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**Date: 25th July 2018**

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Dear Sir/Madam,

A **Special Meeting of Council** will be held in the **Council Chamber, Penallta House, Tredomen, Ystrad Mynach** on **Tuesday, 31st July, 2018** at **5.00 pm** to consider the matters contained in the following agenda.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Chrissy', enclosed within a large, loopy oval shape.

**Christina Harrhy**  
INTERIM CHIEF EXECUTIVE

## A G E N D A

Pages

- 1 To receive apologies for absence.

A greener place Man gwyrddach



2 Declarations of Interest.

Councillors and Officers are reminded of their personal responsibility to declare any personal and/or prejudicial interest(s) in respect of any item of business on this agenda in accordance with the Local Government Act 2000, the Council's Constitution and the Code of Conduct for both Councillors and Officers.

To receive and consider the following report: -

3 Financial Statements for 2017/18.

1 - 168

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## SPECIAL COUNCIL – 31ST JULY 2018

**SUBJECT: FINANCIAL STATEMENTS FOR 2017/18**

**REPORT BY: CORPORATE DIRECTOR FOR EDUCATION AND CORPORATE SERVICES**

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### 1. PURPOSE OF REPORT

1.1 To present Council with the 2017/18 Financial Statements.

### 2. SUMMARY

2.1 The report presents Council with the 2017/18 Financial Statements for formal approval.

### 3. LINKS TO STRATEGY

3.1 The Financial Statements deal with resources available to the Authority that influence the delivery of policies and strategies.

3.2 Effective financial planning and robust budget management support the following Well-being Goals within the Well-being of Future Generations Act (Wales) 2015: -

- 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.

### 4. THE REPORT

4.1 At its meeting on the 24<sup>th</sup> July 2018, the Audit Committee was presented with the External Auditor's ISA 260 Report on the audit of the 2017/18 Financial Statements. The ISA 260 report is attached as Appendix 1 and stated that it was the Auditor General's intention to issue an unqualified audit report on the 2017/18 Financial Statements.

4.2 Appendix 3 of the Auditor's Report provides details of misstatements identified during the audit process which have subsequently been corrected by management. It is important to stress that these adjustments have no impact on cash or General Fund balances.

4.3 The 2017/18 Financial Statements attached as Appendix 2 of this report incorporate all of the corrected misstatements identified in the Auditor's Report.

- 4.4 Appendix 4 of the Auditor's Report provides details of recommendations arising from the 2017/18 financial audit work along with the management responses.
- 4.5 Following consideration of the Auditor's Report and the 2017/18 Financial Statements the Audit Committee unanimously endorsed a recommendation to Council that the Financial Statements be approved.
- 4.6 At its meeting on the 27<sup>th</sup> June 2018, Cabinet was presented with a report on the Provisional Outturn for 2017/18. The report included details of movements on the General Fund balance from the 1<sup>st</sup> April 2017 to the 31<sup>st</sup> March 2018 along with agreed commitments for 2018/19. Members will recall that the forecast General Fund balance as reported to Council on 22<sup>nd</sup> February 2018 was £10m. The updated position is a projected balance £11.8m, an increase of £1.8m.
- 4.7 The Section 151 Officer normally recommends a minimum General Fund balance of £10m (circa 3% of the net revenue budget). Members will recall that anticipated savings of circa £34m will be required for the four-year period 2019/20 to 2022/23. This is clearly extremely challenging and it is inevitable that some very difficult decisions will need to be made. With this in mind Cabinet was asked at its meeting on the 27<sup>th</sup> June 2018 to support a recommendation to Council to transfer £1.8m from the General Fund into an Earmarked Reserve to provide funding for one-off costs associated with delivering savings to support the Medium-Term Financial Plan (MTFP). This proposal was supported by Cabinet and Council is therefore asked to approve the recommendation.

## **5. WELL-BEING OF FUTURE GENERATIONS**

- 5.1 Effective financial planning and robust budget management are key elements in ensuring that the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015 are met.

## **6. EQUALITIES IMPLICATIONS**

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

## **7. FINANCIAL IMPLICATIONS**

- 7.1 As identified throughout the report.

## **8. PERSONNEL IMPLICATIONS**

- 8.1 There are no direct personnel implications arising from this report.

## **9. CONSULTATIONS**

- 9.1 There are no consultation responses that have not been reflected in this report.

## **10. RECOMMENDATIONS**

- 10.1 Council is requested: -

10.1.1 to approve the final audited 2017/18 Financial Statements; and

10.1.2 agree the transfer of £1.8m from the General Fund into an Earmarked Reserve to provide

funding for one-off costs associated with delivering savings to support the MTFP.

## **11. REASONS FOR THE RECOMMENDATIONS**

- 11.1 To ensure that the 2017/18 Financial Statements are approved and submitted to the Wales Audit Office (WAO) in accordance with statutory requirements.
- 11.2 To establish an Earmarked Reserve to assist with one-off costs to support the delivery of the MTFP.

## **12. STATUTORY POWER**

- 12.1 Accounts and Audit (Wales) Regulations 2014.

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Consultees: Richard Edmunds, Corporate Director for Education and Corporate Services  
Nicole Scammell, Section 151 Officer  
Andrew Southcombe, Finance Manager (Corporate Finance)  
Lisa Lane, Corporate Solicitor and Acting Monitoring Officer

### Background Papers:

Working Papers for Financial Statements 2017/18  
Report to Cabinet (27/06/18) – Provisional Outturn for 2017/18  
Report to Audit Committee (24/07/18) – Financial Statements for 2017/18

### Appendices:

Appendix 1 Audit of Financial Statements Report  
Appendix 2 2017/18 Financial Accounts

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WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Audit of Financial Statements Report – **Caerphilly County Borough Council**

Audit year: 2017-18

Date issued: 12 July 2018

Document reference: 696A2018-19

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We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

This document was produced by Barrie Morris, Gail Turner-Radcliffe and Grace Hawkins of Grant Thornton UK LLP.



# Contents

The Auditor General intends to issue an unqualified audit report on your financial statements. There are some issues to report to you prior to their approval.

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# Summary report

## Introduction

- 1 The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Caerphilly County Borough Council at 31 March 2018 and its income and expenditure for the year then ended.
- 2 We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
- 3 The quantitative levels at which we judge such misstatements to be material for Caerphilly County Borough Council are £6.133 million generally. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity, for example, the senior officer remuneration disclosures.
- 4 International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
- 5 This report sets out for consideration the matters arising from the audit of the financial statements of Caerphilly County Borough Council, for 2017-18, that require reporting under ISA 260.

## Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2018 on 15 June 2018, in line with the agreed deadline. As at 12 July 2018, our audit work is substantially complete, but we are completing our final testing in a small number of areas. Other than as reported in this report, we have not identified any issues in these areas and we aim to complete this work to enable the Council to approve the final version of the accounts at the special council meeting on 31 July 2018. The areas that are still outstanding are:
  - receipt and review of the final financial statements; and
  - completion of our Whole of Government Accounts audit work.
- 7 We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with officers.

## Proposed audit report

- 8 It is the Auditor General's intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#).
- 9 The proposed audit report is set out in [Appendix 2](#).

## Response to financial audit risks

- 10 Our Audit Plan, which was presented to the Audit Committee in March 2018, set out the risks relating to the Council's financial statements. As part of our interim audit, we completed work in a number of areas to consider the risks and provided an update to the Council's finance team on our work on these risks.
- 11 As part of our final accounts audit, we have reviewed the remaining areas and have set out below our final conclusions on the work completed. Our review of the current issues facing the Council has not identified any additional audit risks that we need to bring to your attention.

### Exhibit 1: response to financial audit risks

Financial audit risk – Significant Risk	Response
<p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• tested the appropriateness of a sample of journal entries, based on our risk assessment, and other adjustments made in preparing the financial statements;</li> <li>• reviewed accounting estimates for bias; and</li> <li>• evaluated the rationale for any significant transactions outside the normal course of business.</li> </ul> <p>As a result of our audit work we have raised two recommendations that are detailed within <a href="#">Appendix 4</a>.</p>

Financial audit risk – Significant Risk	Response
Valuation of property, plant and equipment (Gross)	<p>We have:</p> <ul style="list-style-type: none"> <li>• reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>• considered the competence, expertise and objectivity of any management experts used;</li> <li>• discussed with the valuer the basis on which the valuation is carried out and challenged the key assumptions where appropriate;</li> <li>• reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; and</li> <li>• tested revaluations made during the year to ensure they are input correctly into the asset register.</li> </ul> <p>No issues were identified as part of the audit work performed.</p>
Valuation of property, plant and equipment (net)	<p>We have:</p> <ul style="list-style-type: none"> <li>• reviewed management's processes and assumptions for the calculation of the estimate;</li> <li>• reviewed the competence, expertise and objectivity of any management experts used;</li> <li>• reviewed the instructions issued to valuation experts and the scope of their work;</li> <li>• held discussions with the valuer about the basis on which valuations are carried out and challenged the key assumptions where appropriate;</li> <li>• reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; and</li> <li>• tested revaluations made during the year, on a sample basis, to ensure they are input correctly into the Council's asset register and correctly reflected in the financial statements.</li> </ul> <p>Following our audit work, we have raised two recommendations and one adjustment as outlined in <a href="#">Appendices 3 &amp; 4</a>.</p>

Financial audit risk – Significant Risk	Response
Valuation of Pension Fund Net Liability	<p>We have:</p> <ul style="list-style-type: none"> <li>• identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls have been implemented and operated as expected and whether they are sufficient to mitigate the risk of material misstatement.</li> <li>• evaluated the competence, expertise and objectivity of the actuaries who carried out your pension fund valuations. We gained an understanding of the basis on which the valuations were carried out.</li> <li>• undertook procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial reports from your actuaries.</li> </ul> <p>As a result of the work performed, one disclosure amendment was proposed as outlined in <a href="#">Appendix 3</a>.</p>

Financial audit risk – Significant Risk	Response
<p><b>Accounting for the City Deal:</b>  City deals are arrangements negotiated with government that give greater accountability for actions in return for new powers to help encourage growth and jobs. The Cardiff Capital Region City Deal (the City Deal) involves ten local authorities.</p> <p>The authorities have established Cardiff Capital Region – a joint committee (the Regional Cabinet) to oversee delivery of a range of programmes designed to increase connectivity and to improve physical and digital infrastructure over the course of 20 years. The City Deal includes funding of £734 million for the South Wales Metro, of which over £500 million is provided by the Welsh Government and £125 million from the UK Government. In addition, the UK Government has provided a £375 million contribution, and the ten local authorities have agreed a commitment to borrow a combined total of £120 million as part of the Wider Investment Fund. This significant programme will have financial, governance and delivery risks that need to be managed. There will be a number of accounting issues to address, including potential consolidation of joint committee accounts.</p>	<p>We liaised with the external auditors of the other Local Authorities and monitored progress with the City Deal project.</p> <p>It was concluded that as the spend for 2017-18 was immaterial for Caerphilly County Borough Council, that consolidated group accounts incorporating the Joint Committee would not be required.</p> <p>One disclosure amendment was proposed in the significant judgement note as outlined in <a href="#">Appendix 3</a>.</p>

Financial audit risk – Significant Risk	Response
<p>Operating Expenses – Creditors related to core activities understated or not recorded in the correct period</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• documented our understanding of the controls operating in the creditors system;</li> <li>• performed a walk-through to confirm that the controls identified are in operation;</li> <li>• tested for completeness of operating expenses including agreeing to source documentation and reviewing invoices received after the year end, for a sample of payments;</li> <li>• obtained an understanding of the accruals process; and</li> <li>• tested for unrecorded liabilities, including review of payments made after the year-end, on a sample basis.</li> </ul> <p>No issues have been identified as a result of our audit work.</p>
<p>Employee Remuneration and benefit obligations and expenses understated</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• documented our understanding of the controls operating in the payroll system;</li> <li>• performed a walk-through to confirm that the controls identified are in operation;</li> <li>• undertaken analysis of trends and relationships to identify any anomalous areas for further investigation;</li> <li>• reviewed and tested the reconciliation of payroll system to the general ledger; and</li> <li>• reviewed a sample of payments made to former employees to ensure all costs are accurately reflected in the notes to the financial statements.</li> </ul> <p>No issues have been identified as a result of our audit work.</p>

## Significant issues arising from the audit

### Uncorrected misstatements

- 12 There are no misstatements identified in the financial statements, which remain uncorrected.

## Corrected misstatements

- 13 There are misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations in [Appendix 3](#).

## Other significant issues arising from the audit

- 14 In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were some issues arising in these areas this year:

- **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.**
- **We did encounter significant difficulties during the audit.**

Debtors and Creditors – whilst the listings for debtors and creditors were provided in a timely manner, significant time was spent re-working these figures to arrive at a population from which we could select a sample. This is due to the listings provided containing vast quantities of historical data which is likely to no longer be payable or receivable by the Council. We also raised this issue last year. To assist in future years, the Council should review the historical data and remove those items which are no longer valid.

Cash – as part of the working papers, we were provided with a year-end bank reconciliation. Upon review we had difficulty in agreeing this back to the financial statements. The bank reconciliation that had been provided to us was at the end of period 12; however, the Council have further periods open where adjustments are posted which impacted the bank reconciliation. To ensure that we are provided with appropriate audit evidence that support the figures in the financial statements, the Council should provide a bank reconciliation that is consistent with the final reporting period.

Grants – as part of the audit we were provided with a breakdown of income balances. Certain general ledger codes were identified as grant income funding by the finance team. When a sample was selected from these codes, the majority of the transactions related to other general income streams and hence were not coded correctly in the general ledger.

Management should review the coding arrangements throughout the devolved service lines to ensure grant and general income is properly classified in the future.

- **There were no significant matters discussed and corresponded upon with management, which we need to report to you.**
- There are no other matters significant to the oversight of the financial reporting process that we need to report to you.
- **We did not identify any material weaknesses in your internal controls.**



- There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.

## Recommendations arising from our 2017-18 financial audit work

- 15 The recommendations arising from our financial audit work are set out in [Appendix 4](#). Management has responded to them and we will follow up progress on them during next year's audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

## Independence and objectivity

- 16 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 17 We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Auditor General for Wales, the Wales Audit Office and Caerphilly County Borough Council that we consider to bear on our objectivity and independence.

# Appendix 1

## Final Letter of Representation

Auditor General for Wales  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

31 July 2018

### Representations regarding the 2017-18 financial statements

This letter is provided in connection with your audit of the financial statements of Caerphilly County Borough Council for the year ended 31 March 2018 for the purpose of expressing an opinion on their truth and fairness. We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

### Management representations

#### Responsibilities

We have fulfilled our responsibilities for:

- the preparation of the financial statements in accordance with legislative requirements and Code of Practice; in particular, the financial statements give a true and fair view in accordance therewith; and
- the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

#### Information provided

We have provided you with:

- full access to:
  - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to staff from whom you determined it necessary to obtain audit evidence.

- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- Our knowledge of fraud or suspected fraud that we are aware of and that affects Caerphilly County Borough Council and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
- Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements. The identity of all related parties and all the related party relationships and transactions of which we are aware.

#### Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. There were no uncorrected misstatements.

### Representations by the Audit Committee

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the Council on 31 July 2018.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

Signed by:

# Appendix 2

## Proposed audit report of the Auditor General to the Members of Caerphilly County Borough Council

### The independent auditor's report of the Auditor General for Wales to the members of Caerphilly County Borough Council

#### Report on the audit of the financial statements

##### **Opinion**

I have audited the financial statements of Caerphilly County Borough Council for the year ended 31 March 2018 under the Public Audit (Wales) Act 2004.

Caerphilly County Borough Council's financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Movement on the Housing Revenue Account Statement and the Housing Revenue Account Income and Expenditure Statement and the related notes, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2018 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial position of Caerphilly County Borough Council as at 31 March 2018 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2018.

##### **Basis for opinion**

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the council in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## **Conclusions relating to going concern**

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

## **Other information**

The responsible financial officer is responsible for the other information in the annual report and accounts. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated later in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## **Report on other requirements**

## **Opinion on other matters**

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Narrative Report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Governance Statement has been prepared in accordance with guidance.

### **Matters on which I report by exception**

In the light of the knowledge and understanding of the council and its environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report or the Governance Statement.

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

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

### **Certificate of completion of audit**

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

### **Responsibilities**

#### **Responsibilities of the responsible financial officer for the financial statements**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts [set out on pages ... to ...], the responsible financial officer is responsible for the preparation of the statement of accounts, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of statements of accounts that are free from material misstatement, whether due to fraud or error.

In preparing the statement of accounts, the responsible financial officer is responsible for assessing the council's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

#### **Auditor's responsibilities for the audit of the financial statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

Anthony J Barrett  
For and on behalf of the Auditor General for Wales  
[Date]

24 Cathedral Road  
Cardiff  
CF11 9LJ

#### **Electronic publication of financial statements**

The maintenance and integrity of the Caerphilly County Borough Council website is the responsibility of the Council. The work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Statement of Accounts since they were initially presented on the web site.



# Appendix 3

## Summary of corrections made to the draft financial statements which should be drawn to the attention of the Audit Committee as those charged with governance

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

### Exhibit 2: summary of corrections made to the draft financial statements

Value of correction	Nature of correction	Reason for correction
£2,017,000	Note 13 – Retirement Benefits Benefits Paid Figure within ‘Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets’ table was incorrectly included as a positive figure.	Figure should be disclosed as a negative to be materially correct and agree with the actuary’s report.
N/A	Note 1 - Accounting Policies were added to disclose the following: <ul style="list-style-type: none"> <li>it is the Council’s policy to treat any HRA capital expenditure as non-enhancing; and</li> <li>there is no depreciation charge in-year of acquisition, revaluation or additions and a full charge in the year of disposal.</li> </ul>	Ensures policies are captured in the financial statements correctly.
N/A	Note 2 - Critical Judgement added to disclose the reasoning for not consolidating the City Deal Joint Committee accounts into the main statements.	Ensures critical judgements are captured in the financial statements correctly.
N/A	Prior Period Adjustment disclosure added to the financial statements. This identified a reclassification error. £375,000 of income was taken from Social Services and included in Corporate Services. Additionally, £1.4 million of expenditure has been taken from Social Services, with £513,000 added to Corporate Services and £916,000 to Environment.	The restatement of the CIES required a prior period adjustment note to outline the change made between the prior year and current year financial statements as required by the code.
N/A	The Cash Flow Statement disclosure is incorrect as the positive and negative signs in the opposite manner to the code.	Ensures disclosure is in line with the code.
Various	A number of other minor disclosure issues were identified and have been processed by management.	To enhance the overall quality and presentation of the financial statements.

# Appendix 4

## Recommendations arising from our 2017-18 financial audit work

We set out all the recommendations arising from our audit with management's response to them. We will follow up these next year and include any outstanding issues in next year's audit report:

### Exhibit 3: matter arising 1

<b>Matter arising 1 – Narrative Report</b>	
<b>Findings</b>	Narrative Report – Enhanced Reporting
<b>Priority</b>	Medium
<b>Recommendation</b>	The Code sets out the suggested content for inclusion in the Narrative Report, although there is a separate paragraph which states that this is not applicable to Wales. However, the Council should consider whether inclusion in future years would offer enhanced reporting for the reader. For example, greater detail around the organisational overview and external environment, as well as governance arrangements could be included to give greater insight into the Council.
<b>Benefits of implementing the recommendation</b>	The narrative report is a summary of the organisation and enhanced reporting would give greater benefit to the reader.
<b>Accepted in full by management</b>	Partially
<b>Management response</b>	The first priority for the Finance Team is to comply with the tighter deadlines in respect of the closure of the accounts and maintaining high quality financial data and information. Currently, a number of other documents that are available to the public give an insight into the type of Authority that Caerphilly CBC is, for example the Corporate Plan. Hence, in future the narrative in the Financial Statements will signpost the reader to more detailed documents, which will also avoid duplication.
<b>Implementation date</b>	Review for 2018/19

Exhibit 4: matter arising 2

<b>Matter arising 2 – Internal Audit – Audit Plan</b>	
<b>Findings</b>	Internal Audit – Audit Plan
<b>Priority</b>	High
<b>Recommendation</b>	The information provided to the Audit Committee within the plan is very high level and does not give the Audit Committee sufficient assurance around the risks associated with each audit. We recommend that the reporting is enhanced to show details around each audit which includes the risk.
<b>Benefits of implementing the recommendation</b>	The Audit Committee receives sufficient and appropriate assurance.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	In future the Audit Plan will include details of all planned audits for the forthcoming year along with an assessment of risk.
<b>Implementation date</b>	2019/20 Internal Audit Plan.

Exhibit 5: matter arising 3

<b>Matter arising 3 – Internal Audit – Out-turn report and Mid-Year progress report</b>	
<b>Findings</b>	Internal Audit – Out-turn report and Mid-Year progress report
<b>Priority</b>	Medium
<b>Recommendation</b>	The information included within the out-turn and mid-year progress report is more around the activity of the Internal Audit department rather than their findings. Findings are presented at a high level and are in a narrative format. We recommend that a table of audit findings is included showing the number of audits completed, the ratings, number of recommendations made and any other data which may be relevant.  We also recommend that the mid-year progress report is taken to the mid-year Audit Committee.
<b>Benefits of implementing the recommendation</b>	The Audit Committee receives sufficient and appropriate assurance
<b>Accepted in full by management</b>	Yes

<b>Matter arising 3 – Internal Audit – Out-turn report and Mid-Year progress report</b>	
<b>Management response</b>	The Internal Audit Services Annual Out-turn Report for 2016/17 included a table of issues identified for those audits ranked as in need of improvement during the year. This table will be enhanced for future mid-year and out-turn reports to provide details of all audits completed. Future mid-year progress reports will be scheduled for the next available Audit Committee meeting following 30 September each year.
<b>Implementation date</b>	October 2018

Exhibit 6: matter arising 4

<b>Matter arising 4 - Internal Audit - Audit Reports</b>	
<b>Findings</b>	Internal Audit - Audit Reports
<b>Priority</b>	Medium
<b>Recommendation</b>	<p>The Audit Committee has not received any Internal Audit reports for the year and therefore has no information around performance and issues within these reports. There is a three tier assessment consisting of:</p> <ul style="list-style-type: none"> <li>• 1 – good;</li> <li>• 2 – satisfactory; and</li> <li>• 3 – in need of improvement.</li> </ul> <p>We recommend that at least those reports with a satisfactory and those assessed as in need of improvement are provided to the Audit Committee on a quarterly basis.</p>
<b>Benefits of implementing the recommendation</b>	The Audit Committee are aware of any ongoing issues on a timely basis.
<b>Accepted in full by management</b>	Partially
<b>Management response</b>	In future, reports that identify areas in need of improvement will be presented to the Audit Committee on a quarterly basis. However, those initially assessed as satisfactory will only be presented to the Audit Committee if no improvement is evidenced in follow-up reviews or action plan reviews.
<b>Implementation date</b>	October 2018.

Exhibit 7: matter arising 5

<b>Matter arising 5 - Internal Audit - tracking of recommendations</b>	
<b>Findings</b>	Internal Audit - tracking of recommendations
<b>Priority</b>	Medium
<b>Recommendation</b>	The Audit Committee does not have oversight of the recommendations made by Internal Audit. A tracking document should therefore be produced which shows the progress of these recommendations.
<b>Benefits of implementing the recommendation</b>	The Audit Committee have oversight over the recommendations made and progress in clearing these.
<b>Accepted in full by management</b>	Partially
<b>Management response</b>	A process will be established to present a periodic report to the Audit Committee detailing progress against those recommendations that are material or high risk and where insufficient progress has been made after follow-up audits. This exception type of reporting will allow the Audit Committee to focus on more significant issues to allow for appropriate scrutiny.
<b>Implementation date</b>	January 2019

Exhibit 8: matter arising 6

<b>Matter arising 6 - Internal Audit – overall opinion</b>	
<b>Findings</b>	Internal Audit – overall opinion
<b>Priority</b>	High
<b>Recommendation</b>	The annual governance statement must contain an overall internal audit opinion for the financial year covered by the statement. This recommendation was also included within the 2016/17 Audit of Financial Statements Report.
<b>Benefits of implementing the recommendation</b>	<p>The Public Sector Internal Audits Standards require that ‘the Chief Internal Auditor must deliver an annual internal audit opinion that can be used by the organisation to inform its Annual Governance Statement. The annual Head of Internal Audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. The annual report must incorporate the opinion, a summary of the work that supports the opinion, a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.’ – PSIA Standards Overall Opinions 2450.</p> <p>The Council’s Annual Governance Statement included within the 2017-18 accounts does not report an overall internal audit opinion for the 2017-18 financial year. The Corporate Governance Panel meet to discuss the AGS and each member gives their view on governance arrangements including the Internal Audit departments, which will be reflected in their annual out-turn report. This report is due to go to the Audit Committee in October. Internal Audit’s opinion is a key area of assurance gained to support the Annual Governance Statement. Whilst the Council have procedures in place to ensure the opinion feeds into the AGS, a formal opinion should be produced. This provides clarity to Members that there are no issues identified that are not included in the AGS.</p> <p>A further review of the Internal Audit Out-turn report for previous years (2014/15, 2015/16 and 2016/17) confirmed that an overall opinion was not given within either of these documents but referred to the Out-turn Document that was not presented to the Audit Committee until later in the calendar year.</p>
<b>Accepted in full by management</b>	Yes

## Matter arising 6 - Internal Audit – overall opinion

### Management response

An internal audit opinion has always formed part of the annual out-turn report and the 2016/17 out-turn report presented to the Audit Committee on 17 October 2017 included the following:

*No fundamental issues have come to light as a result of audits carried out on both the major financial systems and other financial and administrative systems and procedures. Where issues have been identified and brought to the attention of management an action planning process is in place to drive through the necessary improvements. Overall it is considered that the Council continues to operate within a control environment that should minimise the risk of loss to the Authority.*

The 2017/18 Annual Governance Statement includes the following:

*Internal Audit is responsible for monitoring the quality and effectiveness of the system of governance and internal control. A risk-based Internal Audit Plan is produced each financial year. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant Directorate. Each report includes recommendations for improvements and an agreed management action plan. The process includes follow-up reviews of agreed recommendations to ensure that they are acted upon. Following the governance reviews undertaken by the WAO over recent years the role undertaken by Internal Audit and the contribution made towards the overall governance framework is being reassessed. This process will evolve and develop over time in line with the needs of the organisation and will embrace the principles promoted within the Public Sector Internal Auditing Standards. During 2017/18 the Internal Audit Section's conformance with the Public Sector Internal Audit Standards was subject to external review which determined that with the exception of a few minor issues the Section was compliant. A report and action plan outlining the actions required to achieve conformance was presented to the Audit Committee on 10 April 2018. Work is ongoing to achieve the actions outlined in the action plan and officers are confident that these will be achieved within the deadlines set.*

*The Internal Audit Manager is a key contributor to the annual review of the Authority's governance processes and has concluded for the year 2017/18 that no fundamental issues or concerns have been identified as a result of the audit work undertaken. This view will be restated within the annual report that will be presented to the Audit Committee as required by the Council's Financial Regulations.*

<b>Matter arising 6 - Internal Audit – overall opinion</b>	
<b>Management response</b>	It is accepted that the Internal audit opinion in both the out-turn report and Annual Governance Statement can be enhanced and this will be reviewed during the 2018/19 financial year.
<b>Implementation date</b>	October 2018.

Exhibit 9: matter arising 7

<b>Matter arising 7 - Internal Audit - coverage of financial systems</b>	
<b>Findings</b>	Internal Audit - coverage of financial systems
<b>Priority</b>	Medium
<b>Recommendation</b>	The audit plan has been prepared on a risk basis with some of the core financial systems being assessed as high risk. However, these have not been audited in this financial year, nor the previous financial year. We would therefore recommend that the criteria for assessing whether an audit should be due is reviewed and updated where necessary and audit work is undertaken in the year that an area is assessed as high risk.
<b>Benefits of implementing the recommendation</b>	The Internal Audit function provides assurance to the Audit Committee. Greater assurance will be provided to the Audit Committee if the high-risk audits are completed on a more frequent basis.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	We will review the risk assessments undertaken for core financial systems as there are a number of controls already in place. Core financial systems will be reviewed by Internal Audit in line with the revised risk assessments.
<b>Implementation date</b>	2019/20 onwards.



Exhibit 10: matter arising 8

<b>Matter arising 8 – Annual Governance Statement</b>	
<b>Findings</b>	Clarity of Annual Governance Statement (AGS) Disclosures
<b>Priority</b>	Medium
<b>Recommendation</b>	We recommended that the Council should re-visit its disclosure of governance issues to reflect the comments and recommendations made by regulators that the Council had agreed and were taking action to address. In addition, we recommend that an overall conclusion is added to the Annual Governance Statement to summarise the Council's governance arrangements and assess their effectiveness against the CIPFA/SOLACE framework.
<b>Benefits of implementing the recommendation</b>	An effective summary increased the accountability and review of the governance arrangements and brings the reporting in line with the relevant framework.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	There are regular reports presented to the Audit Committee that provide updates in respect of progress made against regulator proposals. In the future, these reports will be presented to the Corporate Management Team prior to Audit Committee consideration. In addition, there will also be a half-yearly report to Cabinet detailing the progress made.  An overall conclusion in the Annual Governance Statement to summarise the Council's governance arrangements and assess their effectiveness against the CIPFA/SOLACE framework will be considered by the Corporate Governance Panel for 2018/19 onwards.
<b>Implementation date</b>	2018/19.

Exhibit 11: matter arising 9

<b>Matter arising 9 – Journals authorisation</b>	
<b>Findings</b>	Journals authorisation
<b>Priority</b>	High
<b>Recommendation</b>	Although journal authorisation is possible within the system and is implemented by some directorates, it is not implemented across the whole Council. We recommend that all journals are reviewed and authorised by appropriate personnel before being posted to the ledger. This recommendation was raised in 2016-17. A review was completed within the Council with the decision to keep the process unchanged. Therefore, re-raised in-year.

<b>Matter arising 9 – Journals authorisation</b>	
<b>Benefits of implementing the recommendation</b>	There is currently a risk that an inappropriate or erroneous journal could be processed and impact on the financial statements
<b>Accepted in full by management</b>	Due to the controlled number of finance staff with access to process journals into the ledger, this risk is considered to be limited.
<b>Management response</b>	The ability to process journals is only available to certain finance staff in the Authority. It is the consensus that the staff processing the journals in the devolved finance functions are of sufficient grade and experience to process the journals without the need for them to be authorised by a more senior officer.
<b>Implementation Date</b>	N/A

Exhibit 12: matter arising 10

<b>Matter arising 10 – Journals users</b>	
<b>Findings</b>	Monitoring of Journals Users
<b>Priority</b>	High
<b>Recommendation</b>	During the course of audit, we were provided with the most recent schedule of council employees that were able to access the ledger and post journals. Our testing identified an employee who had processed journals that had not been included within the schedule provided, meaning that there is a deficiency in the control. We would recommend that the access to the general ledger system and the posting of journals is monitored and a central schedule is maintained and kept up to date to record who has access to process journals.
<b>Benefits of implementing the recommendation</b>	This will reduce the risk of unauthorised personnel posting journal entries to the general ledger that will impact the financial reporting.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	The employee in question moved between a number of posts during the financial year. We will update the user schedule for the individual identified and maintain and review the user schedule going forward to ensure that all staff changes are captured in a timely manner.
<b>Implementation Date</b>	Immediately

Exhibit 13: matter arising 11

<b>Matter arising 11 – Calculation of depreciation</b>	
<b>Findings</b>	Calculation of depreciation
<b>Priority</b>	High
<b>Recommendation</b>	<p>As a result of our audit findings, we recommend that management review how the Logotech Asset System calculates depreciation for revalued assets.</p> <p>As reported last year, we identified that revalued assets are being depreciated one year too quickly due to the incorrect 'Useful Economic Life' being used post revaluation, ie it takes one year off the life of the asset upon revaluation.</p> <p>Work has been completed by officers to correct this issue, with a manual adjustment correcting the majority of the asset values. However, this adjustment was not made to assets revalued in the financial year.</p>
<b>Benefits of implementing the recommendation</b>	The error was not material in-year. However, assets revalued in-year are being depreciated one year too quickly and as a result the depreciation figure charged each year is higher than expected. This has no impact on the general fund balance.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	In accordance with the 2016/17 audit findings, work was undertaken to ensure depreciation was calculated correctly and this was achieved by way of manual adjustments to the asset register. A further review of the depreciation calculation, on revalued assets, will be undertaken in 2018/19 in conjunction with the software provider Logotech.
<b>Implementation date</b>	31 March 2019.

Exhibit 14: matter arising 12

<b>Matter arising 12 – Calculation of depreciation</b>	
<b>Findings</b>	Calculation of depreciation
<b>Priority</b>	High
<b>Recommendation</b>	One asset sampled as part of our audit work was found to have the land value included in the value used to calculate depreciation. Land is considered to have an infinite life so does not attract a depreciation charge. Therefore, its inclusion in the asset value resulted in a higher depreciation charge than expected.

<b>Matter arising 12 – Calculation of depreciation</b>	
<b>Benefits of implementing the recommendation</b>	The error was not material in-year so no adjustments were required. However, the depreciation charge is being inflated by the inclusion of the land values.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	The asset in question is valued on an annual basis. The land and building elements of the asset have now been separated out on the asset management system; therefore the issue in relation to this asset should not arise in 2018/19. We will continue to review all asset valuations going forward to ensure that all land is classified separately.
<b>Implementation date</b>	Immediately

Exhibit 15: matter arising 13

<b>Matter arising 13 – Provision for doubtful debts</b>	
<b>Findings</b>	The opening balance contained a significant amount of historical data that had been brought forward from previous years.
<b>Priority</b>	Medium
<b>Recommendation</b>	As a result of the audit work performed, we recommend that a detailed review of historical debtor balances is reviewed each financial year.
<b>Benefits of implementing the recommendation</b>	Reviewing the balances regularly ensures that the doubtful debt provision is a true reflection of the position at the year-end.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	We will undertake a review of all bad debt provisions as part of the 2018/19 accounts closure preparation in readiness for the implementation of IFRS9.
<b>Implementation date</b>	31 March 2019



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# Financial Accounts

## For the year ended

### 31 March 2018



A greener place Man gwyrddach



**Financial Accounts for the year ended  
31 March 2018**

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## Narrative Report

### Introduction

Caerphilly County Borough is located in the South Wales valleys covering an area of approximately 278 square kilometres stretching from Cardiff in the south of the county to the start of the Brecon Beacons in the north of the county. Caerphilly County Borough Council ("the Authority") serves a population of 180,500.

The accounts on the following pages show the financial performance for the year of all activities undertaken by the Authority. Whilst the accounts have been presented as clearly as possible, local authority accounts are technical and complex. Consequently, the purpose of this Narrative Report is to offer a guide to the most significant matters appearing in the accounts and to provide a summary of the financial performance for the year.

**Narrative Report (continued)**

**2017/2018 Revenue Expenditure**

Details of the Authority's revenue expenditure for the year are provided in the Comprehensive Income and Expenditure Statement on page 14. The account is classified according to service expenditure areas.

In 2017/2018, the Authority's expenditure and income compared to budget was:

<b>Service Area</b>	<b>Original Estimate £000</b>	<b>Revised Estimate £000</b>	<b>Outturn £000</b>	<b>In Year use of Reserves £000</b>	<b>Revenue Contribution to capital £000</b>	<b>(Overspend) /Underspend £000</b>
Education and Lifelong Learning	124,993	124,763	123,658	216	756	133
Social Services, Public Protection and Policy	89,612	89,729	87,719	932	865	213
Communities	44,010	44,008	42,326	468	645	569
Corporate Services	66,816	66,931	61,806	(1,962)	3,389	3,698
HRA	0	0	(20,364)	(15,840)	32,134	4,070
<b>Total Service Expenditure</b>	<b>325,431</b>	<b>325,431</b>	<b>295,145</b>	<b>(16,186)</b>	<b>37,789</b>	<b>8,683</b>
Funding Income	(324,031)	(324,031)	(325,651)	0	0	1,620
Budget Strategy Contribution from Reserves	(1,400)	(1,400)	0	(1,400)	0	0
<b>(Surplus) / Deficit on Provision of Services</b>	<b>0</b>	<b>0</b>	<b>(30,506)</b>	<b>(17,586)</b>	<b>37,789</b>	<b>10,303</b>
Transfer to Earmarked Reserves						5,173
Transfer to General Fund Reserves						5,130
<b>Total Transfer to Balance Sheet</b>						<b>10,303</b>
<b>General Fund Reserves as at 31 March 2017</b>						<b>(17,833)</b>
Budget Strategy Contribution						1,400
In Year Movement						8,363
Outturn Contribution						(5,130)
<b>General Fund Reserves as at 31 March 2018</b>						<b>(13,200)</b>

Further details of the Authority's outturn performance against budget can be found in the Deputy S.151 Officer's Provisional Outturn Report 2017/2018 which is to be presented to Cabinet on 27 June 2018. The report may be obtained from the Authority's website.

The actual expenditure is compared in broad terms to the revised budget for the current financial year. However, the expenditure on individual Directorates does not mirror that shown in the Comprehensive Income and Expenditure Statement because budget monitoring is carried out on a Directorate basis and re-categorised in the Comprehensive Income and Expenditure Statement to comply with recommended accounting practice. The Comprehensive Income and Expenditure Statement figures also include accounting adjustments in respect of depreciation, capital grants and contributions, IAS 19 pension costs and a number of items included within the directorates within the budget summary that are shown below the Cost of Service line within the Account.

### Narrative Report (continued)

The Revenue Contribution to capital of £32.134m was a significant contribution towards the funding of the WHQS programme which is a major refurbishment programme for all our council housing stock. The works required include both internal, external and environmental improvements and cover elements such as fit for purpose kitchens and bathrooms, efficient heating and wiring systems, safe and secure homes, in a good state of repair, and meet the specific requirements of the household. All of our housing stock must meet the standard by the statutory deadline of 2020.

#### Funding Income

The following table details the main sources of income received by the Authority to fund service expenditure in 2017/2018:

<b>Funding Income</b>	<b>2017/2018</b>		
	<b>Revised</b>	<b>Outturn</b>	<b>Variance</b>
	<b>Estimate</b>	<b>£000</b>	<b>£000</b>
Council Tax (net of Police Authority and Community Council Precepts)	60,404	62,024	(1,620)
Revenue Support Grant	205,959	205,959	0
Non Domestic Rates	57,668	57,668	0
<b>Total Funding Income</b>	<b>324,031</b>	<b>325,651</b>	<b>(1,620)</b>

#### Housing Revenue Account

Details of the Housing Revenue Account are set out on pages 109 to 114. For 2017/2018, actual outturn compared to budget was as follows:

	<b>2017/2018</b>		
	<b>Original</b>	<b>Actual</b>	<b>Variance</b>
	<b>Estimate</b>	<b>Outturn</b>	<b>£000</b>
Expenditure	65,535	31,676	(33,859)
Income	(65,535)	(52,039)	13,496
<b>(Surplus)/Deficit for the year on HRA Services</b>	0	(20,363)	(20,363)
HRA Outturn	<b>0</b>	<b>(20,363)</b>	<b>(20,363)</b>

#### Provisions

Movements upon provisions are detailed in note 29, together with explanations of what each provision is for.

	<b>1 April 2017</b>	<b>Movement</b>	<b>31 March 2018</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Short term provisions	(1,795)	213	(1,582)
Long term provisions	(2,739)	73	(2,666)
	<b>(4,534)</b>	<b>286</b>	<b>(4,248)</b>

**Narrative Report (continued)**

**Reserves**

The amounts shown as unusable reserves relate to capital and pension reserves, which do not constitute 'usable resources'. Further details of movements are detailed in note 22.

	1 April 2017 <u>£000</u>	Movement <u>£000</u>	31 March 2018 <u>£000</u>
Reserves - Usable	(120,576)	10,778	(109,798)
- Unusable	<u>(440,020)</u>	<u>(22,668)</u>	<u>(462,688)</u>
	<u><b>(560,596)</b></u>	<u><b>(11,890)</b></u>	<u><b>(572,486)</b></u>

**Loan Debt**

The total amount outstanding as at 31 March 2018 was £290.147m, as measured on an amortised cost basis, the majority being owed by the Authority to the PWLB. The balance comprises loans from the money market. Analysis of the loan debt is shown in the notes accompanying the Core Financial Statements on page 53 (note 12). The nominal value represents the principal amount outstanding at the Balance Sheet date.

	2016/2017 <u>£000</u>	2017/2018 <u>£000</u>
<b><i>Amortised Cost of Loans:</i></b>		
Loan debt repayable in one year	(14,064)	(10,771)
Loan debt repayable in more than one year	<u>(282,317)</u>	<u>(279,376)</u>
	<u><b>(296,381)</b></u>	<u><b>(290,147)</b></u>
<b><i>Nominal Value of Loans:</i></b>		
Loan debt repayable in one year	(5,194)	(7,940)
Loan debt repayable in more than one year	<u>(283,045)</u>	<u>(280,494)</u>
	<u><b>(288,239)</b></u>	<u><b>(288,434)</b></u>

**Policy on Payment of Creditors**

The Late Payment of Commercial Debts (Interest) Act 1998 requires that creditors be paid without undue delay and within a 30-day settlement period. In 2017/2018, 94.8% of payments were made within 30 days (94.88% in 2016/2017).

However, it is the Authority's aim to pay undisputed invoices to local small and medium sized businesses within an average of 13 calendar days in order to have a positive effect on the local economy. In 2017/2018, invoices were settled within an average of 11.93 calendar days (12.97 calendar days in 2016/2017).

**Pension Liability**

Following the adoption of IAS 19 "Employee Benefits" by local authorities, the Authority is required to recognise in its accounts, its share of the net assets/liabilities of any defined benefit pension scheme.

The net pensions asset/liability to be recognised is made up of two elements:

- Liabilities – the retirement benefits that have been promised under the formal terms of the pension scheme.

**Narrative Report (continued)**

- Assets – the Authority’s attributable share of the investments held in the pension scheme to cover its liabilities, measured at fair value.

The total net liability included for 2017/2018 is £503.159m (£501.671m in 2016/2017). Although this liability has a substantial impact upon the net worth of the Authority, statutory arrangements exist to fund the deficit to ensure that the financial position of the Authority will remain healthy. The deficit will be made good by increased contributions over the remaining working lives of employees, as assessed by the scheme actuary.

Details of this liability are shown in the notes accompanying the Core Financial Statements in note 13.

**2017/2018 Capital Expenditure**

Capital expenditure during the year amounted to some £70.332m (2016/2017 - £67.307m), the major items within this figure being identified below:

	<u>£000</u>	<u>£000</u>
<b>Housing:</b>		
Repairs and Improvements	42,210	
Improvement Grants & Private Sites	2,425	
	44,635	44,635
<b>Non Housing:</b>		
Education	11,941	
Social Services	281	
Highways & Transportation and Land Reclamation	6,227	
Economic Development/Tourism	214	
Planning & Countryside	691	
Environmental Services	683	
Sports and Leisure (including Countryside)	1,003	
Other	4,657	
	25,697	25,697
		<b>70,332</b>
Financed by:		
Grants inc MRA		14,964
Other		55,368
		<b>70,332</b>

Capital expenditure was financed by grants (£14.964m) and other sources (£55.368m). The Authority has also entered into a number of finance leases in previous years for buildings for use in its Social Services provision and computer equipment in schools.

## **Narrative Report (continued)**

### **Future Financial Developments**

Due to the ongoing programme of austerity and increasing demand for a number of services, the financial position for Local Government has been very challenging in recent years. During the period 2008/09 to 2017/18 Caerphilly CBC has delivered savings of £82.17m to address reductions in funding and inescapable cost pressures.

Caerphilly CBC's budget for the 2018/19 financial year was approved by Council on the 22<sup>nd</sup> February 2018 and this included further savings of £6.74m to ensure that financial commitments can be met and that a balanced budget can be achieved.

The agreed savings for 2018/19 will have limited impact on front-line services and wherever possible Council priorities have been protected from cuts. Further information on the budget can be found on the Caerphilly CBC website ([www.caerphilly.gov.uk](http://www.caerphilly.gov.uk)) or by contacting Stephen Harris, Interim Head of Corporate Finance (Tel: 01443 863022 or email [harrisr@caerphilly.gov.uk](mailto:harrisr@caerphilly.gov.uk)).

The funding situation for Local Government is unlikely to improve for some time so Caerphilly CBC has adopted a prudent approach of producing an indicative five-year Medium-Term Financial Plan. In addition to the approved savings of £6.74m for the 2018/19 financial year it is currently anticipated that further savings of circa £34m will be required for the four-year period 2019/20 to 2022/23.

Significant work is already underway to identify a range of further savings proposals, with particular emphasis on the 2019/20 financial year where it is currently anticipated that savings of up to £10.45m will be required. This is clearly extremely challenging and it is inevitable that some very difficult decisions will need to be made. In looking to develop proposals to address the financial challenges going forward it is widely accepted that the Council cannot continue as it is. There is a need to examine the way in which we use our resources to deliver the services required by our communities across the county borough.

Once firm savings proposals have been worked up there will be an extensive consultation process that will allow members of the public to give their views before final budgets are approved

### **Code of Practice on Local Authority Accounting in the United Kingdom 2017/2018**

The above publication, (the Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA) governs the items to be disclosed in these Financial Accounts. It makes no changes for 2017/2018 that are applicable to the Authority.

## Statement of Responsibilities for the Statement of Accounts

### The Authority's responsibilities

The Authority is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Head of Corporate Finance and S151 Officer;
- to manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets; and
- to approve the Statement of Accounts.

### Responsibilities of the Head of Corporate Finance and S151 Officer

The Head of Corporate Finance and S151 Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ('the Code of Practice').

In preparing this Statement of Accounts, the Head of Corporate Finance and S151 Officer has:

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

The Head of Corporate Finance and S151 Officer has also:

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

### Certificate of Head of Corporate Finance and S151 Officer

I certify that the accounts, set out on pages 12 to 114, give a true and fair view of the financial position of the Authority as at 31 March 2018 and its income and expenditure for the year then ended.

**N. Scammell**

**Head of Corporate Finance and S151 Officer**

**Date**

The accounts were approved by the Council on

Signed on behalf of Caerphilly County Borough Council:

**Councillor M. Adams, Mayor**

**Chair of Meeting Approving the Accounts**

**Date**

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

**Report on the audit of the financial statements**

**Opinion**

I have audited the financial statements of Caerphilly County Borough Council for the year ended 31 March 2018 under the Public Audit (Wales) Act 2004.

Caerphilly County Borough Council's financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Movement on the Housing Revenue Account Statement and the Housing Revenue Account Income and Expenditure Statement and the related notes, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2018 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial position of Caerphilly County Borough Council as at 31 March 2018 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2018.

**Basis for opinion**

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the council in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

**Conclusions relating to going concern**

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**Other information**

The responsible financial officer is responsible for the other information in the annual report and accounts. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated later in my report, I do not express any form of assurance conclusion thereon.



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

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

**Report on other requirements**

**Opinion on other matters**

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Narrative Report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018;
- The information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Governance Statement has been prepared in accordance with guidance.

**Matters on which I report by exception**

In the light of the knowledge and understanding of the council and its environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report or the Governance Statement.

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

- adequate accounting records have not been kept;
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit

**Certificate of completion of audit**

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

**Responsibilities**

**Responsibilities of the responsible financial officer for the financial statements**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 8, the responsible financial officer is responsible for the preparation of the statement of accounts, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of statements of accounts that are free from material misstatement, whether due to fraud or error.

In preparing the statement of accounts, the responsible financial officer is responsible for assessing the council's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

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

**Auditor's responsibilities for the audit of the financial statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

Anthony J Barrett  
For and on behalf of the Auditor General for Wales  
Date:

24 Cathedral Road  
Cardiff  
CF11 9LJ

**Electronic publication of financial statements**

The maintenance and integrity of the Caerphilly County Borough Council website is the responsibility of the Council. The work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Statement of Accounts since they were initially presented on the web site.

### Introduction to Accounting Statements

The Authority's accounts for the year 2017/2018 are set out in the following pages and comprise:

- a) **The Comprehensive Income and Expenditure Statement** – showing the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Authority raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.
- b) **The Movement in Reserves Statement (MiRS)** – showing the movement in the year on the different reserves held by the Authority. It is analysed into 'Usable Reserves' being those that can be applied to fund expenditure or reduce local taxation and 'Unusable Reserves'. The 'Surplus or deficit on the provision of services' line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This differs from the statutory amounts charged to the Council Fund Balance for council tax setting purposes and Housing Revenue Account Balance for dwellings rent setting purposes. The 'Net Increase/Decrease before Transfers to Earmarked Reserves' line shows the statutory Council Fund Balance and Housing Revenue Account Balance before the Authority undertakes any discretionary transfers to or from earmarked reserves.
- c) **The Balance Sheet** – which shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are 'usable reserves', being those reserves that may be used to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.
- d) **The Cash Flow Statement** – which shows the changes in cash and cash equivalents of the Authority during the year. The statement shows how the Authority 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 Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources, which are intended to contribute to the Authority'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 Authority.
- e) **The Housing Revenue Account (HRA)** – this is separated into two statements. The HRA Income and Expenditure Statement which shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. The Authority charges rents to cover expenditure in accordance with regulations, which may be different from the accounting cost. The increase or decrease in the year in the balance on the HRA account (the basis of which rents are raised) is shown in the Movement on the Housing Revenue Account Statement.

The Financial Statements as a whole are IFRS compliant. Further information and support is provided in the Notes to the Core Accounts and the Auditors' Report.

**Comprehensive Income and Expenditure Statement**  
**For the year ended**  
**31 March 2018**

# Caerphilly County Borough Council

## Comprehensive Income and Expenditure Statement

Restated 31 March 2017			31 March 2018				
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure	Note
£000	£000	£000		£000	£000	£000	
174,303	(37,611)	136,692	Education and Lifelong Learning	177,690	(38,158)	139,532	
137,046	(51,798)	85,248	Social Services, Public Protection and Corporate Policy	153,251	(56,990)	96,261	
91,195	(29,015)	62,180	Communities	95,341	(26,196)	69,145	
102,687	(64,473)	38,214	Corporate Services	106,215	(63,229)	42,986	
49,681	(32,832)	16,849	HRA	80,770	(51,885)	28,885	
<b>554,912</b>	<b>(215,729)</b>	<b>339,183</b>	<b>Cost of Services</b>	<b>613,267</b>	<b>(236,458)</b>	<b>376,809</b>	
22,723	(2,772)	19,951	Other Operating Expenditure	24,328	(3,280)	21,048	9
32,825	(959)	31,866	Financing and Investment Income and Expenditure	31,088	(1,030)	30,058	10
	(361,346)	(361,346)	Taxation and Non-Specific Grant Income		(355,453)	(355,453)	11
		<b>29,654</b>	<b>(Surplus)/Deficit on Provision of Services</b>			<b>72,462</b>	
		(40,218)	(Surplus)/deficit on revaluation of non-current assets			(52,185)	31
		1,298	(Surplus)/deficit on revaluation of available-for-sale financial assets			906	
		55,973	Actuarial (gains)/losses on pensions assets/liabilities			(33,073)	13
		<b>17,053</b>	<b>Other Comprehensive (Income) and Expenditure</b>			<b>(84,352)</b>	
		<b>46,707</b>	<b>Total Comprehensive (Income) and Expenditure</b>			<b>(11,890)</b>	

**Movement in Reserves Statement**  
**For the year ended**  
**31 March 2018**

Movement in Reserves Statement

	Council Fund Balance £000	Earmarked Reserves £000	Total Council Fund Balances £000	Housing Revenue Account £000	Capital Grants Unapplied £000	Capital Receipts Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Note
<b>Balance at 1 April 2017</b>	<b>(17,833)</b>	<b>(64,572)</b>	<b>(82,405)</b>	<b>(16,821)</b>	<b>(9,813)</b>	<b>(11,537)</b>	<b>(120,576)</b>	<b>(440,020)</b>	<b>(560,596)</b>	
<b>Movement in reserves during 2017/2018</b>										
Total Comprehensive Income and Expenditure	50,111	0	<b>50,111</b>	<b>22,351</b>	<b>0</b>	<b>0</b>	<b>72,462</b>	<b>(84,352)</b>	<b>(11,890)</b>	
Adjustments between accounting basis and funding basis under regulations	(54,742)	0	<b>(54,742)</b>	(10,620)	(107)	(3,281)	(68,750)	68,750	0	7
<b>(Increase)/Decrease in Year</b>	<b>(4,631)</b>	<b>0</b>	<b>(4,631)</b>	<b>11,731</b>	<b>(107)</b>	<b>(3,281)</b>	<b>3,712</b>	<b>(15,602)</b>	<b>(11,890)</b>	
Transfers (to)/from earmarked reserves	9,264	(9,264)	<b>0</b>	0	771	6,295	7,066	(7,066)	0	
<b>Balance at 31 March 2018</b>	<b>(13,200)</b>	<b>(73,836)</b>	<b>(87,036)</b>	<b>(5,090)</b>	<b>(9,149)</b>	<b>(8,523)</b>	<b>(109,798)</b>	<b>(462,688)</b>	<b>(572,486)</b>	

**Caerphilly County Borough Council**

**Movement in Reserves Statement (continued)**

	Council Fund Balance £000	Earmarked Reserves £000	Total Council Fund Balances £000	Housing Revenue Account £000	Capital Grants Unapplied £000	Capital Receipts Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Note
<b>Balance at 1 April 2016</b>	<b>(12,615)</b>	<b>(67,407)</b>	<b>(80,022)</b>	<b>(21,218)</b>	<b>(9,472)</b>	<b>(11,910)</b>	<b>(122,622)</b>	<b>(484,681)</b>	<b>(607,303)</b>	
<b>Movement in reserves during 2016/2017</b>										
Total Comprehensive Income and Expenditure	17,700	0	17,700	11,954	0	0	29,654	17,053	46,707	
Adjustments between accounting basis and funding basis under regulations	(20,083)	0	<b>(20,083)</b>	(7,557)	(594)	(2,755)	<b>(30,989)</b>	<b>30,989</b>	0	7
<b>(Increase)/Decrease in Year</b>	<b>(2,383)</b>	<b>0</b>	<b>(2,383)</b>	<b>4,397</b>	<b>(594)</b>	<b>(2,755)</b>	<b>(1,335)</b>	<b>48,042</b>	<b>46,707</b>	
Transfers (to)/from earmarked reserves	(2,835)	2,835	0	0	253	3,128	3,381	(3,381)	0	
<b>Balance at 31 March 2017</b>	<b>(17,833)</b>	<b>(64,572)</b>	<b>(82,405)</b>	<b>(16,821)</b>	<b>(9,813)</b>	<b>(11,537)</b>	<b>(120,576)</b>	<b>(440,020)</b>	<b>(560,596)</b>	



**Balance Sheet**  
**As at 31 March 2018**

## Caerphilly County Borough Council

### Balance Sheet

31 March 2017 £000		31 March 2018 £000	Note
1,275,243	Property, Plant & Equipment	1,304,942	23
11,482	Heritage Assets	11,448	24
31,872	Long Term Investments	28,004	12
586	Long Term Debtors	708	
<b>1,319,183</b>	<b>Long Term Assets</b>	<b>1,345,102</b>	
97,532	Short Term Investments	78,765	12
1,429	Assets Held for Sale	644	
539	Inventories	410	
34,194	Short Term Debtors	38,573	26
1,239	Cash and Cash Equivalents	906	27
<b>134,933</b>	<b>Current Assets</b>	<b>119,298</b>	
(14,064)	Short Term Borrowing	(10,771)	12, 28
(52,572)	Short Term Creditors	(58,616)	28
(1,795)	Short Term Provisions	(1,582)	29
<b>(68,431)</b>	<b>Current Liabilities</b>	<b>(70,969)</b>	
(2,739)	Long Term Provisions	(2,666)	29
(282,317)	Long Term Borrowing	(279,376)	12
(538,596)	Other Long Term Liabilities	(537,977)	12-14
(1,437)	Capital Grants Receipts in Advance	(926)	11
<b>(825,089)</b>	<b>Long Term Liabilities</b>	<b>(820,945)</b>	
<b>560,596</b>	<b>Net Assets</b>	<b>572,486</b>	
(120,576)	Usable Reserves	(109,798)	22
(440,020)	Unusable Reserves	(462,688)	22
<b>(560,596)</b>	<b>Total Reserves</b>	<b>(572,486)</b>	

The notes on pages 23 to 103 form part of the statement of accounts.

**Cash Flow Statement**  
**For the year ended 31 March 2018**

**Cash Flow Statement**

<b>2016/2017</b> <b>£000</b>		<b>2017/2018</b> <b>£000</b>	<b>Note</b>
<b>29,654</b>	<b>Net (surplus) or deficit on provision of services</b>	<b>72,462</b>	
(48,435)	Adjust net surplus or deficit on the provision of services for non cash movement	(73,084)	<b>40</b>
25,463	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	17,550	<b>40</b>
<b>6,682</b>	<b>Net cash flows from Operating Activities</b>	<b>16,928</b>	
(4,042)	Investing Activities	(22,058)	<b>42</b>
(2,374)	Financing Activities	5,463	<b>43</b>
<b>266</b>	<b>Net (increase) or decrease in cash and cash equivalents</b>	<b>333</b>	
(1,505)	Cash and cash equivalents at the beginning of the reporting period	(1,239)	
<b>(1,239)</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>(906)</b>	<b>27</b>

**Notes**  
**to the**  
**Core Financial Statements**

**Notes to the Core Financial Statements (continued)**

**1. Accounting Policies**

**i. General Principles**

The Statement of Accounts summarises the Authority's transactions for the 2017/2018 financial year and its position at the year-end of 31 March 2018. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (Wales) Regulations 2014 in accordance with proper practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/2018 (the Code) 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. Accounting policies have been consistently applied from one year to the next, unless stated otherwise. The financial statements are prepared on a going concern basis.

**ii. 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 Authority transfers the significant risks and rewards of ownership to the purchaser and it is virtually certain that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is virtually certain that economic benefits or service potential will flow to the Authority.
- 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 relating to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Revenue from grants is recognised in accordance with accounting policy note x.

**iii. Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

**iv. Exceptional Items**

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

## Notes to the Core Financial Statements (continued)

### v. 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.

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

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

The Authority made prior period adjustments in relation to the Comprehensive Income and Expenditure Statement and the headings used within this.

### vi. Charges to Revenue for Non-Current Assets

Services, support charges and trading accounts are debited with the following amounts to record the 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.
- Amortisation of intangible non-current assets attributable to the service.

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the Council Fund balance (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.

### vii. Employee Benefits

#### Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to Council Fund in the financial year in which the holiday absence occurs.

**Notes to the Core Financial Statements (continued)**

**Termination Benefits**

Termination benefits are amounts payable as result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non-Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring.

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

**Post-Employment Benefits**

Employees of the Authority are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The Local Government Pension Scheme, administered by Torfaen County Borough Council.

Both schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees working for the Authority.

However, the arrangements for the Teachers' Scheme mean that liabilities for these benefits cannot be identified specifically to the Authority. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the Education and Children's Service 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**

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Greater Gwent (Torfaen) Pension Scheme attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.7% (2.6% in 2016/2017) based on indicative returns of the iBoxx Sterling AA Rated Corporate Bond.
- The assets of the Greater Gwent (Torfaen) Pension Scheme attributable to the Authority are included in the Balance Sheet at their fair value:
  - Quoted securities – current bid price
  - Unquoted securities – professional estimate
  - Unitised securities – current bid price
  - Property – market value.



**Notes to the Core Financial Statements (continued)**

The change in the net pensions liability is analysed into the following components:

- **Service cost comprising:**
  - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of 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 the Surplus or Deficit on Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
  - Net interest on the net defined benefit liability, i.e. net interest expense for the Authority – the change during the period in the net defined benefit liability 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 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.
- **Remeasurements comprising:**
  - The return on assets – excluding amounts included in the net interest on the net defined benefit liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
  - Actuarial gains/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 paid to the Torfaen Pension Fund:**
  - Cash paid as employer's contributions 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 Authority 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 appropriations to and from the Pensions Reserve to remove the debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and 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 are earned by employees.

**Discretionary Benefits**

The Authority 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.

**viii. Events after the Reporting Period**

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.

**Notes to the Core Financial Statements (continued)**

- 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.

**ix. Financial Instruments**

**Financial Liabilities**

Financial liabilities are initially measured at fair value and carried in the Balance Sheet at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability multiplied by the effective interest rate (EIR) for the instrument. For most of the borrowings that the Authority has, this means that the amount included in the Balance Sheet is the outstanding principal repayable (plus accrued interest, split between that element which is short term, due within one year and that which is long term, due over one year).

Gains and losses on the repurchase or early settlement of borrowings are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase / settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is deducted from or added to the amortised cost of the new or modified loan and the write down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premia and discounts have been charged to the Comprehensive Income and Expenditure Statement, the impact on the Council Fund balance is spread over future years over either:

- the longer of the term of the new loan or repaid loan for premia; and
- the lesser of 10 years or term of repaid loan for discounts.

The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge against the Council Fund Balance is effected by a transfer to / from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

**Financial Assets**

Financial Assets are classified into two categories:

- Loans and Receivables – assets that have fixed or determinable payments but are not quoted in an active market; and
- Available-for-Sale Assets – assets that have a quoted market price and / or do not have fixed or determinable payments.

**Loans and Receivables** - Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective interest rate for the instrument. This results in the amounts included in the Balance Sheet being the outstanding principal receivable, and interest credited to the Comprehensive Income and Expenditure Statement will be the amount receivable for the year under the agreement.

Any gains and losses that arise on the derecognition of the asset are credited / debited to the Comprehensive Income and Expenditure Statement.

**Notes to the Core Financial Statements (continued)**

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge is made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

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

**Available-for-Sale Assets** - Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

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 that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

**Notes to the Core Financial Statements (continued)**

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

**x. 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 Authority when:

- The Authority has complied with the conditions attached to the payments, and
- The grants and contributions will be received.

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution are 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 ring-fenced 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 via 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.

**xi. Jointly Controlled Operations and Jointly Controlled Assets**

Jointly controlled operations are activities undertaken by the Authority in conjunction with other ventures that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property plant and equipment that are jointly controlled by the Authority and other venturers with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Authority accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

**Notes to the Core Financial Statements (continued)**

**xii. 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 Authority as Lessee**

**Finance Leases**

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

Lease payments are apportioned between:

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

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

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

**Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense to 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. there is a rent-free period at the commencement of the lease).

**The Authority as Lessor**

**Operating Leases**

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating

**Notes to the Core Financial Statements (continued)**

Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (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 is credited.

**Finance Leases**

The Authority has not granted any finance leases of property, plant and equipment to other parties.

**xiii. Overheads and Support Services**

The costs of overheads and support services are charged to service segments in accordance with the Authority's arrangements for accountability and financial performance.

**xiv. Property, Plant and Equipment**

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

**Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority, the cost of the item can be measured reliably and expenditure is above the de-minimis limit of £10,000. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

**Measurement**

Assets are initially measured at cost, comprising:

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

Borrowing costs incurred whilst assets are under construction are not capitalised.

The cost of assets acquired other than by purchase is deemed to be its current value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). 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 Authority.

Donated assets are measured initially at current value. The difference between current value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the Council Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

**Notes to the Core Financial Statements (continued)**

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

- infrastructure, community assets and assets under construction – depreciated historical cost
- council dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)
- surplus assets – fair value, estimated at the highest and best use from a market participant's perspective
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Roads built by Developers are only adopted by the Authority under s38 Highways Adoption Agreements under which the roads need to be constructed to a specified standard. These roads are included at nil cost unless there is any subsequent capital investment on such assets. They will then be held at depreciated historical cost.

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

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.)

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

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

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

**Impairment**

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

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

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

## Notes to the Core Financial Statements (continued)

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

### Depreciation

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

Depreciation is calculated on a straight line basis as follows:

- council dwellings – 15 to 40 years
- other land and buildings – 15 to 100 years
- vehicles, plant, furniture and equipment – up to 20 years
- infrastructure assets – 10 to 40 years

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately in accordance with our componentisation policy. The Authority applies its componentisation policy to assets that have a carrying value in excess of £3m where the cost of the replacement component represents 20% or more of the total asset.

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.

Depreciation charges are made to the service revenue accounts and trading accounts and have been based on the amount at which an asset is included in the balance sheet, whether net current replacement cost or historical cost.

There is no depreciation charge in year of acquisition; revaluation or additions (i.e. when the asset is enhanced). Therefore the depreciation charge will be based on the prior year closing Net Book Value and Useful Economic Life. A full year's depreciation charge will be made in the year the asset is disposed.

### 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. Assets are classed as "Held for Sale" where the asset is actively marketed, the sale is expected to qualify for recognition as a completed sale within one year of the date of classification and actions required to complete the plan indicate that significant changes to the plan or withdrawal of the plan are unlikely. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the

Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale. If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.



## Notes to the Core Financial Statements (continued)

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, buildings and developed land, net of statutory deductions and allowances) is set aside for the redemption of debt. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the Council Fund Balance in the Movement in Reserves Statement.

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

### HRA Capital Expenditure

The Authority will treat all capital expenditure associated with land and buildings as non-enhancing expenditure as the council housing stock is revalued annually, and subsequently the capital expenditure will be written off to the Comprehensive Income and Expenditure Statement. However, the written-off value of non-enhancing expenditure is not a charge against rent payer, as the cost is mitigated under capital financing regulations. Amounts are appropriated to the Capital Adjustment Account in the Movement in Reserves Statement.

### xv. Heritage Assets

The Authority's Heritage Assets consist of Civic Regalia, War Memorials and Land and Buildings, namely Babell Chapel, Gelligroes Mill, Elliott Colliery Winding House, Handball Court Nelson and Llancaiach Fawr Living History Museum. Such assets are held and classed as Heritage Assets as they increase the knowledge, understanding and appreciation of the Authority's history and local area. Further information can be found in Note 24.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property plant and equipment. No depreciation is charged on these assets as the Authority considers them as having infinite lives. The Authority has excluded Heritage Assets it considers immaterial from the Balance Sheet where their cost is not readily available and the benefit of valuing the asset is counterweighed by the cost of obtaining the valuation.

### xvi. Private Finance Initiatives (PFI)

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

**Notes to the Core Financial Statements (continued)**

The recognition of these non-current assets is balanced by the recognition of liabilities for amounts due to the scheme operators to pay for the assets.

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

The amounts payable to the PFI operators each year are analysed into four elements:

- 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 of 9% for the road and 7.3% for the schools on the outstanding Balance Sheet liability, debited to Interest Payable and Similar Charges in the Comprehensive Income and Expenditure Statement;
- Principal element – i.e. payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator;
- Lifecycle replacement costs – recognised as non-current assets on the Balance Sheet.

Government grants received for PFI schemes, in excess of the current levels of expenditure (particularly in the early years of these contracts) are carried forward as earmarked reserves to fund future contract expenditure when payments will exceed available revenue support (see Notes 14 and 39 for the PFI Equalisation Reserves).

**xvii. Provisions and Reserves**

**Provisions**

Provisions are made where an event has taken place that gives the Authority 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 instance, the Authority 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 authority 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 – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Authority settles the obligation. Further information on Provisions can be found in Note 29.

**Reserves**

The Authority 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 process for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in Note 22.

**Notes to the Core Financial Statements (continued)**

**xviii. Contingent Liabilities**

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

Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

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

**xix. Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure 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 that there is no impact on the level of council tax.

**xx. Interest Charges**

Interest chargeable on debt is accounted for in the year to which it relates, not in the year it is paid. The Authority borrows funds in line with its capital investment and cash flow requirements. Funds are borrowed from both the Public Works Loan Board and from money markets. Loans can be fixed or variable interest debt. Decisions on whether to take fixed or variable interest debt depend upon the current portfolio, market conditions, forecasts and limits set in the annual Treasury Management Strategy Report.

Borrowing decisions also have to be considered in terms of their overall prudence and affordability, in accordance with the requirements of CIPFA's "The Prudential Code for Capital Finance in Local Authorities", and be contained within limits approved by Council in setting the Authority's "Prudential Indicators", in accordance with the Code.

**xxi. Debt Redemption**

The Authority's Treasury Management Strategy permits the early repayment of borrowing. This may be undertaken if market conditions are favourable and there are no risks to cash flow. Such transactions may be carried out in order to reduce interest payable, to adjust the maturity profile or to restructure the ratio of fixed to variable interest bearing debt.

**xxii. Related Party Transactions**

The Authority is required to disclose separately, the value of transactions and year-end balances with its related parties, unless they are already the subjects of other disclosure requirements (see note 20 to the Financial Statements). In respect of a local authority its related parties include central government, other local authorities, precepting and levying bodies, other public bodies, its subsidiary companies, Pension Fund and bodies where Members and Senior Officers hold positions of influence and with whom the Authority has transacted.

**Notes to the Core Financial Statements (continued)**

**xxiii. Recognition of Revenue from Non-Exchange Transactions**

Assets and revenue arising from non-exchange transactions are recognised in accordance with the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, except where interpreted or adapted to fit the public sector as detailed in the Code and/or IPSAS 23, "Revenue from Non- Exchange Transactions (Taxes and Transfers)."

**Taxation transactions**

Assets and revenue arising from taxation transactions are recognised in the period in which the taxable event occurs, provided that the assets satisfy the definition of an asset and meet the criteria for recognition as an asset.

**Non-taxation transactions**

Assets and revenue arising from transfer transactions are recognised in the period in which the transfer arrangement becomes binding. Services in-kind are not recognised. Where a transfer is subject to conditions that, if unfulfilled, require the return of the transferred resources, the Authority recognises a liability until the condition is fulfilled.

**Basis of Measurement of Major Classes of Revenue from Non-Exchange Transactions**

Taxation revenue is measured at the nominal value of cash, and cash equivalents. Assets and revenue recognised as a consequence of a transfer are measured at the fair value of the assets recognised as at the date of recognition:

- Monetary assets are measured at their nominal value unless the time value of money is material, in which case present value is used, calculated using a discount rate that reflects the risk inherent in holding the asset; and
- Non-monetary assets are measured at their fair value, which is determined by reference to observable market values or by independent appraisal by a member of the valuation profession. Receivables are recognised when a binding transfer arrangement is in place but cash or other assets have not been received.

**xxiv. Accounting for local authority schools**

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

Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the authority as if they were the transactions, cash flows and balances of the authority.

**xxv. Value Added Tax**

VAT payable has been excluded as an expense where it is recoverable from Her Majesty's Revenue and Customs. VAT receivable has been excluded from income.

**Notes to the Core Financial Statements (continued)**

**xxvi. Accounting for the costs of the Carbon Reduction Commitment Scheme**

The authority is required to participate in the Carbon Reduction Commitment Energy Efficiency Scheme. This scheme is currently in its second phase, which ends on 31 March 2019. The authority is required to purchase allowances, either prospectively or retrospectively, and surrender them on the basis of emissions, i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption.

**xxvii. Community Infrastructure Levy**

The Authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Authority) with appropriate planning consent. The Authority charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure; however, a small proportion of the charges may be used to fund revenue expenditure.

**xxviii. Fair Value Measurement**

The Authority measures some of its non-financial assets such as surplus assets at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

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

**Notes to the Core Financial Statements (continued)**

**2. Critical judgements in applying accounting policies**

In applying the accounting policies set out in Note 1, the Authority 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 Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The Authority is deemed to control the services provided under the outsourcing agreement for two Schools and a Road and also to control the residual value of the assets at the end of the agreement. The accounting policies for PFI schemes and similar contracts have been applied to the arrangements and the Schools (valued at £42.078m) and Road (valued at £25.736m) are recognised as Property, Plant and Equipment on the Authority's Balance Sheet.
- Only the value of the land for voluntary aided and foundation schools is included in the Balance Sheet. As the Council does not own these types of school and does not have access to them for valuation purposes, the value of the buildings is excluded from the Balance Sheet.
- The Authority has £1,305m recognised as Property, Plant and Equipment on its Balance Sheet as at 31 March 2018. Note 23 to the accounts details the revaluations to land, property, plant and equipment during the accounting period to ensure that Property, Plant and Equipment is included in the accounts at current value. The Authority undertakes formal valuations of its Property, Plant and Equipment by way of a five year rolling program and undertakes sufficient work, in respect of the assets not subject to a formal valuation in any one year, to ensure the value of its Property, Plant and Equipment as stated in the Balance Sheet is not materially different from its current value. The valuations are undertaken mainly by the Authority's in-house Corporate Property Department on an annual basis in line with the rolling program. External valuers were commissioned to undertake the valuation of the Authority's council housing, which was valued using the Beacon Method. The internal valuation team undertaking the annual revaluation work are members of the Royal Institute of Chartered Surveyors (RICS). Non-property assets have not been revalued as the Authority has judged that the carrying value of these assets is approximate to current value, given their relatively short useful economic lives and the relative value of these assets.
- The Authority is one of ten local authorities that constitute the Cardiff Capital Region City Deal. In 2017-2018 Caerphilly's contribution to the City Deal was considered immaterial in the context of preparing group accounts, so the Authority has disclosed the City Deal 31 March 2018 position as a note to its accounts. The position will be reviewed each year.

**3. Assumptions about the future/other sources of estimation or uncertainty**

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority 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.

**Notes to the Core Financial Statements (continued)**

The items in the Authority's Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent upon assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, 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 falls. As the Authority's assets have large variations in useful lives, it is impossible to estimate the effect on the annual depreciation charge for every year that useful lives had to be reduced.
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 Authority with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance for the Greater Gwent Scheme, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £130.451m, whereas a 0.5% increase in salaries rate assumption would result in an increase in the pension liability of £24.164m. However, the assumptions interact in complex ways. During 2017/2018, the Authority's Actuaries advised that the net pensions liability for all schemes had increased by £1.488m.
Fair value measurements	When the fair values of financial assets and liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for similar assets or liabilities in active markets or the discounted cash flow (DCF) model). Where possible, inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. Judgements may include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the authority's assets and liabilities. Where Level 1 inputs are not available, the authority employs relevant experts to identify the most appropriate valuation techniques to determine fair value. Information about the valuation techniques and inputs used in determining the fair value of the authority's assets and liabilities is disclosed in note 12.	The authority uses the discounted cash flow (DCF) model to value financial assets and liabilities The significant unobservable inputs used in the fair value measurement include management assumptions regarding discount rates. Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the financial assets/liabilities.

**Notes to the Core Financial Statements (continued)**

**4. Accounting Standards issued but not yet adopted**

For 2017/2018, the accounting standards that have been issued but not yet adopted that are applicable to the Authority are as follows:

**IFRS 9 Financial Instruments**

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. It makes major changes to previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for impairment of financial assets. The Authority's trade receivables and investments in financial assets classed as held to maturity and available for sale (unless classed as fair value through profit and loss) will have to be assessed for impairment by applying the expected credit loss model. The Authority does not expect the reclassification changes to have a material impact upon the financial statements because the majority of its financial assets will retain the same measurement basis. Consequently the Authority has assessed all its financial assets and it does not expect the impairment changes to have a material impact upon the financial statements because the impairment charge will be immaterial for its treasury management assets (such as bank deposits and bonds). With respect to trade receivables, the Authority already makes a provision for doubtful debts on its service assets.

The standard also contains new requirements on the application of hedge accounting (which will have no impact on the Authority as local authorities are not permitted to use hedge accounting).

**IFRS 15 Revenue from Contracts with Customers**

This standard introduces new methodology for determining when income from providing goods and services should be recognised in the Comprehensive Income and Expenditure Statement and replaces IAS 18 Revenue and IAS 11 Construction Contracts. The standard introduces the concept of contracting assets and liabilities to account for timing differences between the obligation to deliver goods or services with the unconditional right to receive payment by way of a five step model framework for revenue recognition. As the Authority has relatively predictable income streams the impact will be minimal.

**IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses**

This standard is not applicable to the Authority

**IAS 7 Statement of cash Flows: Disclosure Initiative.**

The amendments to this standard are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows. This standard will not have a material impact upon the Authority.



Notes to the Core Financial Statements (continued)

5. Expenditure and Funding Analysis

Restated 2016-2017				2017-2018		
Net Expenditure Chargeable to Council Fund and HRA Balances	Adjustments between the Funding and Accounting Basis (note 5)	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to Council Fund and HRA Balances	Adjustments between the Funding and Accounting Basis (note 5)	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000		£000	£000	£000
123,929	12,763	136,692	Education and Lifelong Learning	124,413	15,119	139,532
82,921	2,327	85,248	Social Services, Public Protection and Corporate Policy	88,584	7,677	96,261
43,226	18,954	62,180	Communities	42,971	26,174	69,145
72,175	(33,961)	38,214	Corporate Services	65,052	(22,066)	42,986
4,396	12,453	16,849	HRA	11,731	17,154	28,885
<b>326,647</b>	<b>12,536</b>	<b>339,183</b>	<b>Net Cost of Services</b>	<b>332,751</b>	<b>44,058</b>	<b>376,809</b>
(324,633)	15,104	(309,529)	Other Income and Expenditure	(325,651)	21,304	(304,347)
<b>2,014</b>	<b>27,640</b>	<b>29,654</b>	<b>Surplus/Deficit</b>	<b>7,100</b>	<b>65,362</b>	<b>72,462</b>
(101,240)			<b>Opening Council Fund and HRA Balance at 1 April</b>	(99,226)		
2,014			<b>Surplus or (Deficit) on Council Fund and HRA Balance in Year</b>	7,100		
<b>(99,226)</b>			<b>Closing Council Fund and HRA Balance at 31 March*</b>	<b>(92,126)</b>		

\* For a split of this balance between the Council Fund and the HRA, see the Movement in Reserves Statement

**Notes to the Core Financial Statements (continued)**

<b>Adjustments between Funding and Accounting Basis 2017-2018</b>				
<b>Adjustments from Council Fund to arrive at the Comprehensive Income and Expenditure Statement amounts</b>	<b>Adjustments for capital Purposes £000</b>	<b>Net Change for the Pensions Adjustments £000</b>	<b>Other Adjustments £000</b>	<b>Total Adjustments £000</b>
Education and Lifelong Learning	10,310	4,603	205	15,118
Social Services, Public Protection and Corporate Policy	(75)	7,795	(43)	7,677
Communities	20,902	5,305	(33)	26,174
Corporate Services	(4,056)	938	(18,948)	(22,066)
HRA	19,480	2,648	(4,974)	17,154
Net Cost of Services	46,561	21,289	(23,793)	44,057
Other income and expenditure from the Expenditure and Funding Analysis	(16,025)	13,272	24,058	21,305
Difference between Council Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	30,536	34,561	265	<b>65,362</b>

## Caerphilly County Borough Council

### Notes to the Core Financial Statements (continued)

Adjustments between Funding and Accounting Basis 2016-2017 - Restated				
Adjustments from Council Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for capital Purposes £000	Net Change for the Pensions Adjustments £000	Other Adjustments £000	Total Adjustments £000
Education and Lifelong Learning	12,285	(273)	751	12,763
Social Services, Public Protection and Corporate Policy	761	1,544	22	2,327
Communities	17,861	1,072	21	18,954
Corporate Services	(13,917)	(1,394)	(18,650)	(33,961)
HRA	16,941	525	(5,013)	12,453
Net Cost of Services	33,931	1,474	(22,869)	12,536
Other income and expenditure from the Expenditure and Funding Analysis	(23,822)	14,978	23,948	15,104
Difference between Council Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	10,109	16,452	1,079	<b>27,640</b>

#### Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses 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. 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.

#### Net Change for the Pensions Adjustments

This is the net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

**Notes to the Core Financial Statements (continued)**

- For **Services** – the 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 Comprehensive Income and Expenditure Statement.

**Other Adjustments**

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 adjustments column recognises adjustments to the Council Fund for the timing differences for premiums and discounts.
- The charge under **Taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code.

**6. Expenditure and Income Analysed By Nature**

*The Authority's expenditure and income is analysed as follows:*

	<u>2016-2017</u>	<u>2017-2018</u>
	<u>£000</u>	<u>£000</u>
<b>Expenditure:</b>		
Employee benefits expenses	228,800	230,133
Other service expenses	271,990	315,181
Depreciation, amortisation, impairment	77,818	90,021
Interest payments	17,846	17,816
Precepts and levies	13,785	14,352
Loss on disposal of assets	221	1,180
<b>Total expenditure</b>	<b>610,460</b>	<b>668,683</b>
<b>Income:</b>		
Fees, charges and other service income	(104,647)	(124,921)
Gain on disposal of assets	(2,756)	(3,280)
interest and investment income	(959)	(1,030)
Income from council tax, non-domestic rates	(75,117)	(76,376)
Government grants and contributions	(397,327)	(390,614)
<b>Total income</b>	<b>(580,806)</b>	<b>(596,221)</b>
<b>Surplus or Deficit on the Provision of Services</b>	<b>29,654</b>	<b>72,462</b>

**Notes to the Core Financial Statements (continued)**

**7. Adjustments between accounting basis and funding basis under Regulations**

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

The following sets out a description of the Usable Reserves that the adjustments are made against:

**Council Fund Balance**

The Council Fund is the statutory fund into which all the receipts of the Authority are required to be paid and out of which all liabilities of the Authority 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 Authority is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Authority is required to recover) at the end of the financial year.

**Housing Revenue Account**

The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Authority's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

**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 (Reserve) holds the grants and contributions received towards capital projects for which the Authority 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.

For details and explanations of Unusable Reserves for which adjustments are made against, see note 22.

# Caerphilly County Borough Council

## Notes to the Core Financial Statements (continued)

<u>2017/2018</u>	Usable Reserves				Movement in Unusable Reserves
	Council Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	
<b>Adjustments primarily involving the Capital Adjustment Account:</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</b>					
Charges for depreciation and impairment of non-current assets and non-enhancing capital expenditure	(35,917)	(53,872)	0	0	89,789
Amortisation of intangible assets	(233)	0	0	0	233
Capital grants and contributions applied	5,266	10,076	0	0	(15,342)
Revenue expenditure funded from capital under statute	(1,525)	0	0	0	1,525
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	649	1,452	(3,281)	0	1,180
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>					
Statutory provision for the financing of capital investment	4,242	2,260	0	0	(6,502)
Capital expenditure charged against the Council Fund and HRA balances	4,825	32,134	0	0	(36,959)
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>					
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	107	0	0	(107)	0
<b>Adjustment primarily involving the Financial Instruments Adjustment Account:</b>					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(143)	(39)	0	0	182
<b>Adjustments primarily involving the Pensions Reserve:</b>					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(54,350)	(4,837)	0	0	59,187
Employer's pensions contributions and direct payments to pensioners payable in the year	22,440	2,186	0	0	(24,626)
<b>Adjustments primarily involving the Accumulated Absences Account:</b>					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(103)	20	0	0	83
<b>Total Adjustments</b>	<b>(54,742)</b>	<b>(10,620)</b>	<b>(3,281)</b>	<b>(107)</b>	<b>68,750</b>

# Caerphilly County Borough Council

## Notes to the Core Financial Statements (continued)

<u>2016/2017</u>	Usable Reserves					Movement in Unusable Reserves
	Council Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves	
<b>Adjustments primarily involving the Capital Adjustment Account:</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</b>						
Charges for depreciation and impairment of non-current assets and non-enhancing capital expenditure	(34,277)	(43,310)	0	0	77,587	
Amortisation of intangible assets	(232)	0	0	0	232	
Capital grants and contributions applied	14,060	8,274	0	0	(22,334)	
Revenue expenditure funded from capital under statute	(173)		0	0	173	
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		831	1,704	(2,755)	0	220
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
Statutory provision for the financing of capital investment	4,325	2,330	0	0	(6,655)	
Capital expenditure charged against the Council Fund and HRA balances	11,727	24,038	0	0	(35,765)	
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	594	0	0	(594)	0	
<b>Adjustment primarily involving the Financial Instruments Adjustment Account:</b>						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(216)	(57)	0	0	273	
<b>Adjustments primarily involving the Pensions Reserve:</b>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(38,083)	(2,614)	0	0	40,697	
Employer's pensions contributions and direct payments to pensioners payable in the year	22,156	2,089	0	0	(24,245)	
<b>Adjustments primarily involving the Accumulated Absences Account:</b>						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(795)	(11)	0	0	806	
<b>Total Adjustments</b>	<b>(20,083)</b>	<b>(7,557)</b>	<b>(2,755)</b>	<b>(594)</b>	<b>30,989</b>	

**Notes to the Core Financial Statements (continued)**

**8. Transfers to/from Earmarked Reserves**

This note sets out the amounts set aside from the Council Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet Council Fund and HRA expenditure in 2017/2018.

	Balance at 1 April 2016 £000	Transfers from £000	Transfers to £000	Balance at 31 March 2017 £000	Transfers from £000	Transfers to £000	Balance at 31 March 2018 £000
<b>Council Fund:</b>							
Balances held by schools under a scheme of delegation (note 38)	(2,887)	1,791	(1,236)	<b>(2,332)</b>	2,123	(1,830)	<b>(2,039)</b>
Capital Earmarked Reserves (note 35)	(17,774)	12,309	(10,893)	<b>(16,358)</b>	3,626	(9,404)	<b>(22,136)</b>
Direct Services Earmarked Reserves	(208)	0	(94)	<b>(302)</b>	0	(70)	<b>(372)</b>
Service over/underspend Reserves (note 36)	(10,814)	10,562	(6,014)	<b>(6,266)</b>	3,317	(2,278)	<b>(5,227)</b>
Insurance Earmarked Reserves (note 34)	(6,841)	554	(307)	<b>(6,594)</b>	126	(31)	<b>(6,499)</b>
Other Earmarked Reserves (note 39)	(28,883)	5,747	(9,584)	<b>(32,720)</b>	4,616	(9,459)	<b>(37,563)</b>
<b>Total</b>	<b>(67,407)</b>	<b>30,963</b>	<b>(28,128)</b>	<b>(64,572)</b>	<b>13,808</b>	<b>(23,072)</b>	<b>(73,836)</b>
<b>Housing Revenue Account:</b>							
HRA Fund Balance	<b>(21,218)</b>	<b>8,373</b>	<b>(3,976)</b>	<b>(16,821)</b>	<b>16,571</b>	<b>(4,840)</b>	<b>(5,090)</b>

**9. Other Operating Expenditure**

Other operating expenditure is made up as follows:

	2016/2017 £000	2017/2018 £000
Community Council Precepts	674	693
Gwent Police Authority Precept	13,110	13,660
Levies	8,718	8,796
(Gains)/losses on the disposal of non-current assets	(2,551)	(2,101)
<b>Total</b>	<b>19,951</b>	<b>21,048</b>
	2016/2017 £000	2017/2018 £000
<b>Levies</b>		
South Wales Fire Authority	8,279	8,378
Gwent Coroners' Service	229	209
Glamorgan Archives' Service	73	72
Gwent Archives' Service	137	137
<b>Total Levies</b>	<b>8,718</b>	<b>8,796</b>



**Caerphilly County Borough Council**

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**Notes to the Core Financial Statements (continued)**

<b>Precepts</b>	<b>2016/2017</b>	<b>2017/2018</b>
<b>Community Councils:</b>	<b>£000</b>	<b>£000</b>
Aber Valley Community Council	30	35
Argoed Community Council	11	12
Bargoed Town Council	58	58
Bedwas, Trethomas and Machen Community Council	67	68
Blackwood Community Council	55	59
Caerphilly Town Council	80	80
Darren Valley Community Council	12	12
Draethen, Waterloo and Rudry Community Council	12	15
Gelligaer Community Council	90	91
Llanbradach Community Council	30	30
Maesycwmmmer Community Council	18	18
Nelson Community Council	27	28
New Tredegar Community Council	17	17
Penyrheol, Trecenydd and Energlyn Community Council	57	58
Rhymney Community Council	35	35
Risca East Community Council	24	25
Risca West Community Council	31	32
Van Community Council	20	20
	<b>674</b>	<b>693</b>
<b>Gwent Police Authority</b>	<b>13,110</b>	<b>13,660</b>
<b>Total Precepts upon the Authority</b>	<b>13,784</b>	<b>14,353</b>

**10. Financing and Investment Income and Expenditure**

Financing and investment income and expenditure is made up as follows:

	<b>2016/2017</b>	<b>2017/2018</b>
	<b>£000</b>	<b>£000</b>
Interest payable and similar charges	17,846	17,816
Pensions interest costs and expected return on pensions assets	14,979	13,272
Interest receivable and similar income	(959)	(1,030)
<b>Total</b>	<b>31,866</b>	<b>30,058</b>

**Notes to the Core Financial Statements (continued)**

**11. Taxation and non-specific grant income**

	<b>2016/2017</b>	<b>2017/2018</b>
	<b>£000</b>	<b>£000</b>
Council tax income	(75,117)	(76,377)
Non domestic rates	(53,184)	(57,668)
Non-ringfenced government grants	(210,117)	(205,959)
Capital grants and contributions	(22,928)	(15,449)
<b>Total</b>	<b>(361,346)</b>	<b>(355,453)</b>

**Council Tax Income**

Council tax derives from charges raised according to the value of residential properties, which from 1st April 2005, have been classified into nine valuation bands, using 1 April 2003 values for this specific purpose. Charges are calculated by taking the amount of income required by the Authority, the Police and Crime Commissioner for Gwent and Community Councils for the forthcoming year and dividing this amount 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. The basic amount for a band D property, £1,011.96 in 2017/2018 (£1,001.94 in 2016/2017) is multiplied by the proportion specified for the particular band, adjusted for discount, to give the individual amount due. The total amount due for 2017/2018 was £76.6m (£75.2m in 2016/2017).

*Council tax bills were based on the following multipliers for bands A to I:*

BAND	A	B	C	D	E	F	G	H	I
<b>Multiplier</b>	6/9	7/9	8/9	1	11/9	13/9	15/9	18/9	21/9
<b>Chargeable Dwellings</b>	8,535	18,241	14,573	8,436	7,269	3,021	1,170	176	115

***Analysis of the net proceeds from council tax:***

	<b>2016/2017</b>	<b>2017/2018</b>
	<b>£000</b>	<b>£000</b>
<b><u>Council tax collectable</u></b>		
Caerphilly County Borough Council	(61,411)	(62,251)
Gwent Police Authority - see note 9	(13,110)	(13,660)
Community Councils - see note 9	(674)	(693)
<b>Total amount due</b>	(75,195)	(76,604)
Less: Bad Debt Provision	78	227
<b>Net proceeds from council tax</b>	<b>(75,117)</b>	<b>(76,377)</b>

**National Non Domestic Rates (NNDR) Income**

NNDR is organised on a national basis. The Welsh Government specifies an amount for the rate (49.9p in 2017/2018, 48.6p in 2016/2017) and subject to the effects of transitory arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount. The Authority is responsible for collecting rates due from ratepayers in its area but pays the proceeds into the NNDR pool administered by the Welsh Government.

**Notes to the Core Financial Statements (continued)**

The Welsh Government redistributes the sums payable to local authorities on the basis of a fixed amount per head of population. The Authority's redistribution for 2017/2018 was £57.668m in total (£53.184m in 2016/2017).

The anticipated NNDR proceeds of £34.4m for 2017/2018 (£36.8m in 2016/2017) was based on a total rateable value at the year-end of £86.59m (£92.91m for 2016/2017).

<b>Analysis of the net proceeds from Non-Domestic Rates:</b>	<b>2016/2017</b>	<b>2017/2018</b>
	<b>£000</b>	<b>£000</b>
Anticipated proceeds	<b>(36,806)</b>	<b>(34,353)</b>
Less: Discretionary relief	325	243
Cost of collection	269	266
Bad and doubtful debts	377	458
Contribution to NNDR Pool	<b>(35,835)</b>	<b>(33,386)</b>
Redistributed amount due from NNDR Pool	(53,184)	(57,668)
<b>Amount received from NNDR Pool</b>	<b>(53,184)</b>	<b>(57,668)</b>

**Non ring-fenced government grants**

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2017/2018:

	<b>2016/2017</b>	<b>2017/2018</b>
	<b>£000</b>	<b>£000</b>
<b>Credited to Taxation and Non Specific Grant Income</b>		
Revenue Support Grant	(210,117)	(205,959)
<b>Total</b>	<b>(210,117)</b>	<b>(205,959)</b>

The Authority received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that could require that the monies be returned to the giver.

The balances at the year-end are as follows:

<b>Capital Grants Receipts in Advance</b>	<b>2016/2017</b>	<b>2017/2018</b>
	<b>£000</b>	<b>£000</b>
<b>Opening balance as at 1 April</b>	<b>(2,565)</b>	<b>(1,437)</b>
Planning	7	511
Property	2	0
Private Housing	1,119	0
<b>Closing balance as at 31 March</b>	<b>(1,437)</b>	<b>(926)</b>

Notes to the Core Financial Statements (continued)

12. Financial Instruments

Categories of Financial Instruments

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

	Long Term		Current	
	31 March 2017 £000	31 March 2018 £000	31 March 2017 £000	31 March 2018 £000
<b>Investments</b>				
Loans and receivables	4	5,004	44,110	26,742
Available-for-sale assets	31,868	23,000	54,661	52,023
<b>Total investments</b>	<b>31,872</b>	<b>28,004</b>	<b>98,771</b>	<b>78,765</b>
<b>Debtors</b>				
Loans and receivables	586	708	34,194	38,573
<b>Total debtors</b>	<b>586</b>	<b>708</b>	<b>34,194</b>	<b>38,573</b>
<b>Borrowings</b>				
Financial liabilities at amortised cost	(282,317)	(279,376)	(14,064)	(10,771)
<b>Total borrowings</b>	<b>(282,317)</b>	<b>(279,376)</b>	<b>(14,064)</b>	<b>(10,771)</b>
<b>Other long term liabilities</b>				
PFI and finance lease liabilities	(34,598)	(32,503)	(1,436)	(1,772)
Deferred Liabilities	(2,327)	(2,315)	0	0
<b>Total other long term liabilities</b>	<b>(36,925)</b>	<b>(34,818)</b>	<b>(1,436)</b>	<b>(1,772)</b>
<b>Creditors</b>				
Financial liabilities carried at contract amount	0	0	(51,136)	(56,844)
<b>Total creditors</b>	<b>0</b>	<b>0</b>	<b>(51,136)</b>	<b>(56,844)</b>

<u>Income, Expenses, Gains and Losses</u>	Financial Liabilities	Financial Assets	Total £000
	Liabilities measured at amortised cost £000	Loans and receivables £000	
2017/2018			
Interest expense	17,816	0	17,816
<b>Total expense in Surplus or Deficit on Provision of Services</b>	<b>17,816</b>	<b>0</b>	<b>17,816</b>
Interest income	0	(1,030)	(1,030)
<b>Total income in Surplus or Deficit on Provision of Services</b>	<b>0</b>	<b>(1,030)</b>	<b>(1,030)</b>
<b>Net (gain)/loss for the year</b>	<b>17,816</b>	<b>(1,030)</b>	<b>16,786</b>

**Notes to the Core Financial Statements (continued)**

<u>Income, Expenses, Gains and Losses</u>	<u>Financial Liabilities</u>	<u>Financial Assets</u>	
2016/2017	Liabilities measured at amortised cost	Loans and receivables	Total
	£000	£000	£000
Interest expense	17,846	0	17,846
<b>Total expense in Surplus or Deficit on Provision of Services</b>	<b>17,846</b>	<b>0</b>	<b>17,846</b>
Interest income	0	(959)	(959)
<b>Total income in Surplus or Deficit on Provision of Services</b>	<b>0</b>	<b>(959)</b>	<b>(959)</b>
<b>Net (gain)/loss for the year</b>	<b>17,846</b>	<b>(959)</b>	<b>16,887</b>

**Fair Value of Financial Assets**

Some of the Authority's financial assets are measured at fair value on a recurring basis and are described in the following table, including valuation techniques used to measure them:

<b>Financial Assets measured at fair value</b>				
	Input level in fair value hierarchy	Valuation technique used to measure fair value	As at 31 March 2017 £000	As at 31 March 2018 £000
<i>Available-for-Sale:</i>				
Investment Bonds	Level 1	Quoted prices in active markets for identical assets	86,529	75,023
<b>Total</b>			<b>86,529</b>	<b>75,023</b>

**Transfers between Levels of the Fair Value Hierarchy** - There were no transfers between input levels 1 and 2 during the year.

**Changes in the Valuation Technique** - There was no change in the valuation technique used during the year for the financial instruments.

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

Except for the financial assets carried at fair value described in the preceding paragraphs (available-for-sale financial assets) all other financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. The fair value of a financial instrument is determined by calculating the Net Present Value (NPV) of future cash flows, which provides an estimate of the value of payments/receipts in the future in today's terms. For "other" loans the discount rate used in the NPV calculation is equal to the current rate in relation to the same instrument from a comparable lender, and is the rate applicable in the market on the date of valuation (31 March) for an instrument with the same duration.

**Caerphilly County Borough Council**

**Notes to the Core Financial Statements (continued)**

The Code of Practice does not prescribe which method is to be applied. For 2017/2018 the Fair Value for PWLB loan debt has been arrived at using the PWLB new loan rate at 31 March 2018.

The fair values are as follows:

	31 March 2017		31 March 2018	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial liabilities	(347,517)	(455,185)	(346,991)	(447,549)
PFI and Finance Lease liabilities	(36,034)	(63,128)	(34,275)	(58,493)
Long term creditors	(2,327)	(2,327)	(2,315)	(2,005)
	<b>(385,878)</b>	<b>(520,640)</b>	<b>(383,581)</b>	<b>(508,047)</b>

Analysis of Liabilities by maturity	31 March 2017 £000	31 March 2018 £000
	Maturing within 1 year	(66,636)
Maturing in 1 - 2 years	(13,668)	(13,125)
Maturing in 2 - 5 years	(16,436)	(18,178)
Maturing in 5 - 10 years	(27,209)	(27,263)
Maturing in 10 - 15 years	(28,697)	(29,010)
Maturing in 15 - 20 years	(21,009)	(92,257)
Maturing in 20 - 25 years	(93,715)	(15,864)
Maturing in 25 - 30 years	(23,945)	(23,945)
Maturing in 30 - 35 years	(9,977)	(9,977)
Maturing in 35 - 40 years	(50,196)	(50,196)
Maturing in 40 - 45 years	(14,000)	(14,000)
Maturing in 45 - 50 years	0	(10,000)
Maturing in over 50 years	(20,390)	(10,379)
	<b>(385,878)</b>	<b>(383,581)</b>

Short-term debtors and creditors are carried at cost as this is a fair approximation of their value. The fair value of the financial liabilities is higher than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2018) arising from a commitment to pay interest to lenders above current market rates.

	31 March 2017		31 March 2018	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Loans and receivables	78,308	78,308	71,225	71,225
Available for Sale Financial Assets	86,529	86,529	75,023	75,023
Long term debtors	586	586	708	708
	<b>165,423</b>	<b>165,423</b>	<b>146,956</b>	<b>146,956</b>

## Caerphilly County Borough Council

### Notes to the Core Financial Statements (continued)

As at 31 March 2018, assets included fixed term deposits valued at nominal amounts plus accrued interest. These were classified as loans and receivables. The Authority also held investment bonds that were classified as Available-for-Sale measured at fair value and valued at prices quoted in the money markets as at 31 March 2018. The Authority had no Assets and Liabilities measured at Fair Value through Profit and Loss at 31 March 2018.

#### Fair value hierarchy for financial assets and financial liabilities that are not measured at fair value

	31 March 2018			
<i>Recurring fair value measurements using:</i>	Quoted prices in active markets for identical assets (level 1) £000	Other significant observable inputs (level 2) £000	Significant unobservable inputs (level 3) £000	Total £000
<b>Financial liabilities</b>				
<i>Financial liabilities held at amortised cost:</i>				
Loans/borrowings	(56,854)	(390,695)	0	(447,549)
Long term creditors	(2,005)	0	0	(2,005)
<i>PFI and finance lease liabilities</i>	0	(58,493)	0	(58,493)
<b>Total</b>	<b>(58,859)</b>	<b>(449,188)</b>	<b>0</b>	<b>(508,047)</b>
<b>Financial assets</b>				
<i>Loans and receivables:</i>				
Other loans and receivables	71,933	0	0	71,933
<b>Total</b>	<b>71,933</b>	<b>0</b>	<b>0</b>	<b>71,933</b>
	31 March 2017			
<i>Recurring fair value measurements using:</i>	Quoted prices in active markets for identical assets (level 1) £000	Other significant observable inputs (level 2) £000	Significant unobservable inputs (level 3) £000	Total £000
<b>Financial liabilities</b>				
<i>Financial liabilities held at amortised cost:</i>				
Loans/borrowings	(51,146)	(404,039)	0	(455,185)
Long term creditors	(2,327)	0	0	(2,327)
<i>PFI and finance lease liabilities</i>	0	(63,128)	0	(63,128)
<b>Total</b>	<b>(53,473)</b>	<b>(467,167)</b>	<b>0</b>	<b>(520,640)</b>
<b>Financial assets</b>				
<i>Loans and receivables:</i>				
Other loans and receivables	78,894	0	0	78,894
<b>Total</b>	<b>78,894</b>	<b>0</b>	<b>0</b>	<b>78,894</b>

**Notes to the Core Financial Statements (continued)**

The fair value for financial liabilities and financial assets that are not measured at fair value included in level 2 in the table above have been arrived at using other significant observable inputs. With respect to LOBO loans the observable inputs were the effective interest rate calculation, whereas PWLB loans were measured at cost plus accrued interest. For both liabilities there is no active market where a quoted price could be obtained.

The following assumptions have been used:

<b>Financial assets</b>	<b>Financial liabilities</b>
<ul style="list-style-type: none"> <li>▪ no early repayment or impairment is recognised</li> <li>▪ for fixed term investments the carrying amount of assets is assumed to be the approximate to fair value, and the contractual interest rate is taken to be the discount rate, which ranged between 0.25% and 1.45%. Accrued interest has been included to the nominal amount in order to determine the fair value. These have been categorised as loans and receivables</li> <li>▪ the fair value of trade and other receivables is taken to be the invoiced or billed amount.</li>   <li>▪ the fair value of available-for-sale investments that comprise various types of investment bonds have been valued at the mid-market price as quoted on 31 March 2018 and subsequently adjusted accordingly. Accrued interest has also been taken into consideration using the amortisation method.</li> </ul>	<ul style="list-style-type: none"> <li>▪ no early repayment is recognised</li>   <li>▪ Estimated ranges of discount rates for liabilities at 31 March 2018 were of 1.67% to 2.77% for loans from the PWLB and the Market, and applied with reference to the number of years outstanding to the maturity date.</li>   <li>▪ The fair values for financial liabilities (PWLB debt and market debt) have been determined by reference to the PWLB redemption rules and prevailing PWLB new loan rates as at each Balance Sheet date, and include accrued interest. The fair values for non-PWLB debt have been calculated by way of valuing the embedded Swap option and includes accrued interest.</li> </ul>

**Nature and Extent of Risks arising from Financial Instruments**

The Authority's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties fail to pay amounts due to the Authority.
- Liquidity risk – the possibility that the Authority might not have funds available to meet its commitments to make payments.
- Re-financing risk – the possibility that the Authority may be required to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- Market risk – the possibility that financial loss may arise for the Authority as a result of changes in such measures as interest rates and stock market movements.

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by Council in the annual treasury management strategy, and compliance with the CIPFA Prudential Code of Practice, the CIPFA Treasury Management Code of Practice, and Investment Guidance issued under the Local Government Act 2003. The Authority provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash (short-term and long-term). These are required to be reported and approved at or before the Authority's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the Annual Treasury Management Strategy and Investment Strategy ("the Annual Strategy") that outlines the detailed approach to managing risk in relation to the Authority's financial instrument exposure. Actual performance is also reported annually to Members.



**Notes to the Core Financial Statements (continued)**

The “2017/18 Annual Treasury Management Strategy and Investment Strategy (including Prudential Indicators)” was approved by Council on 22 February 2017 and is available on the Authority website.

**Credit risk**

Credit risk arises from deposits with banks, building societies and corporates, as well as credit exposures to the Authority’s customers. Deposits are not made with counterparties unless they meet the minimum credit ratings as prescribed in the Annual Investment Strategy.

The strategy employed for 2017/2018 allowed officers to place surplus funds with banks, building societies, corporates, sovereign bonds, the Debt Management Office (DMO) (the UK Government) (T-Bills and the DMADF) and other local authorities using a credit criteria that coincided with the Authority’s attitude to risk.

Customers are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Authority.

Details of the Investment Strategy can be found on the Authority’s website. The key areas of the Investment Strategy are that the minimum criteria for investment counterparties include:

- Credit ratings of Short Term of F2, Long Term BBB (Fitch or equivalent rating), and non-UK Sovereign rating of AAA
- Debt Management Office (Debt Management Account Deposit Facility) (DMADF)
- Debt Management Office – Treasury Bills
- Local Authorities
- AAA rated Money Market Funds
- Corporates

The Authority’s maximum exposure to credit risk in relation to its investments in financial institutions will vary according to credit ratings assigned by the three main credit rating agencies and cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution.

The following analysis summarises the Authority’s potential maximum exposure to credit risk on financial assets, based on experience of default and un-collectability over the last five financial years, adjusted to reflect current market conditions.

**Notes to the Core Financial Statements (continued)**

	31 March 2017		31 March 2018		
	Estimated maximum exposure to default <b>£000</b>	Amount at 31 March 2018 <b>£000</b>	Historical experience of default %	Historic experience adjusted for market conditions at 31 March 2018 %	Estimated maximum exposure to default <b>£000</b>
<b>Counterparties rated:</b>		<b>A</b>	<b>B</b>	<b>C</b>	<b>(A x C)</b>
<i>Long-term:</i>					
AAA	51	13,188	0.18%	0.18%	24
AA	89	16,920	0.1% - 0.51%	0.1% - 0.51%	66
<i>Short-term</i>					
AAA	2	13,716	0.04%	0.04%	5
AA	8	13,030	0.01%	0.01%	1
AA-	4	16,086	0.06%	0.06%	10
A+	12	14,703	0.06%	0.06%	9
A	12	16,039	0.06%	0.06%	10
A-	3	2,070	0.07%	0.07%	1
BBB+	6	0	0.18%	0.18%	0
Non-investment grade	32	1,008	3.17%	3.17%	32
Debtors - past due but not impaired	28	2,338	1.01%	1.01%	24
<b>Total</b>	<b>247</b>	<b>109,098</b>			<b>182</b>

The Authority's deposits are placed either directly with the counterparty or indirectly with the counterparty via London money market brokers. At 31 March 2018, the Authority's long-term and short-term investments, and cash and cash equivalents were deposited with UK and non-UK counterparties in accordance with the approved treasury management Annual Investment Strategy. No credit limits were exceeded during the year and the Authority does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Authority does not generally allow credit for customers and the amount past due (but not impaired) as at the year-end can be analysed by age as follows:

	<b>31 March 2017 £000</b>	<b>31 March 2018 £000</b>
Three to six months	647	290
Six months to one year	601	303
More than one year	1,605	1,745
	<b>2,853</b>	<b>2,338</b>

**Liquidity risk**

As the Authority has ready access to borrowings from the Public Works Loans Board (PWLb), there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The strategy is to ensure the maturity profile is as smooth as possible through a combination of careful planning of new loans taken out and (where economically advantageous to do so) making early repayments.

**Notes to the Core Financial Statements (continued)**

**Refinancing and Maturity Risk**

The Authority maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Authority relates to managing the exposure to replacing financial instruments as they mature. The risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- Monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- Monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Authority's day to day cash flow needs and for monitoring the spread of longer term investments, to ensure stability of maturities and returns for longer term cash flow needs.

The maturity analysis of debt outstanding with the PWLB and market loans is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period (approved by Council in the Treasury Management Strategy 2017/2018):

<b>Prudential Indicator Analysis</b>						
<b>Period</b>	<b>Minimum</b>	<b>Maximum</b>	<b>31 March 2017</b>		<b>31 March 2018</b>	
			<b>£000</b>		<b>£000</b>	
<12 Months	0%	35%	13,224	4%	9,931	3%
1-2 Years	0%	40%	2,100	1%	2,828	1%
2-5 Years	0%	50%	4,623	2%	4,963	2%
5-10 Years	0%	75%	13,729	5%	15,944	6%
>10 Years	0%	95%	259,436	88%	254,042	88%
			293,112	100%	287,708	100%

**Market risk**

**Interest rate risk**

The Authority is exposed to significant 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 Authority.

For illustration, a rise in interest rates would have the following effects:

- For borrowings at variable rates the interest expense charged to the Comprehensive Income and Expenditure Account will rise;
- For borrowings at fixed rates the fair value of the borrowings will fall (no impact on revenue balances);
- For investments at variable rates the interest income credited to the Comprehensive Income and Expenditure Account will rise;
- For investments at fixed rates the fair value of the assets will fall (no impact on revenue balances).

**Notes to the Core Financial Statements (continued)**

Borrowings are not carried at fair value (but are carried on the Balance Sheet at amortised cost) so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the Council Fund Balance pound for pound. Movements in fair value of available-for-sale investments will be reflected in Other Comprehensive Income and Expenditure.

The Authority has a number of strategies for managing interest rate risk. Its policy is to aim to keep a maximum of 30% of its borrowings in variable rate loans when interest rate levels are favourable. However, as at 31 March 2018, the Authority had no variable rate loans or investments. During periods of falling interest rates and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is mitigated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates for the Authority's cost of borrowing and provide compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out should be fixed or variable.

The approved Treasury Management Strategy for 2017/2018 has enabled officers to place surplus cash flow funds with financial institutions and corporates and has resulted in enhanced investment returns in comparison to previous financial years. According to the investment strategy, if interest rates had been 1% higher at 31 March 2018, with all other variables held constant, the financial effect would be:

	<b>£000</b>
Increase in interest payable on variable rate borrowings	0
Increase in interest receivable on variable rate investments	0
Increase in government grant receivable for financing costs	0
Impact on Surplus or Deficit on the Provision of Services	0
Share of overall impact debited to the HRA	221
Decrease in fair value of fixed rate investment assets	(1,585)
Impact on Other Comprehensive Income and Expenditure	<b>(1,585)</b>
Decrease in fair value of fixed rate borrowings liabilities (no impact on Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	<b>52,363</b>

The impact of a 1% fall in interest rates would result in a similar variance, but with the movements reversed. The calculation is based on the PWLB discount rate used in the original fair value calculation, plus or minus 1%. There is a nil effect on variable rate investments and borrowings as the Authority had no such variable rate instruments during the year.

**Covered Bond investments**

As at 31 March 2018, the Authority's short-term and long-term investments included covered bonds. Covered bonds are debt securities issued by a bank or mortgage institution and collateralised against a pool of ring-fenced assets that, in case of failure of the issuer, the investor can recover the investment by making a claim against the pool of ring-fenced assets. The Authority's covered bond holdings as at 31 March 2018 is as follows:

Notes to the Core Financial Statements (continued)

Issuer	Cover Pool Rating		Over-collateralisation	Owner Occupied	Full time Employed	Three Month Arrears	Average LTV	LTV Greater than 95%	Outstanding Balance Greater than £500k	Asset Location	Investment Classification at 31 March 2018	Nominal Balance Invested At 31 March 2018	Fair Value at 31 March 2018
	£000	£000											
Yorkshire Building Society	Moodys	Aaa	42.5%	0.0%	0.0%	0%	56.2%	0%	6.1%	UK	Short-term	7,979	7,617
	S&P	AAA											
Coventry Building Society	Fitch	AAA	36.6%	100.0%	71.5%	0%	49.4%	0%	5.9%	UK	Short-term	3,339	3,266
	Moody's	Aaa											
Leeds Building Society	Fitch	AAA	49.3%	87.3%	84.6%	0%	60.3%	0%	4.5%	UK	Short-term	1,589	1,611
	Moody's	Aaa											
Nationwide Building Society	Fitch	AAA	53.1%	Not Reported	Not Reported	0%	70.6%	0.2%	1.7%	UK	Short-term	1,220	1,221
	Moody's	Aaa											
	S&P	AAA											
Santander UK Plc	Fitch	AAA	41.6%	99.8%	58.1%	0%	59.1%	0.10%	0%	UK	Long-term	3,000	3,294
	Moody's	Aaa											
	S&P	AAA											
Bank of Nova Scotia	Fitch	AAA	44.3%	98.5%	Not Reported	0%	66.3%	1.0%	4.8%	Canada	Long-term	6,000	5,912
	Moody's	Aaa											
Canada Imperial Bank of Commerce	Fitch	AAA	49.3%	82.1%	Not Reported	0%	64.1%	0%	11.8%	Canada	Long-term	2,000	1,991
	Moody's	Aaa											
National Australia Bank	Fitch	AAA	28.3%	67.5%	Not Reported	0%	58.6%	0.2%	31.5%	Australia	Long-term	2,000	1,991
	Moody's	Aaa											
												<b>27,127</b>	<b>26,904</b>

**Notes to the Core Financial Statements (continued)**

**13. Retirement Benefits**

**Participation in Pension Schemes**

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

The Authority participates in two post-employment schemes:

- The Local Government Pension Scheme, the Greater Gwent (Torfaen) Pension Scheme, is administered by Torfaen County Borough Council and is a funded defined benefit final salary scheme. The Authority and employees pay contributions into a fund calculated at a level intended to balance the pensions liabilities with investment assets.
- The Teachers' Pension Scheme is a defined benefit scheme, which is administered by the Department for Education. The scheme is unfunded and as it is not possible for the Authority to identify its share of the underlying liabilities of the scheme attributable to its own employees, it is being accounted for as a defined contribution scheme, i.e. the cost charged to Cost of Services in the year is the cost of the employer contributions to the scheme. A "notional fund" is used as the basis for calculating the employers' contribution rate paid by each local education authority.

**Greater Gwent (Torfaen) Pension Scheme**

In 2017/2018, the Authority paid an employer's contribution of £21.634m, representing 20.22% of the pensionable pay of employees who are members of the scheme into the Greater Gwent (Torfaen) Pension Fund (£21.704m representing 20.8% in 2016/2017), which provides members with defined benefits related to pay and service. Contribution rates are set by the Superannuation Regulations to meet 100% of the overall liabilities of the Fund over a period of time, with necessary contribution increases being phased in. In addition, the Authority is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases. In 2017/2018 these amounted to £1.33m, representing 1.24% of pensionable pay (£1.486m representing 1.42% in 2016/2017).

**Teachers' Pension Scheme**

In 2017/2018, the Authority paid £9.311m to Capita Teachers' Pensions in respect of teachers' pensions, which represents 16.48% of teachers' pensionable pay (£9.254m and 16.48% - for the whole of 2016/2017). In addition, the Authority is responsible for all pension payments relating to added years that have been awarded, together with the related increases. In 2017/2018, these amounted to £1.706m, representing approximately 3.02% of pensionable pay (£1.734m and 3.09% for 2016/2017).

**Former Authorities' Liability**

The former authorities' liability exists in respect of previous year's decisions to fund the pension benefits of employees of the former Glamorgan County Council, Mid Glamorgan County Council and Rhymney Valley District Council whose pension benefits are currently funded by the Rhondda Cynon Tâf County Borough Council Pension Fund. This has been included within the Authority's accounts as part of the required IAS 19 accounting disclosures. Actuarial assumptions are based upon the Rhondda Cynon Tâf County Borough Council Pension Fund.

Further information and the actuarial report is available on request from the Director of Finance, Rhondda Cynon Tâf County Borough Council, The Pavilions, Cambrian Park, Clydach Vale, Tonypany CF40 2XX.

**Notes to the Core Financial Statements (continued)**

**Unfunded Teachers Pensions Liability**

This liability exists in respect of unfunded Teachers' Discretionary Benefits paid to the former Authority employees by the Greater Gwent (Torfaen) Pension Fund. This has been included within the Authority's accounts as part of the required IAS 19 accounting disclosures. Actuarial assumptions are based upon the Greater Gwent (Torfaen) Pension Fund.

**Transactions Relating to Post-employment Benefits**

We recognise the cost of retirement benefits 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 we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment / retirement benefits is reversed out of the Council Fund and the Housing Revenue Account 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:

	<b>Local Government Pension Scheme</b>		<b>Discretionary Benefits Arrangements</b>	
	<b>2016/2017</b>	<b>2017/2018</b>	<b>2016/2017</b>	<b>2017/2018</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Comprehensive Income and Expenditure Statement:</b>				
<b>Cost of Services</b>				
<i>Service cost comprising:</i>				
• current service cost	25,088	45,296	0	0
• past service costs	210	82	0	0
• (gain)/loss from settlements/curtailments	0		0	0
• administration expenses	420	537	0	0
<i>Financing and Investment Income and Expenditure</i>				
• net interest expense	13,751	12,298	1,228	974
<i>Total Post Employment Benefits charged to the Surplus or Deficit on Provision of Services</i>	<b>39,469</b>	<b>58,213</b>	<b>1,228</b>	<b>974</b>
<i>Other Post Employment Benefits charged to the Comprehensive Income and Expenditure Statement</i>				
Remeasurement of the net defined benefit liability comprising:				
• return on plan assets (excluding the amount included in the net interest expense)	(106,419)	(7,768)	0	0
• actuarial (gains) / losses arising on changes in demographic assumptions	(28,109)	0	(2,015)	0
• actuarial (gains) / losses arising on changes in financial assumptions	181,318	(24,620)	4,444	(331)
• actuarial (gains) / losses - experience	6,179	(201)	577	(153)
<i>Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement</i>	<b>92,438</b>	<b>25,624</b>	<b>4,234</b>	<b>490</b>

**Notes to the Core Financial Statements (continued)**

	<b>Local Government Pension Scheme</b>		<b>Discretionary Benefits Arrangements</b>	
	<b>2016/2017 £000</b>	<b>2017/2018 £000</b>	<b>2016/2017 £000</b>	<b>2017/2018 £000</b>
<b>Movement in Reserves Statement:</b>				
• reversal of net charges made to the Surplus or Deficit on Provision of Services for post employment benefits in accordance with the Code	(39,469)	(58,213)	(1,228)	(974)
<i>Actual Amount Charged Against the Council Fund Balance for Pensions in the Year:</i>				
• employers' contributions payable to the scheme	22,098	22,515	2,147	2,111

Further information can be found in the Greater Gwent (Torfaen) Pension Fund's Annual Report, which is available upon request from the Director of Finance, County Borough of Torfaen, Civic Centre, Pontypool, NP4 6YB.

**Actuarial Gains and (Losses) relating to Pensions**

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2018 is a loss of £211.787m (£244.863m loss to 31 March 2017).

**Pensions Assets and Liabilities Recognised in the Balance Sheet:**

The amount included in the Balance Sheet arising from the Authority's obligation in respect of its defined benefit plans is as follows:

	<b>2016/2017 £000</b>	<b>2017/2018 £000</b>
<b>Present value of the defined benefit obligation:</b>		
• Local Government Pension Scheme	(1,163,242)	(1,196,511)
• Former Authorities' Liability	(7,890)	(7,436)
• Teachers' Unfunded Discretionary Pension	(30,895)	(29,728)
<b>Fair value of plan assets:</b>		
• Local Government Pension Scheme	700,356	730,516
<b>Net liability arising from defined benefit obligations</b>	<b>(501,671)</b>	<b>(503,159)</b>

The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary. The total contribution that the Authority expects to make to the Local Government Pension Scheme in the year to 31 March 2018 is £22.004m.



**Notes to the Core Financial Statements (continued)**

**Reconciliation of Present Value of Scheme Liabilities (Defined Benefit Obligation):**

	<u>2017/2018</u>			<b>Total</b>
	<b>Greater Gwent Scheme</b>	<b>Former Authorities Liability</b>	<b>Unfunded Teachers' Pension</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	
<b>Opening balance at 1 April</b>	1,162,082	7,890	30,895	1,200,867
Current service cost	45,833	0	0	45,833
Interest cost	30,548	190	784	31,522
Contributions by scheme participants	6,683	0	0	6,683
Remeasurement (gains) and losses:				
• Actuarial (gains) / losses arising from changes in demographic assumptions	0	0	0	0
• Actuarial (gains) / losses arising from changes in financial assumptions	(24,620)	28	(359)	(24,951)
• Actuarial (gains) / losses - experience	(201)	(90)	(63)	(354)
Past service costs	82	0	0	82
Losses / (gains) on curtailment	0	0	0	0
Benefits paid	(25,056)	(582)	(1,529)	(27,167)
<b>Closing balance at 31 March</b>	<b>1,195,351</b>	<b>7,436</b>	<b>29,728</b>	<b>1,232,515</b>
Other pension liabilities from discontinued operations	1,160	0	0	1,160
<b>Closing balance at 31 March</b>	<b>1,196,511</b>	<b>7,436</b>	<b>29,728</b>	<b>1,233,675</b>

	<u>2016/2017</u>			<b>Total</b>
	<b>Greater Gwent Scheme</b>	<b>Former Authorities Liability</b>	<b>Unfunded Teachers' Pension</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	
<b>Opening balance at 1 April</b>	961,518	7,990	28,708	998,216
Current service cost	25,508	0	0	25,508
Interest cost	33,758	250	978	34,986
Contributions by scheme participants	6,555	0	0	6,555
Remeasurement (gains) and losses:				
• Actuarial (gains) / losses arising from changes in demographic assumptions	(28,102)	(280)	(1,735)	(30,117)
• Actuarial (gains) / losses arising from changes in financial assumptions	181,319	580	3,864	185,763
• Actuarial (gains) / losses - experience	6,171	(50)	627	6,748
Past service costs	210	0	0	210
Losses / (gains) on curtailment	0	0	0	0
Benefits paid	(24,855)	(600)	(1,547)	(27,002)
<b>Closing balance at 31 March</b>	<b>1,162,082</b>	<b>7,890</b>	<b>30,895</b>	<b>1,200,867</b>
Other pension liabilities from discontinued operations	1,160	0	0	1,160
<b>Closing balance at 31 March</b>	<b>1,163,242</b>	<b>7,890</b>	<b>30,895</b>	<b>1,202,027</b>

Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities of the Fund discounted to their present value.

**Notes to the Core Financial Statements (continued)**

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

	Greater Gwent Scheme		Former Authorities Liability		Unfunded Teachers' Pension	
	2016/2017 £000	2017/2018 £000	2016/2017 £000	2017/2018 £000	2016/2017 £000	2017/2018 £000
<b>Opening fair value of scheme assets</b>	570,132	700,356	0	0	0	0
Interest Income	20,007	18,250	0	0	0	0
Remeasurement gain/(loss)						
• return on plan assets, excluding the amount included in net interest expense	106,419	7,768	0	0	0	0
• member contributions	6,555	6,683	0	0	0	0
Contributions from employer	21,601	22,027	600	582	2,044	2,017
Benefits paid	(24,358)	(24,568)	(600)	(582)	(2,044)	(2,017)
Administration expenses	0		0	0	0	0
<b>Closing fair value of scheme assets</b>	<b>700,356</b>	<b>730,516</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**Local Government Pension Scheme assets comprised:**

	Quoted Y/N	Fair value of scheme assets	
		31 March 2017 £000	31 March 2018 £000
<b>Cash and cash equivalents:</b>	N	3,192	2,950
<b>Equity instruments:</b>			
• UK Quoted	Y	132,333	137,240
<b>Investment Funds:</b>			
• UK Equities	N	83,289	87,184
• US Equities	N	79,875	63,468
• European Equities	N	99,100	109,309
• Global Equities	N	82,560	88,464
• Far East Equities	N	41,637	52,717
• Emerging Market Equities	N	17,928	21,646
• Government Bonds	N	61,700	58,386
• Corporate Bonds	N	62,364	60,555
<b>Property:</b>			
• UK Property Funds	N	17,800	17,713
<b>Alternatives:</b>			
• Global	N	17,251	30,388
• UK	N	1,327	496
<b>Total assets</b>		<b>700,356</b>	<b>730,516</b>

**Notes to the Core Financial Statements (continued)**

**Basis for Estimating Scheme Assets and Liabilities**

The calculation of these assets, liabilities and costs requires the actuary to make a number of assumptions relating to returns on investments, future inflation, pay and pension levels and rates of mortality. For the year ended 31 March 2018, the discount rate has been calculated as a weighted average of “spot yields” on AA rated corporate bonds. These weightings reflect more accurately the duration of the pension liabilities of the typical LGPS employer.

Changes to the Local Government Pension Scheme permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. The actuaries assumed that 50% of employees retiring after 6 April 2016 would take advantage of this change to the pension scheme. The actuaries have advised that this has resulted in the pension liabilities being greater than if a higher take up of lump sums had occurred. The actuary has confirmed that each 5% increase (decrease) in the assumed commutation take-up rate would typically reduce (increase) the value of the liabilities by between 0.1% and 0.25%.

The principal assumptions used by the actuary have been:

	<b>Local Government Pension Scheme</b>		<b>Former Authorities' Liability</b>		<b>Teachers' Pension Scheme</b>	
	<b>2016/2017</b>	<b>2017/2018</b>	<b>2016/2017</b>	<b>2017/2018</b>	<b>2016/2017</b>	<b>2017/2018</b>
Long-term expected rate of return on scheme assets:	2.6%	2.7%	n/a	n/a	n/a	n/a
<i>Mortality assumptions:</i>						
Longevity at 65 for current pensioners:						
- Men	21.5	21.5	22.8	22.9	21.5	21.5
- Women	23.9	23.9	24.9	25.0	23.9	23.9
Longevity at 65 for future pensioners:						
- Men	23.6	23.6	n/a	n/a	n/a	n/a
- Women	26.1	26.1	n/a	n/a	n/a	n/a
Rate of inflation	2.4%	2.4%	2.0%	2.1%	2.4%	2.4%
Rate of increase in salaries	2.8%	2.8%	n/a	n/a	2.8%	2.8%
Rate of increase in pensions	2.4%	2.4%	2.0%	2.1%	2.4%	2.4%
Rate for discounting scheme liabilities	2.6%	2.7%	2.5%	2.6%	2.6%	2.7%
Take-up of option to convert annual pension into retirement lump sum	50.0%	50.0%	n/a	n/a	n/a	n/a

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all 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 for 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.

**Notes to the Core Financial Statements (continued)**

<b>Impact on the Defined Benefit Obligation in the Greater Gwent (Torfaen) Pension Scheme</b>	<b>Increase in obligation</b>	<b>Decrease in obligation</b>
	<b>£000</b>	<b>£000</b>
Rate of increase in pension rate (increase by 0.5%)	104,213	0
Rate of increase in salaries (increase by 0.5%)	24,164	0
Rate for discounting scheme liabilities (decrease by 0.5%)	130,451	0

*It is estimated that a one year increase in life expectancy would increase the Employer's Defined Benefit Obligation by approximately 3-5%*

**14. Private Finance Initiative (PFI) Transactions**

The Authority entered into two contracts under Private Finance Initiative arrangements, one with the Machrie Consortium for the provision of two replacement schools (Ysgol Gyfun Cwm Rhymni and Lewis School Pengam), and one with S.E.W. Ltd for the provision of a road (Sirhowy Enterprise Way).

Under both of these contracts, the relevant consortium has the responsibility for the design, build, finance and operation of the assets for a period of 30 years, commencing in September 2002 for the schools and December 2005 for the road. With regard to the schools, this includes the provision of all ancillary services, although the Authority retains responsibility for educational, pastoral and financial arrangements.

The Authority leases each school site to the Consortium and, upon expiry of the contract term (September 2032), has the option of re-tendering the provision of services. If the option is not taken, the assets will transfer to the Authority.

The Authority continues to own the land on which the road is built and, in consideration of a payment of £1, permits access to the land to S.E.W. Ltd, for the purposes of building and operating the road, for the lifetime of the contract. At the expiry of the contract term, the Authority has the option of extending the contract. If this option is not taken, the asset reverts to the ownership of the Authority.

The assets identified in the PFI contracts have been recognised in the Authority's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 23.

**Notes to the Core Financial Statements (continued)**

	31 March 2017			31 March 2018		
	Road £000	Schools £000	Total £000	Road £000	Schools £000	Total £000
<b>Gross PFI Liabilities are due:</b>						
- not later than 1 year	2,976	1,185	4,161	2,891	1,491	4,382
- later than 1 year, not later than 5 years	10,628	7,007	17,635	10,357	7,115	17,472
- later than 5 years	19,330	18,827	38,157	16,710	17,228	33,938
<b>Total Gross Liabilities</b>	<b>32,934</b>	<b>27,019</b>	<b>59,953</b>	<b>29,958</b>	<b>25,834</b>	<b>55,792</b>
<b>Net PFI Liabilities are due:</b>						
- not later than 1 year	1,301	82	1,383	1,317	365	1,682
- later than 1 year, not later than 5 years	4,994	2,880	7,874	5,113	3,073	8,186
- later than 5 years	13,382	12,968	26,350	11,862	12,085	23,947
<b>Total Net Liabilities</b>	<b>19,677</b>	<b>15,930</b>	<b>35,607</b>	<b>18,292</b>	<b>15,523</b>	<b>33,815</b>
<b>Finance charges allocated to future periods</b>	<b>(13,257)</b>	<b>(11,089)</b>	<b>(24,346)</b>	<b>(11,666)</b>	<b>(10,311)</b>	<b>(21,977)</b>
<b>Reconciliation between Net Book Values of PFI Assets held under PFI schemes:</b>						
Net Liability (as above)	19,677	15,930	35,607	18,292	15,523	33,815
Additions	0	1,312	1,312	0	1,347	1,347
Revaluations and impairments	0	24,148	24,148	0	25,447	25,447
Repayments/ Amortisation of capital sum	17,087	5,272	22,359	18,471	5,679	24,150
Accumulated Depreciation	(10,108)	(5,918)	(16,026)	(11,027)	(5,918)	(16,945)
<b>Net Book value of PFI Assets</b>	<b>26,656</b>	<b>40,744</b>	<b>67,400</b>	<b>25,736</b>	<b>42,078</b>	<b>67,814</b>

The Authority receives funding from the Welsh Government to meet the costs of the unitary charge payments. However, the scheduling of the funding is such that it differs annually during the period of the PFI contract, from that applying to the payments to the consortia.

Whilst the funding profile of the road scheme generally follows that of the unitary charge payments, that of the schools scheme differs markedly, with the funding reducing annually over the period of the contract, whilst unitary charge payments increase annually over the same period. The result of the variance in these funding and expenditure profiles means that the funding received by the Authority in the early years of the contracts will exceed that required to meet the unitary charge, whilst subsequently, until the expiry of the contract term, the opposite will be true. As a result, the Authority has agreed that the initial funding "surpluses" will be set aside, to provide for the subsequent funding shortfalls, and is holding such funds as an earmarked reserve to meet future PFI liabilities (see note 39).

The balance held on this reserve and the movements during the financial year are as detailed below:

	2016/2017 £000	2017/2018 £000
Balance brought forward	(13,333)	(11,900)
<b>Amounts (set aside) / taken in year:</b>		
Schools	247	374
Road	1,186	386
	<b>(11,900)</b>	<b>(11,140)</b>

**Notes to the Core Financial Statements (continued)**

**Future commitments for PFI Schemes**

The Authority is committed to making the following payments for PFI obligations:

<u>Road</u>	Reimbursement			Total £000
	Payment for Services £000	of Capital Expenditure £000	Interest £000	
Payable in 2018/2019	1,969	1,317	1,574	4,860
Payable within 2 to 5 years	7,729	5,113	5,244	18,086
Payable within 6 to 10 years	10,516	7,201	3,906	21,623
Payable within 11 to 15 years	10,977	4,362	916	16,255
Payable within 16 to 20 years	1,401	298	26	1,725
	<b>32,592</b>	<b>18,291</b>	<b>11,666</b>	<b>62,549</b>

<u>School</u>	Reimbursement			Total £000
	Payment for Services £000	of Capital Expenditure £000	Interest £000	
Payable in 2018/2019	2,926	365	1,126	4,417
Payable within 2 to 5 years	11,504	3,073	4,042	18,619
Payable within 6 to 10 years	16,685	5,192	3,722	25,599
Payable within 11 to 15 years	16,684	6,893	1,421	24,998
	<b>47,799</b>	<b>15,523</b>	<b>10,311</b>	<b>73,633</b>

**15. Operating Leases**

**Authority as Lessee**

The Authority leases various buildings for the provision of services and for administrative purposes, which have been accounted for as operating leases. The rentals payable to lessors under such leases amounted to £1,115,167 in 2017/2018, (£1,221,007 in 2016/2017) and were charged to the relevant service area in the Comprehensive Income and Expenditure Statement.

Minimum lease payments due under non-cancellable operating leases in future years are:

	2016/2017	2017/2018		Total £000
	Total £000	Land & Buildings £000	Vehicles, Plant & Equipment £000	
Not later than one year	949	952	0	952
Later than one year and not later than five years	3,427	3,485	0	3,485
Later than five years	11,703	11,733	0	11,733
	<b>16,079</b>	<b>16,170</b>	<b>0</b>	<b>16,170</b>

Notes to the Core Financial Statements (continued)

Authority as Lessor

The Authority has granted leases of land and buildings to various entities for periods of between 1 year and 30 years for the provision of community services, such as facilities, tourism services and community centres and for economic development purpose to provide suitable affordable accommodation for local businesses, with such arrangements being accounted for as operating leases.

In addition the Authority has also granted peppercorn leases (rentals of £1 per annum) of community halls, playing fields, pavilions etc. to voluntary organisations, community groups and other similar bodies for periods of between 1 year and 199 years. Such arrangements have been accounted for as operating leases.

Minimum lease payments receivable under non-cancellable leases in future years are:

Authority as lessor

	2016/2017	2017/2018		Total £000
	Total £000	Industrial Units £000	Other Land & Buildings £000	
Not later than one year	556	203	214	417
Later than one year and not later than five years	1,093	616	368	984
Later than five years	1,211	432	699	1,131
	<b>2,860</b>	<b>1,251</b>	<b>1,281</b>	<b>2,532</b>

16. Members' Allowances

The total value of Members' Allowances payments in 2017/2018 was £1,183,309 (£1,177,745 in 2016/2017). More detailed information on Members' Allowances can be obtained from the Head of People Management & Development, Penallta House, Tredomen Park, Ystrad Mynach, Hengoed, CF82 7PG.

**Notes to the Core Financial Statements (continued)**

**17. Officers' Emoluments**

The number of employees (excluding those employees who are listed separately overleaf) whose remuneration, excluding employer's pension contributions, was £60,000 or more in bands of £5,000, during the year ended 31 March 2018 were:

<b>Remuneration Band</b>	<b>Number of employees</b>		<b>Total</b>	<b>Left in year</b>
	<b>School based</b>	<b>Non-School based</b>		
£60,000 - £64,999	19	5	24	0
£65,000 - £69,999	17	4	21	0
£70,000 - £74,999	8	2	10	0
£75,000 - £79,999	1	2	3	1
£80,000 - £84,999	2	1	3	0
£85,000 - £89,999	7	1	8	0
£90,000 - £94,999	1	2	3	0
£95,000 - £99,999	1	2	3	0
£100,000 - £104,999	0	1	1	0
£105,000 - £109,999	0	1	1	1
	<b>56</b>	<b>21</b>	<b>77</b>	<b>2</b>

*The leavers in the year were non-school based.*

<b>Remuneration Band</b>	<b>Number of employees</b>		<b>Total</b>	<b>Left in year</b>
	<b>School based</b>	<b>Non-School based</b>		
£60,000 - £64,999	19	7	26	3
£65,000 - £69,999	12	1	13	0
£70,000 - £74,999	2	2	4	0
£75,000 - £79,999	2	1	3	0
£80,000 - £84,999	4	0	4	0
£85,000 - £89,999	5	2	7	0
£90,000 - £94,999	0	8	8	0
£95,000 - £99,999	0	2	2	0
	<b>44</b>	<b>23</b>	<b>67</b>	<b>3</b>

*Of the leavers in the year, one was school based and two were non-school based.*

*The above numbers include one officer employed by a Voluntary Aided School.*

In accordance with the Accounts and Audit (Wales) Regulations 2014, the following tables show the remuneration and components of remuneration for statutory chief officers and designated heads of paid service that have responsibility for the management of the Authority and have the ability to control the major activities of the Authority – particularly in relation to activities involving expenditure of money.



**Notes to the Core Financial Statements (continued)**

<b>2017/2018</b>					
<b>Post</b>	<b>Salary £</b>	<b>Expenses / other payments £</b>	<b>Total Remuneration excluding Employer's Pension Contributions £</b>	<b>Employer's Pension Contributions at 20.22% £</b>	<b>Total Remuneration including Employer's Pension Contributions £</b>
Chief Executive *a	137,000	0	<b>137,000</b>	27,701	<b>164,701</b>
Acting Chief Executive *b	114,404	132,309	<b>246,713</b>	16,300	<b>263,013</b>
Interim Chief Executive *c	107,962	0	<b>107,962</b>	21,830	<b>129,792</b>
Director of Social Services	121,727	250	<b>121,977</b>	24,613	<b>146,590</b>
Corporate Director - Communities & Acting Chief Executive*d	127,283	52	<b>127,335</b>	25,736	<b>153,071</b>
Acting Director of Corporate Services & S151 Officer *e	121,727	0	<b>121,727</b>	24,613	<b>146,340</b>
Interim Corporate Director - Communities *f	22,229	0	<b>22,229</b>	4,495	<b>26,724</b>
Acting Section 151 Officer *g	38,713	97	<b>38,810</b>	0	<b>38,810</b>
	<b>791,045</b>	<b>132,708</b>	<b>923,753</b>	<b>145,288</b>	<b>1,069,041</b>

\*a The Chief Executive was suspended on 8 March 2013 as a consequence of the police investigation in respect of Senior Manager remuneration awards during 2012/2013. Criminal proceedings were dismissed in October 2015 and the Authority is now progressing internal investigations in accordance with the Council's approved procedures and statutory requirements. The above total remuneration payment of £164,701 (inclusive of employer's pension contributions) was made in 2017/2018 by the Authority to the Chief Executive.

\*b Special Council on 31 October 2017 approved a proposed settlement agreement with the Acting Chief Executive. As a consequence of this settlement agreement the employment of the Acting Chief Executive was terminated by mutual consent on 31 October 2017. Remuneration payments of £263,013 (inclusive of employer's pension contributions) were made in 2017/18. The total remuneration payment of £263,013 is inclusive of an agreed settlement paid to this employee of £169,422. The remainder is their gross salary entitlement to 31 October 2017, plus contractual notice of 3 months.

\*c In addition to those payments listed above, the Interim Chief Executive received Returning Officer expenses during the year to 31 March 2018 of £14,835 in respect of by-elections and £4,277 in respect of the parliamentary election (paid by Central Government). The Interim Chief Executive left the authority on 31 December 2017. The full annualised salary of the post was £143,949.

\*d As a consequence of the decision of the Interim Chief Executive not to extend their contract past 31 December 2017, Council on 5 December 2017 agreed to appoint the Corporate Director - Communities as the Interim Head of Paid Service/Chief Executive for a period of 6 months. The full annualised salary of the Director post was £121,727. The full annualised salary of the Interim Head of Paid Service/ Chief Executive post was £143,949.

\*e In addition to those payments listed above, the Acting Director of Corporate Services received Returning Officer expenses in respect of parliamentary elections amounting to £450. These were paid by Central Government.

\*f As a consequence of the Corporate Director - Communities being appointed to the role of Interim Head of Paid Service/ Chief Executive, an Interim Corporate Director was appointed to their substantive role on 18 January 2018. The full annualised salary of the post was £109,555.

\*g The Interim Head of Corporate Finance took over S151 duties on an acting up basis in October 2017, due to the sickness absence of the substantive S151 Officer. The full annualised salary of the role was £92,924.

**Notes to the Core Financial Statements (continued)**

<u>2016/2017</u>			Total Remuneration excluding Employer's Pension Contributions	Employer's Pension Contributions at 20.22%	Total Remuneration including Employer's Pension Contributions
Post	Salary £	Expenses / other payments £	£	£	£
Chief Executive *a	137,000	0	<b>137,000</b>	27,701	<b>164,701</b>
Acting Chief Executive *b	132,500	0	<b>132,500</b>	26,792	<b>159,292</b>
Interim Chief Executive *c	143,949	0	<b>143,949</b>	29,106	<b>173,055</b>
Director of Social Services	120,522	712	<b>121,234</b>	24,370	<b>145,604</b>
Acting Director of Corporate Services & S151 Officer *d	119,907	0	<b>119,907</b>	24,096	<b>144,003</b>
Corporate Director - Communities	116,496	532	<b>117,028</b>	23,556	<b>140,584</b>
	<b>770,374</b>	<b>1,244</b>	<b>771,618</b>	<b>155,621</b>	<b>927,239</b>

\*a The Chief Executive was suspended on 8 March 2013 as a consequence of the police investigation in respect of Senior Manager remuneration awards during 2012/2013. Criminal proceedings were dismissed in October 2015 and the Authority is now progressing internal investigations in accordance with the Council's approved procedures and statutory requirements. The above total remuneration payment of £164,701 (inclusive of employer's pension contributions) was made in 2016/2017 by the Authority to the Chief Executive.

\*b The Deputy Chief Executive became the Acting Chief Executive in March 2013. The Acting Chief Executive was suspended on 3 July 2013 as a consequence of the aforementioned police investigation. Following the dismissal of criminal proceedings in October 2015 the Authority is now progressing internal investigations in accordance with the Council's approved procedures and statutory requirements. Remuneration payments of £159,292 (inclusive of employer's pension contributions) in the above table were made in 2016/2017 by the Authority to the Acting Chief Executive.

\*c In addition to those payments listed above, the Interim Chief Executive received Returning Officer expenses during the year to 31 March 2017 of £9,460 in respect of the National Assembly for Wales election (which were paid by the Welsh Government), £6,247 in respect of elections for the Police and Crime Commissioner and £5,941 in respect of the European Referendum (both paid by Central Government).

\*d In addition to those payments listed above, the Acting Director of Corporate Services & S151 Officer received Returning Officer expenses during the year to 31 March 2017 of £350 in respect of the National Assembly for Wales election (paid by Welsh Government), £200 in respect of the election for the Police and Crime Commissioner and £350 in respect of the European Referendum (both paid by Central Government).

The annualised remuneration of the highest paid officer of the Authority (the Interim Chief Executive) in the financial year to 31 March 2018 was £143,949. This was 7.15 times the median remuneration of the workforce, which was £20,138. (The remuneration of the highest paid officer of the Authority (the Chief Executive) in the financial year to 31 March 2017 was £143,949. This was 7.2 times the median remuneration of the workforce, which was £19,939).

**Notes to the Core Financial Statements (continued)**

The numbers of exit packages with total cost per band and total cost of the compulsory redundancies, other redundancies and other departures are set out in the table below. The costs include redundancy costs, payments in lieu of notice and payments to staff for holidays not taken at time of departure. Where applicable, employers' national insurance contributions are included, as well as any strain costs for early retirement payable by the Authority to the Pension Fund.

(a) Exit package cost band (including special payments)	(b) Number of compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band [(b) + (c)]		(e) Total cost of exit packages in each band £	
	2016 / 2017	2017 / 2018	2016 / 2017	2017 / 2018	2016 / 2017	2017 / 2018	2016 / 2017	2017 / 2018
	£0 - £20,000	25	3	129	95	154	98	912,277
£20,001 - £40,000	1	0	30	19	31	19	860,204	527,846
£40,001 - £60,000	2	1	11	11	13	12	625,439	571,564
£60,001 - £80,000	0	0	1	3	1	3	69,091	195,640
£100,001 - £150,000	0	0	0	1	0	1	0	123,983
<b>Total</b>	<b>28</b>	<b>4</b>	<b>171</b>	<b>129</b>	<b>199</b>	<b>133</b>	<b>2,467,011</b>	<b>2,067,961</b>

The numbers above include two employees who left during the 2016/17 financial year, but the costs were not known and therefore not accounted for until the 2017/18 financial year. Both were in the £0 - £20,000 cost band.

**18. External Audit Costs**

In 2017/2018 Caerphilly County Borough Council incurred the following fees relating to external audit and inspection.

	<b>2016/2017</b> <b>£000</b>	<b>2017/2018</b> <b>£000</b>
Fees payable to the Auditor General for Wales with regard to external audit services carried out under the Code of Audit Practice prepared by the Auditor General for Wales	250	250
Fees payable to the Auditor General for Wales in respect of statutory inspection	112	105
Fees payable to the Auditor General for Wales for the certification of grant claims and returns	57	54
Fees payable to the Auditor General for Wales in respect of other services	(6)	0
Fees payable to Grant Thornton UK LLP in respect of other services	6	3
	<b>419</b>	<b>412</b>

*The fees for other services relate to audit work in respect of Blackwood Miner's Institute, a registered charity. The fees payable to the Auditor General for Wales for the certification of grant claims and returns relates to work performed in 2017/18 on 2016/17 claims billed in February 2018*

**Notes to the Core Financial Statements (continued)**

**19. Pooled Budgets / Lead Commissioning Arrangements**

In accordance with the provisions of the National Health Service (Wales) Act 2006, and the flexibilities arrangements permitted under that legislation, the Authority is involved with Aneurin Bevan Health Board (ABHB) in respect of the following projects.

<u>Lead Commissioning Arrangements</u>	2016/2017		2017/2018		
	Authority's Contribution	Total Funding	Other (ABHB) Contribution	Other LAs/WG Contribution	Authority's Contribution
Scheme	£000	£000	£000	£000	£000
Cancercareline	(6)	0	0	0	0
Age Concern	43	117	71	0	46
Care and Repair	14	33	22	0	11
Gwent Frailty	2,212	15,467	9,034	4,265	2,168
	<b>2,263</b>	<b>15,617</b>	<b>9,127</b>	<b>4,265</b>	<b>2,225</b>

**Cancercareline** - provides support to those affected by cancer, whether patients, families or carers.

**Age Concern** - provides timely support and safe discharge from acute services for older people, back into the community.

**Care and Repair** - provides a housing advice and agency service for elderly people with physical disabilities. The project fits adaptations and aids to daily living, deals with applications for grants, loans and welfare benefits, and arranges temporary accommodation.

**Gwent Frailty Programme** – provides a range of services to avoid hospital admissions, facilitate early discharge and to help individuals remain independent.

**Pooled budgets** - Gwent Wide Integrated Community Equipment Service Project – see Note 44 – Jointly Controlled Operations.

**20. Related Party Transactions**

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

**During the year, transactions with and year-end balances of related parties arose as follows:**

**Welsh Government**

Welsh Government has significant influence over the general operations of the Authority in respect of providing the statutory framework within which the Authority operates, providing the majority of funding in the form of revenue and capital grants, revenue support grant and NNDR. Further details of revenue support grant received and NNDR Pool transactions are summarised in Note 11.

**Notes to the Core Financial Statements (continued)**

**Precepts and Levies**

Note 9 provides details of precepts collected on behalf of other organisations and amounts levied on the Authority by Joint Committees.

**Members**

Members of the council have direct control over the Authority's financial and operating policies. The total of members allowances paid in 2017/2018 is shown in Note 16. During the year the majority of "declaration of interest" returns were received showing that there were no other material related party transactions identified involving these individuals.

**Chief Officers**

Details of chief officers' emoluments are provided in Note 17. All "declaration of interest" returns were received from directors which did not identify any other material related party transactions.

**Other Public Bodies (subject to common control by central government)**

The Authority has pooled budget arrangements with the Aneurin Bevan Health Board in respect of the Gwent Frailty Project. Details can be found in Note 19.

**Pension Contributions**

Employer's contributions are made to the Teachers' Pension Agency and the Greater Gwent (Torfaen) Pension Fund in respect of the Authority's employees. Further details of amounts involved are shown on pages 63 to 69.

**Other Entities Controlled or Significantly Influenced by the Authority:**

**Groundwork Trust Caerphilly**

The Authority is represented on the Board of the Trust.

**Aneurin Bevan Health Board**

The Authority is represented on the Board of this organisation.

**Education Achievement Service (EAS)**

EAS is a limited company that provides advisory and inspection services to the Local Education Authority and its schools. Activities of the company are funded by Caerphilly, Blaenau Gwent, Monmouthshire, Newport and Torfaen County Borough Councils.

*Transactions with the above three entities are summarised in the tables below:*

	In-year transactions		Balances outstanding at 31 March	
	Expenditure incurred by Authority £000	Income received by Authority £000	Owed to Authority (debtor) £000	Owed by Authority (creditor) £000
<b>2017/2018</b>				
<b>Related Party:</b>				
Groundwork Trust Caerphilly	133	9	nil	26
Aneurin Bevan Health Board	10,142	16,435	2,294	4,596
<i>Included in above:</i>				
Section 28a Grant	n/a	2,646	nil	nil
NNDR	n/a	1,133	nil	nil
Education Achievement Service	1,316	226	94	nil

**Notes to the Core Financial Statements (continued)**

	In-year transactions		Balances outstanding at 31 March	
	Expenditure incurred by Authority £000	Income received by Authority £000	Owed to Authority (debtor) £000	Owed by Authority (creditor) £000
<b>2016/2017</b>				
<b>Related Party:</b>				
Groundwork Trust Caerphilly	173	nil	nil	11
Aneurin Bevan Health Board	10,056	15,268	3,376	2,106
<i>Included in above:</i>				
Section 28a Grant	n/a	2,646	nil	nil
NNDR	n/a	804	nil	nil
Education Achievement Service	1,435	257	nil	nil

**21. Minimum Revenue Provision (MRP) Adjustment**

The Local Government Act 2003 requires the Authority to set aside a Minimum Revenue Provision for the redemption of debt in line with the regulations set out in the Local Authorities (Capital and Finance and Accounting) (Wales) Regulations 2003, as amended.

With effect from 2007/08, the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 revised the basis of charge in respect of Council Fund borrowing. The Regulations provide for a range of options as the basis of charge for MRP, within which authorities are permitted to adopt those most appropriate to their circumstances. However, in doing so, authorities must also take account of the requirement of the Regulations that MRP must be calculated in a prudent manner, ensuring that debt is charged to revenue over a period reasonably commensurate with that over which capital assets, to which the borrowing relates, provide benefits.

For Council Fund Supported Borrowing (i.e. where provision for the associated capital financing costs is included in the revenue support grant settlement received from the Welsh Government), MRP has been calculated at 2% over 50 years using the annuity method. The annuity method results in a lower charge in earlier years and a higher charge in the later years, and takes into consideration the time value of money. MRP on any particular borrowing commences to be charged the year following that in which the borrowing has been incurred.

For Unsupported Borrowing (i.e. borrowing permitted in accordance with the Prudential Code for Capital Finance in Local Authorities, but for which no provision is made in the revenue settlement), MRP has been calculated on an asset life basis using the annuity method. The charge has been calculated using the average Public Works Loan Board (PWLB) interest rate for new annuity loans in the year that an asset became operational. MRP is written down over the life of the asset where this has been determined by the Authority's Property Valuers. Where the asset life has not been determined the MRP charge has been subsequently calculated over 25 years. MRP commences to be charged from the year following that in which the asset to which the borrowing relates becomes operational.

For assets acquired by finance leases or the Private Finance Initiative, MRP has been determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

The MRP charge for the HRA has been calculated by using an interest rate of 2% on the opening capital financing requirement on a reducing balance basis.

**Notes to the Core Financial Statements (continued)**

For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Authority has not made an MRP charge, but has instead applied the capital receipts arising from principal repayments to reduce the capital financing requirement.

Actual provisions made during each year match the calculated amounts.

The amount shown in the note of reconciling items for the Movement in Reserves Statement as "Minimum revenue provision for capital financing" represents the accounting entry necessary to ensure that there is no overall increase or decrease in the Council Tax arising from depreciation charges, impairment losses or amortisations.

**22. Movements on Reserves**

Movements in the Authority's Usable Reserves are detailed below, in the Movement in Reserves Statement and also in Notes 34 - 39, whilst details of the movements in Unusable Reserves are shown below and in Notes 31 - 33. Some reserves are required to be held for statutory reasons, some are needed to comply with proper accounting practice and others have been set up voluntarily to earmark resources for future spending plans.

<u>Usable Reserves</u>	<b>Balance 1 April 2016 £000</b>	<b>Net Movement in year £000</b>	<b>Balance 31 March 2017 £000</b>	<b>Net Movement in year £000</b>	<b>Balance 31 March 2018 £000</b>
Council Fund	(12,615)	(5,218)	(17,833)	4,633	(13,200)
Housing Revenue Account (note 7 HRA)	(21,218)	4,397	(16,821)	11,731	(5,090)
Direct Service Earmarked Reserves	(208)	(94)	(302)	(70)	(372)
Capital Earmarked Reserves (note 35)	(17,774)	1,416	(16,358)	(5,778)	(22,136)
Service Over/Underspend Reserves (note 36)	(10,814)	4,548	(6,266)	1,039	(5,227)
Schools Earmarked Reserves (note 38)	(2,887)	555	(2,332)	293	(2,039)
Insurance Earmarked Reserves (note 34)	(6,841)	247	(6,594)	95	(6,499)
Other Earmarked Reserves (note 39)	(28,883)	(3,837)	(32,720)	(4,843)	(37,563)
Usable Capital Receipts	(11,910)	373	(11,537)	3,014	(8,523)
Capital Grants Unapplied	(9,472)	(341)	(9,813)	664	(9,149)
<b>Total Usable Reserves</b>	<b>(122,622)</b>	<b>2,046</b>	<b>(120,576)</b>	<b>10,778</b>	<b>(109,798)</b>

**Caerphilly County Borough Council**

**Notes to the Core Financial Statements (continued)**

**Unusable Reserves**

<b>Reserve</b>	<b>Balance 1 April 2016 £000</b>	<b>Net Movement in year £000</b>	<b>Balance 31 March 2017 £000</b>	<b>Net Movement in year £000</b>	<b>Balance 31 March 2018 £000</b>	<b>Purpose of Reserve</b>	<b>Further details of movements</b>
Financial Instruments Adjustment Account	(614)	273	(341)	181	(160)	Amounts required by statute to be set aside in respect of discounts and premia on the rescheduling of the Authority's debts.	
Available-for-Sale Financial Instruments Reserve	481	1,298	1,779	906	2,685	Store of gains on revaluation of investments not yet realised through sales.	
Revaluation Reserve	(539,926)	(29,591)	(569,517)	(40,433)	(609,950)	Gains on revaluation of fixed assets not yet realised through sales.	Note 31
Capital Adjustment Account (CAA)	(376,571)	(550)	(377,121)	15,141	(361,980)	Capital resources set aside to meet past capital expenditure	Note 32
Deferred Capital Receipts	(14)	(1)	(15)	(35)	(50)	Proceeds to be received over future accounting periods arising principally from the sale of council dwellings	
Pensions Reserve	429,244	72,427	501,671	1,488	503,159	Reserve set aside to mitigate the impact of pension liabilities on Council Tax as required by statute	Note 33
Accumulated Absences Account	2,719	806	3,525	83	3,608	Account to absorb differences arising on the Council Fund balance from accruing for compensated absences earned but not taken in the year.	
<b>Total Unusable Reserves</b>	<b>(484,681)</b>	<b>44,662</b>	<b>(440,020)</b>	<b>(22,669)</b>	<b>(462,688)</b>		



Notes to the Core Financial Statements (continued)

23. Property, Plant and Equipment

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Assets under Construction £000	Total Property, Plant & Equipment £000	PFI Assets Included in Property, Plant & Equipment £000
<b>Cost or valuation:</b>								
At 1 April 2017	327,530	725,335	42,711	310,984	3,079	20,689	1,430,328	83,428
Additions	42,209	14,734	1,094	4,700	0	4,894	67,631	35
Revaluation Increases/(decreases) to Revaluation Reserve	24,023	28,139	0	0	0	0	52,162	1,298
Revaluation Increases/(decreases) to Surplus/Deficit on Provision of Services	0	1,428	0	0	(7)	0	1,421	0
Derecognitions - Disposals	0	(590)	0	0	0	0	(590)	0
Other movements in cost or valuations	(53,908)	(348)	0	0	0	(18,408)	(72,664)	0
<b>At 31 March 2018</b>	<b>339,854</b>	<b>768,698</b>	<b>43,805</b>	<b>315,684</b>	<b>3,072</b>	<b>7,175</b>	<b>1,478,288</b>	<b>84,761</b>
<b>Accumulated Depreciation and impairment:</b>								
At 1 April 2017	0	(18,693)	(29,850)	(106,472)	(70)	0	(155,085)	(16,028)
Depreciation Charge	(11,699)	(13,899)	(3,193)	(10,343)	(11)	0	(39,145)	(919)
Other movements in Depreciation	11,699	9,185	0	0	0	0	20,884	0
<b>At 31 March 2018</b>	<b>0</b>	<b>(23,407)</b>	<b>(33,043)</b>	<b>(116,815)</b>	<b>(81)</b>	<b>0</b>	<b>(173,346)</b>	<b>(16,947)</b>
<b>Net Book Value at 31 March 2018</b>	<b>339,854</b>	<b>745,291</b>	<b>10,762</b>	<b>198,869</b>	<b>2,991</b>	<b>7,175</b>	<b>1,304,942</b>	<b>67,814</b>
Net Book Value at 31 March 2017	327,530	706,642	12,861	204,512	3,009	20,689	1,275,243	67,400

Notes to the Core Financial Statements (continued)

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets under Construction	Total Property, Plant & Equipment	PFI Assets Included in Property, Plant & Equipment
Cost or valuation:	£000	£000	£000	£000	£000	£000	£000	£000
At 1 April 2016	318,796	716,234	41,560	305,653	3,097	0	1,385,340	80,229
Additions	32,317	9,079	2,522	5,331	26	15,448	64,723	1,312
Revaluation Increases/(decreases) to Revaluation Reserve	19,728	19,487	0	0	(58)	0	39,157	1,887
Revaluation Increases/(decreases) to Surplus/Deficit on Provision of Services	0	(1,578)	0	0	15	0	(1,563)	0
Derecognitions - Disposals	0	(215)	(1,371)	0	(1)	0	(1,587)	0
Other movements in cost or valuations	(43,311)	(17,672)	0	0	0	5,241	(55,742)	0
<b>At 31 March 2017</b>	<b>327,530</b>	<b>725,335</b>	<b>42,711</b>	<b>310,984</b>	<b>3,079</b>	<b>20,689</b>	<b>1,430,328</b>	<b>83,428</b>
<b>Accumulated Depreciation and impairment:</b>								
At 1 April 2016	0	(12,419)	(27,492)	(96,431)	(55)	0	(136,397)	(15,110)
Depreciation Charge	(10,994)	(13,147)	(3,638)	(10,041)	(15)	0	(37,835)	(918)
Other movements in Depreciation	10,994	6,873	1,280	0	0	0	19,147	0
<b>At 31 March 2017</b>	<b>0</b>	<b>(18,693)</b>	<b>(29,850)</b>	<b>(106,472)</b>	<b>(70)</b>	<b>0</b>	<b>(155,085)</b>	<b>(16,028)</b>
<b>Net Book Value at 31 March 2017</b>	<b>327,530</b>	<b>706,642</b>	<b>12,861</b>	<b>204,512</b>	<b>3,009</b>	<b>20,689</b>	<b>1,275,243</b>	<b>67,400</b>
Net Book Value at 31 March 2016	318,796	703,815	14,068	209,222	3,042	0	1,248,943	65,119

**Notes to the Core Financial Statements (continued)**

**Capital Commitments**

At 31 March 2018, the Authority had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2017/2018 and subsequent years budgeted to cost £14.375m. Similar commitments at 31 March 2017 were £17.644m. The major commitments are:

		<b>31 March 2017</b>	<b>31 March 2018</b>
		<b>£000</b>	<b>£000</b>
<b>Highways and Transportation:</b>	Bargoed By Pass	207	201
	Historical Schemes	220	205
	Bridge Strengthening	279	0
	Land drainage	0	167
	Highways equipment	0	250
	Pwllypant Roundabout	0	4,475
<b>Education:</b>	St Ilans Comprehensive School	120	0
	Islwyn West High School	6,656	0
	Pontlottyn/Abertysswg Primary School	5,412	0
	Newbridge / Cwmcarn High School	0	2,519
	Blackwood Comprehensive School	0	2,076
<b>Property:</b>	Former Meals on Wheels Pengam	292	228
<b>Private Housing:</b>	Home Improvement Loans	858	675
<b>Social Services:</b>	Children with Complex Needs Centre	3,100	3,100
<b>Urban Renewal:</b>	Town Centre Loan Scheme	500	0
	Risca Town Centre Development	0	479
		<b>17,644</b>	<b>14,375</b>

**Revaluations**

The Authority carries out a revaluation exercise at least every five years of all Property, Plant and Equipment required to be measured at current value. Property, Plant and Equipment is also reviewed on an annual basis to ensure that the carrying amount is not materially different from the current value at the year end. Valuations are carried out internally. Valuations of land and buildings are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of Royal Institution of Chartered Surveyors. Valuation of vehicles, plant, furniture and equipment are valued at cost as a proxy for current value as these assets tend to be of low value and have a short asset life.

Notes to the Core Financial Statements (continued)

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Assets under construction £000	Assets held for sale £000	Total £000
<b>Carried at historical cost</b>	0	582,256	43,805	315,684	2,088	7,175	0	951,008
<b>Valued at current value as at:</b>								
31 March 2015	0	110,575	0	0	(15)	0	0	110,560
31 March 2016	0	23,403	0	0	1,023	0	0	24,426
31 March 2017	0	9,101	0	0	(17)	0	0	9,084
31 March 2018	339,854	43,363	0	0	(7)	0	644	383,854
<b>Total Cost or Valuation</b>	<b>339,854</b>	<b>768,698</b>	<b>43,805</b>	<b>315,684</b>	<b>3,072</b>	<b>7,175</b>	<b>644</b>	<b>1,478,932</b>

**Surplus Assets**

As at 31 March 2018 the Authority had no surplus assets.

**24. Heritage Assets**

<u>Reconciliation of the carrying Value of Heritage Assets held by the Authority</u>	Other Land and Buildings £000	Civic Regalia £000	Total Heritage Assets £000
<b>Cost or Valuation</b>			
1 April 2016	10,199	228	10,427
Impairment (losses)/reversals recognised in the Revaluation Reserve	1,044	11	1,055
<b>31 March 2017</b>	<b>11,243</b>	<b>239</b>	<b>11,482</b>
<b>Cost or Valuation</b>			
1 April 2017	11,243	239	11,482
Additions	33	0	33
Revaluations	(7)	0	(7)
Impairment (losses)/reversals recognised in the Revaluation Reserve	(62)	2	(60)
<b>31 March 2018</b>	<b>11,207</b>	<b>241</b>	<b>11,448</b>

**Notes to the Core Financial Statements (continued)**

**Other Land and Buildings**

The collection of Heritage Assets includes a semi fortified manor house, mining museum, ancient chapel, a watermill and a handball court. Details of valuations, additions and disposals of Land and Buildings Heritage Assets are recorded on the Authority's Fixed Asset Register, whilst details of Civic Regalia are kept on a separate register by the Mayor's assistant. Members of the public can gain access to the museums and other buildings on a daily basis.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property plant and equipment. The carrying amounts of Heritage Assets are reviewed where there is evidence of impairment for Heritage Assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment – see note 1 - summary of significant accounting policies. The trustees of the Authority's Museum will occasionally dispose of Heritage Assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Authority's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (again see note 1 - summary of significant accounting policies).

**Babell Chapel**

This asset is a small Welsh Calvinistic Methodist Chapel built in 1827 and houses the grave of the 19<sup>th</sup> Century Welsh Language poet, Islwyn. The asset was valued at 31 March 2018 using the existing use value. The internal valuers carried out this valuation.

**Elliot Colliery Winding House**

This asset is an historical mining museum. It was valued at 31 March 2018 using depreciated replacement cost. The Authority's Museum also holds a collection of historical items which are not recognised on the Balance Sheet as cost information is not readily available and the Authority believes that the benefits of obtaining the valuation for these items would not justify the cost. Nearly all the items in the collection are believed to have a value of less than £50 each and as far as the Authority is aware no individual item is worth more than £500.

**Gelligroes Mill**

This watermill was built in the 17<sup>th</sup> Century and houses a radio museum and a candle making workshop, which has a Royal Warrant to make candles for HRH Prince Charles. The mill is also home to the Arthur Moore Amateur Radio Society. Arthur Moore was a Welsh wireless operator who, in 1912, heard the distress signal from RMS Titanic at the mill two days before news of the disaster had arrived in the UK.

**Handball Court, Nelson**

This is a traditional Handball Court that is the last remaining in Wales. This has been valued on a depreciated replacement cost basis.

**Llancaiach Fawr**

Llancaiach Fawr is a fortified Manor House. This was valued at 31 March 2018 using existing use value. The Manor House also holds a small collection of items which are not recognised on the Balance Sheet as cost information is not readily available and the Authority believes that the benefits of obtaining the valuation for these items would not justify the cost. Nearly all the items in the collection are believed to have a value of less than £50 each and as far as the Authority is aware no individual item is worth more than £500.

**Notes to the Core Financial Statements (continued)**

**War Memorials**

The Authority is responsible for maintaining a number of War Memorials honouring local people who fell in two world wars and other conflicts. These are situated in parks and streets and have been valued on a depreciated replacement cost basis.

**Civic Regalia**

The Authority has a collection of civic chains relating to Caerphilly County Borough Council and a number of former authorities. These chains were valued by Thomas Fattorini Limited, a firm of specialist jewellers, in 1999 at £66,848. The collection was valued by Thomas Fattorini Limited in 2018 at £240,933 (£238,749 in 2017). The Authority also holds a number of Civic gifts. It is considered that none of these gifts are of significant value warranting disclosure within the Authority's accounts or recognising in the balance sheet.

**25. Capital Expenditure and Capital Financing**

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed.

	31 March	
	2017 £000	2018 £000
<b>Opening Capital Financing Requirement</b>	<b>344,570</b>	<b>341,550</b>
<b>Capital Investment:</b>		
Operational Assets	64,723	67,664
Invest to Save	(830)	(830)
Intangible Assets	232	233
Revenue Expenditure funded from Capital Under Statute	2,140	2,407
<b>Sources of Finance:</b>		
Grants and Other Contributions	(25,664)	(21,374)
Capital Expenditure Funded from Revenue	(35,766)	(36,959)
Capital Receipts Set Aside	(1,187)	(1,052)
Minimum Revenue Provision	(6,668)	(6,502)
<b>Closing Capital Financing Requirement</b>	<b>341,550</b>	<b>345,137</b>

**26. Debtors**

Debtors	31 March 2017			31 March 2018		
	Gross £000	Provision £000	Net £000	Gross £000	Provision £000	Net £000
Central Government Bodies	8,354	0	8,354	10,675	0	10,675
Other Local Authorities/public bodies	13,013	0	13,013	9,818	0	9,818
NHS Bodies	3,315	0	3,315	2,295	0	2,295
Other Entities and Individuals	17,463	(7,951)	9,512	24,162	(8,377)	15,785
	<b>42,145</b>	<b>(7,951)</b>	<b>34,194</b>	<b>46,950</b>	<b>(8,377)</b>	<b>38,573</b>

**Notes to the Core Financial Statements (continued)**

**27. Cash and Cash Equivalents**

The balance of cash and cash equivalents is made up of the following elements:

	<b>31 March 2017 £000</b>	<b>31 March 2018 £000</b>
Cash in hand	72	70
Cash at Bank	1,167	836
<b>Total cash and cash equivalents</b>	<b>1,239</b>	<b>906</b>

**28. Creditors**

	<b>31 March 2017 £000</b>	<b>31 March 2018 £000</b>
<b>Creditors</b>		
Central Government Bodies	(4,354)	(4,518)
Other Local Authorities	(4,845)	(5,280)
Bodies External to Central Government	(3,620)	(3,670)
NHS Bodies	(2,106)	(4,677)
Other Entities and Individuals	(37,647)	(40,471)
<b>Total Creditors excluding loans</b>	<b>(52,572)</b>	<b>(58,616)</b>
Loans repayable within one year	(14,054)	(10,761)
Local bonds repayable within one year	(10)	(10)
<b>Total Creditors</b>	<b>(66,636)</b>	<b>(69,387)</b>

**29. Movements in Provisions**

<u>Short Term Provisions</u>	<b>Social Services Provision £000</b>	<b>Economic Development Provision £000</b>	<b>Corporate Provision £000</b>	<b>Insurance Provision £000</b>	<b>Total £000</b>
<b>Balance at 1 April 2017</b>	(24)	(32)	(826)	(913)	(1,795)
Additional provisions made in 2017/2018	(415)	0	(330)	(575)	(1,320)
Amounts used in 2017/2018	0	0	388	540	928
Unused amounts reversed in 2017/2018	0	32	438	540	1,010
Transfer to/from short term provisions in 2017/2018	0	0	0	(405)	(405)
<b>Balance at 31 March 2018</b>	<b>(439)</b>	<b>0</b>	<b>(330)</b>	<b>(813)</b>	<b>(1,582)</b>

**Notes to the Core Financial Statements (continued)**

<u>Long Term Provisions</u>	Environmental Health Provision £000	Insurance Provision £000	Total £000
<b>Balance at 1 April 2017</b>	0	(2,739)	(2,739)
Additional provisions made in 2017/2018	(230)	(1,724)	(1,954)
Unused amounts reversed in 2017/2018	0	1,622	1,622
Transfer to/from short term provisions in 2017/2018	0	405	405
<b>Balance at 31 March 2018</b>	<b>(230)</b>	<b>(2,436)</b>	<b>(2,666)</b>

**Insurance provision** - exists to cover assessed outstanding self-insured liabilities in respect of existing claims. A separate insurance earmarked reserve also exists to meet potential insurance liabilities, as detailed on page 92.

**Corporate provision** – exists to cover the Authority’s potential liabilities in respect of Equal Pay and Job Evaluation back pay settlements. It is anticipated that these liabilities will be settled in future years.

Included within the short term Corporate Provision is a provision of £329,977 in respect of the Carbon Reduction Commitment (CRC). This has been set up to ensure that costs are recognised in the year in which the energy has been used.

**30. Other Funds**

The Authority holds a number of accounts on behalf of clients on a trustee basis, which are not consolidated in the balance sheet.

***The total value of these accounts as at 31 March 2018 was:***

£171,533 - relating to Education Trust Funds administered by the Interim Head of Corporate Finance, (£169,843 in 2016/2017), which are held to provide prizes and awards to pupils in the Authority’s schools. Of these funds, £43 is vested in shareholdings and £171,490 is held in bank deposits (£43 and £169,800 respectively in 2016/2017). There are no other underlying assets or liabilities. The Trust Funds received £1,790 in dividends and interest during the year (£1,684 in 2016/2017) and incurred expenditure of £100 (£600 in 2016/2017).

In addition, the Director of Social Services administers funds on behalf of clients in residential homes. These accounts do not have official trustee status. The total value of these accounts as at 31 March 2018 was £5,235,092 (£5,251,763 as at 31 March 2017).



**Notes to the Core Financial Statements (continued)**

**31. Revaluation Reserve**

The Revaluation Reserve replaced the Fixed Asset Restatement Account (FARA) on 1 April 2007 and was included in the Balance Sheet with a zero opening balance. The closing position on the Reserve at 31 March 2018 therefore only shows revaluation gains accumulated since 1 April 2007.

	<b>2016/2017</b>	<b>2017/2018</b>
	<b>£000</b>	<b>£000</b>
Balance as at 1 April	<b>(539,926)</b>	<b>(569,517)</b>
Downward revaluation of assets and impairment losses not charged to the Surplus and Deficit on the Provision of Services	5,515	16,951
Surplus on Revaluation of Assets	(45,733)	(69,136)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(40,218)	(52,185)
Difference between fair value depreciation and historical cost depreciation	10,627	11,752
Amount written off to the Capital Adjustment Account	10,627	11,752
<b>Balance as at 31 March</b>	<b>(569,517)</b>	<b>(609,950)</b>

**Notes to the Core Financial Statements (continued)**

**32. Capital Adjustment Account**

The Capital Adjustment Account was implemented on 1 April 2007 from the closing balances on both the FARA and the Capital Financing Account, (as mentioned in note 31 above). The account contains the amounts that are required by statute to be set aside from capital receipts for the repayment of external loans, the amount of revenue and capital receipts used to finance capital expenditure and compensatory adjustments from the above-mentioned Revaluation Reserve to convert current value depreciation/impairment loss debits to historical cost.

	2016/2017		2017/2018	
	£000	£000	£000	£000
<b>Balance as at 1 April</b>		<b>(376,571)</b>		<b>(377,121)</b>
Set Aside - Capital Receipts		(1,187)		(1,052)
<b>Funding:</b>				
Revenue funding applied	(35,766)		(36,959)	
Capital receipts applied	(1,940)		(5,210)	
Capital grants and contributions applied	(22,587)		(16,113)	
<b>Total Funding</b>		<b>(60,293)</b>		<b>(58,282)</b>
MRP		(6,668)		(6,502)
Depreciation:				
In year charge	37,835		39,146	
Attributable to revaluations	(10,627)		(11,752)	
Written back on revaluations	194		0	
Written back on disposals	(1,366)		(110)	
		26,036		27,284
Amortisation of non-enhancing expenditure		37,767		51,890
Asset Revaluations / Impairments:				
Price adjustments	1,803		(1,246)	
		1,803		(1,246)
Disposals - Council Fund	1,587		1,231	
Disposals - HRA	0		59	
		1,587		1,290
Revenue Expenditure funded from Capital	2,140		2,407	
Funding of revenue expenditure funded from capital	(1,137)		(51)	
		1,003		2,356
Invest to save		(830)		(830)
Amortisation of Intangible Assets		232		233
<b>Total capital costs</b>		<b>60,930</b>		<b>74,475</b>
<b>Balance as at 31 March</b>		<b>(377,121)</b>		<b>(361,980)</b>

**Notes to the Core Financial Statements (continued)**

**33. Pensions Reserve**

The Pensions Reserve absorbs timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. Post-employment benefits are accounted for 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 resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or as it 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 Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	<b>2016/2017</b>	<b>2017/2018</b>
	<b>£000</b>	<b>£000</b>
<b>Balance as at 1 April</b>	<b>429,244</b>	<b>501,671</b>
Actuarial gains or (losses) on pensions assets and liabilities	55,975	(33,073)
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	40,697	59,187
Employer's pension contributions and direct payments to pensioners payable in the year	(24,245)	(24,626)
<b>Balance at 31 March</b>	<b>501,671</b>	<b>503,159</b>

**34. Movements in Insurance Earmarked Reserves**

These reserves are established to meet assessed self-insured possible liabilities associated with potential claims, and also to fund risk management initiatives aimed at minimising the potential cost of future claims.

	<b>Balance at</b>	<b>Transfers</b>	<b>Transfers</b>	<b>Balance at</b>
	<b>1 April</b>	<b>from</b>	<b>to</b>	<b>31 March</b>
	<b>2017</b>	<b>Reserves</b>	<b>Reserves</b>	<b>2018</b>
<b>Reserve:</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Insurance Reserve	(5,904)	0	(31)	(5,935)
Risk Management Reserve	(690)	126	0	(564)
	<b>(6,594)</b>	<b>126</b>	<b>(31)</b>	<b>(6,499)</b>

**Notes to the Core Financial Statements (continued)**

**35. Movements in Capital Earmarked Reserves**

These reserves represent amounts set aside to finance the Authority's Council Fund capital programme, the majority of which are earmarked to specific schemes.

<b>Reserve:</b>	<b>Balance at 1 April 2017 £000</b>	<b>Transfers from Reserves £000</b>	<b>Transfers to Reserves £000</b>	<b>Balance at 31 March 2018 £000</b>
Housing Earmarked Capital	(38)	0	0	(38)
Corporate - All Authority	(11,954)	3,106	(9,174)	(18,022)
Lifelong Learning	(156)	35	0	(121)
Planning	(31)	0	0	(31)
Education	(1,103)	153	0	(950)
Highways and Transportation	(662)	15	(106)	(753)
Property	(731)	94	0	(637)
Corporate Services	(526)	99	0	(427)
Economic Development & Tourism	(83)	66	(77)	(94)
Environmental Health	(260)	58	(47)	(249)
Community & Leisure	(814)	0	0	(814)
	<b>(16,358)</b>	<b>3,626</b>	<b>(9,404)</b>	<b>(22,136)</b>

**36. Movements in Service Under / Overspend Earmarked Reserves**

These reserves represent the cumulative under and overspend balances carried forward by the Authority's services in accordance with its Financial Regulations. The reserves are used to fund future expenditure, and their use is under the control of the individual service areas.

<b>Reserve:</b>	<b>Balance at 1 April 2017 £000</b>	<b>Transfers from Reserves £000</b>	<b>Transfers to Reserves £000</b>	<b>Balance at 31 March 2018 £000</b>
Economic Development and Tourism	(4)	4	0	0
Education	(1,369)	664	(213)	(918)
Corporate Services	(1,304)	769	(813)	(1,348)
Social Services	(2,872)	1,519	(522)	(1,875)
Housing Non HRA	(279)	14	(33)	(298)
Directorate of the Environment	(438)	347	(697)	(788)
	<b>(6,266)</b>	<b>3,317</b>	<b>(2,278)</b>	<b>(5,227)</b>

**Notes to the Core Financial Statements (continued)**

**37. Movement in Other Housing Reserves**

Details of the movement upon Housing reserves are included with the Notes to the Housing Revenue Account Summary on page 113, Note 7.

**38. Movement in Schools Earmarked Reserves**

These reserves represent the cumulative balances carried forward by individual schools in accordance with the scheme of delegation. The reserves are used to fund future expenditure, and their use is under the control of the individual schools, and is not available for the Authority to use for other purposes.

<b>Reserve:</b>	<b>Balance at 1 April 2017 £000</b>	<b>Transfers from Reserves £000</b>	<b>Transfers to Reserves £000</b>	<b>Balance at 31 March 2018 £000</b>
Secondary Schools	(22)	1,167	(664)	481
Primary Schools	(1,915)	837	(1,166)	(2,244)
Special School	(395)	119	0	(276)
<b>Total Schools Balances</b>	<b>(2,332)</b>	<b>2,123</b>	<b>(1,830)</b>	<b>(2,039)</b>

**39. Movement in Other Earmarked Reserves**

<b>Reserve:</b>	<b>Balance at 1 April 2017 £000</b>	<b>Transfers from Reserves £000</b>	<b>Transfers to Reserves £000</b>	<b>Balance at 31 March 2018 £000</b>
Waste Management Reserve	(585)	0	0	(585)
PFI Equalisation Reserve (Schools)	(9,633)	374	0	(9,259)
PFI Equalisation Reserve (Roads)	(2,266)	386	0	(1,880)
Service Initiative Reserves	(10,831)	2,296	(6,217)	(14,752)
Carbon Trust Fund Reserve	(224)	72	(137)	(289)
Area Forum Reserve	(71)	27	0	(44)
Community Regeneration Fund Reserve	(136)	17	(23)	(142)
Cemeteries Reserve	(932)	0	(209)	(1,141)
Electoral Admin Reserve	(461)	185	0	(276)
PFI Schools Earmarked Reserve	(869)	0	(135)	(1,004)
Health & Safety Initiatives Reserve	(263)	0	0	(263)
Corporate PC Replacement Reserve	(1,080)	334	(51)	(797)
Social Services Partnership Reserve	(2,122)	838	(2,082)	(3,366)
Invest to Save Reserve	(272)	0	(159)	(431)
Local Management of Schools Reserve	(2,657)	87	(161)	(2,731)
Community Infrastructure Levy Reserve	(252)	0	(282)	(534)
Other Reserves	(66)	0	(3)	(69)
	<b>(32,720)</b>	<b>4,616</b>	<b>(9,459)</b>	<b>(37,563)</b>

**Notes to the Core Financial Statements (continued)**

A summary of the purposes of these reserves is provided below:

**Waste Management Reserve** exists to meet any future costs in respect of landfill sites.

**PFI Equalisation Reserves** exist to match PFI funding and unitary charge payments over the period of the contract and is described in greater detail elsewhere (see note 14 on page 69).

**Service Initiatives Reserve** exists to fund expenditure upon service specific initiatives.

**Carbon Trust Fund Reserve** exists to provide match funding to draw down grant from the Carbon Trust, to fund major works implementing energy efficiency measures.

**Area Forum Reserve** exists to meet any costs incurred associated with environmental works undertaken by the Authority as identified by the local area partnerships.

**Community Regeneration Fund Reserve** represents unclaimed funds from the Community Regeneration Fund voluntary sector allocations.

**Cemeteries Reserve** exists to meet any costs incurred with the general upkeep and maintenance of Authority owned cemeteries.

**Electoral Admin Reserve** exists to meet the implementation of the Electoral Administration Act 2006.

**PFI Schools Earmarked Reserve** exists for reinvestment into the PFI schools for additional works that are outside the scope of the PFI projects.

**Health and Safety Initiatives Reserve** exists to promote health and safety across the authority.

**Corporate PC Replacement Reserve** exists to fund the replacement of computers throughout the authority.

**Social Services Partnership Reserve** exists to support collaborative initiatives with other local authorities and public bodies.

**Invest to Save Reserve** exists to promote savings initiatives across the authority.

**Local Management of Schools Reserve** exists to undertake school based initiatives.

**Community Infrastructure Levy (CIL) Reserve** exists to recycle CIL charges to fund infrastructure and to support local developments.

**Other Reserves** represents a number of smaller reserves, held for a variety of purposes, none of which are individually significant enough to be separately identified.

**Notes to the Core Financial Statements (continued)**

**40. Cash Flow Statement – Adjustments to Surplus or Deficit**

	<b>2016/2017</b>	<b>2017/2018</b>
	<b>£000</b>	<b>£000</b>
<b>Adjustment to surplus or deficit on provision of services for non-cash movements</b>		
Depreciation and Impairment	(77,587)	(89,789)
IAS19 Pensions Adjustment	(16,452)	(34,561)
Revenue Expenditure funded from Capital under Statute	(173)	(1,525)
Amortisation of Intangible Assets	(232)	(232)
(Increase) / Decrease in Provisions	282	286
Contributions to / from Reserves	46,194	54,492
Increase / (Decrease) in Stocks	(30)	(129)
Increase / (Decrease) in Debtors	(4,032)	4,927
(Increase) / Decrease in Provision for Bad Debt	(1,518)	(426)
(Increase) / Decrease in Creditors	5,113	(6,127)
	<b>(48,435)</b>	<b>(73,084)</b>
	<b>2016/2017</b>	<b>2017/2018</b>
	<b>£000</b>	<b>£000</b>
<b>Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities</b>		
Capital grants credited to surplus or deficit on provision of services	22,928	15,449
Proceeds from the sale of property plant and equipment	2,535	2,101
	<b>25,463</b>	<b>17,550</b>

**41. Cash Flow Statement – Operating Activities**

The cash flows from operating activities include the following items:

	<b>2016/2017</b>	<b>2017/2018</b>
	<b>£000</b>	<b>£000</b>
Interest received	806	933
Interest paid	(13,662)	(13,290)
	<b>(12,856)</b>	<b>(12,357)</b>

**Notes to the Core Financial Statements (continued)**

**42. Cash Flow Statement – Investing Activities**

	<b>2016/2017</b>	<b>2017/2018</b>
	<b>£000</b>	<b>£000</b>
Purchase of property, plant and equipment and intangible assets	66,391	69,996
Purchase of short-term and long-term investments	1,090,930	475,950
Proceeds from the sale of property, plant and equipment and intangible assets	(4,700)	(8,525)
Proceeds from the sale of short-term and long-term investments	(1,091,875)	(497,688)
Other receipts from investing activities	(64,788)	(61,791)
	<b><u>(4,042)</u></b>	<b><u>(22,058)</u></b>

**43. Cash Flow Statement - Financing Activities**

	<b>2016/2017</b>	<b>2017/2018</b>
	<b>£000</b>	<b>£000</b>
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	50	109
Repayments of short-term and long-term borrowing	9,486	36,354
Cash receipts of short-term and long-term borrowing	(11,910)	(31,000)
	<b><u>(2,374)</u></b>	<b><u>5,463</u></b>

**44. Jointly Controlled Operations**

A joint arrangement is defined as “a contractual arrangement under which the participants engage in joint activities that do not create an entity because it would not be carrying on a trade or business of its own. A contractual arrangement where all significant matters of operating and financial policy are predetermined does not create an entity because the policies are those of its participants, not of a separate entity”.

The Code states that where such joint arrangements exist, each participant should account directly for its share of the assets, liabilities, income, expenditure and cash flows held within or arising from the arrangements. A review of shared practices within the Authority identified that the following should be regarded as joint arrangements:

- Cardiff City Region City Deal
- Glamorgan Archive Joint Committee
- Greater Gwent Cremation Joint Committee
- Gwent Joint Records Committee
- Gwent Wide Integrated Community Equipment Service Project (GWICES)
- Project Gwyrdd

The Authority’s share of the Income and Expenditure Account and Balance Sheet of each of the six committees is given below:



## Caerphilly County Borough Council

### Notes to the Core Financial Statements (continued)

#### Cardiff Capital Region City Deal (CCRCD)

The CCRCD is a £1.2 billion deal between the UK Government, the Welsh Government and the 10 constituent councils in South East Wales, which includes Caerphilly. The investment is over a 20 year period and the key aim of the fund is to create 25,000 new jobs by 2036 and lever £4 billion of private sector investment.

<u>Cardiff Capital Region City Deal (CCRCD)</u>	2016/2017		2017/2018	
	Total £000	CCBC share £000	Total £000	CCBC share £000
<b><u>Income &amp; Expenditure Account</u></b>				
Cost of Services	180	22	1,584	190
Operating Income	(180)	(22)	(929)	(111)
<b>Net Cost of Services</b>	<b>0</b>	<b>0</b>	<b>655</b>	<b>79</b>
<b><u>Balance Sheet</u></b>				
Long term assets	0	0	24,660	2,959
Current assets	384	46	19,670	2,360
Current liabilities	(157)	(19)	(2,130)	(256)
Long term liabilities	0	0	(17,951)	(2,154)
<b>Total Assets less Liabilities</b>	<b>227</b>	<b>27</b>	<b>24,249</b>	<b>2,910</b>
Usable Reserves	227	27	42	5
Unusable Reserves	0	0	24,207	2,905
	<b>227</b>	<b>27</b>	<b>24,249</b>	<b>2,910</b>

#### Glamorgan Archive Joint Committee

The Glamorgan Archives Joint Committee comprises elected member representation from the City and County Borough Councils of Bridgend, Caerphilly, Cardiff, Merthyr Tydfil, Rhondda Cynon Tâf and Vale of Glamorgan. The committee manages and administers the Glamorgan Record Office, which collects, preserves and makes accessible to the public, documents relating to the area it serves and maintains the corporate memory of its constituent authorities.

<u>Glamorgan Archive Joint Committee</u>	2016/2017		2017/2018	
	Total £000	CCBC share £000	Total £000	CCBC share £000
<b><u>Income &amp; Expenditure Account</u></b>				
Expenditure	958	105	1,020	112
Income	(1,346)	(148)	(1,410)	(155)
<b>Net Cost of Service</b>	<b>(388)</b>	<b>(44)</b>	<b>(390)</b>	<b>(43)</b>
Interest and investment income	258	28	243	27
<b>(Surplus) / Deficit for the Year</b>	<b>(130)</b>	<b>(15)</b>	<b>(147)</b>	<b>(16)</b>
<b><u>Balance Sheet</u></b>				
Long term assets	9,512	1,046	9,411	1,035
Current assets	271	30	255	28
Current liabilities	(9)	(1)	(23)	(3)
Long term liabilities	(4,732)	(521)	(4,454)	(490)
<b>Total Assets less Liabilities</b>	<b>5,042</b>	<b>555</b>	<b>5,189</b>	<b>571</b>
Usable reserves	(263)	(29)	(234)	(26)
Unusable reserve	(4,779)	(526)	(4,955)	(545)
	<b>(5,042)</b>	<b>(555)</b>	<b>(5,189)</b>	<b>(571)</b>

## Caerphilly County Borough Council

### Notes to the Core Financial Statements (continued)

#### Greater Gwent Cremation Joint Committee

This committee is made up of representatives from the City and County Borough Councils of Blaenau Gwent, Caerphilly, Monmouthshire, Newport and Torfaen. It has the responsibility for administering the business of the Gwent Crematorium, together with providing services for bereaved families within the boundaries of the above-mentioned authorities.

<u>Greater Gwent Cremation Joint Committee</u>	2016/2017		2017/2018	
	Total £000	CCBC share £000	Total £000	CCBC share £000
<b><u>Income &amp; Expenditure Account</u></b>				
Expenditure	886	134	782	119
Income	(2,126)	(323)	(2,135)	(324)
<b>Net Cost of Service</b>	<b>(1,240)</b>	<b>(188)</b>	<b>(1,353)</b>	<b>(205)</b>
Financing and Investment Income and Expenditure				
	753	114	755	115
<b>Net Operating Cost</b>	<b>(487)</b>	<b>(74)</b>	<b>(598)</b>	<b>(91)</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>(487)</b>	<b>(74)</b>	<b>(598)</b>	<b>(91)</b>
<b><u>Balance Sheet</u></b>				
Long term assets	1,260	191	1,298	197
Current assets	1,929	293	2,500	380
Current liabilities	(14)	(2)	(26)	(4)
Long term liabilities	(585)	(89)	(531)	(81)
<b>Total Assets less Liabilities</b>	<b>2,590</b>	<b>393</b>	<b>3,241</b>	<b>492</b>
General Reserve	(2,590)	(393)	(3,241)	(492)
	<b>(2,590)</b>	<b>(393)</b>	<b>(3,241)</b>	<b>(492)</b>

#### Gwent Joint Records Committee

The committee manages the Gwent Records Office, which collects, preserves and makes accessible to the public, documents relating to the area it serves and maintains the corporate memory of its constituent authorities, namely the City and County Borough Councils of Blaenau Gwent, Caerphilly, Monmouthshire, Newport and Torfaen. The committee has been reclassified as a smaller body and only required to produce summary accounts. Consequently there is no longer a requirement to disclose any pensions' information in the accounts.

<u>Gwent Joint Records Committee</u>	2016/2017		2017/2018	
	Total £000	CCBC share £000	Total £000	CCBC share £000
<b><u>Income &amp; Expenditure Account</u></b>				
Expenditure	955	139	971	142
Income	(1,004)	(147)	(965)	(141)
<b>Net Cost of Service</b>	<b>(49)</b>	<b>(7)</b>	<b>6</b>	<b>1</b>
<b><u>Balance Sheet</u></b>				
Current assets	468	68	343	50
Current liabilities	(175)	(26)	(56)	(8)
<b>Balance carried forward</b>	<b>293</b>	<b>43</b>	<b>287</b>	<b>42</b>
General Reserve	(293)	(43)	(287)	(42)
	<b>(293)</b>	<b>(43)</b>	<b>(287)</b>	<b>(42)</b>

**Notes to the Core Financial Statements (continued)**

**Gwent Wide Integrated Community Equipment Service Project (GWICES)**

GWICES is a partnership agreement between the five Local Authorities and Local Health Boards (Blaenau Gwent, Caerphilly, Monmouthshire, Newport and Torfaen) for the provision of an efficient and effective integrated equipment service to the service users who are resident in the partner authorities. GWICES is classed as a smaller body and is only required to produce summary accounts. Consequently no balance sheet has been produced.

<u>Gwent Wide Integrated Community Equipment Service Project</u>	2016/2017		2017/2018	
	Total £000	CCBC share £000	Total £000	CCBC share £000
<b><u>Income &amp; Expenditure Account</u></b>				
Expenditure	3,216	668	3,295	684
Income	(3,216)	(668)	(3,295)	(684)
<b>(Surplus) / Deficit for the Year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**Project Gwyrdd**

Project Gwyrdd is a joint committee comprising the county borough councils of Caerphilly, Cardiff, Monmouthshire, Newport and the Vale of Glamorgan. It was established in 2009/2010 to deliver the best long-term, environmental, sustainable and cost-effective solution for waste after recycling and composting has been maximised.

<u>Project Gwyrdd</u>	2016/2017		2017/2018	
	Total £000	CCBC share £000	Total £000	CCBC share £000
<b><u>Income &amp; Expenditure Account</u></b>				
Expenditure	169	34	172	34
Income	(193)	(39)	(187)	(37)
<b>Net Cost of Service</b>	<b>(24)</b>	<b>(5)</b>	<b>(15)</b>	<b>(3)</b>
Interest and investment income	0	0	0	0
<b>(Surplus) / Deficit for the Year</b>	<b>(24)</b>	<b>(5)</b>	<b>(15)</b>	<b>(3)</b>
Net (Increase) / Decrease in General reserve balance	<b>(24)</b>	<b>(5)</b>	<b>(15)</b>	<b>(3)</b>
<b><u>Balance Sheet</u></b>				
Current assets	334	67	346	69
Current liabilities	(6)	(1)	(3)	(1)
<b>Total Assets less Liabilities</b>	<b>328</b>	<b>66</b>	<b>343</b>	<b>68</b>
Accumulated Absences Reserve	1	0	1	0
Joint Committee Reserves	(329)	(66)	(344)	(68)
<b>Net Worth</b>	<b>(328)</b>	<b>(66)</b>	<b>(343)</b>	<b>(68)</b>

**Notes to the Core Financial Statements (continued)**

**45. Related Businesses and Companies**

Authorities must consider whether they need to produce group accounts for interests held in other organisations where they meet the definition of subsidiaries, associates and joint ventures. The Authority has reviewed all of its relationships in this regard and although the Authority has an interest in the following company, it does not meet the requirements for the preparation of group accounts.

**Education Achievement Service (EAS)**

The five local authorities of Blaenau Gwent, Caerphilly, Monmouthshire, Newport and Torfaen have formed an Education Achievement Service (EAS). The integrated service has been designed to raise education standards in South East Wales.

The EAS became operational in September 2012. It is a joint company limited by guarantee and wholly owned and completely controlled by the five local authorities, but operating at arms-length. It is not a profit making company and it is a separate legal entity. There is no lead authority with each being represented equally with a 20% interest and having equal voting rights. The company has a board consisting of the Lead Director and elected member representatives from the partner authorities. The collaboration agreement commits the Authority to participate in the EAS company for a minimum period of four years.

The company's latest unaudited trading results for the year ending 31 March 2018 are:

<u>Statement of Profit or Loss</u>	<b>Year Ended 31 March 2017 £000</b>	<b>Year Ended 31 March 2018 £000</b>
Revenue	8,102	7,484
Cost of sales	(6,621)	(5,749)
<b>Gross Surplus</b>	<b>1,481</b>	<b>1,735</b>
Other operating income and expenditure	(1,533)	(2,266)
<b>Operating Surplus</b>	<b>(52)</b>	<b>(531)</b>
Financing costs	(203)	(230)
<b>Surplus before Tax</b>	<b>(255)</b>	<b>(761)</b>
<b>Other Comprehensive Income</b>		
Actuarial gain/(loss) on pension scheme	(2,379)	674
Adjustment to underwritten balance	2,739	(17)
Other Comprehensive Income net of income tax	360	657
<b>Total Comprehensive Income for the year</b>	<b>105</b>	<b>(104)</b>

Notes to the Core Financial Statements (continued)

<u>Statement of Financial Position</u>	Year Ended 31 March 2017 £000	Year Ended 31 March 2018 £000
Non-Current Assets	8,307	8,295
Current Assets	1,925	1,667
<b>Total Assets</b>	<b>10,232</b>	<b>9,962</b>
Non-Current Liabilities	8,302	8,285
Current Liabilities	1,326	1,477
<b>Total Liabilities</b>	<b>9,628</b>	<b>9,762</b>
<b>Net Assets</b>	<b>604</b>	<b>200</b>
<b>Retained Profit</b>	<b>604</b>	<b>200</b>

**Notes to the Core Financial Statements (continued)**

**46. Prior Year Adjustment**

During the course of 2017-2018 there were a number of changes to the Authority's management reporting structure at a divisional level, compared with 2016-2017. To reflect these changes in the 2017-2018 accounts the 2016-2017 comparative figures have been restated.

The following note provides details of the adjustments made in the Comprehensive Income and Expenditure Account and the Expenditure and Funding Analysis to reflect these changes.

**Comprehensive Income and Expenditure Account**

	<b><u>Original 31 March 2017</u></b>		
	<b>Gross Expenditure</b>	<b>Gross Income</b>	<b>Net Expenditure</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Education and Lifelong Learning	175,743	(37,701)	138,042
Social Services	123,768	(47,090)	76,678
Environment	95,584	(28,502)	67,082
Corporate Services	108,491	(67,177)	41,314
HRA	49,681	(32,832)	16,849
<b>Cost of Services</b>	<b>553,267</b>	<b>(213,302)</b>	<b>339,965</b>
Other Operating Expenditure	22,723	(2,772)	19,951
Financing and Investment Income and Expenditure	34,470	(3,386)	31,084
Taxation and Non-Specific Grant Income		(361,346)	(361,346)
<b>(Surplus)/Deficit on Provision of Services</b>			<b>29,654</b>
(Surplus)/deficit on revaluation of non-current assets			(40,218)
(Surplus)/deficit on revaluation of available-for-sale financial assets			1,298
Actuarial (gains)/losses on pensions assets/liabilities			55,973
<b>Other Comprehensive Income and Expenditure</b>			<b>17,053</b>
<b>Total Comprehensive Income and Expenditure</b>			<b>46,707</b>

## Caerphilly County Borough Council

### Notes to the Core Financial Statements (continued)

#### Comprehensive Income and Expenditure Account

Restated 31 March 2017

	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
Education and Lifelong Learning	174,303	(37,611)	136,692
Social Services, Public Protection and Corporate Policy	137,046	(51,798)	85,248
Communities	91,195	(29,015)	62,180
Corporate Services	102,687	(64,473)	38,214
HRA	49,681	(32,832)	16,849
<b>Cost of Services</b>	<b>554,912</b>	<b>(215,729)</b>	<b>339,183</b>
Other Operating Expenditure	22,723	(2,772)	19,951
Financing and Investment Income and Expenditure	32,825	(959)	31,866
Taxation and Non-Specific Grant Income		(361,346)	(361,346)
<b>(Surplus)/Deficit on Provision of Services</b>			<b>29,654</b>
(Surplus)/deficit on revaluation of non-current assets			(40,218)
(Surplus)/deficit on revaluation of available-for-sale financial assets			1,298
Actuarial (gains)/losses on pensions assets/liabilities			55,973
<b>Other Comprehensive (Income) and Expenditure</b>			<b>17,053</b>
<b>Total Comprehensive (Income) and Expenditure</b>			<b>46,707</b>

#### Comprehensive Income and Expenditure Account

Restatement Movement

	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
Education and Lifelong Learning	(1,440)	90	(1,350)
Social Services / Social Services, Public Protection and Corporate Policy	13,278	(4,708)	8,570
Environment / Communities	(4,389)	(513)	(4,902)
Corporate Services	(5,804)	2,704	(3,100)
HRA	0	0	0
<b>Cost of Services</b>	<b>1,645</b>	<b>(2,427)</b>	<b>(782)</b>
Other Operating Expenditure	0	0	0
Financing and Investment Income and Expenditure	(1,645)	2,427	782
Taxation and Non-Specific Grant Income	0	0	0
<b>(Surplus)/Deficit on Provision of Services</b>	<b>0</b>	<b>0</b>	<b>0</b>
(Surplus)/deficit on revaluation of non-current assets			0
(Surplus)/deficit on revaluation of available-for-sale financial assets			0
Actuarial (gains)/losses on pensions assets/liabilities			0
<b>Other Comprehensive Income and Expenditure</b>			<b>0</b>
<b>Total Comprehensive Income and Expenditure</b>			<b>0</b>

## Caerphilly County Borough Council

### Notes to the Core Financial Statements (continued)

<u>Expenditure and Funding Analysis</u>	2016-2017		
	Net Expenditure Chargeable to Council Fund and HRA Balances	Adjustments between the Funding and Accounting Basis (note 5)	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000	£000	£000
Education and Lifelong Learning	124,414	13,628	138,042
Social Services	75,007	1,671	76,678
Environment	48,437	18,645	67,082
Corporate Services	74,393	(33,079)	41,314
HRA	4,396	12,453	16,849
<b>Net Cost of Services</b>	<b>326,647</b>	<b>13,318</b>	<b>339,965</b>
Other Income and Expenditure	(324,633)	14,322	(310,311)
<b>Surplus/Deficit</b>	<b>2,014</b>	<b>27,640</b>	<b>29,654</b>
Opening Council Fund and HRA Balance at 1 April	(101,240)		
Surplus/(Deficit) on Council Fund and HRA Balance in Year	2,014		
<b>Closing Council Fund and HRA Balance at 31 March*</b>	<b>(99,226)</b>		

<u>Expenditure and Funding Analysis</u>	Restated 2016-2017		
	Net Expenditure Chargeable to Council Fund and HRA Balances	Adjustments between the Funding and Accounting Basis (note 5)	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000	£000	£000
Education and Lifelong Learning	123,929	12,763	136,692
Social Services, Public Protection and Corporate Policy	82,921	2,327	85,248
Communities	43,226	18,954	62,180
Corporate Services	72,175	(33,961)	38,214
HRA	4,396	12,453	16,849
<b>Net Cost of Services</b>	<b>326,647</b>	<b>12,536</b>	<b>339,183</b>
Other Income and Expenditure	(324,633)	15,104	(309,529)
<b>Surplus/Deficit</b>	<b>2,014</b>	<b>27,640</b>	<b>29,654</b>
Opening Council Fund and HRA Balance at 1 April	(101,240)		
Surplus/(Deficit) on Council Fund and HRA Balance in Year	2,014		
<b>Closing Council Fund and HRA Balance at 31 March*</b>	<b>(99,226)</b>		



## Caerphilly County Borough Council

### Notes to the Core Financial Statements (continued)

<u>Expenditure and Funding Analysis</u>	<u>Restatement Movement 2016-2017</u>		
	Net Expenditure Chargeable to Council Fund and HRA Balances	Adjustments between the Funding and Accounting Basis (note 5)	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000	£000	£000
Education and Lifelong Learning	(485)	(865)	(1,350)
Social Services / Social Services, Public Protection and Corporate Policy	7,914	656	8,570
Environment / Communities	(5,211)	309	(4,902)
Corporate Services	(2,218)	(882)	(3,100)
HRA	0	0	0
<b>Net Cost of Services</b>	<b>0</b>	<b>(782)</b>	<b>(782)</b>
Other Income and Expenditure	0	782	782
<b>Surplus/Deficit</b>	<b>0</b>	<b>0</b>	<b>0</b>
Opening Council Fund and HRA Balance at 1 April	0		
Surplus/(Deficit) on Council Fund and HRA Balance in Year	0		
<b>Closing Council Fund and HRA Balance at 31 March*</b>	<b>0</b>		

<u>Adjustments between Funding and Accounting Basis 2016-2017</u>				
Adjustments from Council Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for capital Purposes £000	Net Change for the Pensions Adjustments £000	Other Adjustments £000	Total Adjustments £000
Education and Lifelong Learning	13,144	(267)	751	13,628
Social Services	373	1,283	15	1,671
Environment	16,180	1,231	1,234	18,645
Corporate Services	(13,098)	(1,306)	(18,675)	(33,079)
HRA	16,941	525	(5,013)	12,453
Net Cost of Services	33,540	1,466	(21,688)	13,318
Other income and expenditure from the Expenditure and Funding Analysis	(23,431)	14,986	22,767	14,322
Difference between Council Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	<b>10,109</b>	<b>16,452</b>	<b>1,079</b>	<b>27,640</b>

## Caerphilly County Borough Council

### Notes to the Core Financial Statements (continued)

Adjustments between Funding and Accounting Basis 2016-2017 - Restated				
Adjustments from Council Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for capital Purposes £000	Net Change for the Pensions Adjustments £000	Other Adjustments £000	Total Adjustments £000
Education and Lifelong Learning	12,285	(273)	751	12,763
Social Services, Public Protection and Corporate Policy	761	1,544	22	2,327
Communities	17,861	1,072	21	18,954
Corporate Services	(13,917)	(1,394)	(18,650)	(33,961)
HRA	16,941	525	(5,013)	12,453
Net Cost of Services	33,931	1,474	(22,869)	12,536
Other income and expenditure from the Expenditure and Funding Analysis	(23,822)	14,978	23,948	15,104
Difference between Council Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	<b>10,109</b>	<b>16,452</b>	<b>1,079</b>	<b>27,640</b>

Adjustments between Funding and Accounting Basis 2016-2017 - Restatement Movement				
Adjustments from Council Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for capital Purposes £000	Net Change for the Pensions Adjustments £000	Other Adjustments £000	Total Adjustments £000
Education and Lifelong Learning	(859)	(6)	0	(865)
Social Services / Social Services, Public Protection and Corporate Policy	388	261	7	656
Environment / Communities	1,681	(159)	(1,213)	309
Corporate Services	(819)	(88)	25	(882)
HRA	0	0	0	0
Net Cost of Services	391	8	(1,181)	(782)
Other income and expenditure from the Expenditure and Funding Analysis	(391)	(8)	1,181	782
Difference between Council Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

#### 47. Authorisation for Issue

The Head of Corporate Finance & S151 Officer, acting as Responsible Financial Officer, gave authorisation for the issue of these accounts on 31 July 2018. In doing so, the Financial Accounts include all material events, relating to the financial year, but occurring after the date of the balance sheet.

**Housing Revenue Account  
for the year ended 31 March 2018**

# Caerphilly County Borough Council

## Housing Revenue Account

2016/2017	2017/2018		Note
<u>£000</u>	<u>£000</u>	<u>£000</u>	
<b>Income</b>			
(44,500) Dwelling rents	(45,743)		1
(293) Non-dwelling rents	(247)		
(1,350) Charges for services and facilities	(1,374)		
(5,194) Contributions towards expenditure	(4,521)		
<b>(51,337) Total Income</b>		<b>(51,885)</b>	
<b>Expenditure</b>			
13,554 Repairs and maintenance	14,437		
7,348 Supervision and management	8,217		
2,389 Special Services	2,587		
1,111 Rents, rates, taxes and other charges	1,116		
11,013 Depreciation and impairment of non-current assets	11,663		2
32,297 Non-Enhancing capital expenditure	42,209		2
27 Debt Management Costs	26		
317 Increase in bad debt provision	367		
<b>68,056 Total Expenditure</b>		<b>80,622</b>	
16,719 <b>Net Expenditure/(Income) of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement</b>		<b>28,737</b>	
130 HRA services share of Corporate and Democratic Core Costs		148	
<b>16,849 Net Expenditure of HRA Services</b>		<b>28,885</b>	
5,256 Interest payable and similar charges	5,148		
(8,274) Major Repairs Allowance and other grants	(10,076)		8
(1,704) (Gain) / Loss on sale of HRA non-current assets	(1,452)		
(173) Interest and investment income	(154)		
(4,895)		(6,534)	
<b>11,954 (Surplus)/deficit for the year on HRA services</b>		<b>22,351</b>	

**Movement on the Housing Revenue Account Statement**

<b>2016/2017</b>		<b>2017/2018</b>		
<b>£000</b>		<b>£000</b>	<b>£000</b>	<b>Note</b>
(21,218)	Balance on the HRA at the end of the previous year		(16,821)	
11,954	(Surplus) or Deficit for the year on the HRA Income and Expenditure Statement	22,351		
(7,557)	Adjustments between accounting basis and funding basis under statute	(10,620)		
4,397	Net (increase)/decrease before transfers to or from reserves	11,731		
4,397	(Increase) or decrease in year on the HRA		11,731	
<b>(16,821)</b>	<b>Balance on the HRA at the end of the current year</b>		<b>(5,090)</b>	<b>7</b>

**Notes to the Movement on the HRA Statement**

2016/2017		2017/2018		
£000		£000	£000	Note
	<b>Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year</b>			
(57)	Difference between amounts charged to income and expenditure for amortisation of premia and discounts and the charge for the year determined in accordance with statute	(39)		
(11,013)	Depreciation and Impairment of non-current assets	(11,663)		2
(32,297)	Non-enhancing Capital Expenditure	(42,209)		2,5
1,704	Gain on sale of HRA non-current assets	1,452		
(2,614)	Net charges made for retirement benefits in accordance with IAS 19	(4,837)		9
8,274	Capital Grants and Contributions Applied (including Major Repairs Allowance)	10,076		
(36,003)			(47,220)	
	<b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year</b>			
2,089	Employer's contributions payable to the Greater Gwent Pension Fund and retirement benefits payable direct to pensioners	2,186		9
2,330	HRA Minimum Revenue Provision	2,260		
24,038	Capital expenditure funded by the HRA	32,134		5
(11)	Adjustment involving the Accumulated Absences Account	20		
28,446			36,600	
<b>(7,557)</b>	<b>Net additional amount required by statute to be credited to the HRA Balance for the year</b>		<b>(10,620)</b>	

**Notes to the Housing Revenue Account**

**1. Rent of Dwellings**

This is the total rent income collectable for the year after allowance is made for voids on empty properties. During the year 1.78% of lettable properties were void (an decrease on 1.92% in 2016/2017) although this fluctuates throughout the year. The average weekly rent at 31 March 2018 was £89.53 (£86.90 in 2016/2017), based on a 48-week collection period.

**2. Depreciation and Impairment**

	<b>2016/2017</b>	<b>2017/2018</b>
	<b>£000</b>	<b>£000</b>
Operational assets comprising:		
Dwellings (refer to Note 23 Core Financial Statements)	10,994	11,699
Other Land & Buildings	9	8
Depreciation written back on revaluation of council dwellings	0	0
Asset Impairments/revaluations	10	(44)
<b>Total HRA Depreciation and Impairment of Fixed Assets</b>	<b>11,013</b>	<b>11,663</b>
Write off of non-enhancing expenditure	32,297	42,209
<b>Total HRA depreciation, impairment and non-enhancing expenditure</b>	<b>43,310</b>	<b>53,872</b>

**3. Rent Arrears**

The rent arrears encompass monies owed by both current and former council tenants. During the year, total rent arrears increased by £77,835. The total of current rent arrears represents 3.53% of Gross Rent Income.

	<b>£000</b>
Arrears at 31 March 2017	2,068
Bad Debt Provision 31 March 2017	(1,360)
<b>Net Arrears at 31 March 2017</b>	<b>708</b>
Arrears at 31 March 2018	2,235
Bad Debt Provision 31 March 2018	(1,448)
<b>Net Arrears at 31 March 2018</b>	<b>787</b>

**4. Housing Stock**

The Authority was responsible for managing an average of 10,813 dwellings during 2017/2018. The type of stock is made up of approximately 60% houses, 26% flats and 14% bungalows.

	<b>2016/2017</b>	<b>2017/2018</b>
	<b>Number</b>	<b>Number</b>
Stock at 1 April	10,854	10,823
Acquisitions/New Build	28	0
Sales/Demolitions/Expired Leases	(59)	(20)
<b>Stock at 31 March</b>	<b>10,823</b>	<b>10,803</b>

**Notes to the Housing Revenue Account (continued)**

**5. Capital Expenditure and Financing**

	<b>2016/2017 Assets £000</b>	<b>2017/2018 Assets £000</b>
<b>Capital Expenditure:</b>		
Operational Assets : Houses	32,317	42,209
HRA Buyout	0	0
Vehicles, Plant & Equipment	0	1
<b>Total Expenditure</b>	<b>32,317</b>	<b>42,210</b>
<b>Capital Financing :</b>		
Capital Grants	(939)	(2,729)
Major Repairs Allowance	(7,340)	(7,347)
Revenue Reserves	(24,038)	(32,134)
<b>Total Income</b>	<b>(32,317)</b>	<b>(42,210)</b>

**6. Capital Receipts and Unapplied Capital Income**

	<b>2016/2017 £000</b>	<b>2017/2018 £000</b>
Balance at 1st April	(2,576)	(3,095)
Amounts received - Right to Buy	(1,579)	(1,382)
Amounts received - Other	(125)	(25)
Less Statutory Set aside for debt repayment	1,184	1,511
<b>Balance at 31st March</b>	<b>(3,096)</b>	<b>(2,991)</b>

**7. Balance Carried Forward**

The working balance at 31 March 2018 was £5.09m, a net decrease of £11.731m over the year.

<b><u>Reserve:</u></b>	<b>Balance at 1 April 2017 £000</b>	<b>Appropriations From Reserves £000</b>	<b>Appropriations To Reserves £000</b>	<b>Balance at 31 March 2018 £000</b>
Housing Fund Balances	(15,562)	15,900	(4,741)	(4,403)
Supporting People	(306)	0	0	(306)
Week 53 Debit	(671)	671	0	0
HRA Earmarked Reserve	(282)	0	(99)	(381)
	<b>(16,821)</b>	<b>16,571</b>	<b>(4,840)</b>	<b>(5,090)</b>



**Notes to the Housing Revenue Account (continued)**

*A summary of the purposes of these reserves is provided below:*

**Housing Fund Balances** – represents the general, unallocated balances associated with the Housing Revenue Account.

**Supporting People** – represents funds ring fenced for use in accordance with the Supporting People initiative.

**Week 53 Debit** – represents the additional week's rent collection during 2007/2008 that is intended to be released back to revenue in future years, as appropriate.

**HRA Earmarked Reserve** – exists to meet future commitments in respect of planned programme works.

**8. Major Repairs Allowance**

	<b>2016/2017</b>	<b>2017/2018</b>
	<b>£000</b>	<b>£000</b>
Amount Received in Year	(7,340)	(7,347)
Amounts Applied in Year	7,340	7,347
<b>Amounts Carried Forward</b>	<b>0</b>	<b>0</b>

**9. HRA share of contributions to or from the Pension Reserve**

	<b>2016/2017</b>	<b>2017/2018</b>
	<b>£000</b>	<b>£000</b>
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	(2,614)	(4,837)
Employer's pension contributions and direct payments to pensioners payable in the year	2,089	2,186
<b>Total Contribution (to) / from the Pension Reserve</b>	<b>(525)</b>	<b>(2,651)</b>

## GLOSSARY OF TERMS

The Statement of Accounts contains a number of technical terms which will not be familiar to the lay person. To assist the reader of the accounts, a number of these terms have been explained using non-technical terminology.

**Accruals basis** – An accounting concept in which transactions are reflected in the accounts of the period in which they take place, as opposed to the period in which payments are made or received.

**Actuary** - A qualified person who works out insurance and pension fund valuations, taking into account factors such as trends in insurance claims and life expectancy.

**Amortisation** – The reduction in value of an intangible asset (e.g. computer software) by pro-rating its cost over a period of years.

**Authority** - Caerphilly County Borough Council.

**Available-for-sale Reserve** – A reserve that holds the gains or losses on revaluation of investments (classified as available-for-sale) that are not yet realised through sales.

**Balance Sheet** - A statement listing all assets and liabilities of the Authority at the 31 March.

**Borrowing** - Can be short-term (less than 1 year to maturity) or long-term (more than 1 year to maturity) and represents money loaned to the Authority by third parties.

**Budget** - A budget is the spending plan for the financial year in question i.e. 2017/2018.

**Capital Adjustment Account** - An account that relates to capital and non-current asset transactions. This includes the application of capital monies e.g. capital grants to finance the capital schemes of the Authority and to manage the disposal of non-current assets.

**Capital Expenditure** - Expenditure on non-current assets which will be used by the Authority over many years to provide services e.g. buildings.

**Capital Receipts** - Proceeds from the sale of non-current assets e.g. land or buildings.

**Cash Flow Statement** - A statement recording all movements in cash during the year for both revenue activities and capital activities.

**Comprehensive Income and Expenditure Statement** – A statement recording day to day spending and income e.g. salaries, running costs etc. on all revenue services of the Authority.

**Contingent Asset** - A possible asset that arises from a past event but whose existence will only be confirmed after an uncertain future event e.g. the outcome of a court case.

**Contingent Liability** - A possible financial cost of a past event but which will only be confirmed by the occurrence of one or more uncertain future events e.g. the outcome of a legal case. Unlike a provision, no amounts are set aside in the accounts, only a note explaining the relevant facts.

**Creditor** - Someone who is owed money for goods or services provided to the Authority.

**Current Assets** - Assets that are short term and are considered to be liquid by nature i.e. cash, inventories, debtors.

**Current Liabilities** - Liabilities that are short term (less than one year).

**Debt Management Office (DMO)** - An executive agency of HM Treasury with responsibilities for debt and cash management for the UK Government, lending to local authorities (via the PWLB (see below) and managing certain public sector funds.

**Debtor** - Someone who owes money for goods or services provided by the Authority.

**Depreciation** - The notional reduction in value of assets due to their wear and tear in providing services to the Authority.

**Direct Revenue Financing** - A contribution made from the revenue accounts during the financial year to help pay for capital projects.

**Financial Instruments** - A collective name for investments, trade debtors, trade creditors and borrowings.

**Financial Year** - This is the accounting period, starting on 1 April and finishing on 31 March in the following year. For 2017/2018, it runs from 1 April 2017 to 31 March 2018.

**Finance Leases** - A method whereby capital assets are financed over a number of years by means of annual payments to a leasing company. The ownership of the asset by the Authority is deemed to have taken place at the start of the lease arrangement.

**Financial Instruments Adjustment Account** - An account which is used to manage the loan interest charged to the Council Fund in accordance with IAS 32 & 39.

**Government Grants** - Assistance by Government and inter-government agencies and similar bodies, whether local, national or international usually in the form of cash.

**GLOSSARY OF TERMS continued**

**Heritage Asset** - A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities held and maintained for its contribution to knowledge and culture.

**Housing Revenue Account Income and Expenditure Account** - This account contains all expenditure and income in relation to the Authority's Council Dwellings including Council Houses.

**IAS** - International Accounting Standard

**IFRIC** - International Financial Reporting Interpretations Committee

**IFRS** - International Financial Reporting Standards

**Impairment** - Impairments occur when non-current asset values change significantly due to changes in circumstances. They can occur if there is a significant change in a non-current asset's market value or significant physical damage e.g. fire. The cost of impairment is charged to the revenue account in the year it occurs.

**Inventories** - These are raw materials and consumables that are used in carrying out services e.g. bricks, nails, food, beverages etc. The values of these items which have not been used at 31 March are shown as current assets in the balance sheet.

**Investments** - These can be short-term (less than 1 year to maturity) or long-term (more than 1 year to maturity) and represent surplus funds of the Authority invested with third parties.

**Levies** - Levies are charges on the Authority by other public bodies / non-billing organisations to enable them to cover their costs in the performance of their services.

**Minimum Revenue Provision (MRP)** - A minimum annual charge that has to be made to the revenue accounts to systematically reduce the principal element of loans which have been raised and used to pay for capital schemes.

**Movement in Reserves Statement** - A statement showing the in-year movement on all the different reserves held by the Authority.

**National Non Domestic Rates (NDR)** - Also known as the Business Rate, it is the charge occupiers of business premises pay to finance part of the Authority's revenue spending. The charge is based on the rateable value of the business premises.

**Non-Current Assets** - These are long term assets which are used for more than 1 year.

**Non-Current Assets: Enhancement Expenditure** - This is where capital expenditure on an asset does not alter the book value of the asset e.g. window replacement.

**Operating Leases** - A method of paying for the use of capital assets e.g. vehicles by means of annual payments to a leasing company over a number of years. The leasing company retains ownership of the asset during and at the end of the lease agreement.

**Precepts** - Precepts are levied on the Authority by non-billing organisations e.g. police, community councils to enable them to cover their costs in the performance of their services or duties.

**Pension Current Service Cost** - This represents the increase in the present value of a defined benefit obligation resulting from employee service in the year after netting off contributions from scheme participants.

**Pension Gain or Loss on Settlement** - This arises when the Authority enters into a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under the defined benefit plan.

**Pension Liability (IAS 19)** - This represents the indebtedness of the Authority in relation to the retirement benefits due to its employees, after allowing for the Authority's share of investments in the Pension Fund.

**Pension Net Interest on the Defined Benefit Liability/Asset** - This is the change during the year in the net defined benefit liability/asset arising from the passage of time.

**Pension Past Service Cost** - This represents the change in the present value of the defined benefit obligation for employee service in prior periods resulting from a plan amendment or curtailment.

**Pension Reserve (IAS 19)** - This reserve matches the pension liability and is charged with the gain or loss which arises when the pension fund Actuary revalues the assets and liabilities within the pension fund each year. It also ensures that the charge made to the Income and Expenditure Account under IAS 19 is replaced with the pension cost required to be made for Council Tax purposes.

**Provision** - A provision is an amount set aside in the accounts for a past event which is likely to incur a financial cost some time in the future.

**GLOSSARY OF TERMS continued**

**Public Works Loans Board (PWLB)** - This is a Government Agency which provides longer term loans to local authorities at preferential rates of interest.

**Related Party Transactions** - These are disclosed to highlight any relationships that may exist between the Authority and third parties which may materially affect or influence the way the Authority or third parties are able to operate.

**Reserves** - Reserves are sums set aside to meet future expenditure. They may be earmarked to fund specific expenditure or be held as general reserves to fund non-specific future expenditure.

**Revaluation Reserve** - This reserve is used to record gains in non-current asset values as a result of formal revaluations.

**Revenue Expenditure funded from Capital under Statute** - This represents expenditure which does not result in, or remain matched with, assets controlled by the Authority.

**Revenue Support Grant** - This is the principal source of finance from Central Government towards revenue expenditure incurred for non-Council housing purposes.

**Trust Funds** - These are monies not belonging to the Authority that are administered by the Authority on behalf of third party individuals or organisations.

**Work in Progress** - This represents the value of work done on unfinished projects at the date of the Balance Sheet (31 March).

**Annual Governance Statement**

**1. Background**

1.1 The Corporate Governance Panel met 4 times between April 2017 and January 2018 to review corporate governance related matters, minutes for the April and August meetings were reported to the Audit Committee. The Panel did not meet after January 2018, and the outstanding minutes from October 17 and January 18 have not been reported to Audit Committee due to staff absences and the temporary secondment of the Internal Audit Manager. These minutes will be reported to Audit Committee at the next meeting in July.

1.2 Corporate Governance is a responsibility for all staff including the Corporate Management Team (CMT) and the Leadership Team; hence this collective responsibility ensures business as usual.

**2. Scope of responsibility**

2.1 The Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty under the Local Government Act 1999 and the Local Government Measure (Wales) 2009 to make arrangements to secure continuous improvement in the way in which its functions are exercised; improvement is defined as having regard to a combination of strategic effectiveness, service equality, service availability, fairness, sustainability, efficiency and innovation.

2.2 The Well-being of Future Generations (Wales) Act 2015, implemented in April 2016, places a new 'duty' on public bodies to carry out sustainable development; to do this we must set and publish well-being objectives showing the steps we will take to meet our objectives, and the resources we will need to deliver the objectives. Although consideration is being given by Welsh Government to revoking or replacing the Local Government Measure 2009 in 2017, at this time both legislations are still current. Wales Audit Office and the Future Generations Commissioner accept that an organisation will publish one set of well-being objectives and in doing so that will meet the requirement of the 2009 Measure so that the activity is not duplicated.

2.3 In discharging this overall responsibility, the Authority is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

2.4 The Authority has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government'. A copy of the Code is on our website at [www.caerphilly.gov.uk](http://www.caerphilly.gov.uk) or can be obtained from the Council's Communications Unit. This statement explains how the Authority has complied with the Code and also meets the requirements of regulation 5(4) of the Accounts & Audit (Wales) Regulations 2014 in relation to the publication of a Statement on Internal Control.

**Annual Governance Statement (continued)**

**3. The purpose of the governance framework**

- 3.1 The governance framework comprises the systems, processes, culture and values, by which the Authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. During 2016/17 an Assurance Framework was produced as a diagrammatical representation of the governance and assurance processes in place. The Framework was endorsed by the Audit Committee in December 2016 and this continues to be in place. It is intended to provide clarity and understanding of the connections between functions and activities that enable the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 3.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 3.3 The governance framework has been in place at the Authority for the year ended 31 March 2018 and up to the date of approval of the Statement of Accounts.

**4. The governance framework**

- 4.1 The following paragraphs describe the key elements of the systems and processes that comprise the Authority's governance arrangements:

**4.1.1 Identifying and communicating the Authority's vision of its purpose and intended outcomes for citizens and service users**

- The Council's Corporate Plan sets out the Cabinet's commitments, priorities and Well-being Objectives for the next 5 years. The Well-being Objectives were formed from our duty to carry out sustainable development and from the data and narrative identified from the well-being assessment that was carried out for the Public Services Board (PSB) Well-being Plan.
- The Corporate Plan was approved by Council on 17th April 2018 and includes details of our Well-being Objectives for the next five years along with our Well-being statement. The statement details why we chose those specific areas to improve.
- Long term outcomes and interim performance standards have been established for each Well-being Objective. Progress will be reported via the Scrutiny Committee process.
- The PSB Well-being (long term partnership plan) after going to full council was endorsed by the Public Services Board on 13th March 2018 and was published by its legal date on 3rd May 2018. The Plan is a long term plan (15-20 years) regarding its vision but is a five year term to ensure routine reviews. This is published widely and is available on the Council's website and intranet. Similarly the Council's Corporate Plan is on the website, promoted by social media and updated annually. Progress is reported via the Scrutiny Committee process.
- The Council's Annual Performance Report (published in October) tells citizens and service users how we have performed against the Well-being Objectives as required under the Well-being of Future Generations (Wales) Act 2015 and the Local Government Measure 2009.

**Annual Governance Statement (continued)**

**4.1.2 *Reviewing the authority's vision and its implications for the authority's governance arrangements***

- The Well-being Plan, Corporate Plan and Annual Performance Report are regularly reviewed and the Cabinet commitments and Well-being Objectives have been refined to ensure our sustainable development duty, known as the five ways of working, reflect changing aspirations - at a local and national level.
- A performance management framework is established and is routinely reviewed to ensure it is fit for purpose.
- The Council was the lead partner of the Caerphilly Local Service Board (LSB), where a Single Integrated Plan was implemented from April 2013 onwards which detailed the LSB vision. This year the Local Service Board was put on a statutory footing (as part of the Well-being of Future Generations (Wales) Act 2015) and became a Public Services Board.
- As part of the Well-being of Future Generations (Wales) Act 2015 a 'well-being assessment' has been carried out. The assessment identified the well-being needs and strengths of the area and following considerable consultation lead to a set of four enablers and five action sets. The statutory guidance has a detailed process of what a population assessment should include using both quantitative and qualitative narrative to arrive at a picture of the Borough and a set of priorities and as a result to set a series of activities to improve the "social economic and cultural" well-being of the area.
- Action sets established from the assessment have been given to lead officers across a range of organisations and action plans are currently being drawn up and refined and will form the basis of the Public Services Board's Well-being Plan. The Well-being Plan has a Performance Accountability Framework, detailing principles, frequency, type and style of reporting on the Well-being Plan.
- A Partnerships Scrutiny Committee has been established to scrutinise the work of the Public Services Board and the partner contributions to the planning and delivery of collaborative well-being for the area. In addition the Council established a cross party Future Generations Panel (FGAP) to steer and guide the oversight of the Council's Well-being Goals. The Cabinet Member for Regeneration, Planning and Sustainable Development is designated as the "Future Generations Champion"

4.1.3 The commencement of the Well-being of Future Generations (Wales) Act 2015 on 1<sup>st</sup> April 2016, as noted above, brings a number of changes to the existing processes. We have established a Public Services Board (PSB) to replace the LSB. The PSB produced a local assessment of well-being, the well-being assessment, and published its outcomes in May 2017. Thereafter, the PSB issued a Well-being Plan (replacing the LSB Single Integrated Plan) detailing how to deliver against the areas that the PSB chose to work on. The Council is lead on this work and has completed the development of the Well-being Assessment

4.1.4 The Council has also responded to its own duties under the Act which included a requirement to set Well-being Objectives by the 31<sup>st</sup> March 2017. However a further commitment was given that following the local government elections in May 2017 the new Cabinet would take the opportunity to review the 2017/18 Well-being Objectives. As a result a new five year set has been launched within the Corporate Plan in May 2018 building on the sustainable development principle as defined in the Act which sets out five ways of working, which we are introducing into our organisational activities. These five ways of working are known by the acronym ICLIP and are Integrated, Collaborative, Long-term, Involvement and Preventative and can be demonstrated as follows:-

**Annual Governance Statement (continued)**

- Taking an integrated approach – how will our own activities impact on other public bodies goals. Will it help or hinder?
  - Collaborating with others – to find sustainable solutions.
  - Looking to the long-term – balancing short-term needs whilst safeguarding our future generations.
  - Involving people – the full diversity of the population who are involved in the outcomes of these activities.
  - Taking a preventative approach – by understanding root causes we can ensure we have the correct solutions.
- 4.1.5 The Council is required to consider the sustainable development principle in setting, taking steps towards and meeting its well-being objectives; and this should be reflected in our governance arrangements, our corporate planning, risk management and the way in which we allocate resources.
- 4.1.6 To achieve this, the Council has updated its risk registers, planning tools, self-evaluations and reporting templates to reflect the Well-being of Future Generations (Wales) Act 2015 including the 5 ways of working, and revised the PSB website. In addition to the process aspect the Council is carrying out communication activities to help staff gain understanding of these changes and why they have been put in place.
- 4.1.7 ***Measuring the quality of services for users, ensuring they are delivered in accordance with the authority's objectives and ensuring that they represent the best use of resources***
- Service Delivery Plans contain key service objectives that are geared, where appropriate, towards achieving the overall strategic objectives detailed in the Council's Corporate Plan. They also contain performance data in respect of both national performance indicators and local performance targets.
  - The Service Delivery Plans have been changed to a five year rolling plan to be more in keeping with the ICLIP and longer term thinking and removes an artificial once a year deadline. This also allows for better evaluation of results and in turn better evidence based decision making.
  - The Service Delivery Plans are produced after the conclusion of service area Self-Evaluations. Self-Evaluation has now been embedded within the Authority and the outcomes are reported to Performance Management Scrutiny Committees.
  - This system is in turn supported by individual annual staff performance and development reviews to ensure that everyone understands their individual and service unit contribution to corporate goals.
  - The Council uses a performance management software system, Ffynnon, which is used to monitor individual performance indicators and their combined effect on the achievement of strategic objectives.
  - Performance is monitored at officer and Member levels, by Corporate Management Team, Directorate Management Teams and with Cabinet Members. Scrutiny Committees hold dedicated performance management meetings every year.
  - Measuring quality is carried out by a range of consultative activities and the Council has a "household survey" carried out every two years across the whole of the Borough. The consultation measures citizens' perception of quality services. This was carried out in September 2017 and the feedback received was generally positive with high levels of satisfaction recorded for refuse, recycling, street lighting, libraries, country parks and the local bus services.



**Annual Governance Statement (continued)**

**4.1.8 *Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication***

- The Council's Constitution sets out how the Council operates, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people.
- Policy and decision-making is facilitated through the Executive Cabinet supported by a framework of Statutory and Scrutiny Committees. Delegated decisions made by relevant senior officers are posted on the intranet, when appropriate. CMT have no collective decision making powers, consequently CMT decisions are noted in a formal decision log against the relevant officer and when required postings are then made via the intranet.
- The Constitution also sets out the situations where senior officers of the Council can make decisions under delegated authority. Delegated power decisions and information items are published on the intranet.
- The Council publishes a five year Corporate Plan which sets out key priorities agreed by the Council, its committees and chief officers under their delegated powers and a yearly performance report which details progress against these.
- The Council's Constitution is a living document and is reviewed and refreshed on a regular basis to reflect current legislation and working practices. In addition to the Annual Report presented to the Annual General Meeting, ad hoc reports are presented to Council in relation to any proposed changes. In addition Members approved that overseeing the Council's Constitution should be an added function of the Council's Democratic Services Committee. In addition to the ad hoc reports presented to Council the Democratic Services Committee receives a 6 monthly update on Constitutional issues.
- Various guidance notes for officers have been prepared to sit alongside the Council's Constitution and training has been rolled out. The documentation is available on the Council's corporate governance page. These arrangements have now been formally embedded within the Council's governance arrangements.

**4.1.9 *Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff***

- The Council's Constitution contains formal Codes of Conduct that articulate the standards of ethical behaviour that are expected from members and officers. These incorporate procedures for the disclosure of pecuniary interests and offers of gifts and hospitality.
- Both members and officers are made aware of the personal conduct and disclosure requirements and they are available for reference on the Council's intranet.
- All declarations of Member gifts and hospitality are reported to the Council's Standards Committee. For Officers a 6 monthly update is given to the Council's Audit Committee.

Leadership and development competencies are being reviewed which will identify effective behaviors the organisation requires from its managers and staff.

**Annual Governance Statement (continued)**

**4.1.10 *Reviewing and updating standing orders for contracts, financial regulations, a scheme of delegation and supporting procedure notes / manuals, which clearly define how decisions are taken and the processes and controls to manage risks***

- The Monitoring Officer in conjunction with senior officers and members undertakes periodic reviews of the Council's Constitution including reviewing Standing Orders for Contracts, Financial Regulations and the Scheme of Delegation to ensure that current practices and legislation are reflected.
- The standard member reporting procedure requires a consideration of risk for all significant decisions. This is also underpinned by a robust structure and system for identifying and evaluating all significant business risks at both corporate and operational levels, the key elements of which are a Corporate Risk Register; Directorate Risk Registers and Service Level Risk Assessments built into the business planning process.
- The Council has a formally agreed Risk Management Strategy which was endorsed in 2013. This has been updated and went to Cabinet on 7<sup>th</sup> June 2017 followed by Audit Committee on 13<sup>th</sup> September 2017. Training is delivered to relevant Members as a matter of routine. The Corporate Risk Register is reported to Audit Committee twice a year and quarterly by Corporate Management Team although this can be more frequently if the need arises.

**4.1.11 *Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities***

- The Council has appointed an Audit Committee whose terms of reference comply with the latest CIPFA guidelines (published May 2018). These extend to monitoring and reviewing the adequacy of the governance framework.
- Training for new members of the Audit Committee and refresher training is carried out periodically and at least twice in a Council term. The next session will be in June 2018 with ad hoc training and development as required or if needs are identified.
- The Terms of Reference are reviewed annually and are updated if required.

**4.1.12 *Ensuring compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful***

- The Council aims to ensure compliance with established policies, procedures, laws and regulations through a variety of mechanisms, including:

Corporate Management Team;  
Heads of Service;  
Monitoring Officer;  
Section 151 Officer;  
Senior Information Risk Owner (SIRO);  
(New) Statutory Data Protection Officer;  
Internal Audit;  
External Audit;  
Performance Management Framework.

**Annual Governance Statement (continued)**

- The Monitoring Officer attends each formal CMT in the first part of the meeting where Cabinet and Council reports are discussed. The S151 Officer attends CMT in respect of budget setting and monitoring reports and the Medium-Term Financial Plan (MTFP). In addition the S151 Officer will attend for agenda items with a material financial impact. The standard committee reporting procedure and template requires the Monitoring Officer to examine reports to the Executive for compliance with legal and procedural issues. Their comments are referred to the Council's Corporate Management Team for action.
- In addition to the above, the Authority has a Deputy S151 and Deputy Monitoring Officer to ensure adequate cover for these roles is in place during periods of sickness or annual leave.

**4.1.13 Arrangements for whistle blowing and for receiving and investigating complaints from the public**

- The Council has in operation a widely publicised Whistleblowing Policy, which forms part of the Council's Constitution. The regime is overseen by senior officers within the Authority and reported to the Council's Standards Committee on an annual basis.
- The Council also operates a formal Corporate Complaints Procedure, which has been widely publicised.
- The Audit Committee has continued to play a more proactive role in monitoring the level of complaints and the procedures that are in place. Reports are regularly presented. In addition, individual Scrutiny Committees may receive reports on complaints.
- There are a number of avenues for members of the public to report concerns, complaints and other matters.

**4.1.14 Identifying the development need of members and senior officers in relation to their strategic roles, supported by appropriate training**

- Formal induction programmes and training and development plans are in place for members. Where identified by the Personal Development Review process senior officers participate in management development training.
- All senior officers participate in the relevant corporate staff development scheme.
- It had previously been recognised that the induction and training of members was sporadic in respect of some committees. In order to address this issue Council approved the implementation of a new, more focused training regime for members which includes the identification of certain aspects of training as mandatory.
- A training needs analysis is carried out every 18 months by Democratic Services so that Members identify their own development needs and a training programme is then put together as a result of the analysis.
- The Council has previously undertaken a successful senior member development programme, which was a training framework for members who hold or aspire to hold senior office. Proposals are being taken forward to run a similar course during 2018/19
- A review of induction arrangements for officers is being undertaken as this area should be improved. Although some progress has been made with developing an I.T. solution, this is still in development and needs review in line with the impact of the GDPR. Meetings of the HR Strategy Group have been infrequent but the Head of Human Resources is looking to reframe and alter the focus of the group to improve effectiveness moving forward. Progress on this will be reported to the Business Improvement Board.
- Appropriate training has and will continue to be delivered where identified. Refresher training for the Audit Committee is planned for June 2018.

**Annual Governance Statement (continued)**

**4.1.15 *Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation/engagement***

- Up to date strategies are in place in respect of communications, marketing and consultation/engagement.
- A corporate database of formal consultation/engagement is maintained to reduce duplication of consultation/engagement.
- Extensive consultation/engagement processes have been followed in relation to the budget process following the changes last year.

**4.1.16 *Incorporating good governance arrangements in respect of partnerships and other group working as identified in the CIPFA Framework “Delivering Good Governance in Local Government” and reflecting these in the authority’s overall governance arrangements***

- The Council has adopted a formal Framework for Partnership Working which specifies the minimum governance requirements in respect of all the Council's partnerships and the enhanced requirements in respect of its key partnerships. Since 1999 a “Compact Agreement” has been in place which is a local agreement for governing the relationship between public sector organisations within the County Borough and third sector organisations. In April 2013, a revised Compact Agreement was published for the period 2013 to 2017 bringing together the following partners: Gwent Association of Voluntary Organisations, Caerphilly County Borough Council, Gwent Police, the Police and Crime Commissioner for Gwent, Aneurin Bevan University Health Board, South Wales Fire and Rescue Service, Community and Town Councils and the Caerphilly Business Forum. The Compact Agreement recognises the mutual benefits that can be gained from close co-operation and sets out guidelines for how all parties should work together. We plan to review the Compact Agreement in line with the new objectives in the Well-being Plan 2018.
- Key partners will be invited to attend the Public Services Board annual conference where the PSB will report on progress against its Well-being Plan and to make links and ensure that there is integration in delivery. The Council maintains details of all the current collaborations and partnerships in existence. The Corporate Governance Panel periodically monitors these arrangements. This can include the involvement of Internal Audit.
- In addition, the approved Collaboration and Partnership Strategy sets out the requirements for creating new Partnerships and Collaborations and importantly includes the arrangements for disbanding and exiting arrangements.

**5. Review of effectiveness**

5.1 The Authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Corporate Governance Panel within the Authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit Manager’s annual report, and also by comments made by the external auditors and other review agencies and inspectorates. The review covers all significant corporate systems, processes and controls, spanning the whole range of the Council’s activities, including in particular those designed to ensure:-

**Annual Governance Statement (continued)**

- The Authority's policies are put into place.
- Laws and regulations are complied with.
- Required processes are adhered to.
- Performance and financial statements and other published information are accurate and reliable.
- Human, financial, data/information and other resources are managed efficiently and effectively.
- Services are delivered efficiently and effectively.

5.2 The following paragraphs describe the processes that have been applied in maintaining and reviewing the effectiveness of the Council's governance framework.

**5.2.1 Corporate Level Review**

A management group, the Corporate Governance Panel, consisting of the following officers and the Cabinet member for HR and Governance has been established to oversee the compilation of the Annual Governance Statement:-

- Acting Director of Corporate Services and S151;
- Interim Head of Legal Services and Monitoring Officer;
- Head of Public Protection (Corporate Policy & Performance Management);
- Internal Audit Manager;
- Acting Head of ICT/SIRO

The group has conducted a detailed corporate level review of the Council's system of governance in accordance with the guidance provided by CIPFA / SOLACE.

Due to staff sickness absences and changing roles of members of this group the Panel has not met since January 2018. A management restructure along with a number of other staffing changes since January 2018 will now require a review of this Panel.

**5.2.2 Directorate Level Review**

The Council has also introduced Directorate Assurance Statements requiring members of Corporate Management Team to review the operation of a range of governance systems and procedures within their service areas and indicate whether there are any significant non-compliance issues. These are analysed to ascertain whether there are any common areas of concern, and if so, whether these constitute significant governance issues and as such need to be included in the Annual Governance Statement. All issues highlighted have been included within the AGS.

Directorates also have Directorate Risk Registers which provides a review mechanism for effective management of new and established risks.

**5.2.3 Scrutiny Committees**

The Council has Scrutiny Committees who meet in public and make recommendations on the improvement and development of policies and hold the Executive and officers exercising delegated powers to account for their decisions.

Following the outcome of the self-evaluation and peer review carried out during 2016/17, Council agreed in October 2017 to carry out a scrutiny self- evaluation twice per council term in order to measure scrutiny performance.

**Annual Governance Statement (continued)**

**5.2.4 Audit Committee**

The Council has appointed an Audit Committee whose terms of reference comply with the latest CIPFA guidelines. These extend to monitoring and reviewing the adequacy of the governance framework. A skills audit and self-evaluation is proposed to take place during the forthcoming training sessions.

**5.2.5 Standards Committee**

The Council has appointed a Standards Committee in accordance with the provisions of S.53-55 & S.81(5) Local government Act 2000 and associated regulations. Their terms of reference are set out in the Council's Constitution.

**5.2.6 Performance Management**

The Performance Management Unit (PMU) is responsible for developing and maintaining the Council's performance management framework in accordance with the Wales programme for Improvement and the Well-being of Future Generations (Wales) Act 2015 as it applies to public bodies. It supports and challenges the Council as a whole, and the individual services, to continuously improve its services through use of relevant data and works with the external auditors to co-ordinate audit and inspection reviews.

The PMU co-ordinate and support the Self Evaluation and Service Delivery Plan and risk management process.

The Performance Management Unit is now part of the corporate policy, partnership, equalities, and voluntary sector support roles, to form a Central Corporate Policy Unit. This has strengthened our approach to performance management by reinforcing the links to our policy and planning activities. It has enhanced our ability to respond to the requirements of the Well-being of Future Generations (Wales) Act 2015 in terms of having a lead role within the Public Services Board, demonstrating our own contribution to the Well-being goals, and embedding the 5 ways of working set out in the sustainable development principle.

**5.2.7 Information Governance**

The Acting Head of ICT is the Council's Senior Information Risk Owner (SIRO), whose role is to assure the Council's information through implementation of the Council's Information Risk Management Policy. The SIRO assesses half yearly information risk returns from each Head of Service (as the information asset owner) to ensure risks are reported appropriately, measures to reduce risk are effective and information risk management is embedded into the culture of the organisation.

The new Statutory Data Protection Officer role – an independent advisory role required by the General Data Protection Regulations (GDPR) – reports to CMT via the SIRO, and also fulfills the Data Protection officer role for the majority of the Council's schools (as separate Data Controllers in Law) via a Service Level Agreement. The Data Protection Officer manages the Corporate Information Governance Unit and works closely with a network of information governance (IG) stewards within each directorate who assist Heads of Service in assuring the information that is managed and used by their service area. IG Stewards are responsible for communicating key messages to staff and management across the organisation on IG policies, ensuring staff are appropriately trained, and developing and maintaining a GDPR compliant Record of Processing Activities via their Information Asset Register and Privacy notices.

## Annual Governance Statement (continued)

Despite the UK Data Protection Bill only recently being enacted and Information Commissioner guidance still being finalized, substantial progress has been made over the last 2 years on the Council's action plan for compliancy with the new General Data Protection Regulation in 2018 overseen by the Corporate Governance Panel. Service areas have completed main preparatory tasks, but further work is needed to make sure council privacy notices are fully compliant and all current data processors sign up to GDPR compliant contract terms. This work is ongoing.

It is likely that growing awareness of individual's rights under GDPR will lead to more requests for information under data protection law, which together with annual increases in freedom of information requests will be challenging for services to address within statutory timescales. Therefore further work on records management and open data needs to be prioritised once any additional requirements of UK Data Protection Act are addressed.

### 5.2.8 *Internal Audit*

Internal Audit is responsible for monitoring the quality and effectiveness of the system of governance and internal control. A risk-based Internal Audit Plan is produced each financial year. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant Directorate. Each report includes recommendations for improvements and an agreed management action plan. The process includes follow-up reviews of agreed recommendations to ensure that they are acted upon. Following the governance reviews undertaken by the WAO over recent years the role undertaken by Internal Audit and the contribution made towards the overall governance framework is being reassessed. This process will evolve and develop over time in line with the needs of the organisation and will embrace the principles promoted within the Public Sector Internal Auditing Standards. During 2017/18 the Internal Audit Section's conformance with the Public Sector Internal Audit Standards was subject to external review which determined that with the exception of a few minor issues the Section was compliant. A report and action plan outlining the actions required to achieve conformance was presented to the Audit Committee on the 10<sup>th</sup> April 2018. Work is ongoing to achieve the actions outlined in the action plan and officers are confident that these will be achieved within the deadlines set.

The Internal Audit Manager is a key contributor to the annual review of the Authority's governance processes and has concluded for the year 2017/18 that no fundamental issues or concerns have been identified as a result of the audit work undertaken. This view will be restated within the annual report that will be presented to the Audit Committee as required by the Council's Financial Regulations.

### 5.2.9 *External Audit*

The Council receives regular reports on elements of its internal control environment, including performance management, risk management, financial management and governance.

### 5.3 *Review Outcome*

The Council's governance arrangements are regarded as generally fit for purpose and are in accordance with the governance framework. The Council is committed to maintaining and improving the governance framework and resources are prioritised for this.

**Annual Governance Statement (continued)**

The review of the Council's governance arrangements in 2016/17 identified the following areas where improvements could be made to strengthen existing procedures and processes:

1. **To review and strengthen the procedures around the operation and maintenance of the cabinet forward work programme** - Some progress has been made on this but staff absences have led to the need to extend external deadlines - hence this piece of work will continue into 2018/19.
2. **Ensuring that the Authority is prepared for the requirements of the new General Data Protection Regulations 2018** - Significant progress has been made on this but further work is needed so this will be carried forward into 2018/19.

At its meeting on the 14<sup>th</sup> June 2017 the Audit Committee considered the Draft Annual Governance Statement for 2016/17 and requested that an update be provided to a future meeting in relation to progress on agreed actions arising from the WAO review of the Council's Leisure Strategy. The leisure strategy will be presented to Cabinet on the 27<sup>th</sup> June 2018 and will subsequently be subject to extensive consultation.

Following the Audit committee on the 14<sup>th</sup> June 2017 Officers undertook a further review of progress against regulator proposals for improvement and the following actions were been identified as priorities for the 2017/18 financial year in addition to progressing the Leisure strategy: -

3. **Service Asset Management plans need to be reviewed alongside the Medium Term financial Plan's savings proposals for future years** - This will be an integral element of the Council's Improving Services Programme. To support this work a recruitment process is currently underway to appoint a fixed-term Asset Management Co-ordinator for a period of 2 years.
4. **The Council will need to review its current "principles" for agreeing savings proposals and revise these to reflect the significant financial challenge that lies ahead** - This is complete and the new principles are incorporated into the Corporate Plan.
5. **A draft "Income Management and Service Cost recovery" policy has been produced. This will need to be finalised and approved** – This will be considered by the Business Improvement Portfolio (BIP) Board during 2018/19.

It can be seen that progress has been made against these areas but further progress is required. Points 1, 2, 3 and 5 above will therefore be carried forward into 2018/19. In addition there are new areas for improvement for 2018/19 detailed below:-

6. **Continue to monitor the Authority's compliance with the General Data Protection Regulation 2018 in light of the recent Data Protection Act 2018 and emerging case law and make changes to Council processes and record keeping as appropriate.**

The financial position continues to be extremely challenging with the latest updated Medium-Term Financial Plan showing an additional savings requirement of £34.086m for the four-year period 2019/20 to 2022/23. It is inevitable that some very difficult decisions will need to be made and in looking to develop proposals to address the financial challenges going forward it is widely accepted that the Council cannot continue as it is. There is a need to examine the way in which we use our resources to deliver the services required by our communities across the county borough.



**Annual Governance Statement (continued)**

7. **The Corporate Management Team has created a new Business Improvement Portfolio (BIP) Board to drive forward an agenda of change, innovation and improvement across the Authority** - The BIP Board is leading a portfolio of change across the organisation which will seek to transform areas such as our culture, leadership, engagement and the way in which we deliver some of our services.

The Board is currently focusing on the delivery of three key programmes: -

- Improving Engagement Programme (IEP)
- Improving Leadership Programme (ILP)
- Improving Services Programme (ISP)

Through the Improving Services Programme strategic reviews will look at how services can become more business efficient through examining how they are currently provided, exploring opportunities for greater customer focus, digital delivery, alternative delivery models, and commercial opportunities; whilst looking at preventative measures that will encourage early intervention that will ultimately allow demand for certain services to be regulated. The Board will play a key role in monitoring and delivering savings to contribute towards the savings target in the MTFP.

The Wales Audit Office will be working alongside the Board during the next few months in the capacity of “critical friend”. This will be an important step in helping us ensure that there is a clear direction of travel and sound arrangements in place to deliver the transformation agenda that will help ensure service resilience for the future.

**Signed**

**David Poole**  
**Leader of the Authority**

**Christina Harchy**  
**Interim Chief Executive**

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