APPENDIX 2

Financial Accounts

For the year ended

31 March 2019

A greener place   Man gwyrddach

CAERPHILLY COUNTY BOROUGH COUNCIL
CYNGOR BWRDEISTREF SIROL CAERFFILI

Financial Accounts for the year ended 31 March 2019

Narrative Report

Introduction

Caerphilly County Borough is located in the South Wales valleys covering an area of approximately 278 square kilometres stretching from Cardiff in the south of the county to the start of the Brecon Beacons in the north of the county. Caerphilly County Borough Council ("the Authority") serves a population of 180,795.

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)

2018/2019 Revenue Expenditure

Details of the Authority's revenue expenditure for the year are provided in the Comprehensive Income and Expenditure Statement on page 17. The account is classified according to service expenditure areas.

In 2018/2019, 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	124,563	124,563	125,339	96	27	(899)
Social Services and Housing	89,441	89,441	87,841	(1,358)	1,000	1,958
Communities	51,100	51,100	50,126	(309)	1,049	234
Corporate Services	66,939	66,939	59,926	(952)	2,984	4,981
HRA	0	0	(22,435)	(4,537)	21,512	5,460
Total Service Expenditure	**332,043**	**332,043**	**300,797**	**(7,060)**	**26,572**	**11,734**
Funding Income	(330,643)	(330,643)	(332,055)	0	0	1,412
Budget Strategy Contribution from Reserves	(1,400)	(1,400)	0	(1,400)	0	0
(Surplus) / Deficit on Provision of Services	0	0	**(31,258)**	(8,460)	26,572	**13,146**
Transfer to Earmarked Reserves						8,057
Transfer to General Fund Reserves						5,089
Total Transfer to Balance Sheet						**13,146**
General Fund Reserves as at 31 March 2018						**(13,200)**
Budget Strategy Contribution						1,400
In Year Movement						1,800
Outturn Contribution						(5,089)
General Fund Reserves as at 31 March 2019						**(15,089)**

Further details of the Authority's outturn performance against budget can be found in the Interim Head of Business Improvement & Acting S.151 Officer's Provisional Outturn Report 2018/2019 which was presented to Cabinet on 12 June 2019. 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 2018/2019:

Funding Income	2018/2019 Revised Estimate £000	Outturn £000	Variance £000
Council Tax (net of Police Authority and Community Council Precepts)	63,403	64,815	(1,412)
Revenue Support Grant	210,207	210,207	0
Non Domestic Rates	57,033	57,033	0
Total Funding Income	**330,643**	**332,055**	**(1,412)**

Housing Revenue Account

Details of the Housing Revenue Account are set out on pages 117 to 122. For 2018/2019, actual outturn compared to budget was as follows:

	2018/2019 Original Estimate £000	Actual Outturn £000	Variance £000
Expenditure	65,099	33,239	(31,860)
Income	(65,099)	(55,674)	9,425
(Surplus)/Deficit for the year on HRA Services	0	(22,435)	(22,435)
HRA Outturn	**0**	**(22,435)**	**(22,435)**

Provisions

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

	1 April 2018 £000	Movement £000	31 March 2019 £000
Short term provisions	(1,582)	109	(1,473)
Long term provisions	(2,666)	324	(2,342)
	(4,248)	**433**	**(3,815)**

Narrative Report (continued)

Reserves

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

	1 April 2018	Movement	31 March 2019
	£000	£000	£000
Reserves - Usable	(109,798)	(8,725)	(118,523)
- Unusable	(462,688)	296,483	(166,205)
	(572,486)	**287,758**	**(284,728)**

Loan Debt

The total amount outstanding as at 31 March 2019 was £284.215m, 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.

	2017/2018	2018/2019
	£000	£000
Amortised Cost of Loans:		
Loan debt repayable in one year	(10,771)	(6,495)
Loan debt repayable in more than one year	(279,376)	(277,720)
	(290,147)	**(284,215)**
Nominal Value of Loans:		
Loan debt repayable in one year	(7,940)	(3,657)
Loan debt repayable in more than one year	(280,494)	(278,838)
	(288,434)	**(282,495)**

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 2018/2019, 96.1% of payments were made within 30 days (94.8% in 2017/2018). 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 2018/2019, invoices were settled within an average of 11.28 calendar days (11.93 calendar days in 2017/2018).

Narrative Report (continued)

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 2018/2019 is £629.906m (£503.159m in 2017/2018). 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.

2018/2019 Capital Expenditure

Capital expenditure during the year amounted to some £78.625m (2017/2018 - £70.332m), the major items within this figure being identified below:

		£000	£000
Housing:			
Repairs and Improvements		51,972	
Improvement Grants & Private Sites		2,229	
			54,201
Non Housing:			
Education & Lifelong Learning		5,568	
Social Services		1,364	
Highways & Transportation and Land Reclamation		11,065	
Economic Development/Tourism		123	
Planning & Countryside		388	
Environmental Services		652	
Sports and Leisure (including Countryside)		1,572	
Other		3,692	
			24,424
			78,625
	Financed by:	Grants inc MRA	17,206
		Other	61,419
			78,625

Capital expenditure was financed by grants (£17.206m) and other sources (£61.419m). The Authority has also entered into a number of finance leases in previous years for buildings for use in its Social Services provision and computer equipment in schools.

Narrative Report (continued)

Future Financial Developments

Due to the ongoing programme of austerity and increasing demand for a number of services, the financial position for Local Government has been very challenging in recent years. During the period 2008/09 to 2018/19 Caerphilly CBC has delivered savings of £88.91m to address reductions in funding and inescapable cost pressures.

Caerphilly CBC's budget for the 2019/20 financial year was approved by Council on the 21st February 2019 and this included further savings of £13.92m 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 so Caerphilly CBC has adopted a prudent approach of producing an indicative five-year Medium-Term Financial Plan. In addition to the approved savings of £13.92m for the 2018/19 financial year it is currently anticipated that further savings of circa £44m will be required for the four-year period 2020/21 to 2023/24.

Significant work is already underway to identify a range of further savings proposals, with particular emphasis on the 2020/21 financial year where it is currently anticipated that savings of up to £15.66m will be required. This is clearly extremely challenging and it is inevitable that some very difficult decisions will need to be made. In looking to develop proposals to address the financial challenges going forward it is widely accepted that the Council cannot continue as it is. There is a need to examine the way in which we use our resources to deliver the services required by our communities across the county borough.

At its meeting on the 12th June 2019 the Cabinet were presented with the Future Caerphilly Transformation Strategy, which is being launched as ***#TeamCaerphilly – 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, a new relationship will need to be built with staff and communities.

The Strategy is multi-faceted and at the core of this programme of change will be 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. The strategic programme of "whole-authority" work will be delivered through the following key themes, which will underpin the new operating model of the Council: -

Narrative Report (continued)

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 by 2020, through the delivery of the Welsh Housing Quality Standard (WHQS). Using Phase 2 of the emergent WHQS programme we will continue to invest in our existing housing stock to provide high quality, energy efficient, affordable homes for life. This will be further enhanced with an exciting and innovative new build programme

- 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, providing £110m of new educational facilities.

- 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.

- The provision of a new Children's Centre, which will be a "state of the art" centre of excellence providing respite care and therapeutic services for our vulnerable children and their families.

- 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.

Narrative Report (continued)

- 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.

- Making best use of our financial resources through a managed "risk-based" investment approach to enable delivery of the programme.

Through this cohesive, whole-authority programme we are aiming: -

- To have strong working relationships with our communities and partners to maximise the use of our collective resources to ensure a resilient County Borough for the future.

- To embed a new operating model that will encourage innovative approaches to service delivery and ensure that we are making the best use of our resources.

- To help close the gap between poverty and prosperity through improving educational attainment and stimulating the local economy to create high quality jobs.

- To make Caerphilly County Borough a better place to live, work and visit.

Brexit

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, and to also ensure that funding is set aside to meet any potential short to medium-term financial implications.

The Council has established an internal Brexit Working Group to ensure that appropriate actions are taken to help mitigate the risks of Brexit. This work has been underway for a number of months and 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.

Narrative Report (continued)

Code of Practice on Local Authority Accounting in the United Kingdom 2018/2019

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 the following changes for 2018/2019 that are applicable to the Authority.

- **IFRS 9 Financial Instruments**

IFRS 9 replaced IAS 39 Financial Instruments: Recognition and Measurement. It made changes to previous guidance on the classification and measurement of financial assets and introduced an 'expected credit loss' model for impairment of financial assets. The Authority's trade receivables and investments in financial assets classed as held to maturity (unless classed as fair value through profit and loss) have been assessed for impairment by applying the expected credit loss model. The reclassification changes have not had a material impact upon the financial statements because the majority of the financial assets have retained the same measurement bases. With respect to trade receivables, the Authority already makes a provision for doubtful debts on its service assets.

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

- **IFRS 15 Revenue from Contracts with Customers**

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

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

This standard is not applicable to the Authority

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

The amendments to this standard are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows. This standard has not had a material impact upon 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 Interim Head of Business Improvement Services and Acting 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 Interim Head of Business Improvement Services and Acting S151 Officer

The Interim Head of Business Improvement Services and Acting 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 Interim Head of Business Improvement Services and Acting 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 Interim Head of Business Improvement Services and Acting 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 Interim Head of Business Improvement Services and Acting S151 Officer

I certify that the accounts, set out on pages 15 to122, give a true and fair view of the financial position of the Authority as at 31 March 2019 and its income and expenditure for the year then ended.

S. Harris, Interim Head of Business Improvement Services
and Acting S151 Officer **Date**

The accounts were approved by the Council on

Signed on behalf of Caerphilly County Borough Council:

Councillor J. Simmonds, 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 2019 under the Public Audit (Wales) Act 2004.

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

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19 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 2019 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

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

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

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

Report on other requirements

Opinion on other matters

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

- the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Narrative Report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19;
- The information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Annual 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 Annual Governance Statement.

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

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

Certificate of completion of audit

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

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 11, the responsible financial officer is responsible for the preparation of the statement of accounts, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of statements of accounts that are free from material misstatement, whether due to fraud or error.
In preparing the statement of accounts, the responsible financial officer is responsible for assessing the council’s ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

24 Cathedral Road
Cardiff
CF11 9LJ

Electronic publication of financial statements

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

Introduction to Accounting Statements

The Authority’s accounts for the year 2018/2019 are set out in the following pages and comprise:

a) **The Comprehensive Income and Expenditure Statement** – showing the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Authority raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

b) **The Movement in Reserves Statement (MiRS**) – showing the movement in the year on the different reserves held by the Authority. It is analysed into ‘Usable Reserves’ being those that can be applied to fund expenditure or reduce local taxation and ‘Unusable Reserves’. The ‘Surplus or deficit on the provision of services’ line shows the true economic cost of providing the Authority’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This differs from the statutory amounts charged to the Council Fund Balance for council tax setting purposes and Housing Revenue Account Balance for dwellings rent setting purposes. The ‘Net Increase/Decrease before Transfers to Earmarked Reserves’ line shows the statutory Council Fund Balance and Housing Revenue Account Balance before the Authority undertakes any discretionary transfers to or from earmarked reserves.

c) **The Balance Sheet** – which shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are ‘usable reserves’, being those reserves that may be used to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line ‘Adjustments between accounting basis and funding basis under regulations’.

d) **The Cash Flow Statement** – which shows the changes in cash and cash equivalents of the Authority during the year. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources, which are intended to contribute to the Authority’s future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

e) **The Housing Revenue Account (HRA)** – this is separated into two statements. The HRA Income and Expenditure Statement which shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. The Authority charges rents to cover expenditure in accordance with regulations, which may be different from the accounting cost. The increase or decrease in the year in the balance on the HRA account (the basis of which rents are raised) is shown in the Movement on the Housing Revenue Account Statement.

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

Comprehensive Income and Expenditure Statement

For the year ended

31 March 2019

Comprehensive Income and Expenditure Statement

Restated 31 March 2018 Gross Expenditure £000	Restated 31 March 2018 Gross Income £000	Restated 31 March 2018 Net Expenditure £000		31 March 2019 Gross Expenditure £000	31 March 2019 Gross Income £000	31 March 2019 Net Expenditure £000	Note
177,690	(38,158)	139,532	Education and Lifelong Learning	210,306	(41,283)	169,023	
144,567	(54,656)	89,911	Social Services and Housing	145,848	(49,902)	95,946	
102,008	(27,851)	74,157	Communities	103,083	(28,120)	74,963	
108,232	(63,908)	44,324	Corporate Services	109,265	(65,288)	43,977	
80,770	(51,885)	28,885	HRA	86,008	(49,356)	36,652	
613,267	**(236,458)**	**376,809**	**Cost of Services**	**654,510**	**(233,949)**	**420,561**	
24,328	(3,280)	21,048	Other Operating Expenditure	33,443	(4,752)	28,691	**9**
31,088	(1,030)	30,058	Financing and Investment Income and Expenditure	31,220	(863)	30,357	**10**
	(355,453)	(355,453)	Taxation and Non-Specific Grant Income		(370,305)	(370,305)	**11**
		72,462	**(Surplus)/Deficit on Provision of Services**			**109,304**	
		(52,185)	(Surplus)/deficit on revaluation of non-current assets			92,998	**32**
		906	(Surplus)/deficit on revaluation of available-for-sale financial assets			(2,685)	
		(33,073)	Actuarial (gains)/losses on pensions assets/liabilities			88,141	**13**
		(84,352)	**Other Comprehensive (Income) and Expenditure**			**178,454**	
		(11,890)	**Total Comprehensive (Income) and Expenditure**			**287,758**	

Movement in Reserves Statement

For the year ended

31 March 2019

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 2017	**(17,833)**	**(64,572)**	**(82,405)**	**(16,821)**	**(9,813)**	**(11,537)**	**(120,576)**	**(440,020)**	**(560,596)**	
Movement in reserves during 2017/2018										
Total Comprehensive Income and Expenditure	50,111	0	**50,111**	**22,351**	**0**	**0**	**72,462**	**(84,352)**	**(11,890)**	
Adjustments between accounting basis and funding basis under regulations	(54,742)	0	**(54,742)**	(10,620)	(107)	(3,281)	**(68,750)**	**68,750**	0	**7**
(Increase)/Decrease in Year	(4,631)	0	**(4,631)**	**11,731**	**(107)**	**(3,281)**	**3,712**	**(15,602)**	**(11,890)**	
Transfers (to)/from earmarked reserves	9,264	(9,264)	**0**	0	771	6,295	7,066	(7,066)	0	
Balance at 31 March 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	**7**
(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)**	

Balance Sheet

As at 31 March 2019

Balance Sheet

31 March 2018 £000		31 March 2019 £000	Note
1,304,942	Property, Plant & Equipment	1,154,790	23
11,448	Heritage Assets	11,222	24
28,004	Long Term Investments	34,344	12
708	Long Term Debtors	627	
1,345,102	**Long Term Assets**	**1,200,983**	
78,765	Short Term Investments	55,989	12
644	Assets Held for Sale	834	
410	Inventories	430	
38,573	Short Term Debtors	32,109	26
906	Cash and Cash Equivalents	854	27
119,298	**Current Assets**	**90,216**	
(10,771)	Short Term Borrowing	(6,495)	12, 28
(58,616)	Short Term Creditors	(53,421)	28
(1,582)	Short Term Provisions	(1,473)	29
(70,969)	**Current Liabilities**	**(61,389)**	
(2,666)	Long Term Provisions	(2,342)	29
(279,376)	Long Term Borrowing	(277,720)	12
(537,977)	Other Long Term Liabilities	(663,715)	12-14
(926)	Capital Grants Receipts in Advance	(1,305)	11
(820,945)	**Long Term Liabilities**	**(945,082)**	
572,486	**Net Assets**	**284,728**	
(109,798)	Usable Reserves	(118,523)	22
(462,688)	Unusable Reserves	(166,205)	22
(572,486)	**Total Reserves**	**(284,728)**	

The notes on pages 25 to 111 form part of the statement of accounts.

Cash Flow Statement

For the year ended 31 March 2019

Cash Flow Statement

2017/2018 £000		2018/2019 £000	Note
72,462	**Net (surplus) or deficit on provision of services**	**109,304**	
(73,084)	Adjust net surplus or deficit on the provision of services for non cash movement	(125,214)	**40**
17,550	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	18,492	**40**
16,928	Net cash flows from Operating Activities	**2,582**	
(22,058)	Investing Activities	(11,646)	**42**
5,463	Financing Activities	9,116	**43**
333	Net (increase) or decrease in cash and cash equivalents	**52**	
(1,239)	Cash and cash equivalents at the beginning of the reporting period	(906)	
(906)	**Cash and cash equivalents at the end of the reporting period**	**(854)**	**27**

Notes

to the

Core Financial Statements

Notes to the Core Financial Statements (continued)

1. Accounting Policies

i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2018/2019 financial year and its position at the year-end of 31 March 2019. 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 2018/2019 (the Code) supported by International Financial Reporting Standards (IFRS). The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. Accounting policies have been consistently applied from one year to the next, unless stated otherwise. The financial statements are prepared on a going concern basis.

ii. Accruals of Income and Expenditure

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

- Revenue from the sale of goods or the provision of services is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is virtually certain that economic benefits or service potential associated with the transaction will flow to the Authority.
- 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 on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Revenue from grants is recognised in accordance with accounting policy note **x**.

iii. Cash and Cash Equivalents

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

iv. Exceptional Items

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

Notes to the Core Financial Statements (continued)

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

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

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

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

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

vi. Charges to Revenue for Non-Current Assets

Services are debited with the following amounts to record the cost of holding non-current assets during the year:

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

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the Council Fund balance (Minimum Revenue Provision – "MRP"), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

vii. Employee Benefits

Benefits Payable During Employment

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

Notes to the Core Financial Statements (continued)

Termination Benefits

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

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

Post-Employment Benefits

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

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

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

However, the arrangements for the Teachers' Scheme mean that liabilities for these benefits cannot be identified specifically to the Authority. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the Education and Children's Service line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

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

- The liabilities of the Greater Gwent (Torfaen) Pension Scheme attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.4% (2.7% in 2017/2018) based on indicative returns of the iBoxx Sterling AA Rated Corporate Bond.
- The assets of the Greater Gwent (Torfaen) Pension Scheme attributable to the Authority are included in the Balance Sheet at their fair value:
  - Quoted securities – current bid price
  - Unquoted securities – professional estimate
  - Unitised securities – current bid price
  - Property – market value.

Notes to the Core Financial Statements (continued)

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

- **Service cost comprising:**
  - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
  - Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
  - Net interest on the net defined benefit liability, i.e. net interest expense for the Authority – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability/asset during the period as a result of contribution and benefit payments.
- **Remeasurements comprising:**
  - The return on assets – excluding amounts included in the net interest on the net defined benefit liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
  - Actuarial gains/losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- **Contributions paid to the Torfaen Pension Fund:**
  - Cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

viii. Events after the Reporting Period

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

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.

Notes to the Core Financial Statements (continued)

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

ix. Financial Instruments

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).

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

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

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

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

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.

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.

Notes to the Core Financial Statements (continued)

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.

Business models refer to how groups of financial assets are managed in order to generate cash flows and hence achieve business objectives. They do not depend on management's intentions for individual instruments, and do not relate to worst case or stressed scenarios, but to normal operating conditions.

1. The "to collect cash flows" model is met where assets are managed to collect payments over the whole of the instruments' lives, rather than managing the total return on the portfolio by both holding and selling. Sales before maturity are permitted within this business model. Late payments are managed by chasing debtors, rather than by selling debts to an agency. Financial assets under this business model are measured at amortised cost.
2. The "to collect cash flows and sell" model is met where assets are sold as an integral part of the business model, for example to provide regular liquidity, meet planned capital expenditure, take advantage of market movements, rebalance the portfolio or to pass bad debts to a collection agency. Financial assets under this business model are measured at fair value through other comprehensive income.
3. the "to sell" model, including where assets are sold frequently, for example bonds that are held for trading and loans that are originated and then sold to a third party. Financial assets under this business model are measured at fair value through profit & loss.

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 measured at amortised cost 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.

Notes to the Core Financial Statements (continued)

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 Fair value through other comprehensive income (FVOCI)- Financial assets that meet the "solely payments of principal and interest" test and are managed within a business model "to collect cash flows and sell"; and where the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are accounted for at FVOCI. This follows the same requirements as amortised cost accounting, including the impairment model (except for equity instruments), but the assets are "marked to market" and shown at fair value on the balance sheet. The difference between fair value and amortised cost is taken to an unusable reserve, the Financial Instruments Revaluation Reserve (FIRR).

Dividends on equity instruments elected FVOCI are taken to Financing and Investment Income and Expenditure line in the CIES when the right to receive payment is unconditional, unless the dividend clearly represents a recovery of part of the original investment cost.

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:
    - 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.

Notes to the Core Financial Statements (continued)

Derecognition of Financial Assets

Financial assets are derecognised (removed from the balance sheet) when there is no realistic prospect of receiving further cash flows; or when the asset is transferred to another party. Assets held at amortised cost are usually held until maturity, at which point the gross carrying amount will be zero.

If exceptionally assets are sold before maturity, for example to meet an unplanned cash shortfall or because they no longer meet the credit risk criteria, then any gain or loss on sale is taken to the CIES Surplus or Deficit on the Provision of Services. The impairment loss allowance should be reversed with a credit to the CIES Surplus or Deficit on the Provision of Services.

Equity Instrument

If the cash flows of a Financial Asset does 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 of 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 of 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 has a portfolio of a significant number of loans to local businesses. It does not have reasonable and supportable information that is available without undue cost or effort to support the measurement of lifetime expected losses on an individual instrument basis. It has therefore assessed losses for the portfolio on a collective basis.

The authority has grouped the loans into four groups for assessing loss allowances:

- Group 1 – these loans were made under a government programme, where the supply of funds was conditional on the authority putting in place a system for measuring and monitoring the risk of default for each of the businesses that was provided with a loan. Loss allowances for these loans can be assessed on an individual basis.
- Group 2 – these loans were made to support local businesses that supply goods and services to the car manufacturing plant in the authority’s area. The manufacturer has recently announced plans to locate production of new models at its plants in other countries. The authority therefore uses a ‘bottom-up’ approach to identify individual loans that have this common industry-related risk characteristic and determine that they are subject as a group to a significant increase in credit risk.

Notes to the Core Financial Statements (continued)

- Group 3 – these loans were made at a variable rate of interest. The authority is advised that interest rates are probably going to rise by 1%. Historical information evidences that a 1% increase in interest rates causes a significant increase in credit risk for 30% of the variable rate loans. The authority therefore uses a 'top-down' approach to assess an overall proportion of a group of relatively homogenous loans to determine that 30% of Group 3 loans have had a significant increase in credit risk since initial recognition.
- Group 4 – for the residual group of loans, the authority relies on past due information and calculates losses based on lifetime credit losses for all loans more than 30 days past due.

The authority has provided a loan to a company in financial difficulties to ensure that the Community Centres Company is able to provide vital services for the elderly. Fifty percent of the loan is thus deemed credit impaired on origination. This will mean that:

- as lifetime expected credit losses are taken into account in the cash flows used for calculating the effective interest rate, no loss allowance is needed on initial recognition
- a loss allowance will then be built up on the basis of the cumulative change in lifetime expected credit losses since initial recognition
- the annual impairment gain or loss will be the change in lifetime expected credit losses over the year.

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.

x. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when:

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

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

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

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

Notes to the Core Financial Statements (continued)

xi. Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Authority in conjunction with other ventures that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation. Jointly controlled assets are items of property plant and equipment that are jointly controlled by the Authority and other venturers with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Authority accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

xii. Leases

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

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

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

The Authority as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

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

Notes to the Core Financial Statements (continued)

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.

xiii. Overheads and Support Services

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

xiv. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:
- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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

Notes to the Core Financial Statements (continued)

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the Core Financial Statements (continued)

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.

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

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

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

Notes to the Core Financial Statements (continued)

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.

HRA Capital Expenditure

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

Notes to the Core Financial Statements (continued)

xv. Heritage Assets

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

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

xvi. Private Finance Initiatives (PFI)

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

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 39 for the PFI Equalisation Reserves).

Notes to the Core Financial Statements (continued)

xvii. Provisions and Reserves

Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation. Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Authority settles the obligation. Further information on Provisions can be found in Note 29.

Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the Council Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the Council Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting process for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in Note 22.

xviii. Contingent Liabilities

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

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

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

Notes to the Core Financial Statements (continued)

xix. Revenue Expenditure Funded from Capital under Statute

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

xx. Interest Charges

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

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

xxi. Debt Redemption

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

xxii. Related Party Transactions

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

xxiii. Recognition of Revenue from Non-Exchange Transactions

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

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

Notes to the Core Financial Statements (continued)

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

Basis of Measurement of Major Classes of Revenue from Non-Exchange Transactions
Taxation revenue is measured at the nominal value of cash, and cash equivalents. Assets and revenue recognised as a consequence of a transfer are measured at the fair value of the assets recognised as at the date of recognition:

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

xxiv. Accounting for local authority schools

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

xxv. Value Added Tax

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

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

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

xxvii. Community Infrastructure Levy

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

Notes to the Core Financial Statements (continued)

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

xxviii. Fair Value Measurement

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

a) in the principal market for the asset or liability, or

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

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

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

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

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

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

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 £28.205m) and Road (valued at £24.817m) are recognised as Property, Plant and Equipment on the Authority’s Balance Sheet.

Notes to the Core Financial Statements (continued)

- Only the value of the land for voluntary aided and foundation schools is included in the Balance Sheet. As the Council does not own these types of school and does not have access to them for valuation purposes, the value of the buildings is excluded from the Balance Sheet.
- The Authority has £1,155m recognised as Property, Plant and Equipment on its Balance Sheet as at 31 March 2019. Note 23 to the accounts details the revaluations to land, property, plant and equipment during the accounting period to ensure that Property, Plant and Equipment is included in the accounts at current value. The Authority undertakes formal valuations of its Property, Plant and Equipment by way of a five year rolling program and undertakes sufficient work, in respect of the assets not subject to a formal valuation in any one year, to ensure the value of its Property, Plant and Equipment as stated in the Balance Sheet is not materially different from its current value. The valuations are undertaken mainly by the Authority's in-house Corporate Property Department on an annual basis in line with the rolling program. External valuers were commissioned to undertake the valuation of the Authority's council housing, which was valued using the Beacon Method. The internal valuation team undertaking the annual revaluation work are members of the Royal Institute of Chartered Surveyors (RICS). Non-property assets have not been revalued as the Authority has judged that the carrying value of these assets is approximate to current value, given their relatively short useful economic lives and the relative value of these assets.
- The Authority is one of ten local authorities that constitute the Cardiff Capital Region City Deal. In 2018-2019 Caerphilly's contribution to the City Deal was considered immaterial in the context of preparing group accounts, so the Authority has disclosed the City Deal 31 March 2019 position as a note to its accounts. The position will be reviewed each year.

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

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

The items in the Authority's Balance Sheet at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent upon assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. As the Authority's assets have large variations in useful lives, it is impossible to estimate the effect on the annual depreciation charge for every year that useful lives had to be reduced.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with	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 £154.329m, whereas a 0.5% increase in salaries rate assumption would result in an increase

Notes to the Core Financial Statements (continued)

	expert advice about the assumptions to be applied.	in the pension liability of £26.798m. However, the assumptions interact in complex ways. During 2018/2019, the Authority's Actuaries advised that the net pensions liability for all schemes had increased by £126.747m.
Fair value measure-ments	When the fair values of financial assets and liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for similar assets or liabilities in active markets or the discounted cash flow (DCF) model). Where possible, inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. Judgements may include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the authority's assets and liabilities. Where Level 1 inputs are not available, the authority employs relevant experts to identify the most appropriate valuation techniques to determine fair value. Information about the valuation techniques and inputs used in determining the fair value of the authority's assets and liabilities is disclosed in note 12.	The authority uses the discounted cash flow (DCF) model to value financial assets and liabilities The significant unobservable inputs used in the fair value measurement include management assumptions regarding discount rates. Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the financial assets/liabilities.

4. Accounting Standards issued but not yet adopted

For 2018/2019, the accounting standards that have been issued but not yet adopted are as follows:

a) Amendments to IAS 40 *Investment Property:* Transfers of Investment Property

b) *Annual Improvements to IFRS Standards 2014-2016 Cycle*

c) IFRIC 22 - *Foreign Currency Transactions and Advance Consideration*

d) IFRIC 23 - *Uncertainty over Income Tax Treatments*

e) Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation.

None of these standards are applicable to the Authority.

Notes to the Core Financial Statements (continued)

5. Expenditure and Funding Analysis

Restated 2017-2018				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		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**
124,413	15,119	139,532	Education and Lifelong Learning	125,430	43,593	169,023
81,654	8,257	89,911	Social Services and Housing	88,820	7,126	95,946
48,697	25,460	74,157	Communities	51,136	23,827	74,963
66,256	(21,932)	44,324	Corporate Services	62,809	(18,832)	43,977
11,731	17,154	28,885	HRA	(951)	37,603	36,652
332,751	**44,058**	**376,809**	**Net Cost of Services**	**327,244**	**93,317**	**420,561**
(325,651)	21,304	(304,347)	Other Income and Expenditure	(332,055)	20,798	(311,257)
7,100	**65,362**	**72,462**	**Surplus/Deficit**	**(4,811)**	**114,115**	**109,304**
(99,226)			**Opening Council Fund and HRA Balance at 1 April**	(92,126)		
7,100			**Surplus or (Deficit) on Council Fund and HRA Balance in Year**	(4,811)		
(92,126)			**Closing Council Fund and HRA Balance at 31 March***	**(96,937)**		

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

Notes to the Core Financial Statements (continued)

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/deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	75,231	38,606	278	**114,115**

Restated Adjustments between Funding and Accounting Basis 2017-2018				
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	10,310	4,603	206	15,119
Social Services and Housing	1,489	6,771	(3)	8,257
Communities	19,338	6,194	(72)	25,460
Corporate Services	(4,056)	1,073	(18,949)	(21,932)
HRA	19,480	2,648	(4,974)	17,154
Net Cost of Services	46,561	21,289	(23,792)	44,058
Other income and expenditure from the Expenditure and Funding Analysis	(16,025)	13,272	24,057	21,304
Difference between Council Fund surplus/deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	30,536	34,561	265	**65,362**

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:

	2017-2018	2018-2019
	£000	£000
Expenditure:		
Employee benefits expenses	230,133	233,485
Other service expenses	315,181	319,700
Depreciation, amortisation, impairment	90,021	124,062
Interest payments	17,816	17,416
Precepts and levies	14,352	15,046
Loss on disposal of assets	1,180	9,464
Total expenditure	**668,683**	**719,173**
Income:		
Fees, charges and other service income	(124,921)	(121,464)
Gain on disposal of assets	(3,280)	(4,752)
interest and investment income	(1,030)	(863)
Income from council tax, non-domestic rates	(76,376)	(79,861)
Government grants and contributions	(390,614)	(402,929)
Total income	**(596,221)**	**(609,869)**
Surplus or Deficit on the Provision of Services	**72,462**	**109,304**

Notes to the Core Financial Statements (continued)

7. Adjustments between accounting basis and funding basis under Regulations

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

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

Council Fund Balance

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

Housing Revenue Account

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

Capital Receipts Reserve

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

Capital Grants Unapplied

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

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

Notes to the Core Financial Statements (continued)

2018/2019	**Usable Reserves** Council Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	**Movement in Unusable Reserves**
Adjustments primarily involving the Capital Adjustment Account:	**£000**	**£000**	**£000**	**£000**	**£000**
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement					
Charges for depreciation and impairment of non-current assets and non-enhancing capital expenditure	(59,370)	(64,272)	0	0	123,642
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	(8,701)	3,989	(4,752)	0	9,464
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	**(82,848)**	**(31,267)**	**(4,752)**	**(5,792)**	**124,659**

Notes to the Core Financial Statements (continued)

2017/2018	Usable Reserves: Council Fund Balance £000	Usable Reserves: Housing Revenue Account £000	Usable Reserves: Capital Receipts Reserve £000	Usable Reserves: Capital Grants Unapplied £000	**Movement in Unusable Reserves** £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 and non-enhancing capital expenditure	(35,917)	(53,872)	0	0	89,789
Amortisation of intangible assets	(233)	0	0	0	233
Capital grants and contributions applied	5,266	10,076	0	0	(15,342)
Revenue expenditure funded from capital under statute	(1,525)	0	0	0	1,525
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	649	1,452	(3,281)	0	1,180
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Statutory provision for the financing of capital investment	4,242	2,260	0	0	(6,502)
Capital expenditure charged against the Council Fund and HRA balances	4,825	32,134	0	0	(36,959)
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	107	0	0	(107)	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	(143)	(39)	0	0	182
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(54,350)	(4,837)	0	0	59,187
Employer's pensions contributions and direct payments to pensioners payable in the year	22,440	2,186	0	0	(24,626)
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	(103)	20	0	0	83
Total Adjustments	**(54,742)**	**(10,620)**	**(3,281)**	**(107)**	**68,750**

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 2018/2019.

	Note	Balance at 1 April 2017 £000	Transfers from £000	Transfers to £000	Balance at 31 March 2018 £000	Transfers from £000	Transfers to £000	Balance at 31 March 2019 £000
Council Fund:								
Balances held by schools under a scheme of delegation	*38*	(2,332)	2,123	(1,830)	**(2,039)**	1,609	(2,091)	**(2,521)**
Capital Earmarked Reserves	*35*	(16,358)	3,626	(9,404)	**(22,136)**	3,164	(5,137)	**(24,109)**
Direct Services Earmarked Reserves		(302)	0	(70)	**(372)**	371	(38)	**(39)**
Service over/underspend Reserves	*36*	(6,266)	3,317	(2,278)	**(5,227)**	6,961	(6,977)	**(5,243)**
Insurance Earmarked Reserves	*34*	(6,594)	126	(31)	**(6,499)**	148	(757)	**(7,108)**
Other Earmarked Reserves	*39*	(32,720)	4,616	(9,459)	**(37,563)**	7,645	(6,870)	**(36,788)**
Total		**(64,572)**	**13,808**	**(23,072)**	**(73,836)**	**19,898**	**(21,870)**	**(75,808)**
Housing Revenue Account:								
HRA Fund Balance		**(16,821)**	**16,571**	**(4,840)**	**(5,090)**	**4,609**	**(5,560)**	**(6,041)**

9. Other Operating Expenditure

Other operating expenditure is made up as follows:

	2017/2018 £000	2018/2019 £000
Community Council Precepts	693	729
Gwent Police Authority Precept	13,660	14,317
Levies	8,796	8,933
(Gains)/losses on the disposal of non-current assets	(2,101)	4,712
Total	**21,048**	**28,691**

Levies	2017/2018 £000	2018/2019 £000
South Wales Fire Authority	8,378	8,476
Gwent Coroners' Service	209	248
Glamorgan Archives' Service	72	72
Gwent Archives' Service	137	137
Total Levies	**8,796**	**8,933**

Notes to the Core Financial Statements (continued)

Precepts **Community Councils:**	**2017/2018** **£000**	**2018/2019** **£000**
Aber Valley Community Council	35	38
Argoed Community Council	12	12
Bargoed Town Council	58	64
Bedwas, Trethomas and Machen Community Council	68	78
Blackwood Community Council	59	59
Caerphilly Town Council	80	87
Darren Valley Community Council	12	12
Draethen, Waterloo and Rudry Community Council	15	15
Gelligaer Community Council	91	94
Llanbradach Community Council	30	31
Maesycwmmer Community Council	18	18
Nelson Community Council	28	28
New Tredegar Community Council	17	17
Penyrheol, Trecenydd and Energlyn Community Council	58	60
Rhymney Community Council	35	35
Risca East Community Council	25	25
Risca West Community Council	32	33
Van Community Council	20	23
	693	**729**
Gwent Police Authority	**13,660**	**14,317**
Total Precepts upon the Authority	**14,353**	**15,046**

10. Financing and Investment Income and Expenditure

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

	2017/2018 **£000**	**2018/2019** **£000**
Interest payable and similar charges	17,816	17,416
Pensions interest costs and expected return on pensions assets	13,272	13,804
Interest receivable and similar income	(1,030)	(863)
Total	**30,058**	**30,357**

Notes to the Core Financial Statements (continued)

11. Taxation and non-specific grant income

	2017/2018 £000	2018/2019 £000
Council tax income	(76,377)	(79,861)
Non domestic rates	(57,668)	(57,033)
Non-ringfenced government grants	(205,959)	(210,207)
Capital grants and contributions	(15,449)	(23,204)
Total	**(355,453)**	**(370,305)**

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, £1,057.70 in 2018/2019 (£1,011.96 in 2017/2018) is multiplied by the proportion specified for the particular band, adjusted for discount, to give the individual amount due. The total amount due for 2018/2019 was £80m (£76.6m in 2017/2018).

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	8,567	18,280	14,653	8,416	7,333	3,064	1,193	170	122

Analysis of the net proceeds from council tax:	**2017/2018 £000**	**2018/2019 £000**
Council tax collectable		
Caerphilly County Borough Council	(62,251)	(65,029)
Gwent Police Authority - see note 9	(13,660)	(14,317)
Community Councils - see note 9	(693)	(729)
Total amount due	(76,604)	(80,075)
Less: Bad Debt Provision	227	214
Net proceeds from council tax	**(76,377)**	**(79,861)**

National Non Domestic Rates (NNDR) Income

NNDR is organised on a national basis. The Welsh Government specifies an amount for the rate (51.4p in 2018/2019, 49.9p in 2017/2018) 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 on the basis of a fixed amount per head of population. The Authority's redistribution for 2018/2019 was £57.033m in total (£57.668m in 2017/2018).

Notes to the Core Financial Statements (continued)

The anticipated NNDR proceeds of £35.8m for 2018/2019 (£34.4m in 2017/2018) was based on a total rateable value at the year-end of £87.28m (£86.59m for 2017/2018).

Analysis of the net proceeds from Non-Domestic Rates:	**2017/2018 £000**	**2018/2019 £000**
Anticipated proceeds	**(34,353)**	**(35,021)**
Less: Discretionary relief	243	352
Cost of collection	266	270
Bad and doubtful debts	458	260
Contribution to NNDR Pool	**(33,386)**	**(34,139)**
Redistributed amount due from NNDR Pool	(57,668)	(57,033)
Amount received from NNDR Pool	**(57,668)**	**(57,033)**

Non ring-fenced government grants

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2018/2019:

	2017/2018 £000	**2018/2019 £000**
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	(205,959)	(210,207)
Total	**(205,959)**	**(210,207)**

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

The balances at the year-end are as follows:

Capital Grants Receipts in Advance	**2017/2018 £000**	**2018/2019 £000**
Opening balance as at 1 April	**(1,437)**	**(926)**
Planning	511	0
Highways and Transportation	0	(371)
Education	0	(13)
Lifelong Learning & Leisure	0	5
Closing balance as at 31 March	**(926)**	**(1,305)**

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 2018 £000	31 March 2019 £000	31 March 2018 £000	31 March 2019 £000	31 March 2018 £000	31 March 2019 £000	31 March 2018 £000	31 March 2019 £000	31 March 2018 £000	31 March 2019 £000
Financial Assets		Investments		Debtors		Investments		Debtors		
Fair value through profit or loss	23,000	0	0	0	52,023	11,443	0	0	75,023	11,443
Amortised cost	5,004	34,344	708	627	27,648	45,400	38,573	32,109	71,933	112,480
Fair value through other comprehensive income - designated equity instruments	0	0	0	0	0	0	0	0	0	0
Fair value through other comprehensive income - other	0	0	0	0	0	0	0	0	0	0
Total financial assets	28,004	34,344	708	627	79,671	56,843	38,573	32,109	146,956	123,923
Non-financial assets										
Total	28,004	34,344	708	627	79,671	56,843	38,573	32,109	146,956	123,923
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	(279,376)	(277,720)	(34,818)	(33,810)	(10,771)	(6,495)	(58,616)	(53,421)	(383,581)	(371,446)
Total financial liabilities	(279,376)	(277,720)	(34,818)	(33,810)	(10,771)	(6,495)	(58,616)	(53,421)	(383,581)	(371,446)
Non-financial liabilities	0	0	0	0	0	0	0	0	0	0
Total	(279,376)	(277,720)	(34,818)	(33,810)	(10,771)	(6,495)	(58,616)	(53,421)	(383,581)	(371,446)

Notes to the Core Financial Statements (continued)

Income, Expenses, Gains and Losses	**2017/2018**		**2018/2019**	
	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	0	(1,030)	0	(756)
· equity instruments measured at fair value through profit and loss	0	0	0	(107)
Total interest revenue	**0**	**(1,030)**	**0**	**(863)**
Interest expense	**0**	**17,816**	**0**	**17,416**

Notes to the Core Financial Statements (continued)

IFRS 9 Reclassification of Financial Assets

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.

As at 1 April 2018 the Authority was holding a fair value balance of £2.68m in the Available for Sale Reserve relating to short term and long term investments that were classified as Available for Sale and subsequently marked to market as at 31 March 2018. Following the adoption of the IFRS 9 standard as at 1 April 2018 the Available for Sale Reserve was closed down and the balance of £2.68m was transferred back to short term investments.

	31 March 2018 £000	1 April 2018 £000
Available for Sale Reserve	2,685	0
Long Term Investments	28,004	28,004
Short Term Investments	78,765	81,450
	109,454	109,454

Financial Assets - Amortised Cost

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.

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. The Authority did not sell any financial assets during the financial year.

Total financial assets that were measured at amortised cost as at 31 March 2019 are £88.806m

Notes to the Core Financial Statements (continued)

	31 March 2019 £000
Cash in Hand	70
Bank Accounts	784
Fixed Term Deposits - Banks and Building Societies	10,016
Local Authority Deposits	12,031
Local Government Bonds	4
Certificate of Deposits	5,016
Corporate Bonds and Sovereign Bonds	23,379
Covered Bonds	15,713
Government Securities (T Bills/Gilts)	12,731
Trade Receivables for goods and services provided	9,062
Total Financial Assets held at Amortised Cost	**88,806**

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 2019 the impairment loss allowance on an £64.365m of investments held at amortised cost was £409k.

	31 March 2019	
	Amortised Cost £000	Impairment Loss Provision £000
Cash in Hand	70	0
Bank Accounts	784	0
Fixed Term Deposits - Banks & Building Societies	10,016	20
Certificate of Deposits	5,016	7
Covered Bonds and Sovereign Bonds	23,379	49
Covered Bonds	15,713	8
Trade Receivables for goods and services provided	9,387	325
Total Financial Assets held at Amortised Cost (excluding Central and Local Government)	**64,365**	**409**

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 31^{st} March 2019, the Authority had two money market Sterling investment funds with a nominal balance of £11.44m. The funds have been valued at “Fair Value through Profit & Loss” (FVP&L) in accordance with the new IFRS 9 standard. The investment funds do not provide contractual cash flows to the Authority that are solely payments principal and interest on the outstanding investment balance in a manner that are consistent with basic lending arrangements. There is no possibility of default on contractual payment and consequently there is no impairment loss allowance set aside.

Notes to the Core Financial Statements (continued)

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

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 £107k during the financial 2018/19, 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.

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 2018		31 March 2019	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Financial Assets held at Amortised Cost	71,225	71,225	111,853	111,853
Equity Instruments held at Fair Value through Profit or Loss	0	0	11,443	11,443
Available for Sale Financial Assets	75,023	75,023	0	0
Long term debtors	708	708	627	627
	146,956	**146,956**	**123,923**	**123,923**

Notes to the Core Financial Statements (continued)

Financial assets measured at fair value				
Recurring fair value measurements	**Input level in fair value heirarchy**	**Valuation technique used to measure fair value**	**As at 31 March 2018**	**As at 31 March 2019**
Fair Value Through Profit or Loss:				
Equity shareholders in quoted UK companies	Level 2	Other significant observable inputs	0	11,443
Available for sale:				
Negotiable Instruments Fair Value	Level 1	Quoted prices in active markets for identical assets	75,023	0
Amortised Costs (IFRS 9):				
Negotiable Instruments Fair Value	Level 1	Quoted prices in active markets for identical assets	0	55,552
Total			**75,023**	**66,995**

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. The fair value of a financial instrument is determined by calculating the Net Present Value (NPV) of future cash flows, which provides an estimate of the value of payments/receipts in the future in today’s terms. For “other” loans the discount rate used in the NPV calculation is equal to the current rate in relation to the same instrument from a comparable lender, and is the rate applicable in the market on the date of valuation (31 March) for an instrument with the same duration.

The Code of Practice does not prescribe which method is to be applied. For 2018/2019 the Fair Value for PWLB loan debt has been arrived at using the PWLB new loan rate at 31 March 2019.

Notes to the Core Financial Statements (continued)

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:

	31 March 2019 Short term £000	31 March 2019 Long term £000
Public Works Loan Board	(5,075)	(234,451)
Bank Loans	(560)	(40,370)
Other Loans	(859)	(4,018)
Private Finance Initiative Contracts	(1,896)	(30,604)
Lease Payables	(76)	(306)
Creditors - financial liabilities carried at contract amount	(51,449)	(1,782)
Total Financial Liabilities measured at Amortised Cost	**(59,915)**	**(311,531)**

The fair values are as follows:

	31 March 2018		31 March 2019	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial liabilities	(346,991)	(447,549)	(333,664)	(441,290)
PFI and Finance Lease liabilities	(34,275)	(58,493)	(32,882)	(54,375)
Long term creditors	(2,315)	(2,005)	(4,900)	(4,651)
	(383,581)	**(508,047)**	**(371,446)**	**(500,316)**

Analysis of Liabilities by maturity	**31 March 2018 £000**	**31 March 2019 £000**
Maturing within 1 year	(69,387)	(59,916)
Maturing in 1 - 2 years	(13,125)	(8,676)
Maturing in 2 - 5 years	(18,178)	(12,857)
Maturing in 5 - 10 years	(27,263)	(38,133)
Maturing in 10 - 15 years	(29,010)	(26,914)
Maturing in 15 - 20 years	(92,257)	(92,505)
Maturing in 20 - 25 years	(15,864)	(13,958)
Maturing in 25 - 30 years	(23,945)	(28,933)
Maturing in 30 - 35 years	(9,977)	(11,972)
Maturing in 35 - 40 years	(50,196)	(49,712)
Maturing in 40 - 45 years	(14,000)	(7,500)
Maturing in 45 - 50 years	(10,000)	(20,370)
Maturing in over 50 years	(10,379)	0
	(383,581)	**(371,446)**

Notes to the Core Financial Statements (continued)

Recurring fair value measurements using:	31 March 2019 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				
Financial liabilities held at amortised cost:				
Loans/borrowings	(51,459)	(389,831)	0	(441,290)
Long term creditors	(4,651)	0	0	(4,651)
PFI and finance lease liabilities	0	(54,375)	0	(54,375)
Total	**(56,110)**	**(444,206)**	**0**	**(500,316)**
Financial assets				
Financial Assets held at Amortised Cost				
Equity Instrument	11,443	0	0	11,443
Other Receivables	101,037	0	0	101,037
Total	**112,480**	**0**	**0**	**112,480**

Recurring fair value measurements using:	31 March 2018 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				
Financial liabilities held at amortised cost:				
Loans/borrowings	(56,854)	(390,695)	0	(447,549)
Long term creditors	(2,005)	0	0	(2,005)
PFI and finance lease liabilities	0	(58,493)	0	(58,493)
Total	**(58,859)**	**(449,188)**	**0**	**(508,047)**
Financial assets				
Loans and receivables:				
Other loans and receivables	71,933	0	0	71,933
Total	**71,933**	**0**	**0**	**71,933**

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 2019) arising from a commitment to pay interest to lenders above current market rates.

Notes to the Core Financial Statements (continued)

As at 31 March 2019, short and long term financial assets included fixed term deposits valued at nominal amounts plus accrued interest. These were classified as Investments Held at Amortised Cost.

The Authority also held negotiable instruments that included corporate bonds, CDs and Government securities. These were previously classified as Available-for-Sale and measured at fair value. However, since the adoption of IFRS 9 Financial Instruments in 2018-2019, such investments have now been re-categorised to Investments 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 2019. 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 2019.

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**
▪ no early repayment or impairment is recognised	▪ no early repayment 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, which ranged between 0.40% and 1.62%. 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.	▪ Estimated ranges of discount rates for liabilities at 31 March 2019 were of 1.67% to 2.60% for loans from the PWLB and the Market, and applied with reference to the number of years outstanding to the maturity date.
▪ 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 2019 for disclosure purposes only. Accrued interest has also been taken into consideration using the amortisation method.	▪ The fair values for financial liabilities (PWLB debt and market debt) have been determined by reference to the PWLB redemption rules and prevailing PWLB new loan rates as at each Balance Sheet date, and include accrued interest. The fair values for non-PWLB debt have been calculated by way of valuing the embedded Swap option and includes accrued interest.

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 "2018/19 Treasury Management Annual Strategy (including Prudential Indicators)" was approved by Council on 22 February 2018 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 2018/2019 allowed officers to place surplus funds with banks, building societies, corporates, sovereign bonds, the Debt Management Office (DMO) (the UK Government) (T-Bills and the DMADF) and other local authorities using a credit criteria that coincided with the Authority's attitude to risk.

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

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

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

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

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

Notes to the Core Financial Statements (continued)

Counterparties rated:	31 March 2018 Estimated maximum exposure to default £000	31 March 2019 Amount at 31 March 2019 £000	Historical experience of default %	Historic experience adjusted for market conditions at 31 March 2019 %	Estimated maximum exposure to default £000
Long-term:		A	B	C	(A x C)
AAA	24	17,768	0.11%	0.11%	20
AA+	0	369	0.03%	0.03%	0
AA	66	19,759	0.28%	0.28%	55
Short-term					
AAA	5	11,443	0.04%	0.04%	5
AA	1	5,003	0.03%	0.03%	2
AA-	10	9,089	0.03%	0.03%	3
A+ (inc Cash)	9	15,954	0.06%	0.06%	10
A	10	0	0.06%	0.06%	0
A-	1	11,705	0.07%	0.07%	8
Non-investment grade	32	4	0.00%	0.00%	0
Debtors - past due but not impaired	24	3,075	0.97%	0.97%	30
Total	**182**	**94,169**			**133**

The Authority's deposits are placed either directly with the counterparty or indirectly with the counterparty via London money market brokers. At 31 March 2019, 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 2018 £000	31 March 2019 £000
Three to six months	290	655
Six months to one year	303	673
More than one year	1,745	1,747
	2,338	**3,075**

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 2018/2019):

Prudential Indicator Analysis						
Period	**Minimum**	**Maximum**	**31 March 2018**		**31 March 2019**	
			£000		**£000**	
<12 Months	0%	35%	9,931	3%	5,665	2%
1-2 Years	0%	40%	2,828	1%	1,796	1%
2-5 Years	0%	50%	4,963	2%	6,051	2%
5-10 Years	0%	75%	15,944	6%	24,498	9%
>10 Years	0%	95%	254,042	88%	244,595	86%
			287,708	100%	282,605	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 2019, 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 2018/2019 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 2019, with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on variable rate borrowings	0
Increase in interest receivable on variable rate investments	0
Increase in government grant receivable for financing costs	0
Impact on Surplus or Deficit on the Provision of Services	0
Share of overall impact debited to the HRA	134
Decrease in fair value of fixed rate investment assets	(298)
Impact on Other Comprehensive Income and Expenditure	**(298)**
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)	**51,609**

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

Covered Bond investments

As at 31 March 2019, 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. The Authority's covered bond holdings as at 31 March 2019 is as follows:

Notes to the Core Financial Statements (continued)

2018-2019 Issuer		Cover Pool Rating		Over-collateralisation	Owner Occupied	Full time Employed	Three Month Arrears	Average LTV	LTV Greater than 95%	Outstanding Balance Greater than £500k	Asset Location	Investment Classification at 31 March 2019	Nominal Balance Invested At 31 March 2019	Fair Value at 31 March 2019
													£000	£000
UK Issued Covered Bonds	Santander UK PLC	Fitch	AAA	47.4%	100%	73.6%	0%	59.5%	0.5%	6.8%	UK	Long-term	5,000	5,264
		Moody's	Aaa											
		S & P	AAA											
Non-UK Issued Covered Bonds	Bank of Nova Scotia	Fitch	AAA	38.8%	92.9%	Not reported	0%	74.7%	1.9%	4.2%	Canada	Long-term	6,000	6,006
		Moody's	Aaa											
	Canada Imperial Bank of Commerce	Fitch	AAA	47.3%	81.7%	Not reported	0%	70.0%	0%	8.5%	Canada	Long-term	2,000	2,011
		Moody's	Aaa											
	National Australia Bank	Fitch	AAA	32.3%	62.8%	Not reported	0%	57.6%	0%	7.0%	Australia	Long-term	2,000	2,003
		Moody's	Aaa											
													15,000	**15,284**

Notes to the Core Financial Statements (continued)

	2017-2018 Issuer	Cover Pool Rating		Over-collateralisation	Owner Occupied	Full time Employed	Three Month Arrears	Average LTV	LTV Greater than 95%	Outstanding Balance Greater than £500k	Asset Location	Investment Classification at 31 March 2018	Nominal Balance Invested At 31 March 2018 £000	Fair Value at 31 March 2018 £000
UK Issued Covered Bonds	Yorkshire Building Society	Moodys	Aaa	42.5%	0.0%	0.0%	0%	56.2%	0%	6.1%	UK	Short-term	7,979	7,617
		S&P	AAA											
	Coventry Building Society	Fitch	AAA	36.6%	100.0%	71.5%	0%	49.4%	0%	5.9%	UK	Short-term	3,339	3,266
		Moody's	Aaa											
	Leeds Building Society	Fitch	AAA	49.3%	87.3%	84.6%	0%	60.3%	0%	4.5%	UK	Short-term	1,589	1,611
		Moody's	Aaa											
	Nationwide Building Society	Fitch	AAA	53.1%	Not Reported	Not Reported	0%	70.6%	0.2%	1.7%	UK	Short-term	1,220	1,221
		Moody's	Aaa											
		S&P	AAA											
	Santander UK Plc	Fitch	AAA	41.6%	99.8%	58.1%	0%	59.1%	0.10%	0%	UK	Long-term	3,000	3,294
		Moody's	Aaa											
		S&P	AAA											
Non-UK Issued Covered Bonds	Bank of Nova Scotia	Fitch	AAA	44.3%	98.5%	Not Reported	0%	66.3%	1.0%	4.8%	Canada	Long-term	6,000	5,912
		Moody's	Aaa											
	Canadia Imperial Bank of Commerce	Fitch	AAA	49.3%	82.1%	Not Reported	0%	64.1%	0%	11.8%	Canada	Long-term	2,000	1,991
		Moody's	Aaa											
	National Australia Bank	Fitch	AAA	28.3%	67.5%	Not Reported	0%	58.6%	0.2%	31.5%	Australia	Long-term	2,000	1,991
		Moody's	Aaa											
													27,127	**26,903**

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.

	2017/2018		2018/2019	
	£m	% of pensionable pay	£m	% of pensionable pay
Employer's contribution paid	21.634	20.22	22.400	20.50
Added years paid	1.330	1.24	1.317	1.21

- **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.

	2017/2018		2018/2019	
	£m	% of pensionable pay	£m	% of pensionable pay
Employer's contribution paid	9.311	16.48	9.408	16.48
Added years paid	1.706	3.02	1.741	3.05

Former Authorities' Liability

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

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

Notes to the Core Financial Statements (continued)

Unfunded Teachers Pensions Liability

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

Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment / retirement benefits is reversed out of the Council Fund and the Housing Revenue Account via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the Council Fund Balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme		**Discretionary Benefits Arrangements**	
	2017/2018 £000	**2018/2019 £000**	**2017/2018 £000**	**2018/2019 £000**
Comprehensive Income and Expenditure Statement:				
Cost of Services				
Service cost comprising:				
• current service cost	45,296	44,442	0	0
• past service costs	82	4,974	0	0
• (gain)/loss from settlements/curtailments	0	0	0	0
• administration expenses	537	546	0	0
Financing and Investment Income and Expenditure				
• net interest expense	12,298	12,865	974	939
Total Post Employment Benefits charged to the Surplus or Deficit on Provision of Services	**58,213**	**62,827**	**974**	**939**
Other Post Employment Benefits charged to the Comprehensive Income and Expenditure Statement				
Remeasurement of the net defined benefit liability comprising:				
• return on plan assets (excluding the amount included in the net interest expense)	(7,768)	(23,648)	0	0
• actuarial (gains) / losses arising on changes in demographic assumptions	0	0	0	(338)
• actuarial (gains) / losses arising on changes in financial assumptions	(24,620)	110,099	(331)	1,247
• actuarial (gains) / losses - experience	(201)	102	(153)	679
Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement	**25,624**	**149,380**	**490**	**2,527**

Notes to the Core Financial Statements (continued)

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2017/2018	2018/2019	2017/2018	2018/2019
	£000	£000	£000	£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	(58,213)	(62,827)	(974)	(939)
Actual Amount Charged Against the Council Fund Balance for Pensions in the Year:				
• employers' contributions payable to the scheme	22,515	23,038	2,111	2,122

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 2019 is a loss of £299.928m (£211.787m loss to 31 March 2018).

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:

	2017/2018	2018/2019
	£000	£000
Present value of the defined benefit obligation:		
• Local Government Pension Scheme	(1,196,511)	(1,369,696)
• Former Authorities' Liability	(7,436)	(6,888)
• Teachers' Unfunded Discretionary Pension	(29,728)	(30,681)
Fair value of plan assets:		
• Local Government Pension Scheme	730,516	777,359
Net liability arising from defined benefit obligations	**(503,159)**	**(629,906)**

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 2020 is £23.477m.

Notes to the Core Financial Statements (continued)

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

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

	2018/2019 Greater Gwent Scheme £000	Former Authorities Liability £000	Unfunded Teachers' Pension £000	Total £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	
	2017/2018 £000	2018/2019 £000	2017/2018 £000	2018/2019 £000	2017/2018 £000	2018/2019 £000
Opening fair value of scheme assets	700,356	730,516	0	0	0	0
Interest Income	18,250	19,756	0	0	0	0
Remeasurement gain/(loss)						
• return on plan assets, excluding the amount included in net interest expense	7,768	23,648	0	0	0	0
• member contributions	6,683	6,764	0	0	0	0
Contributions from employer	22,027	22,552	582	572	2,017	2,036
Benefits paid	(24,568)	(25,877)	(582)	(572)	(2,017)	(2,036)
Administration expenses			0	0	0	0
Closing fair value of scheme assets	**730,516**	**777,359**	**0**	**0**	**0**	**0**

Local Government Pension Scheme assets comprised:

	Quoted	Fair value of scheme assets	
	Y/N	31 March 2018 £000	31 March 2019 £000
Cash and cash equivalents:	N	2,950	4,506
Equity instruments:			
• UK Quoted	Y	137,240	115,327
Investment Funds:			
• UK Equities	N	87,184	91,508
• US Equities	N	63,468	75,889
• European Equities	N	109,309	112,537
• Global Equities	N	88,464	95,785
• Far East Equities	N	52,717	53,042
• Emerging Market Equities	N	21,646	21,672
• Government Bonds	N	58,386	64,686
• Corporate Bonds	N	60,555	66,134
Property:			
• UK Property Funds	N	17,713	19,624
Alternatives:			
• Global	N	30,388	39,083
• UK	N	496	17,566
Total assets		**730,516**	**777,359**

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 2019, 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 2018 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	
	2017/2018	**2018/2019**	**2017/2018**	**2018/2019**	**2017/2018**	**2018/2019**
Long-term expected rate of return on scheme assets:	2.7%	2.4%	n/a	n/a	n/a	n/a
Mortality assumptions:						
Longevity at 65 for current pensioners:						
- Men	21.5	21.5	22.9	22.2	21.5	21.5
- Women	23.9	23.9	25.0	24.1	23.9	23.9
Longevity at 65 for future pensioners:						
- Men	23.6	23.6	n/a	n/a	n/a	n/a
- Women	26.1	26.1	n/a	n/a	n/a	n/a
Rate of inflation	2.4%	2.4%	2.1%	2.2%	2.4%	2.4%
Rate of increase in salaries	2.8%	2.9%	n/a	n/a	2.8%	2.9%
Rate of increase in pensions	2.4%	2.5%	2.1%	2.2%	2.4%	2.5%
Rate for discounting scheme liabilities	2.7%	2.4%	2.6%	2.4%	2.7%	2.4%
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 £000**	**Decrease in obligation £000**
Rate of increase in pension rate (increase by 0.5%)	124,588	0
Rate of increase in salaries (increase by 0.5%)	26,798	0
Rate for discounting scheme liabilities (decrease by 0.5%)	154,329	0

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 Government Actuary's Department (GAD) has estimated that the impact for the LGPS as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions.

The Fund's actuary has adjusted GAD's estimate to better reflect the Greater Gwent (Torfaen) Pension Fund's local assumptions, particularly salary increases and withdrawal rates. The revised estimate as it applies to Caerphilly County Borough Council is that total liabilities (i.e. the increase in active members' liabilities expressed in terms of the employer's total membership) could be 0.37% higher as at 31 March 2019, an increase of approximately £ 4,962k.

14. Private Finance Initiative (PFI) Transactions

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

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

Notes to the Core Financial Statements (continued)

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

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

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

	31 March 2018			31 March 2019		
	Road	Schools	Total	Road	Schools	Total
	£000	£000	£000	£000	£000	£000
Gross PFI Liabilities are due:						
- not later than 1 year	2,891	1,491	4,382	2,507	1,904	4,411
- later than 1 year, not later than 5 years	10,357	7,115	17,472	10,349	6,849	17,198
- later than 5 years	16,710	17,228	33,938	14,211	15,590	29,801
Total Gross Liabilities	**29,958**	**25,834**	**55,792**	**27,067**	**24,343**	**51,410**
Net PFI Liabilities are due:						
- not later than 1 year	1,317	365	1,682	1,088	808	1,896
- later than 1 year, not later than 5 years	5,113	3,073	8,186	5,695	3,042	8,737
- later than 5 years	11,862	12,085	23,947	10,525	11,342	21,867
Total Net Liabilities	**18,292**	**15,523**	**33,815**	**17,308**	**15,192**	**32,500**
Finance charges allocated to future periods	**(11,666)**	**(10,311)**	**(21,977)**	**(9,759)**	**(9,151)**	**(18,910)**
Reconciliation between Net Book Values of PFI Assets held under PFI schemes:						
Net Liability (as above)	18,292	15,523	33,815	17,308	15,192	32,500
Additions	0	1,347	1,347	0	1,355	1,355
Revaluations and impairments	0	25,447	25,447	0	11,566	11,566
Repayments/ Amortisation of capital sum	18,471	5,679	24,150	19,455	6,010	25,465
Accumulated Depreciation	(11,027)	(5,918)	(16,945)	(11,946)	(5,918)	(17,864)
Net Book value of PFI Assets	**25,736**	**42,078**	**67,814**	**24,817**	**28,205**	**53,022**

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

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

Notes to the Core Financial Statements (continued)

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

	2017/2018 £000	2018/2019 £000
Balance brought forward	(11,900)	(11,140)
Amounts (set aside) / taken in year:		
Schools	374	565
Road	386	(196)
	(11,140)	**(10,771)**

Future commitments for PFI Schemes

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

Road	Payment for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Payable in 2019/2020	2,123	1,088	1,419	4,630
Payable within 2 to 5 years	7,695	5,695	4,654	18,044
Payable within 6 to 10 years	10,596	7,320	3,167	21,083
Payable within 11 to 15 years	10,209	3,205	519	13,933
	30,623	**17,308**	**9,759**	**57,690**
School				
Payable in 2019/2020	2,605	808	1,097	4,510
Payable within 2 to 5 years	12,165	3,042	3,806	19,013
Payable within 6 to 10 years	16,901	5,918	3,331	26,150
Payable within 11 to 15 years	13,201	5,424	917	19,542
	44,872	**15,192**	**9,151**	**69,215**

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 £1,228,420 in 2018/2019, (£1,115,167 in 2017/2018) and were charged to the relevant service area in the Comprehensive Income and Expenditure Statement.

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

	2017/2018	2018/2019		
	Total £000	Land & Buildings £000	Vehicles, Plant & Equipment £000	Total £000
Not later than one year	952	980	0	1,088
Later than one year and not later than five years	3,485	3,243	0	3,661
Later than five years	11,733	11,019	0	12,180
	16,170	**15,242**	**0**	**16,929**

Notes to the Core Financial Statements (continued)

Authority as Lessor

The Authority has granted leases of land and buildings to various entities for periods of between 1 year and 30 years for the provision of community services, such as facilities, tourism services and community centres and for economic development purpose to provide suitable affordable accommodation for local businesses, with such arrangements being accounted for as operating leases. In addition the Authority has also granted peppercorn leases (rentals of £1 per annum) of community halls, playing fields, pavilions etc. to voluntary organisations, community groups and other similar bodies for periods of between 1 year and 199 years. Such arrangements have been accounted for as operating leases.

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

	2017/2018	2018/2019		
	Total £000	Industrial Units £000	Other Land & Buildings £000	Total £000
Not later than one year	417	301	426	727
Later than one year and not later than five years	984	921	1,930	2,851
Later than five years	1,131	690	2,929	3,619
	2,532	**1,912**	**5,285**	**7,197**

16. Members' Allowances

The total value of Members' Allowances payments in 2018/2019 was £1,234,458 (£1,183,309 in 2017/2018). 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.

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 2019 were:

2018/2019	Number of employees			
Remuneration Band	School based	Non-School based	Total	Left in year
£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)

2017/2018	**Number of employees**			
Remuneration Band	**School based**	**Non-School based**	**Total**	**Left in year**
£60,000 - £64,999	19	5	24	0
£65,000 - £69,999	17	4	21	0
£70,000 - £74,999	8	2	10	0
£75,000 - £79,999	1	2	3	1
£80,000 - £84,999	2	1	3	0
£85,000 - £89,999	7	1	8	0
£90,000 - £94,999	1	2	3	0
£95,000 - £99,999	1	2	3	0
£100,000 - £104,999	0	1	1	0
£105,000 - £109,999	0	1	1	1
	56	**21**	**77**	**2**

The leavers in the year were non-school based.

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

Notes to the Core Financial Statements (continued)

2018/2019 Post	Salary £	Expenses / other payments £	Total Remuneration excluding Employer's Pension Contributions £	Employer's Pension Contributions at 20.5% £	Total Remuneration including Employer's Pension Contributions £
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.*

Notes to the Core Financial Statements (continued)

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

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

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

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

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

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

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

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

Notes to the Core Financial Statements (continued)

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

The 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 £	
	2017 / 2018	2018 / 2019	2017 / 2018	2018 / 2019	2017 / 2018	2018 / 2019	2017 / 2018	2018 / 2019
£0 - £20,000	3	1	95	161	98	162	648,928	1,106,979
£20,001 - £40,000	0	1	19	28	19	29	527,846	794,546
£40,001 - £60,000	1	0	11	7	12	7	571,564	346,094
£60,001 - £80,000	0	0	3	0	3	0	195,640	0
£80,000 - £100,000	0	0	0	2	0	2	0	171,545
£100,001 - £150,000	0	0	1	0	1	0	123,983	0
Total	**4**	**2**	**129**	**198**	**133**	**200**	**2,067,961**	**2,419,164**

18. External Audit Costs

In 2018/2019 Caerphilly County Borough Council incurred the following fees relating to external audit and inspection.

	2017/2018 £000	2018/2019 £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	54	41
Fees payable to Grant Thornton UK LLP in respect of other services*	3	3
	412	**399**

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

Notes to the Core Financial Statements (continued)

19. Pooled Budgets / Lead Commissioning Arrangements

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

	2017/2018	2018/2019			
Lead Commissioning Arrangements	Authority's Contribution £000	Total Funding £000	Other (ABHB) Contribution £000	Other LAs/WG Contribution £000	Authority's Contribution £000
Age Concern **-** provides timely support and safe discharge from acute services for older people back inot the community	46	0	0	0	0
Care and Repair **-** is a housing advice/agency service for elderly people with physical disabilities. The project fits adaptations and aids to daily living, deals with applications for grants, loands and welfare benefits and arranges temporary accommodation	11	0	0	0	0
Gwent Frailty Programme **-** provides a range of services to avoid hospital admissions, facilitate early discharge and help individuals remain independent.	2,168	16,452	9,616	4,496	2,340
	2,225	**16,452**	**9,616**	**4,496**	**2,340**

Age Concern and Care and Repair lead commissioning arrangements ended in the 2017/2018 financial year.

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

20. Related Party Transactions

The Authority is required to disclose material transactions with related parties – bodies or individuals that 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.

Notes to the Core Financial Statements (continued)

Members
Members of the council have direct control over the Authority's financial and operating policies. The total of members allowances paid in 2018/2019 is shown in Note 16. During the year the majority of "declaration of interest" returns were received showing that there were no other material related party transactions identified involving these individuals.

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

Other Public Bodies (subject to common control by central government)
The Authority has pooled budget arrangements with the Aneurin Bevan Health Board in respect of the Gwent Frailty Project. Details can be found in Note 19.

Pension Contributions
Employer's contributions are made to the Teachers' Pension Agency and the Greater Gwent (Torfaen) Pension Fund in respect of the Authority's employees. Further details of amounts involved are shown on pages 72 to 78.

Other Entities Controlled or Significantly Influenced by the Authority:

Groundwork Trust Caerphilly
The Authority is represented on the Board of the Trust.

Aneurin Bevan Health Board
The Authority is represented on the Board of this organisation.

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

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

	In-year transactions		Balances outstanding at 31 March	
2018/2019 **Related Party:**	**Expenditure incurred by Authority £000**	**Income received by Authority £000**	**Owed to Authority (debtor) £000**	**Owed by Authority (creditor) £000**
Groundwork Trust Caerphilly	78	11	nil	12
Aneurin Bevan Health Board	11,030	15,493	3,280	2,650
Included in above:				
Section 28a Grant	nil	2,674	nil	nil
NNDR	nil	1,194	nil	nil
Education Achievement Service	1,237	138	8	nil

Notes to the Core Financial Statements (continued)

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

21. Minimum Revenue Provision (MRP) Adjustment

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

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

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

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

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

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

Notes to the Core Financial Statements (continued)

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

Actual provisions made during each year match the calculated amounts.

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

22. Movements on Reserves

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

Usable Reserves **Reserve**	**Note**	**Balance 1 April 2017 £000**	**Net Movement in year £000**	**Balance 31 March 2018 £000**	**Net Movement in year £000**	**Balance 31 March 2019 £000**
Council Fund		(17,833)	4,633	(13,200)	(1,889)	(15,089)
Housing Revenue Account		(16,821)	11,731	(5,090)	(951)	(6,041)
Direct Service Earmarked Reserves		(302)	(70)	(372)	334	(38)
Capital Earmarked Reserves	*35*	(16,358)	(5,778)	(22,136)	(1,973)	(24,109)
Service Over/Underspend Reserves	*37*	(6,266)	1,039	(5,227)	(16)	(5,243)
Schools Earmarked Reserves	*38*	(2,332)	293	(2,039)	(482)	(2,521)
Insurance Earmarked Reserves	*34*	(6,594)	95	(6,499)	(609)	(7,108)
Other Earmarked Reserves	*39*	(32,720)	(4,843)	(37,563)	775	(36,788)
Usable Capital Receipts		(11,537)	3,014	(8,523)	(1,456)	(9,979)
Capital Grants Unapplied		(9,813)	664	(9,149)	(2,458)	(11,607)
Total Usable Reserves		**(120,576)**	**10,778**	**(109,798)**	**(8,725)**	**(118,523)**

Notes to the Core Financial Statements (continued)

Unusable Reserves

Reserve	Balance 1 April 2017 £000	Net Movement in year £000	Balance 31 March 2018 £000	Net Movement in year £000	Balance 31 March 2019 £000	Purpose of Reserve	Further details of movements
Financial Instruments Adjustment Account	(341)	181	(160)	128	(32)	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	1,779	906	2,685	(2,685)	0	Store of gains on revaluation of investments not yet realised through sales.	
Revaluation Reserve	(569,517)	(40,433)	(609,950)	105,041	(504,909)	Gains on revaluation of fixed assets not yet realised through sales.	Note 32
Capital Adjustment Account (CAA)	(377,121)	15,141	(361,980)	67,188	(294,792)	Capital resources set aside to meet past capital expenditure	Note 33
Deferred Capital Receipts	(15)	(35)	(50)	(86)	(136)	Proceeds to be received over future accounting periods arising principally from the sale of council dwellings	
Pensions Reserve	501,671	1,488	503,159	126,747	629,906	Reserve set aside to mitigate the impact of pension liabilities on Council Tax as required by statute	Note 31
Accumulated Absences Account	3,525	83	3,608	150	3,758	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	**(440,019)**	**(22,669)**	**(462,688)**	**296,483**	**(166,205)**		

Notes to the Core Financial Statements (continued)

23. Property, Plant and Equipment

Cost or valuation:	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Assets under Construction £000	Total Property, Plant & Equipment £000	PFI Assets Included in Property, Plant & Equipment £000
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/(decreases) to Revaluation Reserve	20,375	(113,419)	0	0	0	0	(93,044)	(13,881)
Revaluation Increases/(decreases) to Surplus/Deficit on Provision of Services	0	(24,384)	(21)	0	200	0	(24,205)	0
Derecognitions - Disposals	0	(10,650)	0	0	0	0	(10,650)	0
Other movements in cost or valuations	(64,263)	(11,260)	(123)	0	0	(7,218)	(82,864)	0
At 31 March 2019	347,640	622,719	45,501	324,308	3,272	0	1,343,440	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)
Other movements in Depreciation	12,588	12,442	123	0	0	0	25,153	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**	**597,949**	**9,089**	**196,936**	**3,176**	**0**	**1,154,790**	**53,022**
Net Book Value at 31 March 2018	339,854	745,291	10,762	198,869	2,991	7,175	1,304,942	67,814

Notes to the Core Financial Statements (continued)

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

Notes to the Core Financial Statements (continued)

Capital Commitments

At 31 March 2019, the Authority had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2018/2019 and subsequent years budgeted to cost £11.142m. Similar commitments at 31 March 2018 were £14.375m. The major commitments are:

		31 March 2018 £000	31 March 2019 £000
Highways and Transportation:	Bargoed By Pass	201	270
	Historical Schemes	205	205
	Bridge strengthening & infrastructures	0	260
	Land drainage	167	402
	Highways equipment	250	0
	Pwllypant Roundabout	4,475	0
	Major highways improvements	0	1,479
	Street lighting (Salix)	0	3,139
	Passenger transport ETM	0	381
	Crumlin Junction	0	103
Education:	Newbridge / Cwmcarn High School	2,519	373
	Blackwood Comprehensive School	2,076	0
Property:	Former Meals on Wheels Pengam	228	0
Private Housing:	Home Improvement Loans	675	1,461
Social Services:	Children with Complex Needs Centre	3,100	3,069
Urban Renewal:	Risca Town Centre Development	479	0
		14,375	**11,142**

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	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets held for sale	Total
	£000	£000	£000	£000	£000	£000	£000
Carried at historical cost	0	692,831	45,501	324,308	2,073	0	1,064,713
Valued at current value as at:							
31 March 2016	0	23,403	0	0	1,023	0	24,426
31 March 2017	0	9,101	0	0	(17)	0	9,084
31 March 2018	0	43,363	0	0	(7)	0	43,356
31 March 2019	347,640	(145,979)	0	0	200	834	202,695
Total Cost or Valuation	347,640	622,719	45,501	324,308	3,272	834	1,344,274

Surplus Assets

As at 31 March 2019 the Authority had no surplus assets.

24. Heritage Assets

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

Notes to the Core Financial Statements (continued)

Other Land and Buildings

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

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

Babell Chapel

This asset is a small Welsh Calvinistic Methodist Chapel built in 1827 and houses the grave of the 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 2019 at £252,982 (£240,933 in 2018). The Authority also holds a number of Civic gifts. It is considered that none of these gifts are of significant value warranting disclosure within the Authority's accounts or recognising in the balance sheet.

25. Capital Expenditure and Capital Financing

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

	31 March	
	2018	**2019**
	£000	**£000**
Opening Capital Financing Requirement	**341,550**	**345,137**
Capital Investment:		
Operational Assets	67,664	75,915
Invest to Save	(830)	(830)
Intangible Assets	233	420
Revenue Expenditure funded from Capital Under Statute	2,407	2,272
Sources of Finance:		
Grants and Other Contributions	(21,374)	(21,111)
Capital Expenditure Funded from Revenue	(36,959)	(25,742)
Capital Receipts Set Aside	(1,052)	(2,844)
Minimum Revenue Provision	(6,502)	(6,039)
Closing Capital Financing Requirement	**345,137**	**367,178**

26. Debtors

Debtors	**31 March 2018 £000**	**31 March 2019 £000**
Trade receivables	14,923	9,062
Prepayments	991	861
Other receivable amounts	22,659	22,186
	38,573	**32,109**

Notes to the Core Financial Statements (continued)

27. Cash and Cash Equivalents

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

	31 March 2018 £000	31 March 2019 £000
Cash held by the Authority	70	70
Bank current accounts	836	784
Total cash and cash equivalents	**906**	**854**

28. Creditors

Creditors	31 March 2018 £000	31 March 2019 £000
Trade payables	(30,605)	(25,983)
Other payables	(28,011)	(27,438)
Total Creditors	**(58,616)**	**(53,421)**

29. Movements in Provisions

<u>Short Term Provisions</u>	Social Services Provision £000	Corporate Provision £000	Insurance Provision £000	Total £000
Balance at 1 April 2018	(439)	(330)	(813)	(1,582)
Additional provisions made in 2018/2019	0	(343)	(349)	(692)
Amounts used in 2018/2019	0	337	599	936
Unused amounts reversed in 2018/2019	0	0	314	314
Transfer to/from short term provisions in 2018/2019	0	0	(449)	(449)
Balance at 31 March 2019	**(439)**	**(336)**	**(698)**	**(1,473)**

Notes to the Core Financial Statements (continued)

Long Term Provisions	Environmental Health Provision £000	Insurance Provision £000	Total £000
Balance at 1 April 2018	(230)	(2,436)	(2,666)
Additional provisions made in 2018/2019	(20)	(1,047)	(1,067)
Unused amounts reversed in 2018/2019	0	942	942
Transfer to/from short term provisions in 2018/2019	0	449	449
Balance at 31 March 2019	**(250)**	**(2,092)**	**(2,342)**

Insurance provision - exists to cover assessed outstanding self-insured liabilities in respect of existing claims. A separate insurance earmarked reserve also exists to meet potential insurance liabilities, as detailed on page 101.

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

Included within the short term Corporate Provision is a provision of £336,149 in respect of the Carbon Reduction Commitment (CRC). This has been set up to ensure that costs are recognised in the year in which the energy has been used.

30. Other Funds

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

The total value of these accounts as at 31 March 2019 was:
£176,086 - relating to Education Trust Funds administered by the Interim Head of Corporate Finance, (£171,533 in 2017/2018), which are held to provide prizes and awards to pupils in the Authority's schools. Of these funds, £43 is vested in shareholdings and £176,043 is held in bank deposits (£43 and £171,490 respectively in 2017/2018). There are no other underlying assets or liabilities. The Trust Funds received £2,398 in dividends and interest during the year (£1,790 in 2017/2018) and incurred expenditure of £100 (£100 in 2017/2018).

In addition, the Director of Social Services administers funds on behalf of clients in residential homes. These accounts do not have official trustee status. The total value of these accounts as at 31 March 2019 was £6,266,273 (£5,235,092 as at 31 March 2018).

Notes to the Core Financial Statements (continued)

31. 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.

	2017/2018 £000	2018/2019 £000
Balance as at 1 April	**501,671**	**503,159**
Actuarial gains or (losses) on pensions assets and liabilities	(33,073)	88,141
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	59,187	63,766
Employer's pension contributions and direct payments to pensioners payable in the year	(24,626)	(25,160)
Balance at 31 March	**503,159**	**629,906**

32. 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 2019 therefore only shows revaluation gains accumulated since 1 April 2007.

	2017/2018	2018/2019	
	£000	£000	£000
Balance as at 1 April	**(569,517)**		**(609,950)**
Downward revaluation of assets and impairment losses not charged to the Surplus and Deficit on the Provision of Services	16,951	121,133	
Surplus on Revaluation of Assets	(69,136)	(28,135)	
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(52,185)		92,998
Difference between fair value depreciation and historical cost depreciation	11,752	12,043	
Amount written off to the Capital Adjustment Account	11,752		12,043
Balance as at 31 March	**(609,950)**		**(504,909)**

Notes to the Core Financial Statements (continued)

33. 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 32 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.

	2017/2018		2018/2019	
	£000	£000	£000	£000
Balance as at 1 April		**(377,121)**		**(361,980)**
Set Aside - Capital Receipts		(1,052)		(2,844)
Funding:				
Revenue funding applied	(36,959)		(25,742)	
Capital receipts applied	(5,210)		(366)	
Capital grants and contributions applied	(16,113)		(20,745)	
Total Funding		(58,282)		(46,853)
MRP		(6,502)		(6,039)
Depreciation:				
In year charge	39,146		40,457	
Attributable to revaluations	(11,752)		(12,043)	
Written back on disposals	(110)		(1,186)	
		27,284		27,228
Amortisation of non-enhancing expenditure		51,890		58,897
Asset Revaluations / Impairments:				
Price adjustments	(1,246)		24,287	
		(1,246)		24,287
Disposals - Council Fund	1,231		10,650	
Disposals - HRA	59		0	
		1,290		10,650
Revenue Expenditure funded from Capital	2,407		2,272	
Funding of revenue expenditure funded from capital	(51)		0	
		2,356		2,272
Invest to save		(830)		(830)
Amortisation of Intangible Assets		233		420
Total capital costs		74,475		116,885
Balance as at 31 March		**(361,980)**		**(294,792)**

34. Movements in Insurance Earmarked Reserves

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

Reserve:	Balance at 1 April 2018 £000	Transfers from Reserves £000	Transfers to Reserves £000	Balance at 31 March 2019 £000
Insurance Reserve	(5,935)	0	(757)	(6,692)
Risk Management Reserve	(564)	148	0	(416)
	(6,499)	**148**	**(757)**	**(7,108)**

35. Movements in Capital Earmarked Reserves

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

Reserve:	Balance at 1 April 2018 £000	Transfers from Reserves £000	Transfers to Reserves £000	Balance at 31 March 2019 £000
Housing Earmarked Capital	(38)	0	0	(38)
Corporate - All Authority	(18,022)	1,845	(2,604)	(18,781)
Lifelong Learning	(121)	0	0	(121)
Planning	(31)	0	0	(31)
Education	(950)	750	(1,671)	(1,871)
Highways and Transportation	(753)	105	0	(648)
Property	(637)	293	0	(344)
Corporate Services	(427)	78	0	(349)
Economic Development & Tourism	(94)	45	(40)	(89)
Environmental Health	(249)	48	0	(201)
Community & Leisure	(814)	0	(822)	(1,636)
	(22,136)	**3,164**	**(5,137)**	**(24,109)**

36. 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 121, Note 7.

Notes to the Core Financial Statements (continued)

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 2018 £000	Transfers from Reserves £000	Transfers to Reserves £000	Balance at 31 March 2019 £000
Education	(918)	551	(203)	(570)
Corporate Services	(1,348)	2,063	(2,174)	(1,459)
Social Services	(1,875)	1,561	(2,015)	(2,329)
Housing Non HRA	(298)	17	(33)	(314)
Directorate of the Environment	(788)	2,769	(2,552)	(571)
	(5,227)	**6,961**	**(6,977)**	**(5,243)**

38. Movement in Schools Earmarked Reserves

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

Reserve:	Balance at 1 April 2018 £000	Transfers from Reserves £000	Transfers to Reserves £000	Balance at 31 March 2019 £000
Secondary Schools	481	722	(1,088)	115
Primary Schools	(2,244)	800	(1,003)	(2,447)
Special School	(276)	87	0	(189)
Total Schools Balances	**(2,039)**	**1,609**	**(2,091)**	**(2,521)**

Notes to the Core Financial Statements (continued)

39. Movement in Other Reserves

Reserve:	Purpose of reserve:	Balance at 1 April 2018 £000	Transfers from reserves £000	Transfers to reserves £000	Balance at 31 March 2019 £000
Waste Management Reserve	to cover future costs in respect of landfill sites	(585)	0	0	(585)
PFI Equalisation Reserve (Schools)	to match PFI funding and unitary charge payments over the period of the contracts - see note 14	(9,259)	565	0	(8,694)
PFI Equalisation Reserve (Roads)		(1,880)	0	(197)	(2,077)
PFI Schools Earmarked Reserve	reinvestment and works outside the scope of the PFI projects	(1,004)	0	(89)	(1,093)
Service Initiative Reserves	to fund expenditure upon service specific initiatives	(14,752)	5,244	(4,969)	(14,477)
Carbon Trust Fund Reserve	to provide match funding to draw down grant from the Carbon Trust, to fund major works for energy efficiency measures	(289)	152	(159)	(296)
Area Forum Reserve	to meet costs incurred from environmental works undertaken by the Authority as identified by the local area partnerships	(44)	4	0	(40)
Community Regeneration Fund Reserve	represents unclaimed funds from the Community Regeneration Fund voluntary sector allocations	(142)	86	0	(56)
Cemeteries Reserve	to meet costs incurred in general upkeep and maintenance of Authority-owned cemeteries	(1,141)	0	(62)	(1,203)
Electoral Admin Reserve	to meet the objectives of the Electoral Adminsitration Act 2006	(276)	0	(106)	(382)
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	(797)	256	(218)	(759)
Social Services Partnership Reserve	to support collaborative initiatives with other local authorities and public bodies	(3,366)	801	(264)	(2,829)
Invest to Save Reserve	to promote savings initiatives across the authority	(431)	223	(105)	(313)
Local Management of Schools	to undertake school based initiatives	(2,731)	312	(24)	(2,443)
Community Infrastructure Levy Reserve	to recycle CIL charges to fund infrastructure and to support local developments	(534)	0	(672)	(1,206)
Other Reserves	a number of smaller reserves held for a variety of purposes.	(69)	2	(5)	(72)
	Total	**(37,563)**	**7,645**	**(6,870)**	**(36,788)**

Notes to the Core Financial Statements (continued)

40. Cash Flow Statement – Adjustments to Surplus or Deficit

	2017/2018 £000	2018/2019 £000
Adjustment to surplus or deficit on provision of services for non-cash movements:		
Depreciation and Impairment	(89,789)	(123,642)
IAS19 Pensions Adjustment	(34,561)	(38,606)
Revenue Expenditure funded from Capital under Statute	(1,525)	(1,442)
Amortisation of Intangible Assets	(232)	(420)
(Increase) / Decrease in Provisions	286	433
Contributions to / from Reserves	54,492	43,877
Increase / (Decrease) in Inventories	(129)	20
Increase / (Decrease) in Debtors	4,501	(6,545)
(Increase) / Decrease in Creditors	(6,127)	1,111
	(73,084)	**(125,214)**
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	15,449	23,204
Proceeds from the sale of property plant and equipment	2,101	(4,712)
	17,550	**18,492**

41. Cash Flow Statement – Operating Activities

The cash flows from operating activities include the following items:

	2017/2018 £000	2018/2019 £000
Interest received	(933)	(850)
Interest paid	13,290	13,087
	12,357	**12,237**

42. Cash Flow Statement – Investing Activities

	2017/2018 £000	2018/2019 £000
Purchase of property, plant and equipment and intangible assets	69,996	70,631
Purchase of short-term and long-term investments	475,950	474,407
Proceeds from the sale of property, plant and equipment and intangible assets	(8,525)	(5,204)
Proceeds from the sale of short-term and long-term investments	(497,688)	(493,527)
Other receipts from investing activities	(61,791)	(57,953)
	(22,058)	**(11,646)**

Notes to the Core Financial Statements (continued)

43. Cash Flow Statement - Financing Activities

	2017/2018 £000	2018/2019 £000
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	109	4,015
Repayments of short-term and long-term borrowing	36,354	9,001
Cash receipts of short-term and long-term borrowing	(31,000)	(3,900)
	5,463	**9,116**

44. Reconciliation of liabilities arising from financing activities

	As at 1 April 2018	Financing cash flows	Non-cash changes		As at 31 March 2019
			Acquisition	Other non-cash changes	
	£000	£000	£000	£000	£000
Long-term borrowings	(279,374)	(2,000)	0	3,655	(277,719)
Short-term borrowings	(9,941)	7,100	0	(2,834)	(5,675)
Lease liabilities	(461)	94	(14)	0	(381)
On balance sheet PFI liabilities	(33,815)	3,934	0	(2,620)	(32,501)
Total liabilities from financing activities	**(323,591)**	**9,128**	**(14)**	**(1,799)**	**(316,276)**

45. Jointly Controlled Operations

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

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

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

Notes to the Core Financial Statements (continued)

The Authority's share of the Income and Expenditure Account and Balance Sheet of each of the six committees 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.

Cardiff Capital Region City Deal (CCRCD)	2017/2018		2018/2019	
	Total	CCBC share	Total	CCBC share
Income & Expenditure Account	£000	£000	£000	£000
Cost of Services	1,584	190	1,340	160
Operating Income	(929)	(111)	(4,251)	(509)
Net Cost of Services	655	79	(2,911)	(349)
Interest & Investment Income	(17)	(2)	(113)	(14)
Financing & Investment Income & Expenditure	**(17)**	**(2)**	**(113)**	**(14)**
Capital Grants & Contributions	(24,207)	(2,897)	(12,308)	(1,473)
Corporation Tax	0	0	551	66
Taxation and Non Specific Grant Income	**(24,207)**	**(2,897)**	**(11,757)**	**(1,407)**
(Surplus) / Deficit on Provision of Services	**(23,569)**	**(2,820)**	**(14,781)**	**(1,770)**
Other Comprehensive Income & Expenditu	0	0	0	0
Total Comprehensive Income & Expenditure	**(23,569)**	**(2,820)**	**(14,781)**	**(1,770)**
Balance Sheet				
Long term assets	24,660	2,959	35,224	4,216
Current assets	19,670	2,360	38,742	4,637
Current liabilities	(2,130)	(256)	(2,040)	(244)
Long term liabilities	(17,951)	(2,154)	(31,010)	(3,711)
Total Assets less Liabilities	**24,249**	**2,909**	**40,916**	**4,898**
Usable Reserves	42	5	4,066	487
Unusable Reserves	24,207	2,904	36,850	4,411
	24,249	**2,909**	**40,916**	**4,898**

Notes to the Core Financial Statements (continued)

Glamorgan Archive Joint Committee

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

Glamorgan Archives Joint Committee	2017/2018		2018/2019	
	Total	CCBC share	Total	CCBC share
Income & Expenditure Account	£000	£000	£000	£000
Expenditure	1,020	112	1,089	120
Income	(1,410)	(155)	(928)	(102)
Net Cost of Service	**(390)**	**(43)**	**161**	**18**
Interest and investment income	243	27	0	0
(Surplus) / Deficit for the Year	**(147)**	**(16)**	**161**	**18**
Balance Sheet				
Long term assets	9,411	1,035	9,309	1,024
Current assets	255	28	195	21
Current liabilities	(23)	(3)	(22)	(2)
Long term liabilities	(4,454)	(490)	0	0
Total Assets less Liabilities	**5,189**	**570**	**9,482**	**1,043**
Usable reserves	(234)	(25)	(176)	(19)
Unusable reserve	(4,955)	(545)	(9,306)	(1,024)
	(5,189)	**(570)**	**(9,482)**	**(1,043)**

Greater Gwent Cremation Joint Committee

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

Greater Gwent Cremation Joint Committee	2017/2018		2018/2019	
	Total	CCBC share	Total	CCBC share
Income & Expenditure Account	£000	£000	£000	£000
Expenditure	782	119	898	136
Income	(2,135)	(324)	(1,777)	(270)
Net Cost of Service	**(1,353)**	**(205)**	**(879)**	**(134)**
Financing and Investment Income and Expenditure	755	115	2,155	327
Net Operating Cost	**(598)**	**(90)**	**1,276**	**193**
Total Comprehensive Income and Expenditure	**(598)**	**(90)**	**1,276**	**193**
Balance Sheet				
Long term assets	1,298	197	1,298	197
Current assets	2,500	380	1,676	254
Current liabilities	(26)	(4)	(441)	(67)
Long term liabilities	(531)	(81)	(478)	(73)
Total Assets less Liabilities	**3,241**	**492**	**2,055**	**311**
General Reserve	(3,241)	(492)	(2,055)	(311)
	(3,241)	**(492)**	**(2,055)**	**(311)**

Notes to the Core Financial Statements (continued)

Gwent Joint Records Committee

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

Gwent Joint Records Committee	2017/2018		2018/2019	
	Total	CCBC share	Total	CCBC share
Income & Expenditure Account	£000	£000	£000	£000
Expenditure	971	142	1,030	150
Income	(965)	(141)	(1,008)	(147)
Net Cost of Service	**6**	**1**	**22**	**3**
Balance Sheet				
Current assets	343	50	303	44
Current liabilities	(56)	(8)	(35)	(5)
Balance carried forward	**287**	**42**	**268**	**39**
General Reserve	(287)	(42)	(268)	(39)
	(287)	**(42)**	**(268)**	**(39)**

Gwent Wide Integrated Community Equipment Service Project (GWICES)

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

Gwent Wide Integrated Community Equipment Service Project	2017/2018		2018/2019	
	Total	CCBC share	Total	CCBC share
	£000	£000	£000	£000
Income & Expenditure Account				
Expenditure	3,295	684	3,366	699
Income	(3,295)	(684)	(3,366)	(699)
(Surplus) / Deficit for the Year	**0**	**0**	**0**	**0**

Notes to the Core Financial Statements (continued)

Project Gwyrdd

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

Project Gwyrdd	2017/2018		2018/2019	
	Total	CCBC share	Total	CCBC share
Income & Expenditure Account	£000	£000	£000	£000
Expenditure	172	34	175	35
Income	(187)	(37)	(163)	(33)
Net Cost of Service	**(15)**	**(3)**	**12**	**2**
(Surplus) / Deficit for the Year	**(15)**	**(3)**	**12**	**2**
Net (Increase) / Decrease in General reserve balance	**(15)**	**(3)**	**12**	**2**
Balance Sheet				
Current assets	346	69	336	67
Current liabilities	(3)	(1)	(6)	(1)
Total Assets less Liabilities	**343**	**68**	**330**	**66**
Accumulated Absences Reserve	1	0		0
Joint Committee Reserves	(344)	(68)	(330)	(66)
Net Worth	**(343)**	**(68)**	**(330)**	**(66)**

46. Related Businesses and Companies

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

Education Achievement Service (EAS)

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

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

Notes to the Core Financial Statements (continued)

The company's latest unaudited trading results for the year ending 31 March 2019 are:

Statement of Profit or Loss	Year Ended 31 March 2018 £000	Year Ended 31 March 2019 £000
Revenue	7,484	6,941
Cost of sales	(6,142)	(5,138)
Gross Surplus	**1,342**	**1,803**
Other operating income and expenditure	(1,873)	(2,077)
Operating Surplus	**(531)**	**(274)**
Financing costs	(230)	(228)
Surplus before Tax	**(761)**	**(502)**
Other Comprehensive Income		
Actuarial gain/(loss) on pension scheme	674	(1,355)
Adjustment to underwritten balance	(17)	1,877
Other Comprehensive Income net of income tax	657	522
Total Comprehensive Income for the year	**(104)**	**20**

Statement of Financial Position	Year Ended 31 March 2018 £000	Year Ended 31 March 2019 £000
Non-Current Assets	8,295	10,230
Current Assets	1,667	1,732
Total Assets	**9,962**	**11,962**
Non-Current Liabilities	8,285	10,162
Current Liabilities	1,477	1,581
Total Liabilities	**9,762**	**11,743**
Net Assets	**200**	**219**
Retained Profit	**200**	**219**

Notes to the Core Financial Statements (continued)

47. Prior Year Adjustment

During the course of 2018-2019, there were a number of changes to the Authority's management reporting structure at a divisional level, compared with 2017-2018. To reflect these changes in the 2018-2019 accounts the 2017-2018 comparative figures have been restated.

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

	Original 31 March 2018		
	Gross Expenditure	Gross Income	Net Expenditure
Comprehensive Income and Expenditure Account	**£000**	**£000**	**£000**
Education and Lifelong Learning	177,690	(38,158)	139,532
Social Services,Public Protection and Corporate Policy	153,251	(56,990)	96,261
Environment	95,341	(26,196)	69,145
Corporate Services	106,215	(63,229)	42,986
HRA	80,770	(51,885)	28,885
Cost of Services	**613,267**	**(236,458)**	**376,809**
Other Operating Expenditure	24,328	(3,280)	21,048
Financing and Investment Income and Expenditure	31,088	(1,030)	30,058
Taxation and Non-Specific Grant Income		(355,453)	(355,453)
(Surplus)/Deficit on Provision of Services			**72,462**
(Surplus)/deficit on revaluation of non-current assets			(52,185)
(Surplus)/deficit on revaluation of available-for-sale financial assets			906
Actuarial (gains)/losses on pensions assets/liabilities			(33,073)
Other Comprehensive Income and Expenditure			**(84,352)**
Total Comprehensive Income and Expenditure			**(11,890)**

Notes to the Core Financial Statements (continued)

	Restated 31 March 2018		
	Gross Expenditure	Gross Income	Net Expenditure
Comprehensive Income and Expenditure Account	**£000**	**£000**	**£000**
Education and Lifelong Learning	177,690	(38,158)	139,532
Social Services and Housing	144,567	(54,656)	89,911
Communities	102,008	(27,851)	74,157
Corporate Services	108,232	(63,908)	44,324
HRA	80,770	(51,885)	28,885
Cost of Services	**613,267**	**(236,458)**	**376,809**
Other Operating Expenditure	24,328	(3,280)	21,048
Financing and Investment Income and Expenditure	31,088	(1,030)	30,058
Taxation and Non-Specific Grant Income		(355,453)	(355,453)
(Surplus)/Deficit on Provision of Services			**72,462**
(Surplus)/deficit on revaluation of non-current assets			(52,185)
(Surplus)/deficit on revaluation of available-for-sale financial assets			906
Actuarial (gains)/losses on pensions assets/liabilities			(33,073)
Other Comprehensive (Income) and Expenditure			**(84,352)**
Total Comprehensive (Income) and Expenditure			**(11,890)**

	Restatement Movement		
	Gross Expenditure	Gross Income	Net Expenditure
Comprehensive Income and Expenditure Account	**£000**	**£000**	**£000**
Education and Lifelong Learning	0	0	0
Social Services, Public Protection and Corporate Policy / Social Services and Housing	(8,684)	2,333	(6,350)
Environment / Communities	6,667	(1,655)	5,012
Corporate Services	2,017	(679)	1,338
HRA	0	0	0
Cost of Services	**0**	**0**	**0**
Other Operating Expenditure	0	0	0
Financing and Investment Income and Expenditure	0	0	0
Taxation and Non-Specific Grant Income	0	0	0
(Surplus)/Deficit on Provision of Services	**0**	**0**	**0**
Other Comprehensive Income and Expenditure			**0**

Notes to the Core Financial Statements (continued)

	2017-2018		
Expenditure and Funding Analysis	**Net Expenditure Chargeable to Council Fund and HRA Balances**	**Adjustments between the Funding and Accounting Basis (note 5)**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**
	£000	**£000**	**£000**
Education and Lifelong Learning	124,413	15,119	139,532
Social Services, Public Protection and Corporate Policy	88,584	7,677	96,261
Environment	42,971	26,174	69,145
Corporate Services	65,052	(22,066)	42,986
HRA	11,731	17,154	28,885
Net Cost of Services	**332,751**	**44,058**	**376,809**
Other Income and Expenditure	(325,651)	21,304	(304,347)
Surplus/Deficit	**7,100**	**65,362**	**72,462**
Opening Council Fund and HRA Balance at 1 April	(99,226)		
Surplus/(Deficit) on Council Fund and HRA Balance in Year	**7,100**		
Closing Council Fund and HRA Balance at 31 March*	**(92,126)**		

	Restated 2017-2018		
Expenditure and Funding Analysis	**Net Expenditure Chargeable to Council Fund and HRA Balances**	**Adjustments between the Funding and Accounting Basis (note 5)**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**
	£000	**£000**	**£000**
Education and Lifelong Learning	124,413	15,119	139,532
Social Services and Housing	81,654	8,258	89,912
Communities	48,697	25,460	74,157
Corporate Services	66,256	(21,933)	44,323
HRA	11,731	17,154	28,885
Net Cost of Services	**332,751**	**44,058**	**376,809**
Other Income and Expenditure	(325,651)	21,304	(304,347)
Surplus/Deficit	**7,100**	**65,362**	**72,462**
Opening Council Fund and HRA Balance at 1 April	(99,226)		
Surplus/(Deficit) on Council Fund and HRA Balance in Year	**7,100**		
Closing Council Fund and HRA Balance at 31 March*	**(92,126)**		

Notes to the Core Financial Statements (continued)

Expenditure and Funding Analysis	Restatement Movement 2017-2018		
	Net Expenditure Chargeable to Council Fund and HRA Balances	Adjustments between the Funding and Accounting Basis (note 5)	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000	£000	£000
Education and Lifelong Learning	0	0	0
Social Services, Public Protection and Corporate Policy / Social Services and Housing	(6,930)	581	(6,349)
Environment / Communities	5,726	(714)	5,012
Corporate Services	1,204	133	1,337
HRA	0	0	0
Net Cost of Services	**0**	**0**	**0**
Other Income and Expenditure	0	0	0
Surplus/Deficit	**0**	**0**	**0**
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**		

Adjustments from Council Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments between Funding and Accounting Basis 2017-2018			
	Adjustments for capital Purposes £000	Net Change for the Pensions Adjustments £000	Other Adjustments £000	Total Adjustments £000
Education and Lifelong Learning	10,310	4,603	206	15,119
Social Services, Public Protection and Corporate Policy	(75)	7,795	(43)	7,677
Environment	20,902	5,305	(33)	26,174
Corporate Services	(4,056)	938	(18,948)	(22,066)
HRA	19,480	2,648	(4,974)	17,154
Net Cost of Services	46,561	21,289	(23,792)	44,058
Other income and expenditure from the Expenditure and Funding Analysis	(16,025)	13,272	24,057	21,304
Difference between Council Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**30,536**	**34,561**	**265**	**65,362**

Notes to the Core Financial Statements (continued)

Adjustments between Funding and Accounting Basis 2017-2018 - 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	10,310	4,603	206	15,119
Social Services and Housing	1,489	6,771	(3)	8,257
Communities	19,338	6,194	(72)	25,460
Corporate Services	(4,056)	1,073	(18,949)	(21,932)
HRA	19,480	2,648	(4,974)	17,154
Net Cost of Services	46,561	21,289	(23,792)	44,058
Other income and expenditure from the Expenditure and Funding Analysis	(16,025)	13,272	24,057	21,304
Difference between Council Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**30,536**	**34,561**	**265**	**65,362**

Adjustments between Funding and Accounting Basis 2017-2018 - 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	0	0	0	0
Social Services, Public Protection and Corporate Policy / Social Services and Housing	1,564	(1,024)	40	580
Environment / Communities	(1,564)	889	(39)	(714)
Corporate Services	0	135	(1)	134
HRA	0	0	0	0
Net Cost of Services	0	0	0	0
Other income and expenditure from the Expenditure and Funding Analysis	0	0	0	0
Difference between Council Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**0**	**0**	**0**	**0**

48. Authorisation for Issue

The Interim Head of Business Improvement Services & Acting S151 Officer, acting as Responsible Financial Officer, gave authorisation for the issue of these accounts on 30 July 2019. In doing so, the Financial Accounts include all material events, relating to the financial year, but occurring after the date of the balance sheet.

Housing Revenue Account

for the year ended 31 March 2019

Housing Revenue Account

2017/2018		2018/2019		
£000		£000	£000	Note
	Income			
(45,743)	Dwelling rents	(47,114)		1
(247)	Non-dwelling rents	(252)		
(1,374)	Charges for services and facilities	(1,378)		
(4,521)	Contributions towards expenditure	(6,789)		
(51,885)	***Total Income***		**(55,533)**	
	Expenditure			
14,437	Repairs and maintenance	15,081		
8,217	Supervision and management	8,553		
2,587	Special Services	2,536		
1,116	Rents, rates, taxes and other charges	1,135		
11,663	Depreciation and impairment of non-current assets	12,599		2
42,209	Non-Enhancing capital expenditure	51,674		2
26	Debt Management Costs	24		
367	Increase in bad debt provision	439		
80,622	***Total Expenditure***		**92,041**	
28,737	**Net Expenditure/(Income) of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement**		36,508	
148	HRA services share of Corporate and Democratic Core Costs		144	
28,885	**Net Expenditure of HRA Services**		**36,652**	
5,148	Interest payable and similar charges	4,974		
(10,076)	Major Repairs Allowance and other grants	(7,181)		8
(1,452)	(Gain) / Loss on sale of HRA non-current assets	(3,989)		
(154)	Interest and investment income	(140)		
(6,534)			(6,336)	
22,351	**(Surplus)/deficit for the year on HRA services**		**30,316**	

Movement on the Housing Revenue Account Statement

2017/2018		2018/2019		
£000		£000	£000	Note
(16,821)	Balance on the HRA at the end of the previous year		(5,090)	
22,351	(Surplus) or Deficit for the year on the HRA Income and Expenditure Statement	30,316		
(10,620)	Adjustments between accounting basis and funding basis under statute	(31,267)		
11,731	Net (increase)/decrease before transfers to or from reserves	(951)		
11,731	(Increase) or decrease in year on the HRA		(951)	
(5,090)	**Balance on the HRA at the end of the current year**		**(6,041)**	**7**

Notes to the Movement on the HRA Statement

2017/2018		2018/2019		
£000		£000	£000	Note
	Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year			
(39)	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	(28)		
(11,663)	Depreciation and Impairment of non-current assets	(12,598)		**2**
(42,209)	Non-enhancing Capital Expenditure	(51,674)		**2,5**
0	Revenue expenditure funded from capital under statute	(2)		
1,452	Gain on sale of HRA non-current assets	3,989		
(4,837)	Net charges made for retirement benefits in accordance with IAS 19	(3,479)		**9**
10,076	Capital Grants and Contributions Applied (including Major Repairs Allowance)	7,181		
(47,220)			(56,611)	
	Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year			
2,186	Employer's contributions payable to the Greater Gwent Pension Fund and retirement benefits payable direct to pensioners	1,644		**9**
2,260	HRA Minimum Revenue Provision	2,194		
32,134	Capital expenditure funded by the HRA	21,512		**5**
20	Adjustment involving the Accumulated Absences Account	(6)		
36,600			25,344	
(10,620)	**Net additional amount required by statute to be credited to the HRA Balance for the year**		**(31,267)**	

Notes to the Housing Revenue Account

1. Rent of Dwellings

This is the total rent income collectable for the year after allowance is made for voids on empty properties. During the year 1.75% of lettable properties were void (a decrease on 1.78% in 2017/2018) although this fluctuates throughout the year. The average weekly rent at 31 March 2019 was £92.76 (£89.53 in 2017/2018), based on a 48-week collection period.

2. Depreciation and Impairment

	2017/2018 £000	2018/2019 £000
Operational assets comprising:		
Dwellings (refer to Note 23 Core Financial Statements)	11,699	12,588
Other Land & Buildings	8	10
Asset Impairments/revaluations	(44)	0
Total HRA Depreciation and Impairment of Fixed Assets	**11,663**	**12,598**
Write off of non-enhancing expenditure	42,209	51,674
Total HRA depreciation, impairment and non-enhancing expenditure	**53,872**	**64,272**

3. Rent Arrears

The rent arrears encompass monies owed by both current and former council tenants. During the year, total rent arrears increased by £5,201. The total of current rent arrears represents 3.56% of Gross Rent Income.

	£000
Arrears at 31 March 2018	2,235
Bad Debt Provision 31 March 2018	(1,448)
Net Arrears at 31 March 2018	**787**
Arrears at 31 March 2019	2,395
Bad Debt Provision 31 March 2019	(1,604)
Net Arrears at 31 March 2019	**791**

4. Housing Stock

The Authority was responsible for managing an average of 10,760 dwellings during 2018/2019. The type of stock is made up of approximately 60% houses, 26% flats and 14% bungalows.

	2017/2018 Number	2018/2019 Number
Stock at 1 April	10,823	10,803
Acquisitions/New Build	0	3
Sales/Demolitions/Expired Leases	(20)	(89)
Stock at 31 March	**10,803**	**10,717**

Notes to the Housing Revenue Account (continued)

5. Capital Expenditure and Financing

	2017/2018 Assets £000	2018/2019 Assets £000
Capital Expenditure:		
Operational Assets : Houses	42,209	51,970
Vehicles, Plant & Equipment	1	2
Total Expenditure	**42,210**	**51,972**
Capital Financing :		
Capital Grants	(2,729)	170
Major Repairs Allowance	(7,347)	(7,351)
Revenue Reserves	(32,134)	(21,512)
Capital Receipts	0	(294)
Internal Borrowing	0	(22,985)
Total Income	**(42,210)**	**(51,972)**

6. Capital Receipts and Unapplied Capital Income

	2017/2018 £000	2018/2019 £000
Balance at 1st April	(3,095)	(2,991)
Amounts received - Right to Buy	(1,382)	(4,086)
Amounts received - Other	(25)	(150)
Less Statutory Set aside for debt repayment	1,511	3,989
Balance at 31st March	**(2,991)**	**(3,238)**

7. Balance Carried Forward

The working balance at 31 March 2019 was £6.041m, a net increase of £951k over the year.

Reserve:	Balance at 1 April 2018 £000	Appropriations From Reserves £000	Appropriations To Reserves £000	Balance at 31 March 2019 £000
Housing Fund Balances - represents the general, unallocated balances associated with the Housing Revenue Account	(4,403)	4,303	(5,461)	(5,561)
Supporting People - represents funds ring-fenced for use in accordance with the Supporting People initiative	(306)	306	0	0
HRA Earmarked Reserve - exists to meet future commitments in respect of planned programme works	(381)	0	(99)	(480)
	(5,090)	**4,609**	**(5,560)**	**(6,041)**

Notes to the Housing Revenue Account (continued)

8. Major Repairs Allowance

	2017/2018 £000	2018/2019 £000
Amount Received in Year	(7,347)	(7,351)
Amounts Applied in Year	7,347	7,351
Amounts Carried Forward	**0**	**0**

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

	2017/2018 £000	2018/2019 £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	(4,837)	(3,479)
Employer's pension contributions and direct payments to pensioners payable in the year	2,186	1,644
Total Contribution (to) / from the Pension Reserve	**(2,651)**	**(1,835)**

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 (classed as available-for-sale) that are not yet realised through sales.
Balance Sheet - A statement listing all assets and liabilities of the Authority at the 31 March.
Borrowing - Can be short-term (less than 1 year to maturity) or long-term (more than 1 year to maturity) and represents money loaned to the Authority by third parties.
Budget - A budget is the spending plan for the financial year in question i.e. 2017/2018.
Capital Adjustment Account - An account that relates to capital and non-current asset transactions. This includes the application of capital monies e.g. capital grants to finance the capital schemes of the Authority and to manage the disposal of non-current assets.
Capital Expenditure - Expenditure on non-current assets which will be used by the Authority over many years to provide services e.g. buildings.
Capital Receipts - Proceeds from the sale of non-current assets e.g. land or buildings.
Cash Flow Statement - A statement recording all movements in cash during the year for both revenue activities and capital activities.
Comprehensive Income and Expenditure Statement – A statement recording day to day spending and income e.g. salaries, running costs etc. on all revenue services of the Authority.
Contingent Asset - A possible asset that arises from a past event but whose existence will only be confirmed after an uncertain future event e.g. the outcome of a court case.
Contingent Liability - A possible financial cost of a past event but which will only be confirmed by the occurrence of one or more uncertain future events e.g. the outcome of a legal case. Unlike a provision, no amounts are set aside in the accounts, only a note explaining the relevant facts.
Creditor - Someone who is owed money for goods or services provided to the Authority.
Current Assets - Assets that are short term and are considered to be liquid by nature i.e. cash, inventories, debtors.
Current Liabilities - Liabilities that are short term (less than one year).
Debt Management Office (DMO) - An executive agency of HM Treasury with responsibilities for debt and cash management for the UK Government, lending to local authorities (via the PWLB (see below) and managing certain public sector funds.
Debtor - Someone who owes money for goods or services provided by the Authority.
Depreciation - The notional reduction in value of assets due to their wear and tear in providing services to the Authority.
Direct Revenue Financing - A contribution made from the revenue accounts during the financial year to help pay for capital projects.
Financial Instruments - A collective name for investments, trade debtors, trade creditors and borrowings.
Financial Year - This is the accounting period, starting on 1 April and finishing on 31 March in the following year. For 2017/2018, it runs from 1 April 2017 to 31 March 2018.
Finance Leases - A method whereby capital assets are financed over a number of years by means of annual payments to a leasing company. The ownership of the asset by the Authority is deemed to have taken place at the start of the lease arrangement.
Financial Instruments Adjustment Account - An account which is used to manage the loan interest charged to the Council Fund in accordance with IAS 32 & 39.
Government Grants - Assistance by Government and inter-government agencies and similar bodies, whether local, national or international usually in the form of cash.

GLOSSARY OF TERMS continued

Heritage Asset - A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities held and maintained for its contribution to knowledge and culture.
Housing Revenue Account Income and Expenditure Account - This account contains all expenditure and income in relation to the Authority's Council Dwellings including Council Houses.
IAS - International Accounting Standard
IFRIC - International Financial Reporting Interpretations Committee
IFRS - International Financial Reporting Standards
Impairment - Impairments occur when non-current asset values change significantly due to changes in circumstances. They can occur if there is a significant change in a non-current asset's market value or significant physical damage e.g. fire. The cost of impairment is charged to the revenue account in the year it occurs.
Inventories - These are raw materials and consumables that are used in carrying out services e.g. bricks, nails, food, beverages etc. The values of these items which have not been used at 31 March are shown as current assets in the balance sheet.
Investments - These can be short-term (less than 1 year to maturity) or long-term (more than 1 year to maturity) and represent surplus funds of the Authority invested with third parties.
Levies - Levies are charges on the Authority by other public bodies / non-billing organisations to enable them to cover their costs in the performance of their services.
Minimum Revenue Provision (MRP) - A minimum annual charge that has to be made to the revenue accounts to systematically reduce the principal element of loans which have been raised and used to pay for capital schemes.
Movement in Reserves Statement - A statement showing the in-year movement on all the different reserves held by the Authority.
National Non Domestic Rates (NNDR) - Also known as the Business Rate, it is the charge occupiers of business premises pay to finance part of the Authority's revenue spending. The charge is based on the rateable value of the business premises.
Non-Current Assets - These are long term assets which are used for more than 1 year.
Non-Current Assets: Enhancement Expenditure - This is where capital expenditure on an asset does not alter the book value of the asset e.g. window replacement.
Operating Leases - A method of paying for the use of capital assets e.g. vehicles by means of annual payments to a leasing company over a number of years. The leasing company retains ownership of the asset during and at the end of the lease agreement.
Precepts - Precepts are levied on the Authority by non-billing organisations e.g. police, community councils to enable them to cover their costs in the performance of their services or duties.
Pension Current Service Cost - This represents the increase in the present value of a defined benefit obligation resulting from employee service in the year after netting off contributions from scheme participants.
Pension Gain or Loss on Settlement - This arises when the Authority enters into a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under the defined benefit plan.
Pension Liability (IAS 19) - This represents the indebtedness of the Authority in relation to the retirement benefits due to its employees, after allowing for the Authority's share of investments in the Pension Fund.
Pension Net Interest on the Defined Benefit Liability/Asset – This is the change during the year in the net defined benefit liability/asset arising from the passage of time.
Pension Past Service Cost – This represents the change in the present value of the defined benefit obligation for employee service in prior periods resulting from a plan amendment or curtailment.
Pension Reserve (IAS 19) - This reserve matches the pension liability and is charged with the gain or loss which arises when the pension fund Actuary revalues the assets and liabilities within the pension fund each year. It also ensures that the charge made to the Income and Expenditure Account under IAS 19 is replaced with the pension cost required to be made for Council Tax purposes.
Provision - A provision is an amount set aside in the accounts for a past event which is likely to incur a financial cost some time in the future.

GLOSSARY OF TERMS continued

Public Works Loans Board (PWLB) - This is a Government Agency which provides longer term loans to local authorities at preferential rates of interest.

Related Party Transactions - These are disclosed to highlight any relationships that may exist between the Authority and third parties which may materially affect or influence the way the Authority or third parties are able to operate.

Reserves - Reserves are sums set aside to meet future expenditure. They may be earmarked to fund specific expenditure or be held as general reserves to fund non-specific future expenditure.

Revaluation Reserve - This reserve is used to record gains in non-current asset values as a result of formal revaluations.

Revenue Expenditure funded from Capital under Statute - This represents expenditure which does not result in, or remain matched with, assets controlled by the Authority.

Revenue Support Grant - This is the principal source of finance from Central Government towards revenue expenditure incurred for non-Council housing purposes.

Trust Funds - These are monies not belonging to the Authority that are administered by the Authority on behalf of third party individuals or organisations.

Work in Progress - This represents the value of work done on unfinished projects at the date of the Balance Sheet (31 March).

Annual Governance Statement

1. Background

1.1 The Corporate Governance Panel met 3 times between February 2018 and April 2019 to review corporate governance related matters. Minutes for the September 2018 and January 2019 meetings were reported to the Audit Committee. The outstanding draft minutes from the April 2019 meeting will be reported to Audit Committee at the next meeting in June.

1.2 Corporate Governance is a responsibility for all staff including the Corporate Management Team (CMT) and the wider Leadership Team; hence this collective responsibility ensures business as usual.

2. Scope of responsibility

2.1 The Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, 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. This statement explains how the Authority has complied with the Code and also meets the requirements of regulation 5(4) of the Accounts & Audit (Wales) Regulations 2014 in relation to the publication of a Statement on Internal Control.

Annual Governance Statement (continued)

3. The purpose of the governance framework

3.1 The governance framework comprises the systems, processes, culture and values, by which the Authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. During 2016/17 an Assurance Framework was produced as a diagrammatical representation of the governance and assurance processes in place. The Framework was endorsed by the Audit Committee in December 2016 and continues to be in place. It is intended to provide clarity and understanding of the connections between functions and activities that enable the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

3.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

3.3 The governance framework has been in place at the Authority for the year ended 31 March 2019 and up to the date of approval of the Statement of Accounts.

4. The governance framework

4.1 The following paragraphs describe the key elements of the systems and processes that comprise the Authority's governance arrangements:

4.1.1 **Identifying and communicating the Authority's vision of its purpose and intended outcomes for citizens and service users**

- The Council's Corporate Plan (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 data and narrative included within 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 our 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. Progress is reported via relevant Scrutiny Committees.
- 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 communication programme around the Council's Well-being Objectives 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 formal annual review is conducted and reported to Cabinet.
- A performance management framework is established and is routinely reviewed to ensure it is fit for purpose.
- 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 lead 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.
- The Authority has considered its vision for the future and what operating models may be needed to take it forward over the coming years. A new Transformation Strategy ***#Team Caerphilly – Better Together*** has been developed and will be presented to Cabinet on the 12th of June 2019. It sets out the steps that will be needed, via a strategic action plan, to deliver on the strategy's aims. Governance for the new strategy will be via Corporate Management Team (CMT), Scrutiny and Cabinet.
- Following the local government elections in May 2017 the new Cabinet took the opportunity to review the existing Well-being Objectives and as a result set its five year plan. This approach was taken to accord with the sustainable development principle to: take a longer term view; consider how we may help prevent decreased well-being; how we will 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 collective vision. As a statutory partner in the PSB the Authority has contributed to 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'

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***

- Service Delivery Plans contain key service objectives that are geared, where appropriate, towards achieving the overall strategic objectives detailed in the Council's Corporate Plan. They also contain performance data in respect of both national performance indicators and local performance targets for service delivery.
- In 2017 Service Delivery Plans were changed to a five year rolling plan to be more in keeping with the sustainable development principle and longer term thinking, this removes an artificial once a year deadline. This allows for better evaluation of results and in turn better evidence based decision making.
- Service Delivery Plans were produced after the conclusion of service area self-evaluations. Service self-evaluation outcomes are reported to Performance Management Scrutiny Committees. The self-evaluation process is currently being reviewed and is in the process of being altered to become an ongoing assessment rather than a one off 'point in time' (see para 5.2.2), as part of a wider system of review of performance management.

Annual Governance Statement (continued)

- This system is in turn supported by individual annual staff performance and development reviews to ensure that everyone understands their individual and service unit contribution to service and corporate objectives
- The Council has used a performance management software system, Ffynnon, to monitor individual performance indicators and their combined effect on the achievement of strategic objectives; however the contract for Ffynnon is not being renewed in 2019. This is being used as an opportunity to clear out considerable amounts of old data that is no longer used. Plans are underway to store the data locally using our own servers.
- Performance is monitored at officer and member levels, by Directorate Management Teams, Corporate Management Team, and with Cabinet Members. Scrutiny Committees hold dedicated performance management meetings every year.
- Measuring service quality is carried out by a range of consultative activities at service level and the Council conducts a “household survey” every two years. The consultation measures citizens’ perception of the quality of services. The household survey was carried out in September 2017 and the feedback received was generally positive with high levels of satisfaction recorded for refuse, recycling, street lighting, libraries, country parks and the local bus services.

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 is 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. CMT have 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. In addition Members approved that overseeing the Council’s 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 Council’s corporate governance page. 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 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 which will identify effective behaviours the organisation requires from its managers and staff.

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 built into the business planning process. We are currently in the process of introducing new Directorate Performance Assessments (DPAs) which will incorporate Risk Registers and will also ensure that they are regularly reviewed and updated (see para 5.2.2).
- The Council has a formally agreed Risk Management Strategy which was endorsed in 2013. This has been updated and was presented to Cabinet on 7th June 2017 followed by Audit Committee on 13th September 2017. Training is delivered to relevant Members as a matter of routine. The Corporate Risk Register is reported to Audit Committee twice a year and quarterly to Corporate Management Team, although this can be more frequently if the need arises.

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:-

  Corporate Management Team;
  Heads of Service;
  Monitoring Officer;
  Section 151 Officer;
  Senior Information Risk Owner (SIRO);
  Statutory Data Protection Officer;
  Internal Audit;
  External Audit;
  Performance Management Framework.

Annual Governance Statement (continued)

- The Monitoring Officer attends each formal CMT in the first part of the meeting where Cabinet and Council reports are discussed. The S151 Officer attends CMT in respect of budget setting and monitoring reports and the Medium-Term Financial Plan (MTFP). In addition the S151 Officer will attend for agenda items with a material financial impact. The standard committee reporting procedure and template requires the Monitoring Officer to examine reports to the Executive for compliance with legal and procedural issues. Their comments are referred to the Council's Corporate Management Team for action.
- In addition to the above, the Authority has a Deputy S151 and Deputy Monitoring Officer to ensure adequate cover for these roles is in place during periods of sickness or annual leave.

4.1.9 ***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. The regime is overseen by senior officers within the Authority and reported to the Council's Standards Committee on an annual basis.
- The Council also operates a formal Corporate Complaints Procedure, which has been widely publicised.
- The Audit Committee has continued to play a more proactive role in monitoring the level of complaints and the procedures that are in place. Reports are regularly presented. In addition, individual Scrutiny Committees may receive reports on complaints.
- There are a number of avenues for members of the public to report concerns, complaints and other matters.

4.1.10 ***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 by the Personal Development Review (PDR) 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. Meetings of the HR Strategy Group have been infrequent but the People Services Division is looking to reframe and alter the focus of the group to improve effectiveness moving forward. Appropriate training has and will continue to be delivered where identified.

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 3 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, but is also mindful of the needs of all residents, so continues 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 CCBC website.
- Extensive consultation/engagement is undertaken annually in relation to the budget setting process. Guidance exists to ensure that effort is made to engage with protected characteristic groups.

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.
- The authority has long-standing partnership arrangements with the third sector and has enshrined these in its Compact Agreements. In 2013 this agreement brought in the PSB partners, third sector organisations, Community and Town Council's and the Caerphilly Business Forum. The Compact has been updated to align with the PSB's Well-being Plan and will be resigned as a new Third Sector Agreement at the PSB's annual conference 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 who have responsibility for the development and maintenance of the governance environment, the Internal Audit Manager's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. The review covers all significant corporate systems, processes and controls, spanning the whole range of the Council's activities, including in particular those designed to ensure:-

- The Authority’s policies are put into place.
- Laws and regulations are complied with.
- Required processes are adhered to.
- Performance and financial statements and other published information are accurate and reliable.
- Human, financial, data/information and other resources are managed efficiently and effectively.
- Services are delivered efficiently and effectively.

5.2 The following paragraphs describe the processes that have been applied in maintaining and reviewing the effectiveness of the Council's governance framework.

5.2.1 ***Corporate Level Review***

A management group, the Corporate Governance Review Panel, consisting of the following officers and the Cabinet member for Finance, Performance and Governance has been established to oversee the compilation of the Annual Governance Statement:-

- Corporate Director for Education & Corporate Services,
- Head of Corporate Finance and S151 Officer,
- Head of Legal Services and Monitoring Officer,
- Interim Head of Business Improvement Services,
- Head of Customer and Digital services / SIRO,
- Internal Audit Manager.

The group has conducted a detailed corporate level review of the Council's system of governance in accordance with the guidance provided by CIPFA / SOLACE.

5.2.2 ***Directorate Level Review***

The Council has also introduced Directorate Assurance Statements requiring members of Corporate Management Team to review the operation of a range of governance systems and procedures within their service areas and indicate whether there are any significant non-compliance issues. These are analysed to ascertain whether there are any common areas of concern, and if so, whether these constitute significant governance issues and as such need to be included in the Annual Governance Statement. All issues highlighted have been included.

A review of the Performance Management Framework has resulted in a new way to review service outputs at a Directorate and Corporate level. During the 2018/19 financial year new Directorate Performance Assessments (DPAs) have been developed. These will go live from April 2019. Quarterly reports will be presented to the Corporate Management Team and arrangements will also be put in place for progress reports to be presented to Cabinet and Scrutiny Committees. The concept is to bring together a range of performance activities in one quarterly output using information under categories of progress against strategic objectives, performance indicators, customer information such as complaints, resource information on finance or sickness absence and other workforce data. As previously mentioned, risk registers will also be an integral part of the DPAs. The purpose of the change is to make ‘self-assessment /evaluation a continuous learning process rather than a year-end point in time view. The DPAs are also intended to promote learning and understanding of performance and bring together a range of different evidence sets to help identify if there is cause and effect across differing data sets. The process has changed the Planning and Performance Framework as the DPA will be the main vehicle for monitoring progress of Directorate’s service priorities and objectives.

Annual Governance Statement (continued)

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.

Wales Audit Office carried out a national study of scrutiny across all 22 Welsh local authorities. The Council received its 'Scrutiny Fit for the Future' report with recommendations for improvement. The Scrutiny Leadership Group considered the report and agreed that the report findings would be considered by Members at a workshop and also aligned with the already planned self-evaluation due in October 2018. This resulted in a report to Council in April 2019 that made a number of recommendations for improvement. An action plan to implement these changes will be monitored by the Scrutiny Leadership Group and the changes will be reviewed in April 2020.

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 (formerly the Performance Management Unit) was refocused during 2018/19 to better reflect a move from data collection to the use of data to identify improvement. The BIT is responsible for developing and maintaining the authority's performance management framework in accordance with the Wales Programme for Improvement and the Well-being of Future Generations (Wales) Act 2015 as it applies to public bodies. It supports and challenges the authority as a whole, and individual services, to continuously improve through use of relevant data. The BIT works with the external auditors to co-ordinate audit and inspection reviews.

The BIT will co-ordinate and support the new Directorate Performance Assessment (DPA) process.

The BIT is part of the Council's Corporate Policy Unit which includes partnerships, equalities 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, demonstrating our own contribution to the well-being goals for Wales, delivering our Well-being Objectives, and embedding the sustainable development principle.

Annual Governance Statement (continued)

5.2.7 Information Governance

The Head of Customer and Digital services is the Council's Senior Information Risk Owner (SIRO), whose role is to assure the Council's information through implementation of the Council's Information Risk Management Policy. The SIRO assesses half yearly information risk returns from each Head of Service (as the information asset owner) to ensure risks are reported appropriately, measures to reduce risk are effective and information risk management is embedded into the culture of the organisation.

The new Statutory Data Protection Officer role – an independent advisory role required by the General Data Protection Regulations (GDPR) – reports to CMT via the SIRO, and also fulfills the Data Protection officer role for the majority of the Council's schools (as separate Data Controllers in Law) via a Service Level Agreement. The Data Protection Officer manages the Corporate Information Governance Unit and works closely with a network of Information Governance (IG) Stewards within each directorate who assist Heads of Service in assuring the information that is managed and used by their service area. IG Stewards are responsible for communicating key messages to staff and management across the organisation on IG policies, ensuring staff are appropriately trained, and developing and maintaining a GDPR compliant record of processing activities via their Information Asset Registers and Privacy Notices.

Despite the UK Data Protection Bill only recently being enacted and Information Commissioner Guidance still being finalised, substantial progress has been made over the last 2 years on the Council's action plan for compliancy with the General Data Protection Regulation, overseen by the Corporate Governance Review Panel. Service areas have completed main preparatory tasks, but further work is needed to make sure council privacy notices are fully compliant and all current data processors sign up to GDPR compliant contract terms. This work is ongoing.

It is likely that growing awareness of individual's rights under GDPR will lead to more requests for information under data protection law, which together with annual increases in freedom of information requests will be challenging for services to address within statutory timescales. Therefore further work on records management and open data needs to be prioritised once any additional requirements of UK Data Protection Act are fully addressed.

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 is being 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).

Annual Governance Statement (continued)

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 a progress report will be 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 2018/19 that overall the Council's systems and control procedures are effective but there is need for improvement in some specific areas. This opinion was presented to the Audit Committee on 23rd April 2019 as part of the annual internal audit report required by the Council's Financial Regulations.

The improvements required in some specific areas refer to two ongoing investigations, one within a school and the other relating to operational activities within a service area. The school issue is an isolated incident relating to one member of staff and is not something that is common across our school estate. The service area investigation is ongoing and relates to contract administration/management and once the investigation is concluded any changes or system improvements identified will be reported on and an appropriate action plan agreed and implemented.

5.2.9 ***External Audit***

The Council receives regular reports on elements of its internal control environment, including performance management, risk management, financial management and governance.

5.3 **Review Outcome**

The Council's governance arrangements are regarded as generally fit for purpose and are in accordance with the governance framework. The Council is committed to maintaining and improving the governance framework and resources are prioritised for this.

The 2017/18 Annual Governance Statement identified 6 areas, listed below, where improvements could be made to strengthen existing processes and procedures during 2018/19. Progress has been monitored and reviewed by the Corporate Governance Review Panel during the year and a position update is included against each item.

1. **To review and strengthen the procedures around the operation and maintenance of the cabinet forward work programme** –

   The Cabinet forward work programme is now routinely reviewed by the Corporate Management Team on a weekly basis and is also presented to all Scrutiny Committee meetings. The work programme is also available on the Council's website.

   The procedures around the operation and maintenance of the Cabinet work programme are now well established and are business as usual so no further actions are required.

Annual Governance Statement (continued)

2. **Ensuring that the Authority is prepared for the requirements of the new General Data Protection Regulations 2018 –** The implementation date for GDPR has now passed and the preparation work undertaken has put us in a good position to move forward. This specific action is no longer an issue for the AGS.
3. **Service Asset Management plans need to be reviewed alongside the Medium Term financial Plan's savings proposals for future years** –

   The Asset Management (Land and Property) Strategy has been updated and was presented to Cabinet in May 2019. The following services have had their asset management plans completed by the Property Department and are currently with the respective service areas for sign-off: -

   - Corporate Offices
   - Adult Education and Youth Service
   - Housing
   - Countryside
   - Library Services
   - Infrastructure

   In the coming weeks draft versions of the asset management plans are also due to be completed for Cemeteries, Allotments and Amenity Sites. Other service areas will be covered under a rolling programme of reviews.

4. **A draft "Income Management and Service Cost recovery" policy has been produced. This will need to be finalised and approved** –

   As part of the Council's Future Caerphilly Transformation Strategy, ***#Team Caerphilly – Better Together***, a Commercial & Investment Strategy is being drafted for Cabinet consideration. This will replace the Income Generation Policy that was previously drafted. The Commercial & Investment Strategy will be presented to Cabinet for approval by the end of October 2019.

5. **Continue to monitor the Authority's compliance with the General Data Protection Regulation 2018 in light of the recent Data Protection Act 2018 and emerging case law and make changes to Council processes and record keeping as appropriate –** 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. This will need to remain live on the current governance statement.

6. **The Corporate Management Team has created a new Business Improvement Portfolio (BIP) Board to drive forward an agenda of change, innovation and improvement across the Authority** -

   During the 2018/19 financial year the Council has developed its Future Caerphilly Transformation Strategy, ***#Team Caerphilly – Better Together***. The Strategy is due to be considered by Cabinet on the 12th June 2019 and it provides details of a new operating model for the Council that examines how services are prioritised, how they can become more business efficient, how we can explore opportunities for greater customer focus and digital delivery, and how we will consider alternative delivery models and seek out commercial opportunities. Furthermore, the Strategy provides details of the new relationships that will need to be built with our staff and communities to ensure the successful delivery of the outcomes that we aim to achieve through the ambitious transformation programme.

Annual Governance Statement (continued)

The Transformation Strategy includes a Strategic Action Plan and progress against this will be monitored by the #Team Caerphilly Project Board. Periodic progress reports will also be prepared for the Cabinet and the Policy & Resources Scrutiny Committee.

It will be essential to ensure that robust governance arrangements are in place to underpin the emerging transformation programme.

The review of the Council's governance arrangements operating throughout 2018/19 has highlighted three areas where steps will need to be taken to ensure that sound governance arrangements are in place: -

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.

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.

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.

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

David Poole **Leader of the Authority**	**Christina Harrhy** **Interim Chief Executive**