of future generations and of our natural resources.

**Prevention:** stop problems arising – don’t create new problems.

**Integration and collaboration:** with colleagues and partners. Ensure decisions are joined up across services and work more closely with partners in the public, private and third sectors.

**Involvement:** consult and involved local people in planning and delivering services.

Welsh language – Wales has two official languages, Welsh and English, and services and information should be equally available in both. The Council’s internal business language is English, but all the services and information we provide for local people will be equally available in either language.

The Corporate Plan identifies a number of key principles which underpin its Well-being objectives and has adopted a set of values that represent what the Council stands for and influences how it works.



Bridgend Council's Well-being objectives	
<b>Supporting</b> a successful economy <b>Helping</b> people to become more self-reliant <b>Smarter</b> use of resources	
Key Principles	Values
<p>Where ever possible <b>the Council</b> will support communities and people to create their own solutions and reduce dependency on the Council</p> <p><b>The Council</b> will focus diminishing resources on communities and individuals with the greatest need</p> <p><b>The Council</b> will use good information from service users and communities to inform its decisions</p> <p><b>The Council</b> will encourage and develop capacity amongst the third sector to identify and respond to local needs</p> <p><b>The Council</b> will not let uncertainty over the future of public services prevent meaningful and pragmatic collaboration with other public sector bodies</p> <p><b>The Council</b> will work as one Council and discourage different parts of the organisation from developing multiple processes or unnecessarily different approaches</p> <p><b>The Council</b> will transform the organisation and many of its services and in so doing will deliver financial budget reductions as well as improvements</p>	<p><b>Fair</b> – taking into account everyone's needs and situations</p> <p><b>Ambitious</b> – always trying to improve what we do and aiming for excellence</p> <p><b>Citizen-focused</b> – remembering that we are here to serve our local community</p> <p><b>Efficient</b> – delivering services that are value for money</p>

## Assessing Performance

**The Councils' performance is reported in its Annual Report, its annual self-evaluation of progress against the Council's Corporate Plan.**

The Wales Audit Office, our External Auditor, assesses the Council's arrangements for delivering continuous improvement and subsequent performance, the results of which are published in their Annual Improvement Report. For 2017-18 they reported that 'the Auditor General believes that the Council is likely to comply with the requirements of the Local Government Measure (2009) during 2018-19'. Whilst there will always be areas where improvements can be made, the Auditor General made no formal recommendations, which demonstrates the commitment of the Council to continuous improvement.



## External Assessments of Performance

The Council is also inspected by other organisations, including the Care Inspectorate Wales (CIW) and Estyn. Early in the year CIW reported on its review of the Joint Adoption Service, shared with Swansea and NeathPortTalbot Councils. Whilst some recommendations for improvement were made, and an action plan has been put in place to address these, the overall assessment of this review was that adopters and people receiving adoption support receive a good service.

In November 2018, Her Majesty's Inspectorate of Probation (HMIP) were joined by colleague inspectors from Police, Health, Social Care and Education and undertook a two-week inspection of Youth Offending Service (YOS) in Western Bay. The report has now been received and the overall rating of the Western Bay YOS was deemed inadequate. There are twelve domains within the inspection framework and nine of the twelve were rated as inadequate. One was rated as needing improvement, one was good with joint working rated as outstanding. Bridgend YOS was already planning to disaggregate from Western Bay before the inspection, due to the Council's migration to Cwm Taf Morgannwg University Health Board, which became effective on 1<sup>st</sup> April 2019. Bridgend has therefore produced an individual post-inspection action plan for improvement. This will be monitored on a fortnightly basis by the YOS Strategic Lead and Operational Manager, who will meet with the Youth Justice Board.

An Estyn inspection of Education took place at the end of March 2019, the outcome of which is due at the end of May. The Council will respond to any recommendations within a Post Inspection Action Plan. This will be monitored by the School Improvement Group.

## Decision Making and Responsibilities

**The Council consists of 54 elected Members, with an elected Leader and Cabinet who are supported and held to account by Scrutiny Committees.** The Council's constitution sets out how the Council operates, how decisions are made and the procedures for ensuring that the Council is efficient, transparent and accountable to local people. It contains the basic rules governing the Council's business, and sets out a list of functions and decisions exercisable by officers. It also contains the rules and protocols by which the Council, Members and officers operate.



Through the Constitution, along with the Member's Code of Conduct, Standards Committee and role of internal audit, the Council operates with **integrity**, **ethical values** and within its **legal** powers.

All Council and Committee meetings' agendas, papers and minutes can be viewed on-line and all meetings are open to the public unless exempt or confidential matters are being discussed. The Council's forward work programme contains information about all matters that are likely to be the subject of a decision taken by full Council or Cabinet during the forthcoming period. They also include information regarding Scrutiny Committees. To further enhance **openness** and **comprehensive stakeholder engagement** the Council has a Citizen's Panel, which takes part in surveys on a range of issues. The Council also uses social media to promote services and engage with the public and makes information available on a range of formats to maximise the opportunity for information sharing and residents communicating with the Council.

## Managing Risk

**The Council faces a range of risks as would be expected from the broad range of services it delivers and activities it is engaged with. On a day-to-day basis operational risk arises from the challenge of ensuring sufficient capacity and capability to advise on, and to deliver, the key policy objectives of the Council.**

The Council has developed a robust approach to the management of risk. The Corporate Risk Management Policy is aligned with Directorate Plans and the Council's performance management framework. The Council defines risk as: 'Any potential development or occurrence which, if it came to fruition, would jeopardise the Council's ability to:

- achieve its Well-being objectives
- provide services as planned
- fulfil its statutory duties, including the duty to make arrangements to secure continuous improvement.'

Risks are viewed from both a Service and Council-wide perspective which ensures the key risks are distilled in the [Corporate Risk Assessment](#). The Risk Assessment sets out how the Council is addressing these risk and the mitigating actions it will put in place to reduce them. It is regularly reviewed and challenged by both senior management and the Audit Committee. A strategic review of the management control framework, or 'health' of the Council, identified more than one risk scoring mechanism was being used, the Council has implemented a consistent risk matrix across all services.

It is not possible to eliminate all risk of failure to meet the targets in the Council's policies, aims and objectives and cannot therefore provide absolute assurance of effectiveness, but one of reasonable assurance.

## Financial Management

**The financial management of the Council is conducted in accordance with all relevant legislation and the Constitution. The Council has in place Financial Procedure Rules and Contract Procedure Rules, and the scheme of delegation provides the framework for financial control. The Section 151 Officer is responsible 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.**

The Council's ability to deliver savings and contain its expenditure within its overall budget is well established. However, the Council faces significant challenges in the future in the face of further Government plans to cut public spending and significant uncertainty as a result of Brexit and the impacts this might have on Council services. The Council estimates that it will need to generate approximately £35 million of savings over the period 2019-20 to 2022-23. The Medium Term Financial Strategy has taken account of cost pressures and priority areas in line with the Corporate Plan, and involved extensive consultation to ensure a robust process. Given the single-year funding provided by the Welsh Government, the Council has developed detailed budgets for year on of the Strategy with indicative budgets thereafter based on a range of funding scenarios.



### Consultation overview

Over the past four years, we have made budgetary savings of more than £30 million. Some of the ways we have done this include:

- cutting senior management and reducing our workforce by more than 400 employees
- transferring cultural services to Awen Cultural Trust
- reducing provision of some services like public conveniences and street cleaning

Also, we have made a wide range of investments including state-of-the-art new schools, new sea defences, and new highways improvements.

Despite the changes made to date, we still have to make a further £35 million saving by 2023, which is currently 13.5% of our net budget.

In this consultation, some of the areas we are asking you about include:

- council tax
- leisure and cultural services
- schools and education
- transport
- recycling and waste
- social services



The Council has in place robust arrangements for effective financial control through the Council's accounting procedures, key financial systems and the Financial Procedure Rules. This includes established budget planning procedures and regular budget monitoring reports to Cabinet and Scrutiny Committee, as well as detailed information to budget holders. The Council prepares its Annual Accounts as required by the Accounts and Audit (Wales) Regulations and in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

The Council follows the CIPFA Code on Treasury Management and Welsh Government's Guidance on Local Authority Investments to ensure that funds invested are secure, accessible when necessary and attract an appropriate return and any borrowings needed are in line with the Council's Treasury Management Strategy, as approved by Council.



## Audit and Audit Assurances

**The Council is audited externally by the Auditor General for Wales, supported by the Wales Audit Office. The objectives of this are to obtain assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; that the accounts have been prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom; and to issue an opinion thereon. They also assess our arrangements for securing economy, efficiency and effectiveness in the use of resources.**

In 2018 the External Auditor gave an unqualified audit opinion on the financial statements 2017-18.

The Wales Audit Office also audit a number of grant claims and in the year completed 11 audits of grants and returns. The audit confirmed that there were generally sound working papers and all claims were certified ahead of the audit deadlines in place. One recommendation was made in relation to Housing Benefits, to continue to review the strength of the Council's arrangements for processing housing benefit claims, which the Council is in the process of doing.

The Internal Audit Service is a key means of assurance. During 2018-19 Bridgend had a joint service with the Vale of Glamorgan Council and the service operated to the Public Sector Internal Audit Standards (PSIAS). The Audit Committee approved the Internal Audit Charter for Bridgend and the Vale Audit Shared Service in April 2018. The Audit Committee also approve the Internal Audit Annual Plan and receives progress updates at every Audit Committee. The Head of Internal Audit's annual opinion as to the effectiveness of the Council's internal control environment for 2018-19 was:

***'I am able to give assurance to the Audit Committee and management that the Council's control environment is generally effective in achieving the organisation's objectives'***

The opinion states that, based on the work completed by the Internal Audit Shared Service for the financial year and the contribution to the Audit Plan made by the South West Audit Partnership, no significant cross-cutting control issues have been identified (other than that reported in the outturn report) that would impact on the Council's overall control environment. The weaknesses that have been identified are service specific.

The recommendations made to improve the overall control environment have been accepted and are being/will be implemented.

The Audit Committee provides independent assurance on the Council's internal control environment. It is a statutory requirement and consists of 11 Councillors and 1 Lay Member. Its main functions are:

- Review & scrutinise reports and recommendations in relation to the Council's Financial Affairs
- Review & scrutinise reports and recommendations on the appropriateness of the Council's risk management, internal control and corporate governance arrangements
- Oversee the Council's internal and external audit arrangements
- To be responsible for ensuring effective scrutiny of the Treasury Management Strategy and Policies
- To monitor the Council's Anti-Fraud and Bribery Strategy, Whistleblowing Policy and Anti-Money Laundering Policy
- To Review and approve the Council's Annual Governance Statement and the Annual Statement of Accounts
- To review and consider reports from the External Auditor and Inspectors

Of significant issue for the Internal Audit Shared Service is the continuing lack of resources and the impact this has had on delivering the 2018-19 Audit Risk Based Plan. During the whole of the year, the Shared Service has carried a high level of vacancies and as a consequence the services of the South West Audit Partnership were commissioned to help address the shortfall. 2018-19 has continued to be a challenging year for the Shared Service and as predicted, South West Audit Partnership have once again assisted with the delivery of the 2018-19 Risk Based Plan. From 1<sup>st</sup> April 2019 a new Regional Audit Shared Service was established with two more Councils joining the partnership – Rhondda Cynon Taff County Borough Council and Merthyr Tydfil County Borough Council. There will still need to be some latitude required during 2019-20 to facilitate this transitional period from all parties concerned.

During the year there were interim arrangements in place in relation to two of the key statutory officers of the Council and members of the Corporate Management Board. However, in May 2019 the Chief Executive, as Head of Paid Service, has been confirmed in post following a competitive process. This is the former Corporate Director – Communities who had been appointed on an interim basis as Chief Executive in December 2018. Also during the year there have been continued interim arrangements in place to cover the statutory position of the Council's Section 151 Officer/Head of Finance, which does cause some concern from a continuity and capacity perspective. Whilst there is little or no risk in the short term as the Statutory Officer is extremely experienced and more than capable to fulfil the role, it is important that the interim position is permanently addressed as soon as possible to ensure that the Council's corporate governance arrangements are not affected in the medium- to long-term. To help strengthen the resilience of the Finance function, a temporary Deputy Head of Finance and Section 151 Officer post was appointed in May 2019.

A strategic review of the Council was undertaken by the South West Audit Partnership with a final report issued in April 2018, which can be accessed [here](#). Five themes were reviewed:

- Governance
- Risk Management
- Commissioning and Procurement
- Programme & Project Management
- Information Management

For each of the corporate themes the strength of the management control framework in place was assessed against a benchmark model by identifying the presence or otherwise of key controls. This included the use of assurance from other sources, such as external audit, as well as internal audit reports. The overall assurance received from the strategic review with the exception of its Information Management indicated an overall **High Assurance** opinion. A follow-up audit on Information Management identified a number of areas for improvement which the Council has addressed, and provided a **Medium** assurance.

## Improving Governance

The progress made on the significant issues identified in the Council's 2017-18 Annual Governance Statement is shown below:

The Council should resolve how it will embed the sustainable development principle into decision-making	Whilst elected Members undertook an interactive workshop in November 2017 they have requested further training to be arranged in relation to the Well-being of Future Generations (Wales) Act 2015 to ensure they apply sustainable development principles in all decisions they make. An e-learning package has also been developed so that officers can undertake training to support the decision-making process
The Council should clearly set out how the impact of service changes will be monitored at the point of decision, with a clear set of criteria and a detailed options appraisal process considered when producing Council's decision reports	The Council has put in place a 'Well-being of Future Generations Assessment Form' that ensures the five ways of working and the seven Well-being goals of the Well-being of Future Generations (Wales) Act 2015 are considered as part of any decision making process. Use of the form will ensure that potential impacts of service changes are identified and proposals to maximise any positive impacts, or minimise any negative impacts, are provided as appropriate
The Scrutiny Forward Work Programme is not easily accessible on the website and that the website search function for officer and member decisions was not working properly. There were no links to items pre-2014. This limits transparency and access arrangements	The Council's web-pages have been redesigned and were launched in April 2018. The website is much more focussed and easy to navigate and search. The Forward Work Programme for the Scrutiny Committees can be found under the <a href="#">Scrutiny Committee pages</a> accessible from the Council's website
Concern at the vacancy rate of 50% within the Internal Audit service. Audit Committee to consider a review of resources in internal audit at a future meeting as part of setting the Internal Audit Plan	2018-19 has continued to be a challenging year for the Shared Service and as predicted, South West Audit Partnership have once again assisted with the delivery of the 2018-19 Risk Based Plan. From 1 <sup>st</sup> April 2019 a new Regional Internal Audit Shared Service was established with two more councils joining the partnership – Rhondda Cynon Taff County Borough Council and Merthyr Tydfil County Borough Council. There will still need to be some latitude required during 2019-20 to facilitate this transitional period from all parties concerned.
Concern of the ability of Internal Audit to deliver on its Audit Plan due to the lack of resources	As noted above, the Audit Plan has been substantially completed. Areas of work not undertaken during the year included: Asset Management and Youth Offending Service (which is undergoing an external inspection). The Asset Management review will be rolled forward into 2019-20
Corporate website has received 1 star rating. Work needed to upgrade and redesign website	The Corporate website has been redeveloped and was relaunched in April 2018. The development is ongoing including reviewing of 'micro-sites' that link from the Corporate website, and ensuring that all information is available bilingually to comply with the Welsh Language Act
Need to ensure that key policies and procedures are subject to a regular review process and/or in line with statutory timescales	Key policies and documents are reviewed and updated on at least an annual basis, including the Constitution, Corporate Plan, Annual Governance Statement, Treasury Management Strategy and Medium Term Financial Strategy. A number have been updated during the year including the Anti-Fraud and Bribery Policy and the Anti Money-Laundering Policy. A number of other key documents are updated on cyclical basis including the Strategic Equality Plan and Corporate Health & Safety Policy (4-yearly). However there are a number of policies that need updating in order to ensure that they are effective and relevant. These will be reviewed over the forthcoming period



Based on a review of the governance framework, the following significant issues identified in 2018-19 which will be addressed in 2019-20:

<p>Medium Term Financial Strategy – the economic uncertainty and increasing public expectations and demands facing public sector organisations continue to challenge and place pressures on the Council, impacting on its ability to deliver the required efficiencies.</p>	<p>The Council will continue to monitor external economic and fiscal information to ensure that it can respond quickly to unexpected events. This is particularly important in the post-Brexit era. Alongside this the Council will continue to transform how services are delivered and manage public expectations. All savings proposals will be closely monitored and mitigating action put in place to address any shortfalls</p>
<p>The findings from the HMIP report on Western Bay Youth Offending Service concluded that the overall rating was inadequate and that <i>'The governance and leadership of the service are ineffective. There is no vision, understanding of purpose or the strategy to provide a high-quality personalised responsive service to children and young people.'</i></p>	<p>The Western Bay Youth Offending Service has been disaggregated and a Bridgend Youth Justice Management Board set up with senior multi-agency representation, including the Cabinet Member – Communities and the Cabinet Member – Social Services and Early Help to take forward services within Bridgend. The Council has produced a Post Inspection Action Plan in response to the full joint inspection by HM Inspectorate of Probation. This further builds upon the list of priorities that were developed on receipt of the minutes from the Ratings Panel, which was held on 18<sup>th</sup> December 2018. The Action Plan will be monitored on a fortnightly basis by the YOS Strategic Lead and Operational Manager, and the Youth Justice Board (YJB)</p>
<p>Outcome of the Estyn Inspection on Education Services</p>	<p>Once the report is published any recommendations will be incorporated within a Post Inspection Action Plan which will be monitored by the Schools Improvement Group</p>
<p>The role of the s.151 Officer is filled on an interim basis pending decisions on way forward with the post in light of the appointment of the Chief Executive</p>	<p>The Chief Executive post was appointed in May 2019 and the appointment of the s151 Officer will be sought to be filled on a permanent basis at the earliest opportunity. A temporary Deputy Head of Finance and Deputy s151 Officer has been appointed to strengthen resilience within the Finance function</p>
<p>The impact of Brexit on services and finances could place increased pressures on Council resources</p>	<p>The Council will develop a strategy and action plan to identify potential impacts to the communities it supports, and have in place preparations for any financial consequences. The Council has established an internal cross-Directorate Brexit Forum, chaired by the Chief Executive, to explore the potential impact of Brexit on service delivery along with actions to mitigate against risks. The Forum will also explore any potential opportunities that might arise from Brexit. A report was presented to Cabinet in March setting out a Brexit risk register, which will be actively monitored and updated as necessary.</p>


<p>The Council's scrutiny functions should seek ways to improve its focus and scrutiny activity to ensure that the Council makes the most effective use of the resources available and improve the impact of scrutiny activity<sup>3</sup></p>	<p>Scrutiny Officers will maintain a record of the impact of scrutiny activity in order to both strengthen and learn from this in order to shape the future work of the scrutiny function. Following a recent 'Scrutiny Fit for Future?' review a report is being compiled detailing proposals to implement best practice and innovation used elsewhere. To ensure the Council's scrutiny function is as effective and comprehensive as possible the Scrutiny Chairs will meet quarterly to share learning and intelligence, identify areas of cross-over and discuss where there may be gaps in focus. Consideration is also being given to the skills and training that scrutiny members need to better prepare them for current and future challenges and to developing an appropriate training programme. Scrutiny continue to work effectively with external bodies such as WLGA, neighbouring authorities and third sectors to optimise the resources available to provide good scrutiny of council services</p>
<p>Digital Transformation and channel shift – the Council needs to continue to develop its online platforms to enable residents and businesses to interact with the Council digitally</p>	<p>The new responsive "Website" and the "Digital Platform" was launched in April 2018 and continues to mature and develop through the addition of new digital channels providing the Citizen the option to engage with the Council digitally alongside the traditional channels such as "face to face" and "telephony". The progress and success of the "Digital Platform" is dependent on the adoption of digital by the Council which will require cultural change to support transformation and efficiencies savings</p>

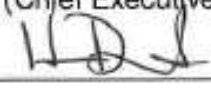
These issues will be monitored during 2019-20 and reported to Cabinet/Corporate Management Board and to the Audit Committee.

## Assurance

Subject to the above issues being resolved, we can provide an overall reasonable assurance that Bridgend County Borough Council's governance arrangements remain fit for purpose.

Steps to address the matters referred to above will be taken to further enhance our governance arrangements.

Signed:  Date: 22.5.19  
 (Chief Executive)

Signed:  Date: 22 5 19  
 (Leader)

<sup>3</sup> Wales Audit Office Annual Improvement Report 2017-18 – September 2018

## BRIDGEND COUNTY BOROUGH COUNCIL

### REPORT TO AUDIT COMMITTEE

13 JUNE 2019

#### REPORT OF THE INTERIM HEAD OF FINANCE AND SECTION 151 OFFICER

#### STATEMENT OF ACCOUNTS 2018-19 (UNAUDITED)

#### 1. Purpose of this report

1.1 The purpose of this report is to present to Audit Committee:

- the unaudited Statement of Accounts for 2018-19 for noting, and
- the Harbour Authority Annual Return for 2018-19 for approval.

#### 2. Connections to Corporate Improvement Objectives / Other Corporate Priorities

2.1 This report assists in the achievement of the following corporate priority:

- Smarter use of resources – ensuring 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.

2.2 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 (as amended 2018) and its content is defined by the Chartered Institute of Public Finance and Accountancy's '*Code of Practice on Local Authority Accounting in the United Kingdom*' (the Code).

3.2 In accordance with these regulations, the Statement of Accounts for 2018-19 has to be signed and dated by the responsible financial officer, which is the Interim Head of Finance and Section 151 Officer, before the 15 June 2019, certifying that it presents a true and fair view of the financial position of the Council. The audited Statement of Accounts then has to be approved by 15 September 2019 by Audit Committee in accordance with the Committee's Terms of Reference. 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 their professional judgement about the best and proper practices to be followed.

#### 4. Current Situation / Proposal

4.1 The Council's draft Statement of Accounts for the financial year ended 31 March 2019 is attached at **Appendix A**. The Statement of Accounts comprise of a number of different statements relating to financial performance and reserves as well as the

Annual Governance Statement signed by the Leader and Chief Executive. Attached at **Appendix B** is the Annual Return for the Harbour Authority which also requires Audit Committee approval by 15 June 2019.

4.2 The Statement of Accounts 2018-19 was signed by the responsible financial officer on 28 May 2019 and passed to Wales Audit Office on 31 May 2019, two weeks in advance of the requirement of the Regulations. The Regulations will require the draft Statement of Accounts to be approved and published by 31 May for the financial year 2020-21. The Council has been committed to achieving this deadline well in advance of the statutory changes and has achieved this for both the last two years.

4.3 The Accounts include the following Core Financial Statements (pages 12 to 15 of the Accounts):

- Comprehensive Income and Expenditure 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.

4.4 The net under-spend for the financial year, after allowing for capital financing and contingency costs, transfers to and from Earmarked Reserves and additional Council Tax income, is £0.429 million. This is transferred to the Council Fund which increases to £8.776 million as at 31 March 2019 (£8.347 million at 31 March 2018). This represents a 5% increase on the Council Fund from the balance at 31 March 2018. The Expenditure and Funding Statement (page 33) shows how this Surplus on the Council Fund is adjusted to a surplus of £0.616 million on the Comprehensive Income and Expenditure Statement as a result of technical adjustments between the funding and accounting basis and transfers to earmarked reserves.

4.5 The Council's Reserves for 31 March 2019 are summarised in the table below with further details available on pages 58 to 59 within the Statement of Accounts:

Opening Balance 2017-18 £'000	Reserve	Movement during 2017-18		Closing Balance 2017-18 £'000
		Additions/ Re-classification £'000	Drawdown by Directorates £'000	
8,347	Council Fund Balance	429	-	8,776
360	Delegated Schools Balance	254	-	614
2,907	Equalisation and Grant Reserves	805	(744)	2,968
44,808	Earmarked Reserves	16,711	(16,721)	44,798
<b>56,422</b>	<b>TOTAL INCLUDING COUNCIL FUND</b>	<b>18,199</b>	<b>(17,465)</b>	<b>57,156</b>

4.6 The balance on the Council Fund is in line with the Medium Term Financial Strategy (MTFS) Principle 8 that the balance “will be maintained at a minimum of £7 million over the MTFS period and reach 2.7% of the Gross Revenue Expenditure by 2019-20”. Though it is too earlier to calculate the percentage for 2018-19 as the Welsh Government's Revenue Outturn Return has not been

completed, the calculation for 2017-18 would result in a requirement for the Council Fund balance to be £9.108 million.

4.7 As can be seen above, School balances have increased by £254,000 to £614,000 at the end of the financial year, representing 1.0% of the funding available. Out of a total of 59 schools there are 22 schools (18 primary and 4 secondary) with deficit budgets and of these 8 schools (6 primary and 2 secondary) 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'.

4.8 There has been a small net increase in Earmarked Reserves of £0.051 million to £47.766 million at 31 March 2019 (£47.715 million at 31 March 2018). There have been additions to existing reserves or new reserves created of £17.516 million and drawdown by Directorates from reserves to match expenditure of £17.465 million. The below table shows some of the more significant movements on reserves:

Opening Balance 2017-18 £'000	Reserve	Movement during 2018-19		Closing Balance 2018-19
		Additions/ Re-classification £'000	Drawdown £'000	
12,082	Capital Programme Contribution	950	(1,158)	11,874
1,362	Asset Management	953	(367)	1,948
	- Economic & Future Resilience	800	-	800
7,957	Service Reconfiguration	-	(2,383)	5,574
1,952	Directorate Issues	1,504	(1,084)	2,372
2,335	Insurance	2,320	(2,494)	2,161
975	IFRS Grants	1,046	(246)	1,775
800	MTFS Contingency Reserve	1,000	-	1,800
<b>27,463</b>		<b>8,573</b>	<b>(7,732)</b>	<b>28,304</b>

4.9 A new reserve has been created to prepare for pressures that may arise following the end of European Funding Programmes of £0.8 million. £1m has been reclassified from the Corporate Pressures Contingency Reserve into the MTFS Contingency Reserve. Also, there is £1 million for the carry forward of funding in relation to grants received. Drawdown of reserves have been made during the year including for service reconfiguration and contributions to the financing of the capital programme.

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 2018-19 was £27.614 million. Assets created, improved or under development as a result of this spend included:

- Extra Care Living Schemes development
- Completion of Betws and Pencoed Primary Schools and Ysgol Gynradd Gymraeg Calon Y Cymoedd

- Disabled Facilities Grants
- Sea defences at Porthcawl

- 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.
- 4.12 The Annual Governance Statement (AGS) on page 81 highlights the challenges the Council faces in the delivery of the £35 million savings identified in the Medium Term Financial Strategy. It also includes an Action Plan for 2019-20 which will be monitored by Corporate Management Board.
- 4.13 The unaudited Statement of Accounts is now being reviewed by Wales Audit Office. Again with the principle of faster closing of accounts, a fair amount of external audit work was actually done in advance of the date when the certified Accounts were passed to them. A final audited version of the Accounts will be brought back to Audit Committee in August which will need Audit Committee approval in accordance with the Accounts and Audit (Wales) Regulations 2014 (as amended 2018) and to be signed by the Chair of Audit Committee.
- 4.14 The Annual Return 2018-19 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 so that it can be submitted to Wales Audit Office for review by the deadline of 15 June 2019.

## **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 15 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. Well-being of Future Generations (Wales) Act 2015 Implications**

- 7.1 This report links to the Council's long-term well-being objectives. It presents a positive picture in respect of both the 2018-19 revenue position and the accumulated reserves position.

## **8. Financial implications**

- 8.1 These are reflected in the body of the report.

## **9. Recommendation**

- 9.1 It is recommended that Audit Committee:

- note the unaudited Statement of Accounts for 2018-19 (Appendix A);

- approve the Harbour Authority Annual Return 2018-19 (Appendix B).

**Gill Lewis CPFA**  
**Interim Head of Finance and Section 151 Officer**  
**31 May 2019**

**Contact Officer** : Gill Lewis, Interim Head of Finance

Mary Williams, Group Manager – Chief  
Accountant

**Telephone** : (01656) 643605

**E-mail** : [Mary.Williams2@bridgend.gov.uk](mailto:Mary.Williams2@bridgend.gov.uk)

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

**Background Documents:**

Statement of Accounts 2018-19  
Harbour Authority Annual Return 2018-19

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# Statement of Accounts

*Published subject to audit*

**Bridgend County Borough Council • 2018-19**

**Bridgend County Borough Council  
Civic Offices  
Angel Street  
BRIDGEND  
CF31 4WB  
(01656) 643643**

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## Narrative Report

### “ One council, working together to improve lives ”

#### 1. Bridgend as a place

Bridgend is conveniently situated between Wales' Capital Cardiff to the East and Swansea to the West, approximately 20 miles from each. Nestled just south of the M4 corridor, with easy access from both major cities, bounded by the Bristol Channel to the South, it is at the heart of the South Wales industrial and coastal belt. Bridgend as a County Borough is home to over 140,000 and continues to grow. The Borough's towns are undergoing redevelopment and a number of historic buildings and the town centres have been rejuvenated over recent years. To the North is the residential town of Maesteg, to the South West is the coastal town of Porthcawl and the East Pencoed. Bridgend is one of 22 Councils in Wales, and accounts for just approximately 4.5% of the Principality's population.



Population	144,300
Land area	98.5 square miles
Households	61,484
Council employees	4,279 (full time equivalent)
Businesses	4,160
Councillors	54

- Welsh Government funding is falling year-on-year, and made up 55% of core funding in 2018-19 (55% in 2017-18)
- The Council manages an asset base, excluding the road network, of £535 million to deliver its services
- The Council employs over 5,700 staff both full- and part-time, to deliver a wide range of services including education, social care, highways maintenance and economic development.
- An increasingly ageing population will continue to place pressure on the Council's budget in years to come

The Council has agreed a principle of focusing diminishing resources on communities and individuals with the greatest need. It has identified three priorities that are intended to improve the quality of life of people in the county while significantly changing the nature of the Council:



These three priorities are the Council's well-being objectives under the Well-being of Future Generations (Wales) Act 2015 and set out the Council's contribution towards meeting the Act's seven national 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.*

## 2. Governance

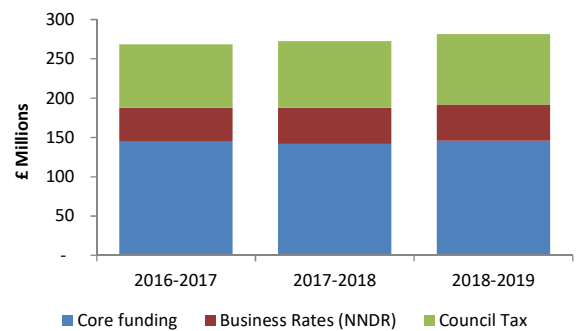
The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. This includes ensuring that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Council also has a duty under the Local Government (Wales) Measure 2009 to make arrangements to secure continuous improvement in delivering its functions in terms of strategic effectiveness, service quality, service availability, fairness, sustainability, efficiency and innovation. The Annual Governance Statement included within the Statement of Accounts sets out in detail the Council's governance arrangements.

## 3. Financial Performance

### Financial context of the Council

The Council:

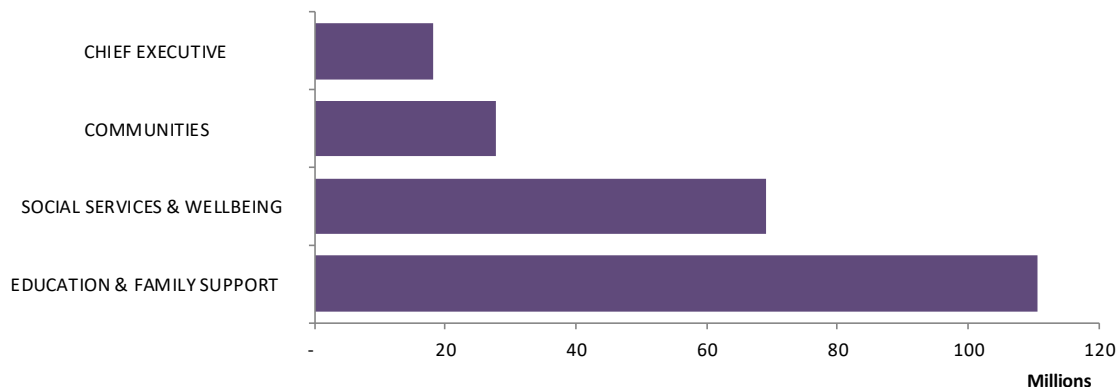
- Manages cash-flows and assets in excess of £726 million
- Holds £535 million of long-term assets, including £527 million of operational assets for delivering services, £4 million of long-term investments and £4 million of intangible assets
- Generates £35 million of fees, internal and external charges and other service income used to deliver services



In common with the rest of local government, the Council has seen a real-terms reduction in its core funding but has been able to continue to deliver its services through achievement of efficiencies and innovative approaches to service delivery rather than through cuts to service delivery.

### Council Spending

Council spending by Directorate was within 99.81% of budget for all departments reflecting sound financial management and budgetary control. The table below shows the net spend by service Directorate.



The Council achieved an underspend in the year of £0.429 million, or 0.19% of its net budget. This demonstrates its sound financial management throughout the year and its commitment to ensuring it does not spend beyond its means. The Council's outturn report for the year can be found on the Council's website.



#### 4. Addressing future challenges

The Council faces significant challenges moving forward. These include demographic pressures, such as an ageing population and an increasing number of young people with complex disabilities living into adulthood and adding progressively to the demand for care. In addition to this there are inflationary pressures arising from specific contractual commitments and significant increases in staffing costs arising not only from the increase in the national living wage but also the agreed two-year deal for local government workers, along with significant increases in employers' contributions for teachers' pensions. Whilst the Welsh Government settlement for Bridgend for 2019-20 is a decrease of 0.1%, the impact of new responsibilities on the Council in respect of increased capital limits on residential care, targeted relief to support local businesses and homelessness prevention means that the true position for Bridgend is a reduction of 0.61% year-on-year. No indications have been provided by the Welsh Government in respect of the settlement for Councils in 2020-21 which makes forward planning very difficult, especially in the post-Brexit years.

Whilst the Council continues to face increasing pressures on its budget, it has approved a balanced budget for 2019-20.

The uncertainty regarding the UK's exit from Europe will inevitably create challenges for the Council and the communities it supports over the forthcoming months and years. The Council continues to work with its partners to prepare as best it can for Brexit and the UK's departure from the European Union. The Council has established a project board chaired by the Chief Executive with representatives from each Council department. The board is reviewing all council services, and a 'risk register' has been developed and regularly updated to ensure that contingency plans are in place. Businesses, residents, staff and elected members are regularly updated, and the council is raising awareness of the EU Settlement Scheme. The Council will continue to work alongside partners to obtain answers on important issues such as how post-Brexit funding will be delivered.

#### 5. Financial position

The Council maintains a strong balance sheet despite the financial challenges.



#### Borrowing

The Council has long term borrowing outstanding as at 31 March 2019 of £97.412 million. This is a mixture of Public Works Loan Board (PWLB) of £77.617 million and Lender's Option Borrower's Option (LOBOs) of £19.795 million, to finance capital expenditure. More detail in relation to borrowing is





*Ysgol Gynradd Gymraeg Calon Y Cymoedd*

Significant schemes completed during the year included Betws and Pencoed Primary schools, with Ysgol Gynradd Gymraeg Calon Y Cymoedd becoming operational. These schemes have been supported by the Welsh Governments 21<sup>st</sup> Century Schools Programme and will deliver high level facilities for the education of children in the Borough. The Council, in partnership with Linc Cymru, saw the completion and opening of an Extra Care scheme in Bridgend to support older people to continue to live independently within their community.

The capital programme includes a number of new and existing projects which will help to support a successful economy including significant new investment in highways and footways to encourage use of local services, development in town centres, including regeneration in Porthcawl and development of Enterprise Hubs. These supplement existing schemes such as the Cardiff Capital Region City Deal (CCRCD) investment which will be targeted to focus on raising economic prosperity, increasing job prospects and improving digital and transport connectivity. The opening of a second Extra Care scheme is due during 2019 and there remains a significant investment in Disabled Facilities Grants to enable people to live as independently as possible in their own homes.

## 7. Accounts preparation

These accounts have been produced in line with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2018-19, which is underpinned by International Financial Reporting Standards (IFRS). The most significant change to the Accounting Standards that affects these accounts is the application of IFRS9 – Financial Instruments.

The accounts consist of the following financial statements:

### **Statement of Responsibilities for the Statement of Accounts**

This sets out the respective responsibilities of the Council and the Section 151 officer for the preparation and approval of the Statement of Accounts.

### **The Comprehensive Income & Expenditure Statement (CIES)**

This records all of the Council's income and expenditure in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with statutory requirements, which may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

### **Movement in Reserves Statement (MiRS)**

The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the Council, analysed into 'usable reserves' - those that can be used to fund expenditure or reduce local taxation - and 'unusable' reserves, which must be set aside for specific purposes. Unusable reserves would include unrealised gains and losses (such as the Revaluation Reserve), where amounts would only become available if the assets are sold, and reserves that reflect



'adjustments between accounting basis and funding under regulations'. The surplus or deficit on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the Council Fund Balance for council tax setting purposes. The Net Increase/Decrease line shows the statutory Council Fund balance movements in the year following those adjustments.

### **Balance Sheet**

This records a snapshot of the Council's assets, liabilities, cash balances and reserves at the year-end date. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.

### **Cash Flow Statement**

The Cash Flow Statement shows the reason for 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. 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 provided by the Council. Investing activities represent the extent to which cash outflows have been made for 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 capital (i.e. borrowing) to the Council.

### **Notes to the Accounts**

These set out the Accounting Policies adopted for the Statement of Accounts and disclosures relating to the financial statements and include pensions and financial instruments disclosures. These include the Expenditure and Funding Analysis which shows how annual expenditure is used and funded from resources (government grants, fees and charges, council tax and business rates) by the Council in comparison with those resources consumed or earned by the Council in accordance with generally accepted accounting practices. It 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.

### **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.

## 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.

### The Chief Financial Officer's Responsibilities

The Chief Financial 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 Chief Financial 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 Chief Financial 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.

### Chief Financial 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 2019 and of its income and expenditure for the year ended 31 March 2019

Signed:



28 May 2019



## Comprehensive Income and Expenditure Statement

2017-18 re-stated					2018-19				Notes
Gross Expenditure £'000	Govt Grants £'000	Other Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Govt Grants £'000	Other Income £'000	Net Expenditure £'000	
149,807	(23,977)	(8,242)	117,588	Education and Family Support	136,823	(26,415)	(9,223)	101,185	
92,348	(6,199)	(16,336)	69,813	Social Services and Wellbeing	97,274	(5,531)	(16,336)	75,407	
56,339	(7,923)	(7,091)	41,325	Communities	51,062	(7,105)	(6,069)	37,888	
26,994	(9,257)	(1,667)	16,070	Operational and Partnership Services	-	-	-	-	
54,341	(49,338)	(915)	4,088	Chief Executives and Finance	79,310	(55,580)	(2,439)	21,291	
18,352	-	(948)	17,404	Central Services	22,553	-	(1,642)	20,911	
<b>398,181</b>	<b>(96,694)</b>	<b>(35,199)</b>	<b>266,288</b>	<b>Cost Of Services</b>	<b>387,022</b>	<b>(94,631)</b>	<b>(35,709)</b>	<b>256,682</b>	
				<b>Other Operating Expenditure</b>					
13,567			13,567	Precepts payable	14,945			14,945	7
6,968			6,968	Levies payable	7,070			7,070	7
1,815			1,815	(Gain) / loss on disposal of non current assets	276			276	
<b>22,350</b>	<b>-</b>	<b>-</b>	<b>22,350</b>	<b>Other Operating Expenditure</b>	<b>22,291</b>	<b>-</b>	<b>-</b>	<b>22,291</b>	
				<b>Financing and Investment Income and Expenditure</b>					
4,567			4,567	Interest payable on debt	4,550			4,550	31
60			60	Interest element of finance leases (lessee)	54			54	31
1,352			1,352	Interest payable on PFI unitary payments	1,306			1,306	13
6,350			6,350	Net Interest on Net Defined Benefit Liability	6,760			6,760	30
		(959)	(959)	Investment Income & Other Interest Receivable			(1,012)	(1,012)	31
		(350)	(350)	Changes in fair value of investment properties			(275)	(275)	31
<b>12,329</b>	<b>-</b>	<b>(1,309)</b>	<b>11,020</b>	<b>Financing and Investment Income and Expenditure</b>	<b>12,670</b>	<b>-</b>	<b>(1,287)</b>	<b>11,383</b>	
				<b>Taxation and Non-Specific Grant Income</b>					
	(141,610)		(141,610)	Revenue Support Grant		(145,780)		(145,780)	8
		(45,888)	(45,888)	National Non Domestic Rates			(45,680)	(45,680)	9
		(84,617)	(84,617)	Council Tax			(90,018)	(90,018)	10
	(13,024)		(13,024)	Recognised capital grants and contributions		(9,494)		(9,494)	11
<b>-</b>	<b>(154,634)</b>	<b>(130,505)</b>	<b>(285,139)</b>	<b>Taxation and Non-Specific Grant Income</b>	<b>-</b>	<b>(155,274)</b>	<b>(135,698)</b>	<b>(290,972)</b>	
				<b>(Surplus) or Deficit on Provision of Services</b>					
<b>432,860</b>	<b>(251,328)</b>	<b>(167,013)</b>	<b>14,519</b>	<b>(Surplus) or deficit on revaluation of Property, Plant and Equipment</b>	<b>421,983</b>	<b>(249,905)</b>	<b>(172,694)</b>	<b>(616)</b>	
4,580		(10,830)	(10,830)	Impairment losses on non-current assets charged to the Revaluation reserve	5,546		(33,337)	(33,337)	
4,360			4,360	Actuarial (gains) / losses on pension liabilities			(26,320)	(26,320)	30
			<b>(1,890)</b>	<b>Other Comprehensive (Income) and Expenditure</b>				<b>(54,111)</b>	
			<b>12,629</b>	<b>Total Comprehensive (Income) and Expenditure</b>				<b>(54,727)</b>	



## 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
<b>Balance at 31 March 2017 brought forward</b>	7,960	51,159	21,364	183	80,666	58,197	138,863
<b><u>Movement in Reserves during 2017-18</u></b>							
Total Comprehensive (Income) and Expenditure	(14,519)				(14,519)	1,890	(12,629)
Adjustments between accounting basis & funding basis under regulations (Note 20)	11,822		(203)	105	11,724	(11,724)	-
Transfers to Earmarked Reserves (Note 28)	3,084	(3,084)			-		
<b>Increase/(Decrease) in 2017-18</b>	<b>387</b>	<b>(3,084)</b>	<b>(203)</b>	<b>105</b>	<b>(2,795)</b>	<b>(9,834)</b>	<b>(12,629)</b>
<b>Balance at 31 March 2018 carried forward</b>	<b>8,347</b>	<b>48,075</b>	<b>21,161</b>	<b>288</b>	<b>77,871</b>	<b>48,363</b>	<b>126,234</b>

	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
<b>Balance at 31 March 2018 brought forward</b>	8,347	48,075	21,161	288	77,871	48,363	126,234
<b><u>Movement in Reserves during 2018-19</u></b>							
Total Comprehensive (Income) and Expenditure	616				616	54,111	54,727
Adjustments between accounting basis & funding basis under regulations (Note 20)	118		(3,239)	1,194	(1,927)	1,927	-
Transfers to Earmarked Reserves (Note 28)	(305)	305			-		
<b>Increase/(Decrease) in 2018-19</b>	<b>429</b>	<b>305</b>	<b>(3,239)</b>	<b>1,194</b>	<b>(1,311)</b>	<b>56,038</b>	<b>54,727</b>
<b>Balance at 31 March 2019 carried forward</b>	<b>8,776</b>	<b>48,380</b>	<b>17,922</b>	<b>1,482</b>	<b>76,560</b>	<b>104,401</b>	<b>180,961</b>

## Balance Sheet

31 March 2018 £'000		31 March 2019 £'000	Notes
	<b>Property, Plant &amp; Equipment</b>		<b>21c</b>
381,032	Other Land and Buildings	431,022	
4,732	Vehicles, Plant, Furniture and Equipment	5,078	
63,702	Infrastructure	65,147	
4,914	Community Assets	4,912	
7,739	Assets under Construction	662	
15,128	Surplus Assets not Held for Sale	15,769	
220	<b>Heritage Assets</b>	220	
4,360	<b>Investment Property</b>	4,635	<b>22</b>
4,109	<b>Intangible Assets</b>	3,593	<b>21d</b>
9,010	<b>Long Term Investments</b>	4,011	<b>31</b>
1	<b>Long Term Debtors</b>	-	
<b>494,947</b>	<b>Long Term Assets</b>	<b>535,049</b>	
20,084	Short Term Investments	20,054	<b>31</b>
5,961	Assets Held for Sale	4,321	<b>24</b>
583	Inventories	725	
31,058	Short Term Debtors	32,300	<b>23</b>
88	Cash and Cash Equivalents	1,051	
<b>57,774</b>	<b>Current Assets</b>	<b>58,451</b>	
(2,623)	Short Term Borrowing	(2,551)	<b>31</b>
(32,254)	Short Term Creditors	(31,509)	<b>25</b>
(1,979)	Provisions due in 1 year	(1,763)	<b>26</b>
<b>(36,856)</b>	<b>Current Liabilities</b>	<b>(35,823)</b>	
(2,222)	Provisions due after 1 year	(4,473)	<b>26</b>
(97,421)	Long Term Borrowing	(97,412)	<b>31</b>
(20,267)	<b>Other Long Term Liabilities</b>		
	PFI & Other Long Term Liabilities	(17,054)	<b>27</b>
(268,620)	Net Pensions Liability	(255,270)	<b>30</b>
(1,101)	Capital Receipts in Advance	(2,507)	
<b>(389,631)</b>	<b>Long Term Liabilities</b>	<b>(376,716)</b>	
<b>126,234</b>	<b>Net Assets</b>	<b>180,961</b>	
	<b>Usable reserves</b>		<b>28</b>
8,347	Council Fund	8,776	
48,075	Earmarked reserves	48,380	<b>28b</b>
21,161	Capital Receipts Reserve	17,922	<b>28a</b>
288	Capital Grants Unapplied	1,482	
	<b>Unusable Reserves</b>		<b>29</b>
126,378	Revaluation Reserve	149,612	<b>29a</b>
(268,620)	Pensions Reserve	(255,270)	<b>29b</b>
194,640	Capital Adjustment Account	213,664	<b>29c</b>
(723)	Financial Instruments Adjustment Account	(715)	
(3,312)	Short-term Accumulating Compensated Absences Account	(2,890)	
<b>126,234</b>	<b>Total Reserves</b>	<b>180,961</b>	

## Cash Flow Statement

2017-18 £'000		2018-19 £'000	Notes
14,519	Net (surplus)/deficit on the Provision of Services	(616)	
(41,329)	Adjustments to net deficit on the provision of services for non-cash movements	(15,470)	<b>34</b>
13,598	Adjustments for Items included in the net deficit on the provision of services that are investing and financing activities	11,378	
<b>(13,212)</b>	<b>Net Cash Flows from Operating Activities</b>	<b>(4,708)</b>	<b>35</b>
27,861	Investing Activities	14,565	<b>36</b>
(13,073)	Financing Activities	(10,820)	<b>37</b>
<b>1,576</b>	<b>Net (Increase) / Decrease in Cash &amp; Cash Equivalents</b>	<b>(963)</b>	
(1,664)	Cash & Cash Equivalent at the beginning of the Reporting	(88)	
<b>(88)</b>	<b>Cash &amp; Cash Equivalent at the end of the Reporting Period</b>	<b>(1,051)</b>	

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.







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## 1. Accounting Policies

### 1.1 General principles

The Statement of Accounts summarises the Council's transactions for the 2018-19 financial year and its position at the year end of 31 March 2019. 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) 2018-19 and the *Service Reporting Code of Practice 2018-19* 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.

### 1.2 Standards that have been issued but not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2018-19 (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 2018-19 Code:

Standard	Effective date	Further details
<b>IFRS 16 Leases</b>	2020-21	IFRS16 will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (with an exception for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2020.
<b>Amendments to IAS 40 – Investment Property: Transfers of Investment Property</b>	2019-20	The amendment provides clarification on whether a property under construction or development that was previously classified as inventory could be transferred to investment property when there was an evident change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. The Council does not consider this will impact on its current accounting practice.
<b>Annual Improvements to IFRS Standards 2014-2016 Cycle</b>	2019-20	This provides amendments to three International Financial Reporting Standards (IFRSs) as a result of the IASB's annual improvements project, namely IFRS 1 – First-time adoption of IFRS, IFRS 12 – Disclosure of Interests in Other Entities, and IAS 28 – Investments in Associates and Joint Ventures. The Council does not consider these amendments will have an impact on the accounts.
<b>IFRIC 22 Foreign Currency Transactions and Advance Consideration</b>	2019-20	This provides clarification for accounting for transactions that include receipt or payment of advance consideration in a foreign currency. The Council does not receive or make such payments and therefore this change will not have an impact.
<b>IFRIC 23 Uncertainty over Income Tax Treatments</b>	2019-20	IFRIC 23 applies to all aspects of income tax accounting where there is uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates. The Council does not consider that there will be any impact in its accounting treatment as a result of changes to IFRIC 23.

<b>Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation</b>	2019-20	The main changes to IFRS 9 are related to financial assets with prepayment features with negative compensation. This is where a loan may be repaid by the borrower at a discount. The Council does not have any such arrangements and therefore this change will have no effect on the accounts.
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As their implementation is for financial years starting after 1 April 2019 they would not have any impact on the 2018-19 Statements.

### 1.3 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 inventories 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.
- Investment income and 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 be impaired, the balance of debtors is written down by the difference between the carrying amount and revised future cash flows and a charge made for the impairment to revenue.

### 1.4 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.

## **1.5 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 are 'Unusable' reserves as set out in Note 29 to the accounts.

## **1.6 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.

## 1.7 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, paid sick leave and bonuses for current employees. These 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 relevant Service Cost line in the Comprehensive Income and Expenditure Statement, 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 Support 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, 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:
  - Quoted securities – current bid price
  - Unquoted securities – professional estimate
  - Property – market value
- The change in the net pensions liability is analysed into the following components:
  - 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
  - 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 Central Services in the Comprehensive Income and Expenditure Statement
  - 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.
  - 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:
      - 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.

### 1.8 VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

### 1.9 Overheads and Support Services

In line with the Code of Practice on Local Authority Accounting (the Code) 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.

### 1.10 Intangible Assets

The Council accounts for software as intangible assets to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The most significant intangible asset is the Wales Community Care Information System (WCCIS) software development costs and licence.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The useful life used by the Council of the WCCIS is 8 years. Amortisation of the intangible asset is charged on a straight line basis over the useful life and is charged to the Social Services and Wellbeing line in the Comprehensive Income and Expenditure Statement.

### 1.11 Property, Plant and Equipment

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 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.

All expenditure on Property, Plant and Equipment is recognised irrespective of value. Expenditure below £40,000 is considered non-enhancing and is immediately impaired unless cumulatively over more than one year the expenditure would amount to more than this value.

#### Measurement

Assets are initially measured at cost, comprising its purchase price and all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the balance sheet using the following measurement bases:

- **Land and buildings** – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)
- **Non-specialised operational properties** – existing use value (EUV)

- **Specialised operational properties (such as schools)** – depreciated replacement cost (DRC)
- **Vehicles, plant and equipment** – depreciated historical cost
- **Community assets** – historical cost
- **Assets under construction** – historical cost (until they become operational)
- **Infrastructure assets** – depreciated historical cost
- **Surplus assets and investment properties** – fair value
- **Assets held for sale** – lower of carrying amount and fair value less costs of sale

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 flow 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. The Council does not capitalise borrowing costs incurred whilst assets are under construction.

### Revaluations

Assets included in the Balance Sheet at fair value or current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value or current value at the year-end. Revaluations of the Council's property assets are undertaken on a 3 year rolling programme basis. Revaluation gains since 1 April 2007 only are recognised in the Revaluation Reserve, the date of its inception. Previous revaluation gains 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 there have been previous revaluation gains against the asset held in the Revaluation Reserve, any subsequent loss is firstly written out against the accumulated Revaluation Reserve with any balance being charged against the Comprehensive Income and Expenditure Statement.

### Depreciation

Depreciation is provided for on Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. Exceptions are made for:

- Heritage assets
- Assets without a determinable finite useful life such as freehold land
- Assets that are not yet available for use i.e. assets under construction, and assets held for sale.

Depreciation is calculated on the value of the asset at the start of the year and on the following bases:

Asset	Policy	Life
Land	No depreciation charged	N/A
Buildings	Straight line depreciation on estimated remaining life	As advised by Valuer (between 1 - 79 years)
Vehicles, plant and equipment	Straight line depreciation on estimated remaining life	3 - 10 years
Infrastructure - Bridges	Straight line depreciation on estimated remaining life	30 years

Infrastructure - Roads	Straight line depreciation on estimated remaining life	15 years
Infrastructure - Other	Straight line depreciation on estimated remaining life	1 - 30 years

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.

### Componentisation

Assets purchased or revalued during the year are reviewed to confirm whether any part of the asset will have a significantly different useful life and a material impact on depreciation. Where this is the case the asset will be componentised and the differing parts will be depreciated over their respective useful lives. Within the Council's asset portfolio there are a number of asset classes where componentisation is not considered, including:

- Equipment – as this is considered immaterial
- Asset classes which are not depreciated – such as land, investment property, heritage assets, community assets and assets held for sale.

### 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 criteria for recognising assets as being held for sale are:

- Available for immediate sale in present condition
- Sales highly probable
- Actively marketed
- Sales completion expected within 12 months.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts.

#### 1.12 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 worth. 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 and a number of paintings in the Balance Sheet at insurance value. The value of the paintings were added to the Balance Sheet during 2017-18 based on an insurance valuation carried out by professional valuers during the year. According to the Code there is no prescribed minimum period between valuations and the Council does not intend to revalue its Heritage Assets in the near future unless there is evidence of impairment such as physical deterioration or damage, or doubts to their authenticity arise.

#### 1.13 Charges to revenue for non-current assets

Services are debited with the following amounts to record the real cost of holding non-current 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. The Council revised its MRP policy during the year to move from a reducing balance charge of 4% per annum to a straight line charge over 45 years. This ensures that the costs of supported capital expenditure are spread more evenly over the lifetime of assets, and that the debt is fully extinguished within forty-five years instead of leaving a residual debt balance well beyond this timescale. This has had the effect of reducing the MRP charged to revenue in the current year.

#### **1.14 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 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.

#### **1.15 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**

##### 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 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 (e.g. 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.

### 1.16 Financial Instruments

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 other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the Council. Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash-flow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI).

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified at amortised cost as they are held solely for payment of principal and interest.

#### Financial Assets held at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value, which is normally the transaction cost. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) represent investment and interest income receivable. For the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued investment and interest income).

Any gains or losses that arise on derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

#### Expected Credit Loss Model

The Council recognises expected credit losses on all its financial assets held at amortised cost, either on a 12 month or lifetime basis. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assumed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

### **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, this means that the amount presented in the Balance Sheet is the outstanding principal repayable together with any accrued interest and interest charged to the Comprehensive Income and Expenditure Statement for the year according to the loan agreement.

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

The Council does not hold any financial assets or liabilities at Fair Value, however it is required to provide fair value information as appropriate. The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs – unobservable inputs.

### **1.17 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.

### **1.18 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.

### **1.19 Joint Arrangements**

The Council is part of a number of joint arrangements including the Joint Committee for the Cardiff Capital Region City Deal (CCRCDD) which consists of 10 Partner Authorities: Blaenau Gwent; Caerphilly; Cardiff; Merthyr Tydfil; Monmouthshire; Newport; Rhondda-Cynon-Taf; Torfaen; the Vale of Glamorgan and Bridgend. The Joint Committee has been established to oversee delivery of a range of programmes designed to increase connectivity and to improve physical and digital infrastructure. The contributions to the Joint Committee are classified as Revenue Expenditure Funded from Capital Under Statute (REFCUS). The Council has not consolidated the assets or liabilities of the Joint Committee. The Council continues to have administrative responsibilities for Coychurch 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.

### **1.20 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) being included as expenditure. Council Tax Income is shown gross in the Comprehensive Income and Expenditure Statement with any amounts allocated as a result of the Council Tax Reduction Scheme recognised as an expense within net costs of services.

### **1.21 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.



## 1.22 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.

## 1.23 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.

## 1.24 Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

The Council instructed external valuers Cooke & Arkwright to provide valuations annually 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:** based on most recent valuations, adjusted if necessary through 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 net Cost of Services 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.

### **1.25 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.

## **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 2019 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 2018 for all of the Council's investment portfolio and 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 judgement is required in establishing fair values. These judgements 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.

## 4. Expenditure and Funding Analysis

2017-18				2018-19		
Net Expenditure Chargeable to the Council Fund	Adjustments between the Funding and Accounting Basis & transfers to Earmarked Reserves (Note 5)	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 (Note 5)	Net Expenditure in the Comprehensive Income and Expenditure Statement
£'000	£'000	£'000		£'000	£'000	£'000
108,387	(9,199)	117,586	Education and Family Support	110,544	9,359	101,185
66,281	(3,533)	69,814	Social Services & Wellbeing	69,136	(6,271)	75,407
25,271	(16,055)	41,326	Communities Operational & Partnership Services	27,822	(10,066)	37,888
14,259	(1,811)	16,070	Chief Executives	-	-	-
3,746	(342)	4,088	Central Services	18,065	(3,226)	21,291
29,635	12,231	17,404		29,865	8,954	20,911
<b>247,579</b>	<b>(18,709)</b>	<b>266,288</b>	<b>Net Cost Of Services</b>	<b>255,432</b>	<b>(1,250)</b>	<b>256,682</b>
(247,966)	3,803	(251,769)	Other income and Expenditure	(255,861)	1,437	(257,298)
<b>(387)</b>	<b>(14,906)</b>	<b>14,519</b>	<b>Surplus or Deficit</b>	<b>(429)</b>	<b>187</b>	<b>(616)</b>
7,960			Opening Council Fund Balance	8,347		
387			Surplus or (Deficit) on Council Fund for year	429		
<b>8,347</b>			<b>Closing Council Fund Balance as at 31 March</b>	<b>8,776</b>		

## 5. Note to the Expenditure and Funding Analysis

<b>Adjustments between Funding and Accounting Basis 2017-18</b>				
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	(4,957)	(2,215)	(2,027)	(9,199)
Social Services & Wellbeing	(650)	(1,720)	(1,163)	(3,533)
Communities	(9,978)	(727)	(5,350)	(16,055)
Operational & Partnership Services	(816)	(572)	(423)	(1,811)
Chief Executives	-	(226)	(116)	(342)
Central Services	5,343	-	6,888	12,231
<b>Net cost of services</b>	<b>(11,058)</b>	<b>(5,460)</b>	<b>(2,191)</b>	<b>(18,709)</b>
Other income and expenditure from the Expenditure and Funding Analysis	11,558	(6,350)	(1,405)	3,803
<b>Difference between Council Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>500</b>	<b>(11,810)</b>	<b>(3,596)</b>	<b>(14,906)</b>

Note: the above figures have been restated for adjustments between Capital and Other Differences.

<b>Adjustments between Funding and Accounting Basis 2018-19</b>				
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	11,208	(2,481)	632	9,359
Social Services & Wellbeing	(2,560)	(1,947)	(1,764)	(6,271)
Communities	(7,943)	(875)	(1,248)	(10,066)
Operational & Partnership Services	-	-	-	-
Chief Executives	(962)	(907)	(1,357)	(3,226)
Central Services	3,184	-	5,770	8,954
<b>Net cost of services</b>	<b>2,927</b>	<b>(6,210)</b>	<b>2,033</b>	<b>(1,250)</b>
Other income and expenditure from the Expenditure and Funding Analysis	9,494	(6,760)	(1,297)	1,437
<b>Difference between Council Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>12,421</b>	<b>(12,970)</b>	<b>736</b>	<b>187</b>

### 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 or 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 Council Fund for the timing differences for premiums and discounts
- The charge under Taxation and Non-Specific Grant Income represents the difference between what is chargeable under statutory regulations for council tax and NNDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices.

### 6. 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. **A segmental analysis of fees, charges and other service income is presented on the face of the Comprehensive Income and Expenditure Statement.**



2017-18 £'000		2018-19 £'000
	<b>Expenditure</b>	
180,687	Employee expenses	184,342
209,767	Other services expenses	198,758
24,451	Depreciation, amortisation, impairment	3,922
12,329	Interest payments	12,670
20,535	Precepts and levies	22,015
1,816	Loss on disposal of assets	276
<b>449,585</b>	<b>Total expenditure</b>	<b>421,983</b>
	<b>Income</b>	
(51,924)	Fees, charges and other service income	(35,709)
(130,505)	Income from council tax, non-domestic rates	(135,698)
(251,328)	Government grants and contributions	(249,905)
(959)	Investment Income and other Interest Receivable	(1,012)
(350)	Other income	(275)
<b>(435,066)</b>	<b>Total income</b>	<b>(422,599)</b>
<b>14,519</b>	<b>(Surplus) or Deficit on the provision of services</b>	<b>(616)</b>

## Notes to the Comprehensive Income and Expenditure Statement

### 7. 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:

2017-18 £'000		2018-19 £'000
	<b>Precepts</b>	
11,514	Police and Crime Commissioner for South Wales	12,450
2,053	Community Councils	2,495
<b>13,567</b>	<b>Total Precepts</b>	<b>14,945</b>
	<b>Levies</b>	
6,603	South Wales Fire and Rescue Authority	6,689
255	Coroners Service	271
92	Archive Service	92
18	Swansea Bay Port Authority	18
<b>6,968</b>	<b>Total Levies</b>	<b>7,070</b>
<b>20,535</b>	<b>Total Precepts and Levies</b>	<b>22,015</b>

### 8. 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 2018-19 was £145.78 million (£141.61 million for 2017-18).

### 9. National Non-Domestic Rates (NNDR)

NNDR is organised on a national basis. The Welsh Government (WG) specifies the rate in the pound to be charged and, subject to the effects of transition arrangements, local businesses pay rates calculated by multiplying their rateable value by the rate in the pound. This was 51.4p in 2018-19 (49.9p in 2017-18). 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 is reflected separately in the Comprehensive Income and Expenditure Statement. This amount was £45.680 million in 2018-19 (£45.888 million in 2017-18).

### 10. 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 – 53,315.53 dwellings for 2018-19 (52,759.01 in 2017-18). The average amount for a Band D property is £1,675.82 in 2018-19 (£1,592.58 in 2017-18 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	29	10,134	14,846	14,068	10,472	7,441	4,174	1,398	280	90

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

2017-18 £'000		2018-19 £'000
(84,617)	Council Tax Collectable	(90,018)
	Less:	
2,053	Payable to Community Councils	2,495
11,514	Payable to Police and Crime Commissioner for South Wales	12,450
403	Provision for non-payment of Council Tax increase/(decrease)	290
<b>(70,647)</b>	<b>Net Proceeds from Council Tax</b>	<b>(74,783)</b>

**11. Grants**

In addition to the Revenue Support Grant, the Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement. 2017-18 has been restated to separately identify the Pupil Deprivation Grant.

2017-18 Re-stated £'000	Specific Grants credited to Services	2018-19 £'000
(47,980)	Housing Benefit Subsidy	(46,357)
(6,446)	Post 16 Grant	(6,022)
(5,142)	Education Improvement Grant	(4,921)
(4,239)	Pupil Development Grant	(4,549)
(3,366)	Other Education & Family Support	(5,837)
(4,828)	Other Social Services & Wellbeing	(3,140)
(3,592)	Others	(3,323)
(5,816)	Supporting People	(6,074)
(445)	Sport Play & Active Wellbeing	(929)
(2,699)	Concessionary Fares Grant	(2,931)
(3,301)	Flying Start	(3,227)
(2,650)	Sustainable Waste Grant	(781)
(545)	Housing/Council Tax Benefit Administration	(576)
(995)	Communities First	-
(1,690)	Families First	(1,858)
(2,379)	General Capital Grant	(2,394)
(581)	Other Capital Grants	(1,712)
<b>(96,694)</b>	<b>Total</b>	<b>(94,631)</b>

2017-18 £'000	Other Government Grants credited to Taxation and Non-specific Grant Income	2018-19 £'000
(13,024)	Capital Grants and Contributions	(9,494)
<b>(13,024)</b>	<b>Total</b>	<b>(9,494)</b>

<b>(109,718)</b>	<b>Total</b>	<b>(104,125)</b>
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**12. Leases**Council as a LesseeOperating Leases

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

2017-18 £'000		2018-19 £'000
(692)	Not later than one year	(704)
(1,698)	Later than one year but less than five years	(1,794)
(6,756)	Later than five years	(7,094)
<b>(9,146)</b>	<b>Total</b>	<b>(9,592)</b>

Expenditure charged in the year to the Service areas was £0.747 million made up of minimum lease payments of £0.153 million and £0.594 million for contingent rents (£0.776 million in 2017-18 made up of £0.232 million minimum lease payments and £0.544 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:-

2017-18 £'000		2018-19 £'000
105	Not later than one year	99
139	Later than one year but less than five years	159
849	Later than five years	1,719
<b>1,093</b>	<b>Total</b>	<b>1,977</b>

### 13. 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 Revenue Support Grant 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:-

2017-18 £'000	Unitary Charge	2018-19 £'000
660	Service Charge Element	682
1,352	Interest Element	1,306
595	Finance Lease Liability	641
<b>2,607</b>	<b>Total</b>	<b>2,629</b>

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	2019-20 £'000	2020-21 to 2024-25 £'000	2025-26 to 2029-30 £'000	2030-31 to 2033-34 £'000	TOTAL £'000
Service Charge Element	502	2,511	2,511	2,002	7,526
Interest Element	1,257	5,397	3,444	792	10,890
Finance Lease Liability	690	4,337	6,290	5,683	17,000
<b>Total</b>	<b>2,449</b>	<b>12,245</b>	<b>12,245</b>	<b>8,477</b>	<b>35,416</b>

#### 14. Pooled Fund Arrangements

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 s.166-169 Social Services Wellbeing (Wales) Act 2014.

2017-18					2018-19		
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
(560)	560	280	Abertawe Bro-Morgannwg University Health Board	Provision of day opportunities for people recovering from mental health problems.	(600)	600	300
(2,646)	2,734	609	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	(2,831)	2,712	594
(4,730)	4,730	2,595	Abertawe Bro-Morgannwg University Health Board	Provision of integrated community support services	(4,930)	4,930	2,678
(657)	657	198	Neath Port Talbot CBC, City and County of Swansea Council	Provision of an Integrated Family Support Service	(632)	632	163



## 15. Officers' Remuneration

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

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

The ratio of the remuneration of the Chief Executive to the median remuneration of all the body's employees was 6.64 (2017-18: 6.64). The median salary of all employees was £20,541 (2017-18: £20,138), i.e. the Remuneration of the Chief Executive was 6.64 times more than the median remuneration of the Council's employees.

### Disclosure 2 – Table of Officers' Remuneration over £60,000

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

2017-18 including Redundancy Costs	Remuneration Band	Number of Employees				
		Movement in Bandings	2018-19 inc Redundancy Costs (Note 1)	2018-19 exc Redundancy Costs (Note 2)	Number of Teachers inc in Figures exc Redundancy (Note 2)	Number of Non-Teachers inc in Figures exc Redundancy (Note 2)
22	£60,000 - £64,999	10	32	27	23	4
11	£65,000 - £69,999	1	12	12	12	-
4	£70,000 - £74,999	2	6	4	3	1
7	£75,000 - £79,999	(3)	4	3	3	-
9	£80,000 - £84,999	1	10	8	3	5
1	£85,000 - £89,999	5	6	2	2	-
2	£90,000 - £94,999	3	5	2	2	-
-	£95,000 - £99,999	1	1	1	1	-
2	£100,000 - £104,999	(1)	1	1	-	1
2	£105,000 - £109,999	1	3	3	1	2
1	£110,000 - £114,999	-	1	1	-	1
1	£125,000 - £129,999	(1)	-	-	-	-
1	£130,000 - £134,999	(1)	-	-	-	-
-	£145,000 - £149,999	1	1	-	-	-
-	£195,000 - £199,999	1	1	-	-	-
-	£225,000 - £229,999	1	1	-	-	-
-	£245,000 - £249,999	1	1	-	-	-
2	£335,000 - £339,999	(2)	-	-	-	-
<b>65</b>		<b>20</b>	<b>85</b>	<b>64</b>	<b>50</b>	<b>14</b>

Note 1: These costs include redundancy costs and payments in lieu of notice at time of departure as well as any applicable strain costs, which are the costs of the early payment of benefit payable by the Council to the Pension Fund when a member of staff over 55 is made redundant.

Note 2: These are officers still in post, of which there are 64 individuals with remuneration of £60,000 or more, including:-

- a) 50 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 (note 1)		Total Remuneration including Pension Contributions	
	18-19 £	17-18 £	18-19 £	17-18 £	18-19 £	17-18 £
Chief Executive Officer & Head of Paid Service (Note 2)	104,500	133,726	22,259	28,484	126,759	162,210
Interim Chief Executive Officer & Head of Paid Service (Note 3)	29,766	-	6,340	-	36,106	-
Corporate Director - Education and Family Support (Note 4)	105,982	184,220	22,574	39,239	128,556	223,459
Corporate Director - Communities (Note 5)	82,959	106,160	17,670	22,612	100,629	128,772
Corporate Director - Operational and Partnership Services (Note 6)	122,108	103,682	147,424	22,084	-	125,766
Corporate Director - Social Service & Wellbeing	108,283	106,160	23,064	22,612	131,347	128,772
Head of Finance - s151 Officer (Note 7)	-	61,562	-	13,113	-	74,675
Head of Legal and Regulatory Services (Note 8)	56,503	-	11,588	-	68,091	-
Head of Performance and Partnership Services (Note 9)	59,923	-	12,764	-	72,687	-
Head of Operations - Communities (Note 10)	20,708	-	4,411	-	25,119	-

### **Notes**

- Note 1 No ‘Expenses’ or ‘Benefits in kind’ were paid in the year. Pension Contributions relate to actual payments made.
- Note 2 The Chief Executive left the Council on 6 January 2019. Their salary excludes payment for Election Duties which amounted to £960 for 6 Town and Community Council Elections
- Note 3 The Corporate Director – Communities was appointed as Interim Chief Executive on a temporary basis from 7 January 2019.
- Note 4 The Corporate Director – Education and Family Support left the Council on 7 January 2018. The interim Corporate Director – Education and Family Support appointed to cover the post was appointed to Corporate Director on 31 August 2018. During 2017-18 the Corporate Director was seconded to Welsh Government, costs being recovered from Welsh Government of £109,327.
- Note 5 The Corporate Director – Communities was appointed to Interim Chief Executive on 7 January 2019. The Corporate Director – Communities was vacant from that date to the end of the financial year.
- Note 6 The Corporate Director – Operational and Partnership Services was made redundant on 6 July 2018. The salary and pension figures include redundancy costs and associated pension costs, which had been accrued in the 31 March 2018 accounts.
- Note 7 The Head of Finance left the Council on 2 January 2018. An interim Head of Finance and s.151 Officer was appointed under a contractual arrangement with the Welsh Local Government Association. The costs incurred in this arrangement during the year were £104,129 (2017-18: £26,355)
- Note 8 The Head of Legal and Regulatory Services assumed the role of Monitoring Officer following the departure of the Corporate Director – Operational and Partnership Services with a direct report to the Chief Executive. Only costs since the post reported directly to the Chief Executive have been included.

- Note 9 Following the departure of the Corporate Director – Operational and Partnership Services, the Head of Performance and Partnership Services reported directly to the Chief Executive and only costs since the post reported directly to the Chief Executive have been included
- Note 10 Following the appointment to Interim Chief Executive of the Corporate Director – Communities, the Head of Operations – Communities was appointed on 1 January 2019, reporting directly to the Chief Executive.

#### **Disclosure 4 – Table on Exit Packages**

The number of exit packages approved in the year 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	
	18-19	17-18	18-19	17-18	18-19	17-18	18-19	17-18
	£	£	£	£	£	£	£	£
£0 - £20,000	27	13	29	24	56	37	688,996	324,861
£20,001 - £40,000	30	4	16	18	46	22	1,307,493	576,770
£40,001 - £60,000	14	6	1	4	15	10	723,537	478,481
£60,001 - £80,000	4	1	1	1	5	2	329,394	125,264
£80,001 - £100,000	2	-	-	-	2	-	178,584	-
£100,001 - £150,000	1	-	-	-	1	-	141,821	-
£150,001 - £200,000	1	-	1	-	2	-	352,557	-
£200,001 - £250,000	-	1	-	-	-	1	-	233,281
£250,001 - £300,000	-	1	-	-	-	1	-	254,462
	<b>79</b>	<b>26</b>	<b>48</b>	<b>47</b>	<b>127</b>	<b>73</b>	<b>3,722,382</b>	<b>1,993,119</b>

#### **16. Members' allowances**

As a result of the December 2011 Report of the Independent Remuneration Panel for Wales, a new system of 'salary' payments for Members came into effect in full from 16 May 2012. The Council now has in place a 'Basic Salary' for all members, a 'Senior Salary', and a 'Civic Salary'.

2017-18 £'000		2018-19 £'000
573	Basic Salary (all Members)	557
465	Senior Salary	481
25	Civic Salary	46
<b>1,063</b>	<b>Total</b>	<b>1,084</b>

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

#### **17. External audit costs**

In 2018-19 Bridgend County Borough Council incurred the following fees relating to external audit and inspection. Of the amount incurred, £Nil (2017-18 - £5,083) was claimed against grants:

2017-18 £'000		2018-19 £'000
194	Financial Statement Audit	194
97	Performance Audit	97
<b>291</b>	<b>External Audit Services</b>	<b>291</b>
78	Grant Claims and Returns	54
<b>369</b>	<b>Total</b>	<b>345</b>

## 18. Participation in Joint Committees and Joint Arrangements

The Council participated in a number of Joint Committees and Joint Arrangements during the year. The amounts contributed by the Council are set out below.

	2017-18 £'000	2018-19 £'000
Cardiff Capital Region City Deal (CCRCD)	2,285	1,257
Central South Consortium Joint Education Service	621	606
Integrated Family Support Service (IFSS)	198	163
Joint Adoption Service	949	949
Shared Regulatory Service	1,621	1,505
Shared Internal Audit Service	251	205
Western Bay Youth Justice and Early Intervention Service	275	287
Civil Parking Enforcement	213	185
Glamorgan Archives	92	92
Coychurch Crematorium	-	-
Margam Crematorium	-	-
<b>Total</b>	<b>6,505</b>	<b>5,249</b>

## 19. Related Party Transactions

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

### Welsh Government

Welsh Government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates; provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills). Grants received from government departments are set out in Notes 8 and 9 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 2018-19 is shown in Note 16. Payments made to organisations whose senior management included Members included Care and Repair (Bridgend) £1,365,954 (no interests were declared in 2017-18), Bridgend County Borough Citizens Advice Bureau £226,709 (£224,415 in 2017-18) and Bridgend Association of Voluntary Organisations £92,322 in 2018-19 (£104,500 in 2017-18). 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 £293,576 (£426,230 in 2017-18).

### **Chief Officers**

During 2018-19 the Corporate Director – Communities sat on the Board of Capita Glamorgan Consultancy Ltd until 4 July 2018 and the Head of Adult Social Care from that date. The Council owns 14.7% of the shares of the company and holds voting rights to this value on the Board. During 2018-19 the Council was charged £1,146,732 (2017-18: £1,038,722) in respect of goods, services and capital works. In addition the Corporate Director sat on the Board of CSC Foundry Ltd, a special purpose vehicle which is a wholly owned subsidiary of the City Deal Joint Committee. Details of the payments made to the Cardiff Capital Region City Deal are included in note 18 to the accounts. The Corporate Director – Social Services and Wellbeing was an Associate Board Member of Abertawe Bro-Morgannwg University Health Board. The Council and the Health Board have a range of formal pooled funding arrangements as set out in note 14 – Section 33 NHS (Wales) Act 2006.

The Head of Regeneration, Development and Property Services was a Board Member for Bridgend College and also a Director of the newly formed Bridgend Business Improvement District (BID). During 2018-19 the value of payments to the College totalled £344,569 (2017-18: £295,640). 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.

### **Other Joint Committees**

Details of the amounts paid under Joint Committees is shown in Note 18.

#### **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.

#### **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](http://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](http://www.npt.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 14. It also pays a management fee to the Awen Trust for cultural related services which is a not for profit organisation. The amount paid in 2018-19 was £3,231,354 (2017-18: £3,226,540). The Board of Awen Trust has two Members and a Member's family member as Director.

## Notes to the Movement in Reserves Statement

### 20. 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.

#### **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.

The tables below detail the adjustments for 2017-18 for comparative purposes and the adjustments for 2018-19.



2018-19	Usable Reserves			Unusable Reserves
	Council Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	
	£'000	£'000	£'000	£'000
<b>Adjustment to the Revenue Resources</b>				
<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)	12,970			(12,970)
Financial Instruments (transferred to the Financial Instruments Adjustment Account)	(8)			8
Holiday Pay (transferred to the Accumulated Absences Reserve)	(422)			422
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)	7,836			(7,836)
<b>Total Adjustments to Revenue Resources</b>	<b>20,376</b>	<b>-</b>	<b>-</b>	<b>(20,376)</b>
<b>Adjustments between Revenue and Capital Resources</b>				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(1,884)	1,884		
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(4,958)			4,958
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(3,922)			3,922
<b>Total adjustments between Revenue and Capital Resource</b>	<b>(10,764)</b>	<b>1,884</b>	<b>-</b>	<b>8,880</b>
<b>Adjustments to Capital Resources</b>				
Use of the Capital Receipts Reserve to finance capital expenditure		(5,123)		5,123
Application of capital grants to finance capital expenditure	(9,494)			9,494
Cash payments in relation to deferred capital			1,194	(1,194)
<b>Total adjustments to Capital Reserves</b>	<b>(9,494)</b>	<b>(5,123)</b>	<b>1,194</b>	<b>13,423</b>
<b>Total Adjustments</b>	<b>118</b>	<b>(3,239)</b>	<b>1,194</b>	<b>1,927</b>

2017-18	Usable Reserves			Unusable Reserves
	Council Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	
	£'000	£'000	£'000	£'000
<b>Adjustment to the Revenue Resources</b>				
<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)	11,810			(11,810)
Financial Instruments (transferred to the Financial Instruments Adjustment Account)	(8)			8
Holiday Pay (transferred to the Accumulated Absences Reserve)	519			(519)
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)	30,199			(30,199)
<b>Total Adjustments to Revenue Resources</b>	<b>42,520</b>	<b>-</b>	<b>-</b>	<b>(42,520)</b>
<b>Adjustments between Revenue and Capital Resources</b>				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(573)	573		
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(7,179)			7,179
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(9,922)			9,922
<b>Total adjustments between Revenue and Capital Resource</b>	<b>(17,674)</b>	<b>573</b>	<b>-</b>	<b>17,101</b>
<b>Adjustments to Capital Resources</b>				
Use of the Capital Receipts Reserve to finance capital expenditure		(783)		783
Application of capital grants to finance capital expenditure	(13,024)			13,024
Cash payments in relation to deferred capital			105	(105)
Other Amounts (including mortgage payments)		7		(7)
<b>Total adjustments to Capital Reserves</b>	<b>(13,024)</b>	<b>(776)</b>	<b>105</b>	<b>13,695</b>
<b>Total Adjustments</b>	<b>11,822</b>	<b>(203)</b>	<b>105</b>	<b>(11,724)</b>

## Notes to the Balance Sheet

### 21. Non-current Assets

#### a) Capital commitments

As at 31 March 2019 the Council do not have any material capital commitments.

Restated 2017-18 £'000		2018-19 £'000
3,890	Garw Valley South Primary Provision	-
4,248	Pencoed Primary School	-
<b>8,138</b>	<b>Total</b>	<b>-</b>

#### b) Notes on Non-current Assets

##### Voluntary-aided & Voluntary-controlled Schools

The Council recognises the 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) 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, which 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.

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
<b>Cost or Valuation</b>								
At 1 April 2018	399,145	9,364	214,177	4,951	15,130	7,739	<b>650,506</b>	24,142
<b>Additions</b>	3,391	1,530	7,457	-	-	9,062	<b>21,440</b>	-
Accumulated Depreciation and Impairment written out to Gross Carrying Amount	(19,352)	(1,123)	-	-	(502)		<b>(20,977)</b>	(2,783)
Revaluation increases/(decreases) recognised in the Revaluation Reserve	27,497	352	-	(2)	(56)		<b>27,791</b>	1,258
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	16,595	-	-	-	(807)		<b>15,788</b>	251
Derecognition - Disposals	(234)	(532)	-	-	(100)		<b>(866)</b>	-
Assets reclassified (to)/from Held for Sale	(195)						<b>(195)</b>	-
Other Movements in Cost or Valuation	13,850				2,289	(16,139)		-
<b>At 31 March 2019</b>	<b>440,697</b>	<b>9,591</b>	<b>221,634</b>	<b>4,949</b>	<b>15,954</b>	<b>662</b>	<b>693,487</b>	<b>22,868</b>
<b>Accumulated Depreciation and Impairments</b>								
At 1 April 2018	(18,113)	(4,632)	(150,475)	(37)	(2)	-	<b>(173,259)</b>	(1,858)
Depreciation Charge for the year	(10,947)	(1,530)	(5,878)	-	(55)		<b>(18,410)</b>	(928)
Accumulated Depreciation and Impairment written out to Gross Carrying Amount	19,352	1,123			502		<b>20,977</b>	2,783
Impairment Losses/(Reversals) recognised in the Surplus/Deficit on the Provision of Services	(612)		(134)				<b>(746)</b>	-
Derecognition - disposals	15	526					<b>541</b>	-
Other Movements	630				(630)			-
<b>At 31 March 2019</b>	<b>(9,675)</b>	<b>(4,513)</b>	<b>(156,487)</b>	<b>(37)</b>	<b>(185)</b>	<b>-</b>	<b>(170,897)</b>	<b>(3)</b>
<b>NBV as at 1 April 2018</b>	<b>381,032</b>	<b>4,732</b>	<b>63,702</b>	<b>4,914</b>	<b>15,128</b>	<b>7,739</b>	<b>477,247</b>	<b>22,284</b>
<b>NBV as at 31 March 2019</b>	<b>431,022</b>	<b>5,078</b>	<b>65,147</b>	<b>4,912</b>	<b>15,769</b>	<b>662</b>	<b>522,590</b>	<b>22,865</b>

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
<b>Cost or Valuation</b>								
At 1 April 2017	393,381	8,572	209,507	5,052	8,250	4,068	<b>628,830</b>	24,142
<b>Additions</b>	3,148	1,705	4,934	-	3,520	16,496	<b>29,803</b>	-
Accumulated Depreciation and Impairment written out to Gross Carrying Amount	(6,949)	-	-	-	(12)	-	<b>(6,961)</b>	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	5,153	-	-	2	946	-	<b>6,101</b>	-
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(454)	-	-	(42)	174	-	<b>(322)</b>	-
Derecognition - Disposals	(2,601)	(503)	-	-	-	-	<b>(3,104)</b>	-
Assets reclassified (to)/from Held for Sale	(2,101)	-	-	-	(2,380)	-	<b>(4,481)</b>	-
Assets reclassified (to)/from Investment Property	850	-	-	-	200	-	<b>1,050</b>	-
Other Movements in Cost or Valuation	8,718	(410)	(264)	(61)	4,432	(12,825)	<b>(410)</b>	-
<b>At 31 March 2018</b>	<b>399,145</b>	<b>9,364</b>	<b>214,177</b>	<b>4,951</b>	<b>15,130</b>	<b>7,739</b>	<b>650,506</b>	<b>24,142</b>
<b>Accumulated Depreciation and Impairments</b>								
At 1 April 2017	(14,367)	(3,967)	(139,460)	(37)	(13)	(1)	<b>(157,845)</b>	(931)
Depreciation Charge for the year	(10,900)	(1,075)	(10,788)	-	(1)	-	<b>(22,764)</b>	(927)
Accumulated Depreciation and Impairment written out to Gross Carrying Amount	6,949	-	-	-	12	-	<b>6,961</b>	-
Impairment Losses/(Reversals) recognised in the Surplus/Deficit on the Provision of Services	(376)	(56)	(227)	-	-	-	<b>(659)</b>	-
Derecognition - other	-	-	-	-	-	-	-	-
Derecognition - disposals	581	384	-	-	-	-	<b>965</b>	-
Other Movements	-	82	-	-	-	1	<b>83</b>	-
<b>At 31 March 2018</b>	<b>(18,113)</b>	<b>(4,632)</b>	<b>(150,475)</b>	<b>(37)</b>	<b>(2)</b>	<b>-</b>	<b>(173,259)</b>	<b>(1,858)</b>
<b>NBV as at 1 April 2017</b>	<b>379,014</b>	<b>4,605</b>	<b>70,047</b>	<b>5,015</b>	<b>8,237</b>	<b>4,067</b>	<b>470,985</b>	<b>23,211</b>
<b>NBV as at 31 March 2018</b>	<b>381,032</b>	<b>4,732</b>	<b>63,702</b>	<b>4,914</b>	<b>15,128</b>	<b>7,739</b>	<b>477,247</b>	<b>22,284</b>

## d) Intangible Assets.

The Intangible asset refers to the Wales Community Care Information System, WCCIS. As at 31 March 2019 the remaining life of the asset was 4 years.

<b>Intangible Assets</b>	<b>£'000</b>
<b>Cost or Valuation</b>	
At 1 April 2018	6,003
Additions	37
<b>At 31 March 2019</b>	<b>6,040</b>
<b>Accumulated Depreciation and Impairments</b>	
At 1 April 2018	(1,894)
Depreciation Charge for the year	(553)
<b>At 31 March 2019</b>	<b>(2,447)</b>
<b>NBV as at 1 April 2018</b>	<b>4,109</b>
<b>NBV as at 31 March 2019</b>	<b>3,593</b>

<b>Intangible Assets</b>	<b>£'000</b>
<b>Cost or Valuation</b>	
At 1 April 2017	5,480
Additions	113
Other Movements in Cost or Valuation	410
<b>At 31 March 2018</b>	<b>6,003</b>
<b>Accumulated Depreciation and Impairments</b>	
At 1 April 2017	(1,105)
Depreciation Charge for the year	(707)
Other Movements	(82)
<b>At 31 March 2018</b>	<b>(1,894)</b>
<b>NBV as at 1 April 2017</b>	<b>4,375</b>
<b>NBV as at 31 March 2018</b>	<b>4,109</b>



e) Sources of finance for Capital Expenditure

2017-18 £'000		2018-19 £'000
(9,853)	Loans	(6,163)
(14,212)	Government grants	(12,037)
(180)	Capital receipts	(5,123)
(9,922)	Revenue contribution	(3,922)
(2,417)	Other contributions	(369)
<b>(36,584)</b>	<b>Total</b>	<b>(27,614)</b>

f) 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. 2018-19 also included a contribution of £1.162 million by the Council to the Cardiff Capital Regional City Deal.

2017-18 £'000		2018-19 £'000
6,669	Revenue Expenditure Funded from Capital under Statute	6,137
(2,960)	Grants and Contributions	(4,106)
<b>3,709</b>	<b>Total</b>	<b>2,031</b>

g) Capital financing requirement and the financing of capital expenditure

2017-18 £'000	Capital Financing Requirement	2018-19 £'000
168,060	Opening Capital Financing Requirement	170,880
750	Adjustment to Capital Financing Requirement Reversal	-
(25)	Adjustment to Capital Financing Requirement MRP Reversal	-
(603)	Innovation Centre Prior Year Adjustment	-
<b>168,182</b>	<b>Amended Opening Capital Financing Requirement</b>	<b>170,880</b>
	<b>Capital Investment</b>	
29,916	Property, Plant and Equipment and Intangible Assets	21,477
6,669	Revenue Expenditure Funded from Capital under Statute	6,137
	<b>Sources of Finance</b>	
(16,631)	Grants & Contributions	(12,407)
(180)	Capital receipts applied	(5,123)
(9,922)	Revenue Contributions	(3,922)
(5,056)	Minimum Revenue Provision	(2,858)
(1,364)	Unsupported Borrowing MRP	(1,459)
(60)	Innovation Centre MRP	-
(79)	Crematorium MRP	-
(595)	PFI School MRP	(641)
<b>170,880</b>	<b>Closing Capital Financing Requirement</b>	<b>172,084</b>
	<b>Explanation for Movements in Year</b>	
(1,830)	Increase/(Decrease) in Underlying Need to Borrow (supported by government financial assistance)	1,077
5,305	Increase/(Decrease) in Underlying Need to Borrow (unsupported by government financial assistance)	768
(60)	Assets acquired under finance leases	-
(595)	Assets acquired under PFI Contract	(641)
<b>2,820</b>	<b>Increase/(Decrease) in Capital Financing Requirement</b>	<b>1,204</b>

**22. Investment Properties**

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

2017-18 £'000		2018-19 £'000
5,060	<b>Balance at 1 April</b>	4,360
(1,050)	Transferred to Property, Plant and Equipment	-
350	Net gain / (loss) from fair value adjustments	275
<b>4,360</b>	<b>Balance as at 31 March</b>	<b>4,635</b>

**23. Short Term Debtors**

This represents the monies owed to the Council after making provision for debts that might not be recovered and are analysed as follows:

2017-18 £'000 restated		2018-19 £'000
7,592	Trade Receivables	7,016
1,881	Prepayments	2,582
21,585	Other Receivable Amounts	22,702
<b>31,058</b>	<b>Balance as at 31 March</b>	<b>32,300</b>

The Council collects NNDR payments on behalf of Welsh Government. As at the 31 March 2019, the Council had paid over more cash than it collected, this excess was included in the Balance Sheet as a debtor of £1.385 million. The equivalent for 2017-18 was a debtor of £0.154 million.

**24. Assets Held for Sale**

2017-18 £'000		2018-19 £'000
1,730	Balance at 1 April	5,961
4,661	Assets newly classified as held for sale: Property, Plant & Equipment	195
(180)	Assets declassified as held for resale: Property, Plant & Equipment	
	Revaluation Gain/(Loss)	
(250)	Assets Sold	(1,835)
<b>5,961</b>	<b>Balance as at 31 March</b>	<b>4,321</b>

**25. Short Term Creditors**

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

2017-18 £'000 retated		2018-19 £'000
(3,705)	Trade Payables	(5,131)
(28,550)	Other Payables	(26,378)
<b>(32,255)</b>	<b>Balance as at 31 March</b>	<b>(31,509)</b>

**26. Provisions**

The Council has provisions as detailed below:

	Insurance £'000	Carbon Reduction Commitment £'000	Other Provisions £'000	Total £'000
<b>Balance at 1 April 2018</b>	2,888	253	1,060	<b>4,201</b>
Additional provisions made in 2018-19	2,870	242	-	<b>3,112</b>
Amounts used in 2018-19	(482)	(253)	(342)	<b>(1,077)</b>
<b>Balance at 31 March 2019</b>	<b>5,276</b>	<b>242</b>	<b>718</b>	<b>6,236</b>
Provisions < 1 yr	804	242	717	<b>1,763</b>
Provisions > 1 yr	4,473	-	-	<b>4,473</b>
<b>Balance at 31 March 2019</b>	<b>5,277</b>	<b>242</b>	<b>717</b>	<b>6,236</b>

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 2018-19 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.

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 2018-19. The payment will be made with the retrospective purchase of allowances in 2019. This scheme ceased on 31 March 2019.

Other Provisions

This provision is to provide for the value of potential future compensation payments arising from on-going litigation.

**27. PFI and Other Long Term Liabilities**

2017-18 £'000		Movement in year £'000	Moved to Short Term Creditors £'000	2018-19 £'000
17,000	Maesteg School PFI Lease	-	(690)	16,310
537	Innovation Centre	-	(90)	447
300	Waste Contract	-	(50)	250
30	Escrow	17	-	47
2,400	Welsh Government Loan - Llynfi Valley	(154)	(2,246)	-
<b>20,267</b>	<b>Balance as at 31 March</b>	<b>(137)</b>	<b>(3,076)</b>	<b>17,054</b>

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 2018-19, the amount written down was £640,000 and £690,000 has been transferred to Short Term Creditors leaving an outstanding long term liability of £16.3 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 2018-19 was £66,000 and £90,000 was transferred to Short Term Creditors resulting in a long term financial liability of £0.447 million at 31 March 2019.

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

The long term Escrow liability represents a fund that will be maintained and increased to allow for the future reinstatement to playing fields at Bridgend College – Pencoed.

**28. 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.

2017-18 £'000		2018-19 £'000
21,364	Balance at 1st April	21,161
573	Capital Receipts Received	1,884
7	Mortgage Repayments (Council Fund)	-
(180)	Receipts Used to Finance Capital Expenditure	(5,123)
(603)	Prior Year Adjustment	-
<b>21,161</b>	<b>Balance as at 31 March</b>	<b>17,922</b>

**b) Earmarked Reserves**

The Earmarked Reserves in the Balance Sheet as at 31 March 2019 are detailed below:

Opening Balance 2017-18 £'000	Reserve	Movement during 2018-19		Closing Balance 2018-19 £'000
		Additions/ Re- classification £'000	Drawdown by Directorates £'000	
8,347	<b>Council Fund</b>	429	-	8,776
	<b>Corporate Reserves:</b>			
12,082	Capital Programme Contribution	6,102	(4,112)	14,072
8,022	Major Claims Reserve	786	(3,534)	5,274
7,957	Service Reconfiguration	-	(2,383)	5,574
11,094	Other Corporate Reserves	5,918	(4,929)	12,083
<b>39,155</b>	<b>Total Corporate Reserves</b>	<b>12,806</b>	<b>(14,958)</b>	<b>37,003</b>
	<b>Other Reserves:</b>			
4,565	Directorate Reserves	3,093	(1,763)	5,895
1,088	City Deal Reserve	812	-	1,900
<b>5,653</b>	<b>Total Directorate Reserves</b>	<b>3,905</b>	<b>(1,763)</b>	<b>7,795</b>
360	Delegated Schools Balance	254	-	614
<b>45,168</b>	<b>Total Reserves excluding Equalisation Reserves</b>	<b>16,965</b>	<b>(16,721)</b>	<b>45,412</b>
2,907	<b>Equalisation and Grant Reserves</b>	805	(744)	2,968
<b>48,075</b>	<b>TOTAL EXCLUDING COUNCIL FUND</b>	<b>17,770</b>	<b>(17,465)</b>	<b>48,380</b>
<b>56,422</b>	<b>TOTAL INCLUDING COUNCIL FUND</b>	<b>18,199</b>	<b>(17,465)</b>	<b>57,156</b>

### Council Fund

The transfer to the Council Fund for 2018-19 was £0.429 million. This increased the balance on the Fund to £8.776 million at 31 March 2019 (£8.347 million at 31 March 2018).

### Other Earmarked Reserves

The transfer to Earmarked Balances excluding the Council Fund Balance was a net increase of £0.305 million in 2018-19 (net reduction of £3.084 million in 2017-18). An overview of each earmarked reserve is explained below.

#### Corporate Reserves

##### 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.



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.

Service Reconfiguration / Severance Costs

This reserve has been established to meet potential costs relating to service remodelling and consequential severance costs.

Directorate ReservesCity Deal Reserve

This reserve is to provide the necessary funding for the Council's capital contribution to the Cardiff City Region City Deal programme.

Directorate Issues

This reserve relates to specific Directorate issues anticipated in 2019-20 together with some carried forward amounts from 2018-19. Examples include a reserve to implement the post inspection action plan for the Youth Offending Service, the ancillary costs associated with the transition of Autistic Spectrum Disorder provision, a reserve to be used for any additional costs resulting from Brexit and support for various new apprentices within the Council.

**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

2017-18 Closing Balance £'000	School Types	No's in Category	2018-19 Budget £'000	2018-19 Spend £'000	2018-19 Closing Balance £'000
261	Primary Schools	48	45,646	45,295	351
(437)	Secondary Schools	9	42,124	42,322	(198)
536	Special Schools	2	8,940	8,479	461
<b>360</b>	<b>Total</b>	<b>59</b>	<b>96,710</b>	<b>96,096</b>	<b>614</b>

*The 2017-18 Closing Balance figure is included within the 2018-19 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

This includes grant reserves where 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 2018-19 there were £805,000 (2017-18 - £604,000) of new 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. In addition there are a small number of equalisation reserves that ensures 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.

## 29. Unusable Reserves

The following notes detail the Unusable Reserves of the Council.

### a) Revaluation Reserve (RR)

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost;
- Used in the provision of services and the gains are consumed through depreciation; or
- Disposed of and the gains are realised.

The Revaluation Reserve contains only revaluation gains accumulated since 1 April 2007. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2017-18			2018-19	
£'000	£'000		£'000	£'000
	124,703	<b>Balance at 1 April</b>		126,378
		Prior Year adj	(32)	
10,830		Upward Revaluation of Assets	33,337	
		Downward Revaluation of Assets and Impairment		
(4,580)		Losses not charged to the Surplus/Deficit on the Provision of Services	(5,546)	
	<b>6,250</b>	<b>Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of services</b>		<b>27,759</b>
		Difference between fair value depreciation and historical cost depreciation (charged to the Capital Adjustment Account)	(3,755)	
(3,803)		Accumulated gains on assets sold or scrapped	(770)	
(772)		Amount written off to the Capital Adjustment Account		(4,525)
	(4,575)			
	<b>126,378</b>	<b>Balance as at 31 March</b>		<b>149,612</b>

### 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.

2017-18 £'000		2018-19 £'000
(252,450)	<b>Balance at 1 April</b>	(268,620)
(4,360)	Actuarial gains or losses on pensions assets and liabilities	26,320
(28,360)	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	(30,410)
16,550	Employer's Pensions Contributions and Direct Payments to Pensioners Payable in the Year	17,440
<b>(268,620)</b>	<b>Balance as at 31 March</b>	<b>(255,270)</b>

### 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.

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 going forward.

2017-18			2018-19	
£'000	£'000		£'000	£'000
	189,468	<b>Balance at 1 April</b>		<b>194,640</b>
		<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement :</b>		
(23,470)		Charges for depreciation and impairment of non-current assets	(18,964)	
(980)		Revaluation gain/(losses) on Property, Plant and Equipment	15,043	
(3,709)		Revenue Expenditure funded from Capital Under Statute	(2,031)	
(7)		Other amounts including Mortgage Payments		
(1,618)		Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,357)	
	(29,784)	Adjusting amounts written out to the Revaluation Reserve		(7,309)
	3,803			3,755
	<b>(25,981)</b>	<b>Net written out amount of the cost of non-current assets consumed in the year</b>		<b>(3,554)</b>
		<b>Capital financing applied in the year:</b>		
180		Use of the Capital Receipts Reserve to finance capital expenditure	5,123	
603		Innovation Centre Prior Year Adjustment	-	
12,919		Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that has been applied to capital financing	8,300	
7,179		Statutory provision for the financing of capital investment charged against the Council Fund	4,958	
9,922		Capital expenditure charged against the Council Fund	3,922	
	<b>30,803</b>			<b>22,303</b>
	350	Movement in the market value of Investment Properties credited to the Comprehensive Income and Expenditure Statement		275
	<b>194,640</b>	<b>Balance as at 31 March</b>		<b>213,664</b>

### 30. 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 2018-19 include information provided by the pension administrators, Rhondda Cynon Taff CBC and Aon Hewitt Associates Limited as the pension fund scheme'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	LGPS Unfunded Benefits	Teachers' Unfunded Benefits	Total	Comprehensive Income & Expenditure Statement	Local Govt Pension Scheme	LGPS Unfunded Benefits	Teachers' Unfunded Benefits	Total
£m	£m	£m	£m		£m	£m	£m	£m
2017-18	2017-18	2017-18	2017-18	2018-19	2018-19	2018-19	2018-19	2018-19
				<b>Cost of Services :</b>				
21.84	-	-	<b>21.84</b>	<b>Service cost comprising:</b>	22.65	-	-	<b>22.65</b>
0.17	-	-	<b>0.17</b>	current service cost	1.00	-	-	<b>1.00</b>
-	-	-	-	past service costs	-	-	-	-
				(gain)/loss from settlements				
				<b>Financing &amp; Investment</b>				
				<b>Income &amp; Expenditure :-</b>				
6.04	0.20	0.11	<b>6.35</b>	Net interest expense	6.47	0.19	0.10	<b>6.76</b>
				<b>Total Post Employment</b>				
				<b>Benefit Charged to the</b>				
				<b>Surplus or Deficit on the</b>				
				<b>Provision of Services</b>	<b>30.12</b>	<b>0.19</b>	<b>0.10</b>	<b>30.41</b>
<b>28.05</b>	<b>0.20</b>	<b>0.11</b>	<b>28.36</b>	<b>Other Post Employment</b>				
				<i>Remeasurements of the net</i>				
				<i>defined benefit liability</i>				
				<i>comprising:</i>				
				Return on plan assets				
				(excluding the amount				
				included in the net interest				
(13.42)	-	-	<b>(13.42)</b>	expense)	(40.76)	-	-	<b>(40.76)</b>
				Actuarial (gains) / losses due				
				to changes in financial				
13.85	0.07	0.03	<b>13.95</b>	assumptions	46.24	0.19	0.07	<b>46.50</b>
				Actuarial (gains) / losses due				
				to changes in demographic				
-	-	-	-	assumptions	(32.89)	(0.33)	(0.20)	<b>(33.42)</b>
				Actuarial (gains) / losses due				
4.22	0.03	(0.42)	<b>3.83</b>	to liability experience	1.33	0.02	0.01	<b>1.36</b>
				<b>Total Post-employment</b>				
				<b>Benefits charged to the</b>				
				<b>Comprehensive Income</b>	<b>(26.08)</b>	<b>(0.12)</b>	<b>(0.12)</b>	<b>(26.32)</b>
<b>4.65</b>	<b>0.10</b>	<b>(0.39)</b>	<b>4.36</b>	<b>and Expenditure Statement</b>				
				<b>Movement in Reserves</b>				
				<b>Statement:-</b>				
				Reversal of net charges made				
				for retirement benefits in				
(28.05)	(0.20)	(0.11)	<b>(28.36)</b>	accordance with IAS 19	(30.12)	(0.19)	(0.10)	<b>(30.41)</b>
				<b>Actual amount charged</b>				
				<b>against the Council Fund</b>				
				<b>Balance for pensions in the</b>				
				<b>year</b>				
15.69	0.47	0.39	<b>16.55</b>	Employer's Contributions	16.58	0.48	0.38	<b>17.44</b>
(22.44)	(0.47)	(0.39)	<b>(23.30)</b>	payable to the scheme	(30.34)	(0.48)	(0.38)	<b>(31.20)</b>
				Retirement Benefits Paid Out				



**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 are as follows:-

Local Govt Pension Scheme	LGPS Unfunded Benefits	Teachers' Unfunded Benefits	Total		Local Govt Pension Scheme	LGPS Unfunded Benefits	Teachers' Unfunded Benefits	Total
£m 2017-18	£m 2017-18	£m 2017-18	£m 2017-18		£m 2018-19	£m 2018-19	£m 2018-19	£m 2018-19
814.56	7.64	3.87	<b>826.07</b>	Present value of defined benefit obligation	847.86	7.23	3.47	<b>858.56</b>
(557.45)	-	-	<b>(557.45)</b>	Fair Value of Plan Assets	(603.29)	-	-	<b>(603.29)</b>
<b>257.11</b>	<b>7.64</b>	<b>3.87</b>	<b>268.62</b>	<b>Net liability arising from defined benefit obligation</b>	<b>244.57</b>	<b>7.23</b>	<b>3.47</b>	<b>255.27</b>

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

£m 2017-18		£m 2018-19
532.49	<b>Opening fair value of scheme assets at 1 April</b>	557.45
13.82	Interest income on assets	14.38
13.42	The return on plan assets, excluding the amount included in the net interest expense	40.76
15.69	Contributions by Employer	16.58
4.47	Contributions by Participants	4.46
(22.44)	Net Benefits Paid Out	(30.34)
<b>557.45</b>	<b>Balance as at 31 March</b>	<b>603.29</b>

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

Local Govt Pension Scheme	LGPS Unfunded Benefits	Teachers' Unfunded Benefits	Total		Local Govt Pension Scheme	LGPS Unfunded Benefits	Teachers' Unfunded Benefits	Total
£m	£m	£m	£m		£m	£m	£m	£m
2017-18	2017-18	2017-18	2017-18		2018-19	2018-19	2018-19	2018-19
772.59	7.81	4.54	784.94	<b>Opening balance at 1 April</b>	814.56	7.64	3.87	826.07
21.84	-	-	21.84	Current Service Cost	22.65	-	-	22.65
19.86	0.20	0.11	20.17	Interest Cost	20.85	0.19	0.10	21.14
4.47	-	-	4.47	Contributions from scheme participants	4.46	-	-	4.46
				Remeasurement (gains) and losses:				-
				Actuarial gains / losses arising from changes in financial assumptions	46.24	0.19	0.07	46.50
				Actuarial gains / losses arising from changes in demographic assumptions	(32.89)	(0.33)	(0.20)	-33.42
				Actuarial gains / losses arising from changes in liability experience	1.33	0.02	0.01	1.36
0.17	-	-	0.17	Past Service Cost	1.00	-	-	1.00
(22.44)	(0.47)	(0.39)	(23.30)	Benefits Paid	(30.34)	(0.48)	(0.38)	(31.20)
-	-	-	-	Liabilities extinguished on settlements	-	-	-	-
<b>814.56</b>	<b>7.64</b>	<b>3.87</b>	<b>826.07</b>	<b>Balance as at 31 March</b>	<b>847.86</b>	<b>7.23</b>	<b>3.47</b>	<b>858.56</b>

## Local Government Pension Scheme assets comprised:

Fair Value of Scheme Assets 2017-18 £m	Asset Split 2017-18 %		Fair Value of Scheme Assets 2018-19 £m	Asset Split 2018-19 %
<b>15.137</b>	<b>2.72</b>	<b>Cash and cash equivalents</b>	<b>6.80</b>	<b>1.13</b>
		<b>Equity Instruments:</b> <i>by industry type (FTSE Sector)</i>		
11.347	2.04	Oil & Gas	3.27	0.54
12.715	2.28	Basic Materials	7.92	1.31
54.757	9.82	Industrials	26.08	4.32
49.085	8.81	Consumer Goods	37.08	6.15
32.321	5.80	Health Care	10.02	1.66
46.941	8.42	Consumer Services	0.00	0.00
1.465	0.26	Telecommunications	0.67	0.11
2.325	0.42	Utilities	0.46	0.08
74.813	13.42	Financials	24.21	4.01
56.950	10.22	Technology	8.29	1.37
0.627	0.11	Real Estate	0.00	0.00
68.536	12.28	Pooled Equity Investment Vehicles	285.68	47.35
<b>411.882</b>	<b>73.88</b>	<b>Sub-total equity</b>	<b>403.67</b>	<b>66.91</b>
		<b>Bonds:</b> <i>By Sector</i>		
52.106	9.35	Corporate	75.09	12.45
49.121	8.81	Government	72.20	11.97
<b>101.227</b>	<b>18.16</b>	<b>Sub-total bonds</b>	<b>147.29</b>	<b>24.41</b>
		<b>Property:</b> <i>By Type</i>		
6.670	1.20	Retail	7.24	1.20
4.036	0.72	Office	6.06	1.00
8.446	1.52	Industrial	13.43	2.23
10.052	1.80	Other Commercial	18.80	3.12
<b>29.204</b>	<b>5.24</b>	<b>Sub-total property</b>	<b>45.53</b>	<b>7.55</b>
<b>557.450</b>	<b>100.00</b>	<b>Total assets</b>	<b>603.29</b>	<b>100.00</b>

## 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:

2017-18 % pa		2018-19 % pa
2.60	Discount rate	2.40
2.10	Rate of pension increases	2.20
3.35	Rate of salary increases	3.45
Years		Years
	<i>Mortality Assumptions:</i>	
	Longevity at 65 for current pensioners :-	
22.90	Men	22.20
25.00	Women	24.10
	Longevity at 65 for future pensioners :-	
25.10	Men	23.90
27.30	Women	25.90

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below has 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 2017-18 £m	Decrease in Assumption 2017-18 £m		Increase in Assumption 2018-19 £m	Decrease in Assumption 2018-19 £m
(14.84)	15.12	Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(15.45)	15.74
2.98	(2.95)	Rate of increase in salaries (increase or decrease by 0.1%)	3.12	(3.09)
12.12	(11.92)	Rate of increase in pensions (increase or decrease by 0.1%)	12.59	(12.39)
24.53	(24.34)	Longevity (increase or decrease in 1 year)	27.41	(27.12)

### 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 based on information as at 31 March 2019 during 2019-

20. 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 2020 are:-

	2019-20 £m
Local Government Pension Scheme	29.80
LGPS Unfunded	0.17
Teachers Unfunded	0.08
<b>Total</b>	<b>30.05</b>

The weighted average duration of the defined benefit obligation for the scheme members is 18.4 years, which is the same as for 2017-18.

### Teachers

In 2018-19, the Council paid £8.3 million (£8.15 million for 2017-18) to the Teachers Pensions Agency in respect of teachers' pension costs. In addition, the Council is responsible for all pension payments relating to added years awarded, together with the related increases. In 2018-19, these amounted to £0.5 million (£0.415 million for 2017-18).

### 31. Financial Instruments Disclosures

#### Categories of Financial Instruments

The following categories of financial instruments are carried in the Balance Sheet:

#### Financial Assets

31 March 2018					31 March 2019			
Current		Non-current			Current		Non-current	
Invest- ments £'000	Debtors £'000	Invest- ments £'000	Total £'000		Invest- ments £'000	Debtors £'000	Invest- ments £'000	Total £'000
20,172	7,654	9,010	36,836	Amortised Cost	21,105	7,016	4,011	32,132
<b>20,172</b>	<b>7,654</b>	<b>9,010</b>	<b>36,836</b>	<b>Total financial asset</b>	<b>21,105</b>	<b>7,016</b>	<b>4,011</b>	<b>32,132</b>
-	-	4,360	4,360	Non-financial assets	-	-	4,635	4,635
<b>20,172</b>	<b>7,654</b>	<b>13,370</b>	<b>41,196</b>	<b>Total</b>	<b>21,105</b>	<b>7,016</b>	<b>8,646</b>	<b>36,767</b>

The current investments figure above includes accrued income receivable for long term investments in addition to short term interest.

The £7.016m (2017-18: £7.654 million) debtors figure above relates to trade debtors for goods and services delivered and is included in the overall debtors figure of £32.3 million (2017-18: £31.058 million) included in the balance sheet. More information in relation to debtors can be found at note 23.

## Financial Liabilities

31 March 2018					31 March 2019			
Current		Non-current			Current		Non-current	
Borrowings £'000	Creditors £'000	Borrowings & Other Long Term Liabilities £'000	Total £'000		Borrowings £'000	Creditors £'000	Borrowings & Other Long Term Liabilities £'000	Total £'000
(2,623)	(4,225)	(117,688)	(124,536)	Amortised Cost	(2,551)	(5,687)	(114,466)	(122,704)
(2,623)	(4,225)	(117,688)	(124,536)	<b>Total</b>	<b>(2,551)</b>	<b>(5,687)</b>	<b>(114,466)</b>	<b>(122,704)</b>

The current borrowings figure above includes £1.953 million of accrued interest payable for the year.

The current creditors figure of £5.687 million (2017-18: £4.225 million) relates to trade creditors for goods and services received of £5.132 million (2017-18: £3.704 million) and £0.555 million (2017-18: £0.521 million) monies held by the Council on behalf of third parties and is included in the overall creditors figure of £31.509 million (2017-18: £32.254 million) on the balance sheet. More information in relation to creditors can be found at note 25.

## 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.

31 March 2018 Gross Assets (Liabilities) £'000	Offsetting of Financial Assets and Liabilities	31 March 2019 Gross Assets (Liabilities) £'000
1,871	Bank Accounts in Credit	1,859
<b>1,871</b>	<b>Total Financial Assets</b>	<b>1,859</b>
(1,980)	Bank Overdrafts	(1,982)
<b>(1,980)</b>	<b>Total Financial Liabilities</b>	<b>(1,982)</b>
<b>(109)</b>	<b>Net Position on Balance Sheet</b>	<b>(123)</b>

## Income, expense, gains and losses

The income, expense, gains and losses recognised in the Comprehensive Income and Expenditure Statement for financial instruments is shown below:



31 March 2018				31 March 2019		
Financial Liabilities Amortised Cost	Financial Assets Amortised Cost	Total		Financial Liabilities Amortised Cost	Financial Assets Amortised Cost	Total
£'000	£'000	£'000		£'000	£'000	£'000
5,979	-	5,979	Interest Expense	5,910		5,910
-	(959)	(959)	Investment Income and Other Interest Receivable	-	(1,012)	(1,012)
<b>5,979</b>	<b>(959)</b>	<b>5,020</b>	<b>Net (gain)/loss for the year</b>	<b>5,910</b>	<b>(1,012)</b>	<b>4,898</b>

#### Fair Values of Financial Assets and Liabilities that are not measured at Fair Value

The Council does not have any financial assets or liabilities that are carried at fair value. The fair values calculated for assets held at amortised cost are detailed below.

31 March 2018		Financial Assets	31 March 2019	
Carrying amount £'000	Fair Value £'000		Carrying amount £'000	Fair Value £'000
		<b>Financial assets held at amortised cost:</b>		
9,010	8,993	Long-term investments	4,011	4,010
<b>9,010</b>	<b>8,993</b>	<b>Total interest revenue</b>	<b>4,011</b>	<b>4,010</b>

The fair value of **Financial Assets** is lower than the carrying amount because the interest rate on similar investments at the balance sheet date is higher than that agreed when the investment was originally made. The fair value of financial assets is calculated on other significant observable inputs (Level 2) which is interest rates for similar instruments.

31 March 2018		Financial Liabilities	31 March 2019	
Carrying amount £'000	Fair Value £'000		Carrying amount £'000	Fair Value £'000
		<b>Financial liabilities held at amortised cost:</b>		
(77,617)	(111,012)	PWLB	(77,617)	(110,769)
(19,804)	(31,843)	LOBOs	(19,795)	(31,507)
(20,267)	(28,500)	PFI and other long term liabilities	(17,054)	(25,391)
<b>(117,688)</b>	<b>(171,355)</b>	<b>Total</b>	<b>(114,466)</b>	<b>(167,667)</b>

The fair value of **Financial Liabilities** is higher than the carrying amount because the Council's portfolio of loans includes a number of loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date.

The fair value of liabilities is calculated using other significant observable inputs (Level 2) as follows:

- PWLB – Public Works Loan Board – market rates for local authority loans of the same remaining term to maturity as at the Balance Sheet date

- LOBO – Lender’s Option Borrower’s Option – 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 Bermudian 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 rate.
- Other financial liabilities – discounted contractual cash flows at the appropriate AA-rated corporate bond yield.

### Nature and extent of risks arising from Financial Instruments

The Council’s activities expose it to a variety of financial risks including:

- **Credit risk** – the possibility that other parties may 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 unplanned financial loss may arise for the Council as a result of changes in such measures as interest rates movements.

The Council’s overall risk management strategy is approved by Council and set out within its annual Treasury Management Strategy. The Strategy sets out the parameters for the management of risks associated with financial instruments which covers specific areas such as interest rate risk, credit risk and the investment of surplus cash.

#### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council’s customers. The risk is minimised through the Annual Investment Strategy included in the Council’s Treasury Management Strategy, which is available on the Council’s website via Council agenda Medium Term Financial Strategy [here](#).

The Council’s credit risk management practices are set out within the Investment Strategy. In determining whether the credit risk of financial instruments has increased since initial recognition, the Council has reviewed the creditworthiness of its investments and has concluded that there has not been a significant increase in credit risk.

The Council’s primary objective is to give priority to security and liquidity prior to consideration of yield. Counterparty limits are constantly reviewed and where market conditions dictated, limits are reduced. During the year there were no changes that required the Council to consider any investments having an increased credit risk.

#### Credit risk exposure

As at 31 March 2019 the Council had the following exposure to credit risk. £21.049 million of the £27.469 million investments outstanding at 31 March 2019 were invested with other Local Authorities, where an expected loss allowance is not required. For those financial assets where a 12 month expected credit loss is calculable, the calculated credit loss is £3,693. This has been calculated by reference to historic default data published by credit rating agencies as advised by our Treasury Management Advisors. Due to the immateriality of the expected credit loss, no adjustment has been made in the accounts for this.

	Credit risk rating (as used by the Council)	Gross carrying amount £'000
12 month expected credit losses	AA-	2,013
	A	3,407
	Building Society - Unrated	1,000
Simplified approach	Local Authorities - unrated	21,049
<b>TOTAL</b>		<b>27,469</b>

Council does not generally allow credit for its customers (trade debtors) such that all the trade debtors are recognised as short term, however, £4.271 million balance of debtors is past due date for payment. These are not included in the credit risk table above.

### 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. The Council sets limits on the maturity structure of fixed rate borrowing such that no more than 50% of loans are due to mature in any one year through careful planning of new loans taken out and (where it is beneficial to do so) making early repayments. The maturity analysis of financial liabilities is as follows:

31 March 2018 £'000	Maturity Analysis Financial Liabilities	31 March 2019 £'000
(7,605)	Less than 1 year	(11,314)
(830)	Between 1 and 2 years	(891)
(5,277)	Between 2 and 5 years	(3,092)
(19,152)	Between 5 and 10 years	(19,410)
(31,236)	Between 10 and 20 years	(29,888)
(41,389)	More than 20 years	(41,390)
(19,804)	Uncertain date*	(19,795)
<b>(125,293)</b>	<b>Total Financial Liabilities</b>	<b>(125,780)</b>

\* This refers to the Lender's Options Borrower's Options which may be rescheduled in advance of their maturity date of 2054, however, the Council does not anticipate this will occur due to the current low interest rates.

All trade and other payables are due to be paid in less than one year.

### 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.

### Interest Rate Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services 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 Surplus or Deficit on the Provision of Services will rise
- 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 asset will fall

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investment will be posted to the Surplus or Deficit on the Provision of Services and affect the Council Fund Balance.

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 2019, if there had been a 1% change in interest rates with all other variables held constant, the financial effect would be approximately:

	Estimated £'000 + 1%	Estimated £'000 -1%
Interest payable on variable rate borrowings	133	-
Interest receivable on variable rate investments	(156)	156
<b>Impact on Surplus or Deficit on Provision of Services</b>	<b>(23)</b>	<b>156</b>

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.

### **Price risk**

As the Council has not invested in instruments that are subject to price risk, such as bank certificates of deposit and Government Bonds, it is not subject to price risk.

### **Foreign Exchange Risk**

The Council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

### **Transition to IFRS9 Financial Instruments**

The Council adopted the IFRS9 Financial Instruments accounting standard with effect from 1 April 2018. The main changes include the reclassification and re-measurement of financial assets and the earlier recognition of the impairment of financial assets. The Council has made use of the transitional provisions in IFRS9 to not restate the prior year's financial statements, the effect of the re-measurement instead shown as an additional line in the Movement in Reserves Statement.

The nature of the Council's financial instruments has meant no changes to the Council's balance sheet on transition.

**32. Events after the Reporting Period**

The draft Statement of Accounts was authorised for issue by the Director of Finance on 28 May 2019. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2019, the figures in the financial statements and notes would be adjusted in all material respects to reflect the impact of this information. There have been no events after the balance sheet date that have required adjustment to the financial statements or notes.

**33. 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 31 March 2019 the Council had no contingent liabilities.

## Notes to the Cash Flow Statement

### 34. Adjustments for Non-Cash Movements

2017-18 £'000		2018-19 £'000
(24,451)	Depreciation & Impairment of Assets	(3,922)
(2,493)	Movement in Inventories, Debtors & Creditors	5,340
(11,810)	Pension Fund Adjustments	(12,970)
(536)	Provisions	(2,034)
(2,389)	Disposal of Non Current Asset	(2,159)
350	Changes in Fair Value of Investment Property	275
<b>(41,329)</b>	<b>Adjustments to net deficit on the provision of services for non-cash movements</b>	<b>(15,470)</b>

### 35. Operating Activities

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

2017-18 £'000		2018-19 £'000
(16,564)	Cash Flow on Revenue Activities	(9,577)
2,889	Interest Paid	4,549
1,412	Interest element of finance lease and PFI rental payments	1,360
(949)	Interest Received	(1,040)
<b>(13,212)</b>	<b>Net Cash Flows from Operating Activities</b>	<b>(4,708)</b>

### 36. Investing Activities

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

2017-18 £'000		2018-19 £'000
29,916	Purchase of Property, Plant and Equipment and Intangibles	21,477
(1,482)	Purchase / (Proceeds) from Short Term Investments	(5,028)
(573)	Proceeds from sale of Property, Plant and Equipment and Investment Property	(1,884)
<b>27,861</b>	<b>Net Cash Flows from Investing Activities</b>	<b>14,565</b>

### 37. Financing Activities

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

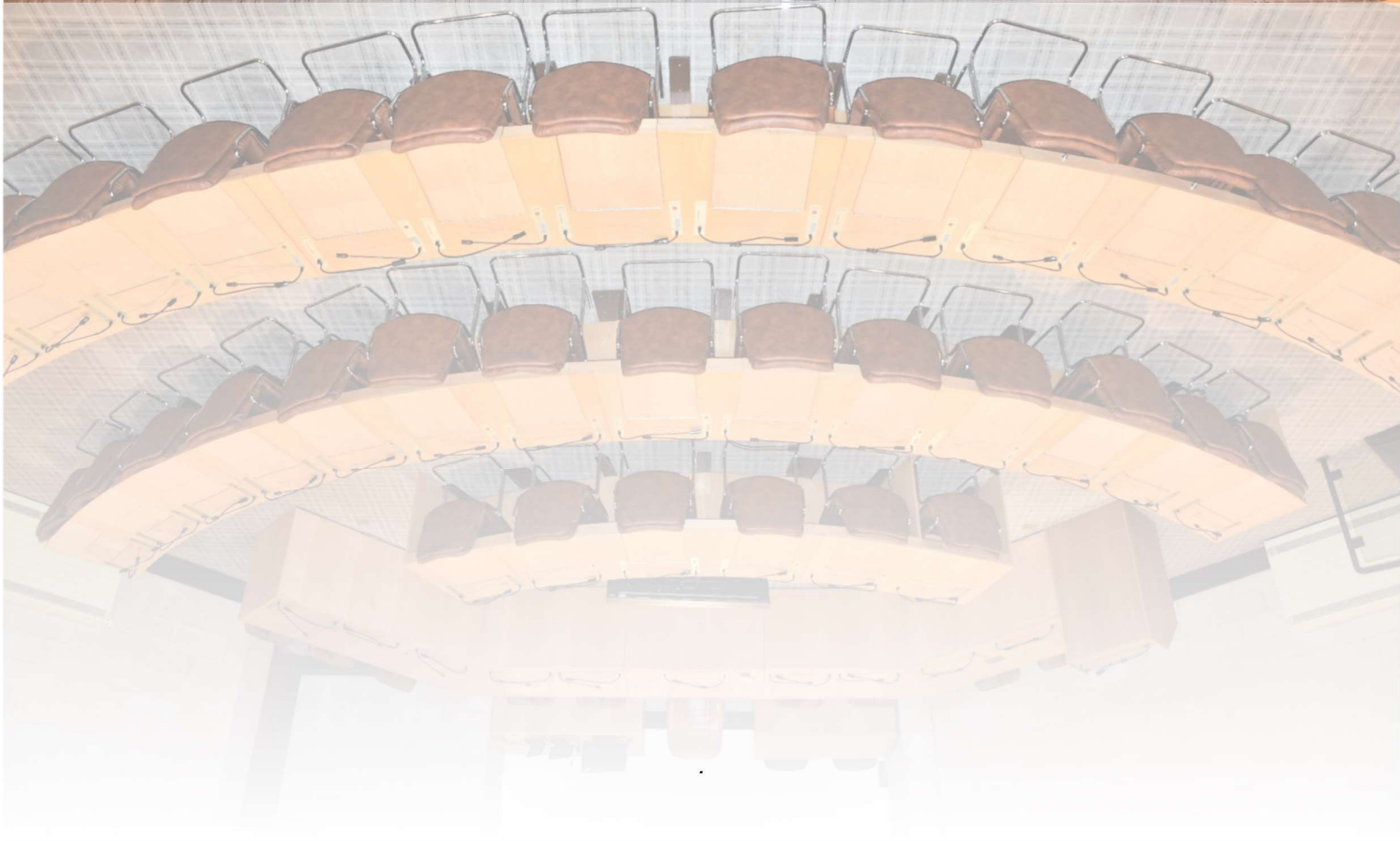
2017-18 £'000		2018-19 £'000
(5,660)	Cash Receipts of short and long term borrowing	(2,920)
(11,413)	Other Receipts from financing activities	(10,900)
4,000	Repayments of short and long term borrowing	3,000
<b>(13,073)</b>	<b>Net Cash Flows from Financing Activities</b>	<b>(10,820)</b>

**The independent auditor's report of the Auditor General for  
Wales to the Members of Bridgend County Borough Council**









## Foreword

### “One Council working together to improve lives”

This is the Council’s vision as stated in the [Corporate Plan](#) for 2018-2022 reviewed for 2019-20, which also sets out what our long-term Well-being objectives are so that amongst all of the complexity of increased demand and reduced resources we can keep a clear focus on what is really important for our communities.

We want to contribute to a place where people love to live, work, study and do business, where people are qualified with the skills they need to improve their life chances and enjoy good health and independence.

It is necessary to ensure that our communities and those that use and pay for our services, those who deliver our services and our partners and suppliers have confidence in our governance arrangements. They must be assured that the way we provide our services are effectively and efficiently delivered on a consistent basis, that public money is safeguarded and properly accounted for; and that decisions are taken transparently and lawfully.

The Council also has a duty to set well-being objectives under the Future Generations (Wales) Act and the Local Government (Wales) Measure 2009 to make arrangements to secure continuous improvement in delivering its functions in terms of strategic effectiveness, service quality, service availability, fairness, sustainability, efficiency and innovation.

Our governance arrangements operate effectively in supporting the Council in meeting its challenges and responsibilities. Improvements are continually being made and opportunities to do so have been identified. These are being monitored during 2019-20 to ensure that the necessary improvements are made.



Mark Shepherd  
Chief Executive



Cllr Huw David  
Leader of the Council





*Pencoeed Primary 2018*

## What is Corporate Governance?

Corporate governance comprises the systems, processes, culture and values by which the Council is directed and controlled, led and held to account, and how it engages with stakeholders. It is also about the way that Councillors and employees think and act.

The Governance Framework 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.

## What this Statement tells you

This Statement describes the extent to which the Council has complied with its Code of Corporate Governance and the requirements of the Accounts and Audit (Wales) Regulations 2014, for the year ended 31 March 2019.

It also sets out how the Council has responded to governance issues identified during 2017-18 and actions to be undertaken during 2019-20 following an annual review of the Governance Framework.

The Statement has been prepared in accordance with the 2016 guidance: '[Delivering Good Governance in Local Government Framework](#)' produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE)

## The Council's Governance Responsibilities

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

It also has a duty 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<sup>1</sup>.

The Council must consider the longer term impact of any decisions it makes, and should work collaboratively with other public bodies to improve wellbeing in Wales.<sup>2</sup>

As a public body the Council has to ensure it delivers sustainable economic, societal and environmental outcomes as a key focus of its governance process and structures. This is achieved by:

- behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law
- ensuring openness and comprehensive stakeholder engagement

The Council's Code of Corporate Governance sets out its commitment to, and responsibility for, ensuring that there is a sound system of governance in place. The [Code](#) is on the Council's website or can be obtained from the Section 151 Officer.

The Council's Code of Corporate Governance sets out the seven principles in line with the CIPFA Code.

Bridgend County Borough Council Code of Governance (2017)	
The Council's Governance Principles are based on the following:	
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



<sup>1</sup> Local Government (Wales) Measure 2009

<sup>2</sup> Well-being of Future Generations (Wales) Act 2015

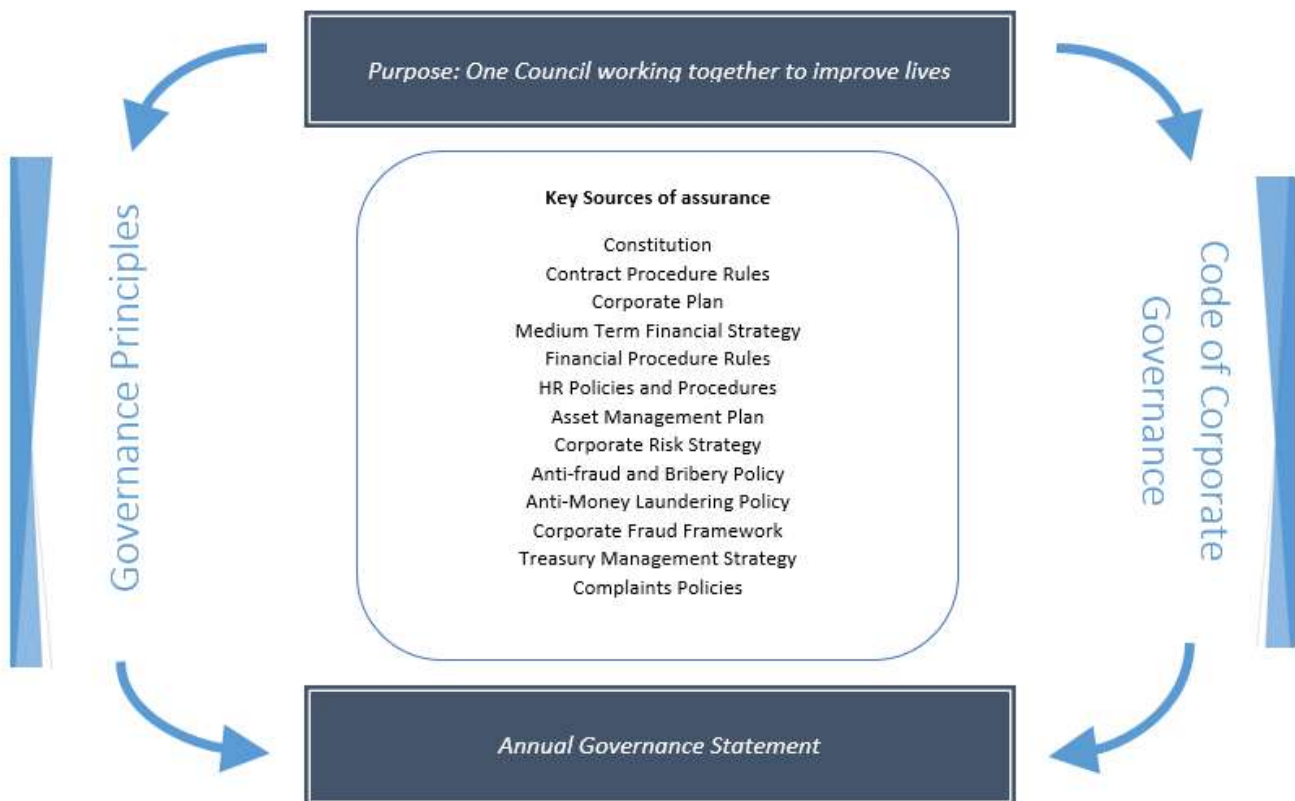
## The Governance Framework

**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.**

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 the risk, the system of internal control is designed to identify and prioritise risks, evaluate the likelihood of those risks materialising and manage their impact.

In order to review the effectiveness of the governance framework, assurances are provided to, and challenged by, the Audit Committee, Scrutiny Committees, Council, Cabinet and Corporate Management Board as appropriate. In addition the Section 151 Officer promotes and delivers good financial management and the Monitoring Officer legal and ethical assurance.

Some of the key elements of the governance framework are highlighted below.



The Council is one of ten Councils jointly delivering the Cardiff Capital Region City Deal (CCRCD), which has in place joint Scrutiny and Cabinet to ensure governance in its implementation. The CCRCD aims to raise economic prosperity, job prospects and improve digital and transport connectivity and is a significant investment into the South Wales economy. The Council is committed to contributing to the delivery of these objectives across the region to ensure that the community and business within the Borough can benefit from this investment.



In March 2018 a Welsh Government consultation on health boundary changes for people in the area of Bridgend County Borough Council ended. The result of the consultation was that from 1<sup>st</sup> April 2019, local authority and Health Services in Bridgend and a number of local authority regional partnership arrangements would be moved from the Western Bay Region/Abertawe Bro Morgannwg University Health Board (ABMU) to the Cwm Taf Region.

During 2018-19 the Council has adopted a structured approach to the disaggregation of regional services, which has required close working with a range of partners to ensure that where regional funding supports integrated services, such services are accounted for between Western Bay, ABMU Health Board and Bridgend County Borough Council. In planning for the changes to regional boundaries a Transition Programme was established including, at various levels, officers from the two Health Boards, the Council and the third sector. The overarching Board and associated work streams set the governance structure that supported the Transition Programme. The Council's representation is as follows:

- Joint Transition Board: the Leader/Cabinet Member for Social Services and Wellbeing and the Chief Executive/Corporate Director, Social Services and Wellbeing
- Joint Transition Programme Group: Corporate Director, Social Services and Wellbeing
- Work Streams: all relevant service areas within Bridgend County Borough Council are linked in to their counterparts in the various work streams

From 1<sup>st</sup> April 2019 the governance structure for the new partnership arrangements will be through the Cwm Taf Morgannwg Regional Programme Board.



## The Corporate Plan

The Corporate Plan 2018-22, agreed in February 2018, sets out the Council’s vision: **‘One Council working together to improve lives’**. The Plan defines the Council’s three priorities – also known as our Well-being objectives – that sets out how the Council intends to deliver them. The Council defines its purpose to ‘contribute to a place where people love to live, work, study and do business, where people are qualified with the skills they need to improve their life chances and enjoy good health and independence’.



Underpinning the Council’s Corporate Plan and throughout its decisions-making process, the principles of the Well-being of Future Generations (Wales) Act 2015 are applied.

**Long-term:** thinking of future generations and of our natural resources.

**Prevention:** stop problems arising – don’t create new problems.

**Integration and collaboration:** with colleagues and partners. Ensure decisions are joined up across services and work more closely with partners in the public, private and third sectors.

**Involvement:** consult and involved local people in planning and delivering services.

Welsh language – Wales has two official languages, Welsh and English, and services and information should be equally available in both. The Council’s internal business language is English, but all the services and information we provide for local people will be equally available in either language.

The Corporate Plan identifies a number of key principles which underpin its Well-being objectives and has adopted a set of values that represent what the Council stands for and influences how it works.



Bridgend Council's Well-being objectives	
<b>Supporting</b> a successful economy <b>Helping</b> people to become more self-reliant <b>Smarter</b> use of resources	
Key Principles	Values
<p>Where ever possible <b>the Council</b> will support communities and people to create their own solutions and reduce dependency on the Council</p> <p><b>The Council</b> will focus diminishing resources on communities and individuals with the greatest need</p> <p><b>The Council</b> will use good information from service users and communities to inform its decisions</p> <p><b>The Council</b> will encourage and develop capacity amongst the third sector to identify and respond to local needs</p> <p><b>The Council</b> will not let uncertainty over the future of public services prevent meaningful and pragmatic collaboration with other public sector bodies</p> <p><b>The Council</b> will work as one Council and discourage different parts of the organisation from developing multiple processes or unnecessarily different approaches</p> <p><b>The Council</b> will transform the organisation and many of its services and in so doing will deliver financial budget reductions as well as improvements</p>	<p><b>Fair</b> – taking into account everyone's needs and situations</p> <p><b>Ambitious</b> – always trying to improve what we do and aiming for excellence</p> <p><b>Citizen-focused</b> – remembering that we are here to serve our local community</p> <p><b>Efficient</b> – delivering services that are value for money</p>

## Assessing Performance

**The Councils' performance is reported in its Annual Report, its annual self-evaluation of progress against the Council's Corporate Plan.**

The Wales Audit Office, our External Auditor, assesses the Council's arrangements for delivering continuous improvement and subsequent performance, the results of which are published in their Annual Improvement Report. For 2017-18 they reported that 'the Auditor General believes that the Council is likely to comply with the requirements of the Local Government Measure (2009) during 2018-19'. Whilst there will always be areas where improvements can be made, the Auditor General made no formal recommendations, which demonstrates the commitment of the Council to continuous improvement.





## External Assessments of Performance

The Council is also inspected by other organisations, including the Care Inspectorate Wales (CIW) and Estyn. Early in the year CIW reported on its review of the Joint Adoption Service, shared with Swansea and NeathPortTalbot Councils. Whilst some recommendations for improvement were made, and an action plan has been put in place to address these, the overall assessment of this review was that adopters and people receiving adoption support receive a good service.

In November 2018, Her Majesty's Inspectorate of Probation (HMIP) were joined by colleague inspectors from Police, Health, Social Care and Education and undertook a two-week inspection of Youth Offending Service (YOS) in Western Bay. The report has now been received and the overall rating of the Western Bay YOS was deemed inadequate. There are twelve domains within the inspection framework and nine of the twelve were rated as inadequate. One was rated as needing improvement, one was good with joint working rated as outstanding. Bridgend YOS was already planning to disaggregate from Western Bay before the inspection, due to the Council's migration to Cwm Taf Morgannwg University Health Board, which became effective on 1<sup>st</sup> April 2019. Bridgend has therefore produced an individual post-inspection action plan for improvement. This will be monitored on a fortnightly basis by the YOS Strategic Lead and Operational Manager, who will meet with the Youth Justice Board.

An Estyn inspection of Education took place at the end of March 2019, the outcome of which is due at the end of May. The Council will respond to any recommendations within a Post Inspection Action Plan. This will be monitored by the School Improvement Group.

## Decision Making and Responsibilities

**The Council consists of 54 elected Members, with an elected Leader and Cabinet who are supported and held to account by Scrutiny Committees.** The Council's constitution sets out how the Council operates, how decisions are made and the procedures for ensuring that the Council is efficient, transparent and accountable to local people. It contains the basic rules governing the Council's business, and sets out a list of functions and decisions exercisable by officers. It also contains the rules and protocols by which the Council, Members and officers operate.



Through the Constitution, along with the Member's Code of Conduct, Standards Committee and role of internal audit, the Council operates with **integrity**, **ethical values** and within its **legal** powers.

All Council and Committee meetings' agendas, papers and minutes can be viewed on-line and all meetings are open to the public unless exempt or confidential matters are being discussed. The Council's forward work programme contains information about all matters that are likely to be the subject of a decision taken by full Council or Cabinet during the forthcoming period. They also include information regarding Scrutiny Committees. To further enhance **openness** and **comprehensive stakeholder engagement** the Council has a Citizen's Panel, which takes part in surveys on a range of issues. The Council also uses social media to promote services and engage with the public and makes information available on a range of formats to maximise the opportunity for information sharing and residents communicating with the Council.

## Managing Risk

**The Council faces a range of risks as would be expected from the broad range of services it delivers and activities it is engaged with. On a day-to-day basis operational risk arises from the challenge of ensuring sufficient capacity and capability to advise on, and to deliver, the key policy objectives of the Council.**

The Council has developed a robust approach to the management of risk. The Corporate Risk Management Policy is aligned with Directorate Plans and the Council's performance management framework. The Council defines risk as: 'Any potential development or occurrence which, if it came to fruition, would jeopardise the Council's ability to:

- achieve its Well-being objectives
- provide services as planned
- fulfil its statutory duties, including the duty to make arrangements to secure continuous improvement.'

Risks are viewed from both a Service and Council-wide perspective which ensures the key risks are distilled in the [Corporate Risk Assessment](#). The Risk Assessment sets out how the Council is addressing these risk and the mitigating actions it will put in place to reduce them. It is regularly reviewed and challenged by both senior management and the Audit Committee. A strategic review of the management control framework, or 'health' of the Council, identified more than one risk scoring mechanism was being used, the Council has implemented a consistent risk matrix across all services.

It is not possible to eliminate all risk of failure to meet the targets in the Council's policies, aims and objectives and cannot therefore provide absolute assurance of effectiveness, but one of reasonable assurance.

## Financial Management

**The financial management of the Council is conducted in accordance with all relevant legislation and the Constitution. The Council has in place Financial Procedure Rules and Contract Procedure Rules, and the scheme of delegation provides the framework for financial control. The Section 151 Officer is responsible 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.**

The Council's ability to deliver savings and contain its expenditure within its overall budget is well established. However, the Council faces significant challenges in the future in the face of further Government plans to cut public spending and significant uncertainty as a result of Brexit and the impacts this might have on Council services. The Council estimates that it will need to generate approximately £35 million of savings over the period 2019-20 to 2022-23. The Medium Term Financial Strategy has taken account of cost pressures and priority areas in line with the Corporate Plan, and involved extensive consultation to ensure a robust process. Given the single-year funding provided by the Welsh Government, the Council has developed detailed budgets for year on of the Strategy with indicative budgets thereafter based on a range of funding scenarios.



### Consultation overview

Over the past four years, we have made budgetary savings of more than £30 million. Some of the ways we have done this include:

- cutting senior management and reducing our workforce by more than 400 employees
- transferring cultural services to Awen Cultural Trust
- reducing provision of some services like public conveniences and street cleaning

Also, we have made a wide range of investments including state-of-the-art new schools, new sea defences, and new highways improvements.

Despite the changes made to date, we still have to make a further £35 million saving by 2023, which is currently 13.5% of our net budget.

In this consultation, some of the areas we are asking you about include:

- council tax
- leisure and cultural services
- schools and education
- transport
- recycling and waste
- social services

The Council has in place robust arrangements for effective financial control through the Council's accounting procedures, key financial systems and the Financial Procedure Rules. This includes established budget planning procedures and regular budget monitoring reports to Cabinet and Scrutiny Committee, as well as detailed information to budget holders. The Council prepares its Annual Accounts as required by the Accounts and Audit (Wales) Regulations and in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

The Council follows the CIPFA Code on Treasury Management and Welsh Government's Guidance on Local Authority Investments to ensure that funds invested are secure, accessible when necessary and attract an appropriate return and any borrowings needed are in line with the Council's Treasury Management Strategy, as approved by Council.





## Audit and Audit Assurances

**The Council is audited externally by the Auditor General for Wales, supported by the Wales Audit Office. The objectives of this are to obtain assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; that the accounts have been prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom; and to issue an opinion thereon. They also assess our arrangements for securing economy, efficiency and effectiveness in the use of resources.**

In 2018 the External Auditor gave an unqualified audit opinion on the financial statements 2017-18.

The Wales Audit Office also audit a number of grant claims and in the year completed 11 audits of grants and returns. The audit confirmed that there were generally sound working papers and all claims were certified ahead of the audit deadlines in place. One recommendation was made in relation to Housing Benefits, to continue to review the strength of the Council's arrangements for processing housing benefit claims, which the Council is in the process of doing.

The Internal Audit Service is a key means of assurance. During 2018-19 Bridgend had a joint service with the Vale of Glamorgan Council and the service operated to the Public Sector Internal Audit Standards (PSIAS). The Audit Committee approved the Internal Audit Charter for Bridgend and the Vale Audit Shared Service in April 2018. The Audit Committee also approve the Internal Audit Annual Plan and receives progress updates at every Audit Committee. The Head of Internal Audit's annual opinion as to the effectiveness of the Council's internal control environment for 2018-19 was:

***'I am able to give assurance to the Audit Committee and management that the Council's control environment is generally effective in achieving the organisation's objectives'***

The opinion states that, based on the work completed by the Internal Audit Shared Service for the financial year and the contribution to the Audit Plan made by the South West Audit Partnership, no significant cross-cutting control issues have been identified (other than that reported in the outturn report) that would impact on the Council's overall control environment. The weaknesses that have been identified are service specific.

The recommendations made to improve the overall control environment have been accepted and are being/will be implemented.

The **Audit Committee** provides independent assurance on the Council's internal control environment. It is a statutory requirement and consists of 11 Councillors and 1 Lay Member. Its main functions are:

- Review & scrutinise reports and recommendations in relation to the Council's Financial Affairs
- Review & scrutinise reports and recommendations on the appropriateness of the Council's risk management, internal control and corporate governance arrangements
- Oversee the Council's internal and external audit arrangements
- To be responsible for ensuring effective scrutiny of the Treasury Management Strategy and Policies
- To monitor the Council's Anti-Fraud and Bribery Strategy, Whistleblowing Policy and Anti-Money Laundering Policy
- To Review and approve the Council's Annual Governance Statement and the Annual Statement of Accounts
- To review and consider reports from the External Auditor and Inspectors

Of significant issue for the Internal Audit Shared Service is the continuing lack of resources and the impact this has had on delivering the 2018-19 Audit Risk Based Plan. During the whole of the year, the Shared Service has carried a high level of vacancies and as a consequence the services of the South West Audit Partnership were commissioned to help address the shortfall. 2018-19 has continued to be a challenging year for the Shared Service and as predicted, South West Audit Partnership have once again assisted with the delivery of the 2018-19 Risk Based Plan. From 1<sup>st</sup> April 2019 a new Regional Audit Shared Service was established with two more Councils joining the partnership – Rhondda Cynon Taff County Borough Council and Merthyr Tydfil County Borough Council. There will still need to be some latitude required during 2019-20 to facilitate this transitional period from all parties concerned.

During the year there were interim arrangements in place in relation to two of the key statutory officers of the Council and members of the Corporate Management Board. However, in May 2019 the Chief Executive, as Head of Paid Service, has been confirmed in post following a competitive process. This is the former Corporate Director – Communities who had been appointed on an interim basis as Chief Executive in December 2018. Also during the year there have been continued interim arrangements in place to cover the statutory position of the Council's Section 151 Officer/Head of Finance, which does cause some concern from a continuity and capacity perspective. Whilst there is little or no risk in the short term as the Statutory Officer is extremely experienced and more than capable to fulfil the role, it is important that the interim position is permanently addressed as soon as possible to ensure that the Council's corporate governance arrangements are not affected in the medium- to long-term. To help strengthen the resilience of the Finance function, a temporary Deputy Head of Finance and Section 151 Officer post was appointed in May 2019.

A strategic review of the Council was undertaken by the South West Audit Partnership with a final report issued in April 2018, which can be accessed [here](#). Five themes were reviewed:

- Governance
- Risk Management
- Commissioning and Procurement
- Programme & Project Management
- Information Management

For each of the corporate themes the strength of the management control framework in place was assessed against a benchmark model by identifying the presence or otherwise of key controls. This included the use of assurance from other sources, such as external audit, as well as internal audit reports. The overall assurance received from the strategic review with the exception of its Information Management indicated an overall **High Assurance** opinion. A follow-up audit on Information Management identified a number of areas for improvement which the Council has addressed, and provided a **Medium** assurance.

## Improving Governance

The progress made on the significant issues identified in the Council's 2017-18 Annual Governance Statement is shown below:

The Council should resolve how it will embed the sustainable development principle into decision-making	Whilst elected Members undertook an interactive workshop in November 2017 they have requested further training to be arranged in relation to the Well-being of Future Generations (Wales) Act 2015 to ensure they apply sustainable development principles in all decisions they make. An e-learning package has also been developed so that officers can undertake training to support the decision-making process
The Council should clearly set out how the impact of service changes will be monitored at the point of decision, with a clear set of criteria and a detailed options appraisal process considered when producing Council's decision reports	The Council has put in place a 'Well-being of Future Generations Assessment Form' that ensures the five ways of working and the seven Well-being goals of the Well-being of Future Generations (Wales) Act 2015 are considered as part of any decision making process. Use of the form will ensure that potential impacts of service changed are identified and proposals to maximise any positive impacts, or minimise any negative impacts, are provided as appropriate
The Scrutiny Forward Work Programme is not easily accessible on the website and that the website search function for officer and member decisions was not working properly. There were no links to items pre-2014. This limits transparency and access arrangements	The Council's web-pages have been redesigned and were launched in April 2018. The website is much more focussed and easy to navigate and search. The Forward Work Programme for the Scrutiny Committees can be found under the <a href="#">Scrutiny Committee pages</a> accessible from the Council's website
Concern at the vacancy rate of 50% within the Internal Audit service. Audit Committee to consider a review of resources in internal audit at a future meeting as part of setting the Internal Audit Plan	2018-19 has continued to be a challenging year for the Shared Service and as predicted, South West Audit Partnership have once again assisted with the delivery of the 2018-19 Risk Based Plan. From 1 <sup>st</sup> April 2019 a new Regional Internal Audit Shared Service was established with two more councils joining the partnership – Rhondda Cynon Taff County Borough Council and Merthyr Tydfil County Borough Council. There will still need to be some latitude required during 2019-20 to facilitate this transitional period from all parties concerned.
Concern of the ability of Internal Audit to deliver on its Audit Plan due to the lack of resources	As noted above, the Audit Plan has been substantially completed. Areas of work not undertaken during the year included: Asset Management and Youth Offending Service (which is undergoing an external inspection). The Asset Management review will be rolled forward into 2019-20
Corporate website has received 1 star rating. Work needed to upgrade and redesign website	The Corporate website has been redeveloped and was relaunched in April 2018. The development is ongoing including reviewing of 'micro-sites' that link from the Corporate website, and ensuring that all information is available bilingually to comply with the Welsh Language Act
Need to ensure that key policies and procedures are subject to a regular review process and/or in line with statutory timescales	Key policies and documents are reviewed and updated on at least an annual basis, including the Constitution, Corporate Plan, Annual Governance Statement, Treasury Management Strategy and Medium Term Financial Strategy. A number have been updated during the year including the Anti-Fraud and Bribery Policy and the Anti Money-Laundering Policy. A number of other key documents are updated on cyclical basis including the Strategic Equality Plan and Corporate Health & Safety Policy (4-yearly). However there are a number of policies that need updating in order to ensure that they are effective and relevant. These will be reviewed over the forthcoming period

Based on a review of the governance framework, the following significant issues identified in 2018-19 which will be addressed in 2019-20:

<p>Medium Term Financial Strategy – the economic uncertainty and increasing public expectations and demands facing public sector organisations continue to challenge and place pressures on the Council, impacting on its ability to deliver the required efficiencies.</p>	<p>The Council will continue to monitor external economic and fiscal information to ensure that it can respond quickly to unexpected events. This is particularly important in the post-Brexit era. Alongside this the Council will continue to transform how services are delivered and manage public expectations. All savings proposals will be closely monitored and mitigating action put in place to address any shortfalls</p>
<p>The findings from the HMIP report on Western Bay Youth Offending Service concluded that the overall rating was inadequate and that <i>'The governance and leadership of the service are ineffective. There is no vision, understanding of purpose or the strategy to provide a high-quality personalised responsive service to children and young people.'</i></p>	<p>The Western Bay Youth Offending Service has been disaggregated and a Bridgend Youth Justice Management Board set up with senior multi-agency representation, including the Cabinet Member – Communities and the Cabinet Member – Social Services and Early Help to take forward services within Bridgend. The Council has produced a Post Inspection Action Plan in response to the full joint inspection by HM Inspectorate of Probation. This further builds upon the list of priorities that were developed on receipt of the minutes from the Ratings Panel, which was held on 18<sup>th</sup> December 2018. The Action Plan will be monitored on a fortnightly basis by the YOS Strategic Lead and Operational Manager, and the Youth Justice Board (YJB)</p>
<p>Outcome of the Estyn Inspection on Education Services</p>	<p>Once the report is published any recommendations will be incorporated within a Post Inspection Action Plan which will be monitored by the Schools Improvement Group</p>
<p>The role of the s.151 Officer is filled on an interim basis pending decisions on way forward with the post in light of the appointment of the Chief Executive</p>	<p>The Chief Executive post was appointed in May 2019 and the appointment of the s151 Officer will be sought to be filled on a permanent basis at the earliest opportunity. A temporary Deputy Head of Finance and Deputy s151 Officer has been appointed to strengthen resilience within the Finance function</p>
<p>The impact of Brexit on services and finances could place increased pressures on Council resources</p>	<p>The Council will develop a strategy and action plan to identify potential impacts to the communities it supports, and have in place preparations for any financial consequences. The Council has established an internal cross-Directorate Brexit Forum, chaired by the Chief Executive, to explore the potential impact of Brexit on service delivery along with actions to mitigate against risks. The Forum will also explore any potential opportunities that might arise from Brexit. A report was presented to Cabinet in March setting out a Brexit risk register, which will be actively monitored and updated as necessary.</p>


<p>The Council's scrutiny functions should seek ways to improve its focus and scrutiny activity to ensure that the Council makes the most effective use of the resources available and improve the impact of scrutiny activity<sup>3</sup></p>	<p>Scrutiny Officers will maintain a record of the impact of scrutiny activity in order to both strengthen and learn from this in order to shape the future work of the scrutiny function. Following a recent 'Scrutiny Fit for Future?' review a report is being compiled detailing proposals to implement best practice and innovation used elsewhere. To ensure the Council's scrutiny function is as effective and comprehensive as possible the Scrutiny Chairs will meet quarterly to share learning and intelligence, identify areas of cross-over and discuss where there may be gaps in focus. Consideration is also being given to the skills and training that scrutiny members need to better prepare them for current and future challenges and to developing an appropriate training programme. Scrutiny continue to work effectively with external bodies such as WLGA, neighbouring authorities and third sectors to optimise the resources available to provide good scrutiny of council services</p>
<p>Digital Transformation and channel shift – the Council needs to continue to develop its online platforms to enable residents and businesses to interact with the Council digitally</p>	<p>The new responsive "Website" and the "Digital Platform" was launched in April 2018 and continues to mature and develop through the addition of new digital channels providing the Citizen the option to engage with the Council digitally alongside the traditional channels such as "face to face" and "telephony". The progress and success of the "Digital Platform" is dependent on the adoption of digital by the Council which will require cultural change to support transformation and efficiencies savings</p>

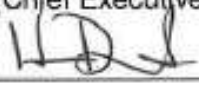
These issues will be monitored during 2019-20 and reported to Cabinet/Corporate Management Board and to the Audit Committee.

## Assurance

Subject to the above issues being resolved, we can provide an overall reasonable assurance that Bridgend County Borough Council's governance arrangements remain fit for purpose.

Steps to address the matters referred to above will be taken to further enhance our governance arrangements.

Signed:  Date: 22.5.19  
 (Chief Executive)

Signed:  Date: 22 5 19  
 (Leader)

<sup>3</sup> Wales Audit Office Annual Improvement Report 2017-18 – September 2018

## 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**

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.

### **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).

**International Financial Reporting Standards Interpretations Committee (IFRICs)**

The interpretative bod of the International Accounting Standards Board (IASB) designed to help the IASB improve financial reporting through timely identification, discussion and resolution of financial reporting issues within the framework of IFRS.

**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.







# Smaller relevant local government bodies in Wales

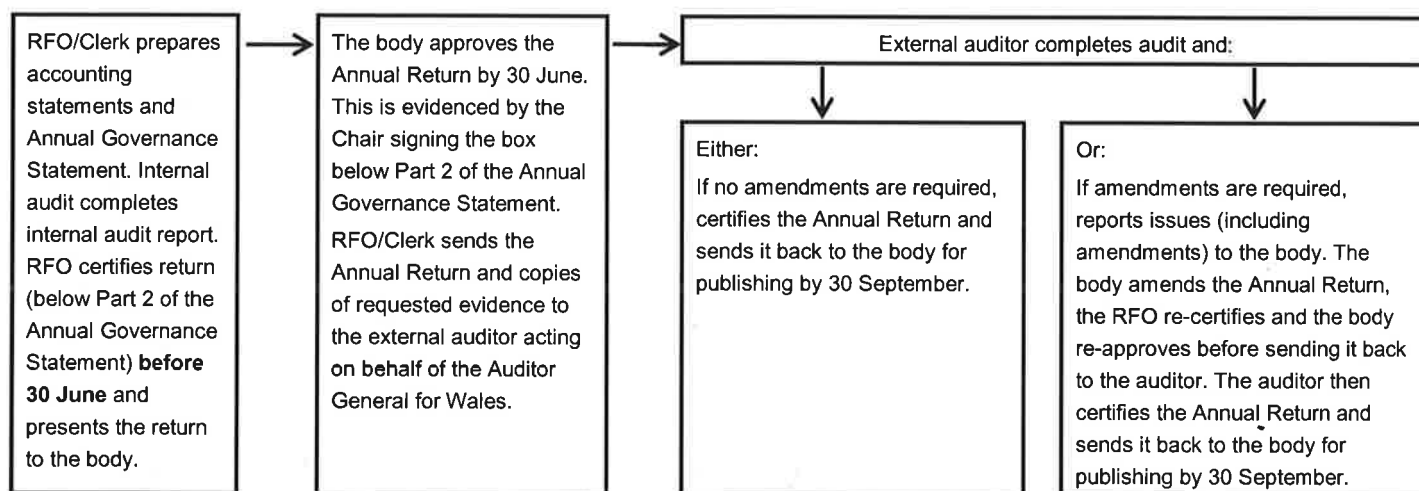
## Annual Return for the Year Ended 31 March 2019

### THE ACCOUNTS AND AUDIT PROCESS

Section 12 of the Public Audit (Wales) Act 2004 requires local government bodies in Wales to make up their accounts each year to 31 March and to have those accounts audited by the Auditor General for Wales. Regulation 14 of the Accounts and Audit (Wales) Regulations 2014 states that smaller local government bodies i.e. those with annual income and expenditure below £2.5 million must prepare their accounts in accordance with proper practices.

For minor joint committees with income and expenditure below £2.5 million, proper practices are set out in the One Voice Wales/Society of Local Council Clerks publication 'Governance and accountability for local councils in Wales – A Practitioners' Guide' (the Practitioners' Guide). The Practitioners' Guide requires that they prepare their accounts in the form of an annual return. This annual return meets the requirements of the Practitioners' Guide.

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 the Annual Governance Statement.**

### APPROVING THE ANNUAL RETURN

**There are 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.**

**The committee must approve the annual return BEFORE the accounts and supporting documents are made available for public inspection under section 30 of the Public Audit (Wales) Act 2004.**

**The Auditor General for Wales' Audit Certificate and report is to be completed by the auditor acting on behalf of the Auditor General. It MUST NOT be completed by the Clerk/RFO, the Chair or the internal auditor.**

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



# Accounting statements 2018-19 for:

Name of body: PORTHCAWL HARBOUR

	Year ending		Notes and guidance for compilers
	31 March 2018 (£)	31 March 2019 (£)	
<b>Statement of income and expenditure/receipts and payments</b>			
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	(240,134)	(228,063)	Total income or receipts recorded in the cashbook minus amounts included in line 2. Includes support, discretionary and revenue grants.
4. (-) Staff costs	80,866	67,671	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	128,773	113,518	Total expenditure or payments of capital and interest made during the year on external borrowing (if any).
6. (-) Total other payments	30,495	46,874	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).
<b>Statement of balances</b>			
8. (+) Debtors and stock balances	69,563	34,834	<b>Income and expenditure accounts only:</b> Enter the value of debts owed to the body and stock balances held at the year-end.
9. (+) Total cash and investments	0	0	<b>All accounts:</b> 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	(69,563)	(34,834)	<b>Income and expenditure accounts only:</b> Enter the value of monies owed by the body (except borrowing) at the year-end.
11. (=) Balances carried forward	0	0	<b>Total balances should equal line 7 above:</b> Enter the total of (8+9-10).
12. Total fixed assets and long-term assets	3,397,336	3,283,817	The 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).

## Annual Governance Statement

We acknowledge as the members of the Council, 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 2019, that:

	Agreed?		'YES' means that the Committee:	PG Ref
	Yes	No*		
<p>1. We have put in place arrangements for:</p> <ul style="list-style-type: none"> <li>• effective financial management during the year; and</li> <li>• the preparation and approval of the accounting statements.</li> </ul>	<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
<p>2. We have maintained an adequate system of internal control, including measures designed to prevent and detect fraud and corruption, and reviewed its effectiveness.</p>	<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
<p>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 Committee to conduct its business or on its finances.</p>	<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
<p>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.</p>	<input checked="" type="radio"/>	<input type="radio"/>	Has given all persons interested the opportunity to inspect the body's accounts as set out in the notice of audit.	6, 23
<p>5. We have carried out an assessment of the risks facing the Council and taken appropriate steps to manage those risks, including the introduction of internal controls and/or external insurance cover where required.</p>	<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
<p>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.</p>	<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
<p>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 and, where appropriate, have included them on the accounting statements.</p>	<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
<p>8. We have taken appropriate action on all matters raised in previous reports from internal and external audit.</p>	<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

\* 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.

## Council approval and certification

The Council 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.

<p><b>Certification by the RFO</b></p> <p>I certify that the accounting statements contained in this Annual Return presents fairly the financial position of the Committee and its income and expenditure, or properly presents receipts and payments, as the case may be, for the year ended 31 March 2019.</p>	<p><b>Approval by the Council</b></p> <p>I confirm that these accounting statements and Annual Governance Statement were approved by the under minute reference:</p>
<p>RFO signature: <i>G. M. Lewis</i></p>	<p>Chair of meeting signature:</p>
<p>Name: <i>GILL LEWIS</i></p>	<p>Name:</p>
<p>Date: <i>6/6/2019</i></p>	<p>Date:</p>

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

<p><b>Certification by the RFO</b></p> <p>I certify that the accounting statements contained in this Annual Return presents fairly the financial position of the <b>Council</b>, and its income and expenditure, or properly presents receipts and payments, as the case may be, for the year ended 31 March 2019.</p>	<p><b>Approval by the Council</b></p> <p>I confirm that these accounting statements and Annual Governance Statement were approved by the <b>Council</b> under minute reference:</p>
<p>RFO signature:</p>	<p>Chair of meeting signature:</p>
<p>Name:</p>	<p>Name:</p>
<p>Date:</p>	<p>Date:</p>

## 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 2019 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'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 2019.

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

	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 type="radio"/>	A centralised audit of main accounting is carried out annually. No relevant issues were identified within work completed in 2018/19.
2. Financial regulations have been met, payments were supported by invoices, expenditure was approved and VAT was appropriately accounted for.	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Testing undertaken on a 10% sample of payments revealed no 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 type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	No audit performed in 2018/19 however previous audits revealed no 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 checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	No annual precept payment. Central monitoring of budget and reserves carried out.
5. Expected income was fully received, based on correct prices, properly recorded and promptly banked, and VAT was appropriately accounted for.	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Based on a sample of invoices raised no issues were noted.
6. Petty cash payments were properly supported by receipts, expenditure was approved and VAT appropriately accounted for.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	None identified within financial reports for the year.
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 on a regular basis. 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 as at 31/3/2019

	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 type="radio"/>	<input type="radio"/>	<input type="radio"/>	No separate bank account. Centralised bank reconciliation performed. No relevant issues were 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 type="radio"/>	<input type="radio"/>	<input type="radio"/>	Centralised main accounting audit performed annually and no relevant issues identified.

For any risk areas identified by the 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**	
11. Insert risk area	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Insert text
12. Insert risk area	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Insert text
13. Insert risk area	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input 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 Committee are included in my detailed report to the Committee dated \_\_\_\_\_.] \* Delete if no report prepared.

### Internal audit confirmation

I/we confirm that as the Committee's internal auditor, I/we have not been involved in a management or administrative role within the body (including preparation of the accounts) or as a member of the body during the financial years 2017-18 and 2018-19. 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: 5<sup>th</sup> June 2019



## Guidance notes on completing the Annual Return

1. You must apply proper practices when preparing this annual return. Proper practices are set out in the Practitioners' Guide.
2. 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. Ask your auditor for an electronic copy of the form if required.
3. 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.
4. Make sure that your accounting statements add up, that the balance carried forward from the previous year (line 7 of 2018) equals the balance brought forward in the current year (line 1 of 2019). Explain any differences between the 2018 figures on this annual return and the amounts recorded in last year's annual return.
5. 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.
6. 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 Committee 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 the accounting statements. More help on bank reconciliations is available in the Practitioners' Guide.
7. **Every committee must send to the external auditor, information to support the assertions made in the Annual Governance Statement even if you have not done so before.** 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.
8. Please do not send the auditor any information that you are not specifically asked for. Doing so is not helpful.
9. 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.
10. **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.
11. **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.**

Completion checklist – 'No' answers mean that you may not have met requirements		Done?	
Initial submission to the external auditor		Yes	No
<b>Accounts</b>	Do the papers to be sent to the external auditor include an explanation of significant variations from last year to this year?		
	Does the bank reconciliation as at 31 March 2019 agree to Line 9?		
<b>Approval</b>	Has the RFO certified the accounting statements and Annual Governance Statement (Regulation 15 (1)) no later than 30 June 2019?		
	Has the body approved the accounting statements before 30 June 2019 and has Section 3 been signed and dated by the person presiding at the meeting at which approval was given?		
<b>All sections</b>	Have all pink boxes in the accounting statements and Annual Governance Statement been completed and explanations provided where needed?		
	Has all the information requested by the external auditor been sent with this Annual Return? Please refer to your notice of audit and any additional schedules provided by your external auditor.		
If accounts are amended after receipt of the Auditor General's report on matters arising		Yes	No
<b>Accounts</b>	Have the amended accounting statements been approved and Section 3 re-signed and re-dated as evidence of the Committee's approval of the amendments before re-submission to the auditor?		

## **BRIDGEND COUNTY BOROUGH COUNCIL**

### **REPORT TO AUDIT COMMITTEE**

**13 JUNE 2019**

#### **REPORT OF THE INTERIM HEAD OF FINANCE AND SECTION 151 OFFICER**

#### **ANNUAL TREASURY MANAGEMENT OUTTURN REPORT 2018-19**

### **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, the Treasury Management and Prudential Indicators for 2018-19 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 This report assists in the achievement of the following corporate priority:
- Smarter use of resources – ensuring 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.
- 2.2 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 Audit Committee has been nominated to be responsible for ensuring effective scrutiny of the Treasury Management Strategy (TMS) and policies. During the 2018-19 financial year, in addition to the regular treasury management reports to Cabinet and Council, Audit Committee received the Annual Treasury Management Report 2017-18 in June 2018, the Half Year Treasury Management Report 2018-19 in November 2018 and the TMS 2019-20 in January 2019.
- 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 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 2018-19 on 28 February 2018. CIPFA published new editions of Treasury Management in the Public Services: Code of Practice and the Prudential Code for Capital Finance in Local Authorities in late December 2017 however the TMS 2018-19 and this report has been produced using the 2011 Codes as due to timing constraints due to the late publication of the 2017 Codes, they were not implemented until the TMS 2019-20.
- 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 2018-19. The TMS 2018-19 and the Half Yearly Outturn were reported to Council on 28 February 2018 and 24 October 2018 respectively and the Annual Treasury Management Outturn Report will be reported to Cabinet and Council in September 2019. In addition, quarterly monitoring reports were presented to Cabinet during 2018-19.
- 4.2 A summary of the treasury management activities for 2018-19 is shown in **Appendix A**. The Council's external debt and investment position for 1 April 2018 to 31 March 2019 is shown in Table 1 and more detail is provided in section 4 the Borrowing Strategy and Outturn and section 5 the Investment Strategy and Outturn. No long term borrowing was taken in 2018-19 and no debt rescheduling was undertaken as there were no significant savings to be made, however, the loan portfolio will be reviewed during 2019-20. Favourable cash flows have provided surplus funds for investment and the balance on investments at 31 March 2019 was £27.40 million (average interest rate 0.94%). This was a decrease in investments outstanding from the start of the financial year where investments were £30.40 million (average interest rate 0.62%).
- 4.3 Under regulation 21 of the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003, local authorities are required to charge Minimum Revenue Provision (MRP) to their revenue account for each financial year to account for the principal cost of their debt in that financial year. Council

approved a revised MRP policy for 2018-19 on 19 September 2018 and the revised MRP policy for 2018-19 amends the method of calculating a prudent annual amount to charge to revenue to repay capital financing costs. The revision of the MRP Policy 2018-19 for calculating MRP on capital expenditure funded from supported borrowing resulted in a change from a 4% reducing balance method to a straight-line method over 45 years.

- 4.4 Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the WG Guidance, the Council may also purchase property for investment purposes and may also make loans and investments for service purposes, for example in shared ownership housing, or as equity investments and loans to the Council's subsidiaries. Such loans and investments will be subject to the Council's normal approval processes for revenue and capital expenditure and need not comply with the TMS. The Council's existing non-treasury investments relate to investment properties and the balance as at 31 March 2019 was £4.635 million.
- 4.5 In 2018-19, the Council operated within the treasury limits and Treasury Management and Prudential Indicators as set out in the agreed TMS 2018-19 and also complied with its Treasury Management Practices. Details of all these indicators are shown in attached **Appendix A** section 9.
- 4.6 The treasury management function will be reviewed by the Council's External Auditors, the Wales Audit Office, during the 2018-19 annual audit which has not yet been completed. In addition to the External Audit work, Internal Audit undertook an audit of the treasury management function during 2018-19 and the audit identified that "based on an assessment of the strengths and weakness of the areas examined, and through testing it has been concluded that the effectiveness of the internal control environment is considered to be sound and therefore substantial assurance can be placed upon the management of risks".
- 4.7 The Council's treasury management advisers are Arlingclose. Their contract runs from 1 September 2016 for four years following a tender process and 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

4.8 The Annual Treasury Management Outturn Report 2018-19 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.

## **5. Effect upon Policy Framework & Procedure Rules**

5.1 As required by Financial Procedure Rule 20.3 within the Council's Constitution, all investments and borrowing transactions have been undertaken in accordance with the TMS 2018-19 as approved by Council with due regard to the requirements of the CIPFA's Code of Practice on Treasury Management in the Public Services.

## **6. Equality Impact Assessment**

6.1 There are no equality implications.

## **7. Well-being of Future Generations (Wales) Act 2015 Implications**

7.1 The well-being goals identified in the Act were considered in the preparation of this report. As the report is for noting only and is retrospective in nature it is considered that there will be no significant or unacceptable impacts upon the achievement of well-being goals/objectives as a result of this report.

## **8. Financial Implications**

8.1 The financial implications are reflected within the report.

## **9. Recommendation**

9.1 It is recommended that the Committee:

- Note the annual treasury management activities for 2018-19

**Gill Lewis**  
**Interim Head of Finance & Section 151 Officer**  
**15 May 2019**

**Contact Officer:** Karin Thomas  
Loans & Investment Officer  
**Telephone:** 01656 643198  
**E-mail:** Karin.Thomas@bridgend.gov.uk

**Background documents:**  
Treasury Management Strategy 2018-19

## APPENDIX A

### SUMMARY OF TREASURY MANAGEMENT ACTIVITIES 2018-19

#### 1. External Debt and Investment Position

**Table 1: External debt and investment position 1 April 2018 to 31 March 2019**

	Principal as at 01-04-18 £m	Average Rate %	Principal as at 31-03-19 £m	Average Rate %
<b>External Long Term Borrowing:</b>				
Public Works Loan Board	77.62	4.70	77.62	4.70
Lender's Option Borrower's Option	19.25	4.65	19.25	4.65
<b>Total External Long Term Borrowing</b>	<b>96.87</b>	<b>4.69</b>	<b>96.87</b>	<b>4.69</b>
<b>Other Long Term Liabilities (LTL)</b>				
Private Finance Initiative (PFI)*	17.64		17.00	
Other LTL	3.38		0.88	
<b>Total Other Long Term Liabilities</b>	<b>21.02</b>		<b>17.88</b>	
<b>Total Gross Long Term External Debt</b>	<b>117.89</b>		<b>114.75</b>	
<b>Treasury Investments:</b>				
Banks	7.40	0.58	5.40	0.86
Building Societies	2.00	0.54	1.00	0.90
Local Authorities	21.00	0.64	21.00	0.96
<b>Total Treasury Investments</b>	<b>30.40</b>	<b>0.62</b>	<b>27.40</b>	<b>0.94</b>
<b>Net Debt</b>	<b>87.49</b>		<b>87.35</b>	

\* (PFI) arrangement for the provision of a Secondary School in Maesteg 15 years remaining term

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 other different accounting adjustments.

The £19.25 million in the above table relates to Lender's Option Borrower's Option (LOBO) loans which have a maturity date of 2054, however these 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 point is July 2019 and although the Council understands that the lender is unlikely to exercise this option in the current low interest rate environment, an element of refinancing risk remains and the Council would take the option to repay these loans at no cost if it has the opportunity to do so in the future.

The current average interest rate for these LOBO's is 4.65% compared to the Public Works Loan Board (PWLB) average interest rate of 4.70%.

The other long term liabilities figure of £17.88 million at 31 March 2019 includes £17.00 million for the Council's Private Finance Initiative (PFI) arrangement (for the provision of a Secondary School in Maesteg - fifteen years remaining term) which includes the short term PFI liability of £0.69 million which is included as current liabilities in the Council's balance sheet in the Statement of Accounts. The £2.25 million Loan from the WG Central Capital Retained Fund for regeneration works within the Llynfi Valley has been transferred to current liabilities in the balance sheet at 31 March 2019 so is no longer showing as outstanding in other long term liabilities.

## **2. Treasury Risk Management**

The Treasury Management Strategy (TMS) 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 has an integrated TMS where borrowing and investments are managed in accordance with best professional practice. The Council borrows money either to meet short term cash flow needs or to fund capital schemes approved within the capital programme. Therefore any actual loans taken are not associated with particular items of expenditure or assets. The Council is exposed to financial risks including the potential loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's TMS.

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 2018-19. The majority of the Council's surplus funds during 2018-19 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 2018-19 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 2019 that this was likely to crystallise. The pie chart 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 2018-19**

The interest rate views, incorporated in the Council's TMS 2018-19, were based upon officers' views supported by a selection of City forecasts provided by Arlingclose. When the TMS 2018-19 was prepared in January 2018 it was forecast that the Bank Rate would remain at 0.50% during 2018-19.

The Bank Rate started the financial year at 0.50% and remained at that rate until 2 August 2018 when the Bank of England's Monetary Policy Committee (MPC) increased the rate by 0.25% to 0.75%. The Bank Rate remained at 0.75% for the remainder of 2018-19.

### **4. Borrowing Strategy and Outturn 2018-19**

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 Public Works Loan Board (PWLB) at long term fixed rates of interest and the last time the Council took long term borrowing was £5 million from the PWLB in March 2012. 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 in 2018-19 as a consequence, however, in conjunction with Arlingclose, the loan portfolio will continue to be reviewed for any potential savings as a result of any loan rescheduling. For cash-flow purposes on two occasions short term borrowing was taken in 2018-19 totalling £3 million and repaid within a few weeks and there was none outstanding at 31 March 2019.

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 2018-19**

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 TMS 2018-19 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 short term 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 and any new instruments used will be in full consultation with Arlingclose.

As previously reported to Audit Committee, the Council opened a Money Market Fund (MMF) in 2017-18 which is an approved financial instrument in the TMS and provides instant access to the funds. During 2018-19, additional MMFs were set up (all approved by Arlingclose) and also a web based portal (at no cost to the Council) to simplify and introduce efficiencies to all aspects of MMFs,

from account maintenance through to trading and reporting. These MMFs offer same-day liquidity and very low or no volatility and are a good alternative to instant access bank accounts. There was no balance outstanding in MMFs at 31 March 2019.

Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's to ensure that this lies within the Council's agreed minimum credit rating. **Appendix B** shows the equivalence table for these published credit ratings and explains the different investment grades. 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 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. No investments are 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 typically has surplus 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 or a money market fund with instant access. 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.

Occasionally, investments are placed with the UK Debt Management Office (DMO - Executive Agency of UK Government) but only for very short term deposits 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 2019.

The Council's primary objective for the management of its investment portfolio is to give priority to the security and liquidity of its funds before seeking the best rate of return. As shown in the tables below, the majority of investments in 2018-19 were held as short term investments with UK Local Authorities, banks of high credit quality and in MMFs. Favourable cash flows have provided positive cash balances for investment and the balance on investments at 31 March 2019 was £27.40 million made up of £4 million long term investments, £20 million short term investments and £3.40 million Cash and Cash Equivalents. Table 2 below details these investments by counterparty type and

Table 3 summarises these investments based on the maturity profile (remaining duration from 31 March 2019) and counterparty type.

**Table 2: Investments Profile 2018-19**

Investment Counterparty Category	Balance 01 April 2018 (A) £m	Investments Raised (B) £m	Investments Repaid (C) £m	Balance 31 March 2019 (A+B-C) £m	Investment Income Received 2018-19 ** £'000	Average Original Duration of the Investment Days	Weighted Average Investment Balance 2018-19 £m	Weighted Average Interest Rate 2018-19 %
Government - DMO	-	80.10	80.10	-	2.90	4	0.78	0.37
Local Authorities	21.00	139.10	139.10	21.00	201.49	125	28.73	0.74
Building Societies	2.00	7.00	8.00	1.00	13.03	97	1.33	0.65
Banks (Fixed Maturity)	5.00	10.00	11.00	4.00	40.01	205	5.35	0.75
Banks Instant Access/Notice Period Accounts*	2.40	100.23	101.23	1.40	32.32	n/a	6.10	0.68
Money Market Fund (Instant Access)*	-	65.65	65.65	-	39.58	n/a	6.86	0.73
<b>Total/Average</b>	<b>30.40</b>	<b>402.08</b>	<b>405.08</b>	<b>27.40</b>	<b>329.33</b>	<b>108</b>	<b>49.15</b>	<b>0.72</b>

\* An average duration is not shown as there is no original duration as instant access or notice period and money is added and withdrawn to/from these accounts as required by cash-flow

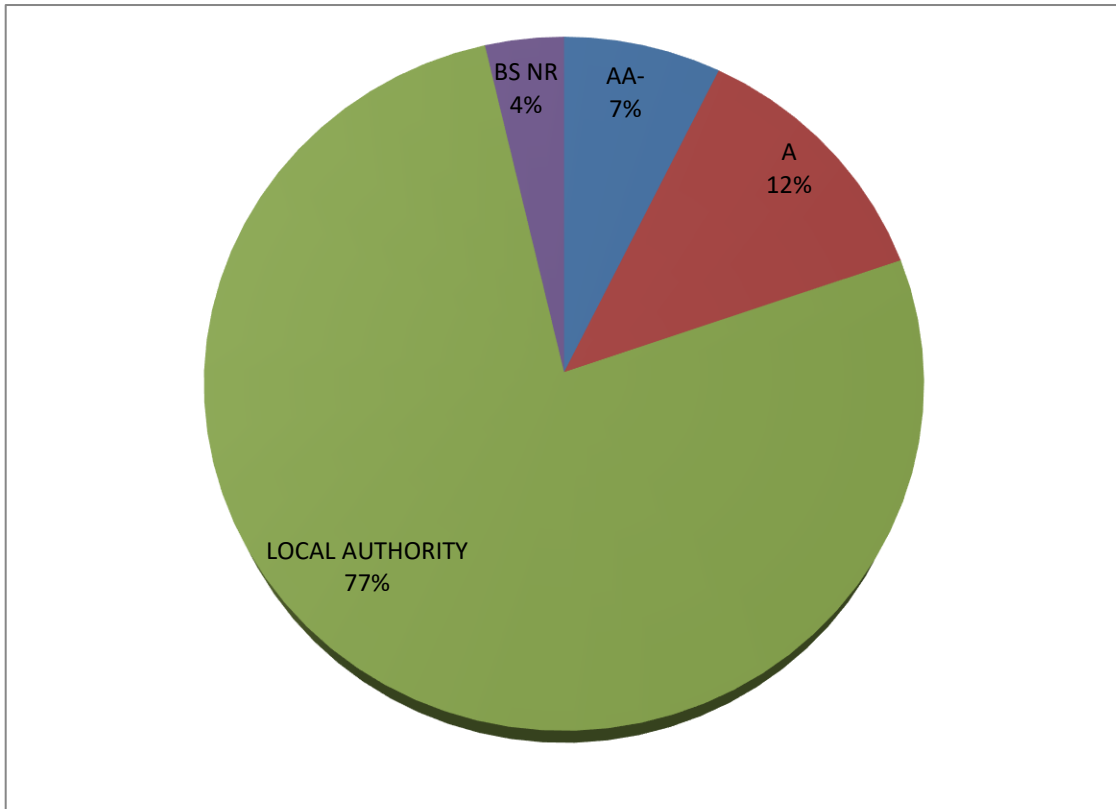
\*\* Received in the Council's bank account not investment income earned

**Table 3: Investments Outstanding Maturity Profile 31 March 2019**

Counterparty Category	Instant Access £m	Deposits Maturing Within 1 Month £m	Deposits Maturing Within 2-3 Months £m	Deposits Maturing Within 4-6 Months £m	Deposits Maturing Within 7-12 Months £m	Deposits Maturing Within 1-2 Years £m	Total £m
Local Authorities	-	2.00	2.00	8.00	5.00	4.00	21.00
Banks	1.40	2.00	2.00	-	-	-	5.40
Building Society	-	-	1.00	-	-	-	1.00
<b>Total</b>	<b>1.40</b>	<b>4.00</b>	<b>5.00</b>	<b>8.00</b>	<b>5.00</b>	<b>4.00</b>	<b>27.40</b>

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 £27.40 million investments at 31 March 2019 by percentage outstanding. Most local authorities do not have credit ratings and

the £1m investment with an unrated building society (shown as 'BS NR' below) was an approved counterparty by Arlingclose whilst 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 TMS 2018-19 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 2018-19 and at 31 March 2019 was 4.69% (the same rate as at 31 March 2018) and 80% of this was made up of PWLB loans with an average rate of 4.70% (the same rate as at 31 March 2018). Comparable performance indicators are shown below:-



Bridgend CBC Average Rate of PWLB Debt 31-03-19 %	All Welsh Local Authorities* Average Rate for outstanding PWLB Debt 31-03-19 %	All Wales, England & Scotland Local Authorities* Average Rate for outstanding PWLB Debt 31-03-19 %
<b>4.70</b>	4.47	3.86
	<b>+0.23</b>	<b>+0.84</b>

\*excluding Parish, Town and Community Councils

The average rate on investments for 2018-19 was 0.72% and at 31 March 2019 was 0.94% (compared to 0.49% for 2017-18 and 0.62% at 31 March 2018). Comparable performance indicators for benchmarking purposes set in the TMS 2018-19 were the average one month London Inter Bank Bid (LIBID) rate and the average Bank Rate. The tables below show the investments average interest rate for 2018-19 and the actual rate as at 31 March 2019 compared favourably against these two benchmarking rates:-

Bridgend CBC Average Rate of Return on Investments 2018-19 %	Average 1 month LIBID (London Inter-Bank Bid rate) 2018-19 %	Average Bank Rate 2018-19 %
<b>0.72</b>	0.53	0.67%
	<b>+0.19</b>	<b>+0.05</b>
Bridgend CBC Average Rate of Return on Investments 31-03-19 %	1 month LIBID (London Inter-Bank Bid rate) 31-03-19 %	Bank Rate 31-03-19 %
<b>0.94</b>	0.61	0.75
	<b>+0.33</b>	<b>+0.19</b>

The Council participates in a benchmarking exercise with Arlingclose. As shown below, the Council's average rate of return on investments at the end of each quarter of the financial year 2018-19 is compared to the average rate on internal investments of Arlingclose Welsh Local Authorities Unitary clients. The Bank Rate is also shown for information:-

2018-19	Principal	Bridgend CBC Average Rate of Return on Investments	Bank Rate	Principal	Arlingclose Welsh Local Authority Unitary Clients Average Rate of Return Internal Investments
	£m	%	%	£m	%
30-06-18	39.30	0.65	0.50	29.80	0.69
30-09-18	34.30	0.81	0.75	25.50	0.70
31-12-18	33.00	0.88	0.75	21.70	0.74
31-03-19	27.40	0.94	0.75	25.70	0.77

## 7. Review of the Treasury Management Strategy 2018-19

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 changes to the TMS 2018-19, although Council approved a revised MRP policy for 2018-19 as detailed in paragraph 4.3 of the main report.

## **8. Reporting Arrangements 2018-19**

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 TMS 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 TMS, 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 2018-19**

The 2011 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 2018-19 as detailed in the TMS 2018-19 approved by Council 28 February 2018 and the actual indicators for 2018-19. During the financial year 2018-19, the Council operated within the treasury limits and prudential indicators set out in the Council's TMS 2018-19.

### **9.1 Treasury Management Indicators 2018-19**

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. Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or transaction date if later and all other instruments are classed as variable. The majority of the Council's investments are less than 12 months and even though interest rates may be fixed for the investment duration these would be classed as variable. The net principal outstanding at 31 March 2019 is therefore shown as a negative figure in the table below as LOBO loans are variable interest rate loans and the investments outstanding were in excess of total variable rate loans.

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 2018-19  £m	Actual Outstanding  31-03-19 £m
	Total Projected Principal Outstanding on Borrowing 31 March 2019	96.87	<b>96.87</b>
	Total Projected Principal Outstanding on Investments 31 March 2019	20.00	<b>27.40</b>
	<b>Net Principal Outstanding</b>	<b>76.87</b>	<b>69.47</b>
1.	<b>Upper Limit on fixed interest rates (net principal) exposure</b>	130.00	n/a
2.	<b>Upper Limit on variable interest rates (net principal) exposure</b>	50.00	n/a
	<b>Fixed interest rate exposure (net principal) 31 March 2019</b>		<b>73.62</b>
	<b>Variable interest rate exposure (net principal) 31 March 2019</b>		<b>-4.15</b>

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 2018-19	Upper limit %	Lower limit %	Actual 31-03-19 %
3.	Under 12 months	50	0	19.87
	12 months and within 24 months	25	0	-
	24 months and within 5 years	25	0	-
	5 years and within 10 years	50	0	13.91
	10 years and within 20 years	60	0	23.49
	20 years and above	100	40	42.73

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 above. The Code requires the maturity of LOBO loans to be shown (even though the rate is variable) on the earliest date on which the lender can require payment, i.e. the next call date after 31 March 2019 which is July 2019, 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 2019-20 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 2018-19 £m	Actual Principal Outstanding Over 364 days 31-3-19 £m
4.	<b>Upper Limit for Total Principal Sums Invested for more than 364 days</b>	15	4

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

## 9.2 Prudential Indicators 2018-19

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.

The 2011 Code requires the Council to formally adopt CIPFA's Treasury Management Code and this 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 2018-19	Estimate TMS 2018-19 £m	Actual 2018-19 £m
1.	<b>Total Capital Expenditure (Non-HRA)</b>	33.69	<b>27.61</b>
	<b>Total Capital Expenditure</b>	<b>33.69</b>	<b>27.61</b>
	<b>Financed by :-</b>		
	Capital Grants and Contributions	6.84	<b>12.41</b>
	Capital Receipts	9.18	<b>5.12</b>
	Revenue contribution to Capital	7.49	<b>3.92</b>
	<b>Net Financing Need for Year</b>	<b>10.18</b>	<b>6.16</b>

The capital expenditure figures have changed from the TMS 2018-19 as the capital programme approved by Council on 28 February 2018 was amended to include new approved schemes, to incorporate slippage of schemes from 2017-18 and a change in the profile of funding and prudential borrowing. This has resulted in a decrease in the Net Financing Need for 2018-19 which is a decrease in Unsupported Borrowing.

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 2018-19. The updated methodology was approved by Council 19 September 2018 as referred to paragraph 4.3 of the main report. Directorates who receive Council approval for capital schemes via Unsupported Borrowing make annual contributions to the capital costs of their schemes known as Voluntary Revenue Provisions (VRP) or additional MRP. This type of borrowing is only approved when Directorates have the necessary revenue resources to make VRP to fund the capital costs though this will be deferred in some cases until the asset becomes operational in accordance with the Council's MRP Policy.

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 in line with the Prudential Code. The MRP requirement for the Maesteg School PFI Scheme 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 2018-19 £m	Actual 2018-19 £m
<b>2.</b>	<b>Capital Financing Requirement (CFR)</b>		
	Opening CFR (1 April 2018) adjusted excluding PFI & other liabilities	152.56	153.24
	Opening PFI CFR	17.64	17.64
	Opening Innovation Centre*	0.60	-
	<b>Total Opening CFR</b>	<b>170.80</b>	<b>170.88</b>
	Movement in CFR excluding PFI & other liabilities	3.62	1.84
	Movement in PFI CFR	(0.64)	(0.64)
	Movement in Innovation Centre CFR	(0.06)	-
	<b>Total Movement in CFR</b>	<b>2.92</b>	<b>1.20</b>
	<b>Closing CFR (31 March 2019)</b>	<b>173.72</b>	<b>172.08</b>
	Movement in CFR represented by :-		
	Net Financing Need for Year (above)	10.18	6.16
	Minimum and Voluntary Revenue Provisions**	(7.26)	(4.96)
	<b>Total Movement</b>	<b>2.92</b>	<b>1.20</b>

\*Innovation Centre accounting adjustment at 01-04-18 now included in the opening CFR so not shown separately

\*\*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)

### Limits to Borrowing Activity

The Council's long term borrowing at the 31 March 2019 was £96.87 million as detailed above in section 1. External Borrowing can arise as a result of both capital and revenue expenditure and timing of cash flows. As the Council has an integrated TMS 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 especially when a Council is using internal borrowing as highlighted in section 4 above.

The **Gross Debt** position (Borrowing and Long Term Liabilities) is shown in the table below.

No.	Prudential indicators For Prudence 2018-19	Estimate TMS 2018-19 £m	Actual Outstanding 31-03-19 £m
<b>3.</b>	External Borrowing	96.87	<b>96.87</b>
	Long Term Liabilities (including PFI)	20.24	<b>17.88</b>
	<b>Total Gross Debt</b>	<b>117.11</b>	<b>114.75</b>

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 2018-19. The table below shows that the Council has complied with this requirement.

No.	Prudential indicators For Prudence 2018-19	Estimate TMS 2018-19 £m	Actual Outstanding 31-03-19 £m
<b>4.</b>	<b>Gross Debt &amp; the CFR</b>		
	Total Gross Debt	117.11	<b>114.75</b>
	Closing CFR (31 March)	<b>173.72</b>	<b>172.08</b>

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 2018-19 £m	Actual 31-03-19 £m
<b>5.</b>	<b>Authorised limit for external debt -</b>		
	Borrowing	140	
	Other long term liabilities	30	
	<b>Total</b>	<b>170</b>	
<b>6.</b>	<b>Operational Boundary</b>		
	Borrowing	105	
	Other long term liabilities	25	
	<b>Total</b>	<b>130</b>	
	<b>Borrowing</b>		<b>96.87</b>
	<b>Other long term liabilities</b>		<b>17.88</b>
	<b>Total</b>		<b>114.75</b>

### Prudential Indicators for Affordability

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 the Welsh Government in the form of Revenue Support Grant. The estimates of capital

financing costs include interest payable and receivable on treasury management activities and the MRP 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 reduced from the TMS estimate due to the change in the MRP policy detailed in paragraph 4.3 of the main report.

<b>No.</b>	<b>Prudential Indicators For Affordability 2018-19</b>	<b>Estimate TMS 2018-19 %</b>	<b>Actual  2018-19 %</b>
7.	<b>Ratio of Financing Costs to Net Revenue Stream</b>	4.55	<b>3.71</b>

## APPENDIX B

Credit Rating Equivalence Table

	Description	Fitch		Moody's		Standard & Poor's		
		Long	Short	Long	Short	Long	Short	
INVESTMENT GRADE	Extremely strong	AAA		Aaa		AAA		
	Very strong	AA+	F1+	Aa1	P-1	AA+	A-1+	
		AA		Aa2		AA		
		AA-		Aa3		AA-		
	Strong	A+	F1	A1	P-2	A+	A-1	
		A		A2		A		
		A-		A3		A-		
	Adequate	BBB+	F2	Baa1	P-3	BBB+	A-2	
		BBB	F3	Baa2		BBB		
		BBB-		Baa3		BBB-		
SPECULATIVE GRADE	Speculative	BB+	B	Ba1	Not Prime (NP)	BB+	B	
		BB		Ba2		BB		
		BB-		Ba3		BB-		
	Very speculative	B+	C	B1		Not Prime (NP)	B+	C
		B		B2			B	
		B-		B3			B-	
	Vulnerable	CCC+	C	Caa1		Not Prime (NP)	CCC+	C
		CCC		Caa2			CCC	
		CCC-		Caa3			CCC-	
		CC		Ca			CC	
	C				C			
Defaulting	D	D	C		D	D		

## BRIDGEND COUNTY BOROUGH COUNCIL

### REPORT TO AUDIT COMMITTEE

13 JUNE 2019

#### REPORT OF THE INTERIM HEAD OF FINANCE AND SECTION 151 OFFICER

#### COUNCIL TAX REDUCTION FRAUD INVESTIGATIONS: APRIL 2018 to MARCH 2019

##### **1. Purpose of Report.**

- 1.1 The purpose of the report is to inform the Committee of the activities that have been undertaken during 01 April 2018 to 31 March 2019 with regard to Council Tax Reduction (CTR) fraud investigations. In addition, the report also summarises the results achieved during 2018/19 as compared with the position for 2017/18.

##### **2. Connection to Corporate Plan / Other Corporate Priorities.**

- 2.1 This report assists in the achievement of the following corporate priority/priorities:
- Smarter use of resources – ensuring 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.
- 2.2 The work of the Fraud Investigator impacts on the resources available to the Council that supports Corporate Improvement Objectives and other corporate priorities.

##### **3. Background.**

- 3.1 On 01 November 2015, the investigation work for Housing and Council Tax Benefit transferred to the Department for Works and Pensions' (DWP) Single Fraud Investigation Service (SFIS). SFIS has the statutory powers to investigate and sanction all benefit and tax credit offences and combined the investigatory resources of DWP, Her Majesty's Revenue & Customs (HMRC) and local authorities. The prosecutions for SFIS are undertaken by the Crown Prosecution Service.
- 3.2 The localisation of support for council tax commenced in 2013/14 and from 01 April 2013 the responsibility to provide support for council tax, and the funding associated with it, was devolved to local authorities in England, to the Scottish Government and to the Welsh Government. Cases of fraud in CTR do not form part of the SFIS remit.
- 3.3 To maintain effective and functioning counter-fraud activities for CTR, the Benefits Service employs 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

#### 4. Current situation / proposal

- 4.1 The Fraud Investigator has developed a contact network with other CTR Fraud Investigators within neighbouring authorities. This network has widened across Wales and officers meet quarterly to discuss CTR fraud matters and share best practice.
- 4.2 Fraud awareness training continues 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.
- 4.3 Fraud referrals are summarised in Table 1 below. This shows that during 2018/19 there has been a 31% reduction in the number of referrals received across all sources. National Fraud Initiative (NFI) referrals are biennial so these are expected for 2019/20, however there is no identifiable reason for the general reduction.
- 4.4 Table 1 illustrates the source of fraud referrals during the relevant periods.

Source of Referrals	2017/18	2018/19
N.F.I.	13	0
Benefit/Taxation staff	33	29
HBMS* data match	2	0
Department of Work and Pensions (DWP)	0	0
Claim review	4	10
Anonymous (letter/telephone/email)	45	33
Verify Earnings and Pensions (VEP) alerts	32	19
Other organisation/department	9	4
<b>Total:</b>	<b>138</b>	<b>95</b>

\* DWP Housing Benefit Matching Service

- 4.5 CTR investigations were undertaken based upon information received as a data match or in the form of a specific allegation regarding the claimant's circumstances.
- 4.6 20% of referrals were received as a result of the DWP's Verify Earnings and Pensions (VEP) alerts initiative. VEP is an earned income and occupational pension data match with HMRC and indicates undeclared earnings or pensions, as well as highlighting significant variations in the amounts declared.
- 4.7 Almost 35% of the referrals were received via the public; the majority of these referrals relate to DWP benefits or Housing Benefits, and consequently these were forwarded to DWP's SFIS to investigate. Fraud referrals are normally forwarded to 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 £3,000 (the DWP's threshold for criminal action); or
- It is in the public's interest that a prosecution should result.

During 2018/19, the Fraud Investigator referred 33 cases to the DWP.

4.8 Table 2 illustrates a breakdown of the types of allegations that were referred during the periods:

Types of allegation	2017/18	2018/19
Undeclared income	43	25
Undeclared increase in income	23	24
Undeclared capital/savings	11	10
Living together	33	23
Non-residency	8	3
Discrepancy – non-dependant	9	8
Discrepancy – household occupants (e.g. SPD*)	0	1
Other (e.g. DLA/Tax Credits/contrived)	11	1
<b>Total:</b>	<b>138</b>	<b>95</b>

\*Single person discount

4.9 The majority of investigations undertaken by Bridgend's Fraud Investigator relate to earnings and savings; this is purely the result of being unable to investigate cases where a DWP benefit may be affected.

4.10 During 2018/19, 57 cases were closed (as compared to 82 for 2017/18); the closure categories are detailed here in Table 3.

Reason for closure	2017/18	2018/19
No fraud	3	1
Not investigated	39	22
Fraud proven*	40	34
<b>Total:</b>	<b>82</b>	<b>57</b>

\* i.e. sufficient evidence to instigate legal proceedings

4.11 Although the number of fraud proven cases has increased to 60% of the closed cases (49% in 2017/18), there is no discernable reason for the change. 39% of the closed cases were not investigated as either they lacked sufficient details to instigate an investigation, or there was no evidence of fraud (e.g. the person was not claiming benefits).

4.12 Table 4 below provides the CTR, and incidental Housing Benefit savings that have been achieved as a result of the fraud investigations concluded during the relevant periods.

Savings	2017/18	2018/19



CTR excess reduction	£40,424	£32,300
Future CTR saving	£14,760	£12,095
Council Tax Benefit	£887	£0
Housing Benefit	£91,310	£89,058
<b>Total:</b>	<b>£147,181</b>	<b>£133,453</b>

4.13 Once a case has been closed as fraud proven and the CTR adjustment (known as an excess reduction) is calculated, the case is referred to the Interim 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.

4.14 The level of a financial penalty, which is offered as an alternative to prosecution, is prescribed in The Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (Wales) Regulations 2013. The amount of the penalty is 50% of the amount of the excess reduction subject to a minimum amount of £100, and a maximum amount of £1,000. Alternative to this type of penalty, fines may be issued as follows:

- £100 – may be offered as an alternative to prosecution for acts or omissions that could have led to an incorrect award of CTR;
- £70 – may be imposed for:
  - an incorrect statement, information or evidence that leads to CTR award that is greater than entitlement; or
  - a failure to notify a change in circumstances meaning that a CTR award is greater than entitlement.

Table 5 illustrates the penalties and fines issued in the relevant period:

Successful sanctions	2017/18	Amount	2018/19	Amount
Prosecutions	0	N/A	0	N/A
Penalties	30	£14,869	25	£9,001
Fines	6	£420	5	£350
<b>Total:</b>	<b>36</b>	<b>£15,289</b>	<b>30</b>	<b>£9,351</b>

4.15 The reduction in the total amount of sanctions directly relates to smaller levels of excess reduction (i.e. 50% of smaller amounts). In addition to the penalties and fines, the Fraud Investigator has also raised administration-penalties totaling £7,389 (£11,859 2017/18), following DWP investigations into Housing and Council Tax Benefit claims.

#### 4.16 CTR prosecution

4.17 In May 2019, a CTR investigation undertaken by the Fraud Investigator led to a successful prosecution. It resulted in a 12 month Community Order and 60 hours unpaid work. The person was also ordered to pay costs of £600 and an £80 victim surcharge. The CTR excess reduction totaled £2,648.68.

#### 4.18 Joint working

4.19 In October 2017, the DWP provided details of the joint working approach between SFIS and local authorities' fraud teams. Following a pilot stage with 6 local authorities, including Swansea City Council, all local authorities were invited to sign-up to a joint counter fraud initiative.

4.20 This initiative means that local authority fraud teams will, in appropriate cases, undertake joint investigations with SFIS. Benefits include the sharing of expertise and knowledge, which makes investigations more efficient. Furthermore, the Crown Prosecution Service will instigate criminal proceedings via a single prosecution. Joint working was rolled out across all participating authorities between October 2018 and May 2019 with Bridgend CBC approved to go-live on 29 April 2019.

## **5. Effect upon Policy Framework & Procedure Rules.**

5.1 None.

## **6. Equality Impact Assessment**

6.1 There are no equality implications.

## **7. Wellbeing of Future Generations (Wales) Act 2015**

7.1 The well-being goals identified in the Act have been considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon the achievement of well-being goals/objectives as a result of this report.

## **8. Financial Implications.**

8.1 The financial implications are reflected within this report as any fraud impacts on the resources available to the Council.

## **9. Recommendation.**

9.1 The Committee is recommended to note the report.

**Gill Lewis**  
**Interim Head of Finance**

**28 May 2019**

**Contact Officer:** Janice Jenkins  
Benefits and Financial Assessments Manager

**Telephone:** (01656) 643504

**E-mail:** Janice.Jenkins@bridgend.gov.uk

Bridgend County Borough Council,

Civic Offices,  
Angel Street,  
Bridgend,  
CF31 4WB

### **Background documents**

The Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (Wales)  
Regulations 2013

<http://www.legislation.gov.uk/wsi/2013/588/regulation/13/made>

## BRIDGEND COUNTY BOROUGH COUNCIL

### REPORT TO AUDIT COMMITTEE

13 JUNE 2019

### REPORT OF THE INTERIM HEAD OF FINANCE

#### HOUSING BENEFIT SUBSIDY RETURN 2017/18 UPDATE

##### **1. Purpose of Report.**

- 1.1 The purpose of the report is to inform the Committee of the changes to the level of management review, housing benefit induction and training activities that have been undertaken to date, and actions planned for 2019/20 to address the issues identified during the 2017/18 Housing Benefit subsidy audit.

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

- 2.1 This report assists in the achievement of the following corporate priority/priorities:

- Smarter use of resources – ensuring 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.

- 2.2 The Housing Benefits Service, which administers Housing Benefits, is a statutory service which supports our disadvantaged citizens.

##### **3. Background.**

- 3.1 The 2017/18 subsidy audit identified processing issues which affected the accuracy of the subsidy claim, with the main issue being the treatment of earned income. Identified errors were immediately corrected with overpayments recovered where permitted by the Housing Benefit regulations, and underpayments paid accordingly.

##### **4. Current situation / proposal.**

- 4.1 Steps to address the issues continued whilst the audit was being undertaken; the following actions have been completed, or are planned for 2019/20, in order to further improve accuracy.

##### **4.2 General Housing Benefits induction/training**

- 4.3 Benefit Officers have been made aware of the types of errors identified during the audit and the issues are discussed at team meetings. Accuracy is a standing item on all team meeting agendas.

- 4.4 Reminders or guidance is issued to assessors when common errors are encountered or an error type may be replicated by others. Individual assessors correct their own errors; claims are then rechecked. Whilst this has always been the case, the process is more structured as checking has increased.

4.5 Comprehensive earned income training was completed by the Benefits Training Officer in March 2018. This training is on-going via refresher sessions, team meetings and guidance. The 2019-20 training plan is devised to concentrate on the specific issues identified during the audit (the relevant pages are contained in **Appendix 1**).

#### **4.6 Earned income**

4.7 Guidance was obtained from the DWP to clarify the treatment of salary sacrifice pensions in the Housing Benefit calculations. A salary sacrifice pension is treated differently in the Housing Benefit assessment than a non-salary sacrifice pension. This guidance was disseminated during the earned income training sessions [March 2018] alongside comprehensive training notes, including system screenshots.

4.8 During 2018, the DWP introduced the Verify Earning and Pensions (VEP) system which gives local authorities access to check earnings and pensions for Housing Benefit cases. The presentation of data provides greater clarity for staff in determining earned income and pensions.

4.9 Targeted claims checking on 'high risk' earned income claims in addition to routine weekly testing remains ongoing.

4.10 Routine claims checking is continually undertaken by senior staff with cases identified through weekly exception reports and performance checks. In addition, a monthly rolling review of earnings, self-employed earnings and pensions is undertaken.

4.11 In response to an identified issue that may potentially affect a number of cases, an ad-hoc exception report is developed and all cases are checked.

4.12 In addition to the above checks, an accuracy performance indicator was included in the Finance Service's 2018/19 Business Plan and remains for 2019/20. The outcome of the checking is also fed-back to Benefit Officers together with details of any issues identified. If a training need is identified, the training plan is updated accordingly.

#### **4.13 Management Review of Subsidy checking process**

4.14 **Appendix 2** contains the high-level checking plan that was undertaken for the 2018/19 subsidy claim. These checks commenced during February 2019 and were completed by the end of April 2019. Where audit requires an officer to test any extended samples, the initial testing will be examined by a second officer to ensure that all errors (if applicable) are identified.

#### **5. Effect upon Policy Framework & Procedure Rules.**

5.1 None.

#### **6. Equality Impact Assessment**

6.1 There are no equality implications.

## **7. Wellbeing of Future Generations (Wales) Act 2015**

7.1 The well-being goals identified in the Act have been considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon the achievement of well-being goals/objectives as a result of this report.

## **8. Financial Implications.**

8.1 Based upon the value of the errors found, as compared to the overall level of expenditure on that type of claim, the auditors calculated an extrapolated error figure of £8,333 for the Housing Benefit Subsidy Return 2017-18.

8.2 £5,548 of this expenditure has been reclassified as 'local authority error' and, as the total amount of local authority error is below the lower threshold (0.48% of gross Housing Benefit expenditure), it attracts 100% subsidy (i.e. it does not affect the amount of subsidy already received)

8.3 With regards the remaining £2,785, this was recovered from March 2019 interim subsidy installment. The total Housing Benefit subsidy paid to the authority for 2017/18 totaled £48,556,424.

## **9. Recommendation.**

9.1 The Committee is recommended to note the report.

**Gill Lewis**  
**Interim Head of Finance**

**Contact Officer:** Janice Jenkins  
Financial Assessments and Benefits Manager

**Telephone:** (01656) 643504

**E-mail:** Janice.Jenkins@bridgend.gov.uk

**Postal Address:** Bridgend County Borough Council,  
Civic Offices,  
Angel Street,  
Bridgend,  
CF31 4WB

## **Background documents**

None

**6. Identified Training Needs and Requirements for 2019-2020**

- Benefit staff refresher courses

Specifically to address issues identified during 2017/18 subsidy audit:

- Back to basics e.g. double checking inputs, checking calculations before accepting
- Use of dates within Benefits
- Income and Capital - particularly pay frequency of earned income, pensions and tax credits
- VEP

Others:

- Verification and Standards of Evidence
- Overpayments
- Private Rented Sector/Tenancy Types/Payment Schemes
- Fraud awareness

- Individual/group staff training

- Private Tenants
- Clerical processing development

- Designated offices

Porthcawl	Complete	Aberkenfig	Complete
Pyle	Complete	Pencoed	Complete
Maesteg	Complete		
Ogmore	Complete		

- Verification Framework
- Original Documents
- Document Training
- Photocopying

- Registered Social Landlords

Valleys to Coast	Complete
Hafod	Complete
Wales and West	Complete

Refresher training to be arranged

- New Staff

Changes Identified to Date

- Year End
- Benefits up-rating
- Universal Credit roll-out
- Legislation
- Data Protection
- Fraud Awareness



**2019/20 CALENDAR**

April May June July August September October November December January February March

	April	May	June	July	August	September	October	November	December	January	February	March
<b>Universal Credit</b>												
<b>Income</b>												
<b>Dates</b>												
<b>Housekeeping</b>												
<b>Rent</b>												
<b>Household</b>												
<b>Overpayments</b>												
<b>Discretionary Housing Payments/Rent in Advance</b>												
<b>New Staff</b>												
<b>Fraud Awareness</b>												



## BRIDGEND COUNTY BOROUGH COUNCIL

### REPORT TO AUDIT COMMITTEE

13<sup>th</sup> June 2019

#### REPORT OF THE HEAD OF THE REGIONAL INTERNAL AUDIT SERVICE

##### Internal Audit – Outturn Report – April To May 2019

#### 1. Purpose of report

- 1.1 The purpose of this report is to inform the Audit Committee of the actual Internal Audit performance against the first two months of the audit plan for the financial year 2019/20.

#### 2. Connection to corporate improvement objectives/other corporate priorities

- 2.1 This report assists in the achievement of the following corporate priority/priorities:

- Smarter use of resources – ensuring 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.

#### 3. Background

- 3.1 The 2019/20 Internal Audit Plan was submitted to the Audit Committee for consideration and approval on the 18th April 2019. The Plan outlined the assignments to be carried out and their respective priorities.
- 3.2 The Plan provided for a total of 1,101 productive days to cover the period April 2019 to March 2020. These days were split into those reviews considered to be Priority One and those considered to be Priority Two with the aim of completing the whole plan by the end of the financial year.

#### 4. Current situation/proposal

- 4.1 The current position against quarter 1 of the 2019/20 Risk Based Plan is attached at **Appendix A**. An indication of the current position in regard to each proposed area identified for review in quarter 1 has been provided. It should be noted that it is very early in the financial year and the audit work on many areas identified for review has only just commenced.
- 4.2 The plan was compiled based on all posts being filled. However as previously reported the structure of the new Regional Service is yet to be finalised hence current vacant posts remain unfilled. Therefore the services of the South West Audit Partnership have been commissioned in order to address in part some of the shortfall in days necessary to complete the plan. This arrangement is likely to continue during the first half of this financial year and a maximum of 70 audit days will be provided.

- 4.3 As it 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 and 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. Well-being of Future Generations (Wales) Act 2015 implications**
- 7.1 The well-being goals identified in the Act were considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon the achievement of well-being goals/objectives as a result of this report.
- 8. Financial implications**
- 8.1 Effective Audit planning and monitoring are key contributors in ensuring that the Council's assets and interests are properly accounted for and safeguarded.
- 9. Recommendation**
- 9.1 That Members give due consideration to the Internal Audit Outturn Report covering the period April to May 2019.

**Mark Thomas**  
**Head of Audit**  
**13<sup>th</sup> June 2019**

**Contact Officer:** Mark Thomas – Head of Regional Audit Service.

**Telephone:** (01446) 709572

**E-mail:** [cmthomas@valeofglamorgan.gov.uk](mailto:cmthomas@valeofglamorgan.gov.uk)

**Postal Address**

Bridgend County Borough Council  
Internal Audit  
Ravens Court  
Brewery Lane  
Bridgend  
CF31 4AP

**Background Documents**

None

**Internal Annual Risk Based Audit Plan for BCBC 2019-20****Appendix A****PRIORITY ONE – Mandatory Audit Work**

<b>Area</b>	<b>Directorate</b>	<b>Type</b>	<b>Audit Scope</b>	<b>Budget Days Qtr. 1</b>	<b>Update for Audit Committee June 2019</b>
<b>Good Governance 11015</b>	Cross Cutting	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.	<b>10</b>	<b>Completed and issued</b>
<b>Safeguarding 16024</b>	Cross Cutting	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.	<b>10</b>	<b>Deferred until later in the year</b>
<b>Grant Certification Work 17042</b>	Cross Cutting	Assurance	Under the conditions of the specific grant determination, the Head of Audit must certify that the conditions of the grant have been complied with.	<b>10</b>	<b>Two grants allocated and work is on-going</b>
<b>Data Analytics 12019</b>	Cross Cutting	Assurance	The Council is seeing an increase in the digitisation of their operations, resulting in a growth of data across all business functions.	<b>10</b>	<b>Allocated and is work on-going</b>

Area	Directorate	Type	Audit Scope	Budget Days Qtr. 1	Update for Audit Committee June 2019
			To align with this objective, Internal Audit is currently developing a data analytics strategy to be implemented during 2019/20. Data Analytics is proving to be a useful internal audit tool as Councils become more reliant on electronic data, as data analytics enables a vast amount of data to be analysed when selecting testing samples, also utilising IT to discover new capabilities and unlock key information to help identify and reduce inefficiencies and control weaknesses, eliminate waste, fraud and abuse, and improve productivity.		
<b>Healthy Organisation Review – follow up 17201</b>	Cross Cutting	Governance / Risk / Assurance	To follow up on the areas for attention as outlined in the Healthy Organisation Review 2017/18 including Governance, Procurement and Commissioning, Risk Management, Programme & Project Management and Information Management.	<b>10</b>	<b>Brought forward from quarter 2 – allocated to SWAP to undertake an Information Management review</b>
<b>Carry Forward from 2018/19 17033</b>	Cross Cutting	Assurance	Provision for those assignments which are still ongoing at the end of 2018/19.	<b>20</b>	<b>3 c/f jobs raised and 1 completed and issued 1 under review 1 work on-going</b>
<b>2018/19 Closure of Reports 17100</b>	Cross Cutting	Assurance	To finalise all draft reports outstanding at the end of 2018/19.	<b>10</b>	<b>Awaiting the return of 3 management implementation plans</b>
<b>Follow Up of recommendation made 2018/19</b>	Cross Cutting	Assurance	To ensure that all outstanding recommendations made ensuring 2018/19 have been actioned	<b>10</b>	<b>On-going</b>

Area	Directorate	Type	Audit Scope	Budget Days Qtr. 1	Update for Audit Committee June 2019
<b>Annual Opinion Report 2018/19</b> 17100	Cross Cutting	Governance	To prepare and issue the Head of Audit's Annual Opinion Report for 2018/19.	10	<b>Completed and presented to Audit Committee 18<sup>th</sup> April 2019</b>
<b>Audit Planning – 2019/20</b> 17027	Cross Cutting	Governance / Assurance / Risk	To prepare and present the annual risk based audit plan for 2019/20.	20	<b>Completed and presented to Audit Committee 18<sup>th</sup> April 2019</b>
<b>Audit Committee /Members and CMB Reporting</b> 17005	Cross Cutting	Governance / Risk / Assurance	This allocation covers Member reporting procedures, mainly to the Audit Committee. Regular reporting to, and meeting with, the Section 151 Officer, Corporate Management Board and the IASS Board.	10	<b>Prepared reports and attended Audit Committee 18<sup>th</sup> April 2019 and 13<sup>th</sup> June 2019.</b>
<b>Advice &amp; Guidance</b> 17200	Cross Cutting	Assurance	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.	5	<b>Ongoing – advice &amp; guidance is provided when requested</b>
<b>Quality Assurance &amp; Improvement Programme / Review of the Effectiveness of Internal Audit</b>	Cross Cutting	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).	5	<b>ongoing</b>



Area	Directorate	Type	Audit Scope	Budget Days Qtr. 1	Update for Audit Committee June 2019
<b>Emerging Risks / unplanned</b> <b>17028</b>	Cross Cutting	Contingency	To enable Audit Services to respond to provide assurance activity as required.	<b>15</b>	<b>none</b>
<b>External Audit Liaison</b> <b>17002</b>	Cross Cutting	Governance	To ensure that a “managed audit” approach is followed in relation to the provision of internal and external audit services.	<b>4</b>	<b>On-going</b>
<b>Fraud / Error / Irregularity</b> <b>17003</b>	Cross Cutting	<b>Contingency</b>	<b>Irregularity Investigations</b> - Reactive work where suspected irregularity has been detected.  <b>Anti-Fraud &amp; Corruption</b> – Proactive - Proactive counter-fraud work that includes targeted testing of processes with inherent risk of fraud.  Developing fraud risk assessment in inform further areas for detailed focus (Fraud Risk Tools).	<b>10</b>	<b>Advice and guidance is being provided to whilst the NFI data analysis of matches is on-going.</b>
		<b>Fraud &amp; Error</b>	<b>National Fraud Initiative</b> - 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.	<b>10</b>	
			<b>Total – Priority One</b>	<b>179</b>	

Area	Directorate	Type	Audit Scope	Budget Days Qtr. 1	Update for Audit Committee June 2019
<b><u>PRIORITY TWO – High Risk</u></b>					
<b>Procurement 11005</b>	Chief Executive / Resources	<b>Assurance</b>	This audit will review the procurement framework and a sample of individual procurement activities across the Council in order to evaluate the level of compliance with legislation and the Council's Constitution.	<b>15</b>	<b>Not allocated</b>
<b>Schools 14001</b>	Education & Family Support	<b>Assurance</b>	To undertake a number of school based reviews in accordance with the Internal Audit risk based assessment. To undertake cross cutting projects to ensure compliance across all schools.	<b>15</b> <b>15</b>	<b>Completed controlled risk self-assessments are being analysed to identify areas and schools for review</b>
<b>Banks Automated Clearing System (BACS) 11003</b>	Chief Executive / Resources	<b>Assurance</b>	The Bank Automated Clearing System (BACS) is a system for making payments directly from one bank account to another. There are two types of bank-to-bank payments: Direct Debits and Direct Credits. Direct Debits are typically used for taking regular or recurring payment such as household bills and Direct Credits are typically used for making payments such as salaries. This review will provide assurance on the adequacy and effectiveness of the control environment surrounding both Direct Debits and Credits.	<b>10</b>	<b>To be allocated</b>
<b>General Data Protection Regulations 13001</b>	Cross Cutting		The GDPR came into force on the 25 <sup>th</sup> May 2018 and is intended to strengthen and unify data protection for individuals within the European Union (EU) and to address the export of data outside of the EU. Whilst many of the GDPR's main concepts and principles	<b>20</b>	<b>Allocated to SWAP. The Terms of Reference has been agreed and the work is underway.</b>

Area	Directorate	Type	Audit Scope	Budget Days Qtr. 1	Update for Audit Committee June 2019
			are much the same as those in the current Data Protection Act there are a number of new elements and significant enhancements. There is also the potential for significant fines (up to £20m) to be imposed in the event that the Council is found to have broken the law. This audit will review whether the Council has an effective control framework in place for ensuring that personal information that is gathered is only used for the purpose for which it was originally intended.		
<b>Project / Contract Management 15031</b>	Communities	<b>Governance / Risk Assurance</b>	Inadequate contract management can result in poor performance and service delivery, and inappropriate payments. We shall undertake a review of a sample of high risk contracts and, if applicable, joint contracts. We will also review the process for undertaking due diligence of contractors, including resilience, both pre and post contract award. Where appropriate, this review will follow – up on weaknesses identified as part of previous audit work in this area, to ensure these have been adequately addressed.	<b>15</b>	<b>Allocated to SWAP</b>
<b>Budget Savings 11030</b>	Cross Cutting	<b>Assurance</b>	The Medium Term Financial Plan sets out the Council's core budget position in order to ensure it maintains a balanced budget. An important part of the Council's strategy will be to continue to deliver efficiencies and savings over the coming years. A portion of the savings are categorised as 'savings targets' and will require regular review	<b>15</b>	<b>not allocated awaiting closure of accounts</b>

Area	Directorate	Type	Audit Scope	Budget Days Qtr. 1	Update for Audit Committee June 2019
			and reporting to monitor the level of savings that have been achieved. This review will seek to establish whether there are effective budget monitoring and reporting arrangements in place to track the progress of the identified savings targets.		
<b>Retrospective Orders 12015</b>	Cross Cutting	<b>Assurance / Risk</b>	Inappropriate use of retrospective orders increases the risk to the Council of duplicate / fraudulent orders and payments, disputes and legal consequences, ineffective budget management and the non-achievement of Value for Money. This review will identify the extent to which retrospective orders are occurring and establishing the approximate value and thereby determining the impact this has on the overall control environment.	<b>10</b>	<b>allocated</b>
			<b>Total – Priority Two</b>	<b>115</b>	
			<b>Grand Total</b>	<b>294</b>	

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## BRIDGEND COUNTY BOROUGH COUNCIL

### REPORT TO AUDIT COMMITTEE

13<sup>th</sup> JUNE 2019

#### REPORT OF THE HEAD OF THE REGIONAL INTERNAL AUDIT SERVICE

##### UPDATED FORWARD WORK PROGRAMME 2019/20

### 1. Purpose of report

- 1.1 The purpose of this report is to provide Members with an update on the Forward Work Programme for 2019/20.

### 2. Connection to corporate improvement objectives/other corporate priorities

- 2.1 This report assists in the achievement of the following corporate priority/priorities:

- Smarter use of resources – ensuring 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.

### 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 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 updated Forward Work Programme for 2019/20 is attached **at Appendix A**.
- 4.2 Members should note that the Corporate Fraud Report 2018/19 has been deferred from this meeting and will be presented at the next meeting. This report will include a National Fraud Initiative update.
- 4.3 As shown below are the items scheduled to be presented at the Committee's next meeting provisionally on 8<sup>th</sup> August 2019. Committee Members are asked to endorse this schedule, confirm the list of people they would like to invite for each item (if appropriate), and indicate whether any additional information or research is required.

Provisional Date of Meeting	Agenda Items
8 <sup>th</sup> August 2019	Updated Forward Work Programme
	Final Statement of Accounts 2018-19 and External Audit Report
	Corporate Risk Register Update
	Counter Fraud Report 2018/19 Including an NFI Update
	External Auditors / Inspection Reports (where applicable).

#### **5. Effect upon policy framework and 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. Well-being of Future Generations (Wales) Act 2015 implications**

- 7.1 The well-being goals identified in the Act were considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon the achievement of well-being goals/objectives as a result of this report.

#### **8. Financial implications**

- 8.1 There are no financial implications arising from this report.

#### **9. Recommendation**

- 9.1 That Members consider and note the updated Forward Work Programme for 2019/20.



**Mark Thomas**  
**Head of Audit**  
**13<sup>th</sup> June 2019**

**Contact Officer:** Mark Thomas – Head of Regional Audit Service

**Telephone:** (01446) 709572

**E-mail:** [cmthomas@valeofglamorgan.gov.uk](mailto:cmthomas@valeofglamorgan.gov.uk)

**Postal Address**

Bridgend County Borough Council  
Internal Audit  
Ravens Court  
Brewery Lane,  
Bridgend  
CF31 4AP

**Background Documents**

None

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**AUDIT COMMITTEE  
PROPOSED SCHEDULE OF MEETINGS AND FORWARD WORK PROGRAMME  
2019 - 2020**

<b>PROVISIONAL DATE OF MEETING</b>	<b>FORWARD WORK PROGRAMME</b>	<b>OFFICER RESPONSIBLE</b>	<b>UPDATE</b>
<b>2019</b>			
<b>13<sup>th</sup> June</b>	Election of Chair & Vice-Chair	Democratic Services Officer	
	Draft Annual Governance Statement 2018-19	Head of Finance	Submitted
	Pre-audited Statement of Accounts 2018/19.	Head of Finance	Submitted
	Treasury Management Outturn 2018/19	Head of Finance	Submitted
	Council Tax Reduction fraud investigations: April 2018 to March 2019	Head of Finance / Benefit's Manager.	Submitted
	Housing Benefit Claim action plan	Head of Finance / Benefit's Manager.	Submitted
	Corporate Fraud Report 2018/19	HOA / Audit Client Manager	Combined with NFI report to be presented in August 2019
	External Auditors / Inspection Reports (where applicable).	Head of Finance / WAO	Submitted
	IASS Outturn Report April and May 2019. Together with progress against Plan.	HOA	Submitted
	Updated Forward Work Programme 2019/20.	Head of Audit (HOA)	Submitted
<b>8<sup>th</sup> August</b>	Updated Forward Work Programme	HOA	
	Final Statement of Accounts 2018-19 and External Audit Report	Head of Finance	
	Corporate Risk Register Update	Head of Finance	
	Counter Fraud Report 2018/19 Including an NFI Update	HOA / Audit Client Manager	
	External Auditors / Inspection Reports (where applicable).	Head of Finance / WAO	
<b>14<sup>th</sup> November</b>	Updated Forward Work Programme	HOA	
	Compliance with the Public Sector Internal Audit Standards	HOA	
	Progress report on the Regional Internal Audit Service	HOA	
	Audit Committee Terms of Reference	HOA	
	Treasury Management Half Year monitoring report 2018-19	Head of Finance	
	Internal Audit Half Year Outturn Report – April 2019 to September 2019.	HOA	
	External Auditors / Inspection Reports (where applicable).	Head of Finance / WAO	

**APPENDIX A**

<b>2020</b>			
<b>23rd January</b>	<b>Up dated Forward Work Programme</b>	<b>HOA</b>	
	<b>Internal Audit Progress Report April – November 2019</b>	<b>HOA</b>	
	<b>Audit Committee Terms of Reference</b>	<b>HOA</b>	
	<b>Audit Committee Self-Assessment</b>	<b>HOA</b>	
	<b>Corporate Risk Assessment, Corporate Risk Management Policy and Near Miss Procedure 2020-21</b>	<b>Head of Finance</b>	
	<b>Fraud Update</b>	<b>Head of Finance / Benefits Manager.</b>	
	<b>Corporate Fraud Framework</b>	<b>HOA</b>	
	<b>Treasury Management Strategy 2020-21</b>	<b>Head of Finance</b>	
	<b>External Auditors / Inspection Reports (where applicable).</b>	<b>Head of Finance / WAO</b>	
<b>16th April</b>	<b>Updated Forward Work Programme and proposed programme for-2020-21</b>	<b>HOA</b>	
	<b>Internal Audit proposed Annual Strategy and Audit Plan 2020-21</b>	<b>HOA</b>	
	<b>Internal Audit Shared Service Charter 2020-21</b>	<b>HOA</b>	
	<b>Draft Head of Audit’s Annual Opinion Report and outturn for the Year 2019-20</b>	<b>HOA</b>	
	<b>Fraud Update</b>	<b>Head of Finance / Benefits Manager</b>	
	<b>External Auditors / Inspection Reports (if applicable): -</b>	<b>Head of Finance / WAO</b>	