

# MERTHYR TYDFIL COUNTY BOROUGH COUNCIL



Cyngor Bwrdeistref Sirol  
MERTHYR TUDFUL  
MERTHYR TYDFIL  
County Borough Council

**MYNEGIAD CYFRIFON AM Y FLWYDDYN  
YN DIWEDDU 31 MAWRTH 2017**

**STATEMENT OF ACCOUNTS FOR  
YEAR ENDED 31 MARCH 2017**

**DS Jones CPFA  
Chief Finance Officer  
Prif Swyddog Cyllid**

**Merthyr Tydfil County Borough Council**  
**Statement of Accounts for the year ended 31<sup>st</sup> March 2017**

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## **NARRATIVE REPORT**

This document presents the Statement of Accounts for Merthyr Tydfil County Borough Council for the financial year ended 31<sup>st</sup> March 2017. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

The purpose of this narrative report is to provide a guide to the main statements contained in the accounts and to comment on and summarise the Council's overall financial performance for the year

### **Accounting Statements**

The financial statements – accompanied by a Statement of Responsibilities and explanatory notes – are set out on pages 11 to 89, and comprise:

### **Expenditure and Funding Analysis**

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and Business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It shows how this expenditure is allocated for decision making purposes between the Council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

### **Comprehensive Income and Expenditure Statement**

This statement is fundamental to the understanding of a local authority's activities, in that it reports the net cost for the year of all the functions for which the authority is responsible, and demonstrates how that cost has been financed from general government grants and income from local taxpayers. It brings together expenditure and income relating to all of the local authority's functions. It shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices.

### **Movement In Reserves Statement**

This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves', those that can be applied to fund expenditure or reduce local taxation, and other 'unusable reserves'. The 'Surplus or Deficit on the Provision of Services' shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The 'Net Increase/Decrease before Transfers to Earmarked Reserves' shows the statutory General Fund Balance before any discretionary transfers to or from Earmarked Reserves undertaken by the Authority.

### **Balance Sheet**

This statement is fundamental to the understanding of the Authority's financial position at the Balance Sheet date as it shows the value 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:

- Usable Reserves – reserves that the Authority may use 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 may only be used to fund capital expenditure or repay debt.
- Unusable Reserves – reserves that the Authority is not able to use to provide services. This 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.

### **Cash Flow Statement**

This statement summarises the inflows and the outflows of cash arising from transactions with third parties for revenue and capital purposes. It shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

### **Changes to the 2016/17 Financial Statements**

In order to simplify and improve stakeholders understanding of the financial statements, CIPFA have amended the Code of Practice on Local Authority Accounting 2016/17 for the following:

- Local authorities are to break the formal link between the Service Reporting Code of Practice (SeRCOP) and the Comprehensive Income and Expenditure Statement. The Comprehensive Income and Expenditure Statement is now to be prepared on the same basis as is reported internally by the authority. A restatement of the 2015/16 Comprehensive Income and Expenditure Statement is also required.
- Local authorities are required to produce a new Expenditure and Funding Analysis which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the Comprehensive Income and Expenditure Statement in a way that is accessible to the lay-reader.
- This analysis is supported by a streamlined Movement in Reserves Statement, and the changes have replaced the current segmental reporting note.

### **Structure of the Authority**

The Authority is structured in three Directorates:

- People and Performance
- Places and Transformation
- Corporate Costs

Services areas included within these Directorates can be seen in the Revenue Outturn to Budget Section of this Narrative Report.

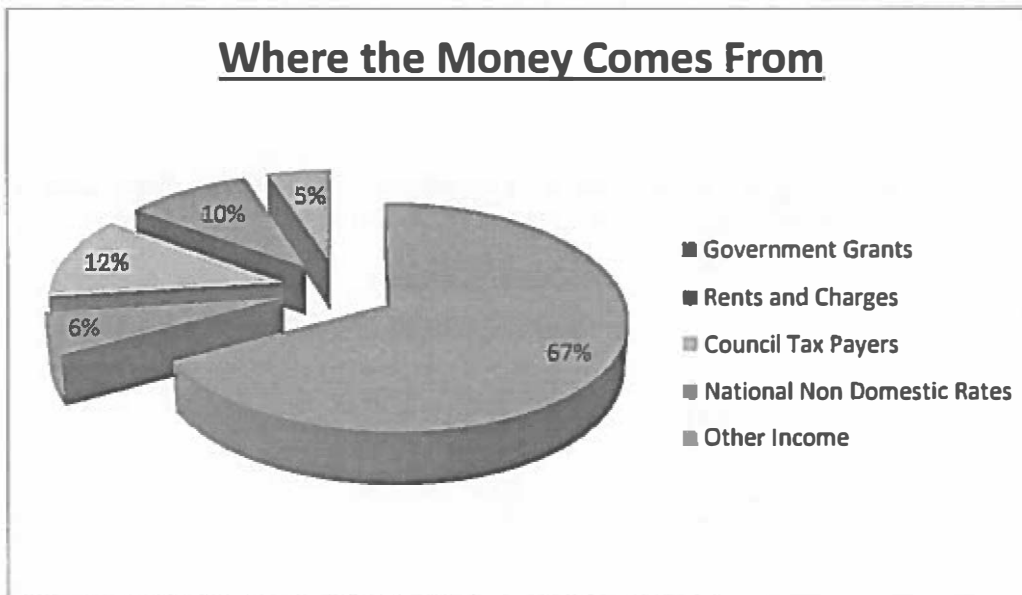
**Revenue Activities**

The following illustrations show, in broad terms, the Authority's revenue activities for the financial year ended 31<sup>st</sup> March 2017, that is, where the money comes from and what it is spent on.

**Where the Money Comes From**

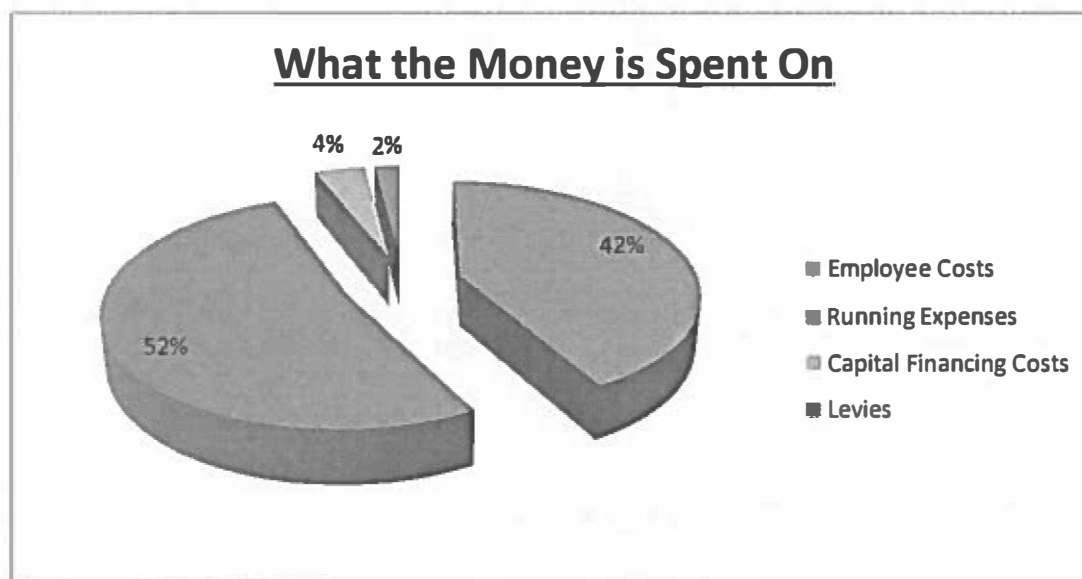
	<u>£'000</u>	<u>%</u>
Government Grants	112,574	67
Rents and Charges	10,077	6
Council Tax Payers	20,156	12
National Non Domestic Rates	17,560	10
Other Income	7,581	5
<b>Total</b>	<b><u>167,948</u></b>	<b><u>100</u></b>

The largest single item is Government Grants which provides 67% of the total, whereas 6% comes from the services provided through rents, fees and charges. Council Tax income accounts for only 12% of the total income.



What the Money is Spent On

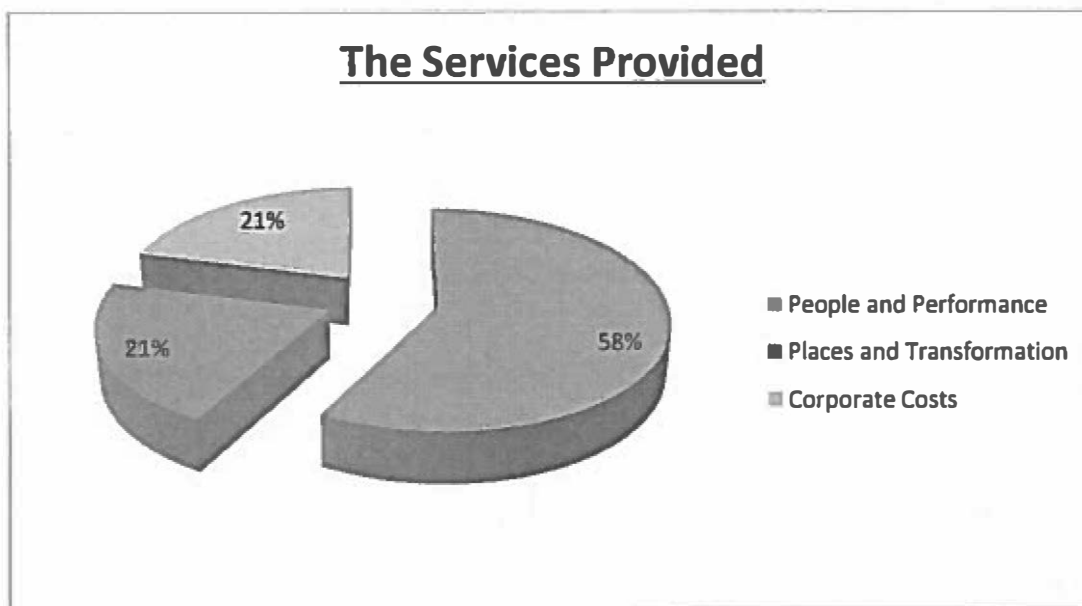
	<u>£'000</u>	<u>%</u>
Employee Costs	70,082	42
Running Expenses	85,958	52
Capital Financing Costs	7,235	4
Levies	2,929	2
<b>Total</b>	<b>166,204</b>	<b>100</b>



Running expenses such as maintaining buildings, operating vehicles and purchases of supplies and services comprises 52% of the total expenditure, whilst expenditure attributable to employees totals 42%.

The Services Provided

	<u>£'000</u>	<u>%</u>
People and Performance	96,001	58
Places and Transformation	35,634	21
Corporate Costs	34,569	21
<b>Total</b>	<b>166,204</b>	<b>100</b>



The £166.204 million total expenditure and income is derived from the Comprehensive Income and Expenditure Statement after taking into account adjustments for appropriations of trading accounts and International Accounting Standard 19 pension costs implications.

### **Results Reported in the Statement of Accounts**

The totals for income and expenditure in the preceding section were derived from the Comprehensive Income and Expenditure Statement on page 15, but they exclude:

- the precept collected in Council Tax for South Wales Police (£3.72m for 2016/17, Note 11),
- the authority's share of joint committees (details are in Note 42 of the accounts),
- capital grants and transactions (we review our capital projects on page 8), and
- other non-cash entries required by accounting standards (particularly for pension liabilities, which we discuss on page 9).

The £1.744m net revenue surplus (i.e. the difference between the income and expenditure figures shown above) reconciles to the £1.894m outturn shown in the Expenditure and Funding Analysis on page 14, because we recognised an additional £0.150m surplus in the accounts from our share of joint committees.

The surplus is transferred to the earmarked Budget Reserve, which will help the Council with its forward financial planning to arrive at balanced budgets over the medium term and totals £4.632 million at 31st March 2017.

**Revenue Outturn to Budget**

The General Fund Revenue outturn to budget for 2016/17 is as follows:

Summary	Revised Budget 2016/17 £'000	Outturn £'000	Variance	
			£'000	%
<b><u>People and Performance</u></b>				
Social Services	29,020	28,174	(846)	(2.92)
Learning	42,761	43,015	254	0.59
	<b>71,781</b>	<b>71,189</b>	<b>(592)</b>	<b>(0.82)</b>
<b><u>Place and Transformation</u></b>				
Deputy Chief Executive Services	2,184	2,083	(101)	(4.62)
Community Regeneration	3,587	3,529	(58)	(1.62)
Neighbourhood Services	10,352	10,172	(180)	(1.74)
Corporate Services	4,087	4,152	65	1.59
Finance	1,073	1,064	(9)	(0.84)
<b>Total</b>	<b>21,283</b>	<b>21,000</b>	<b>(283)</b>	<b>(1.33)</b>
<b><u>Corporate Costs</u></b>				
Corporate Management	351	331	(20)	(5.70)
Corporate Authority	18,642	18,220	(422)	(2.26)
Human Resources & Organisational Development	598	552	(46)	(7.69)
Legal and Democratic Services	1,535	1,446	(89)	(5.80)
Performance	313	286	(27)	(8.63)
<b>Total</b>	<b>21,439</b>	<b>20,835</b>	<b>(604)</b>	<b>(2.82)</b>
<b><u>Contributions / Recharges/Provisions</u></b>				
Discretionary Non Domestic Rate Relief	20	28	8	40.00
Collection Fund Surplus	(600)	(914)	(314)	52.33
Corporate Vacancy Factor	819	0	(819)	(100.00)
Change Management savings	(208)	(142)	66	(31.73)
Redundancy & EPP Committed	1,222	1,094	(128)	(10.47)
Capitalisation of Severance costs	(750)	(622)	128	17.07
Living Wage Earmarked Reserve	(492)	(492)	0	0.00
Contribution from Corporate Risk Fund	(169)	(169)	0	0.00
Contribution from Biffa	(100)	(100)	0	0.00
Pengamddu Provision	0	1,950	1,950	n/a
Release from Provision for Bad Debts	0	(1,055)	(1,055)	n/a
<b>Total</b>	<b>(258)</b>	<b>(422)</b>	<b>(164)</b>	<b>(63.57)</b>
<b>Net expenditure (before transfer to Budget Reserve)</b>	<b>114,245</b>	<b>112,602</b>	<b>(1,643)</b>	<b>(1.44)</b>
Transfer to Budget Reserve	0	1,643	1,643	n/a
<b>Net expenditure (after transfer to Budget Reserve)</b>	<b>114,245</b>	<b>114,245</b>	<b>0</b>	<b>0.00</b>

The surplus position results from the continuation of the following initiatives:



- Moratorium on non-essential expenditure
- Improving departmental budget management
- Change Management Board and Steering Group challenge
- Budget Board challenge
- Introduction of the principles of service outcome focused redesign
- More robust framework governing vacant posts

The most significant movements from budget to outturn are detailed as follows:

- Social Services – Council run Homes for the Elderly overspend of £106,000 resulting from increased cover costs to meet minimum care requirements within the homes
- Social Services – Supported Placements underspend of £243,000 resulting from changes to anticipated placement costs and delays in accessing transitional care packages
- Social Services – Independent Residential Establishments underspend of £147,000 resulting from changes to anticipated placements and service users together with partnership working
- Learning – Enhanced Provision overspend of £260,000 resulting from additional learning needs within schools
- Neighbourhood Services – Waste Disposal underspend of £93,000 resulting from lower than expected residual waste volumes
- Corporate Costs – Council Tax Reduction Scheme underspend of £350,000 resulting from lower than anticipated demand and reducing caseloads
- Contributions / Recharges / Provisions – Collection Fund additional surplus of £314,000 resulting from increased council tax income
- Contributions / Recharges / Provisions – Corporate Vacancy Factor additional surplus of £819,000 resulting from the time elapsed between a position becoming vacant and subsequently being filled
- Contributions / Recharges / Provisions – Net Employee Severance Costs underspend of £128,000 resulting from less than anticipated voluntary employee severance payments
- Contributions / Recharges / Provisions – Capitalisation of Severance Costs reduction of £128,000 owing to insufficient new capital receipts to finance voluntary severance payments

In addition two significant unbudgeted internal financial transactions were required in the closure of accounts process for 2016/17, namely:

- Provision for Land at Pengamddu Liability – a provision for £1.950 million is recognised within the accounts in respect of the estimated cost for clearance of contaminated waste on land at Pengamddu
- Release from Provision for Bad Debts – a sum of £1.055 million is released from the provision for bad debts following a revision to the provision calculation methodology from one based on fixed percentages linked to the age of outstanding debt to one encompassing a recognition of trend data

**Capital**

In 2016/17, the Authority spent £15.6 million on capital projects compared to the planned Capital Programme of £18.5 million as follows:

Summary	Revised Budget 2016/17 £'000	Outturn £'000	Variance	
			£'000	%
<b>Expenditure</b>				
Education	3,952	3,855	(97)	-2.45
Physical and Environmental Regeneration	5,473	5,115	(358)	-6.54
Land and Buildings	4,044	2,351	(1,693)	-41.86
Roads, Bridges and Transport	2,587	2,100	(487)	-18.82
Disabled Facilities Grants	850	616	(234)	-27.53
Corporate	1,602	1,531	(71)	-4.43
<b>Total</b>	<b>18,508</b>	<b>15,568</b>	<b>(2,940)</b>	<b>-15.89</b>
<b>Financed By</b>				
Borrowing	8,979	6,216	(2,763)	-30.77
Capital Grants and Contributions	8,067	8,067	0	0.00
Merthyr Tydfil CBC's Own Resources	1,462	1,285	(177)	-12.11
<b>Total</b>	<b>18,508</b>	<b>15,568</b>	<b>(2,940)</b>	<b>-15.89</b>

Although not all the planned capital funding was utilised no funding is lost as the monies are carried over into the 2017/18 financial year.

The most significant movements from budget to outturn are detailed as follows:

- Physical and Environmental Regeneration – delays resulting from unforeseen works has resulted in funding of £344,000 relating to the Cyfarthfa Castle refurbishment being carried forward to the 2017/18 financial year
- Land and Buildings – a delay in planned land purchase costs has resulted in £2 million being carried forward to the 2017/18 financial year. In addition expenditure of £512,000 has been incurred in buying out the Welsh Government's share of the Orbit Business Centre.
- Roads, Bridges and Transport – owing to traffic congestion works in respect of the Fiddlers Elbow project had to be completed prior to the commencement of works relating to the Road Slip South of Pontygwaith resulting in £337,000 of funding being carried forward to the 2017/18 financial year
- Disabled Facilities Grants – a reduction in the number of referrals has led to an underspend of £234,000 in respect of Disabled Facilities Grants

## **Financial Health**

At 31<sup>st</sup> March 2017 the Authority's general balances and reserves not earmarked for any specific purpose totals £4.627 million (31<sup>st</sup> March 2016 - £4.627 million), equating to 4% of the Council's Budgeted Net Revenue Expenditure for 2017/18. As per the Terms of Reference of the Budget Board the overarching aim is:

*"To maintain an adequate, healthy General Reserves balance of between 3.5% and 4% of the Council's annual budgeted Net Revenue Expenditure in ensuring the Council continues to remain financially viable."*

This requirement was formally adopted by Council on 22<sup>nd</sup> March 2017 in approving the Council's Corporate Reserves Policy, allowing the flexibility:

- To adequately respond to the risk of potential budget overspends in volatile service areas
- To address financial implications of increasing demographic pressures
- To respond to the critical requirement for 'one-off' expenditure in meeting corporate priorities
- To respond to governmental and regulatory demands

For the 2017/18 financial year, the Authority budgeted for a modest increase in net revenue expenditure of 0.46% from the 2016/17 budget (adjusted for Welsh Government net transfers in to the Local Government Settlement) as a result of reduced Welsh Government Funding of 0.50%. The Authority's Medium Term Financial Plan 2017/18 to 2020/21 clearly outlines the financial challenges faced by the Authority over the medium term.

## **Borrowing Facilities**

The Authority, when appropriate, will borrow from the Public Work Loans Board (PWLB), or from the Market if interest rates are considered favourable, to part finance expenditure on capital projects. This borrowing is typically on a long-term basis and is governed by the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities whereby authorised limits for borrowing by Local Authorities are set and approved by a full Council meeting. For the 2016/17 Statement of Accounts, borrowing to support capital expenditure fell within authorised borrowing limits approved by a full Council meetings of elected members on 23<sup>rd</sup> March 2016.

Additionally, the Authority in its day-to-day management of cash transactions may also be required to borrow on a short-term basis when faced with a deficit cash balance for any particular day. Conversely, the Authority may also lend on a short-term basis when surplus cash balances are experienced. Approved organisations for short-term transactions include major British banks and building societies and other local authorities.

## **Pension Liabilities**

The Statement of Accounts for 2016/17 are compiled under the International Financial Reporting Standards (IFRS) with accounting for 'Retirement Benefits' based on the provisions of International Accounting Standard 19 (IAS 19) 'Employee Benefits'. The provisions of IAS 19 relating to Post-Employment Benefits require the Authority to recognise a net asset/liability and a pensions reserve in the balance sheet and entries in the Comprehensive Income and Expenditure Statement for movements in the asset/liability relating to defined benefit schemes (with reconciling entries back to contributions payable for council tax purposes through the Movement in Reserves Statement).

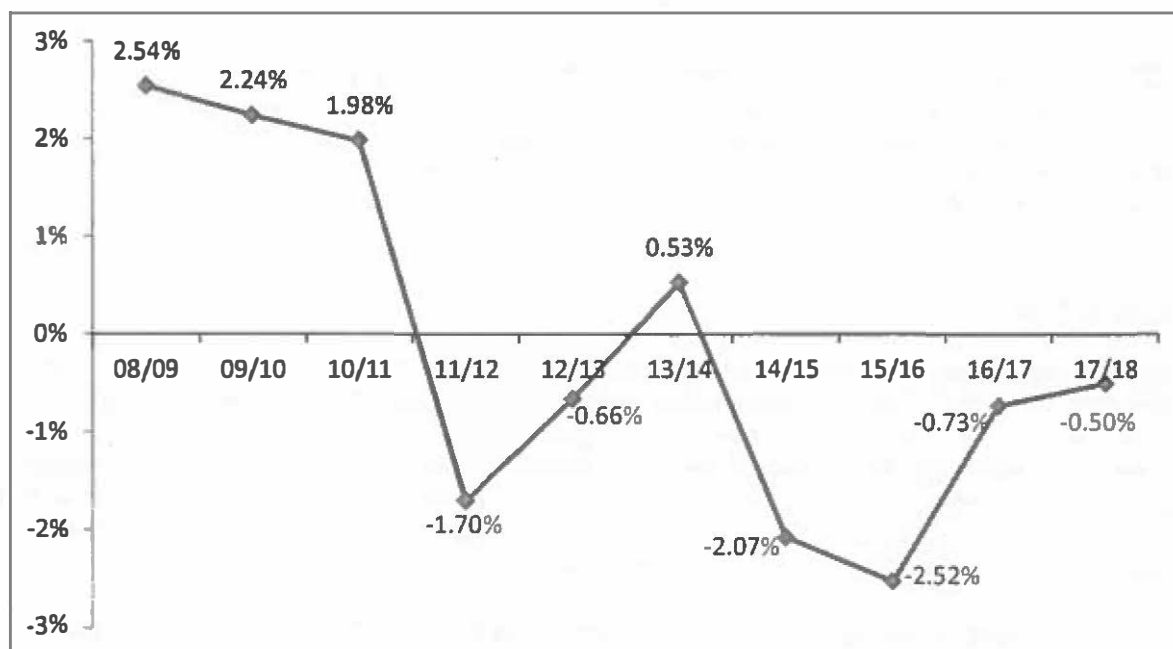
Under IAS 19 the Authority is required to disclose its pension liability representing the deficit position on the pension fund. The liability at the end of the year amounted to £179.4 million (£167.1 million as at 31<sup>st</sup> March 2016). The Authority is being charged stepped employer contributions in order to redress the deficit of the pension fund.

Further details are included in Notes 25, 37 and 38 to the Statement of Accounts.

### Financial Climate

Central Government's proposals to tackle the national public sector borrowing deficit resulting from the global financial crisis has resulted in reduced financial settlements for the public sector for the medium to long term.

The Council's revenue settlements for the period 2008/09 to 2017/18 are outlined below. It should be noted that the Council Tax Reduction Scheme grant impact is excluded for 2013/14 to enable a more equitable funding comparison.



Since 2011/12 the Council has entered a period of unprecedented funding reductions, as Central Government continues its policy of financial austerity. More efficient working practices have evolved in delivering services within the affordable financial envelope. This has included the continuation of the corporate voluntary early retirement and voluntary redundancy policies in streamlining the organisation to meet the demands of the future.

It is clear that in an age of austerity transforming the Authority in ensuring it is fit for purpose to meet financial challenges for the future is critical. This involves aligning scarce resources to corporate priorities and wellbeing objectives ensuring effective and efficient service delivery is both maintained and further developed and improved.

The Council's Medium Term Financial Plan (MTFP) 2017/18 to 2020/21 currently states that the Council is faced with identifying and delivering £6.012 million budget reductions for 2018/19 and £16.358 million for the period 2018/19 to 2020/21. In the absence of any forward settlement

indications from the Welsh Government, the Council has budgeted for an extremely challenging funding reduction of 4.5% per annum over the term of the MTFP, and is currently in the process of identifying proposals to address the projected budget deficits.

The Provisional Local Government Settlement for 2018/19 is scheduled to be announced during October 2017 and is anticipated will have a significant bearing on the currently projected budget reduction requirements over the medium term.

**Further Information**

Further information about the accounts is available from the Finance Department, Civic Centre, Castle Street, Merthyr Tydfil. This is part of the Authority's policy of providing full information about the Authority's affairs. In addition, interested members of the public have a statutory right to inspect the accounts before the audit is completed. The availability of the accounts for inspection is advertised in the local press.

**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 Chief Financial Officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the statement of accounts.

**The Chief Financial Officer's Responsibilities**

The Chief Financial Officer is responsible for the preparation of the 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').

In preparing this statement of accounts, the Chief Financial Officer has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgments and estimates that were reasonable and prudent.
- Complied with the Code of Practice on Local Authority Accounting in the United Kingdom.

The Chief Financial Officer has also:

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

Signed

D.S. Jones

Date


27/9/17

**D S Jones**  
**Chief Financial Officer**


**Chief Financial Officer's Certificate**

I hereby certify that the statement of accounts on pages 14 to 89 present a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31<sup>st</sup> March 2017.

Signed

  
\_\_\_\_\_

Date

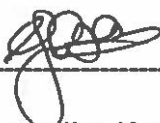
  
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**D S Jones**  
**Chief Financial Officer**

**Council Chairman's Certificate**

I hereby certify that the Council approves the statement of accounts on pages 14 to 89 for the year ended 31<sup>st</sup> March 2017.

Signed

  
\_\_\_\_\_

Date

  
\_\_\_\_\_

**Councillor Kevin Gibbs**  
**Mayor**

## Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and Business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It shows how this expenditure is allocated for decision making purposes between the Council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2015/16				2016/17			
Net expenditure in the Comprehensive Income and Expenditure Statement			Description	Net expenditure in the Comprehensive Income and Expenditure Statement			
Net Expenditure Chargeable to the General Fund Balances	Adjustments between the funding and Accounting basis (Note 7)	£'000		Net Expenditure Chargeable to the General Fund Balances	Adjustments between the funding and Accounting basis (Note 7)	£'000	
£'000	£'000	£'000		£'000	£'000	£'000	
67,256	854	68,110	People and Performance	70,616	3,194	73,810	
19,371	13,558	32,929	Place and Transformation	20,952	6,504	27,456	
3,554	7,224	10,778	Corporate Costs	5,522	5,934	11,456	
<b>90,181</b>	<b>21,636</b>	<b>111,817</b>	<b>Net Cost of Services</b>	<b>97,090</b>	<b>15,632</b>	<b>112,722</b>	
<b>(97,378)</b>	<b>(13,291)</b>	<b>(110,669)</b>	<b>Other Income and Expenditure</b>	<b>(98,984)</b>	<b>(3,904)</b>	<b>(102,888)</b>	
<b>(7,197)</b>	<b>8,345</b>	<b>1,148</b>	<b>(Surplus)/Deficit</b>	<b>(1,894)</b>	<b>11,728</b>	<b>9,834</b>	
13,059			Opening General Fund Balance	20,289			
33			*Opening Central South Adjustment	0			
<b>7,197</b>			Plus Surplus on General Fund Balance in Year	<b>1,894</b>			
<b>20,289</b>			<b>Closing General Fund Balance at 31st March</b>	<b>22,183</b>			

\*Central South Consortium Joint Education Service was consolidated into the Authority's Statement of Accounts for the 2015/16 financial year, therefore an adjustment is required to reflect the opening balance.



### Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (or rents). Authorities raise taxation to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

<u>Restated 2015/16</u>				<u>2016/17</u>		
<u>Gross Expenditure</u>	<u>Gross Income</u>	<u>Net expenditure</u>	<u>Description</u>	<u>Gross Expenditure</u>	<u>Gross Income</u>	<u>Net expenditure</u>
<u>£'000</u>	<u>£'000</u>	<u>£'000</u>		<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
92,333	24,223	68,110	People and Performance	101,028	27,218	73,810
47,776	14,847	32,929	Place and Transformation	40,476	13,020	27,456
36,687	25,909	10,778	Corporate Costs	35,986	24,530	11,456
<b>176,796</b>	<b>64,979</b>	<b>111,817</b>	<b>Cost of Services</b>	<b>177,490</b>	<b>64,768</b>	<b>112,722</b>
		6,242	Other operating expenditure (Note 11)			6,579
		10,631	Financing and Investment income and expenditure (Note 12)			10,288
		(127,542)	Taxation and non-specific grant income and expenditure (Note 13)			(119,755)
		<b>1,148</b>	<b>(Surplus) or Deficit on the Provision of Services</b>			<b>9,834</b>
		(258)	(Surplus) or deficit on revaluation of property, plant and equipment assets			(5,856)
		(18,113)	Remeasurement of the net defined benefit liability/(asset)			8,119
		<b>(18,371)</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>2,263</b>
		<b>(17,223)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>12,097</b>

**Movement in Reserves Statement**

The Movement in Reserves Statement shows the movement from the start of the year to the end on different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The Net Increase/Decrease line shows the statutory General Fund Balance movements in the year following those adjustments.

**2016/17**

Description	General Fund £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
<b>Balance at 31st March 2016</b>	<b>20,289</b>	<b>547</b>	<b>1,373</b>	<b>22,209</b>	<b>(5,660)</b>	<b>16,549</b>
<b>Movement in reserves during 2016/17</b>						
Total Comprehensive Income and Expenditure	(9,834)	0	0	(9,834)	(2,263)	(12,097)
Adjustments between accounting basis and funding basis under regulations (Note 9)	11,728	(547)	(1,373)	9,808	(9,808)	0
<b>Increase or Decrease in 2016/17</b>	<b>1,894</b>	<b>(547)</b>	<b>(1,373)</b>	<b>(26)</b>	<b>(12,071)</b>	<b>(12,097)</b>
<b>Balance at 31st March 2017 carried forward</b>	<b>22,183</b>	<b>0</b>	<b>0</b>	<b>22,183</b>	<b>(17,731)</b>	<b>4,452</b>

Description	General Fund £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
<b>Balance at 31st March 2015</b>	<b>13,059</b>	<b>1,119</b>	<b>1,214</b>	<b>15,392</b>	<b>(16,030)</b>	<b>(638)</b>
<b>Movement in reserves during 2015/16</b>						
Total Comprehensive Income and Expenditure	(1,148)	0	0	(1,148)	18,371	17,223
Adjustments between accounting basis and funding basis under regulations (Note 9)	8,345	(572)	159	7,932	(7,932)	0
<b>Increase or Decrease in 2015/16</b>	<b>7,197</b>	<b>(572)</b>	<b>159</b>	<b>6,784</b>	<b>10,439</b>	<b>17,223</b>
Central South Consortium Adjustment	33	0	0	33	(69)	(36)
<b>Balance at 31st March 2016 carried forward</b>	<b>20,289</b>	<b>547</b>	<b>1,373</b>	<b>22,209</b>	<b>(5,660)</b>	<b>16,549</b>

**Balance Sheet**

The Balance Sheet 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, i.e. those reserves that the authority may use 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 is 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.'

<u>31 March 2016</u>	<u>Notes</u>	<u>31 March 2017</u>
<u>£'000</u>		<u>£'000</u>
251,461 Property, Plant and Equipment	14	254,683
5,226 Heritage Assets	15	6,640
834 Investment Property	16	1,020
10 Long Term Investments		10
949 Long Term Debtors	17	850
<b>258,480 Long-term Assets</b>		<b>263,203</b>
3,001 Short-term Investments	17	0
319 Assets Held for Sale	21	177
162 Inventories	18	100
21,595 Short-term Debtors	19	23,393
2,196 Cash and Cash Equivalents	20	1,527
<b>27,273 Current Assets</b>		<b>25,197</b>
(19,821) Short-term Borrowing	17	(21,371)
(12,002) Short-term Creditors	22	(14,038)
(1,391) Short-term Provisions	23	(351)
(43) Other Current Liabilities		(52)
<b>(33,257) Current Liabilities</b>		<b>(35,812)</b>
(288) Provisions	23	(2,603)
(68,561) Long-term Borrowing	17	(66,034)
(167,050) Defined Benefit Pension Scheme Liability	25	(179,449)
(48) Other Long-term Liabilities		(50)
<b>(235,947) Long-term Liabilities</b>		<b>(248,136)</b>
<b>16,549 Net Assets</b>		<b>4,452</b>
22,209 Usable Reserves	24	22,183
(5,660) Unusable Reserves	25	(17,731)
<b>16,549 Total Reserves</b>		<b>4,452</b>

**Cash Flow Statement**

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. 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.

<u>2015/16</u> <u>£'000</u>	<u>2016/17</u> <u>£'000</u>
170,478 Cash Inflows Generated from Operating Activities	174,039
(165,295) Cash Outflows Generated from Operating Activities	(170,689)
<u>5,183</u> Net Cash Flows from Operating Activities (Note 26)	<u>3,350</u>
(7,528) Net Cash Flows from Investing Activities (Note 27)	(3,041)
<u>3,986</u> Net Cash Flows from Financing Activities (Note 28)	<u>(1,019)</u>
<b>1,641 Net increase or decrease in Cash and Cash equivalents</b>	<b>(710)</b>
Cash and Cash Equivalents at the Beginning of the 555 Reporting Period	2,196
0 Adjustment to opening balance Central South Consortium	41
<u>2,196</u> Cash and Cash Equivalents at the End of the Reporting Period	<u>1,527</u>

## **Notes to the Statement of Accounts**

### **1.0 Accounting Policies**

#### **1.1 General**

The Statement of Accounts summarises the Authority's transactions for the 2016/17 financial year and its position at the year-end of 31<sup>st</sup> March 2017. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (Wales) Regulations 2014, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and the Service Reporting Code of Practice 2016/17, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost modified by the revaluation of certain categories of non-current assets and financial instruments. Accounting policies have been applied consistently other than where new policies have been adopted.

#### **1.2 Accruals of Income and Expenditure**

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

In particular:

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

### **1.3 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 no more than 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.

### **1.4 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 when 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 been applied.

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

### **1.5 Charges to Revenue for Non-Current Assets**

Services and support 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;

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the differences between the two.

### **1.6 Employee Benefits**

#### ***Benefits Payable during Employment***

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end.

They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses 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 revenue in the financial year in which the holiday absence occurs.

### ***Termination Benefits***

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment 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. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the 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' Pension on behalf of the Department for Education.
- The Local Government Pension Scheme, administered by Rhondda Cynon Taf County Borough Council.

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

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it was a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The People and Performance 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 Rhondda Cynon Taf pension fund 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 and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate (based on the indicative rate of return on the constituents of the iBoxx index of AA rated corporate bonds).
- The assets of the Rhondda Cynon Taf pension fund attributable to the Authority are included in the Balance Sheet at their fair value:
  - Quoted securities – current bid price
  - Unquoted securities – professional estimate
  - Unitised securities – current bid price
  - Property – market value



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

- **Service cost comprising:**
  - **current service cost** – the increase in liabilities as a result of years of service earned this year- allocated in the Comprehensive Income and Expenditure Statement to the 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 the Provision of Services in the Comprehensive Income and Expenditure Statement.
  - **net interest on the net defined benefit liability (asset)** - the net interest expense for the Authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- **Re-measurements comprising:**
  - **the return on plan assets** – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
  - **actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- **Contributions paid to the Rhondda Cynon Taf County Borough Council 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 General 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 transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable 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 that 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.

Full pensions details are included in Note 38.

### **1.7 Events after the reporting period**

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

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

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

### **1.8 Financial Instruments**

#### **Financial Liabilities**

Financial liabilities 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 and are carried at amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income & Expenditure Account for interest payable are based on the carrying value of the liability, multiplied by the effective rate of interest for the instrument.

Gains and losses on the repurchase or early settlement of borrowing 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.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years.

#### **Financial Assets**

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

#### **Loans and Receivables**

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and accounted for as described per the Financial Liabilities section above.

## 1.9 Government Grants and Contributions

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

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied.

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 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 General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### 1.10 Heritage Assets

Heritage assets are defined as non-current assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

The heritage assets included within the statement of accounts include historical buildings, collections of fine art, archaeological artefacts and civic regalia.

Historic buildings and monuments have been valued in accordance with section 1.15 below, Property, Plant and Equipment. Heritage assets included within the Museum collection are measured at valuation.

The valuation was carried out by an external valuer as follows:

Bonhams,  
7/8 Park Place,  
Cardiff.  
CF10 3DP.

The valuation date was 20<sup>th</sup> March 2017.

Depreciation or amortisation is not required on heritage assets which have indefinite lives.

The Authority's policy for the acquisition, preservation, management and disposal of heritage assets is included within the Authority's 'Collections Development and Documentation Policy'. Paragraph 1.1.3 of this document details that the policy follows the accreditation scheme which all museums are expected to follow.

### **1.11 Interests in Companies and Other entities**

#### **Joint operations**

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the authority in conjunction with other joint operators involve the use of the assets and resources of those joint operators. The Authority participates in Joint Committees which are accounted for as joint operations. For 2016/17 the Llwydcoed Crematorium Joint Committee and the Central South Consortium Joint Committee are included within the Authorities financial statements. The Authority has reflected its share, 46.6% of the transactions and balances of the Llwydcoed Crematorium Joint Committee and 6.68% of the transactions and balances of the Central South Consortium Joint Committee into the Authority's Accounts on a line-by-line basis.

A description of the Joint Committee is contained in Note 42 to the Statement of Accounts.

The accounting policies of the joint operation recognised in the Statement of Accounts are in line with those of the Authority.

#### **Associates**

Capita Glamorgan Consultancy Ltd meets the definition of an associate. The Authority has significant influence over this associate as it has representation on the board of directors. Group Accounts are not prepared as the Authority's interest in Capita Glamorgan Consultancy is not considered material. For further details see Note 42.

### **1.12 Inventories**

Inventories are included in the Balance Sheet at the last actual purchase price known. This does not comply with IAS 2 which requires valuation at the lower of cost and net realisable value. The departure from the accounting standard is not deemed to be material.

### **1.13 Investment Properties**

Investment Properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Comprehensive Income and Expenditure statement.

Rentals received in relation to investment properties are credited to the Comprehensive Income and Expenditure Statement and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

## 1.14 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.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipments- 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 General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

- **Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

### *The Authority as Lessor*

- **Finance Leases**

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment (PPE)

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. A gain, representing the Authority's net investment in the lease, is 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), and matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received); and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the Council Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the Council Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

- ***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).

### **1.15 Property, Plant and Equipment Non-Current Assets**

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 and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

**De Minimis Limit**

The Authority operates a Non-Current Asset de minimis limit of £10,000. This means that expenditure on non-current assets is only capitalised provided that the expenditure exceeds £10,000. On disposal all non-current assets with values less than £10,000 are written out of the Balance Sheet in accordance with The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 whereby receipts not exceeding £10,000 are not to be treated as capital receipts.

**Measurement**

Assets are initially measured at cost, comprising:

- The purchase price
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

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

The costs of assets acquired other than by purchase is deemed to be its fair value.

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

- Infrastructure, Community assets and assets under construction are shown at depreciated historical cost
- Vehicles, plant, furniture and equipment are shown at depreciated historical cost
- Land is shown at market value
- Operational properties are shown at depreciated replacement cost where there is no market based evidence of fair value
- Land and Buildings componentised assets such as hardstanding and boilers are shown at depreciated replacement cost
- Surplus assets are shown at fair value

Donated Assets are those transferred for nil consideration or less than fair value. They are not included in the accounts since they are considered immaterial.

**Valuation**

Assets included in the Balance sheet at current value are revalued on a five year rolling basis to ensure their carrying amount is not materially different from their current value at the year end. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

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

- where there is a balance in the Revaluation Reserve the difference between the historic carrying value of the asset and its re-valued value is written off 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 difference between the historic carrying amount of the asset and its re-valued value (impaired value) is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Account.

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.

Valuations are carried out by Bilfinger GVA, the Authority's independent valuers. A valuation of the whole portfolio was carried out as at 31<sup>st</sup> March 2013. A revaluation of land and property is undertaken annually thereafter on the basis of a sample of assets. The sample will equate to approximately 20% of the Authority's portfolio being valued each year throughout the geography of the Authority. In addition there is also an annual revaluation of the ten highest value properties in the Authority's portfolio at the relevant balance sheet date. Bilfinger GVA also carry out an assessment of assets where Capital Expenditure has been incurred. The remainder of the asset population has been reviewed to consider whether there has been any material valuation movement by reference to nationally published indices.

### 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 as follows:

- 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 subsequently reversed, 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 the following bases:

- |  |   |
|--|---|
| • Infrastructure – Roads, bridges and culverts | up to 40 years  |
| • Infrastructure – Street Furniture            | 25 years  |
| • Vehicles, Plant, Furniture and Equipment     | 5-10 years  |
| • Operational properties                       | straight line over useful life of property as estimated by the valuer |
| • Finance Leases                               | Term of lease   |
| • Surplus Assets                               | Asset life  |

Land is not depreciated and non-operational properties re-valued at Market Value are not depreciated. In addition community assets and assets under construction are not depreciated.



Where an item of property, plant and equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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

### **Disposals and Non-current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is re-valued 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 and are 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 General Fund Balance in the Movement in Reserves Statement.

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

## **1.16 Provisions and Contingent Liabilities**

### **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.

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.

The nature of each provision is disclosed in Note 23 to the Statement of Accounts.

### **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 are disclosed in a note to the accounts, refer to Note 39 of the Statement of Accounts.

## **1.17 Reserves**

The Authority sets aside specific amounts as reserves for future policy purposes. Reserves are created by transferring amounts out of the General Fund Balance. 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 transferred back into the General Fund Balance so that there is no net charge against council tax for expenditure.

The Authority's reserves, under the Code of Practice, are categorised between Usable and Unusable Reserves, as defined in the Narrative Report to these accounts.

Usable Reserves disclosed in the Balance Sheet are as follows:

The **Capital Receipts Reserve** represents the amount of capital receipts available to finance future capital expenditure. Refer to Note 9 to the Statement of Accounts.

The **Capital Grants Unapplied Account** represents capital grants and contributions received from Government and Non-government Departments where the terms and conditions of the grants and contributions have been met by the Authority but not yet applied to finance capital expenditure. Refer to Note 9 to the Statement of Accounts.

The **Insurance Fund** represents monies set aside to meet the Authority's potential future insurance liabilities and is not available to finance general unspecified expenditure. Refer to Note 10 to the Statement of Accounts.

**Local Management of Schools Balances** represent monies set aside by the Authority's schools to be used for individual school specific purposes and is not available to finance general unspecified expenditure. Refer to Note 10 to the Statement of Accounts.

**Other Earmarked Balances** represent monies set aside or relating to a specific purpose and are not available to finance general unspecified expenditure. Refer to Note 10 to the Statement of Accounts.

The **Council Fund Balance** represents the monies available to the Authority to spend on general expenditure and is not earmarked for specific projects. Refer to the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement and Note 9 to the Statement of Accounts.

The **Consolidated Llwydcoed Crematorium Reserve** represents the distributable revenue reserve attributable to Merthyr Tydfil County Borough Council from the Llwydcoed Crematorium Joint Committee. The reserve consists of the accumulated surpluses of the Crematorium's operations. Refer to Note 10 to the Statement of Accounts.

The **Consolidated Central South Consortium Reserve** represents the distributable revenue reserve attributable to Merthyr Tydfil County Borough Council from the Central South Consortium Joint Committee. The reserve consists of the accumulated surpluses of the Consortium's operations. Refer to Note 10 to the Statement of Accounts.

Unusable Reserves disclosed in the Balance Sheet are as follows:

The **Revaluation Reserve** records unrealised revaluation gains/losses arising (since 1 April 2007) from holding non-current assets. Refer to Note 25 to the Statement of Accounts.

The **Capital Adjustment Account** provides a balancing mechanism between the different rates at which assets are depreciated under the Code of Practice and are financed through the capital controls system. Refer to Note 25 to the Statement of Accounts.

The **Financial Instruments Adjustment Account** provides a balancing mechanism between the different rates at which gains and losses are recognised under the Code of Practice and are required by statute to be met from the General Fund. Refer to Note 25 to the Statement of Accounts.

The **Accumulated Absences Adjustment Account** represents the Employee Benefits accrual calculated in compliance with International Accounting Standard (IAS) 19. Refer to Note 25 to the Statement of Accounts.

The **Pensions Reserve** represents an assessment of the pension liability in respect of retirement benefits earned to date by employees. Refer to Note 25 to the Statement of Accounts.

### **1.18 Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of non-current assets has been charged as expenditure to the relevant service revenue account in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then

reverses out the amounts charged in the Movement in Reserves Statement so there is no impact on the level of council tax.

### **1.19 Schools**

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local Authority maintained schools lies within the local Authority. The code also stipulates that those school's assets, liabilities, reserves and cash flows are recognised in the local Authority financial statements as if they were the transactions, cashflows and balances of the Authority.

### **1.20 VAT**

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

### **1.21 Fair Value Measurement**

The Authority measures some of its non-financial assets such as surplus assets or investment properties at fair value. 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

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

## **2.0 Accounting Standards that have been Issued but have not yet been Adopted**

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. The 2017/18 Code has been issued, but none of the new or amended standards within it are expected to have a material impact on the information provided in the financial statements.

### **3.0 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 remains 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.

#### 4.0 Assumptions made about the Future and other Major Sources of Estimation 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 2017 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
<b>Property, Plant and Equipment</b>	A source of uncertainty is the valuation of fixed assets, which depends on judgements made in relation to build costs, useful economic life as well as the condition and location of the assets. A firm of independent valuers is engaged to provide the Authority with expert advice about the assumptions applied (further information on the valuation is included in 1.15 of the Accounting Policies).	If the Useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge would increase by £178,000 for Buildings and £212,000 for Infrastructure for every year that useful lives had to be reduced.
<b>Fair Value Measurements</b>	When the fair values of financial assets and financial 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, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. 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 (for example for investment properties, the senior external valuer).	The Authority uses a selection of valuation methods to measure the fair value of its surplus assets, investment properties and financial assets and liabilities. The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels (for investment properties) and discount rates – adjusted for regional factors (for both investment properties and some financial assets). Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement particularly for the investment properties.

<b>Provisions</b>	Significant judgements relate to the requirement for accounting provisions. Details regarding the judgements made in determining the provision values at 31 <sup>st</sup> March 2017 are included within Note 23 to the Statement of Accounts.	An increase over the forthcoming year of 10% in the total number of insurance claims outstanding at year end would have the effect of adding £100,000 to the provision.
<b>Pensions Liability</b>	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, Aon Hewitt Limited, is engaged to provide the Authority with expert advice about the assumptions to be applied, refer to Note 38.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease to the Present value of the total obligation of £7.19 million.
<b>Arrears</b>	At 31 March 2017, the Authority had amounts it was owed for items such as Sundry Debtors, Council Tax, Non Domestic Rates (NDR) and Housing Benefit overpayments. The Authority has made an allowance for non collection against these debts (totalling £8.695m) of £1.243m (14.3%), however in the current economic climate it is not guaranteed that this level of allowance will be sufficient.	If collection rates were to deteriorate, a doubling of the amount of impairment for doubtful debts would increase the provision to £2.486m

## 5.0 Material Items of Income and Expenditure

When items of income or expense are material, an Authority shall disclose their nature and amount separately.

The Authority paid £2,435,000 of expenditure to Merthyr Tydfil Leisure Trust as a management Fee in 2016/17 (£2,454,000 in 2015/16).

Refer to Note 42 for further details on Merthyr Tydfil Leisure Trust.

## 6.0 Events after the reporting period

The statement of Accounts was authorised by the Chief Finance Officer on 16 June 2017. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31<sup>st</sup> March 2017, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There are no Events after the reporting period.

**7.0 Note to the Expenditure and funding analysis**

<b>Adjustments from the General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts</b>	<b>Adjustments between Funding and Accounting Basis 2016/17</b>			
	<b>Adjustments for Capital Purposes (Note 1)</b>	<b>Net change for the Pensions Adjustments (Note 2)</b>	<b>Other Differences (Note 3)</b>	<b>Total Adjustments</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
People and Performance	3,612	(840)	422	3,194
Places and Transformation	6,864	(342)	(18)	6,504
Corporate Costs	5,944	(53)	43	5,934
<b>Net Cost of Services</b>	<b>16,420</b>	<b>(1,235)</b>	<b>447</b>	<b>15,632</b>
<b>Other income and expenditure from the Expenditure and Funding Analysis</b>	<b>(9,372)</b>	<b>5,516</b>	<b>(48)</b>	<b>(3,904)</b>
<b>Difference between General Fund Surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on Provision of Services</b>	<b>7,048</b>	<b>4,281</b>	<b>399</b>	<b>11,728</b>

Adjustments from the General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments between Funding and Accounting Basis 2015/16			
	Adjustments for Capital Purposes (Note 1)	Net change for the Pensions Adjustments (Note 2)	Other Differences (Note 3)	Total Adjustments
	£'000	£'000	£'000	£'000
People and Performance	2,268	(1,140)	(274)	854
Places and Transformation	14,027	(466)	(3)	13,558
Corporate Costs	7,399	(74)	(101)	7,224
<b>Net Cost of Services</b>	<b>23,694</b>	<b>(1,680)</b>	<b>(378)</b>	<b>21,636</b>
<b>Other income and expenditure from the Expenditure and Funding Analysis</b>	<b>(18,828)</b>	<b>5,578</b>	<b>(41)</b>	<b>(13,291)</b>
<b>Difference between General Fund Surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on Provision of Services</b>	<b>4,866</b>	<b>3,898</b>	<b>(419)</b>	<b>8,345</b>

#### Note 1 - Adjustments for Capital purposes

Adjustments for capital purposes – this column adds in depreciation and impairments and revaluation gains and losses in the service line, and for:

- **Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposals 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.

#### Note 2 - Net changes for the Pensions Adjustments

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

- **For services** this represents the removal of the employer pension contributions made by the Authority as allowed by statute and the replacement with current service costs and past service costs.



- For Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement.

**Note 3 - Other Differences**

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

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

**8.0 Expenditure and Income analysed by nature**

	2016/17	2015/16
<b>Expenditure/Income</b>	<b>£'000</b>	<b>£'000</b>
<b>Expenditure</b>		
Employee Benefits Expenses	75,310	73,525
Other Service Expenses	91,277	85,157
Depreciation, amortisation, impairment	16,420	23,694
Interest Payments	4,829	5,107
Receipts and Levies	6,670	6,467
Gain on the disposal of assets	(91)	(225)
<b>Total expenditure</b>	<b>194,415</b>	<b>193,725</b>
<b>Income</b>		
Fees charges and other service income	(18,383)	(21,319)
Interest and Investment Income	(57)	(56)
Income from council tax, non-domestic rates	(41,435)	(39,442)
Government Grants and Contributions	(124,706)	(131,576)
<b>Total income</b>	<b>(184,581)</b>	<b>(192,577)</b>
<b>Surplus or Deficit on the Provision of Services</b>	<b>9,834</b>	<b>1,148</b>

## **9.0 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 arrive at 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 reserves that the adjustments are made against.

### **General Fund Balance**

The General Fund is the statutory fund into which all the receipts of an 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 General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Authority is statutorily empowered to spend on its services or on capital investment at the end of the year.

### **Capital Receipts Reserve**

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

### **Capital Grants Unapplied**

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

2016/17	Usable Reserves		
Adjustments to the Revenue Resources	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000
<b>Adjustments to the Revenue Resources</b>			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements			
• Pensions costs	4,281	0	0
• Financial Instruments	(16)	0	0
• Holiday Pay	415	0	0
• Reversal of entries included in the Surplus or Deficit on the Provision of Services in Relation to capital	16,951	0	0
<b>Total adjustments to Revenue Resources</b>	<b>21,631</b>	<b>0</b>	<b>0</b>
<b>Adjustments between Revenue and Capital Resources</b>			
• Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(622)	622	0
• Statutory Provision for the repayment of Debt	(2,330)	0	0
• Capital expenditure financed from revenue balances	(260)	0	0
• Other	0	0	0
<b>Total adjustments between Revenue and Capital Resources</b>	<b>(3,212)</b>	<b>622</b>	<b>0</b>
<b>Adjustments to Capital Resources</b>			
• Use of the capital receipts reserve to finance capital expenditure	0	(1,169)	0
• Application of capital grants to finance capital expenditure	(6,691)	0	(1,373)
<b>Total Adjustments to Capital Resources</b>	<b>(6,691)</b>	<b>(1,169)</b>	<b>(1,373)</b>
<b>Total Adjustments</b>	<b>11,728</b>	<b>(547)</b>	<b>(1,373)</b>

2015/16	Usable Reserves		
Adjustments to the Revenue Resources	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000
<b>Adjustments to the Revenue Resources</b>			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements			
• Pensions costs	3,898	0	0
• Financial Instruments	(85)	0	0
• Holiday Pay	(335)	0	0
• Reversal of entries included in the Surplus or Deficit on the Provision of Services in Relation to capital	24,239	0	0
<b>Total adjustments to Revenue Resources</b>	<b>27,717</b>	<b>0</b>	<b>0</b>
<b>Adjustments between Revenue and Capital Resources</b>			
• Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(771)	771	0
• Statutory Provision for the repayment of Debt	(2,083)	0	0
• Capital expenditure financed from revenue balances	(358)	0	0
• Other	(484)	0	0
<b>Total adjustments between Revenue and Capital Resources</b>	<b>(3,696)</b>	<b>771</b>	<b>0</b>
<b>Adjustments to Capital Resources</b>			
• Use of the capital receipts reserve to finance capital expenditure	0	(1,343)	0
• Application of capital grants to finance capital expenditure	(15,676)	0	159
<b>Total Adjustments to Capital Resources</b>	<b>(15,676)</b>	<b>(1,343)</b>	<b>159</b>
<b>Total Adjustments</b>	<b>8,345</b>	<b>(572)</b>	<b>159</b>

**10.0 Movement in Earmarked Reserves**

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2016/17:

	Balance at 1st April 2015 £'000	Transfers Out 2015/16 £'000	Transfers In 2015/16 £'000	Balance at 31st March 2016 £'000	Transfers Out 2016/17 £'000	Transfers In 2016/17 £'000	Balance at 31st March 2017 £'000
<b>General Fund</b>	<b>4,525</b>	<b>0</b>	<b>102</b>	<b>4,627</b>	<b>0</b>	<b>0</b>	<b>4,627</b>
Llwydcoed Reserve	689	(312)	0	377	0	150	527
Central South Consortium Reserve	0	0	9	9	0	0	9
Balances held by schools under a scheme of delegation	206	(237)	810	779	(255)	432	956
Insurance Reserve	1,667	(368)	732	2,031	0	351	2,382
Budget Reserve	1,365	(747)	790	1,408	(698)	3,922	4,632
Ffos-Y-Fran (Miller Argent) Account	1,266	(611)	868	1,523	(921)	729	1,331
Corporate Risk Fund Reserve	0	0	1,200	1,200	(182)	0	1,018
Living Wage Reserve	0	0	1,340	1,340	(492)	50	898
Redundancy Cost Reserve	129	0	371	500	0	0	500
Renewal Areas Tenants' Contributions	652	(11)	4	645	(156)	0	489
Capital earmarked reserve	0	0	0	0	(116)	508	392
City Deal reserve	0	0	0	0	0	352	352
Section 106 Agreements	0	0	0	0	0	408	408
ISB Allocation Surplus Account	35	(338)	262	(41)	(203)	505	261
Highways - S38 Road Agreements	0	(70)	401	331	(81)	0	250
Grant Agency Fees	268	(100)	86	254	(100)	88	242
Care Fees Provision	293	(25)	263	531	(207)	0	324
BIFFA Profit Sharing Grant Account	294	(107)	191	378	(181)	12	209
Working Skills for Adults and Bridges2	0	0	0	0	(14)	208	194
Welfare Changes	34	(26)	30	38	0	116	154
Welsh Government Preliminary flood defences risk assessment	208	(93)	50	165	(18)	0	147
Other	1,428	(1,162)	3,909	4,175	(3,851)	1,537	1,861
Central South Consortium Adjustment	0	0	19	19	0	1	20
<b>Total</b>	<b>13,059</b>	<b>(4,207)</b>	<b>11,437</b>	<b>20,289</b>	<b>(7,475)</b>	<b>9,369</b>	<b>22,183</b>

Refer to accounting Policy 1.17 for a description of the General Reserve, Llwydcoed Reserve, Central South Consortium Reserve, Balances held by schools under a scheme of delegation and the Insurance Reserve.

The nature and purpose of each earmarked reserve is as follows:

**Budget Reserve** - This reserve was created to assist the Authority with its forward financial planning in both financing future costs of retirement and enabling investment to improve projects generating future efficiency gains.

**Ffos-Y-Fran (Miller Argent) Account** - This consists of monies received from Miller Argent (South Wales) Limited to a Community Fund as part of the approval for the land reclamation scheme at Ffos-Y-Fran. The monies are earmarked for community projects throughout the borough as approved by the Ffos-Y-Fran Panel.

**Corporate Risk Fund Reserve** - Monies set aside to address unavoidable in-year budget pressures and to invest in innovative projects with longer term benefits.

**Living Wage Reserve** - Monies set aside to finance the Authority's corporate Foundation Living Wage commitment for the period 2016/17 to 2019/20.

**Redundancy Cost Reserve** - This consists of monies set aside to fund the costs of future redundancies.

**Renewal Areas Tenants' Contributions** - This reserve contains tenants' contributions towards work carried out on their properties as part of the renewals programme.

**Capital earmarked reserve** – Monies set aside to fund one-off capital projects.

**City Deal reserve** – Monies set aside to fund future requirements of the City Deal Programme. Refer to Note 42.

**Section 106 Agreements** - Monies from private developers that must be used to fulfil the specific planning obligations set out in each agreement.

**ISB Allocation Surplus Account** - This consists of the difference between budgeted and outturn Individual Schools Budget Allocation which is carried forward into the following year's calculation.

**Highways - S38 Road Agreements** - Agreements between the Authority and private contractors to ensure new roads meet local authority highways adoption standards.

**Grant Agency Fees** - This consists of monies received from the Grant Agency's clients for administrative work undertaken on their behalf. The monies are earmarked to meet future service demands.

**Care Fees Provision** - This reserve contains monies set aside for Residential places within the Borough.

**BIFFA Profit Sharing Grant Account** - This consists of monies received from Biffa Waste under the profit sharing agreement at Trecatti Tip. The reserve is to be utilised on projects throughout the County Borough.

**Working Skills for Adults and Bridges 2** – This consists of monies required to cash match the European Structural Funds projects for the period 2016-2019.

**Welfare Changes** – Monies set aside to fund projects associated with changes to Welfare Regulations.

**Welsh Government Preliminary flood defences risk assessment** - Monies earmarked for use improving and repairing existing flood infrastructure

**Other** - This consists of 62 miscellaneous balances ranging from £333 to £124,125 in value.

#### 11.0 Other operating expenditure

2015/16 £'000	2016/17 £'000
<b>Precepts</b>	
3,542 South Wales Police Precept	3,720
20 Bedlinog Community Council	21
<b>Levies</b>	
2,725 South Wales Fire and Rescue Authority	2,748
180 Other	181
(225) (Gains)/losses on the disposal of non-current assets	(91)
<b>6,242 Total</b>	<b>6,579</b>

#### 12.0 Financing and Investment Income and Expenditure

2015/16 £'000	2016/17 £'000
5,109 Interest payable and similar charges	4,829
5,578 Net interest on the net defined benefit liability (asset)	5,516
(56) Interest receivable and similar income	(57)
<b>10,631 Total</b>	<b>10,288</b>

#### 13.0 Taxation and "Non-specific" Grant Income and Expenditure

2015/16 £'000	2016/17 £'000
(22,578) Council tax income	(23,875)
(16,864) Non-domestic rates income	(17,560)
(72,424) Non-ringfenced government grants (Revenue Support Grant)	(71,629)
(15,676) Capital grants and contributions	(6,691)
<b>(127,542) Total</b>	<b>(119,755)</b>

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

NNDR is organised on a national basis. The government specifies an amount for the rate 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 (WG). The WG redistributes the sums payable back to the Authority on the basis of a fixed amount per head of population.

The total Non-Domestic Rateable Value as at 31<sup>st</sup> March 2017 was £43,182,879 (£43,019,628 as at 31<sup>st</sup> March 2016) with the Non-Domestic Rate Multiplier being £0.486 (48.6 pence) in the pound (£0.482 (48.2 pence) in the pound for 2015/16). The total number of chargeable properties for 2016/17 was 1,784 (2015/16 – 1,747). The net proceeds from Non-Domestic Rates in 2016/17 was £17,559,799 (2015/16 - £16,863,943).

**Council Tax**

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into nine valuation bands. Charges are calculated by taking the amount of income required for the forthcoming year and dividing this amount by the Council Tax base. The number of chargeable dwellings for Council Tax for 2016/17 was 26,994 (2015/16 – 26,874).

A breakdown of the chargeable dwellings over the nine valuation bands is as follows:

Dwellings	Band	Range	Dwellings
2015/16		(Based on 1 April 2003 values)	2016/17
13,991	A	Not exceeding £44,000	14,043
6,637	B	Between £44,000 and £65,000	6,629
2,135	C	Between £65,000 and £91,000	2,168
2,076	D	Between £91,000 and £123,000	2,081
1,346	E	Between £123,000 and £162,000	1,375
535	F	Between £162,000 and £223,000	546
140	G	Between £223,000 and £324,000	142
4	H	Between £324,000 and £424,000	2
10	I	Exceeding £424,000	8
<b>26,874</b>			<b>26,994</b>



	Dwellings	Tax Base	Dwellings	Tax Base
	2015/16	2015/16	2016/17	2016/17
Total Number of properties on the valuation list	26,874	26,874	26,994	26,994
Less Exempt properties 100%	916	(916)	835	(835)
Less Single Discounts 25%	9,169	(2,292)	9251	(2,313)
Less Multiple Discounts 50%	685	(343)	651	(326)
Band D Conversion		(4,859)		(4,878)
Losses on Collection		(739)		(746)
<b>Tax Base</b>		<b>17,725</b>		<b>17,896</b>
<b>Requirement for Merthyr Tydfil County</b>		<b>£23,977,181.00</b>		<b>£25,056,054.00</b>
<b>Basic Band D tax for the year</b>		<b>£1,352.72</b>		<b>£1,400.07</b>
Payable to South Wales Police		£3,542,493.00		£3,710,760.00
Band D tax for South Wales Police		£199.86		£207.85
<b>*Total Band D tax for the year</b>		<b>£1,552.58</b>		<b>£1,607.92</b>

\*Band D community council addition for properties in Bedlinog £19.05 (£19.35 2015/16)

The basic amount for a Band D property is multiplied by the proportion specified for the particular band to give the individual amount due:

<b>Band</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>	<b>H</b>	<b>I</b>
<b>Multiplier</b>	6/9	7/9	8/9	1	11/9	13/9	15/9	18/9	21/9

**14.0 Property, Plant and Equipment**

	Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total Property, Plant and Equipment £'000
<b>Cost or Valuation</b>							
At 1 <sup>st</sup> April 2016	146,854	5,455	128,373	241	5,724	9,467	296,114
Acquisitions/Additions	5,826	206	2,468	158	0	67	8,725
Newly identified Assets	0	0	0	0	0	0	0
Revaluation Increases/Decreases recognised in the Revaluation Reserve	3,216	0	0	0	(498)	0	2,718
Revaluation Increases/Decreases to Surplus/Deficit on the Provision of Services	(2,780)	0	0	(158)	(383)	0	(3,321)
Derecognition - Disposals	(101)	(8)	(5)	0	(292)	0	(406)
Derecognition - Other	0	0	0	0	0	0	0
Reclassification and Transfers	(323)	0	9,240	0	381	(9,240)	58
<b>At 31<sup>st</sup> March 2017</b>	<b>152,692</b>	<b>5,653</b>	<b>140,076</b>	<b>241</b>	<b>4,932</b>	<b>294</b>	<b>303,888</b>
<b>Accumulated Depreciation and Impairment</b>							
As 1 <sup>st</sup> April 2016	3,362	3,363	37,098	0	28	802	44,653
Depreciation Charge	2,602	756	3,248	0	27	0	6,633
Depreciation written out to the Revaluation Reserve	(2,175)	0	0	0	(48)	0	(2,223)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(420)	0	0	0	(3)	0	(423)
Impairment losses/(reversals) recognised in the Revaluation Reserve	34	0	0	0	0	0	34
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	123	0	356	0	0	67	546
Derecognition - Disposals	0	(7)	(5)	0	(3)	0	(15)
Derecognition - Other	0	0	0	0	0	0	0
Reclassification and Transfers	(2)	0	798	0	2	(798)	0
<b>At 31<sup>st</sup> March 2017</b>	<b>3,524</b>	<b>4,112</b>	<b>41,495</b>	<b>0</b>	<b>3</b>	<b>71</b>	<b>49,205</b>
<b>Net Book Value</b>							
At 31 <sup>st</sup> March 2017	149,168	1,541	98,581	241	4,929	223	254,683
At 31 <sup>st</sup> March 2016	143,492	2,092	91,275	241	5,696	8,665	251,461

	Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total Property, Plant and Equipment £'000
<b>Cost or Valuation</b>							
At 1 <sup>st</sup> April 2015	144,080	5,673	124,814	1,563	6,476	5,648	288,254
Acquisitions/Additions	8,369	251	3,559	65	1,450	3,960	17,654
Newly identified Assets	0	0	0	0	0	0	0
Revaluation Increases/Decreases recognised in the Revaluation Reserve	(1,214)	0	0	0	198	0	(1,016)
Revaluation Increases/Decreases to Surplus/Deficit on the Provision of Services	(2,633)	0	0	(1,926)	(2,092)	0	(6,651)
Derecognition - Disposals	(244)	(469)	0	0	(73)	0	(786)
Derecognition - Other	0	0	0	0	0	0	0
Reclassification and Transfers	(1,504)	0	0	539	(235)	(141)	(1,341)
<b>At 31<sup>st</sup> March 2016</b>	<b>146,854</b>	<b>5,455</b>	<b>128,373</b>	<b>241</b>	<b>5,724</b>	<b>9,467</b>	<b>296,114</b>
<b>Accumulated Depreciation and Impairment</b>							
As 1 <sup>st</sup> April 2015	2,553	3,042	32,197	14	26	505	38,337
Depreciation Charge	2,544	716	4,508	0	30	0	7,798
Depreciation written out to the Revaluation Reserve	(1,137)	0	0	0	(3)	0	(1,140)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(802)	0	0	0	(2)	0	(804)
Impairment losses/(reversals) recognised in the Revaluation Reserve	23	0	0	0	0	0	23
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	351	39	393	(14)	(15)	297	1,051
Derecognition - Disposals	(132)	(434)	0	0	(2)	0	(568)
Derecognition - Other	0	0	0	0	0	0	0
Reclassification and Transfers	(38)	0	0	0	(6)	0	(44)
<b>At 31<sup>st</sup> March 2016</b>	<b>3,362</b>	<b>3,363</b>	<b>37,098</b>	<b>0</b>	<b>28</b>	<b>802</b>	<b>44,653</b>
<b>Net Book Value</b>							
At 31 <sup>st</sup> March 2016	143,492	2,092	91,275	241	5,696	8,665	251,461
At 31 <sup>st</sup> March 2015	141,527	2,631	92,617	1,549	6,450	5,143	249,917

**Capital Commitments**

As at 31<sup>st</sup> March 2017, the Authority has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2016/17 and future years budgeted to cost £2,552,000. Similar commitments at 31<sup>st</sup> March 2016 were £4,244,000. The major commitments are:

<b>Capital Scheme</b>	<b>Value £'000</b>
Afon Taf Secondary School	993
Pontygwaith Retaining Wall	306
Brandy Bridge Cathodic Protection	338
Cyfarthfa Castle Refurbishments	643
ECO Renewals	262
Riverside	10
	<hr/>
	<b>2,552</b>

**Revaluations**

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at current value is re-valued at least every five years. All valuations were carried out externally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

**15.0 Heritage Assets**

	Museum Collection £'000	Civic Regalia £'000	Historic Buildings £'000	Monuments £'000	Total Assets £'000
<b>Cost or Valuation</b>					
At 1 <sup>st</sup> April 2016	3,078	82	2,346	0	5,506
Acquisitions/Additions	0	0	614	54	668
Revaluation Increases/Decreases recognised in the Revaluation Reserve	710	0	235	0	945
Revaluation Increases/Decreases to Surplus/Deficit on the Provision of Services	0	0	0	0	0
Derecognition - Disposals	0	0	0	0	0
Derecognition - Other	0	0	0	0	0
Reclassification and Transfers	0	0	0	0	0
<b>At 31<sup>st</sup> March 2017</b>	<b>3,788</b>	<b>82</b>	<b>3,195</b>	<b>54</b>	<b>7,119</b>
<b>Accumulated Depreciation and Impairment</b>					
As 1 <sup>st</sup> April 2016	0	0	280	0	280
Depreciation Charge	0	0	0	0	0
Depreciation written out to the Revaluation Reserve	0	0	0	0	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	0	0	0	0
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	199	0	199
Derecognition - Disposals	0	0	0	0	0
Derecognition - Other	0	0	0	0	0
Reclassification and Transfers	0	0	0	0	0
<b>At 31<sup>st</sup> March 2017</b>	<b>0</b>	<b>0</b>	<b>479</b>	<b>0</b>	<b>479</b>
<b>Net Book Value</b>					
At 31 <sup>st</sup> March 2017	3,788	82	2,716	54	6,640
At 31 <sup>st</sup> March 2016	3,078	82	2,066	0	5,226

	Museum Collection £'000	Civic Regalia £'000	Historic Buildings £'000	Monuments £'000	Total Assets £'000
<b>Cost or Valuation</b>					
At 1 <sup>st</sup> April 2015	3,105	82	567	0	3,754
Acquisitions/Additions	0	0	399	0	399
Revaluation Increases/Decreases recognised in the Revaluation Reserve	0	0	143	0	143
Revaluation Increases/Decreases to Surplus/Deficit on the Provision of Services	(27)	0	11	0	(16)
Derecognition Disposals	0	0	0	0	0
Derecognition - Other	0	0	0	0	0
Reclassification and Transfers	0	0	1,226	0	1,226
<b>At 31<sup>st</sup> March 2016</b>	<b>3,078</b>	<b>82</b>	<b>2,346</b>	<b>0</b>	<b>5,506</b>
<b>Accumulated Depreciation and Impairment</b>					
As 1 <sup>st</sup> April 2015	1	0	27	0	28
Depreciation Charge	0	0	0	0	0
Depreciation written out to the Revaluation Reserve	0	0	(40)	0	(40)
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	0	0	0	0
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(1)	0	253	0	252
Derecognition - Disposals	0	0	0	0	0
Derecognition - Other	0	0	0	0	0
Reclassification and Transfers	0	0	40	0	40
<b>At 31<sup>st</sup> March 2016</b>	<b>0</b>	<b>0</b>	<b>280</b>	<b>0</b>	<b>280</b>
<b>Net Book Value</b>					
<b>At 31<sup>st</sup> March 2016</b>	<b>3,078</b>	<b>82</b>	<b>2,066</b>	<b>0</b>	<b>5,226</b>
At 31 <sup>st</sup> March 2015	3,104	82	540	0	3,726

The Authority's Heritage Assets include Cyfarthfa Castle within the historic buildings category. The Museum Collection includes Art, Ceramics, Porcelain work, figurines and instruments. The valuation of the Museum Collection is included at insurance valuation.

### 16.0 Investment Properties

Items of income have been accounted for within costs of services in the Comprehensive Income and Expenditure Statement:

	2016/17 £'000	2015/16 £'000
Rental Income from investment property	(35)	(35)
Direct operating expenses arising from investment property	1	1
<b>Net gain/(loss)</b>	<b>(34)</b>	<b>(34)</b>

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

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

	2016/17 £'000	2015/16 £'000
Balance at the start of the year	834	834
Additions:		
• Purchases	0	0
• Construction	0	0
• Subsequent expenditure	0	0
Disposals	0	0
Net gains/losses from fair value adjustments	212	0
Transfers:		
• to/from Inventories	0	0
• to/from Property, Plant and Equipment	(26)	0
<b>Balance at the end of the year</b>	<b>1,020</b>	<b>834</b>

**Fair value Hierarchy**

The fair value of the commercial units has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

In estimating the fair value of the authority's investment properties, the highest and best use of the properties is their current use. There has been no change to the valuation techniques used during the year for investment properties.

There were no transfers between levels 1 and 2 during the year (refer to Financial Instruments – Fair Values Note 17).

**17.0 Financial Instruments****Financial Instruments – Classifications**

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grant, do not give rise to financial instruments.

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

	<b>Long-term</b>		<b>Current</b>	
	<b>31st March 2017</b>	<b>31st March 2016</b>	<b>31st March 2017</b>	<b>31st March 2016</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Investments:</b>				
Loans and receivables	0	0	0	3,001
<b>Debtors:</b>				
Gellideg Co-operative Loan	449	454	20	20
Welsh Water Loan	334	417	0	0
Other	67	78	0	0
Financial assets carried at contract amounts	0	0	23,373	21,575
<b>Borrowings</b>				
Financial Liabilities at amortised cost	66,034	68,561	21,371	19,821
<b>Other liabilities</b>				
Finance Leases	50	48	52	43
<b>Creditors:</b>				
Financial liabilities at contract amount	0	0	14,038	12,002



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

	<b>Financial Liabilities</b>	<b>Financial Assets</b>	<b>2016/17 Total £'000</b>	<b>2015/16 Total £'000</b>
	<b>Amortised Cost £'000</b>	<b>Loans and Receivables £'000</b>		
<b>Interest Payable and Similar Charges</b>	4,829	0	4,829	5,109
<b>Interest and Investment Income</b>	0	(57)	(57)	(56)
<b>Net (Gain)/loss for the year</b>	<b>4,829</b>	<b>(57)</b>	<b>4,772</b>	<b>5,053</b>

#### Financial Instruments – Fair Values

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31<sup>st</sup> March 2017, using the following methods and assumptions:

- Loans borrowed by the Authority have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The value of “Lender’s Option Borrower’s Option” (LOBO) loans have been increased by the value of the embedded options. Lenders’ options to propose an increase to the interest rate on the loan contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

	Fair Value	31st March 2017		31st March 2016	
		Carrying Value	Fair Value	Carrying Value	Fair Value
		£'000	£'000	£'000	£'000
<i>Financial Liabilities held at amortised cost</i>					
Long-term loans from PWLB	2	52,135	77,896	54,684	77,605
Long-term LOBO Loans	2	12,236	19,340	12,239	17,286
Other long term loans		1,663		1,638	
Short term loans		21,371		19,821	

The fair value of financial liabilities held at amortised costs is higher than their balance sheet carrying value because the authority's portfolio of loans include a number of loans where the interest rate payable is higher than the current rates for similar loans as at the Balance Sheet date.

## 18.0 Inventories

The breakdown of Inventories is as follows:

2015/16							2016/17				
Highways	Fuels	Catering	Rhydycaer Café	Abefran Bar	Crematorium	Total Assets	Highways	Fuels	Catering	Crematorium	Total Assets
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
51	32	22	4	1	4	114	116	17	25	4	162
134	265	888	0	0	0	1,287	0	344	902	0	1,246
(69)	(274)	(885)	(4)	(1)	0	(1,233)	(51)	(327)	(902)	(2)	(1,282)
0	(6)	0	0	0	0	(6)	(21)	(5)	0	0	(26)
<b>116</b>	<b>17</b>	<b>25</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>162</b>	<b>44</b>	<b>29</b>	<b>25</b>	<b>2</b>	<b>100</b>

**19.0 Short-term Debtors**

The breakdown of Debtors at 31<sup>st</sup> March 2017 is as follows:

	<b>31st March 2017 £'000</b>	<b>31st March 2016 £'000</b>
Central Government Bodies	11,989	13,461
Other Local Authorities	1,058	1,189
NHS Bodies	775	375
Other entities	<u>9,571</u>	<u>6,570</u>
<b>Total</b>	<b>23,393</b>	<b>21,595</b>

Debtors shown in the balance sheet are net of the provision for bad debts as follows:

	<b>31st March 2017 £'000</b>	<b>31st March 2016 £'000</b>
General Fund	(342)	(700)
Former Housing Revenue Account	0	(77)
Council Tax	(459)	(1,364)
National Non Domestic Rates	<u>(442)</u>	<u>(149)</u>
<b>Total</b>	<b>(1,243)</b>	<b>(2,290)</b>

**20.0 Cash and Cash Equivalents**

This balance recognises the net cash position of the Authority in providing its services to the public. The balance at 31<sup>st</sup> March 2017 is as follows:

<b>31st March 2016 £'000</b>	<b>31st March 2017 £'000</b>
2,196 Bank Current Accounts	1,527
<hr/> <b>2,196 Total Cash and Cash equivalents</b>	<hr/> <b>1,527</b>

**21.0 Assets Held for Sale**

The breakdown of assets held for sale at 31<sup>st</sup> March 2017 is as follows:

	<b>Non-current</b>	
	<b>2016/17</b>	<b>2015/16</b>
	<b>£'000</b>	<b>£'000</b>
<b>Balance outstanding at the start of the year</b>	319	574
Assets newly classified as held for sale	0	113
Revaluation losses	0	(33)
Revaluation gains	32	1
Impairment losses	(1)	0
Assets declassified as held for sale	(32)	0
Assets sold	(141)	(336)
<b>Balances outstanding at year end</b>	<b>177</b>	<b>319</b>

Assets held for sale at 31<sup>st</sup> March 2017 comprise of land and buildings as follows:

- Various pieces of land which are surplus to requirement.
- Buildings now surplus to requirement including, Lloyds Building Post Office Lane and Gellideg Family Centre.

**22.0 Creditors**

The breakdown of Creditors at 31<sup>st</sup> March 2017 is as follows:

	<b>31st</b>	<b>31st</b>
	<b>March</b>	<b>March</b>
	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Central Government Bodies	(1,841)	(618)
Other Local Authorities	(1,024)	(7)
NHS Bodies	(80)	(44)
Other entities	(11,093)	(11,333)
<b>Total</b>	<b>(14,038)</b>	<b>(12,002)</b>

**23.0 Provisions**

The balance on provisions at 31<sup>st</sup> March 2017 is derived as follows:

	Insurance Claims £'000	Pengarnddu £'000	Strategic Transformation £'000	Total £'000
<b>Balance at 1st April 2016</b>	(1,030)	0	(649)	(1,679)
Additional provisions made in 2016/17	(216)	(1,950)	0	(2,166)
Amounts used in 2016/17	242	0	542	784
Unused amounts reversed in 2016/17	0	0	107	107
<b>Balance at 31st March 2017</b>	<b>(1,004)</b>	<b>(1,950)</b>	<b>0</b>	<b>(2,954)</b>

The Authority expects that the provisions recognised at 31<sup>st</sup> March 2017 will substantially be utilised within 12 months of that date, the split of short and long term provisions is as follows:

	Short term 2015/16 £'000	Long term 2015/16 £'000	Total 2015/16 £'000	Short term 2016/17 £'000	Long term 2016/17 £'000	Total 2016/17 £'000
Insurance Claims	(742)	(288)	(1,030)	(351)	(653)	(1,004)
Strategic Transformation Provision	(649)	0	(649)	0	0	0
Pengarnddu Provision	0	0	0	0	(1,950)	(1,950)
	<b>(1,391)</b>	<b>(288)</b>	<b>(1,679)</b>	<b>(351)</b>	<b>(2,603)</b>	<b>(2,954)</b>

**Insurance Claims Provision**

This provision reflects the Authority's outstanding insurance claims obligations at 31<sup>st</sup> March 2017. There is an uncertainty around the timing and value of this obligation. Claims are settled when they reach Court, depending on the specific circumstances of the case this can take varying time.

**Strategic Transformation Provision**

This provision consisted of monies set aside to support a comprehensive review of Authority Services as part of the Authority's continuing transformation programme.

**Pengarnddu Provision**

The provision consists of monies set aside for the costs of removing several thousand tonnes of residual waste on land at Pengarnddu that was left by a previous occupier. Due to the volume and nature of waste, and different options being pursued by the Authority, the actual cost and timing for clearing the site is not certain.

**24.0 Usable Reserves**

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement and note 10.

**25.0 Unusable Reserves**

The breakdown of Unusable Reserves at 31<sup>st</sup> March 2017 is as follows:

<b>31st March 2016 £'000</b>	<b>31st March 2017 £'000</b>
32,275 Revaluation Reserve	37,114
(2,705) Financial Instruments Reserve	(2,690)
133,055 Capital Adjustment Account	128,945
(167,050) Pensions Reserve	(179,449)
(1,235) Accumulated Absences Account	(1,651)
<b>(5,660) Total Unusable Reserves</b>	<b>(17,731)</b>

**Revaluation Reserve**

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

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

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated in the Capital Adjustment Account.

<b>2015/16 £'000</b>	<b>2016/17 £'000</b>
<b>32,925 Balance at 1st April</b>	<b>32,275</b>
2,781 Upward revaluation of assets	7,039
(2,522) Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the provision of services	(1,183)
<b>259 Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the provision of services</b>	<b>5,856</b>
(765) Difference between fair value depreciation and historical cost depreciation	(737)
(144) Accumulated gains on assets sold or scrapped	(280)e
<b>(909) Amounts written off to the Capital Adjustment Account</b>	<b>(1,017)</b>
<b>32,275 Balance at 31st March</b>	<b>37,114</b>

**Capital Adjustment Account**

The capital adjustment account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or additions to those assets under statutory provisions. The account is debited with the cost of acquisition, construction or subsequent costs such as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement. The account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and subsequent costs.

<b>Restated 2015/16 £'000</b>	<b>2016/17 £'000</b>
<b>136,601 Balance at 1st April</b>	<b>133,055</b>
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	
(7,033) • Charges for depreciation and impairment of non current assets	(5,895)
(7,180) • Revaluation losses on property, plant and equipment	(3,785)
(8,717) • Revenue expenditure funded from capital under statute	(6,385)
(561) • 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	(532)
(23,491)	(16,597)
158 Adjusting amounts written out to the Revaluation Reserve	280
(23,333) Net written out amount of the cost of non-current assets consumed in the year	(16,317)
Capital financing applied in the year:	
1,343 • Use of Capital Receipts Reserve to finance new capital expenditure	1,169
15,517 • Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	8,065
0 • Application of grants to capital financing from the Capital Grants Unapplied Account	0
2,927 • Statutory provision for the financing of capital Investment charged against the General Fund	2,590
19,787	11,824
0 Movements in the market Value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	383
<b>133,055 Balance at 31st March</b>	<b>128,945</b>

**Financial Instruments Adjustment Account**

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenditure relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

The Authority uses the account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance through the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on the Council tax. In the Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

<b>2015/16</b>	<b>2016/17</b>
<b>£'000</b>	<b>£'000</b>
<b>(2,790) Balance at 1st April</b>	<b>(2,705)</b>
<b>41</b> Premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with Statutory Requirements	<b>51</b>
<b>44</b> Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	<b>(36)</b>
<hr/> <b>(2,705) Balance at 31st March</b>	<hr/> <b>(2,690)</b>

**Pensions Reserve**

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pay any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

<b>2015/16</b>	<b>2016/17</b>
<b>£'000</b>	<b>£'000</b>
<b>181,200</b> Balance at 1st April	<b>167,050</b>
<b>64</b> Adjustment for Opening Central South Consortium Joint arrangement	<b>0</b>
<b>(18,113)</b> Actuarial (gains)/losses on pensions assets/liabilities	<b>8,119</b>
<b>5,343</b> Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the provision of services in the Comprehensive Income and Expenditure Statement	<b>4,649</b>
<hr/> <b>(1,444)</b> Net adjustments to Pension strain	<hr/> <b>(369)</b>
<b>167,050</b> Balance at 31st March	<hr/> <b>179,449</b>



**Accumulated Absences Adjustment Account**

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2015/16 £'000	2016/17 £'000
(1,566) Balance at 1st April	(1,235)
1,566 Settlement or cancellation of accrual made at the end of the preceding year	1,235
(1,235) 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	(1,651)
(1,235) Balance at 31st March	(1,651)

**26.0 Cash Flow Statement - Operating Activities**

The cash flows for operating activities include the following items:

2015/16 £'000	2016/17 £'000
189 Rents ( after rebates )	242
22,483 Council Tax receipts	22,839
16,864 National non-domestic rate receipts from national pool	17,560
72,424 Revenue Support Grant	71,629
20,244 DSS grants for benefits	18,109
14,737 Other government grants	20,900
14 Interest received	26
16,992 Cash received for goods and services	15,850
6,531 Other operating cash receipts	6,884
<b>170,478 Cash Inflows Generated from Operating Activities</b>	<b>174,039</b>
(68,565) Cash paid to and on behalf of employees	(69,300)
(64,507) Cash Payments to Suppliers	(68,650)
(5,111) Interest paid	(4,827)
(20,645) Housing Benefit paid out	(21,243)
(2,905) Levies paid	(2,929)
(3,562) Precepts	(3,740)
<b>(165,295) Cash Outflows Generated from Operating Activities</b>	<b>(170,689)</b>
<b>5,183 Net Cash Flows from Operating Activities</b>	<b>3,350</b>

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2015/16 £'000	2016/17 £'000
<b>(1,148) Surplus or Deficit on Provision of Services</b>	<b>(9,834)</b>
15,038 Depreciation and Impairment	10,035
(225) Gain or loss on disposal of Fixed Assets	(91)
(11,018) Other non Cash items charged to the net surplus or deficit on the provision of services	2,622
(5,175) Increase/decrease in creditors	1,652
502 Increase/decrease in debtors	(3,696)
(48) Increase/decrease in inventories	58
7,257 Increase/decrease in Provisions and Balances	2,645
0 Adjustment to Central South Consortium Opening Balances	(41)
<b>5,183</b>	<b>3,350</b>

#### 27.0 Cash Flow Statements- Investing Activities

2015/16 £'000	2016/17 £'000
(17,757) Purchase of Property, Plant and Equipment	(9,462)
(8,717) Other capital cash payments	(6,386)
(62,600) New Short term investments made	(71,300)
65,400 Repayments of investments	74,300
771 Sale of fixed assets	622
15,375 Capital grants received	9,185
<b>(7,528) Net Cash Flows Generated from Investing Activities</b>	<b>(3,041)</b>

#### 28.0 Cash Flow Statement – Financing Activities

2015/16 £'000	2016/17 £'000
1,028 New long-term loans raised	363
92,550 New short-term loans raised	72,250
(89,592) Repayments of amounts borrowed	(73,632)
<b>3,986 Cash Flows Generated from Financing Activities</b>	<b>(1,019)</b>

**29.0 Pooled Budgets**

The authority has entered into a pooled budget arrangement with the Integrated Community Equipment Store for the provision of specialist equipment and services to clients in the community. The partnership currently comprises Rhondda Cynon Taf County Borough Council, Merthyr Tydfil County Borough Council, Bridgend County Borough Council, Cwm Taf University Health Board and Abertawe Bro Morgannwg University Health Board. This partnership was formalised with the introduction of a Section 33 Agreement (The Agreement) in accordance with Section 33 of the National Health Service (Wales) Act 2006 together with the NHS bodies and Local Authorities (Partnership Agreements) Wales regulations 2000 SI 2993 as amended. Partners contribute an underlying contribution in line with those covered by the Section 33 agreement. Any deficit or surplus arising on the pooled budget is adjusted at the end of the financial year based on the actual spend on community equipment for each partner.

The pooled budget is hosted by Rhondda Cynon Taf County Borough Council on behalf of all partners to the agreement.

	2015/16 £000	2016/17 £000
Funding provided to the pooled budget:		
• the Authority	(175)	(213)
• Other Partners	<u>(2,479)</u>	<u>(2,432)</u>
	<b>(2,654)</b>	<b>(2,645)</b>
Expenditure met from the pooled budget:		
• the Authority	173	207
• Other Partners	<u>2,452</u>	<u>2,367</u>
	<b><u>2,625</u></b>	<b><u>2,574</u></b>
Net surplus arising on the pooled budget during the year	<u>(29)</u>	<u>(71)</u>
Net surplus attributable to Merthyr Tydfil County Borough Council	<u>(2)</u>	<u>(6)</u>

**30.0 Members' Allowances**

The Authority paid the following amounts to members of the council during the year.

	2016/17 £'000	2015/16 £'000
Salaries and Allowances	591	593
Pension Contributions	82	79
National Insurance Contributions	45	42
Expenses	<u>2</u>	<u>4</u>
Balance at 31st March	<b><u>720</u></b>	<b><u>718</u></b>

**31.0 Officers' Remuneration**

The remuneration paid to the Authority's senior employees is as follows:

<b>2016/17</b>	<b>Salary, Fees and Allowances</b>	<b>Compensation for loss of Office</b>	<b>Pension Contributions</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Chief Executive</b>	122,849	0	30,638	<b>153,487</b>
<b>Deputy Chief Executive</b>	91,148	0	23,243	<b>114,391</b>
<b>Chief Officer Social Services</b>	73,566	0	18,744	<b>92,310</b>
<b>Chief Officer Learning</b>	73,506	0	18,744	<b>92,250</b>
<b>Chief Officer Neighbourhood Services</b>	70,476	0	17,971	<b>88,447</b>
<b>Chief Officer Community Regeneration</b>	70,476	0	17,971	<b>88,447</b>
<b>Head of Finance</b>	70,378	0	17,946	<b>88,324</b>
<b>Head of Legal &amp; Governance</b>	70,378	0	17,946	<b>88,324</b>
<b>Head of Corporate Services</b>	67,348	0	17,174	<b>84,522</b>
<b>Head of Public Protection &amp; Housing</b>	67,308	0	17,164	<b>84,472</b>
<b>Head of Adult Social Services</b>	63,179	0	16,111	<b>79,290</b>
<b>Head of Children Services &amp; Safeguarding</b>	63,179	0	16,111	<b>79,290</b>
<b>Head of Planning &amp; Countryside</b>	60,051	0	15,313	<b>75,364</b>
<b>Head of Planning, Performance &amp; Resources</b>	60,051	0	0	<b>60,051</b>
<b>Corporate Director People &amp; Performance*</b>	30,383	15,521	7,748	<b>53,652</b>
<b>Total</b>	<b>1,054,276</b>	<b>15,521</b>	<b>252,824</b>	<b>1,322,621</b>

The highest paid employee during 16/17 was the Chief Executive, whose remuneration of £122,849 excluding pension contributions was 6.16 times the median remuneration of the workforce £19,939. The Chief Executives' Salary includes returning officer fees.

\*The following position was employed for part of the year:

Corporate Director People and Performance – Employment ceased on 31<sup>st</sup> July 2016

The compensation payment of £15,521 received by the Corporate Director People and Performance is non taxable.

Pension Contribution is 25.5% of pensionable pay, of which 13.8% relates to Employers' future service cost while 11.7% is deficit funding relating to the shortfall concerning past service liabilities.

2015/16	Salary, Fees and Allowances £	Compensation for loss of Office £	Pension Contributions £	Total £
Chief Executive	114,227	0	28,442	142,669
Corporate Director People & Performance	90,246	0	22,471	112,717
Corporate Director Places & Transformation	90,246	0	22,471	112,717
Engineering Manager Customer Services*	33,046	42,697	8,163	83,906
Chief Officer Learning	70,714	0	17,608	88,322
Chief Officer Social Services	70,442	0	17,540	87,982
Head Of Finance	69,681	0	17,351	87,032
Head Of Legal & Governance	69,681	0	17,351	87,032
Chief Officer Community Regeneration	67,714	0	16,861	84,575
Chief Officer Neighbourhood Services	67,714	0	16,861	84,575
Head Of Corporate Services	66,681	0	16,604	83,285
Head of Public Protection & Housing	60,488	0	15,062	75,550
Head Of Adult Social Services	60,488	0	15,062	75,550
Head Of Children Services*	58,475	0	14,560	73,035
Head Of Prevention and Early Intervention*	34,841	2,302	8,675	45,818
<b>Total</b>	<b>1,024,684</b>	<b>44,999</b>	<b>255,082</b>	<b>1,324,765</b>

The highest paid employee during 15/16 was the Chief Executive, whose remuneration of £114,227 excluding pension contributions was 5.64 times the median remuneration of the workforce £20,253.

The Chief Executives' salary includes returning officer fees.

\*The following positions were employed for part of the year:

Engineering Manager Customer Services – Employment ceased on 27<sup>th</sup> September 2015

Head of Children's Services – Employment started in this position on 1<sup>st</sup> June 2015.

Head of Prevention and Early Intervention – Employment ceased on 30<sup>th</sup> September 2015

Pension Contribution is 24.9% of pensionable pay, of which 13.8% relates to Employers' future service cost while 11.7% is deficit funding relating to the shortfall concerning past service liabilities.

The number of employees receiving more than £60,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

Remuneration Band	2016/17	2015/16
	Number of Employees	Number of Employees
£60,000 - £64,999	13	11
£65,000 - £69,999	4	6
£70,000 - £74,999	7	6
£75,000 - £79,999	3	1
£80,000 - £84,999	0	0
£85,000 - £89,999	0	1
£90,000 - £94,999	1	2
£95,000 - £99,999	0	1
£100,000 - £104,999	1	0
£105,000 - £109,999	0	0
£110,000 - £114,999	0	1
£115,000 - £119,999	0	0
£120,000 - £124,999	1	0
	<b>30</b>	<b>29</b>

The table above includes disclosures for Senior Officers that are also disclosed within the first two tables of this note.

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band £'000	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
	£0 - £20,000	5	2	8	19	13	21	65
£20,001 - £40,000	1	0	2	10	3	10	93	284
£40,001 - £60,000	1	0	0	1	1	1	44	56
£60,001 - £300,000	0	0	4	2	4	2	478	304
<b>Total cost included in bandings and in the CIES</b>	<b>7</b>	<b>2</b>	<b>14</b>	<b>32</b>	<b>21</b>	<b>34</b>	<b>680</b>	<b>815</b>

The £60,001 to £300,000 band has been grouped to ensure individual exit packages cannot be identified.

**32.0 External Audit Costs**

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections:

	2016/17 £'000	2015/16 £'000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	170	160
Fees payable in respect of statutory inspections	116	117
Fees payable for the certification of grant claims and returns for the year	52	71
<b>Total</b>	<b>338</b>	<b>348</b>

**33.0 Grant Income**

The Authority credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2016/17:

	2016/17 £'000	2015/16 £'000
<b>Credited to Taxation and Non-specific Grant Income and Expenditure</b>		
Revenue Support Grant	(71,629)	(72,424)
<u>Capital Grants and Contributions</u>		
Vibrant and Viable Places Grant	(4,040)	(4,157)
Schools Capital Funding	0	(3,543)
ECO Scheme	(449)	(1,642)
General Capital Grant	(992)	(989)
Local Transport Fund	(137)	(934)
Renewal Areas Grant	(799)	(799)
Flying Start Grant	(155)	(375)
*Heritage Lottery Funding (Cyfarthfa Park)	56	(691)
Metro / Targeted Match Funding	0	(563)
Project Riverside	(69)	(505)
Other Capital Grants and Contributions	(106)	(1,478)
<b>Total</b>	<b>(78,320)</b>	<b>(88,100)</b>

\*A positive balance is shown due to an in year correction of a brought forward credit balance.

	2016/17	2015/16
	£'000	£'000
<b>Credited to Services</b>		
<u>People and Performance</u>		
Flying Start	(2,332)	(2,127)
Education Improvement Grant	(2,198)	(2,437)
Supporting People Programme Grant	(2,149)	(2,169)
Pupil Deprivation Grant	(2,084)	(2,058)
Communities First	(1,873)	(1,917)
Families First	(1,002)	(1,045)
Welsh Independent Living Fund Grant	(596)	(461)
Other Revenue Grants	(1,106)	(713)
<u>Places and Transformation</u>		
Concessionary Fares Grant	(2,242)	(2,244)
Environment and Sustainable Development Revenue Grant	(1,231)	(1,251)
Housing Benefit Subsidy Admin Grant	(297)	(359)
Other Revenue Grants	(2,525)	(2,272)
Contributions	(57)	(22)
<u>Corporate</u>		
Housing Benefit Subsidy	(21,005)	(20,420)
Other Grants	(249)	(208)
<b>Total</b>	<b>(40,946)</b>	<b>(39,703)</b>

The authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the giver. The balances at the year end are as follows:

	2016/17
	£'000
<b>Current Liabilities</b>	
<b>Grants Receipts in Advance (Revenue Grants)</b>	
Communities First	(12)
Families First	(16)
Flying Start	(132)
Youth Service Revenue Grant	(2)
Discretionary Housing Payments Grant	(2)
<b>Total</b>	<b>(164)</b>



2015/16

£'000

**Current Liabilities****Grants Receipts in Advance (Revenue Grants)**

Families First	(83)
Flying Start	(128)
Housing Benefit Subsidy Grant	(121)
Discretionary Housing Payments Grant	(1)

**Total****(333)****34.0 Related Party Transactions**

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

**Central Government** (i.e. Welsh Government) has effective control over the general operations of the Authority. It is responsible for providing the statutory framework, within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties. Grants received from government departments are set out in note 33. Grant receipts outstanding at 31 March 2017 are shown in note 19.

**Members of the Authority** have direct control over the Authority's financial and operating policies. The total of members' allowances paid in 2016/17 is shown in note 30. Members' interests in other organisations have been identified by an inspection of the Members' and Officers' Declaration of Interest Register. During 2016/17, expenditure to the value of £220,213.45 was incurred with companies or voluntary bodies in which members had an interest; in the same period income to the value of £59,590.71 was received from these organisations.

**Other Public Bodies** – one Member of the Authority is an Independent Member of Cwm Taf University Health Board. During 2016/17, the Authority incurred expenditure to the value of £993,316.93 with the health board, and received income to the value of £1,543,139.46. The wife of a Chief Officer of the Authority is a Chief Officer for South Wales Fire and Rescue Service. During 2016/17, the Authority received income to the value of £2,474.16 from the South Wales Fire and Rescue Service (the Authority is also represented on the South Wales Fire and Rescue Authority). A Chief Officer of the Authority is also a Director of The College of Merthyr Tydfil. During 2016/17, the Authority incurred expenditure to the value of £129,783.98 with the health board, and received income to the value of £39,317.69.

**Officers** - details of Officers' emoluments are shown in note 31 to the Core Financial Statements. In 2016/17, no goods and services were commissioned from companies in which Chief Officers had a personal interest.

**Joint Operations** - the Authority is involved in a number of joint operations, the details of which are shown in note 42.

**Precepts and Levies** are shown in note 11.

**Outside Bodies on which the Authority is represented:**

**Merthyr Tydfil Leisure Trust** - during 2016/17, the Authority incurred expenditure to the value of £2,853,678.00 with Merthyr Tydfil Leisure Trust and received income to the value of £575,442.60. The Authority is represented on the Board.

**Merthyr Valleys Homes** – during 2016/17, the Authority incurred expenditure to the value of £247,787.63 with Merthyr Valleys Homes, and received income to the value of £390,609.76. The Authority provided a loan to Merthyr Valleys Homes in the 2014/15 financial year, and the balance outstanding at 31 March 2017 is £469,200.00. The Authority is represented on the Board.

**Safer Merthyr Tydfil** - during 2016/17, the Authority incurred expenditure to the value of £296,132.86 with Safer Merthyr Tydfil, and received income to the value of £618.76. The Authority is represented on the Board.

**Capita Glamorgan Consultancy** – during 2016/17, the Authority incurred expenditure to the value of £90,571.35 with Capita Glamorgan Consultancy. The Authority is represented on the Board.

**Other Bodies** – the Authority is represented on a number of other outside bodies. During 2016/17, the Authority incurred expenditure to the value of £236,912.70 with these bodies, and received income to the value of £98,064.64.

**Transactions and Balances with Related Parties:**

Description	In-year Transactions		Balances at 31 March 2017	
	Expenditure incurred by Authority £000	Income received by Authority £000	Owed by Authority (Creditors) £000	Owed to Authority (Debtors) £000
Companies / voluntary bodies in which Members' interests declared	220	(60)	(5)	14
Cwm Taf University Health Board	993	(1,543)	(80)	760
South Wales Fire and Rescue Service	0	(2)	0	0
The College of Merthyr Tydfil	130	(39)	(3)	5
Merthyr Tydfil Leisure Trust Ltd	2,854	(575)	(112)	19
Merthyr Valleys Homes	248	(391)	0	497
Safer Merthyr Tydfil	296	(1)	(83)	0
Capita Glamorgan Consultancy	91	0	(3)	0
Other Bodies on which the Authority is represented	237	(98)	(10)	29

**35.0 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/PP 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. The CFR is analysed in the second part of this note.

	2016/17	2015/16
	£'000	£'000
<i>Opening Capital Financing Requirement</i>	92,418	85,427
<i>Capital Investment</i>		
Property, Plant and equipment	9,256	17,568
Investment Properties	0	0
Revenue Expenditure Funded from Capital under Statute	6,386	8,717
<i>Sources of finance</i>		
Capital receipts	(1,169)	(1,343)
Government grants and other contributions	(8,065)	(15,517)
Direct revenue Contributions	(191)	(441)
Minimum Revenue Provision	(2,266)	(1,993)
<i>Closing Capital Financing Requirement</i>	<u>96,369</u>	<u>92,418</u>
<i>Explanation of movements in year</i>		
Increase in underlying need to borrow (supported by government financial assistance)	1,630	1,624
Increase in underlying need to borrow (unsupported by government financial assistance)	4,587	7,359
Minimum Revenue Provision	(2,266)	(1,993)
<i>Increase/(decrease) in Capital Financing Requirement</i>	<u>3,951</u>	<u>6,990</u>

### Minimum Revenue Provision

Under the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003, Local Authorities are required to charge to their revenue account for each financial year a Minimum Revenue Provision (MRP) to account for the cost of their debt in that financial year. Regulation 21 set out the method Authorities were required to follow in calculating MRP.

Under the Local Authorities (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2008, the detailed calculation was replaced with a requirement that local authorities calculate an amount of MRP which they consider to be prudent. The broad aim of prudent provision is to ensure that debt is repaid over a period reasonably commensurate with that over which the capital expenditure provides benefits.

The following has been applied for the 2016/17 accounts in calculating the provision:

- Historic debt liability at 31st March 2007 – charged to revenue over 44 years by the straight line method rather than 4% reducing balance method
- Post 1st April 2007 debt – charged to revenue over the life of the asset

**36.0 Leases****Authority as Lessee****Finance Leases**

The assets acquired under finance leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts.

	<b>31st March 2017 £'000</b>	<b>31st March 2016 £'000</b>
Other land and Buildings	55	64
Vehicles, Plant, Furniture and Equipment	99	88
	<b>154</b>	<b>152</b>

The Authority is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Authority and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts.

	<b>31st March 2017 £'000</b>	<b>31st March 2016 £'000</b>
Finance lease liabilities (net present value of minimum lease payments)		
• current	(52)	(43)
• non-current	(52)	(51)
Finance costs payable in future years	2	3
Minimum lease payments	<b>(102)</b>	<b>(91)</b>

The minimum lease payments will be payable over the following periods.

	<b>Minimum Lease Payments</b>		<b>Finance Lease Liabilities</b>	
	<b>31st March 2017 £'000</b>	<b>31st March 2016 £'000</b>	<b>31st March 2017 £'000</b>	<b>31st March 2016 £'000</b>
Not later than one year	52	43	52	43
Later than one year and not later than five years	52	51	50	48
Later than five years	0	0	0	0
	<b>104</b>	<b>94</b>	<b>102</b>	<b>91</b>

**Operating Leases**

The Authority has entered into operating leases with lessors for buildings, vehicles and equipment. The future minimum annual lease payments due are as follows.

	<b>31st March 2017 £'000</b>	<b>31st March 2016 £'000</b>
Not later than one year	443	374
Later than one year and not later than five years	845	621
Later than five years	58	110
	<b>1,346</b>	<b>1,105</b>

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was as follows.

	<b>2016/17 £'000</b>	<b>2015/16 £'000</b>
Minimum lease payments	563	662
	<b>563</b>	<b>662</b>

**Authority as Lessor****Operating Leases**

The Authority has entered into operating leases with lessees for buildings, vehicles and equipment. The future minimum annual lease payments due to the Authority are as follows:

	<b>31st March 2017 £'000</b>	<b>31st March 2016 £'000</b>
Not later than one year	72	143
Later than one year and not later than five years	255	31
Later than five years	803	115
	<b>1,130</b>	<b>289</b>

£35,000 of income was received in 2016/17 from lease agreements in respect of Investment Properties.

### **37.0 Pension Schemes accounted for as defined contribution schemes**

Teachers employed by the Authority are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. The Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employer's contribution rate paid by local authorities. Valuations are undertaken every four years. The Authority is not able to identify its share of the underlying financial position and performance with sufficient reliability for accounting purposes, therefore it is accounted for on the same basis as a defined contribution scheme.

In 2016/17 the Authority paid £3,007,000 to the Teachers' Pensions (£2,870,000 in 2015/16) in respect of teachers' pension costs, which represents 16.48% of teachers' pay (15.48% in 2015/16).

The Authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis as detailed in Note 38.

The Authority expects to pay £2.94 million in contributions into the scheme in 2017/18.

### **38.0 Defined Benefit Pension Schemes**

#### **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, administered locally by Rhondda Cynon Taf County Borough Council under the Local Government Pension Scheme regulations– this is a funded defined benefit scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. On retirement, members receive an annual pension based on their final salary (or career-average pensionable salary from 1<sup>st</sup> April 2014) and have the option to take part of their pension as a tax-free lump sum.
- Arrangements for the award of discretionary post-retirement benefits upon early retirement (Unfunded Teachers' Discretionary Benefits)– this is an unfunded defined benefit arrangement under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.
- The principal risks to the Authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge the General Fund the amounts required by statute as described in the accounting policies note.

**Transactions Relating to Post-employment Benefits**

The Authority recognises 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 General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

	Local Government Pension Scheme		Discretionary Benefits	
	£m		£m	
	2016/17	2015/16	2016/17	2015/16
<b>Comprehensive Income and Expenditure Statement</b>				
Cost of services:				
Service cost comprising				
• current service cost	7.44	7.31	0.00	0.00
• past service cost	0.86	0.89	0.52	0.91
• (gain)/loss from settlements	0.00	0.00	0.00	0.00
• adjustment to pension strain	(0.37)	(1.44)	0.00	0.00
Financing and Investment Income and Expenditure				
• Net interest expense	5.01	5.10	0.51	0.48
<b>Total post employment Benefits charged to the Surplus or Deficit on provision of services</b>	<b>12.94</b>	<b>11.86</b>	<b>1.03</b>	<b>1.39</b>
Remeasurement of the net defined benefit liability comprising:				
• Return on plan assets (excluding the amount included in the net interest expense)	(26.13)	(0.65)	0.00	0.00
• Actuarial gains and losses arising on changes in demographic assumptions	(14.38)	0.00	(0.38)	0.00
• Actuarial gains and losses arising on changes in financial assumptions	69.04	(13.17)	1.69	(0.57)
• Actuarial gains and losses arising on changes in experience	(21.61)	(3.44)	(0.12)	(0.28)
• Other	(0.01)	0.00	0.00	0.00
<b>Total post employment Benefits charged to the Comprehensive Income and Expenditure Statement</b>	<b>19.85</b>	<b>(5.40)</b>	<b>2.22</b>	<b>0.54</b>
<b>Movement in Reserves Statement</b>				
• reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the code Actual amount charged against the General Fund Balance for pensions in the year:	(12.94)	(11.86)	(1.03)	(1.39)
Employers contributions payable to scheme	8.68	8.31		
Retirement benefits payable to pensioners			1.00	1.03
<b>Pensions Assets and Liabilities recognised in the Balance Sheet</b>				

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

	Local Government		Discretionary Benefits	
	£m		£m	
	2016/17	2015/16	2016/17	2015/16
Present Value of the defined benefit obligation	(390.59)	(347.09)	(16.43)	(15.21)
Fair value of plan assets	227.62	195.67	0.00	0.00
Sub-total	(162.97)	(151.42)	(16.43)	(15.21)
Other movements in the liability (asset)	(0.05)	(0.42)	0.00	0.00
<b>Net liability arising from the defined benefit obligation</b>	<b>(163.02)</b>	<b>(151.84)</b>	<b>(16.43)</b>	<b>(15.21)</b>

#### Reconciliation of the Movement in the Fair Value of Scheme (Plan) Assets

	Local Government		Discretionary Benefits	
	£m		£m	
	2016/17	2015/16	2016/17	2015/16
Opening fair value of scheme assets	195.67	189.21	0.00	0.00
Opening Adjustment Central South Consortium	0.00	0.67	0.00	0.00
Interest Income	6.65	6.07	0.00	0.00
Remeasurement gain/(loss)				
• The return on plan assets, excluding the amount in the net interest expense	26.13	0.65	0.00	0.00
Contributions from the employer	8.68	8.31	1.00	1.03
Contributions from employees into the scheme	1.98	1.97	0.00	0.00
Benefits paid	(11.96)	(11.21)	(1.00)	(1.03)
Net increase in assets from disposals/acquisitions	0.47	0.00	0.00	0.00
<b>Closing fair value of scheme assets</b>	<b>227.62</b>	<b>195.67</b>	<b>0.00</b>	<b>0.00</b>



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

	Local Government £m		Discretionary Benefits £m	
	2016/17	2015/16	2016/17	2015/16
Opening balance at 1 April	347.10	352.85	15.21	15.70
Adjustment for opening balance of Central South Consortium	0.00	0.73	0.00	0.00
Current Service cost	7.44	7.31	0.00	0.00
Interest Cost	11.66	11.17	0.51	0.48
Contributions from scheme participants	1.98	1.97	0.00	0.00
Remeasurements (gains) and losses				
• Actuarial gains and losses arising on changes in demographic assumptions	(14.38)	0.00	(0.38)	0.00
• Actuarial gains and losses arising on changes in financial assumptions	69.04	(13.17)	1.69	(0.57)
• Actuarial gains and losses arising on changes in experience	(21.61)	(3.44)	(0.12)	(0.28)
Past service cost	0.86	0.89	0.52	0.91
Losses/(gains) on curtailment	0.00	0.00	0.00	0.00
Benefits paid	(11.96)	(11.21)	(1.00)	(1.03)
Net increase in assets from disposals/acquisitions	0.46	0.00	0.00	0.00
<b>Closing balance at 31 March</b>	<b>390.59</b>	<b>347.10</b>	<b>16.43</b>	<b>15.21</b>

**Local Government Pension Scheme assets comprised**

	As at 31st March 2017 £m	As at 31st March 2016 £m
Equities	165.25	137.17
Property	13.43	12.52
Government Bonds	21.00	18.00
Corporate Bonds	22.76	20.74
Cash	4.78	7.24
	<b>227.62</b>	<b>195.67</b>

**Basis for Estimating Assets and Liabilities**

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

Both the Local Government Pension Scheme and Discretionary Benefits and have been assessed by Aon Hewitt, an independent firm of actuaries, estimates for the Rhondda Cynon Taf County Council Pension Fund being based on the latest full valuation of the scheme as at 31 March 2016.

The significant assumptions used by the actuary have been:

	Local Government		Discretionary Benefits	
	2016/17	2015/16	2016/17	2015/16
Longevity at 65 at accounting date				
Males	22.80	23.10	22.80	23.10
Females	24.90	26.00	24.90	26.00
Longevity at 45 at accounting date				
Males	25.00	25.30		
Females	27.20	28.40		
Discount rate	2.60%	3.40%	2.60%	3.40%
RPI Inflation	3.10%	2.90%	3.10%	2.90%
CPI Inflation	2.00%	1.80%	2.00%	1.80%
Pension increases	2.00%	1.80%	2.00%	1.80%
Pension accounts revaluation rate	2.00%	1.80%		
Salary increases	3.25%	3.30%		

The duration of the defined benefit obligation (i.e. the weighted average of the time until payment of future cash flows) for scheme members at 31<sup>st</sup> March 2017 was calculated by the actuary as 18.6 years (19.1 years at 31<sup>st</sup> March 2016).

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

	Impact on the Defined Benefit Obligation in the scheme		
	Increase in assumption	Base Figure	Decrease in assumption
	£m	£m	£m
Discount Rate (increase or decrease by 0.1%)	383.40	390.59	397.92
Rate of increase in salaries (increase or decrease by 0.1%)	392.09	390.59	389.10
Rate of increase in pensions (increase or decrease by 0.1%)	396.40	390.59	384.87
Post retirement mortality assumption (increase or decrease by 1 year)	402.21	390.59	379.04

Contribution rates are set by the fund's actuary based on triennial actuarial valuations. The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Authority has agreed a strategy with the scheme's actuary to achieve a funding level of 100% of the overall liabilities of the fund. The next triennial valuation is due to be completed on 31<sup>st</sup> March 2019.

The authority expects to pay £10.04 million contributions into the scheme in 2017/18.

### **39.0 Contingent liabilities**

As at 31<sup>st</sup> March 2017, the Authority has the following contingent liabilities:

- **Merthyr Tydfil Leisure Trust** - Merthyr Tydfil Leisure Trust has been admitted as a body to the Rhondda Cynon Taf County Borough Council Pension Fund (the Pension Fund). To do this, the Authority and the Pension Fund entered into an Admissions Agreement with Merthyr Tydfil Leisure Trust so that eligible Leisure Trust employees could access the Pension Scheme. The Pension Fund required a guarantee from the Authority to indemnify the Pension Fund against the risk of the Trust failing to make contributory payments due under the agreement. This is a standard request by administering Authorities, however the likelihood of default is remote. In order to mitigate this risk further, the Merthyr Tydfil County Borough Council has included a clause within the Services and Finance Management Agreement to reduce management fee payments to the Trust if the situation occurs.

In addition the admission agreement states that any accrued pension liabilities relating to scheme members at the transfer date are the Authority's liability. The Trust is responsible for the increase in liabilities post transfer. However it is not possible to reliably measure the value of this contingent liability.

- **Merthyr Valleys Homes** - As part of the legal agreements associated with the transfer of the Authority's Housing Stock to Merthyr Valleys Homes (MVH), a number of warranties and indemnities have been provided for a period of 30 years from the transfer date (March 2009), covering areas including environmental pollution and asbestos. The limit to claims made against these warranties is £15,000 for each property (uprated annually by RPI), with the exception of the warranty for environmental pollution and asbestos, where the limits are £40m (environmental pollution) and without limit (asbestos). Claims are subject to a de minimis level below which the Authority is not liable to reimburse MVH, these being £10,000 generally and £3.3m for Asbestos works. Potential liabilities that could arise in respect of environmental pollution have been mitigated by means of insurance policies, providing aggregate cover of £20m. At this stage, there have been no definite claims associated with the warranties provided and it is not possible to determine the extent and value of claims that may arise in the future.

### **40.0 Risks Arising from Financial Instruments**

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

- Credit risk – the possibility that other parties might 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
- Market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market conditions

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 Chief Executive's Directorate, under policies outlined in the Treasury

Management Policy Statement and Annual Investment Strategy approved by Council annually, prior to the commencement of the new financial year.

### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers. This Authority currently relies on information supplied by investment brokers to determine the creditworthiness of counterparties. It is the Authority's policy to deal with only the major UK banks and top 25 UK building societies based on total assets.

The Authority's Treasury Management Policy Statement and Annual Investment Strategy 2016/17 reported to Council on 23<sup>rd</sup> March 2016 set limits for investments for 2016/17 of:

- £5 million to any one Local Authority
- £5 million to any one UK Bank or Building Society
- UK Government as required

A Treasury Management In Year Review of the 2016/17 financial year was also reported to Council on 25<sup>th</sup> January 2017.

The Authority does not apply credit ratings to other financial assets, however the following table summarises potential exposure to credit risk based on experience of default and uncollectability:

#### 2016/17

Description	Balance outstanding as at 31st March 2017	Historic Experience of Default%	Estimated exposure to non-repayment at 31st March 2017
Council Tax	£4,476k	10.26%	£459k
Sundry Debtors	£2,370k	1.83%	£43K

#### 2015/16

Description	Balance outstanding as at 31st March 2016	Historic Experience of Default %	Estimated exposure to non-repayment at 31st March 2016
Council Tax	£4,206k	7.65%	£322k
Sundry Debtors	£3,988k	1.78%	£71k

The Authority expects repayment of its general debt within 30 days. However all of the above is past this due date and analysed as follows (net of provision):

**2016/17**

	<b>Council Tax £'000</b>	<b>Sundry Debts £'000</b>
<b>Age of Debt</b>		
Up to 1 Year:	1,401	2,060
Between 1 & 2 Years:	877	164
Between 2 & 3 Years:	551	72
Between 3 & 4 Years:	390	25
Between 4 & 5 Years:	274	10
Greater than 5 Years:	983	39
<b>Total</b>	<b>4,476</b>	<b>2,370</b>

**2015/16**

	<b>Council Tax £'000</b>	<b>Sundry Debts £'000</b>
<b>Age of Debt</b>		
Up to 1 Year:	1,387	3,554
Between 1 & 2 Years:	758	167
Between 2 & 3 Years:	491	89
Between 3 & 4 Years:	346	21
Between 4 & 5 Years:	292	12
Greater than 5 Years:	932	145
<b>Total</b>	<b>4,206</b>	<b>3,988</b>

**Liquidity Risk**

The Authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Authority has ready borrowing access to borrowings from the money market and the Public Works Loans Board. There is no significant risk that the Authority 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 Authority sets limits on the proportion of its fixed borrowings during specified periods. The maturity analysis of financial liabilities is as follows:

	<b>31st March 2017 £'000</b>	<b>31st March 2016 £'000</b>
Less than one year	<b>2,550</b>	<b>2,550</b>
Between one and two years	<b>3,187</b>	<b>2,550</b>
Between two and five years	<b>9,561</b>	<b>9,561</b>
More than five years	<b>39,386</b>	<b>42,573</b>
	<b>54,684</b>	<b>57,234</b>

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

### Market Risk

The Authority could be 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 instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise
- Borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- Investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- Investments at fixed rates – the fair value of the assets will fall

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

The Authority's strategies for managing interest rate risk are set out in the Treasury Management Policy and Annual Investment Strategy. All the Public Works Loan Board Loans are fixed rate whereas the £12 million EuroHypo Bank Loans are variable. In respect of Investments, the Authority invests monies at both fixed and variable rate but the risk is minimised since the maximum period of investment is less than 1 year.

If the Authority had experienced interest rates at 1% higher than the actual levels, the financial effect for 2016/17 would have been as follows:

	<b>£'000</b>
Increase in interest payable on variable rate borrowings	<b>120</b>
Increase in interest payable on variable rate investments	<b>0</b>
Impact on Surplus or Deficit on Provision of Services	<b>120</b>

#### 41.0 Trust Funds

The Authority administers trust funds on behalf of various bodies, since they are not the Authority's property they are not shown in the Balance Sheet.

All Trust Funds are registered with the Charity Commission and the accounting requirements of the Charity Commission Statement of recommended Practice are followed where appropriate.

The funds in question are as follows:

2016/17	Income £'000	Expenditure £'000	Assets £'000	Liabilities £'000
Education Trust Funds	2	10	110	10
Merthyr Tydfil Prize	0	0	4	0
<b>Total</b>	<b>2</b>	<b>10</b>	<b>114</b>	<b>10</b>

2015/16	Income £'000	Expenditure £'000	Assets £'000	Liabilities £'000
Education Trust Funds	1	0	88	21
Merthyr Tydfil Prize	0	0	4	0
<b>Total</b>	<b>1</b>	<b>0</b>	<b>92</b>	<b>21</b>

#### **Education Trust Funds**

This consists of donations for various educational purposes utilised to encourage further improvement in educational attainment.

The balance disclosed above is the total of 12 separate Trust Funds. Two of the largest donations are as follows:

#### **David Jones Trust Fund – Balance of £51,000 as at 31<sup>st</sup> March 2017**

This fund is to support the provision / purchase of resources for the hearing impaired children at four schools.

#### **Merthyr Tydfil Further Education Trust Fund – Balance of £28,000 as at 31<sup>st</sup> March 2017**

This fund is to benefit those who have for not less than two years at any time attended a County Secondary School in the area of the former County Borough of Merthyr Tydfil (prior to 1974). Awards are available in the form of:

1. Grants for those attending approved course outside the normal awards scheme, including professional and technical courses and;
2. Financial assistance towards the purchase of outfits, clothing, tools, instruments or books for leaving school or college to assist their entry into a profession, trade or calling.

#### **Merthyr Tydfil Prize**

This Prize has the objectives of the relief of poverty, sickness, distress and helping the aged in the County Borough of Merthyr Tydfil. The award is made to a person who, in the opinion of the trustees, has made a significant contribution to achieving these objectives.

**42.0 Interests in other entities****Associates**

Capita Glamorgan Consultancy Ltd is a Joint Venture between Capita Property and Infrastructure Limited, Bridgend County Borough Council, Rhondda Cynon Taf County Borough Council and Merthyr Tydfil County Borough Council. The Authority owns 6% of the shares of the Company.

The principal activity of the company is the provision of engineering, design and consultancy services, primarily in the fields of highways and transportation engineering, project management and construction management.

An extract from the latest available financial statements as at 31<sup>st</sup> December 2015 is detailed below. There is a nine month window for auditing the financial statements and the 2016 financial statements are expected in October 2017:

	<b>31st December 2015 £'000</b>	<b>31st December 2014 £'000</b>
<b>Expenditure</b>		
Cost of Sales	2,085	2,157
Administration Expenses	837	694
<b>Total Expenditure</b>	<b>2,922</b>	<b>2,851</b>
<b>Income</b>		
Turnover	(3,118)	(2,968)
<b>Operating Profit</b>	<b>(196)</b>	<b>(117)</b>
Tax on loss/profit of ordinary activities	42	23
<b>Profit and comprehensive income for the financial year</b>	<b>(154)</b>	<b>(94)</b>
	<b>31st December 2015 £'000</b>	<b>31st December 2014 £'000</b>
<b>Fixed Assets</b>		
Intangible	3	6
Tangible	78	110
	81	116
<b>Current Assets</b>		
Debtors	763	658
Cash	667	315
	1,430	973
<b>Current Liabilities</b>		
Creditors	(648)	(380)
<b>Net Current Assets</b>	<b>782</b>	<b>593</b>
<b>Total Assets less Liabilities</b>	<b>863</b>	<b>709</b>
<b>Capital and reserves</b>		
Called up share capital	0	0
Profit and loss account	863	709
<b>Shareholders' Funds</b>	<b>863</b>	<b>709</b>



## Joint Operations

Joint Operations under IAS 31 are 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. An entity can be defined as a body corporate, partnership or unincorporated association carrying on a trade or business with or without a view to profit. The reference to carrying on a trade or business means a trade or business of its own and not just part of the trades or businesses of entities that have interests in it.

Under IFRS, the Authority is required to recognise its share of the income and expenditure and assets and liabilities in relation to Joint Operations. The Authority had such an arrangement in place with the following bodies:

- Glamorgan Archives
- Llwydcoed Crematorium Joint Committee
- Central South Consortium Joint Education Service
- Vale, Valleys and Cardiff Regional Adoption Collaborative
- Cardiff Capital Region City Deal

### ***Glamorgan Archives***

This is a joint committee, created on 11<sup>th</sup> April 2006, comprising elected member representatives from the County Boroughs of Merthyr Tydfil, Bridgend, Cardiff, Rhondda Cynon Taf, Caerphilly and Vale of Glamorgan. The Glamorgan Archives Joint Committee provides, maintains, administers and develops a joint archives service for its constituent authorities. Merthyr Tydfil's contribution to the joint arrangement is 6%.

The net financial impact on the Authority's accounts as a result of including Glamorgan Archives' transactions is not considered material and so has not been included within the statement of accounts for 2016/17.

The Authority does however include in its Accounts the contribution paid towards the Glamorgan Record Office Building.

### ***Llwydcoed Crematorium Joint Committee***

Llwydcoed Crematorium is managed and administered by the Llwydcoed Crematorium Joint Committee, under powers conferred by the Local Government (Wales) Act 1994. The Joint Committee is made up of nine members, five from Rhondda Cynon Taf CBC and four from Merthyr Tydfil CBC. Rhondda Cynon Taf CBC became the Host Authority for the Joint Committee in 1996, taking over from the Urban District of Aberdare and the County Borough of Merthyr Tydfil. Merthyr Tydfil CBC's share of the joint arrangement is 46.6%.

The Authority has included its share of the jointly controlled operation within the 2016/17 financial statements.

### **Central South Consortium Joint Education Service**

The Central South Consortium Joint Education Service was created on 1<sup>st</sup> September 2012 to provide a range of school improvement services within the local Authority areas of Bridgend, Cardiff, Merthyr Tydfil, Rhondda Cynon Taf and the Vale of Glamorgan.

The Consortium is split into two distinct units:

- School Improvement Service – Provides the statutory school monitoring function on behalf of each local Authority.
- Learning and Innovation Network for Schools – Offers support services and courses to schools to support their individual improvement plans.

The Central South Consortium is managed and administered by the Central South Consortium Joint Committee, under powers conferred by the Local Government (Wales) Act 1994. The Joint Committee is made up of ten members, two from each Local Authority. Rhondda Cynon Taf CBC became the Host Authority upon formation of the Joint Committee. Merthyr Tydfil CBC's share of the joint arrangement is 6.68%.

The Authority has included its share of the jointly controlled operation within the 2016/17 financial statements.

### **Vale, Valleys and Cardiff Regional Adoption Collaborative**

This is a statutory consortium that all authorities must be party to as set out by Welsh Government and the National Adoption Agency. The Collaborative was set up in June 2015.

It is the Authority's central agency for assessment, matching and placement work regarding adoptions.

The Collaborative consists the Vale of Glamorgan County Council as Lead Authority, Rhondda Cynon Taf County Council, Cardiff County Council and Merthyr Tydfil County Borough Council.

Merthyr Tydfil County Borough Council contribute 11% into the Collaboration, at a value of £145,700.

The net financial impact on the Authority's accounts as a result of including the Vale, Valleys and Cardiff Regional Adoption Collaborative is not considered material and so has not been included within the statement of accounts for 2016/17.

### **Cardiff Capital Region City Deal**

On 1 March 2017 the £1.2 billion Cardiff Capital Region City Deal between the UK Government, the Welsh Government and the 10 constituent councils in South East Wales, which includes Merthyr, was formally ratified. 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.

The CCRD Investment Fund comprises two distinct elements:-

- £734 million – METRO scheme. This will comprise £503 million of Welsh Government funding provided over the first seven years from 2016/17 to 2022/23; £106 million from the European Development Fund, (which is committed and guaranteed following Brexit by both UK and Welsh Governments); and £125 million from UK Government. This element will be the sole responsibility of Welsh Government.
- £495 million – Regional Cabinet Fund, comprising the ten constituent councils' commitment to borrow £120 million over the 20 year period of the Investment Fund, together with £375 million

from the UK Government. This fund will be used for investment in infrastructure, housing, skills and training, innovation, business growth and "Metro plus" transport proposals. This element will be the responsibility of the CCRD Regional Cabinet. The Council will make a 3.9% contribution to the £120 million based on its proportion of the regional population.

The net financial impact on the Authority's accounts as a result of including the Cardiff Capital Region City Deal is not considered material and so has not been included within the statement of accounts for 2016/17.

## Other Entities

### *Merthyr Tydfil Leisure Trust*

Merthyr Tydfil Leisure Trust was set up on the 1<sup>st</sup> April 2015. The Authority transferred the function of providing existing Leisure and Cultural Services within the County Borough to the Trust. The Trust has been set up as a Not for Profit Distributing Organisation and is a Charitable Company Limited by Guarantee. The Trust is a registered Charity. The Trust is led by a Board of Trustees, which is required to be independent of the Authority. The Board Membership is as follows:

- The Chief Executive Officer
- 8 Community Trustees
- 2 Authority Trustees
- 1 Workforce Trustee

Hence the Authority's representation is below 20%.

During 2016/17 the Trust were paid a management Fee as agreed in a Contractual framework of £2,435,000 (£2,454,000 in 2015/16) to run existing services.

Authority facilities are still to be used to provide Leisure Services and have been leased to the Trust over a period of 25 years and have been included within disclosures in Note 36 operating leases.

Further details in regards to Merthyr Tydfil Leisure Trust Pension Fund are disclosed within Note 39 Contingent Liabilities.

## **Glossary of Terms**

### **Accrual**

An accrual is a sum shown in the accounts representing income or expenditure relating to the accounting period, which had not actually been received or paid as at the date of the Balance Sheet.

### **Actuary**

An actuary is an individual or organisation that calculates insurance premiums and liabilities and pension obligations.

### **Amortisation**

The reduction in the value of an intangible asset, which is charged to revenue

### **Asset Under Construction**

An Asset Under Construction represents an asset that is not yet complete.

### **Budget**

A budget is the spending plan for a financial year.

### **Capital Expenditure**

Expenditure on non-current assets that will be used for several years in the provision of services for example buildings.

### **Capital Financing Requirement**

An Authority's underlying need to borrow for a capital purpose. It measures capital expenditure incurred but not yet financed.

### **Capital Receipt**

Proceeds from the sale of capital assets that can be used to fund new capital expenditure schemes, or reduce the underlying need to borrow.

### **Chartered Institute of Public Finance and Accountancy (CIPFA)**

CIPFA is the professional body responsible for issuing financial guidance to be followed by public sector bodies.

### **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.

### **Creditor**

A creditor is an organisation/individual who is owed money by the Authority for goods/services provided.

### **Current Assets**

Assets that are short term (less than one year) and are considered to be liquid.

### **Current Liabilities**

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

### **Debtor**

A debtor is an organisation/individual who owes the Authority for goods/services received.

**Depreciation**

A charge made to the Comprehensive Income and Expenditure Statement to reflect the use of non-current assets during the year.

**Earmarked Reserves**

Amount set aside from the General Fund Balance to fund future expenditure plans.

**Fair Value**

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date.

**Financial Instruments**

A financial Instrument arises from a contract that gives rise to a financial asset of one entity and a financial liability of another. Examples are trade debtors, creditors, investments and borrowings.

**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 e.g. Loans, trade payables

**Financial Assets**

A financial asset is a right to future economic benefits controlled by the Authority that is represented by cash or other instruments or a contractual right to receive cash or another financial asset e.g. loans, trade receivables.

**Financial Year**

This is the accounting period that starts on 1 April and finishes on 31 March in the following year.

**Finance Leases**

Financing capital assets over a number of years through annual payments to a leasing company.

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

**Impairment**

Impairment occurs when the value of a non-current asset changes significantly for example as a result of physical damage.

**International Accounting Standard (IAS)**

Financial Regulations to be followed as set by the International Accounting Standards Board (IASB).

**International Financial Reporting Standards (IFRS)**

International Financial Reporting Standards are produced by the IASB (International Accounting Standards Board) with the aim of ensuring consistency within the countries adopting the standards.

**Inventories**

Raw materials used in carrying out services, unused items are shown as current assets in the Balance Sheet.

**Leasing**

A method of financing expenditure for assets through a rental payment over a set period of time.

**Lessee**

The user or renter of the leased asset or property.

**Lessor**

The owner of the asset or property that is leased.

**Levies**

Charges on the Authority by other public bodies to enable them to cover their costs in the performance of their services.

**Liability**

An obligation to transfer economic benefits as a result of past transactions or events.

**Lender Option Borrower Option Loans (LOBOs)**

Loans to the Authority where the lender can request a change in the rate of interest payable by the Authority at predetermined dates.

**Long-Term Asset**

Assets that are used in the provision of services (for a period greater than one year).

**Market Loans**

Borrowing that is sourced from the market i.e. organisations other than the Public Works Loan Board or a Public Sector Body.

**Minimum Revenue Provision (MRP)**

The charge to revenue for each financial year to account for the cost of the debt in that financial year.

**Net Realisable Value**

The selling price of an asset, reduced by the relevant cost of selling it.

**Non-Current Assets**

Long term assets to be used for more than one year.

**Non-Domestic Rates (NDR)**

The NDR, or Business Rates, is the charge to occupiers of business premises. NDR is set by the Welsh Government and is based upon the rateable value of the premises. Amounts collected by the Authority are paid into the Pool and are then redistributed amongst all Welsh Authorities on the basis of population.

**Operating Leases**

Financing for the use of capital assets through annual payments to a leasing company over a number of years. The risks and rewards of ownership remain with the leasing company.

**Pooled Budget**

A pooled budget is a financial mechanism, in which several organisations pool funding to provide a service/goods for a specific function.

**Precept**

A demand levied by one public Authority, which is collected on its behalf by another Authority.

**Provision**

A provision is an obligation to transfer economic benefits as a result of past events where a reliable estimate can be made of the obligation, but the amount or timing of which cannot yet be determined accurately.

**Public Works Loan Board (PWLB)**

The Public Works Loan Board is a Government Body that provides long term loans to local Authorities.

**Recharge**

An internal charge for services rendered by one Council section to another.

**Reserves**

Finance set aside to meet future expenditure plans.

**Revenue Expenditure funded from Capital Under Statute (REFCUS)**

Expenditure that is capital in nature but that creates no asset for the Authority e.g. Disabled Facility Grants.

**Revenue Support Grant**

Welsh Government Grant provided to Local Authority towards funding its services.

**Trust Funds**

Monies held by the Authority on behalf of individuals or organisations.



**MERTHYR TYDFIL**  
County Borough Council  
Cyngor Bwrdeistref Sirol  
**MERTHYR TUDFUL**

# **ANNUAL GOVERNANCE STATEMENT 2016/17**

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**SEPTEMBER 2017**



**MERTHYR TYDFIL COUNTY BOROUGH COUNCIL****ANNUAL GOVERNANCE STATEMENT – 2016/17****1. SCOPE OF RESPONSIBILITY**

Merthyr Tydfil County Borough Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. It is a requirement of the Local Government (Wales) Measure 2011 that Local Authorities make arrangements to secure continuous improvement in the exercise of their functions by identifying their own priorities for improvement.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

New guidance has been issued called *Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)* and applies to annual governance statements prepared for the financial year 2016/17 onwards.

The Well-being of Future Generations (Wales) Act 2015 (the Act) requires public bodies covered by the Act, including local government to consider the longer term in making their decisions and to work collaboratively with other public bodies to improve well-being in Wales. The Act places a well-being duty on specified public bodies to set well-being objectives that maximise their contribution to achieving well-being goals. Public bodies' first well-being objectives must be set and published no later than 31<sup>st</sup> March 2017. Public bodies are required to report annually on their progress towards meeting their well-being objectives.

The Act also establishes public service boards (PSB's) for each local authority area with statutory members. The statutory members of the PSB are the local authority, the local health board, the fire and rescue authority and National Resources Wales. Each PSB is required to improve the economic, social, environmental and cultural well-being of its areas by working to achieve the well-being goals. PSB's contribution to achievement of the goals must include preparing and publishing an assessment of local well-being by May 2017, preparing and publishing a PSB local well-being plan by May 2018 and preparation of an annual progress report specifying the steps it has taken, since publishing its most recent local well-being plan, to meet the objectives set out in the plan.

The Act is central to the Welsh Government's long-term policy for the public services and its themes tie in with the International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014), on which the *Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)* is based.

The Council has a Local Code of Corporate Governance in place. This is currently being updated to reflect the requirements of *Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)*.

This Annual Governance Statement explains how the Council has complied with the *CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016)* and also meets the requirements of Part 3 of the Accounts and Audit (Wales) Regulations 2014.

## **2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK**

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

A governance framework comprises the systems and processes, and culture and values, by which the Council and its activities are directed and controlled. It also embodies the way in which it accounts to, engages with, and leads the community. It enables the Council to monitor the delivery of its Corporate Priorities and to consider whether this has led to improved outcomes for the citizen. 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 or deliver its priorities 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 Council's policies and Corporate Priorities. It also evaluates the likelihood of those risks being realised and the associated impact should they occur, and identifies how the risks will be managed.

The Council 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 conducted by external agencies and internal arrangements, including performance management arrangements.

A governance framework has been in place at the Council for the year ended 31<sup>st</sup> March 2017 and up to the date of approval of the Annual Governance Statement and Statement of Accounts.

### 3. THE GOVERNANCE FRAMEWORK

The following is a description of the structures and processes that comprise the Council's governance arrangements including arrangements for:

**(a) Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users:**

The Corporate Plan set out our ambition for Merthyr Tydfil to 2017. The Corporate Plan is the primary tool of the Council to communicate the purpose, vision and intended outcomes for citizens and service users. The Corporate Plan identifies the Council's top priorities which are referred to as our Priority Areas. These support the Vision and Priority Outcomes identified for Merthyr Tydfil which are set out in the County Borough's Single Integrated Plan 2013-2017.

Priority Outcomes Single Integrated Plan	Priority Areas Corporate Plan 2013-2017
People in Merthyr Tydfil have the opportunity and aspiration to learn and develop their skills to maximise their potential.	Raising Standards of Attainment
People in Merthyr Tydfil benefit from a strong, sustainable and diverse economy.	Economic Development Employability
People, who live and work in Merthyr Tydfil, are supported to enjoy a healthier and better quality of life.	Promoting Independence Meeting the needs of vulnerable children Active Lifestyles
People enjoy a vibrant, attractive, safe and sustainable place in which to live, work, play and visit.	Sustainable Environment

Delivery of the Single Integrated Plan (SIP) was the responsibility of the Merthyr Tydfil Local Service Board (LSB) until it was replaced by the Cwm Taf Public Service Board in May 2016.

Due to the introduction of the Act considerable preparatory work has been undertaken to ensure that the Council and Public Services Board is well placed to meet the requirements as indicated above.

Merthyr Tydfil and Rhondda Cynon Taf Local Service Boards and the Cwm Taf Social Services and Well-being Partnership agreed to an integrated approach to deliver the needs assessment of the Act and the Social Services and Well-being Act 2014. The Cwm Taf Well-being Assessment was approved by Full Council on 22<sup>nd</sup> February 2017 and published on 31<sup>st</sup> March 2017 via the 'Our Cwm Taf' website ([www.ourcwmtaf.wales](http://www.ourcwmtaf.wales))

Engagement was undertaken with communities, stakeholders and service users and appropriate use made of national and international research. The engagement activity and fieldwork produced knowledge that helped shape the well-being objectives.

The Council's initial Statement of Well-being (and Well-being Objectives) for 2017-2022 were reported to and agreed by Full Council on 22<sup>nd</sup> March 2017 and is published on the Council's website ([www.merthyr.gov.uk](http://www.merthyr.gov.uk)). Work has continued to refine the Statement of Well-being and a plan has been developed to show how the Council will take all reasonable steps to meet those objectives. The Plan was reported to and approved by Full Council on 26<sup>th</sup> July 2017.

**(b) Reviewing the vision for Merthyr Tydfil and its implications for the Council's governance arrangements:**

The Council keeps the above under review and development. The annual review of governance arrangements will take into account any changes to the Vision in the future.

The Single Integrated Plan that contains the vision for Merthyr Tydfil has been subject to review by the Local Service board partners. A Mid Term review was undertaken during 2015/16.

Each year the Council produces the Corporate Plan - Annual Delivery Document which provides an update to the Corporate Plan based on national changes (new legislation), planned activities and lessons learnt from in year self-evaluations. The Annual Delivery Document for 2016/17 was reported to Full Council in June 2016. The Council's Vision and priorities were reviewed again later in 2016 and the stated priorities confirmed.

**(c) Translating the vision into objectives for the authority and its partnerships:**

The Single Integrated Plan identified clear outcomes that will have a positive impact for people.

The Corporate Plan supported the vision and priority outcomes identified for Merthyr Tydfil within the Local Service Board's Single Integrated Plan 2013-2017.

The priorities of the Single Integrated Plan focussed on making progress on outcomes in partnership with other organisations, whilst the priorities in the Corporate Plan focus on those that are predominantly the responsibility of the Council.

In accordance with the Act, a well-being assessment has been undertaken and the results used to shape the well-being objectives. These are detailed within the Council's Well-Being Statement for 2017/18. The Well-being assessment is being used by Cwm Taf Public Service Board to inform the Local Well-being Plan which sets out its local objectives and the steps it proposes to take to meet them.

**(d) Measuring the quality of services for users for ensuring they are delivered in accordance with the Council's objectives for ensuring that they best represent the use of resources:**

During 2016/17 there was a programme of service challenges via the Performance Board which reviewed service self-evaluations and provided challenge on service performance. The Performance Board helps the Council identify areas for improvement work within services and this is reported to Scrutiny.

Local and national performance information is co-ordinated through Scrutiny Reports. These reports are prepared for the service in collaboration between the Heads of Service and the Performance Team. The reports are published and cover the indicators and projects delivered by Council services and within the corporate priorities in the Corporate Plan.

Value for Money of services provided by the Council is considered as part of the Corporate Self Evaluation/Performance Service Challenge framework adopted by the Council. This is starting to inform the allocation of scarce resources through the budget setting process.

The Council's budget process establishes the resources required to deliver its services and Corporate Priorities for Improvement, which involves a review of the overall use of resources.

Procurement Board was established in August 2016 and is the governing body for all procurement activity within MTCBC.

Approval must be sought from Procurement Board for tendering activity across the whole of the Council. Visibility and high level control of 3<sup>rd</sup> party expenditure is essential to ensure procurement contributes to reducing spend through procurement of goods, services and works. The Procurement Board is instrumental in ensuring that there are common governance controls across the diverse services procured and delivered across the Council.

Internal Audit's annual plan of work includes reviewing the use of resources.

Consultation is used to gauge the public perception of services provided.

The self-evaluation process aims to ensure that each service area has robust arrangements in place to provide information to enable quality of service to be measured.

As part of the partnership review undertaken in 2015/16 proposals have been made and are being implemented that will reduce costs in relation to staff time by streamlining partnership structures.

The Service Improvement Framework sets out the key components of the Council's improvement planning process. The Service Improvement Framework has been updated to reflect changes to the Council's approach in order to meet the requirements of the Act. This includes updating terms of reference of the Senior Leadership Team to provide the opportunity to collectively discuss and challenge a range of topics pertinent to the successful running of the Council including discussion and challenge on the steps taken to meet the well-being objectives.

The complaints procedure has undergone a review and an updated model was presented to, and adopted by Council in September 2014.

**(e) 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 sets out the respective roles and responsibilities of councillors and senior officers in the Council's Constitution.

All Committees and member bodies are set out in the Council's Constitution. The Scheme of Delegation details where responsibility for functions lie and in respect of decisions to be made, identifies which body or person makes those decisions which result in actions either being taken or not.

The Constitution sets out the protocol on councillor/officer relations and sets out the specific role of councillors and officers and of the relationship that should exist.

**(f) Developing, communicating and embedding codes of conduct, defining the standards of behaviours for members and staff:**

There are codes of conduct in place which have been formally approved and communicated to all relevant staff. The Employee Code of Conduct and Members Code of Conduct form part of the Constitution. Copies of Codes are also available on the Council's Intranet and Internet site. Booklets are produced and disseminated to employees and councillors on request. Members have to sign a declaration of acceptance of office where they agree to abide by the Members Code of Conduct.

Standards of behaviour are detailed within the code of conduct. The council has also adopted set of core values and associated behaviours which underpin the way that the organisation

operates and includes; honesty and openness, trust and respect, accountability, learning, aspiration, team working and communication.

The Staff Handbook also details the seven principles of public life being selflessness, integrity, objectivity, accountability, openness, honesty and leadership as the expected standards of behaviour for all employees stating that Council employees are expected to demonstrate the highest standards of conduct and always act in a way that is professional, respectful and with integrity.

All new starters with the Council receive a copy of the Employee Code of Conduct and have to sign indicating acceptance. All members of staff have been issued with a Staff Handbook which provides a summary of relevant policies and working practices including the Code of Conduct.

Councillors' conduct is detailed within Part 4 of the Constitution – Council Procedure Rules.

**(g) Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks:**

The Constitution has been updated to reflect the changes both in terms of the political management structure arrangements and organisational structure in the Council. In addition, there have been a number of changes required as a result of the Local Government (Wales) Measure 2011. The Council's Constitution sets out how the Council operates, how decisions are made and the procedures followed to ensure that these are efficient, transparent and accountable to local people. Responsibility for decision-making, the role of the Council, the Cabinet, Committees and the process for determining the Council's key decisions are defined in the Constitution. Delegations are detailed so that the functions of the Council, Cabinet, Cabinet Members, Committees and Officers are specified.

The Constitution contains amongst other things, Rules of Procedure including the Financial Procedure Rules and the Procurement and Contracting Rules. The Procurement and Contracting Rules were revised and approved in April 2014. The Rules have been further amended to reflect the Public Contract Regulations 2015 and the updated Welsh Procurement Policy Statement which was issued in June 2015. These amendments were approved by Full Council in January 2016. The Financial Procedure Rules have been reviewed. It is recognised that they require amendment to reflect changes in structures, systems and processes operating within the Council and work to this effect is underway.

The Audit Committee has a role in reviewing and scrutinising the appropriateness of the Council's Risk Management arrangements, which should be supported and driven by a Risk Management Policy and Strategy.

In order to emphasise the importance of Risk Management across the Council, the Deputy Leader of the Council was the Councillor Risk Management Champion as set out in the Policy and Strategy. The Policy and Strategy also clearly sets out Risk Management Roles and Responsibilities across the Council, including for the Chief Executive, Directors, Heads of Service, Operational/Team Managers, Employees and Councillors.

The Council's revised and updated Risk Management Policy and Strategy was approved by Full Council on 16<sup>th</sup> July 2014. Risk registers are in place which capture the risks and issues that could prevent or hinder the delivery of the Council's Corporate Strategies. The Council's Performance Board is an integral part of reporting on the Risk Registers enabling the Council to challenge services about risks and issues, whilst also supporting the identification of any new or emerging risks and issues.

**(h) Undertaking the core functions of an Audit Committee, as identified in CIPFA's Audit Committee – Practical Guidance for Local Authorities:**

The Council has an operating and effective Audit Committee that is compliant with the Local Government Measure (Wales) 2011 and the Accounts and Audit (Wales) Regulations 2014. The Audit Committee has an up to date Terms of Reference that are contained within the Council's Constitution and compliant with best practice guidance and undertakes the core functions of an audit committee as identified in CIPFA's Audit Committee – Practical Guidance for Local Authorities.

**(i) Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that the expenditure is lawful:**

The Council has in place a framework of Procedures, Rules and Policies that sets out how policy decisions are made. Key roles are performed by statutory officers, including the Council's Head of Paid Service, Monitoring Officer, Section 151 Officer, Chief Education Officer, and Statutory Director of Social Services.

A regular programme of work is carried out by Internal Audit reviewing compliance with established procedures and expected controls. In addition, Scrutiny Committees, External Audit and External Inspection Agencies contribute to the review of the Council's compliance with its policies, procedures, laws and regulations.

A Risk Management Framework has been established which aims to embed risk management into the operational and strategic management of the Council. Key risks are identified in Service Risk Registers and a Corporate Risk Register and a Risk Management Strategy adopted.

The Council sets a balanced budget with revenue and capital budgets being integrated annually. This is embodied by the production of a Medium Term Financial Plan (MTFP), which sets out likely expenditure and income over a 4-year period which allows for more certain



forward planning for the delivery of services and linking this to the level of resources potentially available. The MTFP is presented to the Council as part of the budget setting process.

The MTFP indicates the financial challenges faced by the Council over the 4 year period in respect of required budget reductions based on a set of assumptions included within the MTFP document. Sensitivity analysis is also taken into account in introducing scenario planning based on key assumptions, in particular projected future Welsh Government funding. The MTFP is presented to the Council as part of the budget setting process.

Revenue and capital expenditure budget proposals over the term of the MTFP are subject to robust scrutiny, review and challenge via Corporate Management Team, Portfolio Members, Cabinet workshops, formal Cabinet, Joint Scrutiny/Audit committee and Council.

Appropriate limits have been approved in line with the Prudential Code for Capital Accounting. Budgets are monitored regularly and members receive financial information that is relevant, understandable and consistent with the underlying financial records. Financial reserves are kept under review. Creation of the Budget Board in 2014/15 has had a significant impact in respect of accountability for budget management with surplus revenue budget outturns reported for 2014/15, 2015/16 and 2016/17 and an adequate, healthy general reserves balance maintained.

The Accountancy Service provides timely and accurate information to assist management in decision making. Budget monitoring statements are compiled monthly and issued to budget holders. Meetings are held with budget holder to discuss the budget position. Quarterly revenue monitoring reports are compiled and reported to Cabinet in order to advise Cabinet of the revenue budget monitoring financial position including projected outturn for the financial year.

For the first half of 2016/17 the Internal Audit Service was operating at approximately 50% resource. Recruitment activity was undertaken as a priority to address this situation and by September 2016 the Service was 83% resourced and by the first week of October 2016 it was 100% resourced. The 2016/17 audit plan was prepared to take account of resources and whilst overall there was a lower than originally planned level of coverage all audit assignments identified as highest priority were completed within the period allowing the Audit Manager to produce his annual report incorporating his opinion on the risk management, governance and internal control framework in operation within the Council during 2016/17.

The Council is compliant in ISO 27001, the international information security standard. ISO 27001 provides a framework for an Information Security Management System (ISMS) – the ISMS is a systematic approach to managing the Council's data so that it remains secure. It includes people, processes and IT systems by applying a risk management process.

The Council has policies in place in regards to data management – these are reviewed on an annual basis or earlier if the business need arises. There is an Information Governance Forum (IGF) in place with representation from service areas across the Council – the purpose of the IGF is to report to the Corporate Management Team and Audit Committee all matters in relation to the strategic development, implementation, management and monitoring of MTCBC information governance arrangements.

A great deal of work has been done to ensure that the authority is ready to enact the requirements of the new Data Protection legislation – The General Data Protection Regulations (GDPR) 2016 when they come into force. The Council has until 25 May 2018 to ensure that they are compliant with the new legislation. Members are reminded of their duties of disclosure and non-disclosure and all reports go to an agenda planning meeting before being presented to Cabinet and Council so that any decision to restrict access can be challenged.

**(j) Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability:**

The Council has an approved Risk Management Strategy that includes a Corporate Risk Management Policy Statement. The Strategy and the inclusive Policy Statement is regularly updated to ensure it remains up to date and continues to reflect the Council's approach to Risk Management. The Council's Risk Management Strategy has been updated with approaches for managing risk in relation to partnerships and was approved by Council in July 2014.

Each Chief Officer has a Risk Register in place which captures the risks and issues that could prevent or hinder the delivery of the Council's corporate strategies. Each Head of Service also has a Risk Register in place. The Council's updated Corporate Risk Register for 2016/17 was prepared using a combination of the following risk sources:

- Corporate risks that were identified in the Corporate Risk Register for 2015/16.
- An analysis and grouping of:
  - the identified risks that have been scored 12 or above in the Chief Finance Officers and Service Risk Registers;
  - the identified issues in the Chief Officer and Service Risk.

Each Corporate Risk for 2016/17 was allocated to a Lead Director who has responsibility for ensuring their corporate risks are monitored, reported and managed. In addition, appropriate Cabinet Members were identified as Lead Councillors for specific corporate risks in the Corporate Risk Register for 2016/17.

The Council's Annual Risk Management Progress Report and the Updated Corporate Risk Register for 2016/17 were presented to Audit Committee in October 2016 and to Cabinet in November 2016.

Progress on the management of all the Council's Corporate Risks for 2016/17 was presented to Audit Committee in January and February 2017.

Risk management continues to be an integral part of the Council's Transformation Programme and Financial Planning and Budget setting processes.

A self-assessment of the Council's Corporate Risk Management arrangements (as at 31<sup>st</sup> March 2017) has been undertaken to establish the Council's level of risk maturity.

A draft self-assessment of the Council's level of risk maturity has indicated a Level 3 / 4 - Risk management is working / embedded and integrated within the organisation. The next step is to present the self-assessment to Corporate Management Team for consideration, challenge and final agreement on the level of risk maturity.

**(k) Whistleblowing and arrangements for receiving and investigating complaints from the public:**

The Council's Whistleblowing Policy and Procedure is contained within the Constitution and was updated in accordance with legislation in December 2014. A full review of the process has taken place and arrangements publicised by posters and a staff survey which suggests that staff are aware of the process but further work needs to be done to boost staff confidence in the process and to ensure that everyone has full understanding and access.

The Standards Committee was presented with a report setting out the number of whistleblowing referrals that had been made over the course of the last three years and their outcomes. A further report was presented to the Standards Committee on 18<sup>th</sup> November 2016 to provide an update on two complaints that were outstanding when the committee met in July 2016.

A further report will be presented to the Standards Committee in July 2017 regarding complaints that have been received between 1<sup>st</sup> April 2016 to 31<sup>st</sup> March 2017.

The Council also has an approved Anti-Fraud and Corruption Policy in place. It is planned to review and update the policy in 2017/18.

The Council has a 'Corporate Complaints – Customer Policy' and a 'Social Services Complaints Policy', both of which were agreed by Council on 10<sup>th</sup> September 2014 and are available on the Internet. The Social Services Complaints Policy is in accordance with the Social Services Complaints Procedure (Wales) Regulations 2014, the Representations Procedure (Wales) Regulations 2014 and the Social Services and Well Being Act 2014 and brings the complaints process for Social Services in line with the Model Concerns and Complaints Policy and Guidance and the NHS Complaints Procedure "Putting Things Right".

It is a requirement of the Social Services Complaints Procedures (Wales) Regulations 2014 and the Representations Procedure (Wales) Regulations 2014 that an annual report is made to Scrutiny Committee on the performance in the handling and investigation of Social Services complaints and representations. The report detailing performance for 2016/17 is currently being compiled for submission to Scrutiny Committee.

With regards to Corporate Complaints it has been acknowledged that there are areas in which improvements could be made. It is intended that work is undertaken to investigate how we better record and disseminate the lessons learnt from complaints, representations and compliments received.

**(I) Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training:**

The Council's website contains policies relating to Employee Code of Conduct, Financial Procedure Rules, Procurement and Risk Management, Health and Safety, Whistleblowing etc. All Councillors are invited to attend induction-training courses when elected and may not take up office until they have received training in the Code of Conduct. Training is provided to Councillors based on their training needs analysis. Party leader also hold 1:1 meetings with their members and produce personal development plans.

Finance induction training was provided to all Councillors in 2012/13 and for all Councillors in May 2017 following the Local Government elections.

Training from a range of services is also being undertaken with new Councillors during 2017.

Training needs assessments are undertaken for specific skill areas periodically. The Council has Training Officers who organise training courses for staff.

The Council maintains a 'One to One and Annual Review/Appraisal' process for staff.

The Council has a Capability Policy the objective of which is to set out a constructive and fair approach to achieving improved work performance through effective supervision, mentoring, training and regular one to ones. This is supported by a Capability Procedure.

The Council takes part in all benchmarking exercises with the WLGA to then implement best practice. A direct result of the benchmarking and research exercises undertaken by the department in 2016/17 resulted in a business case for a HR Systems Officer as it was established that a full range of management information was not available to the managers within the Council.

The management information data, updated structure charts, job descriptions and transparency over the agency labour contract has allowed the HR department to implement a workforce plan

for all service areas and assist service areas with business cases should redundancies be considered within their service area.

A joint approach between workforce development and operational HR has allowed the individual service areas to plan training to support staff whose roles may change as a result of the transformation agenda.

The Human Resources Department contributes to the Organisational Development Plan by considering staffs skills and capacity to deliver on key outcomes and targets via the Business Cases mitigating risks to the service areas via the transformation change programme. Human Resources have a key role within the Change Programme and the Corporate Management Team to advise and assist accordingly.

Succession planning is built into any business case that is considered as part of the transformation change programme. A business case has been put forward for the appointment of a Workforce Development Officer to consider succession planning in the broader sense for the authority in light of the authorities ageing workforce. The workforce development tools developed by the WLGA and Wales Audit Office will be used in the authority following appointment of the position.

**(m) Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation:**

Consultation and engagement is one of the main tools the Council uses to inform and understand the opinions and views of local residents, customers and other stakeholders within the County Borough.

The Council has developed a Communications, Consultation and Engagement Strategy which applies to all work streams that require engagement and consultation activities.

In line with the Communications, Consultation and Engagement Strategy, the Council are continually reviewing their communication and engagement channels. These include:

- Contact Magazine
- Council's internal Intranet
- Use of local, regional and national media
- Use of service users for planning groups
- Chief Executive's Core brief
- Social Media including Facebook and Twitter
- Council's Website
- Electronic Signage Facilities
- Improved telecommunication access channels
- Specific consultation on change programmes e.g. Chief Executive Information Sessions, Chief Executives Blog
- Face to face engagement session such as drop in sessions and roadshows

The public were engaged as part of the process to undertake the well-being assessment to inform the Well-being Plan on behalf of the Public Services Board and further engagement and consultation was undertaken to inform the Council's Well-being Statement and objectives linked to the Act.

There are clear channels of communication in place corporately for all consultation and engagement activity. This is done through the Cwm Taf Engagement Hub, Council's website, social media sites and the Contact Community magazine. In addition to this, there is a citizen panel for Merthyr Tydfil and a combined panel with Rhondda Cynon Taf to ensure that the Council is consulting and engaging with all sections of the community.

Responsibility for consultation and engagement sits with the Corporate Communications and Consultation Team within the Council and is also supported by the newly established Cwm Taf Public Engagement Group who promote co-ordination of participation, involvement, engagement and consultation across the partner organisations of the Cwm Taf footprint.

The Council is now more proactive with all consultation and engagement across the Cwm Taf Footprint through closer partnership working via the strategic and practitioners public engagement group meetings. The level of engagement has improved significantly through the Cwm Taf footprint with the launch of the Cwm Taf portal. Internally the Council has developed more robust consultation and engagement processes and procedures through working with an accredited Consultation and Engagement Consultant.

Regular progress updates are provided on all communication and consultation activity internally through Corporate Management Team, Senior Leadership Team, Communications and Consultation Sub Group, the Change Programme Steering Group and the Change Programme Board. Progress on certain consultation exercises are also communicated back to the Cwm Taf Public Engagement Group.

The Council has a Freedom of Information (FOI) Publication Scheme which provides details of the information that is published automatically or routinely by the Council categorised under various headings i.e. Constitution and Democracy. The Scheme is published on the Council's external website.

**(n) Incorporating good governance arrangements in respect of partnerships and other joint working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the Authority's overall governance arrangements:**

The Council works in partnership with a range of organisations in order to deliver its objectives and priorities. Some examples include:

- The Cwm Taf Public Service Board was established in May 2016 and was the first area in Wales to establish a single Public Service Board to cover communities serviced by a Local

Health Board. This Board is made up of leaders and senior managers of organisations in Cwm Taf, including: Rhondda Cynon Taf County Borough Council, Merthyr Tydfil County Borough Council, Cwm Taf University Health Board, Natural Resources Wales, South Wales Fire and Rescue Service, Interlink RCT, Voluntary Action Merthyr Tydfil, South Wales Police, National Probation Service, South Wales Police and Crime Commissioner, Community Rehabilitation Company; and Welsh Government.

- Cwm Taf Strategic Partnership Board.
- Cwm Taf Social Services and Well-being Partnership Board to prepare for and oversee implementation of the Social Services & Well Being Act.
- Welsh Local Government Association.
- The Cardiff Capital Region City Deal – Ten South East Wales local authorities, in partnership with the Welsh Government, in developing and securing a City Deal with the UK Government.
- Cwm Taf Community Safety Partnership is a multi-agency partnership working together to reduce crime, disorder and anti-social behaviour throughout the County Borough of Merthyr Tydfil. The partnership is made up of both statutory and voluntary sector organisations.
- Cwm Taf Safeguarding Children Board (CTSCB) is a statutory group made up of key partner agencies including community and voluntary organisations who work together to safeguard and promote the welfare of children and young people in Merthyr Tydfil and Rhondda Cynon Taf.
- Cwm Taf Safeguarding Adults Board (CTSAB) is a group made up of key partner agencies including community and voluntary organisations who work together to safeguard and promote the welfare of children and young people in Merthyr Tydfil and Rhondda Cynon Taf. The Board is responsible for protecting vulnerable adults from abuse, reducing the risk of abuse and supporting people to stop abuse where it happens.

There are a range of governance processes in place for the respective partnerships proportionate to the need and complexity.

The Council has developed a Partnership Risk Management Toolkit that provides a framework for identifying and managing the risks associated with creating, establishing, managing and delivering successful partnerships. The Toolkit was piloted by a range of services across the Council to test its effectiveness and provide feedback on any necessary improvements. The draft Toolkit has been updated where necessary to reflect the feedback from the pilot and it is planned to roll this out during 2017/18.

**(o) Ensuring the Authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) and, where they do not, explain why and how they deliver the same impact:**

The Section 151 Officer (Chief Finance Officer) is the responsible officer for administration of the Council's financial affairs under section 151 of the Local Government Act 1972.

The Chief Finance Officer reports strategically to the Chief Executive and operationally to the Deputy Chief Executive and is a member of Corporate Management Team.

The Chief Finance Officer is responsible for ensuring that appropriate advice is given on all financial matters, for maintaining proper financial accounts and records and maintaining an effective system of internal financial control.

In line with CIPFA's 'Statement on the Role of the Chief Financial Officer in the Public Service Organisations' (2009) and the 'Statement of the Role of the Chief Financial Officer in Local Government' (2010) the Council's Chief Financial Officer:

- Is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the Council's strategic objectives sustainably and in the public interest;
- Is actively involved in, and able to bring influence to bear on all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the Council's financial strategy; and
- Leads the promotion and delivery by the whole Council of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities the Chief Finance Officer:

- Leads and directs a finance function that is resourced to be fit for purpose; and
- Is professionally qualified and suitably experienced.

**(p) Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained.**

The Council has an approved Anti-Fraud and Corruption Policy. The Anti-Fraud and Corruption Policy is available electronically via the Intranet and members of staff have been made of aware of the Policy and its location. It has been recognised that the policy is in need of review.



Internal Audit carry out internal fraud investigation work along with specific exercises carried out by Benefits and Council Tax staff.

**(q) Ensuring the authority's assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010) and, where they do not, explain why and how they deliver the same impact.**

The Head of Internal Audit (Audit Manager) is CIPFA qualified with over 20 years' experience and leads a team of staff who provide a professional, cost effective and independent internal audit of the Council's systems of internal control, risk management arrangements and governance arrangements. Internal Audit work to a risk based plan and produce reports giving opinions on the standard of the Council's internal control environment, it's compliance with established controls and its governance arrangements.

The Internal Audit Charter and compliance with the Public Sector Internal Audit Standards demonstrates how the principles detailed in the CIPFA Statement on the Role of the Head of Internal Audit are achieved.

An Annual Internal Audit Report is compiled by the Audit Manager and reported to Audit Committee providing an opinion on the internal control framework, risk management arrangements and governance arrangements. The opinion formulated in this report is based on the work undertaken by Internal Audit during the financial year and the opinions given and will identify any 'gaps' in resource and any concerns in the risk management, governance and internal control arrangements and framework.

Financial Procedure Rules detail that the Chief Finance Officer and his audit representatives have the authority to directly access the Head of Paid Service, the Cabinet and the Audit Committee.

The Audit Manager attends every Audit Committee meeting and works closely with the Audit Committee to provide challenge and support across the Council and improve governance, risk management and internal control. The Audit Manager is not a member of the Senior Leadership Team but is managed by and has direct access to the Head of Corporate Services who is a member of the Senior Leadership Team.

**(r) Documenting a commitment to openness and acting in the public interest.**

Part 5.01.02 of the Constitution – The Principles of Member Conduct details the principles that must be complied with by all members, one of which includes 'openness'. Openness in the dissemination of information and decision making is also included within the Code of Conduct for Employees which forms part 5.02.05 of the Constitution. The Council's Whistleblowing Policy states that the Council is committed to the highest possible standards of openness, probity and accountability.

The Code of Conduct requires members and employees to complete a registration of financial and any other interests including membership, management positions, hospitality and gifts. Registers for members are monitored by the Monitoring Officer. Registers for employees are held by each service and monitored by Directors.

'Declarations of Interest' appear as a standing item on the agenda for all committee meetings where members are reminded of their personal responsibility to declare any personal and prejudicial interest in respect of matters contained in the agenda.

**(s) Reviewing the effectiveness of the decision-making framework, including delegation arrangements, decision-making in partnerships, information provided to decision makers and robustness of data quality.**

Part 2.01.03 of the Constitution stipulates that the purpose of the Constitution with regards to decision making is to:

- Create a powerful and effective means of holding decision-makers to public account;
- Ensure that no one will review or scrutinise a decision in which they were directly involved (for example, a Member of the Cabinet cannot also serve on a Scrutiny Committee.);
- Ensure that those responsible for decision making are clearly identifiable to local people and that they explain the reasons for decisions.

To this end all Council meetings are minuted and all decisions are recorded. Minutes are published on the intranet and the internet.

The principles of decision making are also detailed in Article 13 of the constitution.

Decisions / Resolutions are based on standard report templates submitted by officers that contain recommendations for members to consider. The rationale for the recommendation is contained in the body of the report. The standard report template requires an Equality Impact Assessment, Financial Implications and Single Integrated Plan and Sustainability Impact Assessment to be completed - this attempts to ensure that all reports, decisions and proposals to the Council and Cabinet are contributing towards delivery of the Priority.

Members and officers are now jointly involved in agenda planning meetings to ensure clarity of direction and cabinet members also attend service management meetings and scrutiny together with officers. These processes have continued to be developed and embedded and engagement of Cabinet members has continued to improve and evolve.

The Council has formed a Standards Committee to promote and maintain high ethical principles and these are enshrined within a Code of Conduct for Members. This is detailed in Article 9 of the Constitution. All Councillors have to agree to follow the Code of Conduct to

ensure high standards in the way they undertake their duties. The Standards Committee is also responsible for training and advising Councillors on the Code of Conduct.

**(t) Ensuring effective arrangements are in place for the discharge of the monitoring officer function.**

The functions of the Monitoring Officer are detailed in Part 2.12.03 of the Constitution. The Monitoring Officer is a member of the Corporate Management Team. All reports to be presented to Council and Cabinet are received and reviewed by the Team, 2 weeks before being presented.

The Monitoring Officer is managed directly by the Chief Executive and subject to the 1 to 1 and appraisal process. Performance management targets have been set and met. The Monitoring Officer plays an active role in the governance arrangements now in place.

**(u) Ensuring effective arrangements are in place for the discharge of the heads of paid services function.**

The functions of the Head of Paid Service are detailed in Part 2.12.02 of the Constitution and discharged via the established organisational structure. The management structure details the functions and responsibilities of the Head of Paid Services which includes overall corporate and strategic management and operational responsibility for the Council, including overall management responsibility for all officers.

The functions of the Head of Paid Services and the Chief Executive are combined and continue to be delivered and function effectively.

**(v) Ensuring an effective scrutiny function is in place.**

The scrutiny function at the Council is performed by six scrutiny committees as follows:

- Governance, Performance, Business Change and Corporate Services
- Neighbourhood Services and Public Protection
- Regeneration, Planning and Countryside
- Learning and LAESCYP
- Social Services
- Joint Scrutiny Committee

These scrutiny committees are made up of elected local members (Councillors) who are not part of the Council's Cabinet, along with co-opted representatives. Their role is to monitor performance, challenge the Council's spending proposals, review services, contribute to policy development, examine the work of other local public service providers and promote public engagement in the democratic process.

All Cabinet decisions are subject to "call-in" by the scrutiny committees. All Councillors are sent a link to the Cabinet agenda. Minutes / decision notices are sent to scrutiny members for them to decide if they wish to "call-in" a decision. The Governance, Performance, Business Change and Corporate Services Scrutiny Committee receive reports as the "overarching" scrutiny committee. Any issues for further investigation are referred to individual scrutiny committees.

During 2016/17 no Cabinet decisions have been subject to "call-in". Cabinet members regularly attend scrutiny committee meetings where they are subject to challenge on their areas of responsibility. As such Cabinet decisions are subject to scrutiny. Scrutiny committee work programmes, reports, minutes and recordings of meetings are available.

The Governance, Performance, Business Change and Corporate Services Scrutiny Committee has undertaken the role of scrutinising the PSB during 2016/17 with the Well-being Assessment being presented to them in March 2017 and reports on progress in establishing the Cwm Taf Joint PSB being presented during 2016/17. The Cwm Taf Joint PSB Scrutiny Committee was established during 2016/17 and their first meeting held in February 2017.

Each year the Council's scrutiny committees produce an Annual Report which includes a retrospective insight into the work undertaken by each of the Council's Scrutiny Committees during the municipal year. The Annual Report for 2016/17 will be submitted to Council during July 2017.

**(w) Ensuring that the authority provides timely support, information and responses to external auditors and properly considers audit findings and recommendations.**

The Council has operated the current Audit and Inspection Action Plan (AAP) system for over 10 years. This includes a process for the management of external audit recommendations. A recent evaluation of existing arrangements by both internal and external audit identified areas of the existing arrangements that could be improved upon; subsequently a new additional procedure was drafted and approved by Corporate Management Team in December 2016 and Audit Committee in January 2017. This new procedure is now in operation, however, it is too early to comment upon its effectiveness to date.

A replacement system has been developed and is currently being tested with a view to implement it during 2017/18.

#### 4. REVIEW OF EFFECTIVENESS

The Council 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 executive managers within the Council who have responsibility for the development and maintenance of the governance environment, the Internal Audit Annual Report, and also by the comments made by the external auditors and other review agencies and inspectorates.

Throughout 2016/17 the Council has maintained and reviewed its system of internal control in a number of ways. In particular:

The Internal Audit Service has undertaken planned reviews of internal control procedures, risk management and governance arrangements across departments and across a range of functions within the Council. The Internal Audit Service worked to its Plan for 2016/17. Reports were published upon completion of assignments and circulated to management and members of the executive and action plans included in the Council's Audit, Inspection Action Plans system (AAPs) according to internal processes. Minutes and agenda papers of Audit Committee demonstrate that both internal audit, external audit (Wales Audit Office) and other external inspection/regulation agencies reports have been made to Audit Committee and also that officers have been called to the Audit Committee to discuss their respective reports and action plans and to subsequently provide further updates on progress at future Audit Committee meetings. Audit Committee Members have access to the Council's Audit Action Plan system so that they can view service action plans and monitor managements progress of completion of actions.

The Annual Internal Audit Report for the financial year 2016/17 incorporating the Audit Manager's opinion was produced and reported to the Council's Audit Committee on the 10<sup>th</sup> July 2017. Based upon the work undertaken during the year Internal Audit gave a satisfactory opinion on the internal control environment, risk management arrangements and governance arrangements for 2016/17 (Further information can be found in the Annual Internal Audit Report 2016/17).

The scrutiny committees have examined a substantial number of issues as part of their work programme in 2016/17 as demonstrated in their Annual Report which was reported to Full Council on 28th June 2017.

Information to be taken into consideration for producing the Annual Governance Statement includes performance management information, work completed by the Internal Audit Service, work completed by the External Auditor and other external inspection agencies, Scrutiny work, Risk Management and the Internal Control Framework including procedures, codes of conduct and policies and financial management controls as outlined in the CIPFA guidance.

The Internal Audit Service and key officers of the Council carried out a review based on CIPFA guidance to ensure that evidence was in place to support the production of the Annual

Governance Statement, to identify gaps where that was not the case and to review the effectiveness of existing arrangements.

A draft version of the Annual Governance Statement has been produced for consultation and discussion at Corporate Management Team, Audit Committee and the Governance, Performance, Business Change and Corporate Services Scrutiny Committee and also provided to the External Auditors for comment and feedback. The final version will be presented to Audit Committee and Full Council in September 2017 and published with the Statement of Accounts.

The Significant Governance Issues identified for 2016/17 are shown in section 5 and take into account the definition identified in Appendix 1.

The Significant Governance Issues identified in 2015/16 together with the updated current position regarding their status is included in section 6.

<b>5. SIGNIFICANT GOVERNANCE ISSUES 2016/17</b>
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Issues	2016/17 AGS Position & Action Taken/Planned
<p><b>Financial Pressures:</b></p> <p><b>Limited financial resources versus increasing demand for services and capital projects causes budget pressures which impact upon the delivery of public services.</b></p> <p><b>E.g. Reduction in funding from the Welsh Government, lack of investment income, capital receipts, costly care packages, reductions in grant funding.</b></p>	<p>The Medium Term Financial Plan (MTFP) 2016/17 to 2019/20 was presented for approval to Council on 23 March 2016 and indicated an estimated budget deficit of £20.3 million over the period of the MTFP based on assumptions contained within the MTFP. The MTFP 2017/18 to 2020/21 was approved by Council on 22 March 2017 indicating a revised estimated budget deficit of £16.4 million over the 4 year period, to be addressed through the Council's Corporate Change Programme.</p> <p>Although the Council aligns the MTFP with its priorities, it must be appreciated that a MTFP is a rolling programme continuously updated for changing circumstances, new developments and priorities. Consequently it was recognised that a significant amount of work was still required to fully align spending requirements to Corporate Priorities and available finance. The Council's Operating Model Design defines how the Authority is to carry out its business in moving forward and supports the Council's Corporate Strategy and Chief Officer's 'Strategies on a Page' leading to the outcome focused redesign of Council services and the further development of value for money assessments in challenging resource allocation. In addition 'Financial Sustainability' is a quality improvement theme within the Corporate Strategy incorporating both the financial sustainability and resilience of the Council led by the Chief Finance Officer. The Performance Board will monitor achievement against the measures of success and desired outcomes relating to the 'Financial Sustainability' 'Strategy on a Page'.</p> <p>A significant provisional revenue outturn surplus (before transfer to earmarked reserves) of £1.64 million is reported for 2016/17 with General Reserves maintained at £4.627 million (4% of net revenue budget), remaining in line with the Budget Board's Terms of Reference. This provisional surplus is net of a £1.95 million provision for clearance of waste on Land at Pengarnddu. Both the Budget Board and Change Management Board have been instrumental in delivering this provisional surplus through robust scrutiny and challenge of Budget Managers, when identifying potential financial issues at an early stage thus supporting timely corrective action.</p>

**6. SIGNIFICANT GOVERNANCE ISSUES 2015/16 - UPDATE**

<b>Issues</b>	<b>CURRENT POSITION (2016/17)</b>
<p><b>Estyn Report on Local Authority Services for Children and Young People</b></p>	<p>The final ESTYN monitoring inspection that took place in December 2015 concluded that the authority had made generally strong progress against the eight recommendations since the 2012 inspection. Formal notification was received from ESTYN in January 2016 confirming that Her Majesty's Chief Inspector of Education and Training in Wales considers that the authority no longer requires special measures and has removed it from follow-up activity.</p> <p>The LA continues to monitor closely the impact of the education services through internal and external groups including LAESCYP and learning scrutiny committee and Governance scrutiny committee.</p> <p>A recent report to Governance scrutiny committee in January 2017 included a self-evaluation of the current position of the service and targets for the future against all of the key questions in the ESTYN evaluation framework.</p> <p>The current judgment for outcomes is adequate and for prospects for improvement is good. The target is to continue to improve provision and standards so that in the next academic year (2017/18), the judgment is good for both outcomes and for prospects for improvement. In addition, we are aiming for excellent in some service areas.</p> <p><b>Outcomes in 2016 and trends over time</b> Outcomes have improved considerably since 2012.</p> <p>Final results show improved rates of attainment that are faster than in any other authority or region across Wales over 4 years and this improvement is consistent across nearly every indicator and across all phases.</p> <ul style="list-style-type: none"> <li>• At age 7 results have improved by 3% this year and 15% since 2012.</li> <li>• At age 11 results have improved by 2% this year and 12% since 2012.</li> <li>• At age 14 results have improved by 5% this year and 22% since 2012.</li> <li>• At age 16 results have improved by 2% this year and 21% since 2012.</li> </ul> <p>Improvements in attainment are also reflected in improved rankings above where MTCBC would be expected to be in the context of the Multiple Index of Deprivation (MID).</p>



<b>Issues</b>	<b>CURRENT POSITION (2016/17)</b>
<p><b>Auditor General's Annual Improvement Report incorporating the Corporate Assessment Report 2014</b></p>	<p>With regards to R1, the Council engaged a Strategic Partner (PWC) in early 2015 to assist it in reviewing its operating model and also to identify improvements and identify savings that could be made in the Council's revenue budget. Considerable work has been done across the Authority and a number of savings and improvements made.</p> <p>In relation to R2, ESTYN carried out their final monitoring inspection in December 2015 and concluded that the authority had made generally strong progress against the eight recommendations since the 2012 inspection. Formal notification was received from ESTYN in January 2016 confirming that Her Majesty's Chief Inspector of Education and Training in Wales considers that the authority no longer requires special measures and has removed it from follow-up activity.</p>
<p><b>Financial Pressures: Limited financial resources versus increasing demand for services and capital projects causes budget pressures which impact upon the delivery of public services.</b></p> <p><b>E.g. Reduction in funding from the Welsh Government, lack of investment income, capital receipts, costly care packages, reductions in grant funding.</b></p>	<p>Reduction in funding from the Welsh Government continues and as a result this remains a significant governance issue for 2016/17.</p> <p>See Section 5 – 'Significant Governance Issues 2016/17' for the current position and action taken / planned to address the issue.</p>

<b>Issues</b>	<b>CURRENT POSITION (2016/17)</b>
<b>Scrutiny Arrangements</b>	The final ESTYN monitoring inspection that took place in December 2015 concluded that the authority had made generally strong progress against the eight recommendations since the 2012 inspection. Formal notification was received from ESTYN in January 2016 confirming that Her Majesty's Chief Inspector of Education and Training in Wales considers that the authority no longer requires special measures and has removed it from follow-up activity.
<b>Internal Audit Service staff resource</b>	For the first half of 2016/17 the Internal Audit Service was operating at approximately 50% resource. Recruitment activity was undertaken as a priority to address this situation and by September 2016 the Service was 83% resourced and by the first week of October 2016 it was 100% resourced. The 2016/17 audit plan was prepared with a contingency that there would be considerable vacancies for a period of the financial year and once the actual level of vacancy was known the risk profile of the plan and individual assignments was re-evaluated to accommodate the available level of resources throughout the period and work allocated accordingly to minimise any resulting impact on coverage. This was managed successfully and whilst overall there was a lower than originally planned level of coverage all audit assignments identified as highest priority were completed within the period allowing the Audit Manager to produce his annual report incorporating his opinion on the risk management, governance and internal control framework in operation within the Council during 2016/17. The continuing drive for austerity and efficiencies continues to pose a potential risk to the ongoing ability to ensure that Internal Audit is resourced adequately to enable its statutory responsibilities to be met.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.



Councillor  
Leader of the Council



Gareth Chapman  
Chief Executive

**Appendix 1**

In determining what may constitute a significant governance issue, the following was taken into consideration:

A single definition of a significant governance issue is not possible. Councils need to exercise judgement in deciding whether or not a particular issue should be regarded as falling into this category, but factors that may be helpful in exercising that judgement include:

- The issue has seriously prejudiced or prevented achievement of a principal objective.
- The issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business.
- The issue has led to a material impact on the accounts.
- The audit committee, or equivalent, has advised that it should be considered significant for this purpose.
- The Audit Manager has reported on it as significant, for this purpose, in the annual opinion on the internal control environment.
- The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation.
- The issue has resulted in formal action being taken by the Chief Finance Officer and/or the Monitoring Officer.

**Auditor General for Wales' report to the Members of Merthyr Tydfil County Borough Council**

I have audited the accounting statements and related notes (including Expenditure and Funding Analysis) of Merthyr Tydfil County Borough Council for the year ended 31 March 2017 under the Public Audit (Wales) Act 2004.

Merthyr Tydfil County Borough Council's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, and the Cash Flow Statement.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 based on International Financial Reporting Standards (IFRSs).

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

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

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

**Scope of the audit of the accounting statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to Merthyr Tydfil County Borough Council circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the responsible financial officer; and
- the overall presentation of the accounting statements and related notes.

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

### **Opinion on the accounting statements of Merthyr Tydfil County Borough Council**

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Merthyr Tydfil County Borough Council as at 31 March 2017 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

### **Opinion on other matters**

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

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

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

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

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

I certify that I have completed the audit of the accounts of Merthyr Tydfil 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.

*ADLH*

For and on behalf of  
Huw Vaughan Thomas  
Auditor General for Wales

24 Cathedral Road  
Cardiff  
CF 11 9LJ

*28 September 2017*

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

