

Public Document Pack

Penallta House,
Tredomen Park,
Ystrad Mynach,
Hengoed CF82 7PG

Ty Penallta,
Parc Tredomen,
Ystrad Mynach,
Hengoed CF82 7PG



www.caerphilly.gov.uk
www.caerffili.gov.uk

For all enquiries relating to this agenda please contact Amy Dredge
(Tel: 01443 863100 Email: dredge@caerphilly.gov.uk)

Date: 9th November 2020

Dear Sir/Madam,

A digital meeting of the **Special Audit Committee** will be held via Microsoft Teams on **Monday, 16th November, 2020 at 2.00 pm** to consider the matters contained in the following agenda. You are welcome to use Welsh at the meeting, a minimum notice period of 3 working days is required should you wish to do so.

This meeting will be recorded and made available to view via the Council's website, except for discussions involving confidential or exempt items. Therefore the images/audio of those individuals speaking will be publicly available to all via the recording on the Council website at www.caerphilly.gov.uk

Yours faithfully,

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

Christina Harrhy
CHIEF EXECUTIVE

AGENDA

- | | Pages | |
|---|-----------------------------------|--|
| 1 | To receive apologies for absence. | |
| 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.

A greener place Man gwyrdach



To receive and consider the following reports: -

- | | | |
|---|--|---------|
| 3 | Audit Committee Assurances over Management Processes and Arrangements. | 1 - 4 |
| 4 | Financial Statements for 2019/20. | 5 - 214 |

Circulation:

Councillors M.A. Adams, Mrs E.M. Aldworth, J. Bevan, C.J. Cuss, Ms J. Gale, D.T. Hardacre, C.P. Mann, B. Miles, Mrs T. Parry, Mrs M.E. Sargent (Chair), G. Simmonds and J. Simmonds

And Appropriate Officers

HOW WE WILL USE YOUR INFORMATION

Those individuals that attend committee meetings to speak/give evidence will be named in the minutes of that meeting, sometimes this will include their place of employment or business and opinions expressed. Minutes of Meetings including details of speakers will be publicly available to all via the Council website at www.caerphilly.gov.uk. except for discussions involving confidential or exempt items.

You have a number of rights in relation to your information, including the rights of access to information we hold about you and the right of complaint if you are unhappy with the way your information is being processed.

For further information on how we process your information and your rights please view the Full Committee Meetings Privacy Notice on our [website](#) or contact Legal Services by email griffd2@caerphilly.gov.uk or telephone 01443 863028.



AUDIT COMMITTEE – 16TH NOVEMBER 2020

SUBJECT: AUDIT COMMITTEE ASSURANCE OVER MANAGEMENT PROCESSES AND ARRANGEMENTS

REPORT BY: CORPORATE DIRECTOR FOR EDUCATION AND CORPORATE SERVICES

1. PURPOSE OF REPORT

- 1.1 To present the Audit Committee with the Chair's response to the External Auditor, Grant Thornton, on how the Committee gains assurance over management processes and arrangements.

2. SUMMARY

- 2.1 As part of their audit planning and to comply with International Auditing Standards the External Auditor needs to gain an understanding of how the Audit Committee gains assurance over management processes and arrangements.
- 2.2 A list of questions was sent to the Chair of the Audit Committee and the response is appended to this report.

3. RECOMMENDATIONS

- 3.1 Members of the Audit Committee are asked to note the response appended to this report.

4. REASONS FOR THE RECOMMENDATIONS

- 4.1 To ensure that members of the Audit Committee are aware of the Chair's response to the External Auditor.

5. THE REPORT

- 5.1 As part of the external audit of the Authority's financial statements for the year ended 31st March 2020 the External Auditor, in compliance with the International Auditing Standards, is required to refresh his understanding of how the Audit Committee gains assurance over management processes and arrangements.
- 5.2 The Audit Committee Chair has responded to a list of questions provided by the External Auditor and the response is appended to this report.

Conclusion

- 5.3 The report informs Members of the responses provided to the External Auditor by the Chair of the Audit Committee.

6. ASSUMPTIONS

6.1 No assumptions have been made in respect of this report.

7. LINKS TO RELEVANT COUNCIL POLICIES

7.1 Strong corporate governance arrangements are an essential element of ensuring that the Council's key priorities are effectively delivered.

8. WELL-BEING OF FUTURE GENERATIONS

8.1 Strong corporate governance arrangements are a key element in ensuring that the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015 are met: -

- 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.

9. EQUALITIES IMPLICATIONS

9.1 There are no equalities implications.

10. FINANCIAL IMPLICATIONS

10.1 There are no direct financial implications arising from this report.

11. PERSONNEL IMPLICATIONS

11.1 There are no personnel implications.

12. CONSULTATIONS

12.1 Any comments received from consultees have been included within the report.

13. STATUTORY POWER

13.1 Local Government Act 2000

Author: S Harris, Head of Financial Services & S151 Officer
Tel: 01443 863022 Email: harris@caerphilly.gov.uk

Consultees: R Edmunds, Corporate Director for Education & Corporate Services
D Gronow, Acting Internal Audit Manager

Appendices:

Appendix 1 Response from Audit Committee Chair

APPENDIX 1 - RESPONSE FROM AUDIT COMMITTEE CHAIR

Auditor Question	Response
FRAUD RISK ASSESSMENT	
Has the Audit Committee assessed the risk of material misstatement in the financial statements due to fraud?	The Audit Committee takes assurance from reports presented by both the internal and external auditors as well as updates on the work undertaken as part of the National Fraud Initiative (NFI). The Anti-fraud policy is also periodically reviewed and approved by the Audit Committee.
What are the results of this process?	Historically financial management has been effective with no reason to suspect failing controls.
What processes does the Council have in place to identify and respond to risks of fraud?	Ongoing risk monitoring takes place within Corporate Finance with measures taken to mitigate any new or emerging risks.
Have any specific fraud risks, or areas of high risk of fraud, been identified and what has been done to mitigate these risks?	Four investigations are ongoing in relation to irregularities and potential fraud. The lessons learnt from these investigations will inform any changes that will be required to help mitigate risks moving forward.
Are internal controls, including segregation of duties, in place and operating effectively?	Internal controls in place and no reason to doubt effectiveness.
If not, where are the risk areas and what mitigating actions have been taken?	N/A.
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	None previously identified.
Are there any areas where there is a potential for misreporting?	None previously identified.
How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud?	See the response to question 1.
What arrangements are in place to report fraud issues and risks to the Audit Committee?	The Internal Audit Manager is able to report investigations undertaken at any stage as appropriate.
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	Codes of conduct are in place for members and officers. Contractors are governed by specific terms and conditions within the contract of engagement.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	Various channels are available including direct reporting to Line Managers, Heads of Service or Internal Audit staff. The council also has a whistleblowing policy and a process for dealing with anonymous letters etc.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	None known.
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council since the 1 st April 2019?	There are 2 ongoing investigations that commenced since the 1 st April 2019.

APPENDIX 1 - RESPONSE FROM AUDIT COMMITTEE CHAIR

LAWS & REGULATIONS	
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	Annual Governance Statement (AGS), Council Constitution, Statutory Monitoring Officer, Audit Committee, Internal and External Audit, judicial review, whistle-blowing policy etc.
How does management gain assurance that all relevant laws and regulations have been complied with?	As above.
How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	As above.
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since the 1 st April 2019?	The council was successfully judicially reviewed over its Equality Impact Assessment (EIA) on the decision to close one of its Leisure Centres.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	The council's internal legal department and its insurers. Provision is made in the council's annual accounts if required.
Is there any actual or potential litigation or claims that would affect the financial statements?	None at the level of the materiality threshold for accounting purposes.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	None known.

Cllr Margaret Sargent

Audit Committee Chair

5th August 2020



AUDIT COMMITTEE – 16TH NOVEMBER 2020

SUBJECT: FINANCIAL STATEMENTS FOR 2019/20

REPORT BY: CORPORATE DIRECTOR FOR EDUCATION AND CORPORATE SERVICES

1. PURPOSE OF REPORT

- 1.1 To present the Audit Committee with the External Auditor's Audit of Accounts Report.
- 1.2 To seek a recommendation from the Audit Committee that Council approves the 2019/20 Audited Financial Accounts at the Special Council meeting on the 24th November 2020.

2. SUMMARY

- 2.1 As a result of the Covid-19 pandemic the statutory deadline for completing the 2019/20 Draft Financial Accounts was changed by the Welsh Government from the 15th June 2020 to the 31st August 2020.
- 2.2 The Draft Financial Accounts were prepared and submitted to the External Auditor, Grant Thornton, on the 7th August 2020. This was later than the mutually agreed submission date of the 14th July 2020, with the delay being attributable to staff focussing on Covid-19 priorities and the new challenges presented through working remotely.
- 2.3 The 2019/20 Draft Financial Accounts have since been subject to External Audit review and this work has now been completed. The External Auditor's Audit of Accounts Report is attached at Appendix 1.
- 2.4 The revised statutory deadline for the approval of the 2019/20 Audited Financial Accounts is the 30th November 2020.

3. RECOMMENDATIONS

- 3.1 The Audit Committee is asked to: -
 - 3.1.1 Receive and comment upon the External Auditor's Audit of Accounts Report.
 - 3.1.2 Note the management responses to the Auditor's recommendations arising from the 2019/20 financial audit work.
 - 3.1.3 Recommend to Council that the 2019/20 Audited Financial Accounts attached at Appendix 2 are approved at its meeting on the 24th November 2020.

4. REASONS FOR THE RECOMMENDATIONS

- 4.1 To ensure that the 2019/20 Financial Accounts are approved and submitted to Audit Wales by the 30th November 2020 in accordance with statutory requirements.

5. THE REPORT

- 5.1 The External Auditor's Audit of Accounts Report states that it is the Auditor General's intention to issue an unqualified audit report on the 2019/20 Financial Accounts.
- 5.2 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 the 2019/20 Provisional Outturn position reported to Cabinet on the 1st July 2020 or on cash or general fund balances.
- 5.3 There is one uncorrected misstatement which relates to an unidentified bad debt provision of £1.2 million. This amount is immaterial to the financial statements and officers have declined to correct this in-year. This is on the basis that a more detailed review of this balance will be undertaken in the 2020/21 financial year and adjustments will be then be actioned as appropriate.
- 5.4 Appendix 5 of the Auditor's Report provides details of the recommendations arising from the 2019/20 financial audit work along with the management responses.
- 5.5 The Head of Financial Services & Section 151 Officer will chair a Project Team that will ensure that all of the recommendations in the Auditor's Report will be addressed by the end of the 2020/21 financial year.

Conclusion

- 5.6 It is the Auditor General's intention to issue an unqualified audit report on the 2019/20 Financial Accounts.
- 5.7 The Auditor's Report provides details of misstatements identified during the audit process. There is one uncorrected misstatement which management will review during the 2020/21 financial year. All of the other misstatements have been corrected by management and are incorporated into the 2019/20 Financial Accounts attached at Appendix 2 of this report.
- 5.8 The Head of Financial Services & Section 151 Officer will chair a Project Team that will address the recommendations in the Auditor's Report.

6. ASSUMPTIONS

- 6.1 A range of accounting assumptions and estimates have been made in respect of the Financial Accounts in accordance with best accounting practice and guidance.

7. LINKS TO STRATEGY

- 7.1 The Financial Accounts deal with resources available to the Authority that influence the delivery of policies and strategies.
- 7.2 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.

8. WELL-BEING OF FUTURE GENERATIONS

8.1 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.

9. EQUALITIES IMPLICATIONS

9.1 There are no equalities implications arising from this report.

10. FINANCIAL IMPLICATIONS

10.1 As identified throughout the report.

11. PERSONNEL IMPLICATIONS

11.1 There are no direct personnel implications arising from this report.

12. CONSULTATIONS

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

13. STATUTORY POWER

13.1 Accounts and Audit (Wales) Regulations 2014 (As Amended).

Author: Stephen Harris, Head of Financial Services & S151 Officer
Tel: 01443 863022 E-mail: harrisr@caerphilly.gov.uk

Consultees: Richard Edmunds, Corporate Director for Education and Corporate Services
Andrew Southcombe, Finance Manager (Corporate Finance)

Background Papers:

Working Papers for 2019/20 Financial Accounts

Appendices:

Appendix 1 Audit of Accounts Report – Caerphilly County Borough Council
Appendix 2 Financial Accounts for the Year Ended 31 March 2020.

This page is intentionally left blank

Audit of Accounts Report – Caerphilly County Borough Council

Audit year: 2019-20

Date issued: November 2020

Document reference: 2126A2020-21

This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to Audit Wales at infoofficer@audit.wales.

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.

Contents

We intend to issue an unqualified audit report on your Accounts There are some issues to report to you prior to their approval.

Audit of accounts report

Introduction	4
Impact of COVID-19 on this year's audit	4
Proposed audit opinion	6
Significant risks	6
Significant issues arising from the audit	12
Recommendations	13

Appendices

Appendix 1 – Final Letter of Representation	14
Appendix 2 – Proposed audit report	17
Appendix 3 – Summary of corrections made	21
Appendix 4 – Prior year recommendations	29
Appendix 5 – Recommendations	33

Audit of accounts report

Introduction

- 1 We summarise the main findings from our audit of your 2019-20 accounts in this report.
- 2 We have already discussed these issues with Stephen Harris (Head of Financial Services and Section 151 Officer).
- 3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled.
- 4 We set this level at £6.455 million for this year's audit, however, there are some areas of the accounts that we consider to be material by nature, for example senior officer remuneration.
- 5 We have now substantially completed this year's audit subject to final review, but the following work is outstanding:
 - receipt of final version of the approved financial statements,
 - receipt of Letter of Representation from Management; and
 - completion of Whole of Government (WGA) work – pending guidance, this does not impact on the completion of the audit report.
- 6 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.

Impact of COVID-19 on this year's audit

- 7 The COVID-19 pandemic has had a significant impact on all aspects of our society and continues to do so. You are required by law to prepare accounts and submit them for audit in line with prescribed timescales. The preparation of the 2019-20 accounts has proved a significant challenge to the Council and the initial agreed timetable for submitting the draft accounts for audit was not met, and there were a number of subsequent delays. We appreciate that the different ways of working, including working remotely from the office, not having access to hard-copy records and liaising with colleagues virtually, introduced unexpected delays in obtaining information to support the accounts. In addition, some changes in roles within the finance team, with the consequent loss of experience, has also provided a challenge.
- 8 The pandemic has unsurprisingly affected our audit and we summarise in **Exhibit 1** the main impacts. Other than where we specifically make recommendations, the detail in **Exhibit 1** is provided for information purposes only

to help you understand the impact of the COVID-19 pandemic on this year’s audit process.

Exhibit 1 – impact of COVID-19 on this year’s audit

<p>Timetable</p>	<ul style="list-style-type: none"> • The deadline for completing your accounts was changed by Welsh Government from 15 June to 31 August 2020. • For Caerphilly CBC, we agreed that the original 15 June 2020 date for the receipt of the draft accounts could not be met. Through our discussions with officers, we agreed a revised timetable for receipt of the draft accounts and audit, in order to enable officers to rightly prioritise their response to the pandemic. This was agreed to be 14 July 2020. • We did not receive the draft accounts until 7 August 2020. • Nationally, the deadline for completing local government audits was changed from 15 September to 30 November 2020.
<p>Electronic signatures</p>	<p>Electronic signatures are permissible for the 2019/20 financial year.</p>
<p>Audit evidence</p>	<p>The audit process has also been more demanding this year, with increased emphasis on proving the veracity of information provided through electronic means, the need to conduct audit enquiries and testing virtually using different mediums, for example Microsoft TEAMS, and greater expectations around the extent of evidence to be provided. Using the Microsoft TEAMS platform enabled us to screen share and observe finance team members running reports and sending these to us. However, the inability to discuss audit issues within the office environment has proved a challenge, although we were grateful for officers agreeing to meet us in the office on one day which enabled us to progress the audit. To address some of these challenges, we have liaised regularly throughout the audit on the progress being made and discussing issues as they arise. This has enabled the audit to continue to progress, but the quality of some of the information provided has resulted in further queries being raised and the overall audit taking longer.</p> <p>We are extremely grateful for the support that colleagues have provided our audit team to complete our audit in such difficult circumstances and recognise that there have been some key areas of learning which may improve the way the audit is conducted in future years.</p>

- 9 We will be reviewing what we have learned for our audit process from the COVID-19 pandemic and whether there are innovative practices that we might adopt in the future to enhance that process.

Proposed audit opinion

- 10 We intend to issue an unqualified audit opinion on this year's accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 11 We issue a 'qualified' audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 12 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards along with confirmation of other specific information you have provided to us during our audit.
- 13 Our proposed audit report is set out in **Appendix 2**.
- 14 Due to the potential impact that COVID-19 has on the value of your land and buildings, both the external valuer for Council Dwellings and your internal valuer have disclosed a material uncertainty within the 31 March 2020 valuation. You have reflected the material uncertainty within Note 3 of the financial statements. We will reflect your disclosure within an 'emphasis of matter' paragraph in our opinion. This is not a modification or qualification of the opinion.
- 15 The Greater Gwent Pension Fund, of which Caerphilly County Borough Council is an admitted body, holds investments in Pooled Property Units. As a result of COVID-19, valuations as at 31 March 2020 were not readily available due to the closure of the markets and therefore no trade price on which to base a valuation. The Property valuers have therefore included an estimation uncertainty clause into the reports. The LGPS property assets attributable to Caerphilly County Borough Council account for £17.6 million, representing 2.5% of total assets. You have reflected the material uncertainty within Note 3 of the financial statements. We will reflect your disclosure within an 'emphasis of matter' paragraph in our opinion. This is not a modification or qualification of the opinion.

Significant risks

- 16 Below is a summary of the risks identified at the planning stage, as communicated to you in our Audit Plan issued in May 2020, and our responses to these risks.

Exhibit 2: summary of the risks

Financial audit risks	Audit response
Significant risks	
<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 completed the following audit work in relation to this risk:</p> <ul style="list-style-type: none"> • tested the appropriateness of journal entries and other adjustments made in preparing the financial statements; • reviewed accounting estimates for biases; and • evaluated the rationale for any significant transactions outside the normal course of business. <p>We have raised a control recommendation in Appendix 5 in relation to the journal authorisation procedure. This is consistent with our findings in this area in previous years.</p> <p>Our testing has not identified any other issues to bring to your attention.</p>
<p>There is a rebuttable presumed risk of material misstatement due to fraud in revenue recognition and where applicable is treated as a significant risk [ISA240.26-27].</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Caerphilly County Borough Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore, we do not consider this to be a significant risk at Caerphilly County Borough Council.</p>

Financial audit risks	Audit response
Significant risks	
<p>Impact of COVID-19 – general risks The COVID-19 national emergency is likely to have a significant impact on the Authority and its accounts production process. Potential risks include:</p> <ul style="list-style-type: none"> • Subsequent events - the Authority is, at present, unlikely to prepare its accounts in accordance with the timetable laid down by the Accounts and Audit (Wales) Regulations 2014. The shifting reporting deadlines increase the period (and therefore the related risks) for events occurring between the date of the financial statements and the date of the auditor’s report. The consequences of the virus post-31 March 2020 will generally be non-adjusting post balance sheet events, but some form of disclosure may be needed. • Use of estimates - the uncertainties and delays caused by the UK-wide lockdown may result in actual data being unavailable and greater use of estimates in preparing the accounts. 	<p>My audit team has undertaken the following steps to ensure the risks arising from COVID-19 are adequately addressed:</p> <ul style="list-style-type: none"> • we considered if there were areas that required management to provide further evidence due to the fast-changing nature of this issue. • we ensured that appropriate changes have been made to recognise any enhanced uncertainty in the calculation of accounting estimates (including impairment calculations). We also considered whether assumptions are appropriate in the circumstances and adopted a greater focus on the following areas: <ul style="list-style-type: none"> – the financial statement closing process (in particular, journal entries and other adjustments made); and – the auditor’s evaluation of the overall presentation of the financial statements, including consideration of whether adequate disclosures have been made. • we will extend the period of review of subsequent events in order to identify any material subsequent events related to COVID-19, and whether these have been appropriately addressed or disclosed in the financial statements in accordance with the financial reporting framework. <p>Our audit work identified a Social Services creditor that had been overstated as at 31 March 2020 as a result of the impact of COVID-19. This resulted in an immaterial potential misstatement of £2.4 million. The explanation for this issue was that the Adult Services Team were tasked with providing COVID secure care for the end</p>

Financial audit risks	Audit response
Significant risks	
	<p>users, which caused disruption to their normal operating activities until August 2020. To support the preparation of the accounts, the Social Services Finance Team estimated liabilities based on contract amounts for certain levels of activity. However, this approach led to an overstatement in some areas, for example, where operations had been suspended as a result of the national lockdown restrictions for the final weeks in March 2020. The team have now reviewed these initial accruals and identified the extent of the activity that had been assumed but was not actually delivered and, therefore, the impact of this on the financial liabilities of the Council. We are therefore satisfied that this is an isolated incident due to the circumstances over year-end.</p> <p>Please see Exhibit 1 for the impact of COVID-19 on the audit and timetable.</p> <p>We have raised a recommendation in Appendix 5 in relation to the retention of documentation electronically.</p>
<p>Valuation of land and buildings</p> <p>The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p>	<p>We have:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • considered the competence, expertise and objectivity of any management experts used; • discussed with the valuer the basis on which the valuation is carried out and challenged the key assumptions where appropriate; • reviewed and challenged the information used by the valuer to

Financial audit risks	Audit response
Significant risks	
	<p>ensure it is robust and consistent with our understanding; and</p> <ul style="list-style-type: none"> • tested revaluations made during the year to ensure they are input correctly into the asset register and correctly reflected in the financial statements. <p>Our work has identified a number of material changes as a result of the review of land and building valuations, these are outlined in Appendix 3. Recommendations have been raised within Appendix 5.</p> <p>Due to the potential impact that COVID-19 has on the value of your land and buildings, both the external valuer for Council Dwellings and your internal valuer has disclosed a material uncertainty within the 31 March 2020 valuation. You have reflected the material uncertainty within Note 3 of the financial statements. We will reflect your disclosure within an 'emphasis of matter' paragraph in our opinion. This is not a modification or qualification of the opinion.</p>
<p>Valuation of Pension Fund Net Liability The Council's Pension Fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>McCloud Judgement Also, in 2015 the Government introduced reforms to public sector pensions, meaning most public sector workers were moved into new pension schemes in 2015. In December 2018, the Court of Appeal ruled that the 'transitional protection' offered to some members of the judges' and firefighters' schemes, as part of the reforms, amounted to unlawful</p>	<p>We have:</p> <ul style="list-style-type: none"> • 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. • 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.

Financial audit risks	Audit response
Significant risks	
<p>discrimination. On 15 July 2019 the Government announced that they accept that the judgment applies to all of the main public service pension schemes.</p> <p>The impact of the judgement is likely to have a significant impact on the IAS 19 disclosed liabilities.</p>	<ul style="list-style-type: none"> • undertook procedures to confirm the reasonableness of the actuarial assumptions made. • consulted with internal actuaries to ensure the potential impact of the McCloud judgement has been correctly included within the accounts. • 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. <p>We consulted with our internal actuary who confirmed that the approach adopted by the Council's actuary, in respect of the additional McCloud liability, was appropriate and would not result in a material impact on the financial statements. We confirmed that management had updated their financial statements to reflect the updated pension valuation position based on the most recent guidance.</p> <p>The Greater Gwent Pension Fund, of which Caerphilly County Borough Council is an admitted body, holds investments in Pooled Property Units. As a result of COVID-19, valuations as at 31 March 2020 were not readily available due to the closure of the markets and therefore no trade price on which to base a valuation. The Property valuers have therefore included an estimation uncertainty clause into the reports. The LGPS property assets attributable to Caerphilly County Borough Council account for £17.6 million, 2.5% of total assets.</p>

Significant issues arising from the audit

Uncorrected misstatements

17 One misstatement remained uncorrected. This is outlined within **Appendix 3**.

Corrected misstatements

18 There were initially misstatements in the accounts that have now been corrected by management. However, we believe that these should be drawn to your attention and they are set out with explanations in **Appendix 3**.

Other significant Issues arising from the audit

19 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you. There is one issue arising in this year as shown in **Exhibit 3**.

Exhibit 3 – significant issues arising from the audit

Material Uncertainty in relation to the valuation of Property, Plant & Equipment	Due to the potential impact that COVID-19 has on the value of your land and buildings, both the external valuer for Council Dwellings and your internal valuer has disclosed a material uncertainty within the 31 March 2020 valuation. You have reflected the material uncertainty within Note 3 of the financial statements. We will reflect your disclosure within an 'emphasis of matter' paragraph in our opinion. This is not a modification or qualification of the opinion. Our proposed audit report is set out in Appendix 2 .
Pooled Property Units at Greater Gwent Pension Fund	The Greater Gwent Pension Fund, of which Caerphilly County Borough Council is an admitted body, holds investments in Pooled Property Units. As a result of COVID-19, valuations as at 31 March 2020 were not readily available due to the closure of the markets and therefore no trade price on which to base a valuation. The Property valuers have therefore included an estimation uncertainty clause into the reports. The LGPS property assets attributable to Caerphilly County Borough Council account for £17.6 million, 2.5% of total assets. You have reflected the material uncertainty within Note 3 of the financial statements. We will reflect your disclosure within an 'emphasis of

matter' paragraph in our opinion. This is not a modification or qualification of the opinion. Our proposed audit report is set out in **Appendix 2**

Recommendations

- 20 The recommendations arising from our audit are set out in **Appendix 5**. Management has responded to them and we will follow up progress against them during next year's audit. A follow-up review of the prior-year recommendations is outlined in **Appendix 4**. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

Appendix 1

Final Letter of Representation

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

xx November 2020

Representations regarding the 2019-20 financial statements

This letter is provided in connection with your audit of the financial statements (including that part of the Remuneration Report that is subject to audit) of Caerphilly County Borough Council for the year ended 31 March 2020 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 the CIPFA Code of Practice on Local Authority Accounting; in particular, the financial statements give a true and fair view in accordance there with; 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.

Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code of Practice and adequately disclosed in the financial statements. The COVID-19 pandemic led to RICS publishing guidance in relation to the impact of this on PPE valuations, issued on the 2 April 2020. The Authority's valuation report states that valuations are reported on the basis of 'material valuation uncertainty' and, consequently, less certainty and a high degree of caution should be attached to the valuations than would normally be the case. The same 'material valuation uncertainty' also applies to the Pooled Property Units held by the Greater Gwent Pension Fund. This has been appropriately disclosed within the financial statements.

The financial statements are free of material misstatements, including omissions. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of these items is set out below:

Exhibit 4: uncorrected misstatements

Unidentified Bad Debt Provision £1.2 million	Bad Debt Provision	This amount is immaterial to the financial statements and officers have declined to correct this in-year. This is on the basis that a more detailed review of this balance will be undertaken in the 2020/21 financial year and adjustments will be actioned as appropriate.
---	--------------------	--

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 Caerphilly County Borough Council on 24 November 2020.

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.

As a result of the COVID-19 pandemic, electronic signatures have been used to approve the final financial statements and the Council and committee meetings held remotely using Microsoft Teams technology.

Signed by:

[Officer who signs on behalf of management]

Date:

Signed by:

[Officer or Member who signs on behalf of those charged with governance (director only for companies)]

Date:

Appendix 2

Proposed audit report

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 2020 under the Public Audit (Wales) Act 2004.

Caerphilly County Borough Council's financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, Movement on the Housing Revenue Account Statement and the related notes to the core financial statements, Movement on the Housing Revenue Statement and Housing Revenue Account, 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 2020 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 2020 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 2020.

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.

Emphasis of Matter – effects of COVID-19 on the valuation of land and buildings

I draw attention to Note 3 to the financial statements, which describes a material valuation uncertainty clause in the valuation reports on land, building property assets issued by the Council's in-house valuer and on council dwellings issued by the Council's

external valuation expert. This has arisen from circumstances caused by the COVID-19 pandemic. My opinion is not modified in respect of this matter.

Emphasis of Matter – effects of COVID-19 on the valuation of pooled property units at Greater Gwent Pension Fund

The Greater Gwent Pension Fund, of which Caerphilly County Borough Council is an admitted body, holds investments in Pooled Property Units. I draw attention to Note 3 to the financial statements, which describes a material valuation uncertainty clause in the valuation report on Pooled Property Units, arising from circumstances caused by the COVID-19 pandemic. My opinion is not modified in respect of this matter.

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 2020; 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:

- proper 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 as set out on page 12, 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. This description forms part of my auditor's report.

Adrian Crompton
Auditor General for Wales
[Date]

24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

Summary of corrections made

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 5: summary of corrections made

Value of correction	Nature of correction	Reason for correction
<p>2019-20: Reclassified from 'Service Expenditure' to 'Other Operating Expenditure':</p> <ul style="list-style-type: none"> • Council Dwellings: £49.754 million • Other Land & Buildings: £7.943 million <p>2018-19: Reclassified from 'Service Expenditure' to 'Other Operating Expenditure':</p> <ul style="list-style-type: none"> • Council Dwellings: £51.674 million • Other Land & Buildings: £7.223 million 	Derecognition of Capital Expenditure	<p>Derecognition of capital expenditure was incorrectly identified as 'non-enhancing expenditure' in the financial statements. This expenditure was confirmed to be funded from capital resources and replaced existing asset components held by the Authority in the Fixed Asset Register and Balance Sheet.</p> <p>The estimated cost of the replaced components should have been written off to the 'Other Operating Expenditure' line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. The draft financial statements included this write-off against the service expenditure. Therefore, an adjustment was proposed to the CIES to correct this. This has an impact on related notes throughout the financial statements.</p> <p>This impacts on the accounting in both the prior and current year and has resulted in a Prior Period Adjustment disclosure note in the financial statements. The Authority also updated their policy to ensure it is in line with</p>

Value of correction	Nature of correction	Reason for correction
		the Code of Practice for Local Authority Accounting.
Capitalised spend on Idris Davies 3-18 school double counted in 2018/19, value of £7.208 million.	Asset Existence and maintenance of Fixed Asset Register	<p>As a result of our testing, we identified that following the additional primary school building being brought in to use at the existing comprehensive school site, the capitalised spend on the construction had been double counted in the Asset Register. The capitalised spend was incorrectly included in the 2018/19 Fixed Asset Register in addition to the revalued school site, causing this to be double counted. This has now been taken into consideration as part of the revalued amount as one site and adjusted in the Property, Plant and Equipment line of the Balance Sheet and has an impact on related notes throughout the financial statements.</p> <p>This impacts on the accounting in the prior year and has resulted in a Prior Period Adjustment disclosure note in the financial statements.</p> <p>A recommendation has also been added in Appendix 5.</p>
<p>£12.932 million of revaluation gains has been removed from the duplicated asset code to remove it from the Revaluation Reserve and the Balance Sheet.</p> <p>The revaluation movements have subsequently been applied to the correct asset code, to give an actual revaluation gain of £1.878 million.</p>	Asset Existence and maintenance of Fixed Asset Register	<p>In addition to the above the Idris Davies 3-18 school has subsequently been subject to an amendment in the 2019-20 financial statements.</p> <p>As a result of our testing, we identified that following the double count above, the revaluation gain for the whole site had been applied to the</p>

Value of correction	Nature of correction	Reason for correction
		<p>incorrect asset code in 2019-20 resulting in an overstated gain. This has now been taken into consideration as part of the revalued amount as one site and adjusted in the Property, Plant and Equipment line of the Balance Sheet and has an impact on related notes throughout the financial statements.</p> <p>A recommendation has also been added in Appendix 5.</p>
<p>Land that is not controlled by the Council £806,000</p>	<p>Land Ownership</p>	<p>Our testing identified a piece of land that is held on a long-term lease by the Authority but was incorrectly included in the Property, Plant and Equipment line of the balance sheet and fixed asset register. The lease had also been correctly treated in the Operating Leases note of the financial statements.</p> <p>This has been written out of the Property, Plant and Equipment line of the Balance Sheet and has an impact on related notes throughout the financial statements.</p> <p>A recommendation has also been added in Appendix 5.</p>
<p>Land and building assets were duplicated in the 2019-20 Fixed Asset Register:</p> <ul style="list-style-type: none"> • Building: £636,000 • Land: £75,000 	<p>Duplication of Assets</p>	<p>We identified from testing, land and building assets that were duplicated in the Fixed Asset Register.</p> <p>This has been written out of the Property, Plant and Equipment line of the Balance Sheet and has an impact on related notes</p>

Value of correction	Nature of correction	Reason for correction
		<p>throughout the financial statements.</p> <p>A recommendation has also been added in Appendix 5.</p>
<p>Assets that could not be identified written out of the financial statements:</p> <ul style="list-style-type: none"> • £11.89 million (GBV) • £5.968 million (NBV) 	<p>Assets that could not be identified</p>	<p>Our testing of the five-year revaluation program identified nine asset lines with a gross book value of £11.89 million (Net Book Value of £5.968 million) that had not been revalued in the five-year programme.</p> <p>Following a further review by officers, individual assets in respect of these amounts could not be identified nor could they be attributed to forming part of other assets. It was determined that these amounts related to accumulated expenditure from previous years. Consequently, the decision was taken to de-recognise these amounts within the financial statements as there is no identifiable assets.</p> <p>This has been written out of the Property, Plant and Equipment line of the Balance Sheet and there will be an impact on the CIES through the Gain/Loss on Disposal line. It also has an impact on related notes throughout the financial statements.</p> <p>A recommendation has also been added in Appendix 5.</p>
<p>HRA disposals £2.279 million</p>	<p>Disposals</p>	<p>Our testing identified that HRA disposals had not been accounted for correctly in-year. This has been written out of the Property, Plant and Equipment</p>

Value of correction	Nature of correction	Reason for correction
		<p>line of the Balance Sheet and there will be an impact on the CIES through the Gain/Loss on Disposal line. It also has an impact on related notes throughout the financial statements.</p> <p>A recommendation has also been added in Appendix 5.</p>
Various	Movement in Reserves Statement (MiRS)	As a result of our testing and the adjustments outlined in this table, the MiRS has been adjusted to reflect the change required.
Various	Cash Flow Statement	As a result of our testing and the adjustments outlined in this table, the Cash Flow Statement has been adjusted to reflect the change required and to bring it in line with the CIPFA Code of Practice on Local Authority Accounting 2019-20. This has not impacted on the opening or closing Cash and Cash Equivalent balance.
Various	Financial Instruments	The Financial Instruments disclosure in Note 12 has been adjusted to correct the presentation of information in line with the CIPFA Code of Practice on Local Authority Accounting 2019-20.
Change from 2.5% to 2.8%	Pension Liabilities	Our testing identified that the inflation figure incorrectly recorded as 2.5%, should be 2.8% and the asset table from

Value of correction	Nature of correction	Reason for correction
		the Actuary's report had been incorrectly recorded for both the prior and current year.
<p>Senior Officer's remuneration note:</p> <ul style="list-style-type: none"> increase of one employee to £60-65,000 for Non-School employees; and decrease of one employee for £75-80,000 for School employees. <p>One additional disclosure was added to clarify that the departing S151 Officer received pay in lieu of notice.</p>	Remuneration Notes	<p>Our testing identified three errors within the Senior Officers' Remuneration disclosure note. Two errors identified in the £60,000 Banding Note and one omission of pay received in lieu of notice.</p>
<p>Amendments to the relevant lines were:</p> <p>2018-19</p> <ul style="list-style-type: none"> Other Services Expenses £8,933,000 Precepts and Levies £8,933,000 <p>2019-20</p> <ul style="list-style-type: none"> Other Services Expenses £9,118,000 Precepts and Levies £8,987,000 Other Interest Payments £131,000 Fees, Charges & Other Service Income £199,000 Interest and Investment Income £199,000 	Note 6 Income and Expenditure Analysed by Nature	<p>A number of errors were identified in Note 6 Income and Expenditure Analysed by Nature between the various categories. Levies were incorrectly included within Other Services Expenses in the current and prior period; Interest Payments were incorrectly included within Other Services Expenses in the current period; and Interest and Investment Income was incorrectly included within Fees and Charges Income in the current period.</p> <p>Further adjustments have been made to this note as a result of the adjustments made above.</p>
Unidentified Bad Debt Provision £1.2 million	Bad Debt Provision	Our testing identified a provision against the debtor balance of £1.2 million that could not be

Value of correction	Nature of correction	Reason for correction
		<p>identified or evidenced by the Authority.</p> <p>This amount is immaterial to the financial statements and officers have declined to correct this in year. This is on the basis that a more detailed review of this balance will be undertaken in the 2020/21 financial year and adjustments will be actioned as appropriate</p> <p>A recommendation has also been added in Appendix 5.</p>
<p>Additional disclosures relating to:</p> <ul style="list-style-type: none"> • governance arrangements in respect of the actions of the former Council leader; and • the waste investigation. 	<p>Annual Governance Statement</p>	<p>The Annual Governance Statement was reviewed and discussed with officers, and a number of disclosure amendments and additions were made to ensure the statement accurately reflected the governance issues and arrangements at the Council across the 2019-20 financial year</p>
<p>Additional disclosures to reflect the current COVID-19 impact on finances and Council services.</p>	<p>Narrative Report</p>	<p>The Narrative Report was reviewed and discussed with officers and a number of disclosure amendments and additions were made to ensure the report accurately reflected the Authority's current position.</p>
<p>Disclosure Only</p>	<p>Accounting Policies</p>	<p>The Accounting Policies were reviewed and a large number of changes were made to, both include policies that had been omitted and remove policies that were not relevant. This ensured that the updated policies are in line with the CIPFA Code of</p>

Value of correction	Nature of correction	Reason for correction
		Practice on Local Authority Accounting 2019-20 and appropriately tailored to the Authority.
Disclosure Only	Related Parties	The Related Parties note was updated in line with the CIPFA Code of Practice on Local Authority Accounting 2019-20, to ensure disclosures met the definitions under IAS24.
Disclosure Only	Joint Operations	The Joint Operations note and associated accounting policy was updated in line with the CIPFA Code of Practice on Local Authority Accounting 2019-20 to ensure disclosures met the definitions under IFRS11.
Various disclosures	A number of presentational and typographical errors were identified within the draft financial statements which have been corrected by management.	To remove the errors included within the financial statements.

Appendix 4

Prior year recommendations

During our audit we have performed procedures to evidence whether management have followed up on recommendations made in the 2018/19 financial year.

Exhibit 6: prior year recommendations

Recommendation	Priority	Addressed?	2019/20 Recommendation
<p>Internal Audit – Tracking of Recommendations</p> <p>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.</p> <p>This was raised in the prior year and ongoing discussion with management has confirmed that a new audit software is to be implemented in 2019/20 that will enable such information to be reported to those charged with governance.</p>	Medium	Partially	<p>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.</p> <p>This was raised in the prior year and ongoing discussion with management has confirmed that a new audit software is currently being implemented for the 2020/21 financial year that will enable such information to be reported to those charged with governance.</p>
<p>Journals Authorisation</p> <p>Not all journals are authorised within the Authority. This was raised in prior years and management have reviewed the process and lowered the authorisation threshold to £100,000 as reported to the Audit Committee. However, many journals still remain that are not reviewed and authorised before being posted to the general ledger.</p>	High	No	<p>We recommend that the Authority implements controls to ensure that journals are appropriately reviewed before posting into the general ledger.</p>
<p>Journals Users</p>	High	Yes	N/A

Recommendation	Priority	Addressed?	2019/20 Recommendation
<p>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 two access logins active simultaneously, due to a transfer to another team during the year. These accounts have different access rights within the system. 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. Access rights for an employee should be disabled when a transfer between departments occurs</p>			
<p>Bad Debt Provision As a result of the audit work performed, we recommended that a detailed review of historical debtor balances undertaken each financial year. This recommendation was also raised in the prior year. Reviewing the balances regularly ensures that the doubtful debt provision is a true reflection of the position at the year-end.</p>	Medium	No	<p>We recommend that a detailed review of historical debtor balances is undertaken each financial year, and that the bad debt provision is considered in line with an approved policy. This recommendation was also raised in prior years.</p>
<p>Capital Commitments A number of the capital commitments disclosed within note 23 could not be verified to supporting evidence at year-end. As a result of the audit work performed, we recommend that a detailed review of the capital commitment note is undertaken at each year-end, to ensure that the note accurately reflects the financial commitments made to each project.</p>	Medium	No	<p>As a result of the audit work performed, we recommend that a detailed review of the capital commitment note is undertaken at each year-end, to ensure that the note accurately reflects the financial commitments made to each project net of any spend to date. A detailed review of the Capital Plan should be</p>

Recommendation	Priority	Addressed?	2019/20 Recommendation
			undertaken to ensure the note is complete and reflects commitments made prior to year-end.
<p>Five Year Revaluation Note</p> <p>The revaluation five-year summary in note 23 was found to be incorrectly stated from testing performed. Assets that are held at current value were included in the 'Carried at historical cost' line. Also, the valuation movements for each year were included in the 'Valued at current value' lines when the actual balance at 31 March should be included. As a result of the audit work performed, we recommend that a detailed review of the revaluation five-year summary is completed to ensure that it correctly reflects the assets that are held at historical cost and those that are held at current value and valued on a cyclical basis.</p> <p>Management have declined to amend this in the 2018-19 accounts.</p>	High	No	As a result of the audit work performed, we recommend that the Council reviews its revaluation process and data management, to ensure that all assets held at current value are captured within the five-year rolling programme in line with the Code of Practice.
<p>Five Year Revaluation Programme</p> <p>Our audit has identified that not all assets are revalued in the five-year cycle contrary to the Code of Practice. We have reviewed all assets not captured and applied indices as provided by our auditors' expert (Gerald Eve LLP) against the last valuation date. This indicates that the value of these assets may be understated by approximately £2.8 million. This is below both materiality and performance materiality. We consider that this represents a control weakness, as well as being a potential understatement in the accounts.</p>	High	No	As a result of the audit work performed, we recommend that the Council reviews its revaluation process and data management, to ensure that all assets held at current value are captured within the five-year rolling programme in line with the Code of Practice.

Recommendation	Priority	Addressed?	2019/20 Recommendation
<p>For assets that are captured in the five-year rolling programme but not valued at 31 March 2019, we have similarly applied indices against the last valuation date to determine whether there is a material difference for the carrying value. Whilst a difference of some £22.3 million is indicated by applying these indices, all of these assets have been revalued within the five-year rolling period which is in accordance with the Code. We are therefore satisfied that the financial statements are not materially misstated. However, the Council should consider the frequency of the revaluations particularly for large value assets.</p> <p>As a result of the audit work performed, we recommend that the Council reviews its revaluation process and data management, to ensure that all assets held at current value are captured within the five-year rolling programme. The Council should also review those assets not valued in the current financial year to ensure the carrying value and the current value are not materially different.</p>			

Appendix 5

Recommendations

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 7: matter arising 1

Matter arising 1 – Journals' authorisation control	
Findings	Not all journals are authorised within the Authority. This was raised in prior years and management have reviewed the process and lowered the authorisation threshold to £100,000 as reported to the Audit Committee. However, many journals still remain that are not reviewed and authorised before being posted to the general ledger
Priority	High
Recommendation	We recommend that the Authority implements controls to ensure that journals are appropriately reviewed before posting into the general ledger.
Benefits of implementing the recommendation	There is currently a risk that an inappropriate or erroneous journal could be processed and impact on the financial statements.
Accepted in full by management	No
Management response	At its meeting on 16 October 2018, the Audit Committee endorsed a recommendation by officers to implement an authorisation threshold of £100,000 to its journal transfer software. There are no plans to review this limit at the present time. The ability to process journals via the system is limited to finance staff. Each service has a distinct batch type and are limited to where they can post by their security profile. Due to this we don't see this as a material issue.

Matter arising 1 – Journals’ authorisation control

Implementation date	N/A
----------------------------	-----

Exhibit 8: matter arising 2**Matter arising 2 – Journals’ authorisation control**

Findings	Users with the ability to authorise journals can self-authorise journal entries regardless of financial value. We have reviewed mitigating controls which consist of an independent review of the proposed journal which is undertaken outside of the main financial system. Whilst we are satisfied that this provides an element of assurance, the underlying systems controls should be strengthened to ensure that all such transactions are independently reviewed.
Priority	High
Recommendation	We recommend that the Authority implements controls to ensure that journals are appropriately and independently reviewed before posting into the general ledger.
Benefits of implementing the recommendation	There is currently a risk that an inappropriate or erroneous journal could be processed and impact on the financial statements.
Accepted in full by management	No
Management response	The £100,000 authorisation limit applies to all journals. If this limit is exceeded, the journal is required to be reviewed and authorised. However, the Authority considers that the authoring officers are of sufficient grade and experience to authorise their own journals.

Matter arising 2 – Journals’ authorisation control

	The larger period 14 financial accounting journals processed in Corporate Finance are subject to review prior to being posted.
Implementation date	N/A

Exhibit 9: matter arising 3

Matter arising 3 – Accuracy and review of fixed asset register – Appropriate Net Book Values

Findings	<p>Our audit identified £12 million of infrastructure assets and £24 million of vehicles, plant & equipment assets that are being carried at a net book value of zero.</p> <p>There is a risk that the Authority is depreciating assets too quickly by using inappropriate useful economic lives or is not disposing of assets with no operational value in a timely manner.</p>
Priority	High
Recommendation	We recommend that the fixed asset register is reviewed to ensure that all assets included are operational, and that a review of useful economic lives is undertaken to ensure that they are appropriate for each class of asset.
Benefits of implementing the recommendation	Reviewing the register regularly ensures that the asset base includes only those assets that are still in use for the Council.
Accepted in full by management	Yes

Matter arising 3 – Accuracy and review of fixed asset register – Appropriate Net Book Values

Management response	A full review of the fixed asset register will be undertaken to address this recommendation.
Implementation date	An initial review will be undertaken during the 2020/21 financial year with revised processes being routinely implemented thereafter.

Exhibit 10: matter arising 4

Matter arising 4 – Accuracy and review of fixed asset register

Findings	Our audit identified differences between the classification of assets in the general ledger and the fixed asset register. The Council has corrected the significant differences as shown in Appendix 3 .
Priority	High
Recommendation	We recommend that the Council periodically undertakes a full reconciliation between the fixed asset register and the general ledger to ensure that they are consistent with each other.
Benefits of implementing the recommendation	Reviewing the register regularly ensures that identified differences will not lead to a material misstatement for year-end financial reporting.
Accepted in full by management	Yes
Management response	Current procedures will be reviewed, and new processes introduced to ensure consistency between the fixed asset register and the general ledger.

Matter arising 4 – Accuracy and review of fixed asset register

Implementation date	The initial review will be undertaken during the 2020/21 financial year with revised processes being routinely implemented thereafter.
----------------------------	--

Exhibit 11: matter arising 5

Matter arising 5 – Accuracy and review of fixed asset register – Proof of Ownership

Findings	<p>We identified from the testing of land and building deeds a piece of land that is not owned by the Council but held on a long-term operating lease, was incorrectly included in the Property, Plant and Equipment line of the balance sheet and fixed asset register.</p> <p>We also identified assets that were not registered on the HM Land Registry database and ownership could not be proved by the Authority.</p>
Priority	High
Recommendation	We recommend that the fixed asset register and deed records are reviewed on a regular basis to ensure that all assets included are operational and owned by the Council, and documentation is maintained to evidence ownership by the Authority.
Benefits of implementing the recommendation	Reviewing the register regularly ensures that the asset register includes only those assets that are still in use and owned by the Council.
Accepted in full by management	Yes
Management response	This will be addressed as part of the wider review of the fixed asset register.

Matter arising 5 – Accuracy and review of fixed asset register – Proof of Ownership

Implementation date	An initial review will be undertaken during the 2020/21 financial year with revised processes being routinely implemented thereafter.
----------------------------	---

Exhibit 12: matter arising 6

Matter arising 6 – Accuracy and review of fixed asset register – Existence

Findings	<p>Our testing identified one vehicle that is no longer in existence.</p> <p>We also identified that following the additional primary school building being brought in to use at the existing comprehensive school site, the capitalised spend on the construction had been double counted in the Asset Register. The capitalised spend was incorrectly included in the 2018/19 Fixed Asset Register in addition to the revalued school site, causing this to be double counted.</p> <p>We also identified that HRA disposals had not been accounted for in-year.</p>
Priority	High
Recommendation	We recommend that the fixed asset register is reviewed to ensure that all assets included are operational and owned by the Council. The Authority should ensure that all disposals and asset transfers are communicated to the Capital Accountant on a timely basis. In addition, there should be a reconciliation between subsidiary asset records, for example the fleet register, the valuation records and the Fixed Asset Register on a regular basis.
Benefits of implementing the recommendation	Reviewing the register regularly against fleet and valuation data ensures that the asset base includes only those assets that are still in use and owned by the Council.

Matter arising 6 – Accuracy and review of fixed asset register – Existence

Accepted in full by management	Yes
Management response	This recommendation will be addressed as part of the wider review of the fixed asset register. Service areas outside of Corporate Finance will also be reminded of their roles and responsibilities.
Implementation date	An initial review will be undertaken during the 2020/21 financial year with revised processes being routinely implemented thereafter.

Exhibit 13: matter arising 7

Matter arising 7 – Bad Debt Provision

Findings	<p>The bad debt provision contained a significant amount of historical data that had been brought forward from previous years. £1.2 million of the £9.9 million balance could not be evidenced.</p> <p>The Council does not have a consistent formal policy for the calculation and treatment of the bad debt provision and write offs.</p>
Priority	High
Recommendation	<p>We recommend that a detailed review of historical debtor balances is undertaken each financial year, and that the bad debt provision is considered in line with an approved policy. This recommendation was also raised in prior years.</p>
Benefits of implementing the recommendation	<p>Reviewing the balances regularly ensures that the doubtful debt provision is a true reflection of the position at the year-end.</p>

Matter arising 7 – Bad Debt Provision

Accepted in full by management	Yes
Management response	A bad debt provision policy will be drafted which will include a requirement to review historical balances at year-end.
Implementation date	31 March 2021.

Exhibit 14: matter arising 8

Matter arising 8 – Debtors

Findings	<p>Our audit work identified that the Council is carrying forward a material amount of £9.5 million of historical opening debtor balances without assessing, on an annual basis, that they are still collectable. A listing of debtor balances on a transactional basis, as at 31 March 2020 could not be provided for audit.</p> <p>We have tested a sample of the opening balance transactions and identified an error which, when extrapolated, produced a non-material total error across the population.</p> <p>This finding has been identified and reported in previous year Audit Findings Reports.</p>
Priority	High
Recommendation	<p>Debtor balances should be reversed out of the balance sheet at the beginning of each year and reassessed at each year-end to establish if the balance has or is likely to be received by the Authority.</p> <p>If the debtor is not likely to be realised, the Authority should sufficiently provide for the doubtful debt or write out the balance in line with Council policies.</p>

Matter arising 8 – Debtors	
Benefits of implementing the recommendation	An annual review of the debtor balances ensures the balance sheet reflects an accurate position of debtors likely to be received by the Authority.
Accepted in full by management	Yes
Management response	Service accountants will be instructed to reverse all accruals out of the balance sheet on an annual basis using the automatic reversal functionality on the journal upload software. Where required, new accruals can then be processed in the new financial year.
Implementation date	2020/21 year-end process.

Exhibit 15: matter arising 9

Matter arising 9 – Creditors	
Findings	<p>Our audit work identified that the Council is carrying forward £4.73 million of historical opening creditor balances without assessing, on an annual basis, that they are still valid. A listing of creditor balances on a transactional basis, as at 31 March 2020 could not be provided for audit.</p> <p>We have tested a sample of the opening balance transactions and did not identify any errors.</p> <p>This finding has been identified and reported in previous year Audit Findings Reports.</p>
Priority	High
Recommendation	Creditor balances should be reversed out of the balance sheet at the beginning of each year and reassessed at each year-end to establish if the balance has or is likely to be paid by the Authority.

Matter arising 9 – Creditors

	If the creditor is not likely to be realised, the Authority should review why this is the case and ensure the balance is written out, if appropriate, in line with Council policies.
Benefits of implementing the recommendation	An annual review of the creditor balances ensures the balance sheet reflects an accurate position of creditors likely to be paid by the Authority.
Accepted in full by management	Yes
Management response	Service accountants will be instructed to reverse all accruals out of the balance sheet on an annual basis using the automatic reversal functionality on the journal upload software. Where required new accruals can then be processed in the new financial year.
Implementation date	2020/21 year-end process.

Exhibit 16: matter arising 10

Matter arising 10 – Creditor cut off

Findings	As a result of our testing, we identified one invoice relating to 2019-20 that has not been accrued, the extrapolated amount of this error was not material, but a recommendation has been raised below.
Priority	High
Recommendation	We recommend that all purchase orders and known charges are reviewed at year-end, with reserve creditors raised based on estimates.

Matter arising 10 – Creditor cut off

Benefits of implementing the recommendation	To ensure transactions are accounted for in the correct financial year and year-end creditors reflect the amount owed to suppliers by the Authority at year-end.
Accepted in full by management	Yes
Management response	Staff within finance and across all service areas will be reminded of their roles and responsibilities. This will be reinforced in the year-end timetable and guidance that is issued to staff.
Implementation date	2020/21 year-end process.

Exhibit 17: matter arising 11

Matter arising 11 – Internal income and expenditure

Findings	As a result of our testing, we identified two internal income transactions that were not recorded against the correct internal income codes, to ensure that they were removed from the CIES. This meant that the income was overstated within the accounts, however our extrapolation of the error demonstrated that there was not a material impact.
Priority	High
Recommendation	Improved controls should be implemented in regard to internal income and expenditure classification. A fixed number of subjective codes should be used in the general ledger across all service areas so that internal income and expenditure is easily identified at year-end for removal from the CIES.

Matter arising 11 – Internal income and expenditure

Benefits of implementing the recommendation	There is currently a risk that internal income and expenditure that should be removed from the CIES are incorrectly included. This could result in the balances being materially misstated.
Accepted in full by management	Yes
Management response	A review of existing controls and subjective codes will be undertaken.
Implementation date	31 December 2020.

Exhibit 18: matter arising 12

Matter arising 12 – PPE Depreciation Written Out on Revaluation

Findings	As a result of our testing, we identified £20,000 of depreciation written out on revaluation that should have been written back to the Comprehensive Income and Expenditure Statement but was incorrectly written out to the Revaluation Reserve. This amount is below our trivial threshold so was not adjusted. However, a recommendation has been raised below.
Priority	High
Recommendation	We recommend that a review of the depreciation write back should be completed at year-end to ensure it is accounted for correctly in line with the CIPFA Code of Practice on Local Authority Accounting, splitting the amounts out to show the write back to the Revaluation Reserve and CIES separately when appropriate.

Matter arising 12 – PPE Depreciation Written Out on Revaluation

Benefits of implementing the recommendation	To ensure all assets revaluation movements are considered and accounted for correctly within the revaluation programme to comply with the Code of Practice.
Accepted in full by management	Yes
Management response	This recommendation will be incorporated into the year-end process moving forward.
Implementation date	2020/21 onwards.

Exhibit 19: matter arising 13

Matter arising 13 – Retention of documentation

Findings	Throughout the audit it has come to our attention that the Authority is highly reliant on hard-paper copies of documentation which has caused delays due to remote working under the COVID-19 government guidelines.
Priority	Medium
Recommendation	In an environment of increased remote working, we recommend that the Authority consider digitalising all documentation to ensure ease of access and that it has a back-up copy that can be accessed remotely.
Benefits of implementing the recommendation	The Authority will have a secure back-up of critical documentation that is fully accessible remotely as and when the need arises.

Matter arising 13 – Retention of documentation

Accepted in full by management	Yes
Management response	COVID-19 has presented unprecedented challenges with staff having to quickly adapt to remote working. There will be many lessons to learn across the Authority, including ensuring that appropriate arrangements are in place to be able to routinely store and access documentation electronically.
Implementation date	Ongoing.

Exhibit 20: matter arising 14

Matter arising 14 – Capital commitments

Findings	<p>Our testing identified that a number of the capital commitments disclosed within note 22 could not be supported by appropriate documentation, which resulted in amendments to the note. A review of the Capital Plan identified further commitments which were not included in the draft note.</p> <p>The potential error was not material however, the Council has elected to adjust, see Appendix 3.</p>
Priority	Medium
Recommendation	<p>As a result of the audit work performed, we recommend that a detailed review of the capital commitment note is undertaken at each year-end to ensure that the note accurately reflects the financial commitments made to each project, net of any spend to date.</p> <p>A detailed review of the Capital Plan should be undertaken to ensure the note is complete and reflects commitments made prior to year-end.</p>

Matter arising 14 – Capital commitments

Benefits of implementing the recommendation	The note will accurately represent the capital commitments made as at the financial year-end.
Accepted in full by management	Yes
Management response	A review of the Capital Programme will be undertaken to ensure that commitments are correctly identified at year-end.
Implementation date	Initial review to be completed by 31 December 2020 and routinely thereafter.

Exhibit 21: matter arising 15

Matter arising 15 – IT General Controls

Findings	Our IT auditors undertook a review of the Council's critical financial applications and general IT environment and identified a number of control weaknesses.
Priority	High
Recommendation	<p>A number of recommendations have been made following the review and have been shared with management. Given the sensitivities around IT, we do not report the specific details of these within our Audit Findings Report. However, a high-level summary of key issues identified has been included below:</p> <ul style="list-style-type: none">• significant segregation of duties conflicts and lack of organisational structure charts;• lack of controls around user access management and monitoring; and

Matter arising 15 – IT General Controls

	<ul style="list-style-type: none"> lack of controls for reconciling data transmissions between the core financial system and subsidiary systems. <p>The full report can be made available from management, should members wish to review the extent of recommendations made.</p>
Benefits of implementing the recommendation	To ensure IT controls are operating effectively and to provide a sound control environment.
Accepted in full by management	Yes
Management response	Progress against the recommendations set out in the auditor’s report will be monitored by the Council’s Digital Leadership Group.
Implementation date	Ongoing.

Exhibit 22: matter arising 16

Matter arising 16 – Land and Building Valuation Evidence – Assumptions Evidence

Findings	As part of our testing, evidence to support the assumptions used in the valuation calculations could not be provided. These figures are key assumptions that drive the final valuation figure.
Priority	High
Recommendation	We were able to gain assurance from alternative methods in this case. However, we recommend that all assumptions

Matter arising 16 – Land and Building Valuation Evidence – Assumptions Evidence

	that drive the valuations are supported and evidenced with market and local data by the valuations team.
Benefits of implementing the recommendation	To ensure all drivers of the valuation are appropriate.
Accepted in full by management	Yes
Management response	The Council's Estates Manager has agreed that this information will be provided in future years.
Implementation date	2020/21 year-end valuations and annually thereafter.

Exhibit 23: matter arising 17

Matter arising 17 – Land and Building Valuation Evidence – Accuracy of Calculation Sheets

Findings	Our testing of land and building valuations identified one asset that has incorrectly included the value of land (£4,500) on its calculation sheet twice.
Priority	High
Recommendation	We recommend that the valuer should review all calculation sheets for accuracy prior to publication in the valuation report and ensure the underlying data driving the valuation is accurate and complete.

Matter arising 17 – Land and Building Valuation Evidence – Accuracy of Calculation Sheets

Benefits of implementing the recommendation	In this case the value of the land was of a trivial value. However, there is a risk of material misstatement if this occurs on a larger asset.
Accepted in full by management	Yes
Management response	The Council's Estates Manager will address this recommendation.
Implementation date	2020/21 year-end valuations and annually thereafter.

Exhibit 24: matter arising 18

Matter arising 18 – Related Parties – Declaration of Interests

Findings	Our testing identified an instance where one senior officer (Monitoring Officer) of the Authority had not made their declarations of interest as at 31 March 2020.
Priority	High
Recommendation	We recommend that the declarations of interest are monitored and updated on a timely basis to ensure all related parties are captured in the financial statements.
Benefits of implementing the recommendation	To ensure all related parties are captured in line with IAS24.
Accepted in full by management	Yes

Matter arising 18 – Related Parties – Declaration of Interests

Management response	We will put arrangements in place to ensure that declarations of interest are updated in a timely manner and are followed up where necessary.
Implementation date	Immediately.

Exhibit 25: matter arising 19**Matter arising 19 – Internal Audit – Tracking of Recommendations**

Findings	Internal Audit – Tracking of Recommendations
Priority	High
Recommendation	<p>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.</p> <p>This was raised in the prior year and ongoing discussion with management has confirmed that a new audit software is currently being implemented for the 2020/21 financial year that will enable such information to be reported to those charged with governance.</p>
Benefits of implementing the recommendation	The Audit Committee have oversight of the recommendations made and progress in clearing these.
Accepted in full by management	Yes
Management response	The new software (MK insights) was successfully implemented in September 2019. Work was then undertaken to develop and tailor the individual audit

Matter arising 19 – Internal Audit – Tracking of Recommendations

	<p>programmes for the various audit areas. Work was also being undertaken to develop and tailor the various management reporting functions and audit report formats, and to set up notifications for recommendation tracking (due dates and overdue) and reporting to the Audit Committee.</p> <p>This work has been temporarily suspended due to COVID-19 but will restart as soon as practically possible. Work had also commenced developing the business user integrated portal to allow users to update progress on recommendations online, and it is planned to continue this with a view to going live sometime in the second half of the 2020/21 financial year.</p> <p>Some fine tuning of the reporting of audit opinions has also been developed during 2019/20 to enhance the four tier opinions previously adopted, and to ensure that the input of the Audit Committee and appropriate officers was correctly targeted in respect of those audits found to be in need of improvement. This was the subject of a report that was presented to and agreed by the Audit Committee on 16 October 2019.</p>
Implementation date	Full implementation of new software by 31 March 2021. Time has been factored into the Internal Audit Services Audit Plan to complete this work.

Exhibit 26: matter arising 20

Matter arising 20 – Oversight and Review of Capital Accounting

Findings	<p>In addition to the other capital recommendations made, our testing of the five-year revaluation programme identified nine asset lines with a gross book value of £11.89 million (Net Book Value of £5.968 million) that had not been revalued in the five-year programme.</p> <p>Following a further review by officers, individual assets in respect of these amounts could not be identified nor could they be attributed to forming part of other assets. It was determined that these amounts related to accumulated expenditure from previous years. Consequently, the</p>
-----------------	--

Matter arising 20 – Oversight and Review of Capital Accounting

	decision was taken to de-recognise these amounts within the financial statements as there is no identifiable assets.
Priority	High
Recommendation	<p>Throughout our audit we have identified multiple significant errors within the capital accounts, which have arisen as a result of a lack of oversight and review of the work of the Treasury and Capital Accountant.</p> <p>Particular attention should be given to the capitalisation and componentisation of assets and ensure this is attributable to a specific asset.</p> <p>We acknowledge that there was a new Treasury and Capital Accountant in post as of March 2020 which has identified areas for improvement from 2020/21 onwards.</p>
Benefits of implementing the recommendation	The risk of material misstatement is significantly lower, as errors are identified prior to submission to audit.
Accepted in full by management	Yes
Management response	We will undertake a review of the current processes around the preparation of the Authority's capital accounts and implement a new system of review and oversight of this area in preparation for the 2020/21 accounts.
Implementation date	Immediately

Exhibit 27: matter arising 21

Matter arising 21 – HRA Archetype Groups	
Findings	<p>Our testing of the beacon properties has identified that there are clear differences in the archetype categories between the clients' records and the valuers as a result of additions and disposals in-year.</p> <p>The potential maximum misstatement as a result of the differences is £1.995 million, which is not material.</p>
Priority	High
Recommendation	We recommend that the Council and the valuer review and agree the categorisation of Council Dwellings into archetype groups ahead of the full valuation of Council Dwellings that is due to take place for the 2020/21 financial year.
Benefits of implementing the recommendation	Council Dwellings will not be materially misstated when disposals and additions occur.
Accepted in full by management	Yes
Management response	<p>The movement in the stock is as per the Authority's records. The difference has arisen due to the valuer allocating the Authority's Council dwellings to beacons during their valuation. This information hasn't been shared with the Authority to allow a full comparison with our records.</p> <p>We will review and agree the categorisation of the Council Dwellings into archetypal groups with the valuer to support the 2020-21 final accounts process.</p>
Implementation date	31 March 2021

Exhibit 28: matter arising 22

Matter arising 22 – Statement of Cash Flows	
Findings	Our testing of the restated Statement of Cash Flows and associated notes for 2018/19 identified a non-material balance of £1.9 million of non-cash items that officers were not able to evidence.
Priority	High
Recommendation	We recommend that the Council ensure that the Statement of Cash Flows is complete and accurately evidenced in future years.
Benefits of implementing the recommendation	The Statement of Cash Flows is complete and accurate.
Accepted in full by management	Yes
Management response	We will fully review our existing processes for preparing the Cash Flow Statement for the final Statement of Accounts.
Implementation date	31 March 2021



Audit Wales

24 Cathedral Road

Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

We welcome correspondence and telephone calls in Welsh and English.
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.

Financial Accounts

For the year ended

31 March 2020



A greener place Man gwyrddach



**Financial Accounts for the year ended
31 March 2020**

Contents	Pages
Narrative Report	2 – 11
Statement of Responsibilities for the Statement of Accounts	12
The Independent Auditors' Report to Members of Caerphilly County Borough Council	13 – 15
Introduction to Accounting Statements	16
Comprehensive Income and Expenditure Statement	17 - 18
Movement in Reserves Statement	19 - 20
Balance Sheet	21 - 22
Cash Flow Statement	23 - 24
Notes to the Core Financial Statements	25 - 121
Housing Revenue Account	122 - 123
Movement on the Housing Revenue Account Statement	124 - 125
Notes to the Housing Revenue Account	126 - 128
Glossary of Terms	129 - 131
Annual Governance Statement	132 - 148

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 181,075.

The Council’s current Cabinet will lead the administration until the next local government elections in May 2022. The Cabinet launched a set of commitments to the organisation to staff and to communities early on in its tenure, which are incorporated into the Council’s Corporate Plan (2018-2023).

The Cabinet commitments are:

- We will always do our best to protect jobs and services within the current challenging financial climate;
- We will build on Caerphilly County Borough Council’s reputation as an innovative, high performing local authority;
- We will ensure we have an engaged and motivated workforce;
- We will always strive to ensure Caerphilly County Borough Council delivers value for money in everything it does;
- We will help protect the most vulnerable people in our society and make safeguarding a key priority;
- We will always welcome feedback and consider the views of residents, staff and other key stakeholders;
- We will be open, honest and transparent in everything we do.

The Corporate Plan (2018-2023) also sets out the Council’s Well-being Objectives. These Objectives were informed by the data and narrative included within the local assessment of well-being carried out by the Caerphilly Public Services Board (PSB). The Corporate Plan includes our well-being statement detailing why we chose our objectives and how they will be monitored and resourced. The 6 Well-being Objectives are as follows:

- Improve education opportunities for all;
- Enable employment;
- Address the supply, condition and sustainability of homes throughout the County Borough and provide advice, assistance or support to help improve people’s health and well-being;
- Promote a modern, integrated and sustainable transport system that increases opportunity, promotes prosperity and minimises the adverse impacts on the environment;
- Creating a County Borough that supports a healthy lifestyle in accordance with the sustainable development principle in the Well-being of Future Generations Act;
- Support citizens to remain independent and improve their well-being.

Our Well-being Objectives are reflected in, and support those of our partners on the Caerphilly Public Services Board. Across the public and voluntary sector, we are working in collaboration to secure the well-being of our future generations.

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)

2019/2020 Revenue Expenditure

Details of the Authority's revenue expenditure for the year are provided in the Comprehensive Income and Expenditure Statement on page 18. The account is classified according to service expenditure areas.

In 2019/2020, the Authority's expenditure and income compared to budget was:

Service Area	Original Estimate £000	Revised Estimate £000	Outturn £000	In Year use of Reserves £000	Revenue Contribution to capital £000	(Overspend) /Underspend £000
Education and Lifelong Learning	130,395	130,395	129,564	2,720	23	(1,912)
Social Services and Housing Communities	91,667	91,667	87,385	(518)	816	3,984
Corporate Services	48,677	48,677	48,306	(50)	1,064	(643)
HRA	67,006	67,006	61,182	2,036	0	3,788
	0	0	(23,070)	99	16,271	6,700
Total Service Expenditure	337,745	337,745	303,367	4,287	18,174	11,917
Funding Income	(336,695)	(336,695)	(338,000)	0	0	1,305
Budget Strategy Contribution from Reserves	(1,050)	(1,050)	0	(1,050)	0	0
Surplus / (Deficit) on Provision of Services	0	0	(34,633)	3,237	18,174	13,222
Transfer to Earmarked Reserves						9,859
Transfer to General Fund Reserves						3,363
Total Transfer to Balance Sheet						13,222
General Fund Reserves as at 31 March 2019						(15,089)
Budget Strategy Contribution						1,050
In Year Movement						2,379
Outturn Contribution						(3,363)
General Fund Reserves as at 31 March 2020						(15,023)

Further details of the Authority's outturn performance against budget can be found in the Acting Section 151 Officer's Provisional Outturn Report 2019/2020 which was presented to Cabinet on 1 July 2020. 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)

Funding Income

The following table details the main sources of income received by the Authority to fund service expenditure in 2019/2020:

	2019/2020		
	Revised	Outturn	Variance
	<u>Estimate</u>	<u>£000</u>	<u>£000</u>
Funding Income			
Council Tax (net of Police Authority and Community Council Precepts)	68,081	69,386	(1,305)
Revenue Support Grant	211,105	211,105	0
Non Domestic Rates	57,509	57,509	0
Total Funding Income	336,695	338,000	(1,305)

Housing Revenue Account

Details of the Housing Revenue Account are set out on pages 123 to 128. For 2019/2020, actual outturn compared to budget was as follows:

	2019/2020		
	Original	Actual	Variance
	<u>Estimate</u>	<u>Outturn</u>	<u>£000</u>
Expenditure	67,788	35,350	(32,438)
Income	(67,788)	(58,420)	9,368
(Surplus)/Deficit for the year on HRA Services	0	(23,070)	(23,070)
HRA Outturn	0	(23,070)	(23,070)

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 21.

	1 April 2019	Movement	31 March 2020
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Reserves - Usable	(118,523)	(20,902)	(139,425)
- Unusable	(158,997)	(100,748)	(259,745)
	(277,520)	(121,650)	(399,170)

Narrative Report (continued)

Loan Debt

The total amount outstanding as at 31 March 2020 was £304.348m, 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 note 12. The nominal value represents the principal amount outstanding at the Balance Sheet date.

	Restated 2018/2019 £000	2019/2020 £000
<i>Amortised Cost of Loans:</i>		
Loan debt repayable in one year	(6,495)	(5,880)
Loan debt repayable in more than one year	<u>(277,720)</u>	<u>(298,468)</u>
	<u>(284,215)</u>	<u>(304,348)</u>
<i>Nominal Value of Loans:</i>		
Loan debt repayable in one year	(3,657)	(3,103)
Loan debt repayable in more than one year	<u>(277,720)</u>	<u>(298,468)</u>
	<u>(281,377)</u>	<u>(301,571)</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 2019/2020, 95.72% of payments were made within 30 days (96.1% in 2018/2019). 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 2019/2020, invoices were settled within an average of 10.91 calendar days (11.28 calendar days in 2018/2019).

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.
- 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 2019/2020 is £514.371m (£629.906m in 2018/2019). 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.

Narrative Report (continued)

2019/2020 Capital Expenditure

Capital expenditure during the year amounted to some £76.26m (2018/2019 - £78.625m), the major items within this figure being identified below:

	<u>£000</u>	<u>£000</u>
Housing:		
Repairs and Improvements	50,750	
Improvement Grants & Private Sites	1,768	
	52,518	52,518
Non Housing:		
Education & Lifelong Learning	4,704	
Social Services	788	
Highways & Transportation and Land Reclamation	9,479	
Economic Development/Tourism	1,460	
Planning	1,426	
Environmental Services	2,609	
Sports and Leisure (including Countryside)	1,947	
Other	1,329	
	23,742	23,742
		76,260
Financed by : Grants including Minimum Revenue Provision		40,249
Other		36,011
		76,260

Capital expenditure was financed by grants (£40.249m) and other sources (£36.011m). The Authority has also entered into several 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 2019/20 Caerphilly CBC has delivered savings of £103m to address reductions in funding and inescapable cost pressures.

Caerphilly CBC's budget for the 2020/21 financial year was approved by Council on the 20th February 2020 and this included further savings of £3m to ensure that financial commitments can be met and that a balanced budget can be achieved.

The Council has strived to limit the impact of savings on front-line services. However, due to the scale of the ongoing financial challenge this is becoming increasingly difficult and in recent years savings have been required in a number of areas that impact on the public.

The funding situation for Local Government is unlikely to improve for some time and this is now further exacerbated by the additional significant financial impact of the Covid-19 pandemic. The emergence of the Coronavirus has posed a significant and unprecedented challenge to our way of life and the way in which we provide services.

In response to the pandemic and lock-down the Authority has refocussed, repurposed and reshaped its priorities and how it works within a very short timescale. This has ensured that we have been best placed and equipped to respond to the immediate needs of our communities.

The Authority is incurring immediate significant additional costs due to the pandemic and is also losing income in several areas. Additional costs of £7.538m have been incurred for the period March to September 2020 in key areas such as Social Care, the provision of Personal Protective Equipment (PPE), Information Technology, the establishment of Community Hubs for childcare provision and Free School Meals.

The additional cost figures do not include an increase in applications for Council Tax support through the Council Tax Reduction Scheme (CTRS), where we are currently projecting a 5.4% increase in expenditure compared to last year. On the 28th August 2020 it was announced that £2.85m would be allocated to local authorities from the Welsh Government Coronavirus Emergency Fund to meet the additional CTRS costs for the first quarter of the 2020/21 financial year. We are currently awaiting confirmation that further funding will be provided for the remainder of the financial year.

Income lost totals £1.820m for the period March to June 2020 with key areas being Leisure Centres, Tourism Venues and School Catering. The income lost figure for the second quarter of the financial year is currently in the process of being calculated. The income lost figures do not include Council Tax where collection rates are being adversely affected by the economic impact of the pandemic. Collection rates for the first half of the 2020/21 financial year were 2.2% lower than for the same period last year, albeit that an element of this will be due to payment deferrals being agreed where requested. The Welsh Government is keeping the position on Council Tax collection under review but has not committed to additional funding at this stage.

The Welsh Government has provided a financial support package to help Local Authorities manage the financial impact of Covid-19 during the 2020/21 financial year. With the real possibility of further peaks in the virus during the autumn and winter months this investment provides local authorities with the confidence to prepare their budgets for a potential second wave. However, the position regarding financial support in the medium to longer-term remains unclear and therefore presents a significant financial risk. This creates a very difficult environment for Local Government where significant real-terms reductions in funding have been experienced over an extended period.

Narrative Report (continued)

Maintaining financial sustainability in the medium to long-term is an 'Amber Risk' on the Authority's Covid-19 Risk Register, which is regularly reviewed and updated by the Corporate Management Team. The position will also be closely monitored throughout the 2020/21 financial year using our established budget monitoring processes. At its meeting on the 1st July 2020, Cabinet endorsed a recommendation in the Provisional Outturn for 2019/20 Report to transfer £2.713m into an earmarked reserve to meet potential unfunded additional costs arising from the Covid-19 pandemic. This recommendation was subsequently approved by Council at its meeting on the 10th September 2020.

Clearly, the virus will remain with us for some time yet and the resilience of the organisation and our communities must be ensured and protected throughout and it is this primary objective we will continue to focus upon over the forthcoming months.

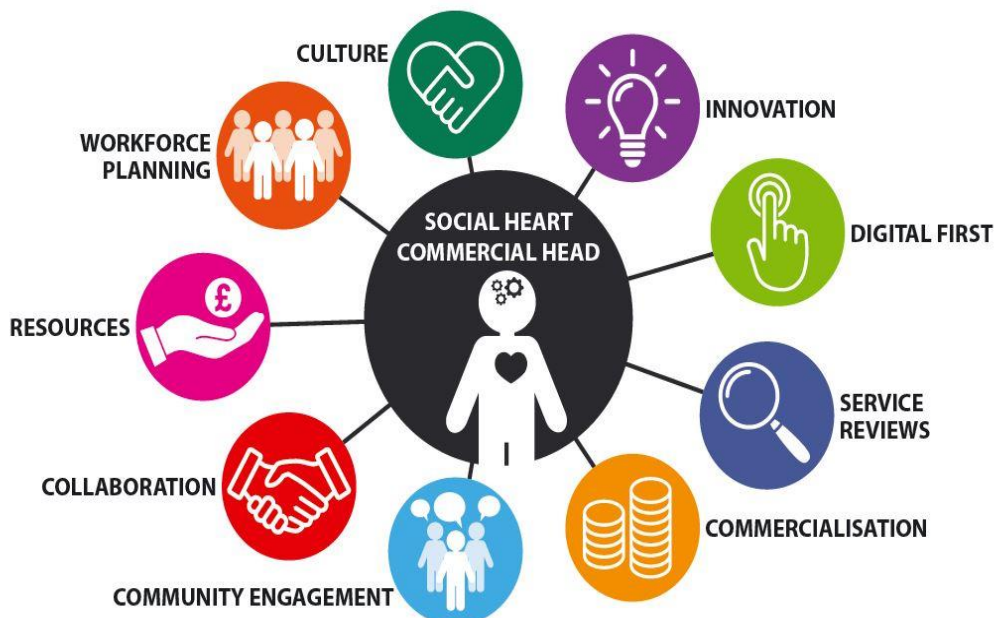
The financial challenges that we face are unprecedented and it is inevitable that some very difficult decisions will need to be made. Even before the emergence of Covid-19 it was widely accepted that the Council cannot continue as it is and an acknowledgement that we need to examine the way in which we use our resources to deliver the services required by our communities across the county borough.

At its meeting on the 12th June 2019 the Council's Cabinet approved the Future Caerphilly Transformation Strategy, ***Team Caerphilly – Better Together***. This Strategy sets out details of a major transformation programme to examine how services are prioritised, how they can become more business efficient, to explore opportunities for greater customer focus and digital delivery, and to consider alternative delivery models and seek out commercial opportunities. Furthermore, to enable the Council to continue providing high quality value for money services in an environment that will require new approaches and new skills, the Strategy acknowledged that a new relationship will need to be built with staff and communities.

The Strategy is multi-faceted and at the core of the programme of change is the new mantra of *Social Heart and Commercial Head*. This recognises a commitment to public service and the needs of citizens, but also demonstrates a commitment to explore commercial and investment opportunities, where appropriate, to generate income that can be reinvested in services to help them remain resilient in the current challenging financial climate.

Narrative Report (continued)

The strategic programme of “whole-authority” work is being delivered through the following key themes, which underpin the new operating model of the Council: -



Underpinning this model of delivery will be an integrated programme of social, economic and environmental regeneration projects that will begin to reshape the County Borough. These are: -

- The completion of a £261m physical improvement programme to our housing stock through the delivery of the Welsh Housing Quality Standard (WHQS).
- Implementing the Shared Ambitions Strategy to raise standards and ensure our learners are healthy, confident, proud and ambitious and can benefit from high quality educational opportunities, settings and experiences.
- The commencement of the second phase of the 21st Century schools programme.
- Delivering the Council's emerging Digital Strategy by opening the Digital Front Door and introducing a wide-ranging digital transformation programme that transforms every aspect of service delivery.
- Continuing the delivery of the Sports and Active Recreation Strategy, providing a sustainable approach to leisure and physical activity provision.
- The introduction of an integrated “one-stop shop” public service offer located within the heart of our communities, through the provision of strategically located integrated hubs, enhancing our engagement and service offer to the public.
- An exciting programme of economic, social and environmental investments to enable inclusive growth and opportunity across the County Borough, that aligns and positions us firmly with the City Region's economic ambitions. This will also include maximising our Green energy credentials through effective and innovative use of our assets.

Narrative Report (continued)

Good progress was made during the 2019/20 financial year in implementing the Strategic Action Plan that underpins the Transformation Strategy. The emergence of Covid-19 and the required response has accelerated the pace of change in some areas and we will now seek to build on this moving forward to ensure that we can offer cost effective, resilient services that meet the needs of our communities through these challenging times and in the medium to longer-term.

The learning that the Council has developed through its response to COVID-19 has helped reshape and expand the transformation programme. At its meeting of the 16th July 2020, Cabinet endorsed the inclusion of ten corporate reviews within the **Team Caerphilly – Better Together** programme, all of which expand on or embed further many of the positive changes implemented in response to Covid-19. The Corporate Reviews are as follows: -

1	Walk in Services Review	OneCouncil	Learning Organisation
2	Remote Contact Review		
3	Front Line Delivery Review		
4	Support Services Review		
5	Information, Insight and Intelligence Review		
6	Flexible Working Review	Workforce & Resources	
7	Sustainable Financial Planning Review		
8	Workforce Development Review		
9	Corporate Volunteering & Community Partnership Review		
10	Decision-Making Review		

The Council's Medium-Term Financial Plan (MTFP) will be updated during the coming months and this will be the subject of future reports to both Cabinet and Council.

Brexit

Since the first “no deal deadline” of the 29th March 2019 there have been a series of intensive Brexit discussions at a UK/EU level. This resulted in the Brexit Withdrawal Agreement being signed in January 2020, but little concrete progress has been made since that time.

The 21-month transition period, that was agreed will end on the 31st December 2020, is fast running out. Negotiations have been ongoing but to date there appears to have been little progress. This means that we will approach a new “no deal cliff edge”. The UK Government did not apply for an extension to the transition period by the deadline of the 30th June 2020, so we are now facing a heightened risk that the UK will leave the EU without a deal at the end of December 2020.

The ongoing uncertainty surrounding the UK's exit from the European Union is inevitably creating challenges for the Council and the communities that we support. Despite this high level of uncertainty, it is important that the Council is taking steps to prepare for the potential impacts arising from Brexit, particularly leaving in a no deal scenario. It is also important to ensure that funding is set aside to meet any potential short to medium-term financial implications.

Narrative Report (continued)

The Council has established an internal Brexit Working Group to ensure that appropriate actions are taken to help mitigate the risks of Brexit. Key risks have already been identified in respect of: -

- potential disruption to the supply chain;
- potential increases in prices for goods and services;
- potential impact on the supply of labour, particularly for commissioned services; and
- potential negative impacts on small businesses in the short to medium-term, along with the potential for a lack of inward investment in the longer-term.

This list is not exhaustive and the Brexit Working Group will continue to meet during the coming months to ensure that all potential impacts are considered and that appropriate mitigating actions are identified wherever possible.

Given the high level of uncertainty and the potential negative impacts of Brexit the Council has agreed to set aside one-off funding of £1m to meet any financial implications that may arise.

Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020

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 2019/2020 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 Financial Services & 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 Financial Services & S151 Officer

The Head of Financial Services & 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 Financial Services & 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 Financial Services & 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 the Head of Financial Services & S151 Officer

I certify that the accounts, set out on pages 18 to 128, give a true and fair view of the financial position of the Authority as at 31 March 2020 and its income and expenditure for the year then ended.

S. Harris, Head of Financial Services & S151 Officer

Date

The accounts were approved by the Council on

Signed on behalf of Caerphilly County Borough Council:

Councillor C. Andrews, 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 2020 under the Public Audit (Wales) Act 2004.

Caerphilly County Borough Council's financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, Movement on the Housing Revenue Account and the related notes to the core financial statements, Movement on the Housing Revenue Statement and Housing Revenue Account, 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 2020 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 2020 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 2020.

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.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings

I draw attention to Note 3 to the financial statements, which describes a material valuation uncertainty clause in the valuation reports on land, building property assets issued by the Council's in-house valuer and on council dwellings issues by the Council's external valuation expert. This has arisen from circumstances caused by the COVID-19 pandemic. My opinion is not modified in respect of this matter.

Emphasis of Matter – effects of Covid-19 on the valuation of pooled property units at Greater Gwent Pension Fund

The Greater Gwent Pension Fund, of which Caerphilly County Borough Council is an admitted body, holds investments in Pooled Property Units. I draw attention to Note 3 to the financial statements, which describes a material valuation uncertainty clause in the valuation report on Pooled Property Units, arising from circumstances caused by the COVID-19 pandemic. My opinion is not modified in respect of this matter.

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

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 2020; 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:

- proper 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.

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

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 12, 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. This description forms part of my auditor's report.

Adrian Crompton
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 2019/2020 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** – showing 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. 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 2020

Caerphilly County Borough Council

Comprehensive Income and Expenditure Statement

Restated 31 March 2019			31 March 2020				
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure	Note
£000	£000	£000		£000	£000	£000	
211,299	(41,283)	170,016	Education and Lifelong Learning	194,945	(45,941)	149,004	
145,227	(49,902)	95,325	Social Services and Housing	153,703	(55,290)	98,413	
100,581	(28,120)	72,461	Communities	99,661	(29,790)	69,871	
107,354	(65,288)	42,066	Corporate Services	94,602	(57,011)	37,591	
40,511	(55,533)	(15,022)	HRA	44,821	(58,298)	(13,477)	
604,972	(240,126)	364,846	Cost of Services	587,732	(246,330)	341,402	
92,339	(4,752)	87,587	Other Operating Expenditure	93,779	(5,251)	88,528	9
31,220	(863)	30,357	Financing and Investment Income and Expenditure	32,987	(1,062)	31,925	10
	(370,305)	(370,305)	Taxation and Non-Specific Grant Income		(379,857)	(379,857)	11
		112,485	(Surplus)/Deficit on Provision of Services			81,998	
		97,025	(Surplus)/deficit on revaluation of non-current assets			(45,962)	30
		(2,685)	(Surplus)/deficit on revaluation of available-for-sale financial assets			0	
		88,141	Actuarial (gains)/losses on pensions assets/liabilities			(157,686)	13
		182,481	Other Comprehensive (Income) and Expenditure			(203,648)	
		294,966	Total Comprehensive (Income) and Expenditure			(121,650)	

Movement in Reserves Statement
For the year ended
31 March 2020

Caerphilly County Borough Council

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
Balance at 1 April 2018	(13,200)	(73,836)	(87,036)	(5,090)	(9,149)	(8,523)	(109,798)	(462,688)	(572,486)	
Restated Movement in reserves during 2018/2019										
Total Comprehensive Income and Expenditure	82,169	0	82,169	30,316	0	0	112,485	182,481	294,966	
Adjustments between accounting basis and funding basis under regulations	(86,029)	0	(86,029)	(31,267)	(5,792)	(4,752)	(127,840)	127,840	0	7
Restated (Increase)/Decrease in Year	(3,860)	0	(3,860)	(951)	(5,792)	(4,752)	(15,355)	310,321	294,966	
Transfers (to)/from earmarked reserves	1,971	(1,971)	0	0	3,334	3,296	6,630	(6,630)	0	
Restated Balance at 31 March 2019	(15,089)	(75,807)	(90,896)	(6,041)	(11,607)	(9,979)	(118,523)	(158,997)	(277,520)	
Movement in reserves during 2019/2020										
Total Comprehensive Income and Expenditure	50,958	0	50,958	31,040	0	0	81,998	(203,648)	(121,650)	
Adjustments between accounting basis and funding basis under regulations	(60,609)	0	(60,609)	(37,840)	(3,828)	(5,251)	(107,528)	107,528	0	7
(Increase)/Decrease in Year	(9,651)	0	(9,651)	(6,800)	(3,828)	(5,251)	(25,530)	(96,120)	(121,650)	
Transfers (to)/from earmarked reserves	9,717	(9,717)	0	0	8	4,620	4,628	(4,628)	0	
Balance at 31 March 2020	(15,023)	(85,524)	(100,547)	(12,841)	(15,427)	(10,610)	(139,425)	(259,745)	(399,170)	

Balance Sheet
As at 31 March 2020

Caerphilly County Borough Council

Balance Sheet

Restated 31 March 2019 £000		31 March 2020 £000	Note
1,147,582	Property, Plant & Equipment	1,158,284	22
11,222	Heritage Assets	10,785	23
34,344	Long Term Investments	31,004	12
627	Long Term Debtors	776	
1,193,775	Long Term Assets	1,200,849	
55,989	Short Term Investments	79,919	12
834	Assets Held for Sale	824	
430	Inventories	406	
32,109	Short Term Debtors	52,946	25
854	Cash and Cash Equivalents	701	26
90,216	Current Assets	134,796	
(6,495)	Short Term Borrowing	(5,880)	12, 27
(53,421)	Short Term Creditors	(80,457)	27
(1,473)	Short Term Provisions	(1,216)	
(61,389)	Current Liabilities	(87,553)	
(2,342)	Long Term Provisions	(3,179)	
(277,720)	Long Term Borrowing	(298,468)	12
(663,715)	Other Long Term Liabilities	(545,970)	12-14
(1,305)	Capital Grants Receipts in Advance	(1,305)	
(945,082)	Long Term Liabilities	(848,922)	
277,520	Net Assets	399,170	
(118,523)	Usable Reserves	(139,425)	21
(158,997)	Unusable Reserves	(259,745)	21
(277,520)	Total Reserves	(399,170)	

The notes on pages 26 to 121 form part of the statement of accounts.

The Head of Financial Services & S151 Officer, acting as Responsible Financial Officer, gave authorisation for the issue of these accounts on 24 November 2020. In doing so, the Financial Accounts include all material events, relating to the financial year, but occurring after the date of the balance sheet.

Cash Flow Statement
For the year ended 31 March 2020

Cash Flow Statement

Restated 2018/2019 £000		2019/2020 £000	Note
112,485	Net (surplus) or deficit on provision of services	81,998	
(171,559)	Adjust net surplus or deficit on the provision of services for non cash movement	(161,153)	39
18,492	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	29,269	39
(40,582)	Net cash flows from Operating Activities	(49,886)	
31,518	Investing Activities	65,489	41
9,116	Financing Activities	(15,450)	42
52	Net (increase) or decrease in cash and cash equivalents	153	
(906)	Cash and cash equivalents at the beginning of the reporting period	(854)	
(854)	Cash and cash equivalents at the end of the reporting period	(701)	26

**Notes
to the
Core Financial Statements**

Notes to the Core Financial Statements (continued)

1. Accounting Policies

a) General Principles

The Statement of Accounts summarises the Authority's transactions for the 2019/2020 financial year and its position at the year-end of 31 March 2020. 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 2019/2020 (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.

b) 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 contracts with service recipients, whether for services or the provision of goods is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- 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 those 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 based on 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 h).

c) 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.

d) Charges to Revenue for Non-Current Assets

Services 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.

Notes to the Core Financial Statements (continued)

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.

e) 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.

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 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.

Notes to the Core Financial Statements (continued)

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 2.3% (2.4% in 2018/2019) 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.

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.
 - 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.

Notes to the Core Financial Statements (continued)

Former Authority Liabilities

The Authority has a number of unfunded pension liabilities in respect of employees of the former County and District councils with the Greater Gwent (Torfaen) Pension Fund and the Rhondda Cynon Taff pension fund. These pension costs are paid by the Authority as they arise in year. Further details can be found in Note 13.

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.

f) 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.
- 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.

g) Financial Instruments

As at 1st April 2018 the Authority adopted the new IFRS 9 standard relating to Financial Instruments. IFRS 9 Financial Instruments is the new accounting standard for investments, borrowing, receivables and payables, which applies to local authorities from the 2018/19 financial year onwards.

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).

The Authority shall derecognise a financial liability (or a part of a financial liability) when, and only when, it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid including any non-cash assets transferred or liabilities assumed shall be recognised in Surplus or Deficit on the Provision of Services. There is no requirement to set aside an impairment loss allowance provision for financial liabilities since it is assumed that the Authority will meet its liabilities in full as they become due.

Notes to the Core Financial Statements (continued)

Financial Assets

A financial asset is a right to future economic benefits controlled by the Authority that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the Authority.

Financial Assets are classified into three categories:

- Amortised cost;
- Fair value through profit or loss (FVPL); and
- Fair value through other comprehensive income (FVOCI)

The accounting classification of financial assets depends on two main tests: whether the cash flows are solely payments of principal and interest; and if yes, the authority's business model for managing the assets. Under IFRS 9 there are three business models where financial assets meet the "solely payments of principal and interest" test. The classification depends on the Authority's model for managing the assets. The Authority's preferential business model is to collect cash flows, and subsequently financial assets will be held at amortised cost.

Financial Assets measured at Amortised Cost - Financial assets measured at amortised cost are characterised by cash flows that are solely payments of principal and interest and the Authority's business model is to collect those cash flows. These 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 at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Historically, the authority has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

Financial Assets Measured at Fair Value through Profit of Loss - Financial assets that are measured at FVPL 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. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

1. instruments with quoted market prices – the market price
2. other instruments with fixed and determinable payments – discounted cash flow analysis.
3. The inputs to the measurement techniques are categorised in accordance with the following three levels:

Notes to the Core Financial Statements (continued)

- 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.

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. There is no requirement to set aside an impairment loss allowance provision for financial assets measured at FVPL since increases in the chance of default are presumed to be already included in the fair value.

Financial assets that fall into this accounting measurement category are those held for trading; money market funds; company shares; and strategic investment pool funds. Equity instruments also fall into this category. The Authority's will evaluate each financial asset and determine whether such asset will be treated as FVPL; or whether a once in the assets lifetime an irrevocable election is made upon initial recognition to elect the investment at FVOCI rather than FVPL. The Authority, where applicable, will make the election in writing and signed by the Head of Corporate Finance and Section 151 Officer. The Authority will not revoke the election before derecognition of the financial asset.

Equity Instrument

If the cash flows of a Financial Asset do not meet the solely payments of principal and interest test, then the asset is an equity instrument. An equity instrument is where the cash flows are not contractual but derive from the investor's ownership of the net assets of another entity. Equity instruments are measured at Fair Value through Profit or Loss unless an irrevocable election is made upon initial recognition to elect the investment at FVOCI rather than FVPL.

Expected Credit Loss Model

The authority recognises expected credit losses on all its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses. Where applicable the Authority will use data published by the main credit rating agencies for historical default losses as a means to assess credit risk. These cash flow scenarios are then discounted at the Effective Interest Rate, weighted by their estimated probabilities and totalled to give an expected value. The difference between the expected value and the initial fair value is the expected credit loss, and a loss allowance is set aside for this amount.

CIPFA/LASAAC has ruled that the loss allowance should be zero where the borrower/debtor is a central or local government body. Note that this does not include local authority owned companies.

The Authority will not recognise a loss allowance for expected credit losses on a financial asset where the counterparty for a financial asset is central government or a local authority for which relevant statutory provisions prevent default.

The Authority will look to fund the impairment loss provision from Miscellaneous Finance/ working balances. A provision will be created on the balance sheet.

Notes to the Core Financial Statements (continued)

h) 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.

i) Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangements have rights to the assets and obligations for the liabilities relating to the arrangements. Joint Committees are examples of joint operations. The activities undertaken by the Authority in conjunction with other joint operators involve the use of the assets and resources of those joint operations. Where material, the relevant proportion of the transactions and balances are recognised in the Authority's financial statements. These reflect the transactions and balances as per the draft accounts prepared for each Joint Operation.

j) 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.

Notes to the Core Financial Statements (continued)

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 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.

k) 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.

l) 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.

Notes to the Core Financial Statements (continued)

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 fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the 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.

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 – fair 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 – fair 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 fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

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

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

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income and

Notes to the Core Financial Statements (continued)

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.

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.

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.

Notes to the Core Financial Statements (continued)

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.

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

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. 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.

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.

De-Recognised Capital Expenditure

The Authority revalues its housing stock annually. Any capital expenditure incurred on the stock is then componentised. The carrying amount of the old component is then derecognised to avoid double counting as the new component will be included in the revised carrying value.

Notes to the Core Financial Statements (continued)

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

In respect of capital expenditure on components on general fund property plant and equipment, the carrying amount of the old component is also de-recognised by writing off to Other Operating Expenditure as part of a gain or loss on disposal as mentioned above. The new component is also included in the revised carrying value of the asset.

m) 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 23.

Heritage Assets are accounted for in a different way from other property plant and equipment as they are considered to have infinite lives. Such 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. As they have infinite lives, no depreciation is charged on these assets. Heritage Assets considered immaterial have been excluded from the Balance Sheet especially where their cost is not readily available and the benefit of valuing the asset is counterweighed by the cost of obtaining the valuation.

n) 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.

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 8% for the road and 7.2% 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 38 for the PFI Equalisation Reserves).

Notes to the Core Financial Statements (continued)

o) 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.

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 21.

p) 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.

q) 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.

Notes to the Core Financial Statements (continued)

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.

r) 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.

s) 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 19 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.

t) Recognition of Revenue from Non-Exchange Transactions

Assets and revenue arising from non-exchange transactions, for example Council Tax, National Non-Domestic rates etc 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.

Notes to the Core Financial Statements (continued)

u) 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.

v) 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.

w) 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.

x) 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:

Notes to the Core Financial Statements (continued)

- 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.

y) 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.

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 £31.604m) and Road (valued at £23.898m) are recognised as Property, Plant and Equipment on the Authority's Balance Sheet.
- School Assets - the Authority has established with the relevant bodies that its voluntary aided school is not controlled by the school, as ownership resides with the religious body and is occupied under informal arrangements only. As neither the Authority nor the school control the assets they are not included within the accounts of the Authority.
- A Joint Working Agreement formally established the Cardiff City Region Joint Committee as a Joint Committee, with delegated functions in March 2017. It is a partnership between the 10 Councils in South East Wales, including Caerphilly County Borough Council. The arrangement has not been consolidated on grounds of materiality, but the position will be kept under review. Note 44 on Joint Operations provides further information.

Notes to the Core Financial Statements (continued)

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.

The items in the Authority's Balance Sheet at 31 March 2020 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. Should the useful economic life of an asset reduce by one year, the estimated effect on the annual depreciation charge would be an increase of £2.4m.
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 £123.228m, whereas a 0.5% increase in salaries rate assumption would result in an increase in the pension liability of £15,486m. However, the assumptions interact in complex ways. During 2019/2020, the Authority's Actuaries advised that the net pensions liability for all schemes had decreased by £115.535m.

Notes to the Core Financial Statements (continued)

Fair value measurements	<p>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.</p> <p>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.</p> <p>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.</p>	<p>The authority uses the discounted cash flow (DCF) model to value financial assets and liabilities</p> <p>The significant unobservable inputs used in the fair value measurement include management assumptions regarding discount rates.</p> <p>Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the financial assets/liabilities. Please refer to note 12.</p>
-------------------------	---	--

Covid-19

An issue in relation to the reporting of valuations as at 31 March 2020 is the outbreak of Covid-19. All valuations provided to the Council by its valuers this year have been reported subject to a 'Material Uncertainty Clause' on the basis of RICS guidance. This is true for all asset classes subject to valuations. The valuations contain the following clause:

'The outbreak of the Novel Coronavirus (Covid-19), declared by the World Health Organisation as a 'global pandemic' on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to Covid-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. Our valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that Covid-19 might have on the real estate market, we recommend that you keep valuations under frequent review.'

At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, values have been based on the situation prior to Covid-19, on the assumption that values will be restored when the real estate market becomes more fluid.

The Greater Gwent Pension Fund, of which Caerphilly County Borough Council is an admitted body, holds investments in Pooled Property Units. As a result of Covid-19, valuations as at 31 March 2020 were not readily available due to the closure of the markets and therefore no trade price was available on which to base a valuation. The property valuers therefore included an estimation uncertainty clause into the reports. The Local Government Pension Scheme property assets attributable to Caerphilly County Borough Council account for £17.6m or 2.5% of total assets.

Notes to the Core Financial Statements (continued)

4. Accounting Standards issued but not yet adopted

For 2019/2020, the following standards have been published but not yet adopted by the Code:

- Amendments to IAS 28 Investments in Associates and Joint Ventures : Long-term Interests in Associates and Joint Ventures;
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.

It is unlikely that the above amendments will have any impact upon the financial statements.

- IFRS 16 Leases. This new standard removes previous lease classifications of operating leases and finance leases and requires local authorities that are lessees to recognise all leases on their balance sheets as right of use assets, with a corresponding lease liability representing the lessee's obligation to make lease payments for the asset. There are exceptions for short term and low value leases. The standard is to be implemented on 1 April 2021 and the impact will be to increase property plant and equipment assets and also increase liabilities. The change will have a neutral effect on the balance sheet but at this stage the exact amount of the increase in assets and liabilities is unknown.

Notes to the Core Financial Statements (continued)

5. Expenditure and Funding Analysis

2018-2019				2019-2020		
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
125,430	44,586	170,016	Education and Lifelong Learning	129,574	19,430	149,004
88,820	6,505	95,325	Social Services and Housing	88,319	10,094	98,413
51,136	21,325	72,461	Communities	49,265	20,607	69,872
62,809	(20,743)	42,066	Corporate Services	61,192	(23,601)	37,591
(951)	(14,071)	(15,022)	HRA	(6,800)	(6,677)	(13,477)
327,244	37,602	364,846	Net Cost of Services	321,550	19,853	341,403
(332,055)	79,694	(252,361)	Other Income and Expenditure	(338,000)	78,595	(259,405)
(4,811)	117,296	112,485	Surplus/Deficit	(16,450)	98,448	81,998
(92,126)			Opening Council Fund and HRA Balance at 1 April	(96,937)		
(4,811)			Surplus or (Deficit) on Council Fund and HRA Balance in Year	(16,450)		
(96,937)			Closing Council Fund and HRA Balance at 31 March*	(113,387)		

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

Caerphilly County Borough Council

Notes to the Core Financial Statements (continued)

Adjustments between Funding and Accounting Basis 2019-2020				
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	13,125	6,169	136	19,430
Social Services and Housing	1,599	8,400	95	10,094
Communities	13,002	7,527	78	20,607
Corporate Services	(5,895)	1,556	(19,262)	(23,601)
HRA	(4,810)	3,059	(4,926)	(6,677)
Net Cost of Services	17,021	26,711	(23,879)	19,853
Other income and expenditure from the Expenditure and Funding Analysis	38,910	15,440	24,245	78,595
Difference between Council Fund surplus/deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	55,931	42,151	366	98,448

Adjustments between Funding and Accounting Basis 2018-2019				
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	35,688	8,784	114	44,586
Social Services and Housing	1,729	4,762	14	6,505
Communities	16,936	4,380	10	21,326
Corporate Services	(6,408)	5,041	(19,377)	(20,744)
HRA	(11,106)	1,835	(4,800)	(14,071)
Net Cost of Services	36,839	24,802	(24,039)	37,602
Other income and expenditure from the Expenditure and Funding Analysis	41,573	13,804	24,317	79,694
Difference between Council Fund surplus/deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	78,412	38,606	278	117,296

Notes to the Core Financial Statements (continued)

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:

- 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.

Notes to the Core Financial Statements (continued)

6. Expenditure and Income Analysed by Nature

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

	2018-2019	2019-2020
	Restated	
	£000	£000
Expenditure:		
Employee benefits expenses	233,485	239,794
Other service expenses a*	316,944	321,859
Depreciation, amortisation, impairment and other movements in revaluations	68,346	35,597
Interest payments	17,416	17,547
Precepts and Levies a*	23,979	25,145
Loss on disposal of assets	68,361	74,556
Total expenditure	728,531	714,498
Income:		
Fees, charges and other service income	(127,641)	(131,572)
Gain on disposal of assets	(4,752)	(5,251)
interest and investment income	(863)	(1,062)
Income from council tax, non-domestic rates	(79,861)	(85,542)
Government grants and contributions	(402,929)	(409,073)
Total income	(616,046)	(632,500)
(Surplus)/Deficit on the Provision of Services	112,485	81,998

a* The comparative figures were restated to reflect the movement of the Levies figure of £8.933m from "Other service Expenses" to "Precepts and Levies".

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 21.

Caerphilly County Borough Council

Notes to the Core Financial Statements (continued)

<u>2019/2020</u>	Usable Reserves				Movement in Unusable Reserves
	Council Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement					
Charges for depreciation and impairment of non-current assets	(21,981)	(13,553)	0	0	35,534
Amortisation of intangible assets	(64)	0	0	0	64
Capital grants and contributions applied	14,459	7,414	0	0	(21,873)
Revenue expenditure funded from capital under statute	(719)	0	0	0	719
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	(22,332)	(46,973)	(5,251)	0	74,556
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Statutory provision for the financing of capital investment	4,540	2,093	0	0	(6,633)
Capital expenditure charged against the Council Fund and HRA balances	1,085	16,271	0	0	(17,356)
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	3,828	0	0	(3,828)	0
Adjustment primarily involving the Financial Instruments Adjustment Account:					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	10	0	0	0	(10)
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(64,109)	(5,412)	0	0	69,521
Employer's pensions contributions and direct payments to pensioners payable in the year	25,017	2,353	0	0	(27,370)
Adjustments primarily involving the Accumulated Absences Account:					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(343)	(33)	0	0	376
Total Adjustments	(60,609)	(37,840)	(5,251)	(3,828)	107,528

Caerphilly County Borough Council

Notes to the Core Financial Statements (continued)

	Usable Reserves				Movement in Unusable Reserves
	Council Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	
<u>2018/2019</u>	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement					
Charges for depreciation and impairment of non-current assets	(55,329)	(12,598)	0	0	67,927
Amortisation of intangible assets	(420)	0	0	0	420
Capital grants and contributions applied	10,231	7,181	0	0	(17,412)
Revenue expenditure funded from capital under statute	(1,440)	(2)	0	0	1,442
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	(15,923)	(47,685)	(4,752)	0	68,360
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Statutory provision for the financing of capital investment	3,845	2,194	0	0	(6,039)
Capital expenditure charged against the Council Fund and HRA balances	4,230	21,512	0	0	(25,742)
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	5,792	0	0	(5,792)	0
Adjustment primarily involving the Financial Instruments Adjustment Account:					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(100)	(28)	0	0	128
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(60,287)	(3,479)	0	0	63,766
Employer's pensions contributions and direct payments to pensioners payable in the year	23,516	1,644	0	0	(25,160)
Adjustments primarily involving the Accumulated Absences Account:					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(144)	(6)	0	0	150
Total Adjustments	(86,029)	(31,267)	(4,752)	(5,792)	127,840

Caerphilly County Borough Council

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 2019/2020.

	Note	Balance at 1 April 2018 £000	Transfers from £000	Transfers to £000	Balance at 31 March 2019 £000	Transfers from £000	Transfers to £000	Balance at 31 March 2020 £000
Council Fund:								
Balances held by schools under a scheme of delegation		(2,039)	1,609	(2,091)	(2,521)	2,183	(932)	(1,270)
Capital Earmarked Reserves	36	(22,136)	3,164	(5,137)	(24,109)	23,782	(36,407)	(36,734)
Direct Services Earmarked Reserves		(372)	371	(38)	(39)	0	0	(39)
Service over/underspend Reserves	37	(5,227)	6,961	(6,977)	(5,243)	7,869	(7,954)	(5,328)
Insurance Earmarked Reserves	34	(6,499)	148	(757)	(7,108)	634	0	(6,474)
Other Earmarked Reserves	38	(37,563)	7,645	(6,870)	(36,788)	12,906	(11,798)	(35,680)
Total		(73,836)	19,898	(21,870)	(75,808)	47,374	(57,091)	(85,525)
Housing Revenue Account:								
HRA Fund Balance		(5,090)	4,609	(5,560)	(6,041)	0	(6,800)	(12,841)

9. Other Operating Expenditure

Other operating expenditure is made up as follows:

	2018/2019 £000	2019/2020 £000
Community Council Precepts	729	777
Gwent Police Authority Precept	14,317	15,379
Levies	8,933	8,988
(Gains)/losses on the disposal of non-current assets	63,608	63,384
Total	87,587	88,528

<u>Levies</u>	2018/2019 £000	2019/2020 £000
South Wales Fire Authority	8,476	8,538
Gwent Coroners' Service	248	241
Glamorgan Archives' Service	72	72
Gwent Archives' Service	137	137
Total Levies	8,933	8,988

Caerphilly County Borough Council

Notes to the Core Financial Statements (continued)

Precepts	2018/2019	2019/2020
Community Councils:	£000	£000
Aber Valley Community Council	38	38
Argoed Community Council	12	13
Bargoed Town Council	64	73
Bedwas, Trethomas and Machen Community Council	78	91
Blackwood Community Council	59	59
Caerphilly Town Council	87	97
Darren Valley Community Council	12	12
Draethen, Waterloo and Rudry Community Council	15	15
Gelligaer Community Council	94	97
Llanbradach Community Council	31	32
Maescwmmer Community Council	18	18
Nelson Community Council	28	28
New Tredegar Community Council	17	17
Penyrheol, Trecenydd and Energlyn Community Council	60	61
Rhymney Community Council	35	35
Risca East Community Council	25	25
Risca West Community Council	33	41
Van Community Council	23	25
	729	777
Gwent Police Authority	14,317	15,379
Total Precepts upon the Authority	15,046	16,156

10. Financing and Investment Income and Expenditure

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

	2018/2019	2019/2020
	£000	£000
Interest payable and similar charges	17,416	17,547
Pensions interest costs and expected return on pensions assets	13,804	15,440
Interest receivable and similar income	(863)	(1,062)
Total	30,357	31,925

Notes to the Core Financial Statements (continued)

11. Taxation and non-specific grant income

	2018/2019 £000	2019/2020 £000
Council tax income	(79,861)	(85,542)
Non domestic rates	(57,033)	(57,509)
Non-ringfenced government grants	(210,207)	(211,105)
Capital grants and contributions	(23,204)	(25,701)
Total	(370,305)	(379,857)

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, £1,131.21 in 2019/2020 (£1,057.70 in 2018/2019) is multiplied by the proportion specified for the particular band, adjusted for discount, to give the individual amount due. The total amount due for 2019/2020 was £85.8m (£80m in 2018/2019).

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

BAND	A	B	C	D	E	F	G	H	I
Multiplier	6/9	7/9	8/9	1	11/9	13/9	15/9	18/9	21/9
Chargeable Dwellings	8,547	18,207	14,596	8,463	7,357	3,059	1,199	182	117

Analysis of the net proceeds from council tax:

	2018/2019 £000	2019/2020 £000
<u>Council tax collectable</u>		
Caerphilly County Borough Council	(65,029)	(69,655)
Gwent Police Authority - see note 9	(14,317)	(15,379)
Community Councils - see note 9	(729)	(777)
Total amount due	(80,075)	(85,811)
Less: Bad Debt Provision	214	269
Net proceeds from council tax	(79,861)	(85,542)

Notes to the Core Financial Statements (continued)

National Non-Domestic Rates (NNDR) Income

NNDR is organised on a national basis. The Welsh Government specifies an amount for the rate (52.6p in 2019/2020, 51.4p in 2018/2019) 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.

The Welsh Government redistributes the sums payable to local authorities based on a fixed amount per head of population. The Authority's redistribution for 2019/2020 was £57.509m in total (£57.033m in 2018/2019).

The anticipated NNDR proceeds of £37.4m for 2019/2020 (£35.8m in 2018/2019) was based on a total rateable value at the year-end of £87.55m (£87.28m for 2018/2019).

<i>Analysis of the net proceeds from Non-Domestic Rates:</i>	2018/2019	2019/2020
	£000	£000
Anticipated proceeds	(35,021)	(37,188)
Less: Discretionary relief	352	322
Cost of collection	270	273
Bad and doubtful debts	260	309
Contribution to NNDR Pool	<u>(34,139)</u>	<u>(36,284)</u>
Redistributed amount due from NNDR Pool	<u>(57,033)</u>	<u>(57,509)</u>
Amount received from NNDR Pool	<u><u>(57,033)</u></u>	<u><u>(57,509)</u></u>

Non ring-fenced government grants

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2019/2020:

	2018/2019	2019/2020
	£000	£000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	(210,207)	(211,105)
Total	<u><u>(210,207)</u></u>	<u><u>(211,105)</u></u>

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:

			Non-current				Current		Total	
	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000
Financial Assets	Investments		Debtors		Investments		Debtors			
Fair value through profit or loss	0	0	0	0	11,443	26,259	0	0	11,443	26,259
Amortised cost	34,344	31,004	627	765	44,546	53,660	9,923	23,944	89,440	109,373
Bank Current Account	0	0	0	0	854	701	0	0	854	701
Total financial assets	34,344	31,004	627	765	56,843	80,620	9,923	23,944	101,737	136,333
Non-financial assets	0	0	0	11	0	0	22,186	29,002	22,186	29,013
Total	34,344	31,004	627	776	56,843	80,620	32,109	52,946	123,923	165,346
Financial Liabilities	Borrowings		Creditors		Borrowings		Creditors		Total	
Fair value through profit or loss	0	0	0	0	0	0	0	0	0	0
Amortised cost	(277,720)	(298,468)	(33,810)	(29,760)	(6,495)	(5,880)	(31,375)	(57,688)	(349,400)	(391,796)
Total financial liabilities	(277,720)	(298,468)	(33,810)	(29,760)	(6,495)	(5,880)	(31,375)	(57,688)	(349,400)	(391,796)
Non-financial liabilities	0	0	(629,905)	(516,210)	0	0	(22,045)	(22,769)	(651,950)	(538,979)
Total	(277,720)	(298,468)	(663,715)	(545,970)	(6,495)	(5,880)	(53,420)	(80,457)	(1,001,350)	(930,775)

Note: Prior year comparatives are restated in line with requirements of the Code and to cross reference to the Balance Sheet.

Notes to the Core Financial Statements (continued)

<u>Income, Expenses, Gains and Losses</u>	2018/2019		2019/2020	
	Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000	Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000
Interest revenue:				
▪ financial assets measured at amortised cost	(756)	0	(908)	0
▪ equity instruments measured at fair value through profit and loss	(107)	0	(154)	0
Total interest revenue	(863)	0	(1,062)	0
Interest expense and similar charges	17,416	0	17,547	0

Notes to the Core Financial Statements (continued)

Financial Assets - Amortised Cost

The Authority has reviewed its investments under the IFRS 9 standard. With the exception of two investments that have been classified as Equity Instruments, all other treasury management investments held meet the test of "Solely Payments of Principal and Interest (SPPI)". Such financial assets provide contractual cash flows to the Authority that are solely payments principal and interest on the outstanding principal in a manner consistent with a basic lending arrangement. Principal is defined as the fair value on initial recognition, less any repayments. Interest is defined as consideration for the time value of money and the credit risk and other basic lending risks inherent in the contract, plus reasonable administrative costs and profit margin.

Where the financial assets meet the SPPI test, the Authority's business model is to collect cash flows over the whole of the instrument's life, rather than managing the total return on the portfolio by both holding and selling the instrument. Sales before maturity are permitted within this business model but selling an instrument must be for reasons other than yield management. Consequently, all financial assets that are held for the purpose of collecting cash flows will be held at Amortised Cost.

Total financial assets that were measured at amortised cost as at 31 March 2020 are £110.073m.

	31 March 2019	31 March
	£000	2020
	£000	£000
Cash in Hand	70	92
Bank Accounts	784	609
Fixed Term Deposits - Banks and Building Societies	10,016	7,003
Local Authority Deposits	12,031	34,114
Local Government Bonds	4	4
Certificate of Deposits	5,016	5,014
Corporate Bonds and Sovereign Bonds	23,379	23,012
Covered Bonds	15,713	15,516
Government Securities (T Bills/Gilts)	12,731	0
Trade Receivables for goods and services provided	10,550	24,709
Total Financial Assets held at Amortised Cost	90,294	110,073

Under IFRS 9 financial assets held at amortised cost are required to undergo a potential impairment loss calculation and the calculation of a loss allowance. For loans and investments, the loss allowance is equal to 12-month expected credit losses (ECLs) unless credit risk has increased significantly in which case it is equal to lifetime ECLs. As at 31 March 2020 the impairment loss allowance on an £105.287m of investments held at amortised cost was £356k.

Notes to the Core Financial Statements (continued)

	31 March 2019		31 March 2020	
	Amortised Cost	Impairment Loss Provision	Amortised Cost	Impairment Loss Provision
	£000	£000	£000	£000
Cash in Hand	70	0	92	0
Bank Accounts	784	0	609	0
Fixed Term Deposits - Banks & Building Certificate of Deposits	10,016	20	7,003	5
Certificate of Deposits	5,016	7	5,014	4
Covered Bonds and Sovereign Bonds	23,379	49	23,012	11
Covered Bonds	15,713	8	15,516	11
Trade Receivables for goods and services provided	10,550	325	24,709	325
Total Financial Assets held at Amortised Cost (excluding Central and Local Government)	65,528	409	75,955	356

The impairment loss provision excludes financial assets held with Central Government and Local Government. It also excludes equity investments that are measured at fair value through profit and loss.

Equity Instruments

As at 31st March 2020, the Authority had two money market Sterling investment funds with a fair value of £26,259. The funds have been valued at "Fair Value through Profit & Loss" (FVP&L) in accordance with IFRS 9. The investment funds do not provide contractual cash flows to the Authority that are solely payments principal and interest. There is no possibility of default on contractual payment and consequently there is no impairment loss allowance set aside.

	31 March 2019		31 March 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£000	£000	£000	£000
Money Market Funds held at Fair Value Through Profit and Loss				
Long term	0	0	0	0
Short term	11,443	11,443	26,259	26,259
	11,443	11,443	26,259	26,259

The investment funds are held for treasury management purposes and support the Authority's daily liquidity requirements. Money market funds are a useful investment instruments that are low risk and simultaneously enhance returns. Both money market funds are AAA rated by the main credit rating agencies and domiciled in the UK.

In accordance with European money markets reform both funds are categorised as Low Volatility Nat Asset Valuation Funds (LVNAV). As a result of the LVNAV categorisation the fair value of both money market funds is equivalent to the carrying amount.

The Authority received monthly dividends equating to £69k during the financial 2019/20, which have been charged to the Comprehensive Income and Expenditure account under Financing Investment Income and Expenditure. The dividends relate to interest accrued on a daily basis on balances held in the fund.

Notes to the Core Financial Statements (continued)

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:

	31 March 2019		31 March 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Financial Assets held at Amortised Cost	89,667	89,667	109,309	109,863
Equity Instruments held at Fair Value through Profit or Loss	11,443	11,443	26,259	26,259
Long term debtors	627	627	765	765
	101,737	101,737	136,333	136,887

Financial assets measured at fair value				
Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	As at 31 March 2019 £000	As at 31 March 2020 £000
<i>Fair Value Through Profit or Loss:</i>				
Equity shareholders in quoted UK companies	Level 2	Quoted prices other than quoted prices in Level 1	11,443	26,259
Total			11,443	26,259

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 all other financial liabilities, financial assets categorised as "held at amortised cost" and long-term debtors and creditors are carried in the Balance Sheet at amortised cost.

Our approach to providing the fair value of financial instruments is to use a market value for these instruments where possible or otherwise to use estimation techniques which involve data available in the market.

For financial assets with an available market these have been assessed by reference to the clean bid price at 31st March 2020 quoted via Bloomberg or directly from the Custodian as these are accurate sources of information on price.

Notes to the Core Financial Statements (continued)

For loans borrowed at 31st March 2020 we have estimated the fair values by discounting the instruments' contractual cash flows at an estimated market rate for local authority borrowing on the same remaining term to maturity. We use a market rate calculated from the prevailing swap rate plus a risk margin which has been estimated from inter local authority interest rates in the short term and the Transport for London bond yield in the long term. We have used these sources of data as we believe they offer the most accurate view of the market rate for a local authority. For periods in excess of 3 years, this market rate is between 0.1% and 0.4% lower than the PWLB (Public Works Loans Board) rate.

For LOBOs (Lenders Option Borrowers Option) loans with an amortised cost of £40.565m we have followed the above approach and added the value of the embedded options. The lender's options to propose an increase to the interest rate on the loan have been valued according to Bloomberg's proprietary model for Bermudan cancellable swaps. The borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.

The fair values of finance lease assets and liabilities and of PFI (Public Finance Initiative) scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA corporate bond yield

It is our general view that in the case of short-term investments, the carrying value at the balance sheet date is a reasonable approximation of the fair value. With regard to long term loans and deposits, we used similar calculations as for loans borrowed, using interest rates appropriate to the credit risk of the counterparty and the remaining term of the investment as a discount rate.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Authority and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Authority.

The majority of the Authority's financial liabilities held during the year are measured at amortised cost and comprised:

	Restated		31 March 2020	
	31 March 2019		Short term	Long term
	Short term	Long term	Short term	Long term
	£000	£000	£000	£000
Public Works Loan Board	(5,075)	(234,451)	(5,060)	(254,660)
Bank Loans	(560)	(40,370)	0	(40,407)
Other Loans	(859)	(4,018)	(820)	(3,401)
Private Finance Initiative Contracts	(1,896)	(30,604)	(2,167)	(28,361)
Lease Payables	(76)	(306)	(25)	(281)
Creditors - financial liabilities carried at contract amount	(29,403)	(1,782)	(55,496)	(1,118)
Total Financial Liabilities measured at Amortised Cost	(37,869)	(311,531)	(63,568)	(328,228)

Notes to the Core Financial Statements (continued)

The fair values are as follows:

	<u>31 March 2019</u>		<u>31 March 2020</u>	
	Carrying	Fair Value	Carrying	Fair Value
	Amount		Amount	
	£000	£000	£000	£000
Financial liabilities	(287,115)	(394,492)	(305,466)	(429,373)
PFI and Finance Lease liabilities	(32,882)	(54,375)	(30,834)	(26,115)
Short-term creditors	(29,403)	(29,403)	(55,496)	(55,496)
	(349,400)	(478,270)	(391,796)	(510,984)

**Analysis of Liabilities
by maturity**

	<u>31 March</u>	<u>31 March</u>
	2019	2020
	£000	£000
Maturing within 1 year	(37,870)	(63,568)
Maturing in 1 - 2 years	(8,676)	(7,134)
Maturing in 2 - 5 years	(12,857)	(10,182)
Maturing in 5 - 10 years	(38,133)	(57,123)
Maturing in 10 - 15 years	(26,914)	(13,099)
Maturing in 15 - 20 years	(92,505)	(122,135)
Maturing in 20 - 25 years	(13,958)	(19,984)
Maturing in 25 - 30 years	(28,933)	(13,968)
Maturing in 30 - 35 years	(11,972)	(41,864)
Maturing in 35 - 40 years	(49,712)	(22,332)
Maturing in 40 - 45 years	(7,500)	0
Maturing in 45 - 50 years	(20,370)	(20,000)
Maturing in over 50 years	0	(407)
	(349,400)	(391,796)

Caerphilly County Borough Council

Notes to the Core Financial Statements (continued)

31 March 2020

<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
Financial liabilities				
<i>Financial liabilities held at amortised cost:</i>				
Loans/borrowings	0	(429,373)	0	(429,373)
Short-term creditors	0	(55,496)	0	(55,496)
<i>PFI and finance lease liabilities</i>	0	(26,115)	0	(26,115)
Total	0	(510,984)	0	(510,984)
Financial assets				
Financial Assets held at Amortised Cost	39,088	71,539	0	110,627
Equity Instrument	0	26,259	0	26,259
Total	39,088	97,798	0	136,886

31 March 2019

<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
Financial liabilities				
<i>Financial liabilities held at amortised cost:</i>				
Loans/borrowings	0	(394,492)	0	(394,492)
Short-term creditors	0	(29,403)	0	(29,403)
<i>PFI and finance lease liabilities</i>	0	(54,375)	0	(54,375)
Total	0	(478,270)	0	(478,270)
Financial assets				
Financial Assets held at Amortised Cost	90,294	0	0	90,294
Equity Instruments	0	11,443	0	11,443
Total	90,294	11,443	0	101,737

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 2020) arising from a commitment to pay interest to lenders above current market rates.

Notes to the Core Financial Statements (continued)

As at 31 March 2020, short- and long-term financial assets included fixed term deposits valued at Amortised Cost.

The Authority also held negotiable instruments that included corporate bonds, CDs and Government securities. These are held at amortised cost in accordance with the Authority's business model for managing investments. Negotiable instruments are tradeable in the financial markets and the price of such investments are quoted in the secondary money markets. For disclosure purposes, the price for negotiable instruments has been obtained and a fair value has been calculated as at 31 March 2020. The Authority had two money market investments that are held with short-term investments and categorised as an Equity Instrument and subsequently measured at Fair Value through Profit and Loss. The Authority had no liabilities measured at Fair Value through Profit or Loss at 31 March 2020.

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:

Financial assets	Financial liabilities
<ul style="list-style-type: none"> ▪ no early repayment or impairment is recognised ▪ 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. Accrued interest has been included to the nominal amount in order to determine the fair value. These have been categorised as Investments Held at Amortised Cost. ▪ the fair value of trade and other receivables is taken to be the invoiced or billed amount. ▪ the fair value of negotiable instruments held at amortised cost that comprise various types of investment bonds have been valued at the mid-market price as quoted on 31 March 2020 for disclosure purposes only. Accrued interest has also been taken into consideration using the amortisation method. 	<ul style="list-style-type: none"> ▪ no early repayment is recognised ▪ Estimated ranges of discount rates for liabilities at 31 March 2020 were of 0.73% to 2.18% for loans from the PWLB and the Market and applied with reference to the number of years outstanding to the maturity date. ▪ The fair values for financial liabilities (PWLB debt and market debt) have been determined in line with Fair Value calculation tables provided to our Treasury Advisors, Arlingclose.

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.

Notes to the Core Financial Statements (continued)

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 Treasury Management Annual 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.

The "2019/20 Treasury Management Annual Strategy (including Prudential Indicators)" was approved by Council on 21 February 2019 and is available on the Authority's 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 2019/2020 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.

Caerphilly County Borough Council

Notes to the Core Financial Statements (continued)

	31 March 2019	31 March 2020			
	Estimated maximum exposure to default £000	Amount at 31 March 2020 £000	Historical experience of default %	Historic experience adjusted for market conditions at 31 March 2020 %	Estimated maximum exposure to default £000
Counterparties rated:		A	B	C	(A x C)
<i>Long-term:</i>					
AAA	20	15,000	0.04%	0.15%	23
AA	55	16,004	0.01%	0.04%	6
<i>Short-term</i>					
AAA	5	28,804	0.04%	0.15%	43
AA+	0	356	0.00%	0.00%	0
AA	2	27,659	0.01%	0.04%	11
AA-	3	7,102	0.05%	0.18%	13
A+	10	0	0.04%	0.15%	0
A	0	7,003	0.06%	0.22%	15
A-	8	7,921	0.06%	0.22%	17
BBB+	0	1,073	0.10%	0.37%	4
Investments		110,923			
Debtors - past due but not impaired	30	2,785	0.84%	0.84%	23
Total	133	113,708			151

The Authority's deposits are placed either directly with the counterparty or indirectly with the counterparty via London money market brokers. At 31 March 2020, 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:

	31 March 2019 £000	31 March 2020 £000
Three to six months	655	332
Six months to one year	673	530
More than one year	1,747	1,923
	3,075	2,785

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 2019/2020):

Prudential Indicator Analysis						
Period	Minimum	Maximum	31 March 2019		31 March 2020	
			£000		£000	
<12 Months	0%	35%	5,665	2%	5,090	1%
1-2 Years	0%	40%	1,796	1%	4,917	1%
2-5 Years	0%	50%	6,051	2%	13,639	2%
5-10 Years	0%	75%	24,498	9%	33,574	14%
>10 Years	0%	95%	244,595	86%	246,338	82%
			282,605	100%	303,558	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 Equity Instrument 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 2020, 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 2019/2020 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 2020, with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on variable rate borrowings	(2)
Increase in interest receivable on variable rate investments	550
Increase in government grant receivable for financing costs	0
Impact on Surplus or Deficit on the Provision of Services	548
Decrease in fair value of fixed rate investment assets	336
Impact on Surplus or Deficit on Provision of Services	336
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)	55,824

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%.

Covered Bond Investments

As at 31 March 2020, the Authority's 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.

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.** The scheme is a funded defined benefit final salary scheme, administered by Torfaen County Borough Council. The Authority and employees pay contributions into a fund calculated at a level intended to balance the pensions' liabilities with investment assets. 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. The Authority is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases.

	2018/2019		2019/2020	
	£m	% of pensionable pay	£m	% of pensionable pay
Employer's contribution paid	22.400	20.50	24.471	21.50
Added years paid	1.317	1.21	1.051	0.92

- The Teachers' Pension Scheme.** This is a defined benefit scheme, 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. In addition, the Authority is responsible for all pension payments relating to added years that have been awarded, together with the related increases.

	2018/2019		2019/2020	
	£m	% of pensionable pay	£m	% of pensionable pay
Employer's contribution paid (% change from 1.9.19)	9.408	16.48	12.216	23.68
Added years paid	1.741	3.05	1.735	2.34

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.

Notes to the Core Financial Statements (continued)

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

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:

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2018/2019 £000	2019/2020 £000	2018/2019 £000	2019/2020 £000
Comprehensive Income and Expenditure Statement:				
Cost of Services				
<i>Service cost comprising:</i>				
• current service cost	44,442	53,458	0	0
• past service costs	4,974	54	0	0
• (gain)/loss from settlements/curtailments	0	0	0	0
• administration expenses	546	569	0	0
<i>Financing and Investment Income and Expenditure</i>				
• net interest expense	12,865	14,563	939	877
<i>Total Post Employment Benefits charged to the Surplus or Deficit on Provision of Services</i>	62,827	68,644	939	877
<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)	(23,648)	99,984	0	0
• actuarial (gains) / losses arising on changes in demographic assumptions	0	(57,011)	(338)	(1,516)
• actuarial (gains) / losses arising on changes in financial assumptions	110,099	(125,408)	1,247	(1,651)
• actuarial (gains) / losses - experience	102	(71,564)	679	(520)
<i>Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement</i>	149,380	(85,355)	2,527	(2,810)

Notes to the Core Financial Statements (continued)

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2018/2019 £000	2019/2020 £000	2018/2019 £000	2019/2020 £000
Movement in Reserves Statement:				
• reversal of net charges made to the Surplus or Deficit on Provision of Services for post employment benefits in accordance with the Code <i>Actual Amount Charged Against the Council Fund Balance for Pensions in the Year:</i>	(62,827)	(68,644)	(939)	(877)
• employers' contributions payable to the scheme	23,038	25,255	2,122	2,115

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 2020 is a loss of £142.401m (£299.928m loss to 31 March 2019).

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:

	2018/2019 £000	2019/2020 £000
Present value of the defined benefit obligation:		
• Local Government Pension Scheme	(1,369,696)	(1,180,689)
• Former Authorities' Liability	(6,888)	(6,441)
• Teachers' Unfunded Discretionary Pension	(30,681)	(26,203)
Fair value of plan assets:		
• Local Government Pension Scheme	777,359	698,962
Net liability arising from defined benefit obligations	(629,906)	(514,371)

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 2021 is £24.454m.

Notes to the Core Financial Statements (continued)

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

	<u>2019/2020</u>			Total
	Greater Gwent Scheme	Former Authorities Liability	Unfunded Teachers' Pension	
	£000	£000	£000	£000
Opening balance at 1 April	1,368,536	6,888	30,681	1,406,105
Current service cost	54,027	0	0	54,027
Interest cost	33,293	159	718	34,170
Contributions by scheme participants	7,047	0	0	7,047
Remeasurement (gains) and losses:				
• Actuarial (gains) / losses arising from changes in demographic assumptions	(57,011)	(28)	(1,488)	(58,527)
• Actuarial (gains) / losses arising from changes in financial assumptions	(125,408)	0	(1,651)	(127,059)
• Actuarial (gains) / losses - experience	(71,564)	(32)	(488)	(72,084)
Past service costs	54	0	0	54
Losses / (gains) on curtailment	0	0	0	0
Benefits paid	(29,445)	(546)	(1,569)	(31,560)
Closing balance at 31 March	1,179,529	6,441	26,203	1,212,173
Other pension liabilities from discontinued operations	1,160	0	0	1,160
Closing balance at 31 March	1,180,689	6,441	26,203	1,213,333

	<u>2018/2019</u>			Total
	Greater Gwent Scheme	Former Authorities Liability	Unfunded Teachers' Pension	
	£000	£000	£000	£000
Opening balance at 1 April	1,195,351	7,436	29,728	1,232,515
Current service cost	44,988	0	0	44,988
Interest cost	32,621	186	753	33,560
Contributions by scheme participants	6,764	0	0	6,764
Remeasurement (gains) and losses:				
• Actuarial (gains) / losses arising from changes in demographic assumptions	0	(338)	0	(338)
• Actuarial (gains) / losses arising from changes in financial assumptions	110,099	155	1,092	111,346
• Actuarial (gains) / losses - experience	102	21	658	781
Past service costs	4,974	0	0	4,974
Losses / (gains) on curtailment	0	0	0	0
Benefits paid	(26,363)	(572)	(1,550)	(28,485)
Closing balance at 31 March	1,368,536	6,888	30,681	1,406,105
Other pension liabilities from discontinued operations	1,160	0	0	1,160
Closing balance at 31 March	1,369,696	6,888	30,681	1,407,265

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	
	2018/2019 £000	2019/2020 £000	2018/2019 £000	2019/2020 £000	2018/2019 £000	2019/2020 £000
Opening fair value of scheme assets	730,516	777,359	0	0	0	0
Interest Income	19,756	18,730	0	0	0	0
Remeasurement gain/(loss)						
• return on plan assets, excluding the amount included in net interest expense	23,648	(99,984)	0	0	0	0
• member contributions	6,764	7,047	0	0	0	0
Contributions from employer	22,552	24,807	572	546	2,036	2,017
Benefits paid	(25,877)	(28,997)	(572)	(546)	(2,036)	(2,017)
Administration expenses			0	0	0	0
Closing fair value of scheme assets	777,359	698,962	0	0	0	0

Caerphilly County Borough Council

Notes to the Core Financial Statements (continued)

Local Government Pension Scheme assets comprised:

	31 March 2019				31 March 2020			
	Quoted prices in active markets £000	Quoted prices not in active markets £000	Total £000	% of total assets	Quoted prices in active markets £000	Quoted prices not in active markets £000	Total £000	% of total assets
Equity Securities:								
Consumer	20,471.4	-	20,471.4	3%	18,820.4	-	18,820.4	3%
Manufacturing	21,825.7	-	21,825.7	3%	20,590.6	-	20,590.6	3%
Energy and Utilities	18,521.9	-	18,521.9	2%	17,181.6	-	17,181.6	2%
Financial Institutions	28,396.6	-	28,396.6	4%	23,146.0	-	23,146.0	3%
Health and Care	11,088.3	-	11,088.3	1%	9,962.4	-	9,962.4	1%
Information Technology	10,262.7	-	10,262.7	1%	10,548.7	-	10,548.7	2%
Other	4,246.1	-	4,246.1	1%	3,134.6	-	3,134.6	0%
Debt Securities:								
Corporate Bonds (investment grade)	-	-	-	0%	-	-	-	0%
Corporate Bonds (non-investment grade)	-	-	-	0%	-	-	-	0%
UK Government	-	-	-	0%	-	-	-	0%
Other	-	-	-	0%	-	-	-	0%
Private Equity:								
All	-	-	-	0%	-	-	-	0%
Real Estate:								
UK Property	-	21,020.2	21,020.2	3%	-	17,591.5	17,591.5	3%
Overseas Property	-	-	-	0%	-	-	-	0%
Investment Funds and Unit Trusts:								
Equities	-	443,787.8	443,787.8	57%	-	403,788.7	403,788.7	58%
Bonds	-	135,062.3	135,062.3	17%	-	117,272.8	117,272.8	17%
Hedge Funds	-	-	-	0%	-	-	-	0%
Commodities	-	-	-	0%	-	-	-	0%
Infrastructure	-	-	-	0%	-	-	-	0%
Other	-	58,903.7	58,903.7	8%	-	50,782.1	50,782.1	7%
Derivatives:								
Inflation	-	-	-	0%	-	-	-	0%
Interest Rate	-	-	-	0%	-	-	-	0%
Foreign Exchange	-	-	-	0%	-	-	-	0%
Other	-	-	-	0%	-	-	-	0%
Cash and Cash Equivalents:								
All	-	3,772.3	3,772.3	0%	-	6,142.6	6,142.6	1%
	114,813	662,546	777,359	100%	103,384	595,578	698,962	100%

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 2020, 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 2019 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:

	Local Government Pension Scheme		Former Authorities' Liability		Teachers' Pension Scheme	
	2018/2019	2019/2020	2018/2019	2019/2020	2018/2019	2019/2020
Long-term expected rate of return on scheme assets:	2.4%	2.3%	n/a	n/a	n/a	n/a
<i>Mortality assumptions:</i>						
Longevity at 65 for current pensioners:						
- Men	21.5	20.6	22.2	21.7	21.5	20.6
- Women	23.9	22.9	24.1	24.0	23.9	22.9
Longevity at 65 for future pensioners:						
- Men	23.6	21.6	n/a	n/a	n/a	n/a
- Women	26.1	24.6	n/a	n/a	n/a	n/a
Rate of inflation	2.4%	2.8%	2.2%	2.1%	2.4%	2.8%
Rate of increase in salaries	2.9%	2.2%	n/a	n/a	2.9%	2.2%
Rate of increase in pensions	2.5%	1.9%	2.2%	2.1%	2.5%	1.9%
Rate for discounting scheme liabilities	2.4%	2.3%	2.4%	2.3%	2.4%	2.3%
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)

Impact on the Defined Benefit Obligation in the Greater Gwent (Torfaen) Pension Scheme	Increase in obligation	Decrease in obligation
	£000	£000
Rate of increase in pension rate (increase by 0.5%)	106,466	0
Rate of increase in salaries (increase by 0.5%)	15,486	0
Rate for discounting scheme liabilities (decrease by 0.5%)	<u>123,228</u>	<u>0</u>

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

McCloud / Sargeant Case - Court of Appeal Ruling

When the Local Government Pension Scheme (LGPS) benefit structure was reformed in 2014, transitional protections were applied to certain older members close to normal retirement age. The benefits accrued from 1 April 2014 by these members are subject to an 'underpin' which means that they cannot be lower than what they would have received under the previous benefit structure. The underpin ensures that these members do not lose out from the introduction of the new scheme, by effectively giving them the better of the benefits from the old and new schemes.

In December 2018 the Court of Appeal upheld a ruling ("McCloud/Sargeant") that similar transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the LGPS (and other public service schemes) as well. The UK Government requested leave to appeal to the Supreme Court, but this was denied at the end of June 2019.

LGPS benefits accrued from 2014 may therefore need to be enhanced so that all members, regardless of age, will benefit from the underpin. Alternatively, restitution may be achieved in a different way, for example by paying compensation. In either case, the clear expectation is that many more members would see an enhanced benefit rather than just those currently subject to these protections. There will therefore be a retrospective increase to members' benefits, which in turn will give rise to a past service cost for the Fund employers.

The Authority has instructed the Scheme's actuary to make an allowance in the formal valuation results so that the impact of the McCloud judgement continues to be included within the balance sheet at 31 March 2020.

To account for the McCloud Judgement (public service pensions age discrimination cases) the actuary has made an estimated adjustment to these liabilities from the 2019 valuation data to ensure that it is captured in the 31 March 2020 IAS19 balance sheet figures. The impact is separately recorded as a past service cost such that £4.962 relates to it.

However, since this was written a consultation has been published by Ministry of Housing, Communities and Local Government (MHCLG) on the proposed remedy for the McCloud issue. It was published in July 2020 and is due to close in October 2020. This has provided a clearer indication of the benefit changes arising from the McCloud judgement, and significantly it limits its eligibility to members who were active at 31st March 2012. The allowance that has already been made in our past service costs however, based on analysis by GAD, assumed that this would apply to all members in the scheme. Our Actuary has estimated that should the revised scheme operate as per the consultation, then this will reduce the allowance made within our published accounts 2019/20 by more than half.

Notes to the Core Financial Statements (continued)

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 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 22.

	31 March 2019			31 March 2020		
	Road £000	Schools £000	Total £000	Road £000	Schools £000	Total £000
Gross PFI Liabilities are due:						
- not later than 1 year	2,507	1,904	4,411	2,592	1,954	4,546
- later than 1 year, not later than 5 years	10,349	6,849	17,198	9,931	6,704	16,635
- later than 5 years	14,211	15,590	29,801	12,037	13,781	25,818
Total Gross Liabilities	27,067	24,343	51,410	24,560	22,439	46,999
Net PFI Liabilities are due:						
- not later than 1 year	1,088	808	1,896	1,251	916	2,167
- later than 1 year, not later than 5 years	5,695	3,042	8,737	5,709	3,116	8,825
- later than 5 years	10,525	11,342	21,867	9,186	10,350	19,536
Total Net Liabilities	17,308	15,192	32,500	16,146	14,382	30,528
Finance charges allocated to future periods	(9,759)	(9,151)	(18,910)	(8,414)	(8,057)	(16,471)
Reconciliation between Net Book Values of PFI Assets held under PFI schemes:						
Net Liability (as above)	17,308	15,192	32,500	16,146	14,382	30,528
Additions	0	1,355	1,355	0	1,355	1,355
Revaluations and impairments	0	11,566	11,566	0	14,965	14,965
Repayments/ Amortisation of capital sum	19,455	6,010	25,465	20,617	6,820	27,437
Accumulated Depreciation	(11,946)	(5,918)	(17,864)	(12,865)	(5,918)	(18,783)
Net Book value of PFI Assets	24,817	28,205	53,022	23,898	31,604	55,502

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.

Notes to the Core Financial Statements (continued)

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 38).

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

	2018/2019	2019/2020
	£000	£000
Balance brought forward	(11,140)	(10,771)
Amounts (set aside) / taken in year:		
Schools	565	722
Road	(196)	176
	(10,771)	(9,873)

Future commitments for PFI Schemes

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

	Payment for	Reimbursement	Interest	Total
<u>Road</u>	Services	of Capital	£000	£000
	£000	Expenditure		
		£000		
Payable in 2020/2021	1,886	1,251	1,340	4,477
Payable within 2 to 5 years	8,007	5,709	4,222	17,938
Payable within 6 to 10 years	10,822	7,252	2,593	20,667
Payable within 11 to 15 years	7,785	1,934	259	9,978
	28,500	16,146	8,414	53,060
<u>School</u>				
Payable in 2020/2021	2,651	916	1,038	4,605
Payable within 2 to 5 years	12,715	3,116	3,588	19,419
Payable within 6 to 10 years	17,518	6,293	2,905	26,716
Payable within 11 to 15 years	9,384	4,057	525	13,966
	42,268	14,382	8,056	64,706

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 £1,057,414 in 2019/2020, (£1,228,420 in 2018/2019) and were charged to the relevant service area in the Comprehensive Income and Expenditure Statement.

Notes to the Core Financial Statements (continued)

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

	2018/2019		2019/2020	
	Land & Buildings £000	Total £000	Land & Buildings £000	Total £000
Not later than one year	1,088	1,088	977	977
Later than one year and not later than five years	3,661	3,661	3,014	3,014
Later than five years	12,180	12,180	10,727	10,727
	16,929	16,929	14,718	14,718

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:

	2018/2019			2019/2020		
	Industrial Units £000	Other Land & Buildings £000	Total £000	Industrial Units £000	Other Land & Buildings £000	Total £000
Not later than one year	301	426	727	122	526	648
Later than one year and not later than five years	921	1,930	2,851	480	2,343	2,823
Later than five years	690	2,929	3,619	192	3,126	3,318
	1,912	5,285	7,197	794	5,995	6,789

16. Members' Allowances

The total value of Members' Allowances payments in 2019/2020 was £1,263,929 (£1,234,458 in 2018/2019). 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.

Caerphilly County Borough Council

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 2020 were:

2019/2020	Number of employees			Left in year
	School based	Non-School based	Total	
Remuneration Band				
£60,000 - £64,999	30	3	33	0
£65,000 - £69,999	15	1	16	0
£70,000 - £74,999	12	4	16	0
£75,000 - £79,999	6	0	6	0
£80,000 - £84,999	3	0	3	0
£90,000 - £94,999	3	3	6	0
£95,000 - £99,999	3	7	10	1
£100,000 - £104,999	1	0	1	0
	73	18	91	1

The leaver in the year was school based.

2018/2019	Number of employees			Left in year
	School based	Non-School based	Total	
Remuneration Band				
£60,000 - £64,999	25	4	29	1
£65,000 - £69,999	19	2	21	0
£70,000 - £74,999	4	2	6	0
£75,000 - £79,999	3	1	4	0
£80,000 - £84,999	1	2	3	0
£85,000 - £89,999	2	0	2	0
£90,000 - £94,999	5	3	8	0
£95,000 - £99,999	2	4	6	0
£100,000 - £104,999	0	1	1	0
	61	19	80	1

The leaver in the year was school based.

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

Notes to the Core Financial Statements (continued)

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.

2019/2020			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	69,989	0	69,989	15,048	85,037
Interim Chief Executive *b	143,949	0	143,949	30,949	174,898
Director of Social Services & Housing *c	126,645	272	126,917	27,229	154,146
Director of Education and Corporate Services *d	118,759	0	118,759	23,512	142,271
Head of Corporate Finance & S151 Officer *e	30,487	0	30,487	1,732	32,219
Interim Corporate Director - Communities	122,414	0	122,414	26,319	148,733
Acting Section 151 Officer *f	88,610	0	88,610	0	88,610
	700,853	272	701,125	124,789	825,914

*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. The Authority then undertook internal investigations in accordance with the Council's approved procedures and statutory requirements. As a consequence of these investigations Council on the 3 October 2019 took the decision to dismiss the Chief Executive. The remuneration above was paid to the Chief Executive until their date of dismissal.

*b Council on the 10 March 2020 appointed the Interim Chief Executive permanently to the post of Chief Executive. In addition to those payments listed above, the Interim Chief Executive received Returning Officer expenses as a result of the parliamentary elections amounting to £10,797. These were paid by Central Government.

*c In addition to those payments listed above, the Director of Social Services & Housing received Returning Officer expenses as a result of the parliamentary elections amounting to £1,265. These were paid by Central Government.

*d In addition to those payments listed above, the Director of Education and Corporate Services received Returning Officer expenses as a result of the parliamentary elections amounting to £465. These were paid by Central Government.

*e The Head of Corporate Finance & Section 151 Officer retired from their post on 30 April 2019. The remuneration figure above is inclusive of £22,246 pay in lieu of notice. The full annualised salary of the role was £96,665.

*f The Interim Head of Business Improvement & Acting Section 151 Officer took over S151 duties on an acting basis in May 2019, due to the retirement of the Head of Corporate Finance & S151 Officer. The full annualised salary of the role was £96,665.

Notes to the Core Financial Statements (continued)

2018/2019			Total Remuneration excluding Employer's Pension Contributions	Employer's Pension Contributions at 20.5%	Total Remuneration including Employer's Pension Contributions
Post	Salary	Expenses / other payments	£	£	£
Chief Executive *a	137,000	0	137,000	28,085	165,085
Interim Head of Paid Service	143,949	0	143,949	29,510	173,459
Director of Social Services	124,162	196	124,358	25,453	149,811
Interim Corporate Director - Communities	114,659	0	114,659	23,505	138,164
Acting Director of Corporate Services *b	10,347	0	10,347	2,121	12,468
Head of Corporate Finance & S151 Officer *b	86,872	0	86,872	17,809	104,681
Corporate Director - Education & Corporate Services *c	83,810	0	83,810	17,181	100,991
Interim Head of Corporate Finance and S151 Officer *d	7,743	0	7,743	0	7,743
	708,542	196	708,738	143,664	852,402

*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 £165,085 (inclusive of employer's pension contributions) was made in 2018/2019 by the Authority to the Chief Executive.

*b The Acting Director of Corporate Services returned to their substantive post as Head of Corporate Finance and S151 Officer in May 2018. The full annualised salary of the Director post was £125,886, whilst the full annualised salary of the Head of Corporate Finance and S151 Officer post was £94,652.

*c The Corporate Director - Education & Corporate Services is a new post that commenced in July 2018. The full annualised salary of the post was £111,644.

*d The Interim Head of Corporate Finance and S151 Officer left the post at the end of April 2018. The full annualised salary of the post was £93,997.

The annualised remuneration of the highest paid officer of the Authority (the Interim Chief Executive) in the financial year to 31 March 2020 was £143,949. This was 6.8 times the median remuneration of the workforce, which was £21,166. (The remuneration of the highest paid officer of the Authority (the Chief Executive) in the financial year to 31 March 2019 was £143,949. This was 7.26 times the median remuneration of the workforce, which was £19,819).

Notes to the Core Financial Statements (continued)

Exit Packages

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 £	
	2018 / 2019	2019 / 2020	2018 / 2019	2019 / 2020	2018 / 2019	2019 / 2020	2018 / 2019	2019 / 2020
£0 - £20,000	1	0	161	131	162	131	1,106,979	829,956
£20,001 - £40,000	1	0	28	14	29	14	794,546	366,896
£40,001 - £60,000	0	0	7	1	7	1	346,094	50,520
£60,001 - £80,000	0	0	0	0	0	0	0	0
£80,000 - £100,000	0	0	2	0	2	0	171,545	0
Total	2	0	198	146	200	146	2,419,164	1,247,372

18. External Audit Costs

In 2019/2020 Caerphilly County Borough Council incurred the following fees relating to external audit and inspection.

	<u>2018/2019</u> £000	<u>2019/2020</u> £000
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	105	105
Fees payable to the Auditor General for Wales for the certification of grant claims and returns	41	47
Fees payable to Grant Thornton UK LLP in respect of other services*	3	3
	<u>399</u>	<u>405</u>

* Other services were in respect of the independent examination of Blackwood Miners' Institute, a registered charity.

Notes to the Core Financial Statements (continued)

19. Related Party Transactions

The Authority is required to disclose material transactions with related parties – bodies or individuals that can potentially 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 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. Details of revenue support grant and NNDR Pool transactions are summarised in Note 11.

Precepts and Levies

Note 9 details 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 2019/2020 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.

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 69 to 77.

Other Entities Controlled or Significantly Influenced by the Authority:

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 for further information see note 45.

Notes to the Core Financial Statements (continued)

20. 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. 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.

Notes to the Core Financial Statements (continued)

21. Movements on Reserves

Movements in the Authority's Usable Reserves are detailed below, in the Movement in Reserves Statement and also in Notes 32 - 38, whilst details of the movements in Unusable Reserves are shown below and in Notes 29 - 31. 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>		Balance	Net	Balance	Net	Balance
Reserve	Note	1 April	Movement	31 March	Movement	31 March
		2018	in year	2019	in year	2020
		£000	£000	£000	£000	£000
Council Fund		(13,200)	(1,889)	(15,089)	66	(15,023)
Housing Revenue Account		(5,090)	(951)	(6,041)	(6,800)	(12,841)
Direct Service Earmarked Reserves		(372)	334	(38)	0	(38)
Capital Earmarked Reserves	36	(22,136)	(1,973)	(24,109)	(12,625)	(36,734)
Service Over/Underspend Reserves	37	(5,227)	(16)	(5,243)	(85)	(5,328)
Schools Earmarked Reserves		(2,039)	(482)	(2,521)	1,251	(1,270)
Insurance Earmarked Reserves	34	(6,499)	(609)	(7,108)	634	(6,474)
Other Earmarked Reserves	38	(37,563)	775	(36,788)	1,108	(35,680)
Usable Capital Receipts	33	(8,523)	(1,456)	(9,979)	(631)	(10,610)
Capital Grants Unapplied	32	(9,149)	(2,458)	(11,607)	(3,820)	(15,427)
Total Usable Reserves		(109,798)	(8,725)	(118,523)	(20,902)	(139,425)

Caerphilly County Borough Council

Notes to the Core Financial Statements (continued)

Unusable Reserves

Reserve	Balance 1 April 2018 £000	Net Movement in year £000	Balance 31 March 2019 £000	Net Movement in year £000	Balance 31 March 2020 £000	Purpose of Reserve	Further details of movements
Financial Instruments Adjustment Account	(160)	128	(32)	(10)	(42)	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	2,685	(2,685)	0	0	0	Store of gains on revaluation of investments not yet realised through sales.	
Revaluation Reserve	(609,950)	109,068	(500,882)	(31,788)	(532,670)	Gains on revaluation of fixed assets not yet realised through sales.	Note 30
Capital Adjustment Account (CAA)	(361,980)	70,369	(291,611)	46,323	(245,288)	Capital resources set aside to meet past capital expenditure	Note 31
Deferred Capital Receipts	(50)	(86)	(136)	(113)	(249)	Proceeds to be received over future accounting periods arising principally from the sale of council dwellings	
Pensions Reserve	503,159	126,747	629,906	(115,535)	514,371	Reserve set aside to mitigate the impact of pension liabilities on Council Tax as required by statute	Note 29
Accumulated Absences Account	3,608	150	3,758	375	4,133	Account to absorb differences arising on the Council Fund balance from accruing for compensated absences earned but not taken in the year.	
Total Unusable Reserves	(462,688)	303,691	(158,997)	(100,748)	(259,745)		

Notes to the Core Financial Statements (continued)

22. Property, Plant and Equipment

	Council Dwellings	Other Land & 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 2019	347,640	615,511	45,501	324,308	3,272	0	1,336,232	70,888
Additions	50,750	13,517	468	8,326	0	1,322	74,383	0
Revaluation Increases to Revaluation Reserve	20,598	33,447	0	0	95	0	54,140	3,399
Revaluation Decreases to Revaluation Reserve	0	(45,812)	0	0	0	0	(45,812)	0
Revaluation Increases to Surplus/Deficit on Provision of Services	0	7,643	0	0	177	0	7,820	0
Revaluation Decreases to Surplus/Deficit on Provision of Services	0	(12,760)	0	0	0	0	(12,760)	0
Derecognitions - Disposals	(2,279)	(14,580)	0	0	0	0	(16,859)	0
Derecognitions - Other	(49,754)	(7,943)	0	0	0	0	(57,697)	0
Other movements - transfer to correct classification	0	(4,308)	124	3,947	5	236	4	0
At 31 March 2020	366,955	584,715	46,093	336,581	3,549	1,558	1,339,451	74,287
Accumulated Depreciation and impairment:								
At 1 April 2019	0	(24,770)	(36,412)	(127,372)	(96)	0	(188,650)	(17,866)
Depreciation Charge	(13,372)	(11,818)	(1,560)	(9,819)	(15)	0	(36,584)	(919)
Depreciation written back on Revaluation	13,372	24,696	0	0	77	0	38,145	0
Depreciation written back on Disposals	0	5,922	0	0	0	0	5,922	0
Other movements - transfer to correct classification	0	4,062	(124)	(3,945)	8	0	0	0
At 31 March 2020	0	(1,908)	(38,096)	(141,136)	(26)	0	(181,167)	(18,785)
Net Book Value at 31 March 2020	366,955	582,807	7,997	195,445	3,523	1,558	1,158,284	55,502
<i>Net Book Value at 31 March 2019</i>	<i>347,640</i>	<i>590,741</i>	<i>9,089</i>	<i>196,936</i>	<i>3,176</i>	<i>0</i>	<i>1,147,582</i>	<i>53,022</i>

It should be noted that all valuations presented in this section are reported on the basis of 'material valuation uncertainty' that is less certainty – and a higher degree of caution – should be attached to the valuations than would normally be the case due to the Covid-19 pandemic. Note 3 provides further detail.

Caerphilly County Borough Council

Notes to the Core Financial Statements (continued)

<u>Restated</u>	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 2018	339,854	768,698	43,805	315,684	3,072	7,175	1,478,288	84,761
Additions	51,674	13,734	1,840	8,624	0	43	75,915	8
Revaluation Increases to Revaluation Reserve	7,787	4,080	0	0	0	0	11,867	(13,881)
Revaluation Decreases to Revaluation Reserves	0	(131,875)	0	0	0	0	(131,875)	0
Revaluation Increases to Surplus/Deficit on Provision of Services	0	1,928	0	0	0	0	1,928	0
Revaluation Decreases to Surplus/Deficit on Provision of Services	0	(30,399)	(21)	0	200	0	(30,220)	0
Derecognitions - Disposals	0	(10,650)	0	0	0	0	(10,650)	0
Derecognitions - Other	(51,675)	(5)	0	0	0	0	(51,680)	0
Other movements in cost or valuations	0	0	(123)	0	0	(7,218)	(7,341)	0
At 31 March 2019	347,640	615,511	45,501	324,308	3,272	0	1,336,232	70,888
Accumulated Depreciation and impairment:								
At 1 April 2018	0	(23,407)	(33,043)	(116,815)	(81)	0	(173,346)	(16,947)
Depreciation Charge	(12,588)	(13,805)	(3,492)	(10,557)	(15)	0	(40,457)	(919)
Depreciation written back on Revaluation	12,588	11,379	0	0	0	0	23,967	0
Depreciation written back on Disposals	0	1,063	123	0	0	0	1,186	0
At 31 March 2019	0	(24,770)	(36,412)	(127,372)	(96)	0	(188,650)	(17,866)
Net Book Value at 31 March 2019	347,640	590,741	9,089	196,936	3,176	0	1,147,582	53,022

Notes to the Core Financial Statements (continued)

Capital Commitments

At 31 March 2020, the Authority had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2020/2021 and subsequent years budgeted to cost £13.394m. Similar commitments at 31 March 2019 were £9.103m. The major commitments are:

		Restated 31	
		March 2019	31 March 2020
		£000	£000
Highways and Transportation:	Bridge strengthening & infrastructures	260	441
	Land drainage	402	164
	Infrastructure Retaining Walls	0	314
	Major highways improvements	1,479	739
	Street lighting (Salix)	3,139	506
	Passenger transport ETM	381	0
Education:	Newbridge / Cwmcarn High School	373	0
Corporate Services:	EdTech Programme	0	1,531
Social Services:	Children with Complex Needs Centre	3,069	3,069
Urban Renewal:	Lawns Industrial Estate	0	2,669
	Ty Ddu	0	1,706
	Canal	0	1,746
Property :	Hafodyrynys Air Pollution	0	4,113
		9,103	16,998

Revaluations

A revaluation exercise is carried out 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 and 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 held for sale £000	Total £000
Carried at historical cost	0	289	46,093	336,581	0	0	382,963
Valued at current value as at:							
30 March 2016	0	6,089	0	0	275	0	6,364
31 March 2017	0	9,163	0	0	1,494	0	10,657
31 March 2018	0	12,304	0	0	8	0	12,312
31 March 2019	0	24,075	0	0	278	0	24,353
31 March 2020	366,955	532,795	0	0	1,494	824	902,068
Total Cost or Valuation	366,955	584,715	46,093	336,581	3,549	824	1,338,717

Surplus Assets

As at 31 March 2020 the Authority had no surplus assets.

23. 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
Cost or Valuation			
1 April 2018	11,207	241	11,448
Impairment (losses)/reversals recognised in the Revaluation Reserve	(238)	12	(226)
31 March 2019	10,969	253	11,222
Cost or Valuation			
1 April 2019	10,969	253	11,222
Impairment (losses)/reversals recognised in the Revaluation Reserve	(440)	3	(437)
31 March 2020	10,529	256	10,785

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 daily.

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 19th Century Welsh Language poet, Islwyn. The asset was valued at 31 March 2019 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 2019 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 17th 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 2019 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 2020 at £256,006 (£252,892 in 2019). 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.

24. 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	
	2019	2020
	£000	£000
Opening Capital Financing Requirement	345,137	367,178
Capital Investment:		
Operational Assets	75,915	74,383
Invest to Save	(830)	(819)
Intangible Assets	420	64
Revenue Expenditure funded from Capital Under Statute	2,272	1,538
Sources of Finance:		
Grants and Other Contributions	(21,111)	(22,769)
Capital Expenditure Funded from Revenue	(25,742)	(17,355)
Capital Receipts Set Aside	(2,844)	(3,620)
Minimum Revenue Provision	(6,039)	(6,633)
Closing Capital Financing Requirement	367,178	391,967

25. Debtors

	31 March 2019	31 March 2020
	£000	£000
Trade receivables	9,062	21,630
Prepayments	861	2,314
Other Local Authorities and Public Bodies	12,704	18,598
Government Grants	5,555	7,379
Other receivable amounts	3,927	3,025
	32,109	52,946

Notes to the Core Financial Statements (continued)

26. Cash and Cash Equivalents

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

	31 March 2019 £000	31 March 2020 £000
Cash held by the Authority	70	92
Bank current accounts	784	609
Total cash and cash equivalents	854	701

27. Creditors

	31 March 2019 £000	31 March 2020 £000
Trade payables	(25,983)	(31,901)
Receipts in advance	(3,173)	(23,350)
Other Local Authorities and Public Bodies	(12,099)	(12,080)
HMRC	(4,086)	(4,097)
Accumulated Absence accrual	(3,758)	(4,133)
Other payables	(4,322)	(4,896)
Total Creditors	(53,421)	(80,457)

28. 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 2020 was:

£178,225 - relating to Education Trust Funds administered by the Interim Head of Corporate Finance, (£176,086 in 2018/2019), which are held to provide prizes and awards to pupils in the Authority's schools. Of these funds, £43 is vested in shareholdings and £178,182 is held in bank deposits (£43 and £176,043 respectively in 2018/2019). There are no other underlying assets or liabilities. The Trust Funds received £2,239 in dividends and interest during the year (£2,398 in 2018/2019) and incurred expenditure of £100 (£100 in 2018/2019).

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 24 April 2020 was £6,221,025 (£6,266,273 as at 31 March 2019). Balances could not be obtained at 31 March due to the impact of Covid19 restrictions on working practices.

Notes to the Core Financial Statements (continued)

29. 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 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.

	2018/2019	2019/2020
	£000	£000
Balance as at 1 April	503,159	629,906
Actuarial (gains) or losses on pensions assets and liabilities	88,141	(157,686)
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	63,766	69,521
Employer's pension contributions and direct payments to pensioners payable in the year	(25,160)	(27,370)
Balance at 31 March	629,906	514,371

30. 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 2020 therefore only shows revaluation gains accumulated since 1 April 2007.

	2018/2019	2019/2020
	£000	£000
Balance as at 1 April	(609,950)	(500,882)
Downward revaluation of assets and impairment losses not charged to the Surplus and Deficit on the Provision of Services	125,160	46,467
Surplus on Revaluation of Assets	(28,135)	(92,429)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	97,025	(45,962)
Difference between fair value depreciation and historical cost depreciation	12,043	14,174
Amount written off to the Capital Adjustment Account	12,043	14,174
Balance as at 31 March	(500,882)	(532,670)

Notes to the Core Financial Statements (continued)

31. 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 30 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.

	2018/2019		2019/2020	
	£000	£000	£000	£000
Balance as at 1 April		(361,980)		(291,611)
Set Aside - Capital Receipts		(2,844)		(3,620)
Funding:				
Revenue funding applied	(25,742)		(17,355)	
Capital receipts applied	(366)		(888)	
Capital grants and contributions applied	(20,745)		(21,881)	
Total Funding		(46,853)		(40,124)
MRP		(6,039)		(6,633)
Depreciation:				
In year charge	40,457		36,524	
Attributable to revaluations	(12,043)		(49,873)	
Written back on revaluations	0		35,700	
Written back on disposals	(1,186)		(5,920)	
		27,228		16,431
Derecognition of capital expenditure		58,897		57,697
Asset Revaluations / Impairments:				
Price adjustments	27,468		4,930	
		27,468		4,930
Disposals - Council Fund	10,650		14,580	
Disposals - HRA	0		2,279	
		10,650		16,859
Revenue Expenditure funded from Capital	2,272		1,538	
		2,272		1,538
Invest to save		(830)		(819)
Amortisation of Intangible Assets		420		64
Total capital costs		120,066		90,067
Balance as at 31 March		<u>(291,611)</u>		<u>(245,288)</u>

Notes to the Core Financial Statements (continued)

32. Capital Grants Unapplied

The Authority receives grants and other contributions towards the funding of capital projects. The following table represents amounts received and carried forward to fund projects yet to be implemented or completed at the end of the financial year.

	2018/2019		2019/2020	
	£000	£000	£000	£000
Opening balance		(9,149)		(11,607)
Grants:				
Private Housing	0		25	
Education	(1,254)		(1,506)	
Lifelong Learning	0		(15)	
Planning	(41)		169	
Highways	13		332	
Corporate Projects	0		(2,392)	
Economic Development	0		(576)	
Corporate	(2,794)		155	
		(4,076)		(3,808)
Section 106 Contributions:				
Highways	45		31	
Planning	0		5	
Education	(188)		0	
Community and Leisure	4		(36)	
		(139)		0
Other Contributions:				
Lifelong Learning	0		(1)	
Private Housing	(912)		0	
Community and Leisure	(2)		0	
Highways	32		11	
Corporate Projects	0		(362)	
Corporate	33		338	
Planning	(15)		2	
		(864)		(12)
Caerphilly Basin Receipts		2,621		0
Balance as at 31 March		(11,607)		(15,427)

Notes to the Core Financial Statements (continued)

33. Capital Receipts Reserve

	2018/2019 £000	2019/2020 £000
Amounts receivable in year	(4,752)	(5,251)
Amounts set aside	2,844	3,620
Amounts applied to finance new capital investment in year	452	1,001
Total increase/(decrease) in realised capital resources in year	(1,456)	(630)
Balance brought forward at 1 April	(8,523)	(9,979)
Balance at 31 March	(9,979)	(10,609)

34. Movements in Insurance Earmarked Reserves

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

	Balance at 1 April 2019 £000	Transfers from Reserves £000	Transfers to Reserves £000	Balance at 31 March 2020 £000
Reserve:				
Insurance Reserve	(6,692)	553	0	(6,139)
Risk Management Reserve	(416)	81	0	(335)
	(7,108)	634	0	(6,474)

35. 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 127, Note 7.

Notes to the Core Financial Statements (continued)

36. 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.

Reserve:	Balance at 1 April 2019	Transfers from Reserves	Transfers to Reserves	Balance at 31 March 2020
	£000	£000	£000	£000
Housing Earmarked Capital	(38)	0	0	(38)
Corporate - All Authority	(18,781)	14,947	(1,851)	(5,685)
Lifelong Learning	(121)	121	0	0
Social Services	0	37	(510)	(473)
Corporate Projects	0	8,321	(26,394)	(18,073)
Planning	(31)	21	(402)	(412)
Education	(1,871)	200	(7,087)	(8,758)
Highways and Transportation	(648)	0	0	(648)
Property	(344)	4	0	(340)
Corporate Services	(349)	127	0	(222)
Economic Development & Tourism	(89)	4	(16)	(101)
Environmental Health	(201)	0	(44)	(245)
Community & Leisure	(1,636)	0	(103)	(1,739)
	(24,109)	23,782	(36,407)	(36,734)

37. 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.

Reserve:	Balance at 1 April 2019	Transfers from Reserves	Transfers to Reserves	Balance at 31 March 2020
	£000	£000	£000	£000
Education	(570)	712	(142)	0
Corporate Services	(1,459)	1,598	(1,651)	(1,512)
Social Services	(2,329)	2,522	(4,229)	(4,036)
Housing Non HRA	(314)	12	0	(302)
Directorate of the Environment	(571)	3,025	(1,932)	522
	(5,243)	7,869	(7,954)	(5,328)

Notes to the Core Financial Statements (continued)

38. Movement in Other Reserves

<u>Reserve:</u>	<u>Purpose of reserve:</u>	Balance at 1 April 2019 £000	Transfers from reserves £000	Transfers to reserves £000	Balance at 31 March 2020 £000
Waste Management Reserve	to cover future costs in respect of landfill sites	(585)	350	0	(235)
PFI Equalisation Reserve (Schools)	to match PFI funding and unitary charge payments over the period of the contracts - see note 14	(8,694)	722	0	(7,972)
PFI Equalisation Reserve (Roads)		(2,077)	176	0	(1,901)
PFI Schools Earmarked Reserve	reinvestment and works outside the scope of the PFI projects	(1,093)	0	(99)	(1,192)
Service Initiative Reserves	to fund expenditure upon service specific initiatives	(14,477)	7,802	(8,605)	(15,280)
Carbon Trust Fund Reserve	to provide match funding to draw down grant from the Carbon Trust, to fund major works for energy efficiency measures	(296)	131	(134)	(299)
Area Forum Reserve	to meet costs incurred from environmental works undertaken by the Authority as identified by the local area partnerships	(40)	1	0	(39)
Community Regeneration Fund Reserve	represents unclaimed funds from the Community Regeneration Fund voluntary sector allocations	(56)	56	0	0
Cemeteries Reserve	to meet costs incurred in general upkeep and maintenance of Authority-owned cemeteries	(1,203)	522	(20)	(701)
Electoral Admin Reserve	to meet the objectives of the Electoral Administration Act 2006	(382)	0	(77)	(459)
Health & Safety Initiatives Reserve	to promote health and safety across the authority	(263)	0	0	(263)
Corporate PC Replacement Reserve	to fund the replacement of computers throughout the Authority	(759)	590	(208)	(377)
Social Services Partnership Reserve	to support collaborative initiatives with other local authorities and public bodies	(2,829)	783	(418)	(2,464)
Invest to Save Reserve	to promote savings initiatives across the authority	(313)	0	(156)	(469)
Local Management of Schools	to undertake school based initiatives	(2,443)	763	(65)	(1,745)
Community Infrastructure Levy Reserve	to recycle CIL charges to fund infrastructure and to support local developments	(1,206)	1,006	(2,011)	(2,211)
Other Reserves	a number of smaller reserves held for a variety of purposes.	(72)	4	(5)	(73)
Total		(36,788)	12,906	(11,798)	(35,680)

Notes to the Core Financial Statements (continued)

39. Cash Flow Statement – Adjustments to Surplus or Deficit

	2018/2019 £000	2019/2020 £000
<i>Adjustment to surplus or deficit on provision of services for non-cash movements:</i>		
Depreciation and Impairment - inclusive of downward revaluation	(67,926)	(35,533)
IAS19 Pensions Adjustment	(38,606)	(42,151)
Invest2Save Adjustment	829	819
(Increase) / Decrease in Provisions	433	(579)
Derecognition of Capital Expenditure	(58,897)	(57,697)
Other non-cash items charged to the net surplus or deficit on the provision of services	(1,980)	(15,058)
Increase / (Decrease) in Inventories	22	(24)
Increase / (Decrease) in Debtors	(6,545)	20,986
(Increase) / Decrease in Creditors	1,111	(31,916)
	(171,559)	(161,153)
<i>Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities:</i>		
Capital grants credited to surplus or deficit on provision of services	23,204	25,708
Net loss on sale of fixed assets	(4,712)	3,561
	18,492	29,269

Contributions to / from Reserves narrative has been amended to Other Non Cash Items Charged to the Net Surplus or Deficit on the provision of services.

40. Cash Flow Statement – Operating Activities

The cash flows from operating activities include the following items:

	2018/2019 £000	2019/2020 £000
Interest received	(850)	(1,081)
Interest paid	13,087	13,227
	12,237	12,146

41. Cash Flow Statement – Investing Activities

	2018/2019 £000	2019/2020 £000
Purchase of property, plant and equipment and intangible assets	78,594	75,858
Purchase of short-term and long-term investments	474,407	503,662
Proceeds from the sale of property, plant and equipment and intangible assets	(4,752)	(5,250)
Proceeds from the sale of short-term and long-term investments	(493,527)	(483,073)
Other receipts from investing activities	(23,204)	(25,708)
	31,518	65,489

Notes to the Core Financial Statements (continued)

42. Cash Flow Statement - Financing Activities

	2018/2019 £000	2019/2020 £000
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	4,015	4,569
Repayments of short-term and long-term borrowing	9,001	28,292
Cash receipts of short-term and long-term borrowing	(3,900)	(48,311)
	9,116	(15,450)

43. Reconciliation of liabilities arising from financing activities

	As at 1 April 2019 £000	Financing cash flows £000	Non-cash changes		As at 31 March 2020 £000
			Acquisition £000	Other non- cash changes £000	
Long-term borrowings	(277,719)	(20,019)	0	(731)	(298,469)
Short-term borrowings	(5,675)	0	0	615	(5,060)
Lease liabilities	(380)	63	0	0	(317)
On balance sheet PFI liabilities	(32,501)	4,506	0	(2,533)	(30,528)
Total liabilities from financing activities	(316,275)	(15,450)	0	(2,649)	(334,374)

44. Joint Operations

A joint operation 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 operations 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 operations:

- 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

Notes to the Core Financial Statements (continued)

The Authority's share of the Income and Expenditure Account and Balance Sheet of some of the committees, where material, is given below:

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>	2018/2019		2019/2020	
	Total £000	CCBC share £000	Total £000	CCBC share £000
<u>Income & Expenditure Account</u>				
Cost of Services	1,254	150	2,440	292
Operating Income	(4,209)	(504)	(5,017)	(600)
Net Cost of Services	(2,955)	(354)	(2,577)	(308)
Interest & Investment Income	(112)	(13)	(283)	(34)
Financing & Investment Income & Expenditure	(112)	(13)	(283)	(34)
Capital Grants & Contributions	(12,308)	(1,473)	0	0
Corporation Tax	551	66	543	65
Taxation and Non Specific Grant Income (Surplus) / Deficit on Provision of Services	(11,757)	(1,407)	543	65
	(14,824)	(1,774)	(2,317)	(277)
Other Comprehensive Income & Expenditure	0	0	0	0
Total Comprehensive Income & Expenditure	(14,824)	(1,774)	(2,317)	(277)
<u>Balance Sheet</u>				
Long term assets	40,505	4,848	36,443	4,362
Current assets	33,758	4,040	55,006	6,583
Current liabilities	(2,338)	(280)	(2,600)	(311)
Long term liabilities	(31,344)	(3,751)	(45,951)	(5,499)
Total Assets less Liabilities	40,581	4,857	42,898	5,134
Usable Reserves	4,063	486	6,380	764
Unusable Reserves	36,518	4,371	36,518	4,371
	40,581	4,857	42,898	5,134

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 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 2020 are:

<u>Statement of Profit or Loss</u>	Year Ended 31 March 2019 £000	Year Ended 31 March 2020 £000
Revenue	6,928	6,791
Cost of sales	(5,138)	(5,641)
Gross Surplus	1,790	1,150
Other operating income and expenditure	(2,078)	(1,813)
Operating Surplus	(288)	(663)
Investment Income	13	15
Financing costs	(228)	(262)
Deficit before Tax	(503)	(910)
Other Comprehensive Income		
Actuarial gain/(loss) on pension scheme	(1,355)	2,081
Adjustment to underwritten balance	1,877	(1,144)
Other Comprehensive Income net of income tax	522	937
Total Comprehensive Income for the year	19	27

Notes to the Core Financial Statements (continued)

<u>Statement of Financial Position</u>	Year Ended 31 March 2019 £000	Year Ended 31 March 2020 £000
Non-Current Assets	10,230	9,019
Current Assets	1,732	5,620
Total Assets	11,962	14,639
Non-Current Liabilities	10,162	8,984
Current Liabilities	1,581	5,409
Total Liabilities	11,743	14,393
Net Assets	219	246
Retained Profit	219	246

46. Prior Year Adjustments

- De-recognition of Capital Expenditure

In previous years capital expenditure on components of the Authority's assets were amortised to the Capital Adjustment Account via the service lines in the Comprehensive Income and Expenditure Account. The accounting treatment has been revised to correctly derecognise the expenditure through the Other Operating Expenditure line in the Comprehensive Income and Expenditure Account.

- Revaluation of Property, Plant & Equipment

The prior year figures have been restated to reflect changes in the reported value of Property, Plant & Equipment.

A new primary school was built at the site of Rhymney Comprehensive School. The school was then renamed Idris Davies 3-18 School. The school was then revalued as one site. This change wasn't reflected in the Authority's asset register which retained the value of Rhymney Comprehensive School and Idris Davies as two separate assets. This restatement totalled £7.2m.

- Cash Flow Reclassification

The 2018-2019 cash flow has been restated to reflect a number of reclassification movements between the categories of income and expenditure activities lines within the cash flow and associated notes. Details of the restatement movements are provided in the notes below.

Notes to the Core Financial Statements (continued)

	Original 31 March 2019		
	Gross Expenditure	Gross Income	Net Expenditure
	£000	£000	£000
Comprehensive Income and Expenditure Account			
Education and Lifelong Learning	210,306	(41,283)	169,023
Social Services and Housing	145,848	(49,902)	95,946
Communities	103,083	(28,120)	74,963
Corporate Services	109,265	(65,288)	43,977
HRA	92,185	(55,533)	36,652
Cost of Services	660,687	(240,126)	420,561
Other Operating Expenditure	33,443	(4,752)	28,691
Financing and Investment Income and Expenditure	31,220	(863)	30,357
Taxation and Non-Specific Grant Income		(370,305)	(370,305)
(Surplus)/Deficit on Provision of Services			109,304
(Surplus)/deficit on revaluation of non-current assets			92,998
(Surplus)/deficit on revaluation of available-for-sale financial assets			(2,685)
Actuarial (gains)/losses on pensions assets/liabilities			88,141
Other Comprehensive Income and Expenditure			178,454
Total Comprehensive Income and Expenditure			287,758

Notes to the Core Financial Statements (continued)

	Restatement Movement		
	Gross Expenditure	Gross Income	Net Expenditure
	£000	£000	£000
<u>Comprehensive Income and Expenditure Account</u>			
Education and Lifelong Learning	993	0	993
Social Services and Housing	(621)	0	(621)
Communities	(2,502)	0	(2,502)
Corporate Services	(1,911)	0	(1,911)
HRA	(51,674)	0	(51,674)
Cost of Services	(55,715)	0	(55,715)
Other Operating Expenditure	58,896	0	58,896
Financing and Investment Income and Expenditure	0	0	0
Taxation and Non-Specific Grant Income		0	0
(Surplus)/Deficit on Provision of Services			3,181
(Surplus)/deficit on revaluation of non-current assets			4,027
(Surplus)/deficit on revaluation of available-for-sale financial assets			0
Actuarial (gains)/losses on pensions assets/liabilities			0
Other Comprehensive (Income) and Expenditure			4,027
Total Comprehensive (Income) and Expenditure			7,208

Notes to the Core Financial Statements (continued)

	Restatement 31 March 2019		
	Gross Expenditure	Gross Income	Net Expenditure
	£000	£000	£000
Comprehensive Income and Expenditure Account			
Education and Lifelong Learning	211,299	(41,283)	170,016
Social Services, Public Protection and Corporate Policy / Social Services and Housing	145,227	(49,902)	95,325
Environment / Communities	100,581	(28,120)	72,461
Corporate Services	107,354	(65,288)	42,066
HRA	40,511	(55,533)	(15,022)
Cost of Services	604,972	(240,126)	364,846
Other Operating Expenditure	92,339	(4,752)	87,587
Financing and Investment Income and Expenditure	31,220	(863)	30,357
Taxation and Non-Specific Grant Income	0	(370,305)	(370,305)
(Surplus)/Deficit on Provision of Services			112,485
(Surplus)/deficit on revaluation of non-current assets			97,025
(Surplus)/deficit on revaluation of available-for-sale financial assets			(2,685)
Actuarial (gains)/losses on pensions assets/liabilities			88,141
Other Comprehensive Income and Expenditure			182,481
Total Comprehensive Income and Expenditure			294,966

Notes to the Core Financial Statements (continued)

	Original 31 March 2019								
	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
Movement in Reserves Statement									
Balance at 1 April 2018	(13,200)	(73,836)	(87,036)	(5,090)	(9,149)	(8,523)	(109,798)	(462,688)	(572,486)
Movement in reserves during 2018/2019									
Total Comprehensive Income and Expenditure	78,988	0	78,988	30,316	0	0	109,304	178,454	287,758
Adjustments between accounting basis and funding basis under regulations	(82,848)	0	(82,848)	(31,267)	(5,792)	(4,752)	(124,659)	124,659	0
(Increase)/Decrease in Year	(3,860)	0	(3,860)	(951)	(5,792)	(4,752)	(15,355)	303,113	287,758
Transfers (to)/from earmarked reserves	1,971	(1,971)	0	0	3,334	3,296	6,630	(6,630)	0
Balance at 31 March 2019	(15,089)	(75,807)	(90,896)	(6,041)	(11,607)	(9,979)	(118,523)	(166,205)	(284,728)

Notes to the Core Financial Statements (continued)

	Restatement Movement								
	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
Movement in Reserves Statement									
Movement in reserves during 2018/2019									
Total Comprehensive Income and Expenditure	3,181	0	3,181	0	0	0	3,181	4,027	7,208
Adjustments between accounting basis and funding basis under regulations	(3,181)	0	(3,181)	0	0	0	(3,181)	3,181	0
(Increase)/Decrease in Year	0	0	0	0	0	0	0	7,208	7,208
Transfers (to)/from earmarked reserves	0	0	0	0	0	0	0	0	0
Balance at 31 March 2019	0	0	0	0	0	0	0	0	0

Notes to the Core Financial Statements (continued)

	Restatement 31 March 2019								
	Council Fund Balance	Earmarked Reserves	Total Council Fund Balances	Housing Revenue Account	Capital Grants Unapplied	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Movement in Reserves Statement									
Balance at 1 April 2018	(13,200)	(73,836)	(87,036)	(5,090)	(9,149)	(8,523)	(109,798)	(462,688)	(572,486)
Movement in reserves during 2019/2020									
Total Comprehensive Income and Expenditure	82,169	0	82,169	30,316	0	0	112,485	182,481	294,966
Adjustments between accounting basis and funding basis under regulations	(86,029)	0	(86,029)	(31,267)	(5,792)	(4,752)	(127,840)	127,840	0
(Increase)/Decrease in Year	(3,860)	0	(3,860)	(951)	(5,792)	(4,752)	(15,355)	310,321	294,966
Transfers (to)/from earmarked reserves	1,971	(1,971)	0	0	3,334	3,296	6,630	(6,630)	0
Balance at 31 March 2019	(15,089)	(75,807)	(90,896)	(6,041)	(11,607)	(9,979)	(118,523)	(158,997)	(277,520)

Notes to the Core Financial Statements (continued)

	Original 31 March 2019	Restatement Movement	Restatement 31 March 2019
	£000	£000	£000
Balance Sheet			
Property, Plant & Equipment	1,154,790	(7,208)	1,147,582
Heritage Assets	11,222	0	11,222
Long Term Investments	34,344	0	34,344
Long Term Debtors	627	0	627
Long Term Assets	1,200,983	(7,208)	1,193,775
Short Term Investments	55,989	0	55,989
Assets Held for Sale	834	0	834
Inventories	430	0	430
Short Term Debtors	32,109	0	32,109
Cash and Cash Equivalents	854	0	854
Current Assets	90,216	0	90,216
Short Term Borrowing	(6,495)	0	(6,495)
Short Term Creditors	(53,421)	0	(53,421)
Short Term Provisions	(1,473)	0	(1,473)
Current Liabilities	(61,389)	0	(61,389)
Long Term Provisions	(2,342)	0	(2,342)
Long Term Borrowing	(277,720)	0	(277,720)
Other Long Term Liabilities	(663,715)	0	(663,715)
Capital Grants Receipts in Advance	(1,305)	0	(1,305)
Long Term Liabilities	(945,082)	0	(945,082)
Net Assets	284,728	(7,208)	277,520
Usable Reserves	(118,523)	0	(118,523)
Unusable Reserves	(166,205)	7,208	(158,997)
Total Reserves	(284,728)	7,208	(277,520)

Notes to the Core Financial Statements (continued)

	2018/2019	Restatement	Restated
	£000	Movement	2018/2019
<u>Cash Flow Statement</u>	£000	£000	£000
Net (surplus) or deficit on provision of services	109,304	3,181	112,485
Adjust net surplus or deficit on the provision of services for non cash movement	(125,214)	(46,345)	(171,559)
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	18,492	0	18,492
Net cash flows from Operating Activities	2,582	(43,164)	(40,582)
Investing Activities	(11,646)	43,164	31,518
Financing Activities	9,116	0	9,116
Net (increase) or decrease in cash and cash equivalents	52	0	52
Cash and cash equivalents at the beginning of the reporting period	(906)	0	(906)
Cash and cash equivalents at the end of the reporting period	(854)	0	(854)

	2018-2019		
<u>Expenditure and Funding Analysis</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	125,430	43,593	169,023
Social Services and Housing	88,820	7,126	95,946
Communities	51,136	23,827	74,963
Corporate Services	62,809	(18,832)	43,977
HRA	(951)	37,603	36,652
Net Cost of Services	327,244	93,317	420,561
Other Income and Expenditure	(332,055)	20,798	(311,257)
Surplus/Deficit	(4,811)	114,115	109,304
Opening Council Fund and HRA Balance at 1 April	(92,126)		
Surplus/(Deficit) on Council Fund and HRA Balance in Year	(4,811)		
Closing Council Fund and HRA Balance at 31 March*	(96,937)		

Caerphilly County Borough Council

Notes to the Core Financial Statements (continued)

<u>Expenditure and Funding Analysis</u>	Restatement Movement 2018-2019		
	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	0	993	993
Social Services and Housing	0	(621)	(621)
Communities	0	(2,502)	(2,502)
Corporate Services	0	(1,911)	(1,911)
HRA	0	(51,674)	(51,674)
Net Cost of Services	0	(55,715)	(55,715)
Other Income and Expenditure	0	58,896	58,896
Surplus/Deficit	0	3,181	3,181
Opening Council Fund and HRA Balance at 1 April	0		
Surplus/(Deficit) on Council Fund and HRA Balance in Year	0		
Closing Council Fund and HRA Balance at 31 March*	0		

<u>Expenditure and Funding Analysis</u>	Restated 2018-2019		
	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	125,430	44,586	170,016
Social Services and Housing	88,820	6,505	95,325
Communities	51,136	21,325	72,461
Corporate Services	62,809	(20,743)	42,066
HRA	(951)	(14,071)	(15,022)
Net Cost of Services	327,244	37,602	364,846
Other Income and Expenditure	(332,055)	79,694	(252,361)
Surplus/Deficit	(4,811)	117,296	112,485
Opening Council Fund and HRA Balance at 1 April	(92,126)		
Surplus/(Deficit) on Council Fund and HRA Balance in Year	(4,811)		
Closing Council Fund and HRA Balance at 31 March*	(96,937)		

Caerphilly County Borough Council

Notes to the Core Financial Statements (continued)

Adjustments between Funding and Accounting Basis 2018-2019				
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	34,695	8,784	114	43,593
Social Services and Housing	2,350	4,762	14	7,126
Communities	19,438	4,380	10	23,828
Corporate Services	(4,497)	5,041	(19,377)	(18,833)
HRA	40,568	1,835	(4,800)	37,603
Net Cost of Services	92,554	24,802	(24,039)	93,317
Other income and expenditure from the Expenditure and Funding Analysis	(17,323)	13,804	24,317	20,798
Difference between Council Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	75,231	38,606	278	114,115

Adjustments between Funding and Accounting Basis 2018-2019 - 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	993	0	0	993
Social Services, Public Protection and Corporate Policy / Social Services and Housing	(621)	0	0	(621)
Environment / Communities	(2,502)	0	0	(2,502)
Corporate Services	(1,911)	0	0	(1,911)
HRA	(51,674)	0	0	(51,674)
Net Cost of Services	(55,715)	0	0	(55,715)
Other income and expenditure from the Expenditure and Funding Analysis	58,896	0	0	58,896
Difference between Council Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	3,181	0	0	3,181

Caerphilly County Borough Council

Notes to the Core Financial Statements (continued)

Adjustments between Funding and Accounting Basis 2018-2019 - 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	35,688	8,784	114	44,586
Social Services and Housing	1,729	4,762	14	6,505
Communities	16,936	4,380	10	21,326
Corporate Services	(6,408)	5,041	(19,377)	(20,744)
HRA	(11,106)	1,835	(4,800)	(14,071)
Net Cost of Services	36,839	24,802	(24,039)	37,602
Other income and expenditure from the Expenditure and Funding Analysis	41,573	13,804	24,317	79,694
Difference between Council Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	78,412	38,606	278	117,296

Note 6 - Expenditure and Income Analysed by Nature - extract

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

	2018-2019 £000	Derecognition of Property Plant & Equipment £000	Derecognition of Capital Expenditure £000	2018-2019 Restated £000
Expenditure:				
Depreciation, amortisation, impairment	124,062	3,181	(58,897)	68,346
Loss on disposal of assets	9,464	0	58,897	68,361
Total expenditure	725,350	3,181	0	728,531
Total income	(616,046)	0	0	(616,046)
(Surplus)/Deficit on the Provision of Services	109,304	3,181	0	112,485

Notes to the Core Financial Statements (continued)

	2018/2019			Restatement Movements			
	Usable Reserves			Derecognition of Property, Plant & Equipment	Derecognition of Capital Expenditure -GF	Derecognition of Capital Expenditure - HRA	Movement in Unusable Reserves
	Council Fund Balance	Housing Revenue Account	Movement in Unusable Reserves				
	£000	£000	£000	£000	£000	£000	£000
Note 7. extract Adjustments between accounting basis and funding basis under Regulations							
Adjustments primarily involving the Capital Adjustment Account:							
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement							
Charges for depreciation and impairment of non-current assets	(59,370)	(64,272)	123,642	(3,181)	7,222	51,674	(55,715)
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	(8,701)	3,989	9,464	0	(7,222)	(51,674)	58,896
Total Adjustments	(68,071)	(60,283)	133,106	(3,181)	0	0	3,181

	Restated 2018/2019		
	Usable Reserves		
	Council Fund Balance	Housing Revenue Account	Movement in Unusable Reserves
	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:			
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement			
Charges for depreciation and impairment of non-current assets	(55,329)	(12,598)	67,927
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	(15,923)	(47,685)	63,608
Total Adjustments	(71,252)	(60,283)	131,535

Notes to the Core Financial Statements (continued)

Note 9 Other operating Expenditure	2018/2019 £000	Derecognition of Capital Expenditure £000	Restated 2018/2019 £000
Community Council Precepts	729	0	729
Gwent Police Authority Precept	14,317	0	14,317
Levies	8,933	0	8,933
(Gains)/losses on the disposal of non-current assets	4,712	58,896	63,608
Total	28,691	58,896	87,587

Note 22. Property, Plant and Equipment	Other Land and Buildings £000	Derecognition of Property, Plant & Equipment £000	Restated - Other Land & Buildings £000
Cost or valuation:			
At 1 April 2018	768,698	0	768,698
Additions	13,734	0	13,734
Revaluation Decreases to Revaluation Reserves	(123,767)	(4,027)	(127,794)
Revaluation Increases/(Decreases) to Surplus/Deficit on Provision of Services	(25,291)	(3,181)	(28,472)
Derecognitions - Disposals	(10,650)	0	(10,650)
Derecognitions - Other	(5)	0	(5)
At 31 March 2019	622,719	(7,208)	615,511
Accumulated Depreciation and impairment:			
At 1 April 2018	(23,407)	0	(23,407)
Depreciation Charge	(13,805)	0	(13,805)
Other movements in Depreciation	12,442	0	12,442
At 31 March 2019	(24,770)	0	(24,770)
Net Book Value at 31 March 2019	597,949	(7,208)	590,741

Other movements in cost or Valuation have been changed to Derecognition - Other in the restated note.

Caerphilly County Borough Council

Notes to the Core Financial Statements (continued)

Note 30 - Revaluation Reserve	2018/2019		Restatement Rhymney Comp	Restated 2018/2019	
	£000	£000	£000	£000	£000
Balance as at 1 April		(609,950)			(609,950)
Downward revaluation of assets and impairment losses not charged to the Surplus and Deficit on the Provision of Services	121,133		4,027	125,160	
Surplus on Revaluation of Assets	(28,135)			(28,135)	
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		92,998			97,025
Difference between fair value depreciation and historical cost depreciation	12,043			12,043	
Amount written off to the Capital Adjustment Account		12,043			12,043
Balance as at 31 March		(504,909)			(500,882)

Note 31 - Capital Adjustment account - Extract	2018/2019		Derecognition of Property Plant & Equipment	Restated 2018/2019	
	£000	£000	£000	£000	£000
Balance as at 1 April		(361,980)			(294,792)
Derecognition of Capital Expenditure		58,897	0		58,897
Disposals - Council Fund	24,287		3,181	27,468	
Total capital costs		116,885	3,181		120,066
Balance as at 31 March		(294,792)	3,181		(291,611)

Notes to the Core Financial Statements (continued)

Note 39 - Cash Flow Statement - Adjustments to Surplus or Deficit	2018/2019 £000	De- recognition of Property Plant & Equipment £000	De- recognition of Capital Expenditure £000	Cashflow Reclassific- ations £000	Restated 2018/2019 £000
Adjustment to surplus or deficit on provision of services for non-cash movements:					
Depreciation and Impairment - inclusive of downward revaluation	(123,642)	(3,181)	58,897	0	(67,926)
IAS19 Pensions Adjustment	(38,606)	0	0	0	(38,606)
Revenue Expenditure funded from Capital under Statute	(1,442)	0	0	1,442	0
Amortisation of Intangible Assets	(420)	0	0	420	0
Invest2Save Adjustment	0	0	0	829	829
(Increase) / Decrease in Provisions	433	0	0	0	433
Derecognition of Capital Expenditure	0	0	(58,897)	0	(58,897)
Other non-cash items charged to the net surplus or deficit on the provision of services	43,877	0	0	(45,857)	(1,980)
Increase / (Decrease) in Inventories	20	0	0	2	22
Increase / (Decrease) in Debtors	(6,545)	0	0	0	(6,545)
(Increase) / Decrease in Creditors	1,111	0	0	0	1,111
	(125,214)	(3,181)	0	(43,164)	(171,559)
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities:					
Capital grants credited to surplus or deficit on provision of services	23,204	0	0	0	23,204
Net loss on sale of fixed assets	(4,712)	0	0	0	(4,712)
	18,492	0	0	0	18,492

Note 41 - Cash Flow Statement - Investing Activities	2018/2019 £000	Cashflow Reclassific- ations £000	Restated 2018/19 £000
Purchase of property, plant and equipment and intangible assets	70,631	7,963	78,594
Purchase of short-term and long-term investments	474,407	0	474,407
Proceeds from the sale of property, plant and equipment and intangible assets	(5,204)	452	(4,752)
Proceeds from the sale of short-term and long-term investments	(493,527)	0	(493,527)
Other receipts from investing activities	(57,953)	34,749	(23,204)
	(11,646)	43,164	31,518

Notes to the Core Financial Statements (continued)

<u>Housing Revenue Account extract</u>	2018/2019	Derecognition of Capital Expenditure	Restated 2018/2019
	£000	£000	£000
Total Income	(55,533)	0	(55,533)
Expenditure			
Non-Enhancing Capital Expenditure	51,674	(51,674)	0
Total Expenditure	92,041	(51,674)	40,367
Net Expenditure of HRA Services	36,652	(51,674)	(15,022)
(Gain) / Loss on sale of HRA non-current assets	(3,989)	51,674	47,685
(Surplus)/deficit for the year on HRA services	30,316	0	30,316

<u>Note of Movement on the HRA Statement extract</u>	2018/2019	Derecognition of Capital Expenditure	Restated 2018/2019
	£000	£000	£000
Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year			
Non-enhancing Capital Expenditure	(51,674)	51,674	0
Gain or loss on disposal of HRA non-current assets	3,989	(51,674)	(47,685)
	(47,685)	0	(47,685)
Net additional amount required by statute to be credited to the HRA Balance for the year	31,267	0	31,267

Note 2 to the HRA - Depreciation and Impairment	2018/2019	Derecognition of Capital Expenditure - HRA	Restated 2018/19
	£000	£000	£000
Operational assets comprising:			
Dwellings (refer to Note 22 Core Financial Statements)	12,588	0	12,588
Other Land & Buildings	10	0	10
Asset Impairments/revaluations	0	0	0
Total HRA Depreciation and Impairment of Fixed Assets	12,598	0	12,598
Write off of non-enhancing expenditure	51,674	(51,674)	0
Total HRA depreciation and impairment	64,272	(51,674)	12,598

**Housing Revenue Account
for the year ended 31 March 2020**

Caerphilly County Borough Council

Housing Revenue Account

Restated 2018/2019		2019/2020		Note
£000		£000	£000	
	Income			
(47,114)	Dwelling rents	(49,267)		1
(252)	Non-dwelling rents	(298)		
(1,378)	Charges for services and facilities	(1,355)		
(6,789)	Contributions towards expenditure	(7,377)		
(55,533)	Total Income		(58,297)	
	Expenditure			
15,081	Repairs and maintenance	17,359		
8,553	Supervision and management	8,822		
2,536	Special Services	2,838		
1,135	Rents, rates, taxes and other charges	1,169		
12,599	Depreciation and impairment of non-current assets	13,553		2
24	Debt Management Costs	30		
439	Increase in bad debt provision	893		
40,367	Total Expenditure		44,664	
(15,166)	Net Expenditure/(Income) of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement		(13,633)	
144	HRA services share of Corporate and Democratic Core Costs		155	
(15,022)	Net Expenditure of HRA Services		(13,478)	
4,974	Interest payable and similar charges	5,081		
(7,181)	Major Repairs Allowance and other grants	(7,414)		8
47,685	(Gain) / Loss on sale of HRA non-current assets	46,973		
(140)	Interest and investment income	(123)		
45,338			44,517	
30,316	(Surplus)/deficit for the year on HRA services		31,039	

Movement on the Housing Revenue Account Statement

2018/2019		2019/2020		
£000		£000	£000	Note
(5,090)	Balance on the HRA at the end of the previous year		(6,041)	
30,316	(Surplus) or Deficit for the year on the HRA Income and Expenditure Statement	31,039		
(31,267)	Adjustments between accounting basis and funding basis under statute	(37,840)		
(951)	Net (increase)/decrease before transfers to or from reserves	(6,801)		
(951)	(Increase) or decrease in year on the HRA		(6,801)	
(6,041)	Balance on the HRA at the end of the current year		(12,842)	7

Notes to the Movement on the HRA Statement

2018/2019		2019/2020		
<u>£000</u>		<u>£000</u>	<u>£000</u>	<u>Note</u>
	Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year			
(28)	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	0		
(12,598)	Depreciation and Impairment of non-current assets	(13,553)		2
(2)	Revenue expenditure funded from capital under statute	0		
(47,685)	Gain on sale of HRA non-current assets	(46,973)		
(3,479)	Net charges made for retirement benefits in accordance with IAS 19	(5,412)		9
7,181	Capital Grants and Contributions Applied (including Major Repairs Allowance)	7,414		
(56,611)			(58,524)	
	Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year			
1,644	Employer's contributions payable to the Greater Gwent Pension Fund and retirement benefits payable direct to pensioners	2,353		9
2,194	HRA Minimum Revenue Provision	2,093		
21,512	Capital expenditure funded by the HRA	16,271		5
(6)	Adjustment involving the Accumulated Absences Account	(33)		
25,344			20,684	
(31,267)	Net additional amount required by statute to be credited to the HRA Balance for the year		(37,840)	

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 2.01% of lettable properties were void (an increase on 1.75% in 2018/2019) although this fluctuates throughout the year. The average weekly rent at 31 March 2020 was £95.55 (£92.76 in 2018/2019), based on a 48-week collection period.

2. Depreciation and Impairment

	2018/2019	2019/2020
	£000	£000
Operational assets comprising:		
Dwellings (refer to Note 22 Core Financial Statements)	12,588	13,372
Other Land & Buildings	10	293
Asset Impairments/revaluations	0	(112)
	12,598	13,553
Total HRA depreciation and impairment	12,598	13,553

3. Rent Arrears

The rent arrears encompass monies owed by both current and former council tenants. During the year, total rent arrears increased by £194,000. The total of current rent arrears represents 4.82% of Gross Rent Income.

	£000
Arrears at 31 March 2019	2,395
Bad Debt Provision 31 March 2019	(1,604)
Net Arrears at 31 March 2019	791
Arrears at 31 March 2020	3,099
Bad Debt Provision 31 March 2020	(2,114)
Net Arrears at 31 March 2020	985

4. Housing Stock

The Authority was responsible for managing an average of 10,760 dwellings during 2019/2020. The type of stock is made up of approximately 59% houses, 26% flats and 15% bungalows.

	2018/2019	2019/2020
	Number	Number
Stock at 1 April	10,803	10,717
Acquisitions/New Build	3	18
Sales/Demolitions/Expired Leases	(89)	(68)
Stock at 31 March	10,717	10,667

Notes to the Housing Revenue Account (continued)

5. Capital Expenditure and Financing

	2018/2019 Assets £000	2019/2020 Assets £000
Capital Expenditure:		
Operational Assets : Houses	51,970	50,750
Vehicles, Plant & Equipment	2	0
Total Expenditure	51,972	50,750
Capital Financing :		
Capital Grants	170	(186)
Major Repairs Allowance	(7,351)	(7,350)
Revenue Reserves	(21,512)	(16,270)
Capital Receipts	(294)	(1,001)
Internal Borrowing	(22,985)	(25,943)
Total Income	(51,972)	(50,750)

6. Capital Receipts and Unapplied Capital Income

	2018/2019 £000	2019/2020 £000
Balance at 1st April	(2,991)	(3,238)
Amounts received - Right to Buy	(4,086)	(5,823)
Amounts received - Other	(150)	(231)
Less Statutory Set aside for debt repayment	3,989	5,060
Balance at 31st March	(3,238)	(4,232)

7. Balance Carried Forward

The working balance at 31 March 2020 was £12.841m, a net increase of £6.8m over the year.

<u>Reserve:</u>	Balance at 1 April 2019	Appropriations From Reserves	Appropriations To Reserves	Balance at 31 March 2020
	£000	£000	£000	£000
Housing Fund Balances - represents the general, unallocated balances associated with the Housing Revenue Account	(5,561)	0	(6,701)	(12,262)
HRA Earmarked Reserve - exists to meet future commitments in respect of planned programme works	(480)	0	(99)	(579)
	(6,041)	0	(6,800)	(12,841)

Notes to the Housing Revenue Account (continued)

8. Major Repairs Allowance

	2018/2019	2019/2020
	£000	£000
Amount Received in Year	(7,351)	(7,350)
Amounts Applied in Year	7,351	7,350
Amounts Carried Forward	0	0

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

	2018/2019	2019/2020
	£000	£000
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	(3,479)	(5,412)
Employer's pension contributions and direct payments to pensioners payable in the year	1,644	2,353
Total Contribution (to) / from the Pension Reserve	(1,835)	(3,059)

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 income 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. 2018/2019.

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 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 2019/2020, it runs from 1 April 2019 to 31 March 2020.

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 must 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 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 Governance Framework comprises the systems, processes, culture and values by which the Council is directed and controlled and the activities through which it accounts to, engages with and leads the community.
- 1.2 The system of internal control is a significant part of that framework. The system of internal control is based on an ongoing process designed: -
- To Identify and prioritise the risks to the achievement of the Council's policies, aims and objectives.
 - To evaluate the likelihood and impact of those risks being realised.
 - To manage the identified risks effectively.

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, 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 places a duty on public bodies to carry out sustainable development; to do this we have set and published Well-being Objectives including the steps we will take, and the resources we will need to deliver them. Although consideration is being given by Welsh Government to revoking or replacing the Local Government Measure 2009 in 2020, through the new Local Government and Elections Bill, at this time both pieces of legislation are current. Wales Audit Office and the Future Generations Commissioner accept that public bodies will publish one set of objectives and in doing so will meet the requirements of the 2009 Measure and Future Generations legislation.
- 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 or can be obtained from the Council's Communications Unit.
- 2.5 The Annual Governance Statement (AGS) 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 the activities through which it accounts to, engages with, and leads the community.
- 3.2 During the 2016/17 financial year an Assurance Framework was produced as a diagrammatic representation of the governance and assurance processes that are in place. The Framework was endorsed by the Audit Committee in December 2016 and continues to be relevant. Its purpose is 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.
- 3.3 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.
- 3.4 The governance framework has been in place at the Authority for the year ended 31 March 2020 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 current 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 (2018-2023), approved by Council on the 17th April 2018, sets out the Cabinet's commitments, priorities and Well-being Objectives. The objectives were informed by the information from the local assessment of well-being carried out by the Caerphilly Public Services Board (PSB). The plan includes our well-being statement detailing why we chose our objectives and how they will be monitored and resourced. The Corporate Plan is available on the Council's website, at our main offices, and in hard copy on request.
- Long-term outcomes and interim performance standards have been established for each Well-being Objective and progress is reported via the relevant Scrutiny Committees on a six-monthly basis.
- Through our chosen objectives we contribute to the high level strategic PSB Well-being Plan for the county borough area ('The Caerphilly We Want 2018-2023'). Our Corporate Plan follows the same planning cycle to ensure alignment.
- The Council's Annual Performance Report (published in October each year) 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.
- The Corporate Plan, PSB Well-being Plan and Annual Performance Report are endorsed by Council and communicated via media release.
- The Authority structures its communications programme around the Council's Well-being themes with planned activity aligned to the chosen objectives.

Annual Governance Statement (continued)

4.1.2 *Reviewing the authority's vision and its implications for the authority's governance arrangements.*

- The Corporate Plan is regularly reviewed and refined to ensure we have employed the sustainable development principle to reflect our changing aspirations, at a local and national level. A yearly review is conducted and reported to Cabinet with the most recent report being considered and approved on the 10th July 2019.
- A performance management framework is established and is routinely reviewed to ensure it is fit for purpose. During the 2019/20 financial year a new performance framework has been established (see Section 4.1.3 for more details), and this was approved by Cabinet on the 26th February 2020. The full implementation of this new framework has been delayed due to the Covid-19 pandemic and will now be formally rolled out from October 2020.
- The Authority has used the information in the local assessment of well-being which identified the well-being needs and strengths of the area. The Authority is a facilitating partner in the PSB and leads on the data assessment work. Work is ongoing to make assessment data available in a regularly updated online form. We use this data to ensure we are supporting the economic, environmental, social and cultural well-being of the area.
- Following the local government elections in May 2017, the new Cabinet took the opportunity to review the existing Well-being Objectives alongside the results of the Local Assessment of Well-being as noted earlier. This enabled the Cabinet to determine its five-year plan. This approach was taken as part of the sustainable development principle to take a longer-term view, consider how we may improve well-being, how we integrate our activity with others, particularly through collaborating with partners on the PSB, and how we have involved our communities.
- Working in partnership requires new methods of planning, delivery and governance to deliver a collective vision. As a statutory partner in the PSB the Authority has contributed to the delivery of the Well-being Plan and is scrutinised in this activity by the dedicated Partnerships Scrutiny Committee.
- Delivering the well-being objectives of the Council has taken account of the statutory guidance for public bodies under the Well-being of Future Generations (Wales) Act 2015. The authority has updated its risk registers, planning tools, self-evaluation and reporting templates.
- The Authority has considered what operating models may be needed to take forward its vision for the future over the coming years. A new Transformation Strategy ***Team Caerphilly – Better Together*** has been developed and this was approved by Cabinet on the 12th of June 2019. This sets out the steps that will be needed, via a Strategic Action Plan, to deliver on the strategy's aims. Governance arrangements for the new strategy are now well embedded and include the establishment of a Programme Board and a Programme Co-ordination Group. Six-monthly progress reports are presented to the Policy & Resources Scrutiny Committee and Cabinet.

4.1.3 *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.*

- The Council's performance framework has been in its current format for several years and has formed a foundation stone of the Council's governance arrangements.
- As the Council embarks on its ambitious Transformation Programme, ***Team Caerphilly – Better Together***, alongside the emergence of new legislation such as the Local Government and Elections (Wales) Bill 2019, it was considered both timely and opportune that the framework should be redeveloped and enhanced.

Annual Governance Statement (continued)

- A new performance framework has therefore been established, which was approved by Cabinet on the 26th February 2020. As mentioned above the full implementation of this new framework has been delayed due to the Covid-19 pandemic and will now be formally rolled out from October 2020. The Council's new performance framework has a number of component parts: -
 - Corporate Performance Assessment (CPA).
 - Directorate Performance Assessments (DPAs).
 - Service Planning.
 - Risk Management.
 - MyTime Extra.
- **Corporate Performance Assessment (CPA)** - The CPA dashboard is used by the Corporate Management Team (CMT) and Cabinet to monitor the Council's progress in delivering its strategic priorities, identifying and challenging areas of underperformance and discussing and agreeing any remedial actions that may be required. The dashboard provides a graphical and easily accessible overview of: -
 - Progress against CMT priorities, Directorate Management Team (DMT) priorities, Wellbeing Objectives and the Team Caerphilly Strategic Action Plan.
 - Budget position (over / underspend) by Directorate.
 - Corporate risk position.
 - Sickness absence position by Directorate and Service.
 - Workforce position (starters and leavers).
 - Complaints and compliments received by Directorates.
 - Public Accountability Measures.
 - Freedom of Information requests received and compliance.
- The CPA dashboard is reviewed by CMT on a quarterly basis as well as being presented twice-yearly to Cabinet. While the dashboard itself offers a rich insight, it is the quarterly discussion at CMT that enables constructive challenge and ultimately improvement activity to be agreed.
- **Directorate Performance Assessments (DPA's)** - The CPA dashboard is underpinned by a more detailed set of Directorate Performance Assessment (DPA) dashboards. DPAs provide Directorate Management Teams with a range of data to keep progress under review, drive performance improvement and manage resources, intelligence and risks. Information in the DPA dashboards is grouped as follows: -
 - Overall summary of the quarter.
 - Progress on Directorate priorities.
 - Performance data.
 - Customer intelligence.
 - Resources – financial, workforce and assets.
 - Risk Register.
 - Well-being Objectives.
 - Lessons learned.
 - Conclusion.
- The DPAs are received by Directorate Management Teams on a quarterly basis providing opportunities to account for progress, challenge performance and agree improvement activity. Data from DPAs will be shared with relevant Scrutiny Committees twice-yearly.

Annual Governance Statement (continued)

- **Service Planning** - A new approach to service planning and priority setting was piloted in the Corporate Services Directorate in 2019. The pilot worked well and will now be adopted by the wider organisation. The process centres on a Directorate service planning workshop which will take place in February each year.
- In advance of the workshop, Heads of Service are set the task of working through a set of questions with their staff to identify key priorities and targets for the year ahead; recognise service contributions to the wellbeing objectives; propose measures of success; and define potential risks.
- These will be discussed and shaped with other Heads of Service at the service planning workshop with the final output being transposed into the DPA and CPA dashboards for quarterly review. The outputs are also incorporated into the MyTime Extra review process as well as being published and distributed as a booklet to staff from across the service.
- Where services have existing mechanisms in place for setting priorities (for example Education have robust processes that meet ESTYN requirements) they will populate the DPA dashboards with the relevant information before the beginning of the financial year.
- **Risk Management** - The monitoring of risk is now embedded within the CPA and DPA dashboards rather than existing as a standalone document. As such, risks are monitored quarterly at Corporate Management Team and Directorate Management Teams with risk levels and mitigating actions being discussed and agreed.
- The CPA contains the organisation's 'high level risks' and is owned and updated by CMT. DPAs contain Directorate as well as CMT risks. The Council's risk position continues to be reported twice-yearly to the Audit Committee.
- **MyTime Extra** - The Council is in the final stages of implementing a replacement for its Personal Development Review (PDR) process for staff. The new approach, which will still be undertaken formally on an annual basis, has been entitled MyTime Extra and is based on a set of principles to support annual meetings with staff to explore what has gone well and not so well and to set goals and priorities for the following year. The concept has been introduced as part of the Team Caerphilly transformation programme. The annual discussion enables staff to reflect on their prior year achievements, discuss any learning that has emerged, define their contribution to the service objectives defined at the service planning workshop, and to explore their training and development needs. MyTime Extra enables a specific link to be made between the work of the individual and the priorities of the organisation.
- The Council's new performance framework as set out above provides Cabinet, Scrutiny Committees, CMT and DMTs with a regular and embedded mechanism for monitoring progress, managing performance and driving improvement. The dashboards, which provide a 'single source of the truth', enable key aspects of performance to be discussed, actions to be agreed and learning to be generated. The ability to specifically link individual contributions to organisational goals provides a platform for every employee to understand how they fit and to be recognised for the part they play in delivering the Council's objectives.

Annual Governance Statement (continued)

- The Council also conducts a “household survey” every two years. This measures citizens’ perception of the quality of services. The household survey was due to be carried out again in May 2020 but has been delayed due to the ongoing Covid19 pandemic. Feedback from the 2017 survey was generally positive with high levels of satisfaction recorded for refuse, recycling, street lighting, libraries, country parks and the local bus services.

4.1.4 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 are facilitated through the Cabinet supported by a framework of Statutory and Scrutiny Committees. Delegated decisions made by authorised senior officers, under the scheme of delegation, are posted on the intranet, when appropriate. The CMT has no collective decision-making powers.
- 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 Meeting of Council each May, ad hoc reports are presented to Council in relation to any proposed changes to the Constitution. In addition, Members approved that overseeing the Constitution should be added to the terms of reference of the Council’s Democratic Services Committee.
- 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 corporate governance pages on the Council’s intranet. These arrangements have now been formally embedded within the Council’s governance arrangements.

4.1.5 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 both elected members and officers. These incorporate procedures for the disclosure of personal 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 to identify effective behaviours that are needed to deliver the vision of **Team Caerphilly – Better Together**, and the skills and values required from all staff. A new fixed-term Principal Human Resources Officer has been appointed to develop and implement a workforce development strategy to provide employees with the skills and competencies to work within this new operating model.

Annual Governance Statement (continued)

4.1.6 *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. These are all key elements of the new performance framework that was approved by Cabinet on the 26th February 2020.
- The Council has a formally agreed Risk Management Strategy which was endorsed in 2013. This strategy has since been reviewed and updated with a report being presented to Cabinet on the 7th June 2017, followed by the Audit Committee on the 17th September 2017. The Corporate Risk Register is reported to the Audit Committee twice-yearly, with CMT receiving quarterly updates through the Corporate Performance Assessments. The Cabinet will also receive mid-year and year-end updates on the Corporate Performance Assessments.

4.1.7 *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. Ad-hoc training is provided as required or where specific needs have been identified.
- The Terms of Reference are reviewed annually and are updated if required.

4.1.8 *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 the following: -
 - Corporate Management Team.
 - Directorate Management Teams.
 - Heads of Service.
 - Monitoring Officer.
 - Section 151 Officer.
 - Senior Information Risk Owner (SIRO).
 - Data Protection Officer.
 - Internal Audit.
 - External Audit.
 - Performance Management Framework.

Annual Governance Statement (continued)

- The Monitoring Officer and Section 151 Officer routinely attend each formal meeting of the Corporate Management Team and they also attend all Cabinet meetings. Furthermore, the standard committee reporting procedure and report template requires the Monitoring Officer to examine reports to the Executive for compliance with legal and procedural issues. The report template also includes a section on financial implications which is reviewed by the Section 151 Officer.
- In addition to the above, the Authority has a Deputy Monitoring Officer and a Deputy Section 151 Officer to ensure that adequate cover for these roles is in place during periods of sickness absence or annual leave.

4.1.9 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. This 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, with reports being presented periodically. In addition, individual Scrutiny Committees may receive reports on complaints when requested.
- There are a number of avenues for members of the public to report concerns, complaints and other matters.

4.1.10 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 through the staff appraisal process, senior officers participate in management development training.
- 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 to help 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.
- A review of induction arrangements for officers is being undertaken as this area can be improved. Although some progress has been made with developing an I.T. solution, this is still in progress and needs review in line with the impact of the GDPR.
- As mentioned in Section 4.1.5 leadership and development competencies are being reviewed to identify effective behaviours that are needed to deliver the vision of **Team Caerphilly – Better Together**, and the skills and values required from all staff. A new fixed-term Principal Human Resources Officer has been appointed to assist with this work.

Annual Governance Statement (continued)

4.1.11 *Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation/engagement.*

- The Authority formally adopted a new three-year Corporate Communication and Engagement Strategy in 2019 which clearly defines the way the organisation communicates with staff, residents, partners and other key stakeholders across the county borough. The Council is increasingly using digital channels in its communication and engagement activity. However, we are mindful of the needs of all residents, so will continue to adopt a mixed approach using both digital and traditional platforms.
- Details of current and recent consultations (including links to live consultation documents / surveys and reports relating to completed consultations) are available on the Council's website.
- Extensive consultation / engagement is undertaken annually in relation to the budget setting process. Guidance exists to ensure that all efforts are made to engage with groups with protected characteristics.
- In addition, in February 2020 the council adopted its Consultation and Engagement Framework, setting out a series of high-level principles which build upon the way the Council engages with its citizens and supports enhanced consultation and engagement activity across communities. The framework complements the principles within the Corporate Communication and Engagement Strategy and also has clear links to the Council's transformation strategy '**Team Caerphilly – Better Together**'. The framework's intentions are:
 - To highlight the continued importance of effective consultation and engagement and the clear strategic link to the decision-making process.
 - To demonstrate the key role that engaged, empowered communities have in supporting the future proofing of Council services.
 - To provide a clear definition of engagement and explain the 'Spectrum of Engagement'.
 - To outline the principles and standards that underpin meaningful engagement and consultation.
- The framework is very much intended to further build on the national consultation and engagement principles and standards that the council already operates within.

4.1.12 *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 Authority has adopted a partnerships and collaborations framework which specifies the minimum governance requirements in respect of all the Authority's partnerships and the enhanced requirements in respect of its key partnerships.
- In addition, the framework sets out the requirements for creating new partnerships and collaborations and importantly includes the arrangements for disbanding and exiting arrangements.
- The Authority maintains details of all current partnerships and collaborations; this is reviewed and updated bi-annually and reported to the Corporate Governance Review Panel and Audit Committee periodically.

Annual Governance Statement (continued)

- The Authority has long-standing partnership arrangements with the third sector and has enshrined these in its joint agreements. In 2013 this agreement brought in the PSB partners, third sector organisations, Community and Town Council's and the Caerphilly Business Forum. The Third Sector Partnership Agreement has been updated to align with the PSB's Well-being Plan, "The Caerphilly We Want 2018-2023" and was signed by all PSB organisations in July 2019.

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 Review Panel (which has responsibility for the development and maintenance of the governance environment), the Internal Audit Manager's annual report, and 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:-

- 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 Corporate Governance Review Panel has been established to oversee the compilation of the Annual Governance Statement. Membership of the Panel is as follows: -
 - Corporate Director for Education & Corporate Services (Chair).
 - Section 151 Officer.
 - Head of Legal Services & Monitoring Officer.
 - Interim Head of Business Improvement Services.
 - SIRO/Head of Customer & Digital Services.
 - Internal Audit Manager.
 - Cabinet Member for Finance, Performance & Planning.
 - Representative from the Audit Committee.
- During 2019/20, the Council and the Wales Audit Office (now Audit Wales) jointly agreed to undertake a Review of Corporate Governance. The Review would include a self-evaluation of the Council's governance arrangements against CIPFAs "Delivering Good Governance in Local Government (2016)", some external scrutiny of the self-evaluation by an appointed external consultant, and a review of the findings by Audit Wales.

Annual Governance Statement (continued)

- An extensive self-evaluation was planned but the Covid-19 lockdown precluded this from being finalised. As a result, the discussions with Audit Wales around possible areas for development have not yet taken place. Both the Council and Audit Wales are keen that the work undertaken to date is concluded, while also recognising that the governance arrangements of the Council look very different since the emergence of Covid-19. To this end, discussions are underway with Audit Wales to agree a way forward and this will be a key priority for the 2020/21 financial year.

5.2.2 **Directorate Level Review**

- The Council adopts 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 to 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.
- The new performance management framework has resulted in the introduction of Directorate Performance Assessments (DPA's) as detailed in Section 4.1.3.

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.

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
- Periodic ad-hoc training and development sessions are held for members of the Audit Committee to ensure that they are equipped with the knowledge required to effectively undertake their roles.

5.2.5 **Standards Committee**

- The Council has appointed a Standards Committee in accordance with the provisions of the Local government Act 2000 and associated regulations. Its terms of reference are set out in the Council's Constitution.

5.2.6 **Business Improvement Team (BIT)**

- The Business Improvement Team (BIT) is responsible for implementing and maintaining the Authority's new performance management framework. The Team supports and challenges the authority as a whole, and individual services, to continuously improve through the use of relevant data and also being part of a new programme of service reviews that are being undertaken as part of the **Team Caerphilly – Better Together** transformation programme.

Annual Governance Statement (continued)

- The BIT is part of the Council's Corporate Policy Unit which includes partnerships, equalities, Welsh Language and voluntary sector support. 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 (PSB), demonstrating our own contribution to the well-being goals for Wales, delivering our Well-being Objectives, and embedding the sustainable development principle.
- The BIT also works with the council's external auditors to co-ordinate audit and inspection reviews.

5.2.7 Information Governance

- The Council's Information Governance structure continues to provide assurance that information is used appropriately and kept securely.
- The Head of Customer and Digital Services is the Council's Senior Information Risk Owner (SIRO), and the Procurement and Information Manager is the Deputy SIRO.
- The SIRO's role is to assure the Council's information through implementation of the Information Risk Management Policy.
- During 2019/20 we updated the process for Heads of Service, as Information Asset Owners, to submit half-yearly information risk returns to the SIRO. The new process provides the SIRO with enhanced visibility to ensure risks are reported appropriately, measures to reduce risk are effective across all services, and information risk management is embedded into the culture of the organisation.
- The Data Protection Officer (DPO) required by Article 37 of GDPR is the Information Governance Manager. This post provides DPO reports to CMT via the SIRO and Corporate Governance Review Panel and updates the SIRO and the relevant Cabinet Member quarterly. The post also fulfils the DPO function for most of the Council's schools via a Service Level Agreement and works closely with Legal Services via the Exemption Panel.
- A network of Information Governance (IG) Stewards within each Directorate assist Heads of Service in assuring their information by communicating key messages on IG policies and training and developing and maintaining a GDPR compliant record of processing activities via Information Asset Registers and Privacy Notices.
- During 2019/20 the Information Security function was moved under the remit of Information Governance, providing an opportunity for management of data protection and IT security via one team, as well as an independent overview of the Council's IT systems.
- With work to achieve data protection compliance now 'business-as-usual', attention has turned to encouraging effective records management practices across the Council including during the set-up of new technologies. This will ensure growing demands of information rights requests can be addressed with as little impact on service delivery as possible, and ensuring records repositories are well managed to encourage services to make the best use of Council data.
- During the 2020/21 financial year priorities will include reviewing the content, governance and security of records repositories, both electronic and hard copy and raising awareness amongst all staff of how to maintain a high level of cyber security to protect against data breaches, particularly when staff are working remotely.

Annual Governance Statement (continued)

5.2.8 Internal Audit

- Internal Audit Services 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 recommendations in the external auditor's annual ISA260 reports the role of Internal Audit and the contribution made towards the overall governance framework continues to be reassessed. This process is evolving and developing over time in line with the needs of the organisation and will embrace the principles promoted within the Public Sector Internal Auditing Standards (PSIAS).
- During 2017/18 the Internal Audit Section's conformance with the Public Sector Internal Audit Standards (PSIAS) 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 address the minor issues raised was presented to the Audit Committee on the 10th April 2018. Work is ongoing to achieve the actions outlined in the action plan and progress reports are presented to the Audit Committee.
- The Internal Audit Manager is a key contributor to the annual review of the Authority's governance processes and has concluded for the year 2019/20 that overall the Council's systems and control procedures are effective.

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.

5.2.10 Extraordinary events – Coronavirus (Covid-19)

- The majority of the year was unaffected by Coronavirus and the Council's governance arrangements were in place and operating normally. However, Coronavirus did impact upon the governance processes and procedures during March 2020 and has had a more significant impact moving forward into the 2020/21 financial year.
- The emergence of the Coronavirus across the world and the UK has posed a significant and unprecedented challenge to our way of life and the way in which we provide services.
- In response to the pandemic and lock-down the Authority refocussed, repurposed and reshaped its priorities and how it works within a very short timescale. This has ensured that we have been best placed and equipped to respond to the immediate needs of our communities.
- As the lockdown restrictions initially made it impractical to convene any political decision-making meetings, decision-making was temporarily transferred to the Chief Executive in accordance with Part 3 of the Council's Constitution. Urgent decisions made by the Chief Executive have been posted on the Council's intranet following consultation with the Leader and/or Cabinet and were subsequently reported to full Council for information on the 6th October 2020.

Annual Governance Statement (continued)

- The Local Authorities (Coronavirus) (Meetings) (Wales) Regulations 2020 have introduced several changes to the mechanisms and regulations attached to Council decision-making functions. The Welsh Local Government Association (WLGA) issued a guidance note on the regulations for Councillors on the 23rd April 2020, which has been distributed to all members. Some of the key components of the guidance are: -
 - **Remote attendance** - All members can remotely participate in meetings. This applies to meetings held before the 1st May 2021. Audio participation is all that will be required. Members have been provided with appropriate equipment and training to enable them to participate in remote meetings.
 - **Annual Meetings** - If a Council has not held an annual meeting after the 1st March or before the 22nd April 2020 then the annual meeting can be held on any date in 2020. Caerphilly CBC's annual meeting was held on the 3rd September 2020.
 - **Other meetings** - Other meetings that would normally be required to be held at specific times in the Council calendar can now be held at any time before the 1st May 2021.
 - **Summonses to meetings** - Members can now be summoned to meetings through electronic communication.
 - **Public attendance** - Due to the public health risks, public and press attendance at meetings is no longer required. However, if practicable, public viewing or listening of any meetings should be arranged. Caerphilly CBC initially recorded meetings of Cabinet and the Planning Committee using Microsoft Teams, with the recordings subsequently being made available on the Council's internet. This has now been rolled out to a wider range of meetings and we are also exploring the potential for the live streaming of meetings moving forward.
 - **Meeting papers** - A note of meeting proceedings should be published electronically within 5 days of the meeting being held. This note should include a list of attendees, declarations of interest, any decisions taken (except exempt items) and the outcomes of any votes.
 - **Executive decisions** - When a decision is taken by the Executive any written statements or reports relating to the decision should be published on the Council's website.
 - **Flexibility** - The WLGA guidance also references the fact that whilst the new regulations allow greater flexibility around managing Council business, Council resources and staff have been refocused and reprioritised to respond to the Coronavirus pandemic, and that Members should bear in mind that meetings are only likely to be held to take decisions on urgent and business critical issues until the pandemic subsides.
- The Council has worked towards bringing decision-making back online in a sensible, practical and manageable timeframe. Two of the key considerations in delivering this timetable were the availability of the technology to support remote decision-making and the extensive training and development programme that was required to ensure that every elected member can participate fully.
- The Authority is incurring immediate significant additional costs due to the pandemic and is also losing income in several key areas. The key areas where additional expenditure is being incurred include Social Care, the provision of Personal Protective Equipment (PPE), Information Technology, the establishment of Community Hubs for childcare provision and Free School Meals. There is also a notable increase in applications for Council Tax support through the Council Tax Reduction Scheme.

Annual Governance Statement (continued)

- The main areas where income loss is being experienced include Leisure Centres, Tourism Venues and School Catering. Council Tax collection rates are also being adversely affected by the economic impact of the pandemic.
- The Welsh Government has provided a financial support package to help Local Authorities manage the financial impact of Covid-19 in the 2020/21 financial year. However, the position regarding financial support in the medium to longer-term remains unclear and therefore presents a significant financial risk. This creates a very difficult environment for Local Government where significant real-terms reductions in funding have been experienced over an extended period.
- Maintaining financial sustainability in the medium to long-term is an 'Amber Risk' on the Authority's Covid-19 Risk Register, which is regularly reviewed and updated by the Corporate Management Team. The position will also be closely monitored throughout the 2020/21 financial year using our established budget monitoring processes. At its meeting on the 1st July 2020, Cabinet endorsed a recommendation in the 'Provisional Outturn for 2019/20 Report' to transfer £2.713m into an earmarked reserve to meet potential unfunded additional costs arising from the Covid-19 pandemic. A detailed report was also presented to Council on the 10th September 2020 which focussed on the immediate financial impact of the pandemic for the 2020/21 revenue budget and also provided an initial assessment of the financial outlook for the medium and longer-term.
- Clearly, the virus will remain with us for some time yet and the resilience of the organisation and our communities must be ensured and protected throughout and it is this primary objective that we will continue to focus upon over the forthcoming months.

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.
- One issue to report that emerged during the 2019/20 financial year is the actions of the former Leader of the Council who bought shares in a company that was in a contract with the Cardiff Capital Region. The councillor reported a possible breach of the members' code of conduct to the Public Services Ombudsman for Wales and the outcome of the referral is awaited.
- A second issue to report is an ongoing investigation in the council's waste service into irregularities with the working practices of operatives and potential weaknesses in respect of contract management. This investigation is yet to be concluded but in response to the findings to date a Waste Review Group has been established to review areas such as working practices, structures and service standards and several improvements have been implemented in relation to contract management.
- The 2018/19 Annual Governance Statement identified three areas, listed below, where improvements could be made to strengthen existing processes and procedures during 2019/20. Progress has been monitored and reviewed during the year and an update is provided below: -
 1. ***GDPR - Work is still ongoing to deal with some legacy issues and to embed good practices across the Authority, this will continue into 2019/20 as will the monitoring of the GDPR landscape.***

Annual Governance Statement (continued)

Update - With work to achieve data protection compliance now 'business-as-usual', attention has turned to encouraging effective records management practices across the Council including during the set-up of new technologies. This will ensure growing demands of information rights requests can be addressed with as little impact on service delivery as possible, and ensuring records repositories are well managed to encourage services to make the best use of Council data.

- 2. Directorate Performance Assessments (DPAs) – These will go live from April 2019 and the effectiveness of the new approach will need to be monitored and reviewed.**

Update – DPAs were piloted with Directorate Management Teams and further refined during the 2019/20 financial year. These have now been incorporated into the new performance framework that was approved by Cabinet on the 26th February 2020.

- 3. Future Caerphilly Transformation Strategy, Team Caerphilly – Better Together – Progress against the Strategic Action Plan will need to be closely monitored and we will need to ensure that robust governance arrangements are in place to underpin the emerging transformation programme.**

Update - Governance arrangements for the new strategy are now well embedded and include the establishment of a Programme Board and a Programme Co-ordination Group. Six-monthly progress reports are presented to the Policy & Resources Scrutiny Committee and Cabinet. Good progress was made during the 2019/20 financial year in implementing the Strategic Action Plan that underpins the Transformation Strategy. The emergence of Covid-19 and the required response has accelerated the pace of change in some areas and we will now seek to build on this moving forward to ensure that we can offer cost effective, resilient services that meet the needs of our communities through these challenging times and in the medium and longer-term.

- The review of the Council's governance arrangements operating throughout 2019/20 has highlighted three areas where steps will need to be taken to ensure that sound governance arrangements are in place and are fit-for-purpose to deal with emerging issues: -
 - 1. Ensure that the new performance framework approved by Cabinet on the 26th February 2020 is fully embedded and operating effectively.**
 - 2. Work with Audit Wales to complete the self-evaluation of the council's governance arrangements that commenced during the 2019/20 financial year.**
 - 3. Continually monitor the impact of the ongoing Covid-19 pandemic to ensure that our governance and financial management systems are robust and able to response flexibly to emerging issues.**

Annual Governance Statement (continued)

- We propose over the coming year to take steps to address the above 3 matters to further enhance our governance arrangements. We are satisfied that these steps will address the issues identified during the review process and we will monitor their implementation over the coming months.

Signed

Philippa Marsden
Leader of the Authority

Christina HARRY
Interim Chief Executive

This page is intentionally left blank